FEDERAL MINISTRY FOR ECONOMY AND INTERNAL TRADE
YUGOSLAVIA

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TIMBER MARKET REPORT

1. General economic situation

Yugoslavia has started the economic reforms successfully , and has good economic program for the next midterm period in which it has verified the transition flow and the way of its conducting (this is the evaluation of IMF executive committee , May the 13th 2002).

In 2001 the GPD of 5.5% was achieved , and as planed by the government and IMF , in next three its growth of 4% is expected . Inflation is completely under control . Planed inflation in 2002 is 20% on the year level , but by achieved results in first eight months the inflation will be less (estimated on about 18%).

The structure of FRY industrial production in the first year of transition has not changed in the greater measure. The production of capital- intensive and technical- intensive sector has declined according to the previous year. , while the increase was achieved by certain work-intensive branches (production of textile and textile products for 2.1%) and resource-intensive branches (production of rubber and plastic products for 13.3% and production of chemical products and fibers for 14.1%). The Government efforts are directed towards the reorientation to new branches and restructuring of industry according with the tendency in most progressive countries in transition.

Interest rates on the short term loans started to fall. From about 8% on the month level on the beginning of 2002,in the beginning of September the same year were about 1.2% , with the tendency of further decline. The government started the realization of several programs, by that it is trying to stimulate the domestic companies to start the process of investment in technologic and program modernization of their production. It is mostly about companies that have export products. That way , the Government tries to stimulate the modernization of companies , but also to decrease the trade deficit , which is about $2 billon. Besides that , the Government passed many regulations , by which it stimulates direct foreign investments. The intensive privatization is due , and it suppose to be finished by the end of 2004.

2. Forestry production

Forestry sector is in the process of transition , as the whole economy of FR Yugoslavia. Main characteristics of this process are the changes in organization and management system in the companies for forest managing in the public sector. Several year recession in Yugoslav economy , as the mentioned transformations influenced the decline of log production in 2001 by 25.9% (the production has reached 2.48 million m3). The decline of production has continued in 2002 for about 12% compared to the same period last year. However, the estimates are that the total log production will reach the level of 2.76 million m^3 till the end of 2002., thanks to the growth of production and consumption of fire wood in the second half of the year.

3. Logs

The log production in 2001 was 1.06 million m^3 , and compared to year 2000 it was 20.5% less. The decline of log production is mostly the result of hardwood log production decline for 25.2%, while the softwood log production declined and reached the level of 282,000 m^3. In the structure of log production , the production of hardwood is dominant with 71.9%, and most important among species is beech. Additional problem , when the logs are concerned , is their export. In 2001 it was 49,000 m^3 , and compared to the previous year it was higher for about two times. The increase of log export has continued in the first half of 2002 , when it reached the level of 38,000 m^3.

4. Sawn softwood

The production of sawn softwood has reached the level of 117,000 m^3 in 2001 , what represented the growth of 10.4% compared to the lest year. However , the sawn softwood production fulfills only 25 – 30% of the total Yugoslav consumption , so the rest is being imported. In 2001 the import was 296,000 m^3 , and in the first half of 2002 about 146,000 m^3 with the tendency of further growth to the level of about 400,000 m^3 by the end of 2002. The growth of sawn softwood consumption is the result of housing activities, before all individual house construction, but also of the office building reconstruction and public works.

5. Sawn hardwood

The sawn hardwood production has declined in 2001 by 20.3% compared to previous year, reaching the level of 317,000 m^3. The decline of production is mostly the result of the lower production of saw logs , but also of the financial problems that the big companies for sawnwood are in , that are still owned by state.

Reduced production has influenced the decline of domestic consumption , but also the export. The export has declined by 29.6% and the consumption by 4.5%. The export trend decline has continued in the first half of 2002 , and it was down by 12.2% compared to the same period last year , reaching the level of 81,000 m^3.

The export decline in quantitative meaning did not follow in the same measure the export decline in financial meaning. Although , the achieved value of sawn hardwood export in the first half of 2002 was $15.5 million , and compared to the same period last year it is by 6.1% less . By that, the beech sawnwood export value has increased by 4.1% and was $11.9 million, while the other species had the negative growth rate. The greatest export decline in the financial meaning was in poplar sawnwood (-40%) and the other hardwood species in total of 28.1%. The oak sawnwood marked the declined of 25%.

6. Wood- based panels

FR Yugoslavia has achieved the following production of wood-based panels in 2001:

- Plywood	15,000 m^3
- Particle board	41,000 m^3
- Fiber hardboard	23,000 m^3

However, only the fiber hardboard has increased by 43.7% compared to the previous year, while the plywood and particle board production declined by 21.1% and 18%.

There are three wood-based panels producers in Serbia, and in Montenegro only one. All three producers of plywood are included in great production plants , that besides plywood produce also sawnwood, veneer , fiber hardboard and other products. Because of several years economic sanctions influence, expensive working capital loans and great number of employees , all great production plants, that the production of plywood is a part , are in the great liquidity problems and bank debt .

The poplar plywood is dominant in the production of plywood . Their participation is about 65-70% in the total production. The high participation of polar plywood is the result of great demand as on domestic market so as on foreign market (Italy).

Almost 1/3 of the total production is being exported. The plywood export in 2001 was 4,300 m^3 in the total value of $1.8 million. Compared to year 2000 (6,800 m^3) , the plywood export in 2001 was by 30.1% less.

The similar situation is in particle board production. There are two producers of particle board in Yugoslavia (one in Serbia and one in Montenegro). Both factories are more then 20 years old , considerably used , what causes the decline of production from year to year. Unlike the decline in production, the domestic consumption of these boards continuously increases. In 2001 it reached the record level of 118,000 m^3, what caused the import increase by 52.9% or 78,000 m^3 more then in previous year. The particle board import increase has continued in the first half of 2002 , when it reached the level of 48,000 m^3.

Besides the particle boards, Yugoslavia also imports the significant quantities of MDF boards , since it has no its own production. In 2001 the MDF board import was 18,000 m3 with the trend of further growth , and it is estimated to reach 20,000 m3 by the end of 2002.

The production and consumption of fiber hardboards is in the slight increase , but it is not always sufficient to employ the capacity of one producer , that works with about 30% of its capacity.

7. Fuel wood

The fuel wood participates with 51% in the total log production. In 2001 the production was about 1.27 million m^3 or by 27.9% less then in year 2000. By the estimates for 2002 , the fuel wood production will reach the level of about 1.5 million m3. The main reason for production increase, is the very high price of electricity , because of what many households that used the electricity as the heating power , will use wood and coal. The greater demand has influenced the slight price increase of fuel wood , so that they are on the level of 15-30 EUR/m3. For the problems in production, the export of about 30,000 m^3 is expected.

8. Pulpwood

Production of wood for pulp in 2001 was about 140,000 m^3, where the hardwood represented 92.1% . The forecast for 2002 , the production will increase to the level of about 170,000 m^3, but it will not be sufficient for needs of domestic consumption for paper and cardboards. The main reason for the low level of paper production is the used and aged single factory for paper production. For this Yugoslavia imports the significant quantities of paper and cardboard. In 2001 the import reached the level of $88 millions.

9. Secondary processed wood products

The most significant products in this sector are furniture, joinery, floorings , laminated wood boards (finger joined) and wooden packaging. In 2001 the achieved furniture production level was about $50 millions, of what the export represented $29 millions. The export of joinery was about $6 millions, wood flooring export was $2.5 millions . The production of wood laminate boards and its export is increasing. In 2001 there production was about 10,000 m^3 , and 9,000 m^3 has been exported.