

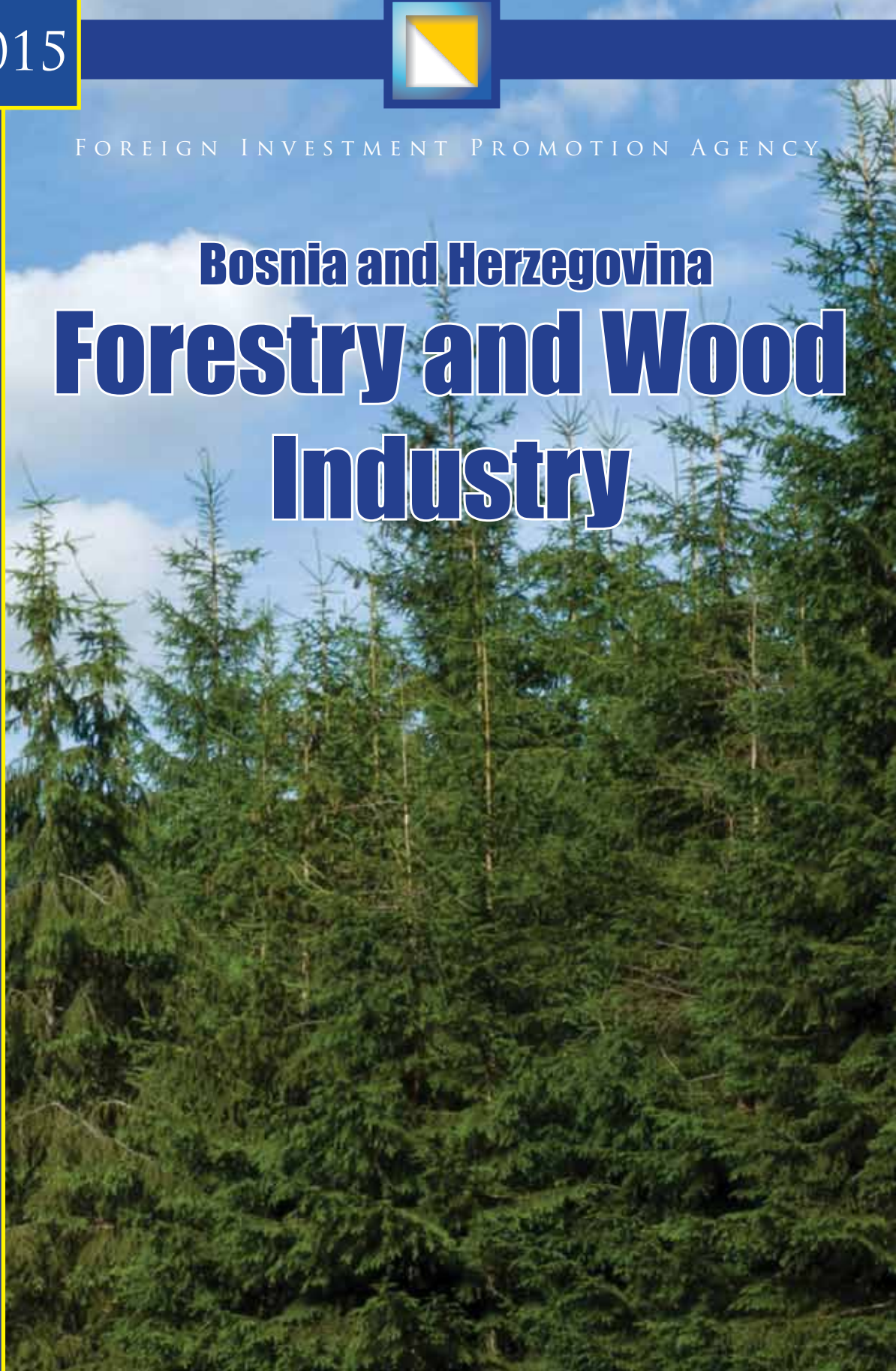
2015



FOREIGN INVESTMENT PROMOTION AGENCY

Bosnia and Herzegovina
Forestry and Wood
Industry

BOSNIA AND HERZEGOVINA INVESTMENT OPPORTUNITIES



**Bosnia and Herzegovina
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BOSNIA AND HERZEGOVINA

IS A COUNTRY WITH THE LARGEST
SHARE OF FOREST AND THE GREATEST
DIVERSITY OF FOREST TYPES IN THE
WESTERN BALKANS



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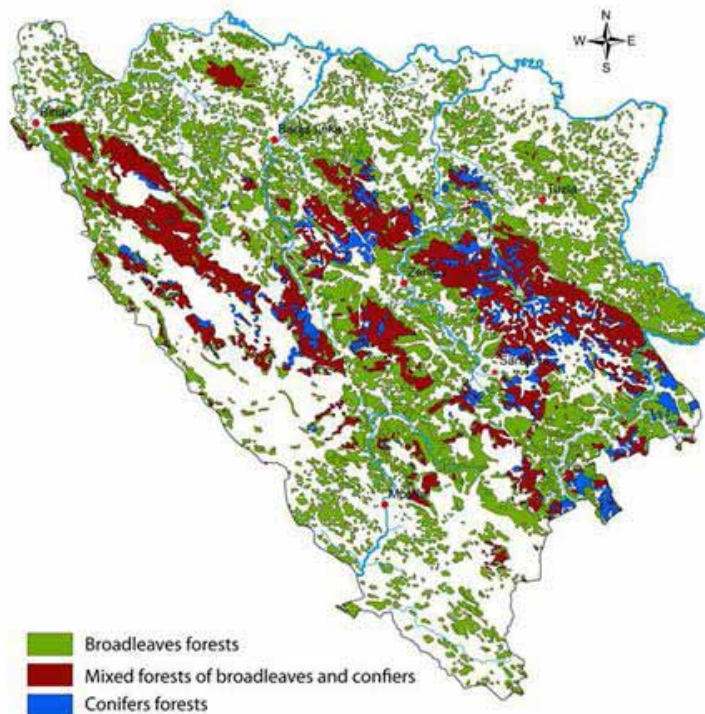
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FOREST RESOURCES - RAW MATERIALS BASE

BiH is a country with the largest share of forest and the greatest diversity of forest types in the Western Balkans. The Forests are one of the most important natural resources in the country.



According to the latest data, forests and forest land in BiH encompass an area of 3.231.500 hectares, which represents 63% of the total area, with values that are among the highest in Europe. In terms of ownership, about 80% of forests are state-owned and 20% privately owned.



Source: Analysis of the Forest Sector in Bosnia and Herzegovina - EU funded project "Preparation of IPARD Forest and Fisheries Sector Reviews in Bosnia and Herzegovina"; Food and Agriculture Organization of the United Nations



State forest fund in BiH is significantly more favorable compared to the data from the previously performed inventory in forestry. The new data indicate the existence of even 435 million m³ of wood stocks, which amounts to 201 m³ / ha. In total, this means that the expected forest fund is for 23 percent higher than previously officially published.

Due to their natural and diverse structure as well as significant natural regeneration, forests are a key resource for the further development of Bosnia and Herzegovina.

The main tree species are: fir, spruce, scotch and european pine, beech, different varieties of oak, and in the less number there are the kind of deciduous trees such as maple, elm, ash, and the fruit trees (cherry, apple, pear). It is necessary to emphasize that the beech and oak from B&H, in the manufacture of furniture, are very distinctive raw materials and it additionally opens many doors in the world to BH producers.

BiH is a net exporter of primary and secondary forest products and has the potential to run the local processing companies to add value.

The role of non-wood forest products is currently undervalued, but it has an important role for rural development.

FOREST CERTIFICATION IN B&H

Certification of forests has a huge potential for multifunctional forest management. All certified forests in BiH are owned by the state and are certified by the FSC (Forest Stewardship Council). There is no certified forests in private ownership. There are ongoing activities regarding the question of finding the model to provide access to Certification for private forest owners.

At the moment, four public forest companies have FSC FM / COC Certificate. Those are: "The forests of the Republic of Srpska", "Una-Sana forests", "Hercegbosna forests" and "Forests of Tuzla Canton". Total 1.519.234,9 hectares of state forests or 1/3 of the total forest stock in Bosnia and Herzegovina have FSC Certificate.

There are 264.231 wood processing companies that have the FSC CoC Certificate.

The process of forest certification is mainly driven by the interests of export-oriented wood processing companies and their need to gain better access to global markets.

LEGAL FRAMEWORK

Legislative regulations in the field of forestry, in the light of the process of EU integration of BIH, is going through a phase of adaptation and incorporation of European norms and standards into national legislation.

Managing forest resources is carried out on the principles of sustainability and respect for the strict criteria of preserving nature and the environment.

In legal terms, Bosnia and Herzegovina as a state has committed to respect binding international documents (conventions, agreements), as well as the obligations arising from the process of European integration (directives, recommendations, guidelines and criteria of the Ministerial Conference on the Protection of Forests in Europe).

Due to specific constitutional order of Bosnia and Herzegovina, there is no legal framework in forestry at the state level. Forest policy is decentralized. The Federation of Bosnia and Herzegovina, the Republic of Srpska and the Brcko District have their own constitutions and laws, including those related to the forestry and wood processing.

On the whole, legal framework that regulates this area can be divided into:

- a. laws directly related to the sector
- b. laws that directly affect the sector (sets: the so-called economic laws; laws on the protection of nature and environment; the Plant Protection Act, local government and others....).

On all administrative and political levels, the forestry is in the responsibility of the Ministries of Agriculture, Water and Forestry (in some cases, Ministries of Economy).

Commercial entities who are engaged in forestry are public enterprises founded by the cantonal authorities in the Federation and the entity government in RS.

In order to create higher added value and new jobs, primary goal of public companies involved in forestry is that the priority in obtaining raw materials have final processors and those who are in the chain of the final processors, as well as to have better conditions and incentives to use the raw material to produce final products.



WOOD PROCESSING INDUSTRY

Bosnia and Herzegovina has a long tradition and a good international reputation in the production of high quality wood products and furniture that meets the domestic, but also foreign demand. Foreign buyers know that the BH company can produce high-quality products because, before the war, we were among the best in the world by:

- the quality of raw materials,
- the quality of products and
- expertise of the workforce.

This industry has an important role in the economy of Bosnia and Herzegovina due to employment and export earnings as it generates the largest foreign trade surplus.

The main competitive advantage of BiH, in the global market, are:

- solid forest resources
- low cost of labor and
- proximity of the EU market.

According to available data, the Agency for Statistics of Bosnia and Herzegovina and the Chamber of Commerce, domestic wood processing industry may be declared one of the most important and the most competitive sectors of the BH Economy. This is illustrated by the fact that it is one of only three sectors in BiH that showed the foreign trade surplus of more than 418 million accompanied with double-digit growth in production, sales and exports, leading to a growth in the share of GDP, production and employment structure. Moreover, from 2011, the wood processing industry has experienced an annual growth of over 10% in terms of annual production volume.

The growing volume of production was accelerated mainly by the favorable external climate and increasing foreign demand of the main trading partners (Euro zone - primarily Germany). This resulted in a vigorous growth of export revenues by over 14% per year and accounted for 75% of revenue from wood processing. With such a high and continuous annual growth in the share of exports and in the terms of total production and sales, processing industry represents an important competitive advantage for the further economic development of BiH. In addition, the structure of production, income and exports becomes more favorable every year, with a greater share of production in segments with higher added value (furniture and chairs, wooden products and prefabricated houses).

However, if we keep in mind the size of the EU market, we will notice that the BH production and exports are still very small and that there is a huge space for the existing and future BiH wood processors. Specifically, the European Union in 2013 imported furniture worth over 60 billion euros. Germany alone, the biggest market for BH furniture, imports over 15 billion euros worth of these products per year.

The key reason why the BH companies are present on the EU market is their ability to produce high quality standard furniture at a price that is lower than competition price for the same level of quality. As regards employment in the wood processing industry, the sector has managed to achieve above-average employment growth compared to other segments of manufacturing and industry in general. With employment growth of 5.7% annually, the wood processing industry employs about 24.000 people, of whom 14.500 are employed in the processing of wood and manufacture of wood products, while 9.500 are employed in furniture manufacturing.

PRODUCTION AND TECHNOLOGY

Around two thirds of the B&H wood-processing firms performs its production function on machines and equipment 5-10 years old that are mainly purchased from abroad (Germany, Italy, and Slovenia). Also, factors of production such as lacquer, glue, metal parts for connection (hinges, etc.), and sponges are mostly imported. With the existing technological level of production equipment currently it is possible to achieve the desired quality of the production, however, for further development, which implies a constant high level of product, it is necessary to modernize the technology.

Local producers, to continuous improvement of product quality and increasing production, investing more in the finalization of its production and this trend is visible. Organization of companies and their activities is such that some of them are covering more than one link in the value chain, i.e. an increasing number of them have a sawmill with a capacity for drying / steaming, processing facilities i.e. for the production of semi-finished and finished products, wholesale and/or retail.

WORKFORCE AND KNOWLEDGE

Bosnia and Herzegovina is regarding the quality and expertise of the workforce, well-known in the wider international context.

According to the entity's agencies for statistics in 2013 the WP industry employed 17,050 persons, out of whom 10,973 were engaged in Wood and Wood Products production and 6,077 persons employed in Furniture production.

As for labor costs, as a factor of production, in BH workforce is a cost-competitive. In Bosnia and Herzegovina in the last 5 years the average net wage of production workers in wood-processing sector was between 410 to 430, while the average gross salary between 640-690 euros.

OPERATING COSTS

Bosnia and Herzegovina, in comparison with the countries in the region, is offering investors very competitive operating costs. Tax liabilities and labor costs are very low compared to European standards, and the cost of electricity, transportation and utilities are by far the lowest in the region.

Tax policy in Bosnia and Herzegovina is among the most stimulating in the region, with a low rate of income tax, profit tax and aggregate contribution rate. The rate of value added tax is also very stimulating and it is 17%.

With the entry into force the Stabilization and Association Agreement (June 1st 2015) it is enabled the free export in the EU of almost all goods, which meet the standards, and at the same time it opens the BiH market for goods from the EU according to the dynamics agreed in annexes and protocols that are associated part of this Agreement.

Foreign investors may be exempt from import duties on equipment placed in free circulation, which



represents the investment of foreign entities. The equipment imported in BiH as foreign investment must not be older than 10 years. It is necessary to provide a certificate from the competent authority to prove that the equipment meets the standards of environmental protection and occupational safety.

INVESTMENT OPPORTUNITIES

Primary wood processing, lumber and wooden panels, and furniture are the key to the most of the countries of the Western Balkans, including the BiH. It is common in the western Balkans that the adding value in the chain of processing is insignificant, where the lumber and semi-processed elements are dominant export products.

BiH is the leading country in the region in the export of timber, wooden panels and furniture. In the wood processing sector of Bosnia and Herzegovina there are investment capacities for a higher degree of product finalization. Currently the largest numbers of BiH companies have a well-organized production, technical equipment capacity and experience, but usually at a lower stage of processing (friezes, pallets, wood elements and the like.)

Bosnia and Herzegovina require investment in forest infrastructure and new technologies that will increase the utilization of wood volume (especially smaller diameter and lower quality) and the creation of new products and added value.

The traditional business of manufacturing high-quality furniture (especially solid wood) in small and medium-sized enterprises are a huge investment potential of the wood sector in BiH.

Because the absence of industry panels in Bosnia and Herzegovina, it could be a very promising area for business development, in particular veneer / hard plywood, panel board, MDF.

The formation of biomass in the industrial sector is considered one of the promising sectors for investment. The availability of unused biomass in Bosnia and Herzegovina is still very high. It is estimated that approximately 1.000.000 tons of biomass in BiH remains unused. Therefore, the center of a special interest of potential investors in the future should be the production of wood pellets and heat production based on biomass, especially if one bears in mind the current annual production of wood pellets in BiH of around 150.000 tons.

SUCCESS STORIES

Foreign companies, investors in this sector:

- Company Natron Hayat d.o.o. Maglaj- investor Hayat Group, Turkey
- Company Standard a.d. Prnjavor- investor Daccomet AG, Switzerland
- Company AD Nautic d.o.o. Goražde- investor Prevent Group, Germany
- Company Lipa drvo d.o.o. Omarska- investor Cora Group, Italy
- Company Nord Ent d.o.o. and Lock Wood d.o.o. Tešanj - investor Pilat&Pilat Produkties, Netherlands etc.

Standard ad Prnjavor (Switzerland)

“Standard has been producing school furniture until 1985. Thanks to the brilliant quality and design, Standard has grown in to a company with 300 employees, which has placed its products on domestic and also on the international market. In the year 2000 Standard started cooperation with the Swedish company IKEA. In 2001 Standard became a joint stock company which was a condition to start sales of shares. Throughout 2004 the Swiss company Daccomet AG from Zurich started to acquire shares of Standard. After the purchase of the majority of the shares by Daccomet AG, three investment cycles have been carried out. These investments imply new equipment, new facilities, accessories, training of employees with the goal to improve quality and to increase the capacity. Now Standard has 250 employees and it has started a new investment cycle. Standard Prnjavor is a specialist for veneer furniture and also mixed-material furniture, like veneer/masiff or veneer/metal.”

Mr.Edin Dacic, Director, Daccomet AG

“Obviously Bosnia and Herzegovina is still a country in a transition period with a lot of challenges, but we are thinking positively and seeing more the opportunities. One of the opportunities that contributed to our decision to invest in Bosnia and Herzegovina was the macroeconomic stability which is based mainly on the fixed exchange rate of the currency Konvertibilna Marka, on the one hand and on the other hand the interest of the international community in success of Bosnia and Herzegovina. The second point that contributed to our decision was the proximity to Western European markets, the proximity to the European highway system, the availability of raw material at very reasonable prices and also the availability of workforce at very competitive prices. Obviously we knew, being already active in furniture production before, that Bosnia and Herzegovina is a country with a long tradition in furniture production and with a rich experience in export, and this contributed mainly to our decision to invest together with partners, banks and our customer Ikea in more than 5 million Euros. We created in 10 years 220 new employees and we are very happy with this development and we expect this development, even at this high speed, to continue.”



Natron Hayat doo Maglaj (Turkey)

“Natron-Hayat d.o.o. Maglaj is an esteemed European company enjoying high reputation in the field of production of various types of paper and paper packaging. It was founded on 15 April 2005 by company Natron d.d. Maglaj and the reputable company Kastamonu Entegre company, which is a member of the internationally renowned Hayat Holding Group from Turkey. This newly established company has inherited a 50-year-old tradition and experience in the paper industry (based on the successful work of the former Natron d.d. Maglaj). Natron-Hayat currently employs more than 840 workers. A great number of young and highly qualified employees, along with older experts of various profiles, are making every effort to meet the expectations of every customer. They can offer the following products: packaging paper, MG (machine glazed) paper, crepe paper, finishing paper, paper sacks, paper bags, corrugated board and board packaging, cores. With its current production, company meets not only the domestic market needs but also those outside the borders of Bosnia and Herzegovina.”

Mr. Avanash Taneja, Managing Director, Natron Hayat doo Maglaj

I would like to emphasize that Norton head has been one of the most successful privatizations in the country. That has happened not only because it had a very strong, determined and resourceful group head group behind it, but also because of very sincere dedicated, technically strong, workforce in the mill and in the country which delivered the right results once guided properly. In my opinion it is one of the strengths of BiH because only state of the art machines do not deliver the results but you need the right people behind them.”

USEFUL CONTACTS

Ministry of Foreign Trade and Economic Relations of B&H
www.mvteo.gov.ba

Federal Ministry of Agriculture, Water Management and Forestry
www.fmpvs.gov.ba

Ministry of Agriculture, Forestry and Water Management RS
www.vladars.net

Wood Cluster Association in B&H
www.drwni-klaster.ba

Foreign Trade Chamber, Association of Forestry and Wood Processing Industry-Timber group
www.komorabih.ba

Federal Chamber of Economy, Division of Forestry, Wood Processing and Printing Industry
www.kfbih.com

Chamber of Economy Republic of Srpska, Association of Forestry and Wood processing
www.komorars.ba

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