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**“FACILITY FOR SMEs AND CAPACITY BUILDING”**

# **SERBIA MARKET ANALYSIS**

**WOOD, METAL, AGRO-FOOD PROCESSING,  
TEXTILE AND FOOTWEAR**

This publication has been produced in the framework of the Project **“Facility for SMEs and Capacity Building” (Cod. 30)**, co financed by the EU through ERDF ANNP Interreg/CARDS/PHARE. The contents are the sole responsibility of authors and can under no circumstances be regarded as reflecting the position of the EU.



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# 1. Wood processing industry

## Overview

The wood/furniture industry has traditionally played an important role in the Economy of Serbia. Since the end of the Second World War, Serbia, a country rich of abundant local raw materials, has always maintained a positive trade balance.

The country is still rich in remarkable natural resources representing the main reason for its ongoing competitive wood/furniture industry. In fact the forest reserves of the country are estimated to be worth about 235 million cubic metres while woods and forests actually cover approximately 27% of the Serbian Territory which is equal to about two million hectares. The most important areas are the plains in the autonomous province of Vojvodina and the mountain regions in Central Serbia whose climate conditions are respectively very favourable to the growth of poplar and the oak and to hardwood and beech.

47% of the Serbian forests are state owned and controlled by the two major state companies of “Srbijasume” and “Vojvodinasume” respectively managing 85% and 7.5% of the public forest reserves in the country. Private forests make up for the remaining 53% of the country’s forest area which is predominantly split into many small-size land lots (0.5 hectares in average). Large private forestry holdings are just a few but hold a considerable potential for further growth and development. These companies are well-known suppliers of high quality hard wood and a predominant solid wood used in the local furniture production. Activities carried in private forests are subject to the supervision of Srbijasume and Vojvodinasume.

## Strengths

In Serbia the production of **sawed unrefined timber (boarding) originating from hardwood** appears to be prevalent in the Wood Industry. Beech wood accounts for the majority of sawed timber and covers 70% of the total production. 8.5% of the boarding and planking production is obtained out of oak while 11.5% is made out of poplar. At present, thanks to the significant price benefit, timber is also made of fruit trees such as walnuts and cherries.

Serbia also produces **sawed unrefined timber (boarding) out of softwood** mainly obtained from common spruce, fir trees and pine trees available in the country only in limited quantity (9% of total country’s forests). The production of this type of boarding is mainly managed by state-owned companies and is hardly expandable to larger industrial scales due to insufficient financial means and the difficult procurement of raw materials. In Serbia great development is taking place in the field of **veneered panels**. Poplar is the main timber wood used for veneering products and covers nearly 85% of the total production. However, beech is also reaching significant volumes in veneering.

**Timber for plywood** production is another important Serbian resource. The very large local reserves represent the only source of procurement. In 2006 the annual production of plywood lumber was at 190,000 cubic metres out of which 90% was poplar, 5.4% was beech and 3.1% was oak. The majority of plywood is exported to countries such as Italy, Macedonia and Germany.



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In addition, Serbia is a producer of **particle-board** required by the furniture industry. In fact huge quantities of rejects suitable for particle board production are available in the country from the production of wood carvings and from the forests. Nevertheless Serbia with about 16 cubic metres of material per inhabitant is one of the last European countries in consumption of particle board.

As for **furniture** industry, Serbia is a manufacturer of numerous types of different furniture from bedrooms to living rooms and from kitchens to office furniture. Bedroom furniture appears to be a remarkable product for the hotel sector where Serbian suppliers are well-known and appreciated both locally and abroad. This is especially true for the Russian Federation where the Serbian furniture dealers have created joint ventures with local distributors in order to refurbish hotel and schools, etc. Finally, Serbia has an outstanding tradition for producing wooden **doors and windows**. This sector counts 275 active companies partially exporting to Russia and Europe and partially selling to the domestic market. Oak is mainly used in this production of wooden doors though fir and common spruce are also used in a significant quantity. Wooden doors and windows production has further increased thanks to the consistent growth of construction business over the last few years.

### Weaknesses

The Serbian economy has been in an economical slump for many years. Rebuilding the country's economy has been very difficult in all sectors including wood processing and furniture industry. The main flaw of this sector concerns the Serbian export structure. Most of the exports have been dealing with primary or secondary raw materials while nearly no technological products requested by the EC markets have been exported. It is out of doubt that Serbian companies are in need of modernization. Before all, product design must be improved to meet with market Standard which in turn means that workers must be trained to provide higher skills and more quality. This especially true for management staff who should at least have a good understanding of the trends and requirements of a consistently more refined and demanding market. European Quality Standards must be implemented throughout the sector and customs duties on highly technological and specific machinery for the wood and furniture industry must be decreased. It is expected that Serbia will need to allocate approximately 100 million Euros over the next five years for technological enhancement of this sector aimed at increasing the country's export rates.

### Opportunities

The foregoing short outline shows that Serbia has the potential for becoming a preferred target of foreign investments in the wood and furniture sector. Additionally to this specific potential one should account the following benefits offered by the country in general. There are over two million employees in Serbia and one third works in production sectors. The wood processing and furniture industry includes **2,365 companies, 96% of which are privately owned and mainly located in the central areas of Serbia. The majority of these companies deal in timber (1,491) and furniture (402).** This sector contributes to the Serbian Gross Domestic Product (GDP) by 1.24% and represents 3.95% of total industrial production with an ongoing positive growth trend over the last few years.



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Serbia's long-term experience has fostered a number of highly skilled, qualified workers who are the life of this sector. In the country there are twenty-two technical high schools for wood carving and wood working plus a dedicated faculty of forestry at the University of Belgrade. In the furniture industry 10% of workers have a post-graduate qualification or a university degree.

Another important factor is the cost of workmanship that is one of the lowest in the Balkan regions. **The average monthly wage before taxes in this sector is no more than 350 Euros for workers, 400 Euros for skilled workers and 500 Euros for supervisors.** If on one side the low labour cost is out of doubt a very attractive reason for foreign investors to do business in Serbia or anyway to collaborate with local parties, on the other side it is one of the reasons together with obsolete machineries why production output is still rather low. Despite the difficulties of the last few years, small companies have started to update parts of their production equipment and especially medium-large companies who introduced CNC machinery and technical software as CAD and CAM.

Traditionally, the demand in the local market for wood and wooden products is high and is still consistently growing further to recent economical developments, namely the flow of foreign investments allocated after the Serbian transition and privatization process started in 2000. Serbian transition and privatization process brought forth a number of interesting opportunities for foreign investors especially in the privatization field.

Foreign investments in this sector are still limited and it has been forecasted that the privatization of some sectors such as the production of multi-layer particle boards, particle boards and plywood panels will soon be completed.

### Threats

If the Serbian government fails to create a more favourable environment for the development of this sector, then it will be very difficult to enjoy the benefits of the foregoing opportunities. The long economical slump allows no easy approach to the international market. Acting competitively on the market, means funding and investing in technology and know-how, which is quite hard at the moment due to the difficult access to credit lines. At the same time everyone in this sector agrees that at the moment there is a clear need for development strategies and for this reason a large part of Serbian production units is still seeking a solution on their own.



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## SWOT ANALYSIS - WOOD/FURNITURE INDUSTRY

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### STRENGTHS

- One of the most price competitive in Europe
- Top quality raw base materials
- **Respectable tradition**
- Market Access and market potential
- High skill of workers
- Joint Venture potentiality
- Huge forested areas
- Recognized image
- International competitiveness

### OPPORTUNITIES

- Opening of new markets - SEE Free Trade Area, Autonomous Trade Measures granted by the EU, FTA with Russia
- Serbia as a “open door” market
- Many opportunities in sawn wood, engineered wood products, furniture, and paper
- Existing techno capacities to support bigger production
- Fast growing market demand
- Full service of companies
- Opportunity for fast delivery

### WEAKNESSES

- Lack of investments in the sector
- Missing advanced technology
- Wood cluster organization
- Weak technical equipment
- Huge export of raw materials

### THREATS

- Small level of investment in production and in advanced technology, Missing modern processing plants
- Difficulties in the implementation of the Sector strategy
- Demands in decrease on local market



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## 2. Metal Processing Industry

### Overview

Serbian metal/mechanical industry comes from a long tradition and it is, still today, one of the most important sectors of Serbian economy with almost 100,000 workers accounting for 6% of national GDP. This comprises 3,600 companies out of which 43% are big size companies, 26% are medium size companies and 31% are small size ones. Metal processing products account for 20% of the Serbian exports and 34.2% of the Serbian imports. Traditionally this industry has always been very export-oriented and opened to collaboration with foreign companies. Serbian metal processing workers are highly skilled and trained to meet with the European market Standards. On the other hand labour cost is one of the lowest registered within the Serbian industry.

### Strengths

As evidenced by import/export activities between Italy and Serbia, Serbia largest imports from Italy are represented by mechanical and household appliances. The Serbian metal/mechanical sector also accounts for significant imports of Italian packaging machines and food processing lines. According to present forecasts, this industry will continue to offer interesting opportunities for foreign investments and collaborations.

As already mentioned Serbian metal/mechanical workers are highly skilled and very familiar with European market requirements and Standards. On the other hand labour cost is one of the lowest registered within the Serbian industry.

### Weaknesses

At present there is no clear development strategy in the metal/mechanical sector and privatization processes are still slowed down by a various pending issues and problems. The privatization process is suffering workers' discontent and frequent strikes for low wages and unsatisfactory work conditions etc...

The Serbian sector and enterprises are often using obsolete technologies and are still in need of modernization, improved design and compliance with market requirements. Workers qualification also needs more training and support in order to yield professional staff capable of handling new trends and expectations of a very demanding global market.

Progressive imports increase compared to exports from the sector is an evidence of the weakness of this sector in Serbia and represents at the same time a transitional step towards the Western countries.

### Opportunities

As regards foreign investment and industrial cooperation, the following considerations apply: investing in Serbian metal/mechanical industry means acquiring some very important economical benefits such as



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low labour costs (especially medium skilled labour) and low transport costs due to the geographic proximity of Italy and Serbia. Investing in Serbian production will not only allow a company to access a fast growing local market with a strong and growing request for machineries but will also provide them a further access to the various other markets holding preferential trade agreements with Serbia. As regards industrial collaborations, a lot of opportunities are available especially in the field of subcontracting agreements. High credit cost, obsolete machineries and lack of western-style management and sales skills, are some of the main reasons why local companies tend to welcome subcontracting agreements.

In short, the Serbian metal/mechanical industry has very high expectations as regards the joint venture between FIAT and ZASTAVA agreements, which will allocate significant investments up to approximately 700 million Euros a year for the construction of a local production unit with a capacity of over 200,000 vehicles per year.

### Threats

According to the more recent statistical data, this sector is experiencing a serious stagnation. Hence entering new international market will be difficult. In order to take maximum advantage of its strengths, a strong investment in technology and know-out is mandatory. Lack of a sector development strategy is likely to provoke serious damages not only to this industry but also to the entire Serbian economy and additionally to the social problems already brought up by the unions.

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## SWOT ANALYSIS – METAL PROCESSING INDUSTRY

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### STRENGTHS

- Highly skilled workers and low labour costs
- Long-term, positive experience and good reputation of the sector.

### OPPORTUNITIES

- Opportunities to increase international competitiveness
- High investment possibilities
- Good stock market opportunities
- Entry to markets of countries having preferential export agreements with Serbia
- Good industry infrastructure, and easy increase of production throughput
- Increase of the local market demand

### WEAKNESSES

- Hard implementation of joint-sector actions
- No sufficiently skilled workers for the international market

### THREATS

- Industry is still experiencing a transitional phase
- Difficult repositioning on the international markets



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### 3. Agriculture and food processing industry

#### Overview

Agriculture is still one of the most important industries of the Serbian economy. According to Serbian Agriculture Ministry data, this industry actually employs 10% of overall work force and accounts for 21% of Serbian GDP. Moreover agricultural products account for 26% of total Serbian exports.

Out of 5,200,000 hectares of agriculture land, 85% is privately owned lands and 15% belongs to cooperatives or public government. 83% of Serbian agricultural lands is farmland.

Harvest yields account for 57% of the total agricultural production while cattle breeding accounts for 33%. Vineyard and orchards account for 5% and 4% respectively. 60% of the harvest products is made up of cereals and only 18% is vegetable. The breeding industry includes pig, cow, poultry and sheep breeding respectively accounting for 41%, 40%, 14% and 5% of total breeding industry production. Wheat is the most important cereal with a throughput ranging between 2 and 2.5 million ton per year and a cultivation area of over 650,000 hectares land yielding on average 3.5 t/hectare. Corn is the second mostly cultivated cereal with nearly 2 million ton per year with a yield of 4.5 ton/hectare. Sugar beetroot with an overall production of 35 ton/hectare is another important Serbian crop. Sunflower cultivation areas extend over 170,000 hectare of land yielding a production of 300,000 ton/year and 1.7 ton/hectare.

Considerable yields are also coming from the fruit sector, especially apples and plums, although there has been a recent decrease both in local consumptions and exports. Viticulture is quite spread over the whole country with an average production of 380,000 ton table grapes and wine grapes. With an overall production of 50,000-70,000 ton/year Serbia has long been one of major raspberry producers in the world and still holds a leading position.

Beans cultivations cover a surface of 50,000 hectare land yielding 1.1 ton/hectare for a total production of 60,000 tons per year. Potatoes cultivations cover an area of approximately 100,000 hectare for a total production of 800,000 ton/year.

Food processing industry is presently the most attractive sector for parties wanting to invest or draw up collaborations with local parties. In fact, although Serbia has remarkable natural resources and a sound, traditional production background, the industry still lacks modern technology and strongly needs implementation.

#### Strengths

Reflecting Yugoslavian industrial policy implemented by Yugoslavia until 1991, Serbian food processing industry has developed in the main areas yielding the highest rate of production at that time entirely exported to Yugoslavia, that is: the area of Vojvodina, the Northern regions and the South-East of the country. When Yugoslavia collapsed, Serbian agriculture and food processing industry lost not only a big part of its reference market (former Yugoslavian Republics) but also a big part of their international markets. So, the industry had to turn to the domestic market suffering an ongoing loss of purchase power. For this reason Serbian agriculture has been experiencing a progressive decline and is now confronted with the problem of a production much below the actual capacity of the country and relatively high prices. Clearly Serbian agriculture has a large potential for increasing the production and



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its exports which makes it an attractive target of perspective investments by Italian companies dealing in agricultural machines. Moreover many Serbian companies are a still public or mixed company which means good opportunities of buyout/privatization actions. At present over 200 farms and 100 food processing industries are still on the privatization list.

## Weaknesses

Notwithstanding this overall positive picture, there are still some pending issues that need to be solved in order for the sector to fully express its potential. First of all: the small size of all farms and companies, especially the private ones.

Even though 85% of the agricultural lands is privately owned, the average size of the farms is about 2.73 hectares and only 5.5% of them cultivates an area larger than 10 hectares. Companies with an acceptable size are nearly only public ones and some of them are “kombinat” companies that are integrated structures taking care of more production steps. On the other hand, large state companies are the most difficult to buyout by private investors as they are not economically competitive and would first need to go through a strong reorganization process that may involve social effects hardly acceptable from a political point of view.

## Opportunities

Analyzing the perspectives of the different agricultural and food processing sectors, animal breeding and meat production/processing industry is by far one of the most promising subsectors. Despite the decreasing purchase power of the consumers and the dramatic decline experienced by this industry in the last 15 years, this sector has a long tradition of high quality production and the right potential for becoming a fast growing and high quality, competitive export industry after the completion of the actual privatization process. Modern economical reforms are providing increased stability and the suitable ground required for improving the lifestyle of the population. On the other hand, modernization and innovation are mandatory for this sector, since many companies still use old plants and obsolete production systems. So there are good opportunities also for manufacturers of machines and technologies. Other potentially interesting sectors are: fruit and vegetable processing industry, mineral waters and soft drinks industry and snail breeding industry. Thanks to the high quality and quantity of Serbian fruits production and to the growing international market demand for these products, valuable perspectives have been recently outlined for the fruit processing industry presently offering fruit juices, juice concentrates, fruit-based products with or without added sugar, semi processed fruit material with no added sugar and frozen fruits.

Another fast growing industry is the soft drinks one producing juices, carbonated drinks and mineral waters. However, differently than in the rest of the world where this business is concentrated in the hands of a few big industrial groups, in Serbia this industry is distinguished by the presence of many small companies. Serbian soft drinks consumption is growing on average by 15% every year while mineral water consumption is growing on average by 5% every year.

Snail breeding has undergone a significant growth due to its high revenue level as compared to the low initial investment. Since Italy is one of the leading countries in this industry and some cooperation agreements already exist in this area, we hope that more collaboration may start in the near future.



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## Threats

A sustainable development of Serbian agricultural industry strictly requires economical stability and a long term development strategy still missing at the moment. The growing competitiveness of the neighbour countries, has been leading to an increase of agricultural imports in the country. In addition to that, the requirement for more investments in packaging and marketing as well as the lack of private and public investments in the industry may further prevent successful market breakthrough of the local productions. Finally, the old plants available in Serbia do comply neither with European Standards nor with present European market requirements.

## SWOT ANALYSIS - AGRICULTURAL/FOOD PROCESSING SECTOR

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### STRENGTHS

- Financial incentives for Greenfield investment by Serbian Government
- Important GDP contribution
- Ideal climatic conditions and good quality of products
- Market Access and market potential
- Low cost workforce
- Optimal natural conditions
- Loyal buyers
- Recognized image

### OPPORTUNITIES

- A great number of investments and acquisition opportunities in agribusiness
- Opening of new markets - SEE Free Trade Area, Autonomous Trade Measures granted by the EU, FTA with Russia
- Family owned farms
- Progress of process of alignment to EU policies and standards
- Sector's Research institutes
- Fast growing market demand
- Sector's Research institutes
- Strong Export growth and significant development potential
- Lowest personnel costs in the region and therefore a clear competitive advantage
- High raw material quality
- Organic production
- Processing industry increase

### WEAKNESSES

- Lack of investments in the sector modernization
- Use of old technologies
- Foreign trade regime (adjustment of import rules, incl. technical standards, quality and sanitary control of goods entering the territory of Serbia) needs adjustment
- Agricultural cooperatives
- Low market strategy

### THREATS

- Low level of education of individual agricultural producers
- Difficulties in the implementation of the Sector strategy
- Missing modern processing plants
- Difficult access to the new technologies
- Insufficient cooperation between producers
- EU quality standards (HACCP, ISO)



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## 4. Textile and footwear industry

### Overview

The Serbian textile/garment industry comes from a long tradition and it is still one of most important industries in the country with about 100,000 workers and 10% of country GDP. The sector mainly comprises privately-owned companies (80% private enterprises out of 1,200 active companies in Serbia). The Serbian industry has always been opened to collaboration with foreign companies and has traditionally dedicated to foreign markets the majority of its production. 70% of Serbian exports, almost 200 million Euros, is shipped to EU markets. Serbian workers are highly specialized and trained to meet European market standards. On the other hand textile labour cost is one of the lowest in Serbia. Since the beginning of Serbian transition, the textile/garment industry appeared to be one of the most important sectors for foreign investors and foreign partners. Several Italian industries have already taken advantage of the Serbian privatization process that started in 2001 and many more have already signed partnership agreements with local companies.

### Strengths

Serbia is geographically located in a very strategic position at the intersection of two important European corridors: n.7 and 10. Thanks to a number of economic pacts between Serbia, and USA, producing and manufacturing goods in Serbia means having preferential access to numerous markets. Serbia is located in the middle of the Balkans free trade area; hence goods manufactured in Serbia can be shipped duty-free to nearly 55 million people. Serbia is the only country outside the Commonwealth of Independent States having free trade agreement with Russia assuring exports to some 150 million people against a mere 1% duty on the shipment value.

### Weaknesses

The sector is actually affected by privatization problems, frequent strikes and workers discontent for work conditions, low salaries etc. The enterprises active in this sector are in need of modernization from a technological point of view but sufficient funding is not available. At this time, a large number of Serbian companies in the textile/garments sector works against international outsourcing contracts (“lohn” system), in which the outsourcing firm provides the manufacturer with all the inputs needed to produce and then re-imports the final goods using an incomplete contracts framework. The other problem is “underground work” that represents a form of illegal competition.

### Opportunities

An analysis of the trade/exchange flow between Italy and Serbia shows that garments are the third most important goods imported by Italy from Serbia accounting for more than 60 millions of Euros while yarns, fabrics and other textile products are the third most important goods exported by Italy totalling



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100 million Euros. According to perspective studies, garments and textile will continue to offer interesting opportunities for industrial investment and collaborations. The Serbian government equally considers this sector as a priority in the framework of its investment policies aiming at regaining the traditional competitiveness of the local companies. A lot of companies have not been privatized yet which leaves a lot of opportunities opened to foreign investors. Finally on March 31st, 2005 Serbia and EU signed a textile industrial agreement to provide significant support to this sector. According to this agreement Serbian industries may export textile products to the EC without any custom duty. As already mentioned, textile goods exported to the European markets account for 70% of total Serbian textile exports, hence this agreement represents another remarkable incentive to investments.

### Threats

As the textile industry is presently experiencing a deep slump, it is quite difficult for companies in this sector to access international markets. In order to take maximum advantage of the opportunities in this sector, a strong investment is required to acquire technology and know-how and create important partnerships. Ongoing lack of an industrial development strategy may seriously affect the Serbian economy and cause social problems as already forecasted by the unions.

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#### SWOT ANALYSIS - TEXTILE INDUSTRY

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##### STRENGTHS

- One of the most price competitive industry in Europe
- Intellectual capital and expertise
- **Long and respectable tradition**
- Market access and market potential
- Skilled labour force
- Joint Venture potentiality
- High Annual Growth Rate
- Recognized image
- International competitiveness

##### OPPORTUNITIES

- Business opportunities in yarn, fabric and ready-made garment production
- Opening of new markets - SEE Free Trade Area, Autonomous Trade Measures granted by the EU, FTA with the Russian
- Serbia as a “open door” market
- Subcontracts
- Existing technical capacities to support bigger production
- Fast growing market demand
- Following of fashion trends

##### WEAKNESSES

- Lack of investments in the sector
- Missing advanced technology
- Small visibility as suppliers
- The lowest average net monthly salaries in the Serbian economy

##### THREATS

- Low accumulative economy branch
- Difficulties in the implementation of the Sector strategy
- Missing modern processing plants
- Lohn system only



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