



## **Textile Industry in Serbia**

a sectoral study  
and company overview

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# Summary

*After nearly four years of transition, the Serbian macro economy has stabilized and key business environment legislation has passed, including the VAT and simplified corporate tax code. The political environment has also stabilized in a business friendly trajectory, after two successful democratic elections and two Western oriented governments. The banking system has developed to a level of sufficient quality for all normal foreign trade operations.*

*The unresolved status of the State Union of Serbia and Montenegro will delay integration into the WTO until as least 2008. Nevertheless, quotas are likely to be eliminated via bi-lateral agreements with the US and EU in 2005.*

*This market environment will be positive over time. The cost of production will continue to rise in EU member states and the US. The expansion of the EU to Central and Eastern Europe will accelerate the rising production costs in these new member countries. Serbia will remain one of the last continental European markets for high skill low cost labor-intensive production.*

*Progress in the textile and garment industry can be expected in a spontaneous ad hoc manner. Small and medium companies will continue to rise, sometimes absorbing the healthy bits of collapsing state and socially owned firms. CM and, ultimately CMT production are both excellent growth prospects.*

*Widespread capacity for self-financing of production will emerge only after several years of active CMT work.*

*Growth in Serbia's textile industry will require much more effort. The high existing debt burdens of most local firms make the purchase of modern production machinery very difficult. There are a few examples of excellent quality locally owned firms with the technology for producing complex modern fabrics, such as Dunav Grocka. The other pattern for development in local textile production capacity is in the model of Branko Krsmanovic, which was bought by the Italian firm, Dalle Carbonare.*

*Management quality will remain a key challenge for Serbia's textile and garment industry. Private companies are the furthest along the path to eliminating corruption and redundancy from their managerial structures.*



# Background

## **Success in macroeconomic stabilization**

The first three years of transition following the fall of the Milosevic regime yielded great successes in macroeconomic stabilization. GDP, while still just over half its 1990 level, has grown annually between 3 and 5% and is projected to sustain 5% annual growth over the next two years. Retail price inflation hovers around 10%, National Bank currency reserves are strong, while settlement with both London and Paris clubs of creditors brought external debt to a manageable 60% of GDP. Trade union pressures for wage growth are unlikely to influence overall productivity as unions retain strength only in state and socially owned firms, which play a small and shrinking role in the economy.

## **Remittances play a significant role in financing the trade deficit**

The negative current account balance is financed in large part by remittances, which equal in annual dollar value to total export, according to National Bank of Serbia estimates. Shifting the spending of these remittances from consumption to investment is a key challenge for the government.

## **Political consensus on EU Membership**

Elections are free and fair and the political discourse is largely free of the nationalist rhetoric seen in the 1990s. All major political parties agree on the overarching policy objective of membership in the European Union membership. While EU membership is a distant prospect, this political consensus does serve to constrain policy options and thereby to reduce country risk.

## **Challenges remain**

The reform challenges that remain include aggressive transportation and telecommunications infrastructure development; restructuring and privatization of moribund state firms; and modernizing state institutions and the civil service.

## **Geography is Serbia & Montenegro's greatest enduring comparative advantage**

The greatest enduring comparative advantage of Serbia and Montenegro is its geographic position. The country is a natural transportation hub for all Southeast Europe. It is the one state in Southeast Europe that borders every other state in Southeast Europe. It connects Europe and the Near East by the shortest possible route, with reconstructed road and rail infrastructure, river transport via the Danube, and access to the Mediterranean Sea via port of Bar on the Adriatic Sea. Belgrade airport is undergoing renovations that will position it in 2005 as the emerging regional air cargo hub.

The Danube (water corridor VII) is a natural connection between Middle East, Central Europe and the developed countries of Western Europe. The Budapest-Belgrade-Bar rail line is the fastest and cheapest connection between the natural resource rich countries that emerged out of the former USSR, and the Mediterranean basin. The shortest land route (highway) connecting Western, Central and Eastern Europe with Greece, Turkey and the Near east countries is Corridor X, which runs the full length of Serbia.

Table 1: Serbia & Montenegro (without Kosovo): Key economic indicators

	2000	2001	2002	2003	2004a	2005a
Nominal GDP (US\$ bn)	8.60	11.55	15.69	19.82	21.53	23.93
Real GDP Growth (%)	5.20	5.30	3.80	2.00	5.00	5.00
Industrial production growth (%)	11.20	0.00	1.70	-2.70	5.00	5.00
Retail Price Inflation (%)	69.94	91.03	21.26	11.24	8.00	7.70
Population (m)	10.63	10.65	10.66	10.67	10.68	10.69
Export of goods fob (US\$ m)	1,923.00	2,003.00	2,412.00	2,667.00	3,189.40	3,742.39
Import of goods fob (US\$ m)	3,711.00	4,837.00	6,320.00	7,510.00	9,387.50	10,044.60
Current account balance (US\$ m)	-339.00	-528.00	-1,746.00	-2,182.00	-3,193.75	-3,115.95
Foreign exchange reserves excl gold (US\$ m)	524.20	1,168.90	2,280.10	3,550.00	3,200.00	2,900.00
Total external debt (US\$ bn)	11,851.30	12,515.50	11,839.00	13,724.00	12,005.20	11,989.50
Exchange rate (av) YuD:US\$	17.03	66.84	64.19	57.64	60.16	61.22

<sup>a</sup> Economist Intelligence Unit forecasts

Source: Statistical Yearbook of Yugoslavia (several issues), Federal Office for Statistics, Belgrade



# Textile and Clothing Industry

**Textile and  
Garment  
production  
is 3% of GDP**

Textile and garment production represented about 7% of manufacturing output and about 3% of GDP in 2003.

**Serbian firms are  
well placed to  
absorb orders lost  
by countries  
joining the EU**

The industry is poised to grow in the context of the EU accession of ten countries from central and eastern Europe. Wage growth in these countries has already or will soon price them of the textile and garment manufacturing market. Coupled with its geographic advantages, Serbia's low cost highly skilled labor force is well positioned to absorb especially the outward processing business lost by Slovenia, Hungary, the Czech Republic, Slovakia, Poland, Lithuania, Latvia and Estonia.

Serbia's textile and garment industry is ideally placed for short lead-time smaller production runs in response to shifting fashion trends. Moreover, proximity to both fashion centers as Paris, Milan or Rome, as well as to major retail markets lends sensitivity to market trends, speed to market, and reduced transportation costs.

This position is based in a long history of success in the outward processing market. Before the disintegration of former Yugoslavia, textile was one of the leading exports, with annual industry export revenue of about US\$ 1 billion. Over 70% of the export value was realized on the Western European market. The majority of these textile companies were located in the territory of Serbia.

**77% of textile and  
garment firms are  
private SMEs**

Today, there are more than 1,185 textile and garment companies in Serbia. The majority (77%) are private small and medium enterprises. Some 16% of companies are still in social ownership. These are the largest firms, are mainly vertically organized, and generally find themselves ill prepared to compete with the new private firms.

Local observers estimate that there are up to 2,000 unregistered micro garment companies - mostly operating as home businesses.

**The 90's were very  
bad years**

The Serbian textile industry went into steep decline in the 1990's and recovery remains elusive. In 2003, stocks of yarns and fabrics were down by 19% year-on-year and down by 15% year-

on-year for finished textile products. Relative to 2002, the sale of fabrics and yarns dropped by 31%, and of finished textile products by 32%.

In 2003 the textiles and clothing industry recorded considerably lower output year-on-year, as opposed to the overall industry growth, which was slightly up. The manufacture of yarns and fabrics dropped by as much as 37%, and the manufacture of finished textile products fell by 32% in 2003 year-on-year. Only the production of hosiery and of carpets and floor coverings registered growth in 2003.

**Poor results in aggregate figures reflect the collapsing state sector firms**

It is important to note that the rise of private SMEs are masked in the aggregate figures which overwhelmingly represent the faltering large social firms unable to capture outward processing contracts and pushed out of the domestic market by low quality Asian imports.

**...which can survive only as smaller units working on old foundations**

Large state and social companies dominated in this country in the 1970s and 1980s and held prominent positions in the European textile industry. Unfortunately, their future is uncertain at the moment. Yarns manufacturer Pirotex from Pirot, rug and floor covering manufacturer Industrija tepiha Ivanjica, garments manufacturer Rudnik from Gornji Milanovac and the large textile and garment combine Yumco from Vranje have all fallen on hard times. The government continues to toy with interventionist solutions, but the state coffers are too thinly stretched today to sustain the old corporatist habits. These companies can only survive as smaller units working on old foundations.

Table 2: Serbian Textile and Garment Output, 1989-2002

Product Group	Unit	1989	1990	1991	1995	1996	1997	1998	1999	2000	2001	2002
Cotton yarns	ton	23.874	20.652	14.946	6.507	9.593	9.000	10.471	8.555	9.233	9.023	6.138
Woolen fabrics	000 m <sup>2</sup>	30.195	27.575	19.182	6.823	6.991	9.360	8.812	6.570	5.723	6.382	4.617
Knitwear	ton	5.977	4.400	3.777	946	1.293	1.593	1.234	460	954	811	1.194
Hosiery	000 units	45.170	37.400	33.66	24.300	35.659	37.308	50.940	43.448	79.642	141.158	141.136
Ready-to-wear undergarm.	000 m <sup>2</sup>	47.066	40.000	37.394	9.517	7.028	11.660	15.608	6.718	8.947	10.970	5.244
Ready-to-wear garments	000 m <sup>2</sup>	52.916	40.948	42.064	14.126	16.926	19.808	21.961	13.183	18.623	18.000	14.873
Carpets and floor coverings	000 m <sup>2</sup>	2.394	4.906	4.058	7.699	6.882	7.512	8.195	7.000	5.871	6.727	9.905

Source: Serbian Chamber of Commerce

Table 3: Textiles and textile Output and sale by product group with year on year trends

Product Group	Unit	Output 2003	% change y-on-y	Sales 2003	% change y-on-y
Cotton yarns	tons	1.905	-69	1.003	-80
Woolen yarns	tons	5.728	122	4.816	222
Synthetic yarns	tons	3.300	-14	1.180	-27
Cotton fabrics	'000 m <sup>2</sup>	4.358	-58	4.693	-59
Woolen fabrics	'000 m <sup>2</sup>	2.993	-35	3.440	-27
Fabrics of artificial silk	'000 m <sup>2</sup>	698	-56	861	-50
Fabrics of artificial filament	'000 m <sup>2</sup>	23.067	-19	19.762	-6
Undergarments, knitted or crocheted	tons	757	n/a	689	n/a
Garments, knitted or crocheted	tons	272	-77	280	-78
Hosiery	'000 pairs	79.732	56	79.832	-43
Undergarments, ready-made	'000 m <sup>2</sup>	1.948	37	3.269	-40
Heavy garments	'000 m <sup>2</sup>	207	54	218	-40
Carpets and floor coverings	'000 m <sup>2</sup>	4.783	48	6.403	-9
Unweaved textiles	tons	3.450	272	1.513	114
Headgear	'000 units	149	270	132	169
Ornamental trimming	tons	136	79	141	-18

Source: Serbian Chamber of Commerce

Most product groups registered lower output and sales in the course of 2003. Positive developments were registered in the output and sale of woolen yarns and unweaved textile. Especially poor results emerged in the manufacture of cotton yarns and fabrics, knitwear, and ready-made undergarments.

Registered textile and garment exports in 2003 totaled EURO 212 million, up 8% from 2002, while imports reached EURO 576 million, up by 14% from 2002, an export-import ratio in 2003 of only 37%. This resulted in a trade deficit in textiles and garments of EURO 363 million, up 18% relative to 2002.

The share of textile and garment exports in the total exports of industry dropped from 14.1% in 2001 to 10.4% in 2002 and as little as 9.1% in 2003. Their share in the total imports of industry and mining contracted from 10.1% in 2001 to 9.4% in 2002 and 8.8% in 2003. These numbers are, however, largely representative of the increasingly complex import and export structure following the end of a decade of sanctions.

Table 4: Foreign trade trends

Group	EXPORT			IMPORT		
	2002	2003	% change	2002	2003	% change
Industry and mining	1.885.300	2.325.849	23	5.369.977	7.021.371	31
Production of yarns and fabrics	22.531	20.708	-8	361.788	387.688	7
Production of finished textile products	173.336	191.748	11	141.983	188.422	33
Total Textile and Garment industry	195.867	212.456	8	503.771	576.110	14

Source: Serbian Chamber of Commerce

The largest trading partner in textile and garments for 2003 was the EU countries (exports - 74.2%, imports - 54.8%) followed by East European transition countries and then other countries and former SFRY republics.

According to official data, twelve firms accounted for 23.37% of total textile and garment exports and 9.2% of total textile and garment imports in 2003. This illustrates the highly fractured nature of production - with many small and medium sized private firms.

Table 5: 2003 Textile and Garment imports and exports by firm - '000 US\$

Firm	Exports	Imports	Balance
"8. mart", Subotica	9.850	5.359	4.491
"1. Maj", Pirot	9.521	7.184	2.337
"Sintelon", Bačka Palanka	4.514	9.963	-5.449
"Va-Ly", Popučke	4.238	6.518	-2.280
"Matex", Subotica	3.638	1.647	1.991
"Brusjanka", Brus	3.143	2.641	502
"BIS-manufaktura", Zemun	3.090	5.665	-2.575
"Mideri", Zrenjanin	3.004	2.783	221
"Lisca", Babušnica	2.783	2.641	142
"Dunav", Grocka	2.345	2.517	-172
"Ineks-Ukus", Novi Belgrade	2.310	2.774	-464
"Italtex-intimo", Novi Belgrade	1.212	3.307	-2.095

Source: Serbian Chamber of Commerce

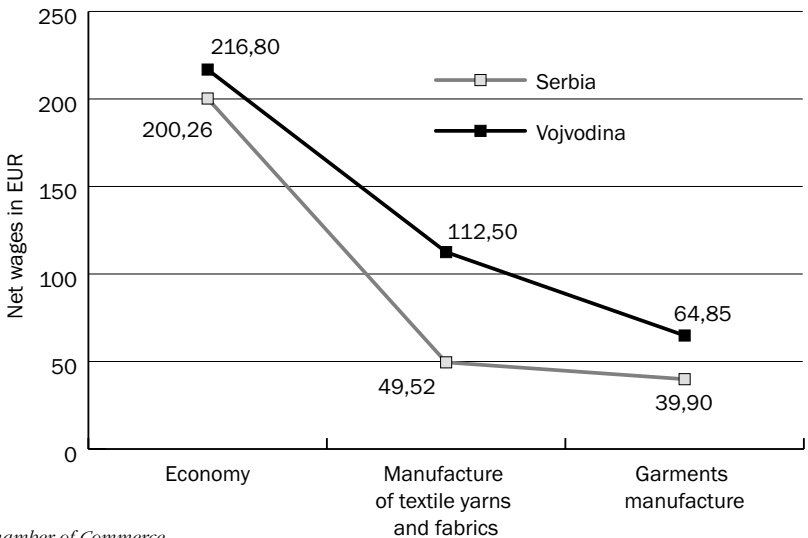
## Labor market

### Lowest Wages in Europe

Serbia belongs to the most price competitive countries in the European textiles industry together with Bulgaria and Belarus, while just slightly above wage rates in China.

Wages of workers in the textile and garment sector differ by region. Wages in Vojvodina are somewhat higher than those in the rest of Serbia, where textile production is concentrated.

Graph 1: Average net wages per employee in the textile industry of Vojvodina and Serbia in Euros, December 2003



Source: Serbian Chamber of Commerce

In total 75,000 persons are employed in the Serbian textile and garment sector, half that of ten years ago and down from 90,000 in 2001. This trend illustrates the aggressive restructuring underway and should result in higher labor unit productivity.

*Table 6: Cost price of one production minute in the textile and garment industries of Mediterranean Eastern European countries and other countries, for 2002-2003*

Country	One production minute in EURO
Germany	0.40
Northern Italy	0.35
Southern Italy	0.28
Spain	0.20
Poland	0.15
Croatia	0.15
Turkey	0.14
Albania	0.11
Romania	0.08
Ukraine	0.08
India	0.08
Bosnia	0.07
Bulgaria	0.06
Belarus	0.06
Serbia	0.06
China	0.05
Vietnam	0.05
Laos	0.04

*Source: Chamber of Economy*

## ***Private Enterprise***

**Small and medium enterprises (SMEs), grew dramatically in the 1990s by subcontracting large jobs to surplus capacity in state firms**

The 1990s were marked by a boom of private entrepreneurship in the textile and garment industry, especially in companies manufacturing their own brand labels, including: AMC (Afrodite Mode Collection), Mona, Nicola's, St. George, Tiffany Production, Uno Martin, STEM, Zekstra, etc. These are companies with small capacities and a low number of workers. They avoid larger fixed capital investments in their own capacities, but subcontract larger orders to big state-owned companies. These small private firms follow fashion trends, create lines, organize domestic fashion shows, and maintain a well-developed retail network for the domestic market.

**...or by purchasing the workshops of state firms in liquidation**

Some of these private SMEs have sought to expand their capacities by participating in the privatization process and purchasing large socially owned companies (e.g. Zekstra recently bought Novitet). But most private textile entrepreneurs rather opt for buying the machines and workshops of bankrupt socially owned factories, which in many cases are the only remaining assets of real value in these state firms. The assets of the once excellent manufacturer of ready-made garments "1. oktobar" from Cacak were sold out in this way.

**Finishing and printing techniques are highly developed**

Serbia's textile factories are highly developed in terms of dyeing, washing and various forms of finishing works. Nearly 50 clothing factors have printing capacities. There are also ample capacities for pleating, hemstitching, stone washing, etc.

About 10 clothing factories in the region have knitwear plants, so they are able to combine the two techniques of knitting and sewing in a single garment.

**Traditional manufacture is a successful niche business**

Small-scale traditional garment manufacture has found success as a niche industry. The Sirogojno company- located in a village on the mountain Zlatibor, 250 km southwest from Belgrade is a private company established in 1962 and led by Mr. Rade Ljubojevic. Sirogojno organizes home manufacturing of hand knitted pullovers, jackets, coats, shawls, caps, etc. Thousands of women from the Zlatibor area contribute to production. Garments are made from woolen yarn regularly imported from Iceland and incorporate recognizable Zlatibor style and motives: landscapes, flowers etc. Production is limited to only 20.000 units per year to maintain extraordinary quality and specific traditional technology.

Ms. Rajka Borojevic founded in 1952 another example of successful traditional garment manufacture in the West Serbian municipality of Dragačevo. Today, the Dragačevo women's cooperative gathers several hundred weavers from villages surrounding Dragačevo to work on the principal of homemanufacturing. The product range includes carpets, blankets, curtains, tablecloths, and shawles. All products are made on village looms and Production utilizes only natural materials: fine wool, cotton, hemp, raffia palm, straw, etc.

**Novi Pazar got its start in high quality counterfeited branded clothing**

**...and demonstrates tremendous potential for growth in legitimate production**

Novi Pazar boasts a special category of private companies. Low purchasing power in Serbia gave birth to a domestic market for counterfeit brands, and this region's manufacturers have successfully serviced that demand. Casual wear was most often counterfeited, such as Levi's, Benetton, Nike, and Adidas. The counterfeits were of such good quality that even representatives of the original brand owners were impressed. Levi's, for example, offered its license to a few of Novi Pazar's manufacturers. This is not at all strange, bearing in mind that companies such as Levi's already manufacture in the region (predominantly Croatia and Turkey), where production costs are expected to grow with EU enlargement.

Today, Novi Pazar textile and garment firms remain highly attentive to the quality of products and are permanently investing in equipment and production. The region demonstrates tremendous potential for growth in the garment and textile sector.

## ***Privatization***

**Privatization remains slow**

Privatization began in 1991, but proceeded in fits and starts through 1990's. While privatization accelerated in the last three years, this general trend has not extended to the large state and socially owned textile and garment enterprises.

**...with state and social firms selling off equipment and facilities to cover debts**

Slow privatization in the sector forces the big socially owned enterprises to sell out their external capacities in order to repay debts. This was exactly what the Brusjanka knitting factory had done, before its mother plant was sold to Italian partners. Among those successfully privatized, the majority are knitwear factories that were bought by smaller private textile and garment companies in order to expand their capacities (e.g. Octan bought Raska).

Under the current Privatization Law, 132 textile and garment companies entered the privatization process to date. A total of 48 companies were sold so far: 47 in auctions and one in tender. Of five enterprises scheduled for tender sale (Carpet Factory Ivanjica, Javor Ivanjica, Ljubiša Miodragović Prijepolje, Novitet Novi Sad, Niteks Niš and Slavija Bač), only one was actually sold (Novitet of Novi Sad sold to ZEKSTRA from Belgrade in 2004). Other enterprises are in a formal process of restructuring.

## ***Education***

**A tradition in textile education**

The highly skilled work force in the textile and garment sector is a product both of experience gained through many years of work, and of an education system with a long tradition in Serbia.

The education of textile workers (sewers and technicians) takes place in specialized secondary schools that are equally distributed throughout the country. Examples include the secondary textile school and secondary leather processing school in Belgrade, textile and leather processing school in Sombor, textile school "Branko Radičević" in Ruma, textile technical school "Despot Đurađ" in Smederevo, textile technical school in Paraćin,



mechanics and textile school "Sreten Vukosavljević" in Prijepolje, leather processing and trade school "Milutin Bojić", with a textile processing department in Trgoviste near Vranje, textile school in Vranje, two textile schools in Leskovac, textile and leather processing school in Novi Pazar.

**100 textile engineers graduate annually**

Textile engineers are educated in two textile community colleges. The Technical and Textile College in Belgrade opened in 1958, and graduates 50-60 students every year. The faculty provides education to textile engineers in: mechanical textile, textile finishing, ready-made clothes, modeling-construction, textile and garments design, management in textile industry and textile quality. Students graduate with the title Textile Engineer, Ready-Made Garments Engineer, or Design and Textile Modeling Engineer.

The Faculty of Technology in Leskovac, which belongs to the University of Niš, started working in 1979 with only two departments: biochemistry and textiles. The 50 students that graduate annually from this faculty earn the title of BS in Textile Engineering.

**...as do 2-4 Masters level students**

The Faculty of Technology and Metallurgy in Belgrade, offers more advanced training in textile engineering with specialist and Master level studies. This Faculty provides specialization in various techniques of modern treatments of woolen fabrics, such as Teflon treatment (to improve dirt resistance) or ionized gas (plasma) treatment of wool (to improve crease resistance) etc.

At the Faculty of Technology "Mihajlo Pupin" in Zrenjanin, which belongs to the University of Novi Sad, 10-15 students graduate every year with a "B.S. in textiles and mechanical engineering". Graduates can continue their academic work at this Faculty through specialist and Master studies.

**Applied arts graduates often specialize in textiles**

Design experts are educated in numerous secondary schools, colleges and university faculties. In Belgrade, the Design College has a textile Department and the Faculty of Applied Arts in Belgrade has maintained a Textile Section since its founding in 1948. Studies at the textile department consist of complex and systematic research and creative work, from industrial design to unique textile form. Through individual teaching students pass through all the phases of research - from sketches to realization in material, applying and uniting and incorporating various textile techniques and technologies.

## **Raw Materials**

### **Manufacture of cotton yarns is on the rise**

The textile industry is highly dependant on imported materials. Cotton is not produced in Serbia, but it is extensively processed. One of the biggest cotton processors Beogradski pamučni Kombinat (BPK) recently went bankrupt, while the destiny of another processor, Yumco, which used to employ 8,500 workers, is uncertain.

The manufacture of cotton yarns in 2003 totaled 1,905 tons and production of cotton fabrics reached 4.3 million m<sup>2</sup>. These figures are down by 29% and 58% respectively relative to 2002. In 2003 the value of cotton yarn export was 4.6 USD million (i.e. 2% of total Serbian textile and garment exports), compared to the import value of USD 340.3 million (59% of total textile and garment imports to Serbia).

Denim for sportswear manufacturing is mainly imported from Turkey, and partially from Greece, Spain and Italy. Certain clothing manufacturers at the same time act as representatives of certain manufacturers of fabrics (e.g. Tiffany production from Cacak represents Spanish Tavex).

### **While wool is set to grow as two key firms conclude restructuring**

The largest woolen companies are "Beogradski vunarski kombinat" (BVK) from Belgrade and "Leteks" from Leskovac. These enterprises suffered serious problems, but managed to implement restructuring programs, and production is again on the rise.

In 2003, they produced about 5,728 tons of woolen yarns and nearly 3,000 million m<sup>2</sup> of woolen fabrics. While the production of yarns doubled relative to 2002, the production of fabrics dropped by 35%.

Woolen exports in 2003 were valued at a mere USD 1.9 million in 2003 while imports totaled US\$ 6.6 million (1.2% of the total imports of the Serbian textile industry). In the structure of exports woolen, yarns account for 79% of the total value, while fabric totals 64% of the value of woolen imports. The biggest importer of fine Australian wool is Sintelon, the manufacturer of floor coverings from Backa Planka.

Domestically produced wool is a traditional product, but production capacity eroded as the livestock fund, which provided quality raw material, fell into neglect.

**...and Woolmark®  
returns to Serbia**

Between 1993 and 2004, no manufacturer had the license of Woolmark quality. However, in 2004 three companies hold these licenses: Sintelon, from Backa Palanka, the above mentioned manufacturer of woolen floor coverings; Nestor, a bed linen manufacturer in Belgrade; and Trikotaza Ivkovic, a firm from Bolec, Belgrade, which possesses both Woolmark and Woolmark Blend licenses.

The Woolmark license is issued on an annual basis and may be obtained both for fabrics and for all other products. Woolmark's representative in Serbia is Mr. Miodrag Lalosevic from Belgrade.

**Man-made fibers**

The most important companies in Serbia producing viscose, nylon, polyester, polyamide and polypropylene are "Dunav" Čelarevo and "Dunav" Grocka. Some 3,300 tons of synthetic yarns were produced in 2003 (down 14% from 2002), 689 million m<sup>2</sup> of artificial silk (down 36% from 2002) and 23 million m<sup>2</sup> of synthetic filament (down 19% relative to 2002).

**Local quality  
inspection is  
rigorous**

There is a high appreciation in Serbia for the role of independent evaluation of quality standards in materials and production. The primary local firm in this business is Jugoinspect, a laboratory with about 300 employees. The firm is a member of the International Federation of Inspection Agencies and has an ISO 9002 certified quality system.

The textile and leather Department has knowledge, experience and equipment for inspection of textile fiber, yarn, knitwear, ready made clothes, raw hides, leather, footwear, fur, fur and leather products, etc.

Jugoinspekt is primarily contracted by domestic garment manufacturers who import fabric for their own private label production, but also by some textile producers that export their products, e.g. Dunav Grocka.

# Textile and Clothing Companies by Region

Capacity for good textile and garment production can be found in all parts of Serbia, but there are several centers of the industry. The most relevant ones are the Belgrade region, Vojvodina, Central Serbia, and the area around Novi Pazar in South Serbia. This section will profile some of the more prominent firms in each of these regions.

## ***Belgrade and Vicinity***

The largest clothing manufacturers of the Belgrade region are Kluz (Kozara and Kosmaj) and Inex Ukus. Belgrade is also the center of numerous private companies that manufacture their own brand labels. The total number of textile and garment industry employees in Belgrade and the vicinity is around 6,500.

Belgrade boasts many significant private textile and garment companies, such as Nichola's, Zekstra, AMC (Afrodite Mode Collection), STEM, MONA or the knitwear producer St. George. These are companies of small capacities and low employment, which enable greater flexibility of operation and quick adaptation to fashion trends. They often subcontract work to the capacities of larger socially owned enterprises. For example, Nichola's rents capacities of the Kluz enterprise. These companies have managed to win the domestic fashion line market over big socially owned companies, such as Ateks, Centrotekstil, Yugoexport, Kluz or Beko.

### **Kluz**

#### **“Kluz- Kozara“**

*Background:* Established in 1947 with a registered office in Belgrade. It was one of the leading clothing companies in the former Yugoslavia producing their own private label, with a well developed retail network and more than 8,000 workers. Former subsidiary factories in Ruma, Bečej, Belgrade and Grocka today operate as independent clothing companies.

The mother plant "Kozara" employs about 800 workers. It still manufactures its own label for the domestic market, but is also involved in CMT jobs for domestic and foreign clients.

*Ownership:* 100% social ownership; company is restructuring in preparation for privatization.

*Capacities:* 12,000 pcs men's suits per month.

*Current capacity utilized:* 100%

*Main export market:* Spain, Italy, Germany

*Major current clients:* Induiko, Paolini and domestic private label companies.

*Historical clients:* Hugo Boss, Chocharel, Stefanel etc.

*Type of machinery:* about 95% sewing machines from Germany (PFAFF, Durkopf etc.) Sewing machines are about 20 years old (from 1984). Kluz also maintains a significant number of specialized machines in the production process (computer fitting and multiplication of patterns, etc.).

*Production strength:* men's suits and other heavy clothing (jackets, coats, raincoats etc).

*Materials:* The foreign buyer provides all raw materials.

*Special notes:* Kluz-Kozara has a modern pattern making room with 20 highly qualified employees and organized with high standards.

*Quality control:* certificate JUS ISO 9001 issued by national standardization office.

## **"Kluz – Kosmaj"**

*Background:* This factory manufactures technical textiles – mainly parachutes and accompanying equipment, and is the sole manufacturer of its kind in southeast Europe. It has operated independently since 1998.

*Ownership:* 100% social ownership, but the privatization process is underway.

*Labor force:* about 150 workers;

*Major current clients:* About 80% of output is sold in the country and 20% on foreign markets.

*Capacity at monthly level:*

- 30 sets of parachutes,
- 2100 pcs of protective vests.

The factory also has capacities for manufacturing heavy clothing (men's and women's coats and jackets) – about 5,000 pcs per month.

*Current capacity utilized:* between 60 and 70%.

*Production Machinery:* All machines are imported from Germany, Japan and Italy. "Kluz – Kosmaj" also possesses all specialized machinery necessary for its specific production.

*Materials:* The production of parachutes is based on imported high quality raw materials. The factory has only one pattern maker for the manufacture of sample parachutes and protective gear (vests).

*Special note:* Bearing in mind the product, great attention is paid to quality control, from inputs (raw materials, parts) through the production process, to final control. The company does not have an in-house lab, but uses the services of eminent domestic laboratories.

**"Ineks-Ukus"  
Belgrade**

*Background:* "Ineks-Ukus" is a company specialized in the manufacture of uniforms for police and army units. It exports 72% of output, and is the only company in Southeast Europe with a license from an American company, GORE-TEX®, for the production of uniforms. The company works for British and German partners, and has capacities to realize an annual export value of EURO 10-15 million.

**"Dunav" a.d.  
Grocka**

*Background:* "Dunav" a.d. Grocka<sup>1</sup> was established in 1960 as a knitwear factory. Today, it is a joint stock company with more than 700 shareholders and 230 workers. The main product is textured nylon and polyester yarn.

Its range includes hand-made sweaters and the manufacture of fine women's hosiery in cooperation with smaller private companies.

"Dunav" a.d. Grocka possesses both the domestic YUQS ISO 9001:2000 certificate, as well as the SQS certificate for both raw and dyed yarns.

**Beogradski  
Vunarski Kombinat  
(BVK)**

*Background:* BVK is a large wool manufacturer established in 1962. The company is in 100% social ownership and preparations for privatization started in March 2004.

*Labor force:* 260 workers.

*Capacity:* The company possesses both woolen and worsted spinning mills. Its production program includes woolen and worsted yarns and fabrics, as well as knitwear yarns and fusible.

Annual capacity:

- woolen yarns - 240 tons per a year,
- worsted yarns - 400 tons per a year,
- 1.8 million meters of woolen fabrics per a year
- 600,000 meters of fusible

*Current capacity utilized:* about 25%

*Special note:* Business premises occupy nearly 50,000 m<sup>2</sup> located on a 4.3Ha estate. The company has its own electric energy supply and supply of production gas, etc. In order to become attractive for privatization, it should be divided into smaller units.

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<sup>1</sup> Source: <http://www.dunavgrocka.co.yu>

## Vojvodina

### "Novitet" – Novi Sad<sup>2</sup>

*Background:* Established in 1947, Novitet maintains a work force of about 800 employed in three production plants: Novi Sad, Kisač and Apatin. The mother company and head office for all production units is located in Novi Sad.

About 80% of production is CMT jobs for both domestic and foreign clients. About 20% of total production is sold on the domestic market through a widely developed retail network.

The company produces light and heavy ladies apparel: jackets, suits, etc.

*Capacity:* 300,000 -500,000 ladies apparel pcs per year.

*Production Machinery:* All machines are imported, mainly from Germany and Japan (PFAFF, Durkopf, Juki etc.).

Two years ago, the company purchased Computer Aided Design (CAD) equipment. The newly established CAD department is composed of three highly educated engineers working on grading and fitting. In addition, the pattern room has 15-18 workers and 6 pattern makers.

*Major Clients:* Foreign partners are mainly German retailers dealing with CMT, but also other vendors such as Labod – Slovenia, and Makyta – Slovakia.

*Quality control:* Novitet maintains regular two-level quality control: inline and final control. For material control, the company uses the "Jugoinspekta" lab.

### Zemunexport

*Ownership:* in March 2004, 70% of the equity of "Novitet" was bought by "Zekstra" d.o.o. of Belgrade. The remainder of the equity belongs to the state (15%) and workers (15%). Zekstra is a 100% private company.

Zekstra's clients include "MaxMara" and "Diesel".

Zekstra is one of the leading exporters of textile and semi-finished products to the EU, in particular to Italy. In cooperation with other producers of raw materials, fabric, and material for reproduction (buttons, leather, fusible, etc.), Zekstra organizes the exports of several Serbian textile manufacturers, their materials and finished products.

The company has 86 employees and possesses its own label for men's suits.

<sup>2</sup> Source: <http://www.novitet.co.yu> and [www.zekstra.co.yu](http://www.zekstra.co.yu).

**"Željezničar" A.D.  
Subotica**

*Background:* Established in 1950, this firm focuses on the manufacturer of women's and men's apparel. Today it operates as a joint stock company (95% socially-owned and 5% share capital).  
*Labor force:* 200 workers.

Some 90% of output is sold on the domestic market, while 10% is exported. Manufacture is primarily of various kinds of men's and women's uniforms.

*Current capacity utilized:* current production runs at about 4,000 pcs of suits per a month, which is a little over 50% of actual production capacities.

*Production Machinery:* The sewing room is semi-automatic with vacuum tables and machines for rough and fine cutting ("Investronik" equipment).

*Major clients:* domestic hotels and airports as well as German and Dutch retail chains.

The pattern room has 4 employees and is very well equipped.

Željeničar uses the services of the "Jugoinspekt" lab from Novi Sad for quality inspection.

**Holding "Sintelon"  
Bačka Palanka**

*Background:* With a tradition of 120 years (established in 1884), Sinelton is still a successful manufacturer of so-called technical textiles – especially PVC floor coverings and woolen rugs. Sinelton is the leading floor coverings manufacturer in Southeast Europe. The company runs production in three countries: besides Bačka Palanka, it possesses factories in Russia and Ukraine. In total, the company employs about 1,500 workers. Annual output is several million square meters of floor coverings of various categories, as well as synthetic and woolen yarns.

The company is associated with another European floor manufacturer, Tarkett Sommer.

The company possesses the Certificate ISO 9001 and Certificate ISO 14001 (environment protection model).

*Special Note:* Sinelton is one of the biggest of Serbia's exporters with very successful domestic sales as well.





Map source: Economist Intelligence Unit

## **Central Serbia**

### **"Ratko Pavlović" – Nitex**

*Background:* Established in 1897, Nitex is one of the oldest Serbian textile companies. It is a vertical company, producing yarns and fabrics as well as light apparel.

*Ownership:* social - 90%, state - 10%.

*Labor force:* 1,483 workers.

Of the total output, 85% is sold on the domestic market, and little more than 10% is exported.

*Production capacity:*

- yarns – 2,484 t a year,
- fabrics – 8,648,000 m a year,
- Wearing apparel – 595,460 pcs a year. Wearing apparel is composed of a wide range of finished products, from women's hosiery and uniforms to children pajamas.

*Current capacity utilized:* about 65%.

Technical preparation of production and other processes is computerized and there is a modern communication network, both between and within production facilities, facilitating flexible manufacture.

*Raw materials:* are imported from Greece, Switzerland, Germany, Belarus, Italy and Austria.

*Current major clients:* "Gussler" and "Masana" from Germany and clients from Russia.

*Special Notes:* The pattern room has only three skilled and experienced pattern makers, but is well equipped

The company has an in-house laboratory for analyzing chemical and physical contents and quality of materials.

The company is able to deliver products at first-cost, without client financing of raw materials and dyes, or the manufacture of finished products.

### **Holding d.p. "22. decembar" Kragujevac**

*Background:* Established in 1949, this firm focuses on the manufacturer of medium and heavy men's and women's apparel. These are mainly CMT jobs

*Ownership:* 100% socially-owned

*Labor force:* 1,100 workers

*Capacities per month:*

- 24,000 pcs of men's jackets;
- 72,000 pcs of men's trousers;
- 48,000 pcs of women's trousers or skirts;
- 48,500 pcs of women's sets or jackets

*Current capacity utilized:* about 65%.

*Current Clients:* International clients include Steillmann from Germany and Theotex from Greece.

The pattern room employs five pattern makers with long experience in making the patterns for domestic and foreign clients.

*Quality control* is performed at the Institute Centrotexil Lab in Belgrade

### "Viskoza" Loznica

*Background:* A holding company in mixed ownership, established in 1954. It is comprised of eight joint stock companies. Viskoza Holding used to be the largest Serbian producer and exporter of viscose and celluloid fibers. At the moment, it is on the path of consolidation and state assisted restructuring. The government invested nearly CSD 1 billion in consolidation of the company.

*Labor force:* 2,500 workers

*Projected capacity:*

- Celuloza Unit – processing of 20,000-25,000 cubic meters of wood
- Svila Unit – about 150 tons of silk
- Celvlakno Unit – about 900 tons of cellulose fibers.

With the restoration of production of viscose silk in the silk Factory in Loznica, it will be able to restore the production in the Fashion Fabrics and Lining Factory Krupanjka AD in Krupanj.

*Current Clients:* The entire output is export-oriented, for buyers in Italy, Germany, Romania and Belgium.

### "Javor" Ivanjica

*Background:* Established 1948, Javor is still the largest manufacturer of light apparel in Serbia. It produces men's shirts, women's blouses and other light garments. Production is mainly CMT programs for foreign buyers. Only 20% of output is sold on the domestic market. The Company is above all specialized for the manufacture of women's shirts.

*Ownership:* 100% socially owned, but in the process of preparing for privatization.

The Company is organized in 14 working units. Three main plants are situated in Ivanjica: Ready-made Garments I, Ready-made Garments II a weaving plant, and 11 small plants are situated mainly in the vicinity of Ivanjica.

*Labor force:* 1,106 workers in the main plant in Ivanjica

*Total capacity:*

- Ready-made Garments I - 1,300,000 pcs per year;
- Ready-made Garments II - 1,000,000 pcs per year (mainly men's shirts) Small plants are specialized in certain kinds of light garments or knitwear. Their overall capacity is more than 1,000,000 pcs per a year.

*Weaving plant's capacity:* 3,000,000 meters of rayon per year.

*Production Machinery:* Technical equipment is excellent, from the Lectra system for fitting sewing patterns, through semi-automatic cutting rooms to final tables for assembling shirts.

*Current Clients:* CMT vendor for German «Quelle», English "Mark's & Spencer" and "Benetton", among others.

*Special Notes:* The preparation of production employs 150 workers, who are able to develop the complete pattern of a product, following the design or idea of the client.

Raw and reproduction materials are imported from Italy and Slovenia. Newer machines and looms, with regular quality control, give good results in the production of yarns and fabrics.

*Quality Control:* "Jugosinspect" laboratory

### **"Industrija tepiha Ivanjica"**

*Background:* Industrija tepiha Ivanjica is the second largest manufacturer of floor coverings in Serbia. This factory is also a significant manufacturer of man-made fur and floor coverings for the automobile industry.

*Capacity:* about 4,000,000 m<sup>2</sup> of all kinds of floor coverings.

*Current Clients:* The company renting capacity to "Nikolić DOO", domestically, and the Italian firm "Siretesile".

### **"Rudnik", Gornji Milanovac**

*Background:* Historically one of the largest manufacturers of light garments, Rudnik came to the verge of bankruptcy and is in the process of government supported restructuring. Rudnik is specialized in the production of women's and men's shirts and blouses made of fine materials (silk and viscose).

*Capacity:* Rudnik has seven factories (Gornji Milanovac, Belgrade, Arandelovac, Kraljevo, and Topola), but only the plant in Belgrade currently is working for an Italian customer.

### **"Valy" Popučke<sup>3</sup>**

*Background:* In September of 2001, the Italian hosiery manufacturer "Golden Lady" established a joint venture firm "Valy" in Popučke near Valjevo. Beside hosiery, this company produces fine underwear and swim wear. In the mid 2003, the company established another plant in Belosevac. This company is among the most important textile exporters.

*Labor force:* In both plants, it employs nearly 1,000 workers.

*Capacity:* 3000 pair of hosiery per a minute.

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<sup>3</sup> Source: <http://www.valjevo.org.yu/valjevo/privreda/valy.htm>

**Knitwear Factory  
"Brusjanka" Brus<sup>4</sup>**

*Background:* The knitwear factory "Brusjanka" manufactures cotton underwear (men's, women's and children) and a wide range of other wearing apparel and equipment for babies made of cotton. This is a vertical company with the following production units: manufacture of yarns, finishing and ready-made garments. Cotton yarns from Nm 40/1 to 70/1 dominate, with smaller quantities of heavier yarn counts.

*Ownership:* In early 2004, Pompea bought Brusjanka. Pompea, an Italian underwear manufacturer, is now 100% owner of Brusjanka.

*Capacity:* Modern production equipment enables production of 8,000 to 10,000 pieces of various types of garments in one working day.

**"Branko  
Krsmanović"  
Paraćin**

*Background:* This is a vertical factory manufacturing worsted and woolen yarns and fabrics of 100% wool or blends of wool polyester and gramazi from 200 to 500 gr/m<sup>2</sup>.

*Ownership:* After many years of problems, in June 2003, the firm was sold to the Italian company «Dalle Carbonare» from Vicence.

*Capacity:* 2,500,000 meters of fabrics per a year;

5,000 to 10,000 pieces per month of heavy and light women's and men's clothes.

**Textile Combine  
"Ljubiša  
Miodragović",  
Prijepolje**

*Background:* The biggest company for the production of yarns and fabrics in this region of Serbia. Established in 1951. In the process of privatization at present.

*Labor force:* about 2000 workers.

*Capacity:* nearly 10,000 meters of cotton fabrics per a year and nearly 5,000 tons of yarns.

*Special Note:* Nearly 80% of output is sold on domestic market and the reminder exported.

<sup>4</sup> Source: <http://www.yuyellow.com/brusjanka>

## **South Serbia**

### **"Prvi Maj" Pirot d.d.<sup>5</sup>**

*Background:* Prvi Maj was among the largest of Yugoslavia's manufacturers and exporters of finished textile products during the 1980s. The firm opened a modern factory for the production of men's suits in 1997. Coupled with other extended and modernized lines, Prvi Maj maintains the largest capacity for manufacturer of men's suits in Serbia and is among the five biggest manufacturers in Europe. Garment manufacturing also includes women's and children semi-heavy apparel. Prvi Maj also has a knitwear plant. About 60% of total output is sold in foreign markets, and 40% is sold in Serbia, through a well-developed retail network.

*Ownership:* 99% social capital, 1% share capital. The privatization process should be completed by the end of this year. All outstanding obligations and claims on the state and other partners have been settled.

*Labor force:* 2,215 workers. Average wage is among the highest in this region, amounting to CSD 7,100 (EURO 100) per a month.

*Garments production capacity:* 800,000 pieces per a year

*Knitwear production capacity:* 400,000 pieces per a year

*Current capacity utilized:* about 80%.

*Production machinery:* all machines and equipment are imported from Germany with an average age of 15 years.

*Current Clients:* German Steilman and numerous independent European, US, and Canadian importers.

*Special notes:* Experienced with very delicate fabrics and experienced with working according to US requirements.

In-house pattern room with about 50 workers - constructors, pattern makers, designers, etc.

### **"Lisca" Babušnica<sup>6</sup>**

*Background:* Among the top Serbian textile exporters, Lisca was established in 1955 as a tailor shop. The business strategy has evolved and a wider assortment of light ready-made garments and textile printing were introduced. Between 1978 and 1992 the company was a part of the company Lisca from Slovenia (a famous underwear manufacturer). Since 1992, it has been operating as an independent company Lisca-Babusnica, which has continued with the production of brassieres, corsets, shirts, panties, bathing suits etc.

*Capacity:* 1, 500,000 pieces a per a year;

*Current Clients:* 80% of output is sold on the foreign market

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<sup>5</sup> Source: <http://www.pirotd.org.yu/privreda.htm>

<sup>6</sup> Source: <http://www.bpartner.co.yu/eng/lisca.html>

**Leskovac Area  
brims with small  
textile and garment  
companies**

In the territory of the Leskovac municipality (Bojnik, Vlasotince, Lebane, Leskovac, Medveđa, Crna Trava), there are 115 textile and garment companies. The majority of them are private companies, with some 30 companies still in social ownership. These are mainly small companies, but there are also five big enterprises.

Capacities are centered on textile production, in particular the manufacture of yarns and fabrics of wool and the mixture of wool and synthetic fibers; the manufacture of yarns, fabrics and threads of cotton and mixture of cotton and synthetic fibers – e.g. Latex.

Capacities: Estimated at about 2 million meters of woolen and mixed fabrics and over 8 million meters of cotton and mixed fabrics a year.

There are also significant capacities in the manufacture of finished textile products in ready-made apparel. ("Euro-line", Bojnik; "Duo-de", Lebane) and knitwear ("Vučjanka", Vučje).

Smaller capacities exist for the manufacture of hosiery, ornamental trimming, decorative and technical fabrics, unweaved textiles, manufacture and processing of synthetic fibers, processing of tow fibers, etc.

This region has highly skilled and qualified labor force, owing to a long tradition in textile manufacturing, as well as a local tradition and capacity for training workers of all profiles and specializations in secondary schools, community college and university faculty.

The following table presents monthly capacity for production of various textile products in the Leskovac area.

*Table 7. Manufacturing capacities in the territory of Leskovac*

Type of product	Unit of measurement	Current production capacities (monthly)
Yarns and fabrics	m	165.000
Knitwear	item	63.900
Ready-to-wear	item	9.600
Decorative fabrics	m	15.000
Unweaved textiles	m	37.000

## ***Novi Pazar***

### **A vibrant private sector**

Intensive development of the textile industry in Novi Pazar began in the early and mid 1990s as a consequence of the collapse of big socially owned textile and garment enterprises. Private casual wear manufacturers developed from small family workshops into significant actors in the Serbian textile industry.

### **With high-tech production and underutilized capacity**

All these companies are in full private ownership, with a relatively small number of workers (generally up to 100), but thanks to computerized machines of the latest generation, they have large capacities. Capacity utilization is generally between 10 and 30%.

These factories mainly deal with the complete production of their private casual wear labels, which are sold both on the domestic and foreign market. The most significant production line is denim trousers.

Many factories have a stone finish option, which is a very expensive and demanding technology, and such a concentration of capacity in one area makes Novi Pazar unique in Europe.

Raw materials are imported from the best manufacturers of cotton fabrics in Turkey, Greece and Italy. The majority of factories possess in-house laboratories for quality control of materials, with classic control of finished products.

This section offers a detailed profile of several of the larger manufacturers in the Novi Pazar region, and then highlights in tabular form several of the smaller but very active private firms.

### **Holding company Raška A.D.**

*Background:* The company manufactures cotton yarns and mixed yarns of cotton and synthetics 5-70 Ne (English numeration) or 8-25 Nm (metric numeration), i.e. fabrics in the combination of cotton and synthetics of 80-500 g/m<sup>2</sup>. This is the only company in the area of primary production of textile that deals with the processing of yarn, i.e. which has a complete production process from the production of yarns to the production of fabrics.

*Labor force:* 600 workers

*Ownership:* 70% socially owned, 30% share capital (owned by employees).

The entire output sold on domestic market.



*Capacity:*

- yarns – 1,800 t per a year;
- fabrics – 4 million meters per a year;
- blankets – 120,000 pieces per a year.

Current capacity utilized: 25%.

*Production machinery:* imported from Belgium and Germany. For the lack of funds, no investments are planned in the near future.

*Materials:* Domestic raw materials are used in production.

*Special notes:* Two textile designers are employed in the technical service and preparation of all samples and patterns.

Great attention is paid to quality control. There are two in-house physical labs and one chemistry lab within the finishing section, which is not used at the moment.

**"Raška"**

*Background:* The firm Raška from Novi Pazar and the knitwear factory Octan-Pro a.d. (see below) are located near each other, and together with the textile holding company of the same name (profiled above), used to be a closed system, encompassing the manufacture of fabrics and yarns, to finished textile products, although they have always been independent companies. The company Raška has three plants: two plants in Novi Pazar, and one plant in the village Šaronje. Raška only performs processing and finishing jobs at the moment mainly for domestic private companies from vicinity.

*Labor force:* near 500.

*Ownership:* a socially owned company, the privatization process is not yet initiated.

*Capacity:* estimated at 1,5 million pieces of heavy and light apparel per year

*Current capacity utilization:* 25%.

*Production machinery:* All machines are imported from Germany and Japan.

*Current Clients:* The entire output sold on domestic market.

*Special Notes:* In-house pattern room employs four engineers. The pattern room capacity is about 10 samples and patterns per day.

**"Octan-Pro" a.d.  
Novi Pazar (former  
Knitwear Factory  
"Raška")**

*Background:* Established 1947 and privatized in 2003, Octan-Pro is a very promising firm. Knitwear machines are well maintained and still operative, so that the company can easily respond to market demands in this area. However, the manufacture of jeans and other casual wear dominates at the moment.

*Ownership:* 100% private.

*Labor force:* about 250 workers.

Output is sold on both domestic (30%) and foreign (70%) market.

*Capacity:* 900,000 pieces of casual wear a year, mainly T-shirts and jeans pants, as well as 60,000 knitwear tops per year.

*Current capacity utilized:* as little as 35%.

*Production machinery:* The manufacture of jeans wear is completely computerized. The pattern room is entirely computerized and able to produce the most complex samples and patterns of wearing apparel.

Table 8: Overview of small and medium enterprises in Novi Pazar

<b>NAME</b>	<b>Established</b>	<b>Capacity per year (units)</b>	<b>Stone finish option</b>
D.O.O. "MENUS"	1992	210 000	YES
D.O.O. "DERBY"	1990	140 000	YES
D.O.O. "LASSO"	1994	210 000	YES
SKKR "MAG",	1997	230 000	NO
SKKR «BIG BOSS PRODUCTION»	1992	90 000	YES
D.O.O. «NAR»	1992	169 000	YES
D.O.O. "MIKAN"	1984	57 000	YES
D.O.O. "3 B"	1992	58 000	YES
D.O.O. "MNR FOREVER",	1992	39 000	YES
SKKR "JASMIN",	1994	57 000	YES
SKKR "KVALITET"	1992	41 000	YES
D.O.O. "CASABA"	1988	40 000	YES
D.O.O. "DŽENO-KOMERC"	1992	39 000	YES
SKKR "HIS",	1995	52 000	YES
SKKR «STOP LINE»	1992	84 000	NO

# Legislative and Business Environment

**The legal framework for business in Serbia has been in a state permanent change since October 2000. This is not unusual in the first five years of transition to liberal market democracy. Laws on the tax system, foreign trade, foreign investments, etc. are just a few of those that underwent fundamental changes and which can expect further revision. While it is not yet an ideal environment, and moves forward in fits and starts, the good news is that the trend line has remained positive through two governments of differing ideological perspectives. This demonstrates the political consensus for reform, a consensus unlikely to be broken.**

## ***Tax System***

There were many changes to tax policy in Serbia since 2001 when tax reform began. Some laws were amended and several completely new taxes were introduced (e.g. on tobacco and regulating lotteries). All of these laws were aimed at encouraging entrepreneurship and employment and suppressing the gray economy, as well as at reorganizing and increasing fiscal budget revenues on the basis of performance of certain economic activities: production, imports and trade in tobacco and tobacco products and organization of lottery.

The Law amending and supplementing the Law on Sales Tax, revoked the sales tax on oil, fat, sugar, PC, software and income generated by citizens through renting business premises and apartments.

**At 10% - the lowest corporate income tax in the region and lower than any EU country**

Some excise duties were also revoked (jet fuel used by airplanes in international traffic), while others were cut (for motor oils and grease). The uniform corporate income tax rate was reduced from 20% to 10%, the lowest corporate income tax in the region (Slovenia and the Czech Republic - 25%, Croatia - 20%, Hungary - 18%, BYR Macedonia - 15%).

**Many taxes reduced  
or abolished**

Moreover, significant incentives were enacted: e.g. the allowed clearance of capital losses with future capital gains was extended from 10 to 20% of the value of investment, and for small companies to 40% of the value of investment in fixed assets. Employment of new workers is especially encouraged: corporate income (as a tax base) is reduced by 100% of the gross income of a new employee, including the value of contributions payable by employer. Special attention was paid to big investors: for investments exceeding CSD 600 million which increase employment by at least 100 workers, the investor is exempt from corporate income tax for a period of 10 years. Some incentives are foreseen for smaller investments and a smaller number of new jobs. Through amendments to the Law on Personal Income Tax, the rate of personal income tax realized through self-employment was reduced from 20% to 14%. The progressive rate (between 10 and 20%) of tax on annual income of citizens was replaced with a proportional rate of 10%.

A new set of tax laws passed in mid-2004 will reduce tax obligations even further. On May 23, the Parliament passed a law abolishing the 3.5% Payroll Tax as of July 1, 2004. The Tax on financial transactions will be progressively revoked through 2004.

**18% VAT in force as  
of 2005**

The VAT will replace the 20% sales tax in January 2005. VAT is payable at every stage of the production and sales cycle by all legal entities whose annual turnover exceeds CSD 2 million, i.e. those who are not subject to the flat tax rate. The uniform VAT rate will be 18% and the reduced VAT rate 8%. Introduction of the VAT will have a strong influence on bringing economic activity out of the gray economy.

## ***Foreign Trade System***

The foreign trade regime of Serbia entered a period of radical change following the elections of 2000. The economic blockade against FRY was removed and federal authorities adopted a more liberal trade regime by decreasing tariffs and abolishing most non-tariff barriers. The average weighted tariff applied rate was reduced from about 15% to around 9.4%. Higher tariff rates are still applied on trade in agriculture products where the average tariff rate is 16.7%.

### **Temporary import for finishing or processing of up to six months**

Temporary import and export is regulated under the Law on Foreign Trade<sup>7</sup> and the Ordinance on Temporary Export and Import of Goods<sup>8</sup>. The Customs office approves temporary import of goods for the purpose of finishing or processing. This approval is granted for a period necessary to complete the finishing or processing (i.e. the purpose of temporary import), but for no longer than six months. The Customs office may extend the deadline to two years at the longest.

### **...no bank guarantee required**

A value declaration of temporarily imported goods is not required. As such, no bank guarantee is required for temporary import.

### **WTO membership is unlikely until 2007, but quotas eliminated**

Serbia and Montenegro has applied for membership in the World Trade Organization, but the unharmonized customs systems of Montenegro and Serbia make prospects for entry nearly impossible until 2007, at the earliest. Nevertheless, quotas are likely to be eliminated via bi-lateral agreements with US and EU in 2005.

### **Free trade agreement with Russia Federation is unique outside the former USSR**

FR Yugoslavia signed in 2000 a Free Trade Agreement with the Russian Federation. This was the first agreement of this type that Russia signed with a country outside the former USSR. With regard to the size and potential of the Russian market, this Agreement could be very significant for Serbian textile producers and their foreign partners.

<sup>7</sup> "Official Gazette FRY", no. 46/92, 49/92, 16/93, 24/94, 28/96, 29/97, 59/98, 16/99, 17/99, 36/99, 44/99, 53/99, 55/99, 73/2000, 23/2001.

<sup>8</sup> "Official Gazette FRY", no. 49/92, 52/94, 55/99, 59/2001.

**Regional free trade zone of – nearly 70 million consumers**

Bilateral free trade agreements were signed in 2003 between Croatia, Bosnia and Herzegovina, Serbia and Montenegro, FYR Macedonia, Albania, Romania, Bulgaria and Moldavia. Ratification of these treaties is progressing, while Hungary and Slovenia have also expressed an interest in the initiative. If these two countries join the free trade area, it would be a market of nearly 70 million consumers.

**Most Favored Nation Status with USA in late 2003**

Trade relations between Serbia (SCG) and the USA were finally normalized in the form of most favored nation status in late 2003. This implies normal trade relations that ensure lowering of the US tariff rates on SCG products from an average 37% to the standard 3% on average.

For example, the customs rate for women's cotton suits and dresses was reduced from 90% to 14%, women's shirts from 90% to 4%, men's shirts from 45% to 19.7%, leather coats from 35% to 6%, etc.

**Import tariffs are comparable to the EU**

For the majority of groups of textiles and textile products, tariff rates harmonized at the level of the State Union Serbia and Montenegro are close to the EU level. The highest tariff rates, and the largest deviations from the EU tariff rates, are in the following groups: carpets and floor coverings, special woven fabrics, textile fabrics, articles apparel and clothing accessories.

**Some new non-tariff barriers likely this year**

Some new non-tariff protective barriers are likely in the coming months: e.g. precisely defined measures of quality.

Table 9: Tariff rates on textiles and textile products in the State Union of Serbia and Montenegro, and in the European Union

Tariff number	Name	Tariff rates in %	
		Harmonized at the level of SCG	European Union
50	Silk	1-5	0-6.9
51	Wool	0-10	0-9.8
52	Cotton	0-10	0-8.4
53	Other vegetable textile fibers	0-10	0-9.2
54	Man-made filaments	1-10	3.8-8.6
55	Man-made fibers	1-10	4.7-8.6
56	Wadding	5-10	3.2-12
57	Carpets and other textile floor coverings	15	3.7-8.0
58	Special woven fabrics	15	5-9.4
59	Textile fabrics	1-15	4.4-8.8
60	Knitted and crocheted fabrics	10	6.5-8.8
61	Articles of apparel and clothing accessories, knitted and crocheted	18-22	8-12
62	Articles of apparel and clothing accessories, not knitted and crocheted	18-22	6.3-12.4
63	Other made-up textile articles	5-22	0-12
65	Headgear and parts thereof	5	0-5.7
66	Umbrellas, sun-umbrellas, sticks, etc.	5	2.7-5.2
67	Prepared feather and down	5-10	1.7-4.7

## ***Foreign Investment Law***

A new Law on Foreign Investment came into force in January of 2002. The Law provides foreign investors with guarantees for repatriation of profit and assurance against expropriation of assets, transfer restrictions and non-commercial risks.

# Belgrade as a Regional Center

Belgrade is the capital of Serbia and of the State Union of Serbia and Montenegro. With a population of about 2,000,000 inhabitants, Belgrade lies at the confluence of the Sava and the Danube. For centuries, it has been an intersection of the roads of eastern and western Europe and northern and southern Europe. For its geographical position, it stands out as a regional hub for the Southeast European, North African and Near East market for textile and garment production.

## **Belgrade's airport is concluding a modernizing make-over**

The Belgrade international airport, Surčin, is some 20 km from the center of Belgrade and is currently undergoing a total modernizing makeover, scheduled for completion in 2005. The national airline company is Yugoslav Airtransport (JAT Airways), which independently, or in cooperation with other airlines, carries passengers and cargo to all major cities in Europe and world. The most important western European cities (Amsterdam, Stockholm, Berlin, Munich, Brussels, London, Paris) can be reached in two to three hours. The direct flight to Istanbul is only one and a half hours. The direct flight from Belgrade to New York takes about 10 hours.

## **Feasibility studies underway to make Belgrade a regional cargo hub**

In cooperation with the Serb authorities, the US government has commissioned a feasibility study and architectural plan to significantly expand and modernize the cargo handling capacity of Belgrade's airport with the aim of creating what could be a regional cargo hub.

Many big towns in the region are connected by railway or highway (Sofia, Budapest, Zagreb, Vienna, etc.). The inland railway network covers all relevant towns in Serbia (Subotica, Belgrade, Niš, Zaječar, Požarevac, Valjevo, Užice, Ruma, Šid, Novi Sad, Leskovac). The public Railway Company ŽTP "Belgrade", independently or in cooperation with the railway companies of neighboring countries connects Serbia and Belgrade with Central and Eastern Europe (Trieste, Vienna, Ljubljana, Zagreb, Budapest, Bucharest), former USSR Republics and Russia (Kiev, Moscow), Sofia and further away toward Istanbul and Thessalonica. One of the most important railway routes is Budapest-Belgrade-Bar, which at the same time connects Europe, via Bar Port and The Mediterranean Sea, with Africa and the Near and Middle East.



**Roads undergoing accelerated modernization**

Roads and highways in Serbia are undergoing accelerated modernization. The Ministry for Capital Investments has just announced enhancement of the main E-75 highway that passes from Budapest toward Thessalonica, and a part of the road connecting Belgrade and the Montenegrin coast.

The two largest ports in the region are Bar in Montenegro and Thessalonica in Greece.

**Wireless and cable broadband internet are widely available**

Wireless and cable broadband internet is widely available in the Belgrade area. There are three competing wireless providers and several cable operators. Rates are falling and service quality is rising. Wi-Fi hotspots are not yet prevalent except as office wireless LANs.

**Business premises**

Belgrade offers a variety of functional business premises for rent from modern special business centers in Novi Belgrade (at around 5EUR/m<sup>2</sup>) to locally charming business premises in the very center of the city (up to EURO 30/m<sup>2</sup>). - Stari Grad and Vracar.

**Fashion week**

The Belgrade Fashion Week is a commercial and art fashion festival alike similar events worldwide. The next event will be held October 18-24, 2004 and a visit always gives a quick overview of the Serbian fashion scene. Most exhibitors are domestic private companies such as Tiffany, St. George, Todor, AMC, Mona etc. The organizer, Fashion Click, works hard to improve the international recognition of this event and there are some Slovenian, Croatian and Italian companies and designers among regular attendees.

**Belgrade Fair**

The Belgrade Fair is the largest convention and exposition organizer in Serbia. It operates in 20 buildings with 100,000 square meters (1.075 million square feet) of exhibition space. Twice a year it organizes fashion events (February and October). The next fashion event is October, 6th- 9th, 2004 under the name: FASHION IN THE WORLD (UFI) COSMETICS, JEWELRY, CLOCKS, LEATHER, FOOTWEAR & EQUIPMENT.

# Prospects

**The Macroeconomy and political environment have stabilized**

The macro economy has stabilized and key business environment legislation has passed, including the VAT and simplified corporate tax code. The political environment has also stabilized in a business friendly trajectory, after two successful democratic elections and two Western oriented governments. The banking system has developed to a level of sufficient quality for all normal foreign trade operations.

**WTO membership is delayed, but quotas are eliminated**

The unresolved status of the State Union of Serbia and Montenegro will delay integration into the WTO until as least 2008. Nevertheless, quotas are likely to be eliminated via bi-lateral agreements with the US and EU in 2005.

**Low cost high skill labor market ideal for outward production**

Serbia will remain one of the last continental European markets for high skill low cost labor-intensive production. Serbia cannot realistically anticipate joining the EU for another 20 years, so it will not soon lose this market position for outward production. The cost of production will continue to rise in EU member states and the US. The expansion of the EU to Central and Eastern Europe will accelerate the rising production costs in these new member countries.

**Many small and medium private firms are on the rise**

Progress in the textile and garment industry can be expected in a spontaneous ad hoc manner. Small and medium companies will continue to rise, sometimes absorbing the healthy bits of collapsing state and socially owned firms.

Despite high aspirations, local private labels have little chance in export markets. The marketing and distribution costs of selling local brands abroad are simply too high for success beyond a few placements in the occasional boutique. However, CM and, ultimately CMT production are both excellent growth prospects.

Foreign firms with vertically integrated production models will find opportunities in Serbia to invest and establish joint ventures with highly capable local partners.

**Many opportunities for CM production, and later CMT**

Foreign firms with more decentralized production models will find increasingly capable partners for contracted production. Already there is significant available capacity for CM production. CMT production will eventually emerge as management quality rises and relationships are established with top world suppliers of trim, thread, zippers, buttons, etc.

**Self financed production is still hard to find**

Widespread capacity for self-financing of production will emerge only after several years of active CMT work.

**Textile industry also showing signs of energy, but firm debt burdens modernization**

Growth in Serbia's textile industry will require much more effort. The high existing debt burdens of most local firms make the purchase of modern production machinery very difficult. There are a few examples of excellent quality locally owned firms with the technology for producing complex modern fabrics, such as Dunav Grocka. The other pattern for development in local textile production capacity is in the model of Branko Krsmanovic, which was bought by the Italian firm, Dalle Carbonare.

**Weak management remains a key challenge**

Management quality will remain a key challenge for Serbia's textile and garment industry. Private companies are the furthest along the path to eliminating corruption and redundancy from their managerial structures.

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