



Wood processing has a long tradition in B&H

Forestry Management Reform

Competitiveness of the B&H Wood Cluster Requires Better Policy, Law, and Regulation

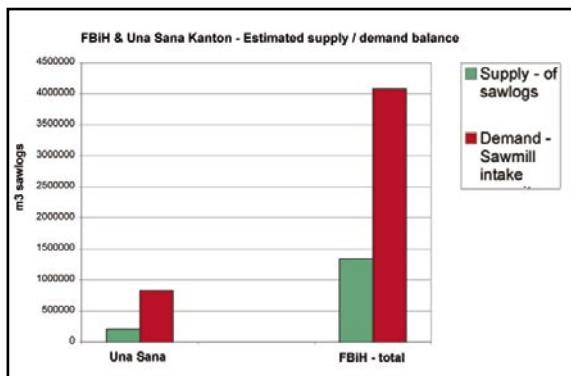
Research has shown that the aggregate demand for sawlogs of the B&H wood processing industry is about three times the available annual allowable cut. Members of the B&H wood processing and forestry (WP&F) cluster report that some otherwise competitive wood processing companies are idle, and some foreign investments have been cancelled, because of the inability to ensure sufficient quantities of sawlogs. A limited number of firms in the industry have a reliable supply of raw material.

In B&H, sawlogs are not allocated by the market in a modern and competitive auction and tender process. Instead, wood is allocated through a planning process, where both prices and amounts are controlled by the entity and cantonal forest management companies (FMCs). Wood is allocated based on assessment of need, social indicators and financial suitability of clients. This system is in large part managed by capable professionals, who acting according to established criteria, try to ensure that the most competitive value-added processors are the ones that get wood.

The mismatch of supply and demand also unavoidably creates opportunity for corruption and misuse. Cluster members report cases of illegal felling of trees, bribe-seeking by officials, deliberate under-grading, and other corrupt practices.

B&H needs an overall policy for sustainable forestry management that is legally binding, and implementing regulations that connect sawlog allocation to the market. On behalf of the B&H WP&F cluster, the USAID Cluster Competitiveness Activity (CCA) has organized a Forestry Reform Forum made up of the major members of the international community and B&H state, entity, and cantonal government agencies most involved with forestry management. This Forum is helping to implement the Action Plan to Combat Illegal Activities in the Forestry and Wood Sector, an initiative of the Federation and RS Forestry Ministries, and supported by the World Bank. This Action Plan has already produced an increase in activity by the law enforcement agencies involved in battling forestry crime. The Forum is also developing a consensus position that will help guide improvement of the policy, legal, and regulatory environment in this critical sector.

At the same time, wood processing companies need more favorable access to working capital so that those value added companies that are competitive can successfully bid for and ensure continuous supply of sawlogs. Through its working group dealing with issues of access



HISTOGRAM OF SUPPLY AND DEMAND IN THE BIH FEDERATION IN 2004. AVERAGE DEMAND/SUPPLY RATIO IS 3:1

to finance, the B&H WP&F cluster is developing ideas to present to commercial banks about innovative loan products, especially these addressing working capital needs. Through its working group dealing with raw materials supply, the B&H WP&F cluster has created public-private partnerships among wood processors, FMCs, and government regulators, to create more transparent and fair methods for allocating sawlogs between now and the time that the industry is ready to move to accept contemporary market principles.



LIST

Volume 1 - March 2006

Wood Processing and Forestry Cluster in BiH – Newsletter

Economic Costs of Forest Mismanagement

B&H is not alone in its struggle to improve forestry management. According to the World Bank in spite of their substantial economic value, forests are one of developing countries' most mismanaged resources. This translates into enormous costs. The estimated fiscal revenue loss from failure to collect royalties and taxes from forest operations is some US\$ 5 billion annually. Illegal logging results in additional losses at least US\$ 10 billion to US\$ 15 billion per year of forest resources from public lands.

FEATURE STORY

Cluster Competitiveness

Joint Actions Can Produce Individual Company Profits

The cluster approach enables companies to improve their individual competitiveness much more effectively by acting together in many areas, as a group, rather than by acting alone. The three main areas of joint action are: information-gathering and use, lobbying, and joint operations.

- Working as a group, companies can seek news and information on global market developments and opportunities, on new technologies and product quality standards, and on sources of business finance. This information can then be shared throughout the sector by a cluster homepage, newsletters and bulletins, seminars, and trainings.

- In many countries, business competitiveness suffers from commercial and regulatory impediments that are overly burdensome. Companies joined in cluster can more easily identify these legal and regulatory obstacles and then, jointly and forcefully present their case to relevant authorities for needed changes.

- Companies can benefit from joint funding of some operations, each bearing a fraction of the expense. Examples are joint exhibition at trade shows, joint marketing of the entire cluster's capabilities, and joint investment in sharable expensive equipment and transport facilities.

These joint actions do not normally happen spontaneously, nor is it realistic to expect a particular company or individual from within the sector to be responsible for organizing them. For carrying out an effective joint action program, a cluster requires a coordination body, a secretariat, referred to as an "Institute for Collaboration", or IFC. USAID CCA is serving as the B&H WP&F cluster's IFC.

Cluster stakeholders include not just companies, but government agencies, educational institutions, and financial institutions.

Public Opinion of B&H Wood Products

CCA conducted a survey last year to inform cluster members about buying patterns of domestic consumers and their attitudes toward domestically-produced goods. Almost 90% of respondents understood that consumption of domestic products is good for the local economy, and 70% were generally satisfied with quality of products made in B&H.

The survey indicated that about 25% of the Bosnian public purchased some piece of furniture during the past two years, both domestically made and imported. Couches and construction joinery produced in B&H were bought to a higher extent than imported, while more kitchen furniture was imported than produced in B&H. Price and quality were the most important factors influencing decision to buy domestic products. 60% of those who bought a wooden product produced in B&H were very satisfied with their purchase, and one-third were planning to buy some B&H wood product in the near future.

The complete survey is available on CCA website, and the survey will be updated this year to determine purchasing trends for the furniture produced in B&H as well as to see if there was any change in perception of its quality.

Cluster's Collaborative Actions Way Ahead for Improvement of Wood Processing Companies' Production Technologies

More than 40 participants from the wood processing sector in the region of central B&H (CBR), representing 22 companies, 4 business associations, 3 educational institutions and cantonal government, came together recently for a working group meeting in Zenica to discuss application of new technologies in the industry. Productive discussion followed presentation of survey results conducted among over 100 wood processing companies in CBR and FB&H on the current level of technology in wood processing companies and their needs. REZ, the Regional Development Agency from CBR, carried out the survey with support from CCA. The common understanding during the meeting was that wood processing companies will rely on cluster collaboration for organization of training in most recent technologies, while closer relations with the equipment suppliers will provide insight into up to date production lines. Educational institutions and consulting companies active in the CBR wood processing cluster will propose appropriate training programs which could be funded through CCA's Competitiveness Implementation Fund.

CLUSTER DEVELOPMENT ACTIVITIES

CCA Competitiveness Implementation Fund

In October 2005, USAID CCA launched a \$ 1.5 million procurement facility, the Competitiveness Implementation Fund (CIF). The CIF supports initiatives by wood processing sector stakeholders that can be expected significantly to increase the cluster's competitiveness. CIF procures services from local providers, including private businesses, NGOs, and business associations. Stakeholders interested in accessing the CIF must pre-register on CCA's website at www.usaidcca.ba. Interested parties can respond to requests for proposals announced by CCA, and can submit their own ideas for projects in need of funding in the form of unsolicited proposals. Presently, twenty-three firms and NGOs have pre-registered for CIF via the CCA website, and approximately 150,000 KM in procurements have been awarded to ten projects. Apart from the CIF, CCA has so far invested nearly KM 400,000 in different cluster activities, such as conferences and workshops, promotional materials, specialized and B2B fairs.

Cluster Trade Fair Plans for 2006

B&H WP&F cluster members visited international furniture fairs in Milan, Copenhagen and Belgrade during 2005, collecting information on new trends, competition products and marketing techniques. Cluster members jointly exhibited for the first time at the Ambienta furniture fair in Zagreb in October 2005. Joint presentation by firms from one country generates higher interest and draws visitors' attention. In addition individual presenting costs are considerably lower.

In 2006, the B&H WP&F cluster will promote joint exhibition at trade fairs in Split, Zagreb, Belgrade, and Moscow. Visits to trade fairs and B2B contacts at PAVE Fair in Graz and MOW Fair in Hanover will be undertaken to prepare for exhibition in the following year. Cluster members interested in these events should contact CCA WP&F sector.



"Collaborate to be competitive"

Birmingham Furniture Trade Fair

B&H Wood Processors in Birmingham - Business Made and New Trends in Furniture Design Presented

Representatives of 12 B&H furniture manufacturing companies visited the NEC Birmingham Furniture Show and SATRA Technology Centre in the United Kingdom in January 2006 with support from USAID CCA. As one of the Europe's largest and most comprehensive interior trade fairs, NEC offered firsthand experience in furniture design, materials, and market for the new buying season. In addition, B&H companies' representatives had a chance to discuss cooperation directly with buyers and distributors outsourcing production of furniture and furniture components.

For several international furniture industry representatives this was their first direct contact with B&H companies. "We are always looking for new opportunities," said the Managing Director of Eastern Sumptuous Furniture UK, while taking catalogs with B&H products. John Cowling, Director of Sales and Marketing of another UK Furniture company, ERCOL, said that he will further explore and distribute B&H products' promotional materials, emphasizing: "We have been mostly working with Slovenia, Turkey and Italy so far and did not have any experience with B&H producers".

Production of commodity products moves toward countries able to provide same or better quality at lower cost. More specialized designed furniture products are sourced where design and quality are high. B&H has potential in both areas.

While visiting the U.K. for the NEC show, B&H manufacturers took the opportunity to visit the largest furniture and materials testing laboratory in the country, SATRA, to observe the most recent wood quality and testing technology trends and better understand furniture-related EU and BS standards and certification procedures. The most important and frequent tests required for the furniture products certification were demonstrated to B&H visitors.

Zahid Mujić from SMRČA company from Bosanska Krupa commented: "This presentation was very useful to us. We will not be able to produce anything without such testing in the future". The visit made liaisons needed for use of the SATRA services to allow B&H producers to break into the UK furniture market, where standards must be met, and also to support eventual establishment of similar laboratory in B&H.



B&H wood processors visiting SATRA Technology Center

Fund for Support of Una-Sana Canton Wood Processing Companies in Quality Management Systems

Collaboration Between Public and Private Sector in Bihać Wood Cluster

In order to support Una-Sana Canton (USC) wood processing companies in the process of preparing and certifying Quality Management Systems (QMS), the Municipality of Bihać and the USC Chamber of Commerce, supported by USAID CCA, have established a QMS Fund.

Development of QMS and the certificate of compliance of a company's QMS with ISO 9001 standard have dual value: they help the Management optimize the processes in their companies to meet customer requirements and best practice at the same time, they represent a marketing advantage recognizable on national and international markets.

The QMS Fund is aimed at companies initiating QMS preparation and certification in the next 12 months. The companies are expected to contribute 50% of the total expenses for both processes, and the Fund will contribute the other 50%. In addition to Municipality Bihać, the USC Chamber of Commerce, and CCA, the Cantonal Government and other USC Municipalities are expected to contribute financing to the QMS Fund.

USC Chamber of Commerce has been formally empowered to manage the Fund. A Rule Book has been developed to enable USC WP companies to access the Fund in an easy and transparent manner. The establishment of the Fund resulted directly from the WP&F cluster working group meetings in USC, who set as a priority increased exports of value-added products through achieving certification in internationally recognized Quality Management standards

"Competitiveness is created not inherited"

Calendar Event

Wood Processing and Forestry

23 March 2006 -QMS Training, Zenica

24 March 2006
USC Finance Working Group Meeting, Bihać

2 April 2006
CBR Marketing Working Group Meeting
Zenica

13 April 2006
USC Regional Cluster Conference, Bihać

14 April 2006
CBR Marketing Training, Zenica

18 April 2006
CBR Regional Cluster Conference, Zenica

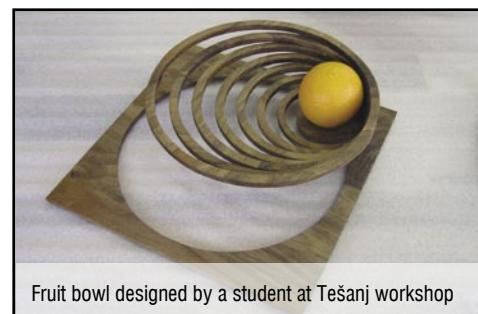
20 April 2006
CBR QMS Working Group, Zenica

25 April 2006
USK Finance Training, Bihać

27 April 2006
USK Marketing Training, Bihać

Successful Cooperation of Wood Industry and Design Students

On behalf of the B&H WP&F cluster, CCA supported the F/B&H Chamber of Commerce and the Sarajevo Arts Academy in promoting cooperation between design students and wood products producers. The combination of contemporary design and B&H wood processing tradition and know-how will create products that are competitive in global markets, resulting in increased furniture exports. The "Made in B&H" workshop, held in Tešanj's Nord Ent factory, put young designers together with furniture manufacturers. In December at a "Designers Invade Factory" exhibition at the Sarajevo Arts Academy, the innovative products that came out of this cooperation were presented. At this event, three students were presented with Certificates of Achievement for their efforts by Dr. Howard Sumka, USAID B&H Mission Director. The designs subsequently received awards in an international competition of design schools and universities in Cologne, and will also be presented at the Copenhagen Furniture and Design Fair in May 2006.



Fruit bowl designed by a student at Tešanj workshop

CLUSTER BUSINESS NEWS

The Global Wood Products Industry

European Union Market Trends and Their Potential for B&H Producers

The EU furniture industry accounts for about half of the world's furniture sales valued at some € 82 billion. The furniture sector is a basic industry in most industrialized countries, representing in general between 2 and 4% of the production value of the manufacturing sector. As a labor-intensive industry, it also provides employment for around one million people in Europe.

Germany is the EU's largest furniture producing country, representing over 27% of total EU production, followed by Italy (21.6%), France (13.5%) and the UK (10.4%). Upholstered furniture and kitchen furniture are the largest industry sectors with office fur-

niture, dining room furniture, and bedroom furniture following.

The EU accounts for half of all world furniture imports, and the three largest importing countries are Germany, the U.K., and France. Imports from Eastern Europe, including Southeast Europe, are growing rapidly.

The EU furniture industry is mainly an assembling industry, consuming various raw materials and parts to manufacture its products. In fact, the largest single category of furniture imports to the EU is furniture parts, amounting to some € 8 billion per year. If they can establish better connections to EU furniture producers while improving qual-

ity and reliability, competitive B&H producers can exploit this opportunity, because of their relatively low costs, access to lumber, and proximity to Western Europe. B&H exports total exports of furniture and furniture parts to the EU are approximately € 75 million. If B&H wood producers could capture one more additional percentage point of market share in EU furniture parts imports, this amount would double.

CCA, acting as the B&H WP&F cluster's Institute for Collaboration, is supporting increased trade connections to major European furniture import markets, while supporting improved product design and quality.

<http://europa.eu.int/comm/enterprise/furniture>



Bosnia and Herzegovina is rich with forests

USAID Cluster Competitiveness Activity

BiH WP&F cluster's newsletter, is supported by the USAID Cluster Competitiveness Activity (CCA). List's editorial board members are: Amir Abazović, Assistant Minister of Zenica-Dobo Canton Ministry of Economy, Ismar Alagić Counselor to Director and Coordinator of REZ, Zoran Glogoški Technical Director of Economic Vitez, Antun Jakovec Coordinator at Una-Sana Canton Chamber of Commerce, Senad Kurtović Director of Šipad Bina Bihać, Dževad Muslimović Director of Una-Sana Šume and CCA staff.

CCA is a four-year project funded by USAID to support economic growth in BiH by advancing the business success of the country's important wood and tourism sectors. CCA functions as the "Institute for Collaboration" (IFC) of the BiH WP&F cluster. It has taken the initiative to bring together stakeholders from the cluster in three regions of BiH – Central Bosnia & Herzegovina, Krajina, and Banja Luka – and has facilitated the formation of working groups to deal with key competitiveness challenges. As the cluster's IFC, CCA provides support to many joint action initiatives that improve BiH wood products and expand markets. All of CCA's activities are on behalf of the cluster. Eventually, will CCA pass its responsibilities on to a local institution that will become the BiH WP&F cluster's permanent IFC. The project's headquarters is in Sarajevo with offices in Banja Luka and Mostar.

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