



SIEPA wishes you a Merry Christmas and a Happy New Year!



Highlights of the Month

This month, for the fifth time, we are honouring the best exporters in Serbia. [Read More >>>](#)



Meet SIEPA

Join us at European Times Launch. [Read more >>>](#)



Industry Close Up Chemical

Eight companies qualified as the top representatives from the chemical industry with year-over-year growth margin of 14%. [Read more >>>](#)



Investor Personally

Mr. Enrico Rossi, Progetti

We urge all potential investors to get used to Serbian reality ... be ready to learn first in order to teach better later. [Read more >>>](#)



Monthly Reporting

Changes in buying behaviour

Although average wages were constantly rising, few FMCG categories were able to capitalise. [Read more >>>](#)



Arts & Entertainment

The Underwater Film Festival, Hilandar and Joan Miro exhibitions will be a real prelude for the big events coming up in 2009. [Read more >>>](#)



The Other Home

Mr. Ernst Bode, General Manager, Messer Tehnogas

I must say, I find that people in Serbia are exceptionally tolerant and friendly toward foreigners [Read More >>>](#)



Hot Spots

Kafanica, Novi Sad

Light food is not served here, not even Coke, and all the specialties are rich with spices - for the true gourmet. [Read More >>>](#)

Sagem in Nis

Representatives from French Sagem and Nis-based Electronic Industry (EI) have held direct negotiations on the terms of Sagem's investment in EI. "We've negotiated with representatives from Sagem and EI and the Mayor of Nis, Milos Simonovic, about opening a major Sagem unit in Nis. Sagem wants to make a production base in Nis for electric meters, as well as for fax machines, printers and other products in future. We are here to negotiate terms," said Serbian Deputy Prime Minister Bozidar Djelic, who has participated in these negotiations since the beginning. He added that "this is not only Sagem's entry into Serbia", but also the creation of conditions for the export of Sagem and EI Nis products to the countries in the region, the former Soviet Union and EU. Sagem's investment in EI will create 250 jobs in the first phase and many more in future.

Simpo and IKEA

IKEA is to be the strategic privatisation partner for one of the biggest furniture manufacturers in Serbia – Simpo. If everything goes as planned, a big contract will be signed as early as mid-2009, said Simpo President Dragan Tomic. "We are seeking strategic partners that are in the business. That is a guarantee that they will resume production and place our products on the global market and enable the company's further development." The joint furniture factory is expected to export to countries all over Europe and the world.

Stand-By Agreement with IMF

Serbian Government officials and International Monetary Fund (IMF) representatives have agreed on an economic program as part of a

15-month stand-by arrangement, which should help underpin the government's economic policy, aimed at maintaining macro-economic and financial stability. The officials agreed to set the 2009 budget deficit at 1.5% GDP, while keeping the spending on salaries, pensions and subsidies balanced, in order to maintain macro-economic stability. Commenting on the agreement, Deputy Prime Minister for EU Integration Bozidar Djelic said that the IMF's \$520mn loan was a sign of Serbia's EU orientation, not an actual need for the loan, but an evidence of its stability. "Our foreign currency reserves are 2.5 times bigger than foreign currency savings deposits. Serbia is not facing economic troubles like Ukraine or Hungary – it is trying to achieve a 1.5% budget deficit, 3.5% GDP growth and 8% inflation in 2009." He also expressed hope that inflation would stay below 10% by the end of 2008 and announced the continuation of infrastructure projects worth over €2.9bn. "Serbia has a very good investment climate, it offers many tax incentives and is politically stable. Economically, Serbia is practically already an EU member," he said, noting that 80% of the country's banking, 75% of its investments and 55% of its trade are EU-related.

BMW Sales Expansion

In addition to the €12mn investment in the BMW showroom in Belgrade, Delta Motors CEO Milos Petrovic announced that the company would be investing about €5mn in opening new showrooms for BMW cars in 2009. Petrovic added that Delta Motors planned to sell about 800 BMWs and Mini Morrisises by the end of the year and increase sales to 1,000 vehicles in 2009. "We sold 586 vehicles in 2007 and the growth in sales amounted to 123%. During the first ten months of this year, we sold 73% more vehicles than in the same period in 2007," said Petrovic.

Strong Message to Software Companies

"Serbia became a member of the Partnership for Advanced Computing in Europe (PRACE) on November 12 as the first South-East European country to join this organisation," said Deputy Prime Minister for European Integrations and Minister of Science and Technological Development Bozidar Djelic, adding that it was a great day for the Serbian science and computing sector. Serbia is the second Eastern European country (the first was Poland) to become a member of that 14-member association. He said that this constituted "a strong message to our software companies that Serbia has serious intentions of joining the advanced computing revolution of the 21st century," which would act as a boon to the development of the country's computer infrastructure.

Meet SIEPA

December 10, 2008

Exporter of the Year

December 12, 2008

SIEPA Christmas Party

December 17, 2008

European Times Launch,
City Hall, Belgrade

First Eco-Fuel Factory

Cypriot East Point has opened a factory for the production of eco-fuel from biomass in Boljevac. This is the first factory of its kind in Serbia, and will be producing wood pellets. The unit is worth about €4mn and will employ about 20 people. This and future projects will contribute to the revival of the local wood-processing industry, and will create the conditions for Serbia to become a significant user and exporter of eco-fuel.

FTA with Turkey in 2009

A Free Trade Agreement between Serbia and Turkey will be signed next year. After the first round of talks with Turkish officials in Istanbul, the next round of negotiations on the agreement will take place in the first quarter of 2009. Interest for the agreement exists on both sides. Large Turkish power companies have expressed interest in the forthcoming tenders in the electricity industry to be announced soon by the Serbian Government. Other sectors have also been mentioned, including for bus and truck production, the cement and tyre industry, and retail.

Exotic New Markets

Electrical equipment manufacturer Metalka Majur has started exporting products to three new markets in the last two months. The most "exotic" new market is undoubtedly Iceland, where Metalka Majur exports products via a local trade-installation company that imports products from the Status line, as well as switchboards for automatic switches. Meanwhile, a big consignment of products from several product lines reached Kazakhstan at the end of October. Metalka Majur also exports to Sweden. The Swedish partner's first orders covered the full product range in order to identify those that suit the Swedish market the best, once the first sales phase is over and the market's reaction has been analysed.

Call for Investor for Bottling Plant

The municipality of Pirot is looking for an investor willing to invest in the construction of a water bottling factory in Gradasnica, home to the Banjica spring, about 5km from the town. Tests showed that the water

was healthy and medicinal. The capacity of the spring is 6.5 l/sec. The municipality, which owns the exploitation rights and the property around the spring, is willing to grant that property to investors as part of the deal. No project has yet been drafted for the factory and it would be left to potential investors to formulate the project as they wish.

New Industrial Zone in Stara Pazova

Following the adoption of a new spatial plan, the municipality of Stara Pazova will get a new industrial zone covering nearly 150 ha, which will be able to meet the demands

SIEPA

A Year Full of Opportunities and Challenges

SIEPA CEO Vesna Peric says that around twenty companies from Romania and Bulgaria have expressed an interest in moving their production to Serbia in the last few weeks, and that this could be one of the consequences of the global financial crisis. "Those are companies in the automobile industry, car battery manufacturers, and companies seeking to open call centres for the IT industry. Ms. Peric said that investors were in two minds as to whether to invest in Serbia owing to the global financial crisis, but added that there were no long-term delays or cancellations. On the export promotion side, Ms. Peric added that SIEPA would organise presentations of Serbian companies at 25 trade fairs in 2009, the majority of which are agricultural trade fairs and food exhibitions, while participation at a film industry trade fair is also in the pipeline.

SIEPA Award

The traditional Exporter of the Year Award ceremony will be held in the Belgrade City Hall on December 10, 2008. Awards for Best Exporter, Small and Medium-Sized Enterprise, Best New Export Market, and Best Product will be presented to those with the most impressive results this year.

The Awards Committee includes SIEPA Director Vesna Peric, Telecommunications and Information Society Minister Jasna Matic, "Blic Money" Editor-in-Chief Mijat Lakicevic, SME Agency Director Goran Dzafic, and Assistant Minister for SME Development Igor Brkanovic.

This year, DHL will also be awarding the top companies in the following categories: Small and Medium-Sized Enterprise, Best New Export Market and Best Product with €10,000 in shipping costs.



of potential investors, said Mayor of Stara Pazova Goran Jovic. Stara Pazova has an exceptional geo strategic position with two motorways and Nikola Tesla Airport situated nearby. "We will do our best to be at the disposal of all whose business plans offer jobs to a large number of people from Stara Pazova." Negotiations with potential investors are well under way, including: Mercedes, which recently opened a centre for commercial vehicles in the Krnjesevci industrial zone; an Austrian partner for the development of a big logistics center; Lithuanian Alita, which plans to move beer production to Stara Pazova, as well as with several Italian and Swedish companies.

Chemical On the Path to Recovery

In 2006, the basic chemical products industry continued its recovery, which started the previous year, and recorded solid growth with some fluctuations. The expense structure of basic chemical production is dominated by energy costs. Disruption in gas supplies from Russia in January 2006 and unbalanced cooperation with domestic energy producers had a negative impact on output in this sector. The importance of this sector is highlighted by the fact that the top ten Serbian products in terms of highest export value include six in the chemical industry, while the largest companies from this sector are also listed among the Top 300 Serbian exporters.

Eight companies qualified as the top representatives from the chemical industry with year-over-year growth margin of 14%. HIP Petrohemija's €330mn revenue exceeds the earnings of all other companies in this sector put together. A 23% growth margin allowed the company to keep its position among the top 10 companies in Serbia. Furthermore, with €207mn in exports, HIP Petrohemija finished second on the list of the country's top exporters. Despite a positive foreign trade balance, the company made an operating loss in 2006, which is going to be covered with state budget funds and by converting the company's debts into capital. One of the main causes for the poor business performance lies in the fact that the company is forced to purchase more than half of its basic raw materials from foreign partners. As NIS is Serbia's largest producer of these components, one solution is to privatise HIP Petrohemija and NIS together. NIS's privatisation is due to get under way in the first quarter of 2008, with HIP Petrohemija expected to be privatised simultaneously. In the meantime, HIP Petrohemija is planning to invest €17mn in the reconstruction and modernisation of its production plants.

Despite reporting revenue growth of 134%, earning €63mn, Methanol & Acetic Acid Complex (MSK) from Kikinda nevertheless made an operational loss. With 95% of its output destined for export, MSK ranked fourth in the Top 300 list of Serbian exporters. This company has piled up debts in the past, both to foreign and domestic creditors. Most of its foreign debts have been written off, while the problem of the unpaid gas debts to NIS was resolved by Srbijagas assuming a 63% stake in MSK. The selection of a privatisation adviser to facilitate the choice of a privatisation model is expected in the near future.

Pancevo-based HIP Azotara recorded a 30% drop in revenue in 2006, owing to the fact that production was suspended for six months. In mid-2006, the company was sold to a consortium made up of Lithuanian companies, ARVI and Sanitex, as well as Univerzal Holding from Belgrade.

The bulk of HIP Azotara and HIP Petrohemija technology is non eco-friendly, which is why they occasionally have to suspend production under bans imposed by the Environment Ministry.

Messer Tehnogas owns Progas from Podgorica and Messer Bleona from Kosovska Mitrovica. The company earned €37mn in 2006, a 43% year-over-year growth margin. The company also achieved a high level of profitability with a 26% EBITDA margin. In 2006, Messer Tehnogas invested €44mn in the construction of a new production plant in Smederevo and made substantial outlays with a view to obtaining HACCP, ISO and GMP certificates. It is also worth pointing out that the company's market capitalisation ranged between €250-300mn in 2006.

Since mid-2006, Hipol from Odzaci has been under the ownership of Slovenian chemical distributor Orka. In 2006, revenue grew 5%, though the company had a negative EBITDA. By the end of 2007, the owners planned to invest €3mn and build a new factory and distribution centre in Odzaci in 2008.

Subotica-based Azohem leads in terms of output growth with 67% growth margin in 2006. By the end of 2006, Azohem had acquired Azotara from Subotica, and this transaction marked the successful culmination of the Subotica-based company's privatisation process at the third attempt. Production in Azotara was stopped in 2003 and did not resume until 2007, so Azotara's powerful revenue growth cannot be ascribed to the consolidation of the dependent company's results.

Galenika Fitofarmacija and Agrohem are the only members of the group with earnings under €20mn, the former with 7% growth margin, while the latter's fell 30%. At the same time, Galenika had a 20% plus EBITDA margin, while Agrohem faces a significant loss.

The group employs more than 5,300 people, 70% of whom work in Pančevo-based factories. HIP Petrohemija has a productivity level above the group average of €105,000 per employee. However, HIP Azotara has the lowest productivity, with only €33,000 per employee. There have been considerable redundancies in this sector of late, a trend that is expected to continue when HIP Petrohemija enters the privatisation process.

Source: Ekonomist Magazin

Retail Sector											
Rank 2006	Rank 2005	Company	City	Operating revenues 2006	Operating revenues 2005	Growth of Operating revenues	Number of employees	EBITDA	EBITDA margin	EBT	EBT margin
1	1	HIP-Petrohemija	Pancevo	27,857,548	22,260,617	25.1%	2,456	-180,796	-0.6%	-1,815,455	-6.5%
2	3	Metanolsko-sircetni kompleks	Kikinda	5,323,959	4,602,827	15.7%	518	-835,089	-15.7%	-455,925	-8.6%
3	2	Hip-Azotara	Pancevo	3,448,519	4,796,447	-28.1%	1,260	-1,328,268	-38.5%	-956,188	-27.7%
4	5	Messer Tehnogas	Beograd	3,105,598	2,144,854	44.7%	335	808,055	26.0%	533,615	17.2%
5	4	Hipol	Odzaci	2,909,098	2,719,471	7.0%	515	-155,258	-5.3%	26,561	0.9%
6	9	Azohem	Subotica	1,972,473	1,166,313	69.1%	31	60,872	3.1%	3,007	0.2%
7	8	Galenika-Fitofarmacija	Beograd	1,533,848	1,408,018	8.9%	134	323,227	21.1%	278,079	18.1%
8	6	Agrohem	Novi Sad	1,333,593	1,889,851	-29.4%	85	-265,549	-19.9%	11,223	0.8%

Enrico Rossi

Director, Progetti

Given that you have been present in Serbia for a long time, what were the deciding factors in choosing to invest in our country?

When thinking about a possible location for our initial investment, the deciding factors to invest in Serbia were – the Serbian people's strong tradition in shoe making, cost-efficient labour costs and a very attractive flat income tax rate.

How did your investment develop through the years, in terms of employment and production?

During the Nineties, when we first started working in Serbia, initial production amounted to 50,000 pairs of shoe uppers. Back then we cooperated with the state-owned shoe manufacturer. In 1994, we started our own shoe company due to need to internationalise our production and, in 2000, my brother and I bought our first factory.

Today we produce 1,600,000 pairs of shoe uppers and 400,000 pairs of finished shoes. We employ around 1,000 people in three locations in Serbia, and, together with 24 additional satellite factories with exclusive contracts, the total number of workers involved in production is close to 5,000.

When it comes to the local labour force, how would you rate their skills and learning- curve timeline?

We are really surprised at how fast Serbian workers adapt to new technologies and, with the right basic education, we can train a manager in 12-18 months. Furthermore, young Serbian managers are very impressive as they are very educated, professional and run factories very capably.

What are the advantages of the shoe-making sector here in Serbia?

In the shoe production business workmanship is still dominant, as 65% of the shoe is manually made. The low labour cost that Serbia offers is a basic item that increases product competitiveness, and brings lower overheads and higher quality, through spending more time on an important operation. As a result we produce very high-quality shoes for a considerably lower cost.



Do you have any plans to expand your investment in Serbia?

We are planning to float the company on the Belgrade Stock Exchange in 2009, and the income will be fully invested in a new production unit. Unfortunately, we have had to slow down this process and look into other options for investment locations. We are facing problems in one of the locations that may affect the further investment process.

Did you find government institutions helpful during the investment process?

When we were in the process of buying factories in Vladimirci, Sombor and Vrsac, Serbian governmental institutions provided us with very useful support in terms of information and suggestions. By contrast, the Italian authorities were not always present to assist our business development.

What is your message to potential investors in Serbia?

We urge all potential investors to get used to Serbian reality - try to learn the local language, gain an understanding of traditions and address problems with modesty, be ready to learn first in order to teach better later.

Changes in Buying Behaviour

The looming recession and global economic crisis are becoming a hot topic in Serbia too these days. Although the Serbian economy successfully avoided the first wave of the crisis (mainly as a result of not being substantially dependent on the main investors' cash flow), the forecast is more in keeping with that of other CEE economies.

At the same time, political issues related to the government and the parliamentary majority have also shaped the consumer climate over the past two years, meaning that Serbs are, to an extent, already prepared for the global crisis.

Although average wages were constantly rising (due to the dinar's appreciation against the euro), few FMCG categories were able to capitalise. Price increases of essential food categories have 'eaten' into most of the accrued income, so that volume growth has remained modest or has even declined. As a result, the share of food, beverages and tobacco in the household budget (according to official statistics) increased from 43% in 2006 to 45% in 2007, reaching 48% in Q2 2008.

The price increases started in 2007 and continued through 2008. As expected, Belgrade suffered the fastest and sharpest increases, which then spread to the rest of the country with a slight time delay.

As already stated, the food basket shows the steepest price growth, while average prices for beverages and personal care products remained fairly stable. On the other hand, household care product prices, which rose at a similar rate to food until the end of 2007, suddenly started falling in 2008. That does not necessarily mean that production prices fell, but, more probably, was a result of buyers turning to more affordable products as well as discount products.

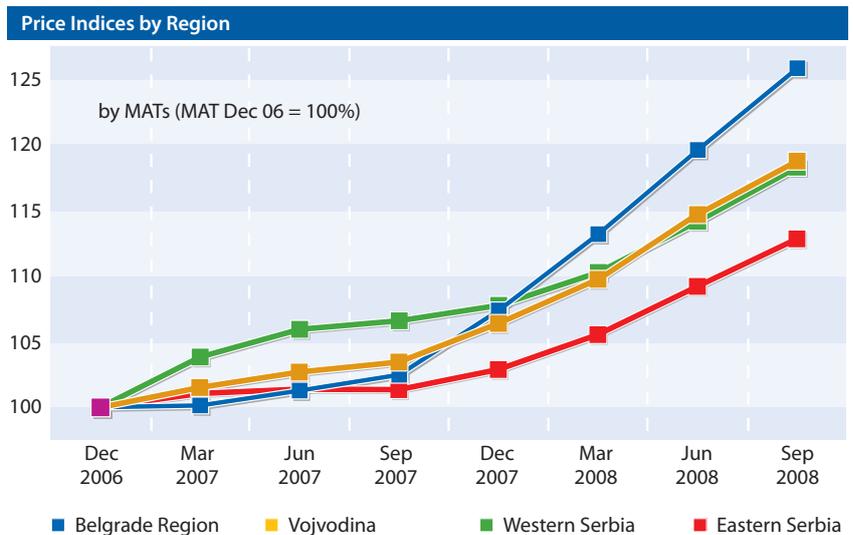


Low-income buyers suffer most from price hikes and search for the cheapest products (or those with lower price increases). This segment is undoubtedly cutting back on shopping, thus bringing purchased volumes down, so that it reached the point in late 2007 when their basket could not be reduced any further.

The low income segment is highly exposed after the first wave

of a global crisis, and suffers most, while middle and high income classes show little change in their behaviour. Since government officials and market experts forecast still harder times to come in Q2 2009, we will probably witness changes in these two segments' purchasing patterns in the near future.

Source 



Sources: GfK Belgrade – Consumer Tracking
Calculation based upon fmcg basket of monitored product categories

Belgrade

December 12 – 15, 2008 International Underwater Film Festival

The 12th International Underwater Film Festival in Belgrade is a unique opportunity to delve into the underwater world, to find out more through movies, photos, meetings with authors and other underwater adventurers and enthusiasts. Come and enjoy movies that feature a world rarely seen. For more info, go to www.kpa.co.yu.

December 13, 2008 The Belgrade Dixieland Orchestra

Dixieland jazz came to Serbia back in 1953. Nowadays the only ones still playing this beautiful and vivacious brand of music are the Belgrade Dixieland Orchestra. In a relatively short period of time this band has become an important cultural institution. The concert at the Sava Centar will radiate

The Other Home

Ernst Bode,
General Manager, Messer Tehnogas

First-time visitors are always surprised by the energy and beauty of our country. How do you feel here after so long?

When it comes to quality of life, what's most important is the people that surround you. I must say, I find that people in Serbia are exceptionally tolerant and friendly toward foreigners. That might sound a bit unbelievable to Westerners. The standard of living in Belgrade is good because it is a very lively city. When you walk through Knez Mihajlova, even at midnight, it's full of people. You can only see this kind of situation in South European countries like Greece and Italy, but only during summer. It is different here and people are full of life, as if they want to make up for the time lost during the Nineties.

positive energy and offer a historical musical rarity. For more info, go to www.belgradedixielandorchestra.com.

November 6 – January 15, 2009 The Treasures of Hilandar Monastery – Exhibition

The Museum of Applied Art is showcasing some of the most valuable material discovered on Mount Athos

in the Hilandar monastery. This exhibition will be successive, as there are a number of book volumes, and this year the introductory collection is on display. The exhibition features various pieces, including precious items, everyday belongings, as well as a range of written texts. For more info go to www.mpu.org.rs.

Sombor

November 27 – December 20, 2008 Joan Miro – Exhibition

The Sombor City Museum, the Cervantes Institute and the Spanish Embassy have the pleasure of presenting a valuable exhibition of 63 original paintings and sketches by the great Spanish artist Joan Miro. The poetic and joyful Miro world comes to life in the Sombor City Museum. For more info go to www.gms.rs.

Hot Spots

Kafanica, Novi Sad

Checked tablecloths and curtains are just some of the details that take you back in time when savouring domestic cuisine in this Novi Sad restaurant. The interior, made of wood and other natural materials, is eye-catching, but visitors tend to be more engrossed in the view of the kitchen, as they take furtive glances at their favourite meals being prepared. Light food is not served here, not even Coke, and all the specialties are rich with spices – for the true gourmet. Domestic rakija, wines, and friendly staff will make you feel at home and release you from all the stress and turbulence that modern life brings.

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