

Survey on Auto Components Sector in Bosnia and Herzegovina

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– Japan International
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Set of Company Profiles from auto-components industry of Bosnia and Herzegovina is available at FIPA upon request

1. SUMMARY



Capital: Sarajevo

Larger cities: Banja Luka, Bihać, Mostar, Tuzla, Zenica

Area: 52.280 sq km

Population:
4.354.911 (1991)
4.007.608 (est. 04.)

Climate: Moderate - continental in the north and Mediterranean in the south.

Lowest point: Neum, 0 m

Highest point: Maglić, 2.386 m

Coastal line: 21,2 km

Bosnia and Herzegovina is located in the central part of the Balkan Peninsula. The country is administratively divided into the Federation of Bosnia and Herzegovina (51%) and the Republika Srpska (49%). The Federation of B&H consists of 10 Cantons with municipalities. Republika Srpska is structured of regions and municipalities. The territory of Brčko became a separate district under the authority of B&H.

B&H is in the heart of South East Europe's market of 60 million people, with an easy transport access to the neighbouring regions of Middle East and North Africa.

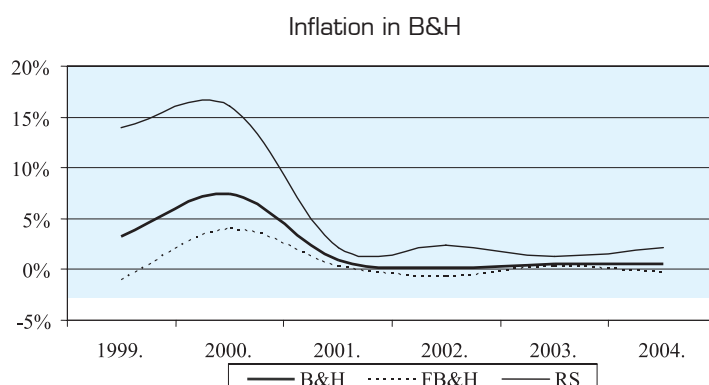
With the heritage of traditionally good relations, and proximity to those markets, followed by trade agreements signed with 8 countries in the region (including Turkey), B&H presents an alluring opportunity for any potential investor interested in business development in the region.

It is an open economy and welcomes foreign direct investment in almost all sectors.

Export growth, on a balance of payment basis, increased strongly to an annual rate of 29 % over 2004. This is almost three times the growth rate of imports of 8 % over the same period. There were also significant investments in 2004 to ensure that this strong increasing trend in export continues in 2005 and beyond. Foreign investments of 0,6 billion € in 2004 reached the highest level since the war, i.e. 37,1 % of total in last 10 years.

Out of 1,6 billion € foreign investments realized in 10 years, 59,4 % have been put into production sector.

Real growth rate of GDP in B&H is around 5 %, conditioned with extremely low inflation rate, which in 2004 was at the negligible level of 0,5 %.



Source: Central Bank of B&H

The growth of industrial production volume in 2004, of 13,2 % in Federation, 8,7 % in Republika Srpska and 37,11 % for the same period in Brcko District illustrates the slow but certain revival of economy. (Source: Chamber of Foreign Trade B&H)

Industry growth in 2004 was recorded to a great extent in mining, processing industry and electricity, gas and water supplies.

Industry sectors	FB&H	RS
Mining	11,7	19,0
Processing industry	12,4	12,6
Electricity, gas and water supply	1,4	14,5

Private sector is smoothly taking over the leading role in the B&H economy and its share in overall economy has reached 50 % of the GDP (EBRD: Transition Report 2005).

But problems such as the lack of modern management, slow privatisation process and unfinished structural changes in economy still exist.

Restructuring of enterprises, accompanied with the more efficient privatisation should lead to faster growth and development in the following years, simultaneously based on better utilisation of natural resources, relatively cheaper work force and other advantages of B&H economy.

2. AUTO COMPONENTS SECTOR PROFILE

Overview

The automotive component industry of Bosnia and Herzegovina was like many others disrupted and damaged by the war. Anyhow, the basic elements of the former local supply chain remain in place. Primary metal production, tool making, metal processing, mechanical and electrical engineering, automotive textile products and vehicle assembly still exist and gradually the original cohesion of the automotive industry in B&H is paving the way to its rebuild.

Metal based and processing industry is the largest sector and leading exporter of B&H, contributing to overall B&H export in 2004 with 38,6 %. The role of auto-components sub sector within the metal processing industry is growing.

Historically and today it produces for the leading automotive industry brand names (Volkswagen, Mercedes, MAN). Many B&H companies forming this sub-sector, are producers of a wide range of components, while Volkswagen Sarajevo finally assembles various types of VW, Skoda and Audi passengers cars in SKD system.

Foreign interest in the sector increased in recent years, especially in 2004. It was demonstrated through the significant investments in metal production and processing indirectly and/or directly related to automotive industry development in B&H (Novi rudnici Ljubija, Mittal Steel Zenica, Global Ispat Koksara Lukavac, Paulijus Tvoronica glinice Birac, Cimos TMD Gradacac and Srebrenica in 2005, Livar-Jelsingrad Banja Luka, Prevent – Fad Tesanj).

Benefits derive from the challenge of completion of the entire technological chain, served from the domestic or linked sources, and increase in capacities will meet the needs and cover shortages in the region. The latest investments in iron mines, the steel factory, the cookery, the forgery, aluminium processing, engine parts in a few companies and running investment in leather and rubber production are directly linked to the automotive supply. Accompanied with the design and engineering companies, mechanical faculties and institutes prove the real sector potentials.

Local sourcing could help investors lower production costs, monitor quality and offer flexibility in altering product specifications and design.

Bottleneck is in insufficient and inadequate foundries and forges capacities, sized to the needs of automotive industry. However, if the pre-war largest capacity - BNT Kovacnica / Novi Travnik, gets the investor soon the sector in general will advance significantly. Existing ones, even with a long tradition and proved quality are not sized yet to the automotive industry requirements.

The next ranks textile and leather for the automotive industry. At present the first business proved to be capable of supporting automotive sector development is Prevent Sarajevo d.o.o., as a partner company of Slovenian founder. They already have plants in forty locations worldwide delivering seat covers on a just-in-time basis to VW. Prevent supplies 95% of VW (Golf A5, Polo and Lupo) seat covers and up to 60% of those used in V.A.G., and France based automobile industry; Renault and Peugeot.

Thermoplastic processing is following the trend. Although not so fast as metal works, some companies are recognized exporters. Bekto-Internacional d.o.o. Gorazde exports over 90% of overall production, the most to the EU. Buplast d.d. Bugojno is serving other automotive suppliers in B&H, like Tesla Brcko and Unico Filter Tesanj. In general thermoplastic processing in B&H is active over the last decades, but the product range and variety of industries served are quite poor.

Engineering & design, as an independent business, is underdeveloped. In preceding period it used to be an integral part of the large manufacturing companies (Unis Holding, Famos, Cajavec), successfully involved in automotive industry supply. Further development depends on available funds and interest the industry could have in research and development.

Education system and universities of mechanical and other related sciences exist, having proved successes in cooperation with the companies in metal and automotive sector in previous years. Anyhow, there is a need for modernization and advancement, which is subject to funding sources availability. The state and entities' governments should provide stronger support to the education system in accordance with the Bologna Declaration*, advancing the position of R&D, especially at technical faculties. It should improve the base for effective cooperation with the companies, aimed at meeting their development needs. Human resources, experience and references on previous successes are readily available.

At present the most reliable education and research sources are:

- 1.** Faculty of Mechanics, University of Sarajevo – Division: Engines and Vehicles
- 2.** Faculty of Mechanics, University of Banja Luka
- 3.** Faculty of Mechanics and Computers, University of Mostar
- 4.** Faculty of Mechanics, University of Zenica – Division for Motor Vehicles
- 5.** Faculty of Mechanics, University of Tuzla

* EU education standards - Universities' independence and autonomy will ensure that higher education and research systems continuously adapt to changing needs, society's demands and advances in scientific knowledge.

The Faculty of Mechanics in University of Sarajevo, as the oldest, promoted 254 graduate mechanical engineers for the period of 2000-2005.

Other segments of potential automotive components supply are slower developing, recovering from break of the large systems. It is especially noticeable in electrics and electronics, though some businesses are still quite active in it. (like: Cajavec FSU A.D., Zrak AEO Kiseljak)

The automotive sub-sector in B&H is organizing to become stronger force in the automotive industry. The result is establishment of automotive cluster, founded in 2004.

Companies Structure

There are certain differences in structure among entities, especially in terms of ownership.

In Republika Srpska the privatisation process in most of the state owned or co-owned companies is not finished yet. A number of companies still have at least 30 % or even more of state ownership. However, there were located the large units and entire conglomerates of automotive suppliers in auto electrics and electronics, metal processing and engine parts for trucks and buses. Investment in such companies brings some inherited benefits, as skilled labor and facilities.

The privatisation is progressing, with most companies in the Federation fully privatised and recovering quite well. Ownership structure ranges from the "closed share ownership" (individuals controlling the majority shares) to the domination of workers' shareholding.

In a group of companies involved in auto components supply at present, the majority is in metal processing – over 70 % and plastics – about 15 %. Certain number operates in electrics and electronics (basically originated from ex-Yu and B&H's largest company Cajavec – Banja Luka, and Zrak Holding Sarajevo/Kiseljak) and a few in other segments of automotive supplies, such as filters, batteries, spark plugs, fuses and rubber parts.

Besides the cluster association there are other companies in a way involved in auto components supply, like Enker d.o.o. Tesanj (fuses), some research and development design studios (Bicakcic d.o.o Sarajevo, Unis Alat d.o.o. Konjic, TMD Hanibal Gradacac,) in tools design, and those arisen from ex industrial conglomerates (Unis, Famos, Energoinvest, Cajavec), all around B&H.

There is a common characteristic about the post-war successful B&H companies. They are mainly the "closed ownership" companies, having a Bosnian or Slovenian owner/intermediary who is making up the missing marketing link to the W. European customers.

Technology and Standards

The fact that 70 % of active companies are over 25 years in business of auto components supply presents at the same time the strength and the weakness.

In terms of achieved production quality and knowledge application almost all of them are in favorable conditions, readily available to move forward and advance the production.

But the equipments in most of the companies are outmoded, aging from 1 year (just a few machines in some companies) to 30 years (in many of them). On relative average of 18,5 years. Ownership drives investments and accordingly modernization. Private and new companies usually have up-to-date machines and tools, complemented with qualified management.

Equipment utilization rate in active companies - auto components suppliers is 46,5 % (15-92%) on average. In general, there is oversized production capacity with too large product spectrum.

2/3 of them have obtained ISO 9000 and 9001 quality certification, some of them even TS 16949 and ISO 14001 standards, specially created for the automobile industry.

Equipment is mostly of German, Italian and ex-Yu origin.

Technology is rarely advanced - usually claimed as acceptable for the existing production.

Rejects and complains range from 0,2 to 5%.

Labor Force

Bosnia and Herzegovina has almost 4 mills. citizens (an estimate of official institutions, since the last census was in 1991). It's a lower middle-income country with a gross national income per capita of USD 2.150 in 2004. Approximately 53 percent of GDP is created in the services sector, 32 % in industry, and 15 % in agriculture.

Due to the conflict and still underdeveloped industry, an unemployment rate is high – ranking officially (with no data on “grey economy”) 43,12% in 2004.

Out of 638.984 employed in B&H in 2004, 23 % was in manufacturing.

BH Employment	2000	2001	2002	2003	2004
Employed	640.553	625.643	637.660	634.046	638.984
Unemployed	421.197	422.155	441.875	459.604	484.307
%	39.7%	40.3%	40.9%	42.0%	43.12%

Source: Agency for Employment and Labour B&H, 2005

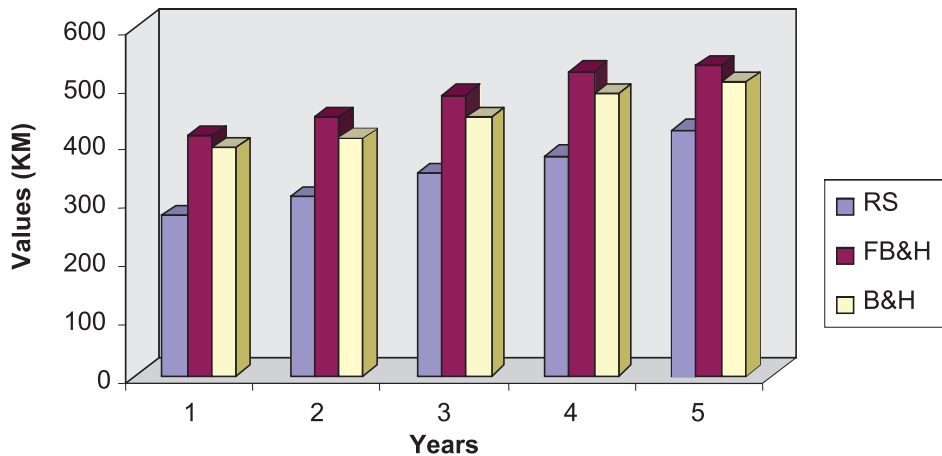
Almost 63 % of unemployed have at least the secondary school level diploma obtained, including those with university or even Masters degree.

Qualification	FB&H		RS		Br-ko DC		B&H Total	
	No.	%	No.	%	No.	%	No.	%
No qualifications	109.166	33.69	44.396	31.16	8.769	49.10	162.331	33.51
Semi-qualified	10.594	3.27	3.111	2.18	476	2.67	14.181	2.93
Skilled worker	120.191	37.10	53.683	37.68	5.151	28.84	179.025	36.96
Highly skilled	2.633	0.81	2.253	1.58	83	0.46	4.969	1.03
Without education	1.129	0.35	1.334	0.94	1	0.01	2.464	0.51
Secondary school	71.139	21.96	33.353	23.41	3.050	17.08	107.542	22.21
Higher education	4.247	1.31	2.362	1.66	157	0.88	6.766	1.40
University degree	4.885	1.51	1.970	1.38	174	0.97	7.029	1.45
Total:	323.984	66.90	142.462	29.42	17.861	3.69	484.307	100.00

Source: Agency for Employment and Labour B&H, 2005

Average net wage in 2004 reached the amount of 505 KM (260 €), at the overall state level.

Average Net Wages 2000-2004



Source: www.bhas.ba, B&H Agency for Statistics

Note: 1 KM = 0,51129 € <http://www.cbbh.gov.ba/en/list.shtml>

Metal sector in B&H employed in 2004 around 42.000 people, i.e. 28,5 % of total employment in manufacturing sector.

Auto components sector, mobilized around the newly established Automotive Cluster B&H counts on approx. 6.000 employees in 26 companies.

An average age of employees in automotive sector in recent years is over 40 years. It is a direct result of war and post-war circumstances, decrease in economy and consequently a significant emigration of youth. However, it's just a glance picture, which requires deep analysis and next one-two years to solve the problems related to the fixed rules in privatisation process directly linked to the employment of existing work force in privatised companies.

Anyway, skilled work force is still abundantly available throughout the country. In particular in skills required for the automotive industry, metal processing, plastics, textile...

Employment bureaus have improved own role, organizing with the government support more often the training courses and workshops shaped to the local industry needs. In last few years the government periodically provides some funds to encourage the companies in employment of focused groups, such as young, educated people, older than 45, and the disabled. It's been usually in a form of tax relief on wages contributions over one year.

Raw Materials Supply

Disregarding the opportunity to complete and encircle the production-technology chain in vertical production and manufacturing system, raw material still remains the import issue.

Disrupted technology and production chain made a number of companies importers of raw material. Mostly imported from Germany, Austria, Slovenia, Croatia and SCG.

Companies import; castings, molds, steel sheets and strips, wire (chrome, nickel), forges, pipes, spare parts, cutting tools, some chemicals, dyes, foils, brass, electro-components, felt, rubber, paper and granulate.

However, that should not be seen as an obstacle to the development of a sustainable automotive components industry in B&H. Selective investments could achieve a responsive supply chain concentrating development on those areas that would yield an early improvement.

Production of Vehicles in B&H

The outbreak of the war in 1992 ended 20 years of Volkswagen production in B&H. The plant in TAS/Vogosca (near by Sarajevo) manufactured in partnership with the domestic company UNIS various models of Volkswagen (from Beetle to Golf, Caddy, Van, etc.). In support of the German government VW reopened its pre-war factory, making in 1998 an agreement with the B&H partner on 58% shareholding, remaining the same nowadays. In 2001 remaining 42% of state ownership was sold to the company Prevent Sarajevo - Slovenian branch of "Prevent" company.

About 90 percent of the production was intended for sale at the market of South Eastern Europe, creating 100 new jobs and plan for much more - up to 1,500.

Overview of automobile/vehicles production over the period of last 7 years:

	1998	1999	2000	2001	2002	2003	2004
Transporter T4	-	-	4	2	2	-	-
Skoda	893	1.777	2.791	2.833	2.456	1.775	2.029
VW	-	-	-	-	260	686	1054
Audi	-	-	-	-	-	-	19
Sub-Total	893	1.777	2.795	2.835	2.718	2.461	3.102

The company plans for the year 2005 the SKD assembly of the following cars (No.of units):

Golf	660	Audi A6	90
Passat	450	Skoda Fabia	1.310
Polo	350	Skoda Octavia	700
Audi A3	76	Skoda Superb	70
Audi A4	115		

Pre war assembly of buses in Soko Mostar and Kompas Banja Luka hasn't recovered yet.

Auto Components Production and Trade

B&H companies in automotive sub-sector are producers of a wide spectrum of components, such as; brake components and systems, diesel engines, gearboxes, clutches, turbo-compressors, steering systems, bearings, wheels, flexible tubes, pumps, springs, filters, drive shafts, axels, gearings, screws, bolts, nuts, some tools, batteries, suction lines, thread lugs and silencers.

Auto components sector is a growing exporter, but due to the interrupted continuity in technology chain in overall processing and manufacturing, it is at the same time large scale importer. Import is primarily necessary to feed the SKD assembly, but also to complete the final product of local suppliers and auto components manufacturers.

Unfortunately, the import coverage over the export is still very low. It is noticeable on export value data. Most probably as the largest suppliers from Republika Srpska supply ZASTAVA manufacturer, in SCG, at lower prices than in EU or other auto components world markets.

B&H Auto components sector - Export / Import in years of 2003/2004:

Description	Import			Export		
	'03	'04	Index*	'03	'04	Index*
Quantity in tons	63.913	77.775	122	10.886	14.413	132
Value in mil. €	269	315	117	38	30	-21

* Increase over the previous year in % (04/03)

Description	Index**	
	Export / Import	
	'03	'04
Quantity in tons	17,03	18,53
Value in mil. €	14,31	9,59

** Import cover ratio over export in %

Source: Info Center –Foreign Trade Chamber of B&H

The summary includes overall in statistics registered auto components trade, based on statistical data in evidence of Foreign Trade Chamber of B&H. It's necessary to understand that the collection of data depends on support from entities' statistics, awareness of companies to maintain own database and report it, and still present unregistered export/import operations.

VW Sarajevo itself, in addition to the core activity of passenger car assembly, is a manufacturer of certain number of automotive parts, such as:

- suction line,
- thread lug,
- vortex chamber,
- silencer,
- transport pallets and
- suspension housing

In 2004 VW Sarajevo d.o.o. made 2.240.000 units of various auto components, exporting the entire production to the known buyers abroad.

Suppliers and Subcontractors

In Bosnia and Herzegovina dominates the company Volkswagen Sarajevo d.o.o., as a sole cars assembler/ manufacturer. Pre-war assembling and manufacturing of buses is not restored yet.

The plant VW Sarajevo is already well into this recovery plan, assembling in SKD system the Škodažs Fabia and Octavia models, VWžs Golf, Passat and Polo, and Audi 4, Audi 6 models from kits supplied by other V.A.G. plants.

At the core of the B&H auto components sector is ASA-Prevent Group, i.e. ASA HOLDING / Sarajevo and Prevent Group/Visoko. In 1996, ASA AUTO d.o.o. entered into an agreement with Volkswagen (part of V.A.G.) to distribute V.A.G. products in

the region and to enable recommencement of automotive production, as part of the V.A.G.'s Europe wide strategy. The development and growth plans over the next 4-5 years aim at having up to 40% of in-country assembled vehicles made up from locally sourced components.

Before the 1992–95 war, Volkswagen produced passenger and commercial vehicles at a plant near Sarajevo, while Kosmos - Banja Luka and Soko - Mostar produced buses. The placement of automotive plants in these three locations had the effect of producing clusters of suppliers with metalworking, automotive and electrical engineering skills in each area. For the entire B&H's industry, the war brought not just a disruption to these arrangements, but also damaged equipments and deprived the chance of updating obsolete plants and working practices.

Nowadays companies are associated with the newly established automobile industry cluster - Auto cluster B&H, with 26 active members and tendency to develop further fast.

There is a trend of introduction of new clusters in B&H, especially in basic metal industry to attract large foreign investments which will help to encourage new and existing businesses.

By now just a few companies work for direct manufacturers or components suppliers worldwide.

Financial Situation

Indices of industrial production growth 2004/2003 in Federation of B&H of 113,2 (manufacturing 114,5) and in Republika Srpska of 109,7 (manufacturing 107,2) point to the revival of production in Bosnia and Herzegovina. Metal sector contributes to this production recovery, developing faster after the significant investment put in. This resulted in larger export participation of 38.6 % in recent year.

Sub-sectors	Export in 000 €
Metals and related products	361.036
Machines, devices, mechanical gadgets...	167.499
Vehicles and parts	35.064
Electrical machines, equipment and parts	28.008
Total (Metal Sector)	591.607

Source: Foreign Trade Chamber of B&H, Report on Metal Sector Assessment and Perspectives, 2005.

However, active companies in automobile industry in B&H are not yet so successful to manage the growth and development needs.

Overall revenue range of companies associated with the Auto-cluster B&H in last three years are shown below:

	2002	2003	2004
Revenues in 000 €	131 - 10.514	192 - 8.974	172 - 11.434

Decrease and decline in revenues is registered in non-privatized companies with unclear ownership. Those have no capacities and sources to invest either in production or marketing.

In general, all companies claim lack of affordable capital, both for operations and investments. The capital in B&H is still expensive, available on unfavorable conditions (high interest rates and short repayment period).

However, the most successful companies, with already established foreign market links, have to invest at least 5% yearly in technology improvements to keep up with the market and customers requirements.

B&H companies are hardly capable of getting available sources to catch the trend.

3. MARKET HIGHLIGHTS AND BEST PROSPECTS

Market Size and Profile in B&H and the Region of SEE

The market of car parts and components in Bosnia and Herzegovina has grown during the last several years. The size of the automotive market in the region is important factor determining the growth plans of the automotive component industry.

ASA Holding Group is focusing further activities on the target of supplying the region of SEE countries with auto components, in particular VW – V.A.G. manufacturers.

Main characteristics of the automotive market in B&H in 2004 and now are:

- 2004/2003 - 13,4 % growth in sales of new cars
- Faster growth in delivery cars versus automobiles
- Increased interest in commercial vehicles
- In passenger cars about 70 % individual buyers
- Dominant: Skoda, VW and Renault (for delivery cars)
- Over 40 % of new cars were those cars given / sold on leasing
- 673.828 total registered vehicles as of end-2004
- Average age of passenger cars: 13,5 years
- Low level of maintenance on automobiles

High average age of automobiles on the road is the result of low purchasing power, but also due to the old law on import of used cars which had no limits in age. The new Law (in force from 2000) set the limits on passenger cars up to 7 years and up to 10 years for the trucks and buses.

Sale capacity / potential in B&H market

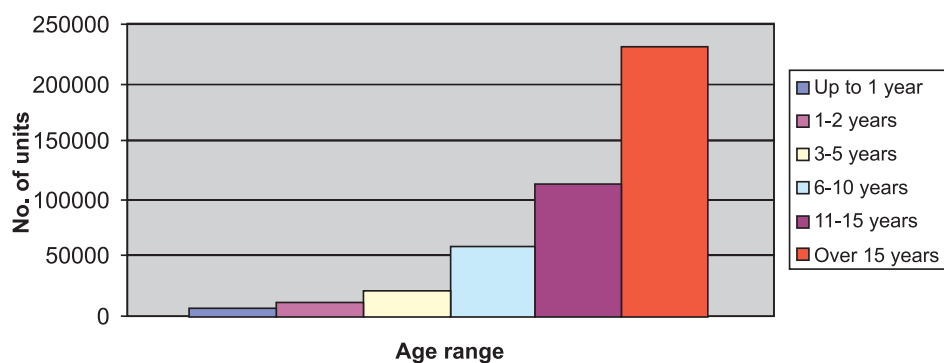
In 2004 at the market of Bosnia and Herzegovina was sold 9.650 new cars, out of which: 7.708 passenger cars and 1.942 delivery cars. Source: PROAUTO Magazine, February 2005

The B&H market of motor vehicles is gradually developing, reflecting the actual buying power of the population. However, it would be highly desirable to speed up the process of rejuvenation and replacement of the existing old motor vehicles on the roads in the country.

Rejuvenation and replacement of motor vehicles on B&H roads also means growing demands to improve standards of road quality and safety, to eliminate negative effects of road traffic on the environment, and to lower petrol and oil consumption levels of the vehicles, hence lowering the operation costs.

According to data from the Central Vehicle Register of the entities' Ministry of Interior, collected by BIHAMK (B&H Automotive Club) as of December 31, 2004, there was one motor vehicle in the B&H for every 5.9 people. The average age of a passenger car in B&H was over 13 years.

Average age of registered cars in FB&H in 2004



The situation is similar, or even worse for trucks and buses.

In Bosnia and Herzegovina, the market of auto parts and components can be divided into two submarkets: (1) the OEM market - parts and components delivered to original equipment manufacturers and assemblers; and (2) the aftermarket - parts and components delivered to service stations or by retail sale to individuals, and used to replace and/or complement original equipment.

Regarding an original assemblers, it's inevitable to mention the traditional orientation towards the German based manufacturers, i.e. V.A.G. in passenger cars while for trucks it was MAN and Mercedes.

At present export of automotive parts goes mostly to Germany, Italy, Turkey and in particular to Slovenia. It is the result of full privatisation of the company TMD Gradacac, done by the Slovenian partner - CIMOS. Noticeable portion goes for Ex-Yu countries, especially Srbija & Crna Gora where is located a large manufacturer of ZASTAVA automobiles.

By now just a few companies work for the direct partners, like VW, CIMOS and RENAULT.

Spare parts sold in the B&H market are usually imported, both as an original and substitutes. Domestic producers do sell certain portion of own products such as filters, pumps and spark plugs at the local market. It's quite rare to find locally produced auto component at the domestic market.

Moreover, even those producing for direct manufacturers on contract base or for large distributors abroad usually ship products first to the direct buyer. Sometimes same products return as an import for further installation in B&H. It's been opposite pre-war, but the scope of current production still has no cost benefit of direct supply from local market – suppliers.

B&H's developing automotive component industry has already established links with several Europe's leading automotive producers: **V.A.G. (Volkswagen and Audi), Renault, BMW and Cimos**. There are, also, companies which had indirect contacts (as subcontractors) with **Toyota** and **Mazda** (Jajce Alloy Wheels d.o.o., Bekto – Internacional d.o.o.).

Prevent d.o.o. BiH, as a subsidiary of a Slovenian group has a strategic partnership with **V.A.G.** and plants supporting **VW** factories in Germany, France, Spain, Brazil and Mexico.




Sale capacity / potential in SEE markets

Demand for automotive products in the markets of South-Eastern Europe (SEE) has risen over the recent few years. However, much of the initial latent demand has been satisfied by the displacement of the number of used vehicles forced out of the Western European market where they failed to meet new ecology laws on emissions and fuels. These vehicles filled a gap in the market, which can be expected to reappear as the vehicles become expensive to maintain.

The economic outlook in SEE continues to be boosted by the prospect of EU membership for Bulgaria and Romania in 2007. Average GDP growth rose to 6.4 per cent in 2004 compared with 4.4 per cent in 2003. Growth in Albania, Bulgaria and Romania continued strongly while growth in Serbia and Montenegro rose to 7.1 per cent (from 3 per cent in 2003) following substantial improvements in agriculture and manufacturing.

Average end-year inflation fell slightly to 6.3 per cent in 2004 from 6.7 per cent in 2003. This mainly stems from a decrease in Romania from 14.2 to 9.3 per cent. Throughout the region rapid GDP growth was accompanied by an expansion in bank lending, leading to higher levels of domestic consumption. This has prompted the introduction of tighter regulations on bank lending in many countries.

Fiscal deficits averaged below 2 per cent of GDP in 2004. Albania and Serbia and Montenegro were the only countries with a fiscal deficit above this level. In contrast, Macedonia reduced its deficit to around 0.1 per cent of GDP. Bulgaria ran a fiscal surplus in response to high external imbalances.*

Economic snapshots for 2004						
		Population (millions)	GDP growth %	End-year Inflation %	Net foreign direct investment (US\$ millions)	Transition Indicator (average of nine EBRD transition scores) ¹
	Albania	3.2	6.0	2.2	350	2.81
	Bosnia and Herzegovina	3.8	5.0	NA	420	2.52
	Bulgaria	7.8	5.5	3.9	1,837	3.37
	FYR Macedonia	2.0	2.0	3.3	150	2.96
	Romania	21.7	7.0	9.3	5,020	3.18
	Serbia and Montenegro	8.3	7.1	13.0	950	2.48

¹ Maximum score of 4.33.

* Source: EBRD –SEE 2004, Prospects of EU Membership

Notwithstanding the global overcapacity in the automotive sector, Central Europe within the next few years will witness an increase in vehicle production in excess of one million units. That drives an investment opportunities for automotive suppliers.

Moreover, placed in the middle of the region and at the future transport corridor from Hungary to the Adriatic and from the Western Europe to the east B&H has an excellent opportunity to become the core of regional cooperation and reestablishment of previously proved successful technology chains. But nowadays based on market interests and individual competitive advantages each country in the region has.

It is the region of 60 million people (including Turkey), with the growing market.

Sale capacity / potential in other markets

Based on research and data published at the www.autofacts.com (PwC AUTOFACTS Global Automotive Outlook –2005 Q3 Release), the global/world light vehicle assembly is expected to increase from a total of 61.2 million units in 2005 to 70.5 million units in 2012, representing an increase of 9.3 million units, or 15%. Middle East and Africa will increase the most thanks largely to a growing Iranian market.

Light Vehicle Assembly by Region and Country 2005-2012, in number of units:

	2005	2006	2007	2008	2009	2010	2011	2012
Total	61.216.962	63.181.791	66.022.364	68.433.583	68.862.327	69.320.292	70.000.760	70.517.241
East Europe	2.417.005	2.457.294	2.610.735	2.720.410	2.841.343	2.894.197	2.987.571	3.022.566
Middle East & Africa	1.405.019	1.659.233	1.797.749	1.932.024	2.015.339	2.045.717	2.052.056	2.047.523

Source: AUTOFACTS Global Automotive Outlook – 2005 Q3 Release

East Europe countries included here: Bosnia and Herzegovina, Kazakhstan, Romania, Russia, Serbia and Montenegro, Turkey, Ukraine and Uzbekistan.

Middle East and Africa: Egypt, Iran, Jordan, Kenya, Morocco, Nigeria, South Africa, Syria, Tunisia and Zimbabwe.

Global demand for automotive aftermarket products will expand at 5 % per year through 2007. Gains will be driven by a growing number of motor vehicle, continued maintenance and repair of older vehicles, and greater use of higher value automotive electronics. Mechanical products will remain dominant while electronics grow the fastest (Source: FREEDONIA-World Automotive Aftermarket to 2007).

The market for automotive logistics services in Europe is highly competitive, with slow growth and generally below industry average margins. The logistics industry associated with the automotive sector in Europe is worth many billions of Euros and is of prime importance to all the major logistics players, and of strategic significance to vehicle and component manufacturers as well. There are many strong players already in the market and the prospect of new entrants is high. These new entrants are likely to expand by acquisition.

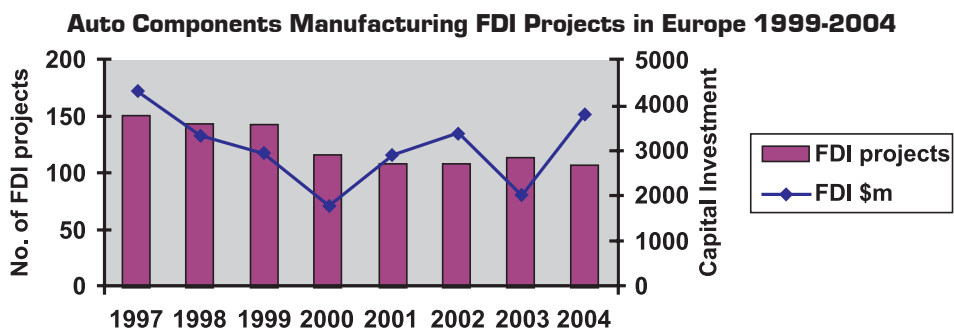
Vehicle manufacturers, as well as an increasing number of component suppliers, are generally well informed and pursue aggressive purchasing strategies which depress margins for their logistics suppliers.

The automotive sector has not developed global supply chains in the way that has emerged in other sectors over the past decade. Rather supply chains are regionally based within currency areas. Therefore the demand for global transport services is lower in the automotive sector than in a number of other sectors.

It's an estimate that the size of the European market as being in excess 17 billion € split between the Inbound, Finished Vehicle and Aftermarket. Compound annual growth rate in these markets for 2003-2008 is estimated to: Inbound: 0.8%, Finished Vehicle 2.12% and Aftermarket 1.58%.

(Source: PR News Research and Markets (<http://sev.prnewswire.com/auto/20050311/LNFO1211032005-1.html#>)

If Bosnia and Herzegovina's automotive component suppliers, after a break extending over ten years, would develop their potential to supply the international automotive component industry and gain full accreditation to European and international standards of production, the possibility of supplying the major businesses in the international components industry will increase further.



Source: OCO Consulting, LOCOmonitor

Due to the market proximity and traditionally good relations Bosnia and Herzegovina for years has with the region of Mid East, it is interesting to observe and research on supply to those markets. According to the market research made by the Turkish and Australian companies and chambers, there is about USD11bn market demand at the Mid East auto aftermarket.

The competition is large and growing since the purchasing power, habit and needs of population especially businesses in those countries is growing. At the same time it's a very demanding market in terms of technical characteristics and requirements, i.e. the quality and reliability in supply is very important. Special niche there are luxury cars.

Luxury car maker BMW expects sales in the Middle East to reach more than 13,000 in 2005, driven mostly by a boom in sales in Iran. Iran will make up 6% of global growth, with production almost doubling, going from 760,000 to 1.4 million units (Source: www.autofacts.com)

BMW's growth in the Middle East has quadrupled from 2,800 car sales in 1994, when regional offices were first opened, to 10,590 sales in 2004 (Source: Teheran Times).

Bosnia and Herzegovina has already signed agreements on reciprocal promotion and protection of investments with Egypt, Qatar, Kuwait, Pakistan and Turkey. With Turkey and Pakistan also has an agreement on trade cooperation, and with Egypt on science and technical cooperation. Such a way of cooperation agreement with other countries in the region is in process.

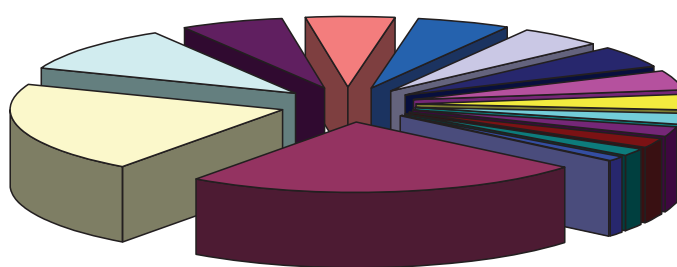
B&H has well developed diplomacy presences in the region, traditionally accompanied with the business activities over the decades.

4. COMPETITIVE ANALYSIS

Market Share of Different Brands and Distributors

Sales in 2004 – passengers and delivery cars:

Producer	%
Skoda	22.29%
VW	19.49%
Renault	9.88%
FIAT	5.92%
Peugeot	4.99%
Opel	4.96%
Hyundai	4.88%
Lada	4.60%
Citroen	4.16%
Ford	3.42%
Toyota	2.20%
Audi	2.11%
Mercedes	2.04%
KIA	1.58%
SEAT	1.14%
Others	6,34%



Produces	Skoda	VW	Renault
FIAT	Peugeot	Opel	Hyundai
Lada	Citroen	Ford	Toyota
Audi	Mercedes	KIA	SEAT

Magazine:PROAUTO, February 2005

Skoda models are home manufactured / assembled, and subject to lower taxation (10%), which in perception of domestic buyers makes difference even the price itself is not so favourable. Easily attainable spare parts make prompt repair in garages possible, and possibility to replace old for new model within the guarantee period gives an additional advantage to buyers. It's been an aggressive marketing campaign over the last two years, too.

VW is the second positioned, relying on the tradition of its presence in the whole region for decades and the heritage of good and reliable quality tested in so many years. Buyers are used to the German automobiles.

Both, Skoda and VW automobiles have active customer support in post sales service, well developed maintenance and sales network (ASA Auto in charge!). In addition, there

is a special service - so called "mobile guarantee service", providing to the customers within the guarantee period mobile assistance on roads and transport in emergency circumstances anywhere in B&H.

Anyhow, as more manufacturers are present the preferences are changing.

Similar to the previous, customer service is organized in Mercedes distribution network, too.

Renault is steadily implementing a regional strategy, developing simultaneously sales and repair service. It has over the years around 10% of market share.

In recent months Ford is forcing, with an intensive marketing and price discount, an entrance at the B&H market, targeting primarily large companies – buyers (like Coca Cola).

Wide developed distribution network with post sales support is spread throughout the entire country. There are 15 large distributors in B&H, selling 31 different vehicle brands and models, out of which just ASA Auto and Hyundai are exclusive distributors for B&H. Other representatives are based in neighbouring countries, representing direct manufacturer for the entire region, including B&H.

ASA Auto d.o.o. itself manages the distribution of Skoda, VW, Audi, Seat and Porsche models.

Other passenger cars distributors represent: Renault, Lada Auto, Fiat, Mazda, Mercedes, Nisan, Opel, Peugeot, BMW, Citroen, Ford, Land Rover, Volvo, Hyundai, Toyota and Honda.

5. MARKET ACCESS ANALYSIS

Import Climate and Duties

There are no trade restrictions on imports of new cars and automotive components from any of countries, other than import duties.

Import duties on automotive components have been grouped in general in three categories: 5 % for any components and for parts aimed at SKD assembly, 10 % for CKD assembly and 15 % for import of new and used cars. In addition is 1% of customs clearance fee, no matter what is the subject of import. Zero customs duty is for special vehicles and components, like trucks and moving equipment in mines and oil exploiting.

Special benefits are given to the operations within the Free zones.

Operating within the zone provides advantages, which relate to the following, in particular:

1. Equipment imported into the free zone aimed for production in a zone and further export of at least 50% of yearly production within the zone, would be exempted from customs duty, excluding customs clearance fee.
2. Temporary measures and restrictions of the Law on Foreign Trade Turnover and Foreign Exchange Operations in the Federation of Bosnia and Herzegovina are neither applied to the export and import of goods and services nor to temporary display of goods out of the free zone.
3. Users of the free zone do not pay any taxes or contributions, except on wages.
4. Turnover of goods produced or refined within the free zone may be carried out in domestic market according to regulations on import and after the payment of import dues for the imported components of the goods.
5. Exceptionally, goods from the free zone, temporarily taken out of the free zone for the purpose of examination, certification, re-modeling, market presentation or industrial refinement, are exempted from duty and other taxes, if returned not later than one year period.
6. Full freedom of foreign exchange operations within the free zone.
7. Users are fully protected by Law from deterioration of operating conditions due to changes of legal regulations.

Import of auto components parts has no particular requirements different from other imported products aimed to the B&H market sales.

Financing (commercial credits, leasing)

Based on research made by the magazine "PROAUTO" (www.proauto.ba), cars sales in recent years are distributed almost equally: 50 % new cars and 50 % of used cars.

According to the research and interviews with distributors, Bosnian people in general can afford a car on average price of about 5.000 €, which makes the purchase / import of used cars important and profitable business.

Research findings say that just 20 % of overall purchase was in cash. The rest is shared between loans and leasing. Leasing dominates, with over the 70 %, in particular for companies.

The Financing of personal vehicles through financial leasing represents new, modern and overly alternative way of financing, which enables gaining ownership over the subject of financing. As such it is a new financing approach in B&H. It still has no adequate support in regulations and practice. Due to the taxation reasons in B&H exists just a financial leasing, which enables gaining an ownership.

At present it is interesting more thanks to the simple admin procedure with applications.

6 banks in B&H have a leasing as a product, available on the following conditions:

- Deposit/down payment: 10 – 20 %
- Repayment period: 1 – 5 years
- Insurance: Full vehicle insurance inoculated on behalf of leasing company, with the discount at insurance companies with which it has cooperation contracts
- No intercalary interest
- Optional: Possibility to include custom duties and taxes
- Ownership transfer upon the last installment.
- During the first year of the Leasing Contract, the contractor and insurance policy holder for Automobile Liability is the leasing recipient.

Upon the expiration of the first year the insurance contractor is the leasing provider. Loans are available at the yearly interest rate from 8,99 % - 10,5 % for the 3-year repayment and 9,39 % - 10,5 % (5 years repayment period). Deposit is optional, full vehicle insurance obligatory.

Interest rates have tendency to decline due to the growing competition among banks.

Trade Promotion Opportunities - Trade Shows and Fairs

Bosnia and Herzegovina has a long tradition of successful hosting to various kinds of trade fairs and exhibitions.

For automotive industry and in particular metal industry the most prominent fairs in B&H are as follows;

1. DEMI – International Fair on Achievements in Electronics and Innovations

Date: End of May each year
Place: Pilanska bb, Banja Luka
Phone: + 387 51 31 36 20, 31 36 21
Fax: + 387 51 31 36 22, 31 36 27
E-mail: office@banjalukafair.com
www.banjalukafair.com

2. ZEPS INTERMETAL – International Metal Industry Fair

Date: Mid May each year
Place: Zenica, Fairground Kamberovica polje
Phone: + 387 32 41 73 01, 41 46 72
Fax: + 387 32 41 47 04, 41 45 92
E-mail: marketing@zeps.com
www.zeps.com

3. PLAGRAM – International Fair of Plastics

Date: End of May each year
Place: Sarajevo, Skenderija - Terezije bb
Phone: +387 33 61 54 10, 65 85 79, 66 41 63
Fax: +387 33 66 41 65, 65 85 15
www.sarajevo_fair.ba

4. Building and Reconstruction with sub sector of Tools and Machine Tools

Date: End of May each year
Place: Sarajevo, Skenderija – Terezije bb
Phone: +387 33 61 54 10, 65 85 79, 66 41 63
Fax: +387 33 66 41 65, 65 85 15
www.sarajevo_fair.ba

5. SAM – International Automobile Fair and Equipment for Communal Utility Services

Date: Beginning of October each year
Place: Pilanska bb, Banja Luka
Phone: + 387 51 31 36 20, 31 36 21
Fax: + 387 51 31 36 22, 31 36 27
E-mail: office@banjalukafair.com
www.banjalukafair.com

6. General fairs: Mostar and Tuzla in April, Zenica/ZEPS in October and Brcko District in December each year.

B&H companies are over many years present at the international fairs in the region and EU. Automotive cluster supports such activities within own members providing

joint attendance and stand at the largest automotive industry fair "Automechanika" in Frankfurt/Germany.

ASA Holding, AUTO Cluster BH and Foreign Trade Chamber are preparing the conference - workshop with the VW group/Germany representatives in Sarajevo, in Autumn 2005. It is aimed to encourage the automotive sector companies in more pragmatic sense, bringing closer requirements of large manufacturers and B&H companies' potentials. That could be the best suited way of promotion, matching the needs and expectations of auto-components chain supply in B&H and the region.

B&H companies are advancing own promotion activities through the open days and workshops organized directly at the own production sites.

6. SECTOR SWOT ANALYSIS

Strengths:

- Tradition in metal sector
- Tradition in auto-components supply
- Qualified work force, capable to learn fast->63% educated
- Quality production – ISO and industry certificates
- Competitive labour cost-260 € net
- Equipment mostly of EU origin, especially from Germany
- ASA-Prevent Group is already preparing for the regional auto components supply

Weaknesses:

- Lack of recognition
- Poor research and development
- No new products
- Wide product range
- Oversized companies
- Old equipment
- High costs due to the low utilisation
- Low IT support and equipping
- Lack of funds for further investments

Opportunities:

- Beneficial location in the region
- 9 free trade agreements
- Infrastructure in place
- Energy sources available
- Transport corridor – crossroad N/S and W/E
- Raw materials available upon the investment in technology chain bottlenecks
- Technology chain-from mines to metal process.
- Strategic partnerships

Threats:

- Similar conditions in surrounding countries
- Slow modernisation
- Unclear ownership
- Too slow privatisation
- No institutional support
- Slow regulations synchronization within the country

7. INVESTMENTS IN AUTOMOTIVE INDUSTRY

Having accepted the market orientation based on principles of free entrepreneurship, B&H takes an active part in the global economic integration processes.

Simultaneously, B&H is harmonizing norms and standards with EU and WTO regulations, preparing for integrations over the global economy trends. Even not a member of WTO yet, exports and import activities in B&H are generally in harmony with the existing principles of WTO.

General benefits for the B&H automotive industry as a referent address for the regional development are:

- Pre accession investment rush, as EU countries can no longer give such generous incentives – B&H is about to meet the requirements and sign the Stabilisation and Association Agreement benefiting from pre-accession facilities
- Location at heart of Europe, with an easy access to new growth markets in the East – and experience of cooperation with perceived difficult markets
- Despite the global overcapacity in vehicle assembly, move to Eastern and South-Eastern Europe means component manufacturers must also move
- Implementation of FTAs in SEE and more focused and coordinated strategic exploration of opportunities through FTAs with Turkey and with EU could bring opportunities for export related FDI.

Auto components sector, in particular offers:

- good promise thanks to many on-going initiatives and investor confidence
- history/tradition of auto and complementary sector – metals– in former Yugoslavia.
- potential to attract good mix of European and Regional Investors: currently prominent European investor VW (German), Mann and Hummel (German); eminent regional investor Prevent d.o.o. and TMD a.i. (Slovenian).
- wide range of market segment to occupy, Tier 1 firms producing and exporting 80-100% for OEMs.
- ISO/TS 16949 certification and high automation of production lines.
- some form of R&D (testing and simulation) done in-house.
- for Tier II and others, “Auto Cluster Initiative” holds high hopes for forward and backward linkage and improve standards
- strong and improving arrangements with technical faculty at Sarajevo University and regional institutions.

Investment Incentives - Corporate Tax Relief

With adoption of the Law on indirect taxation system in Bosnia and Herzegovina (Official Gazette of B&H, No. 44/03) and the establishment of the Indirect Taxation Administration,

the taxation policy and system in B&H are no longer exclusively under the competence of the entities (Federation of B&H and Republika Srpska) and the Brčko District.

By January 1, 2006, when the newly formed Indirect Taxation Administration is expected to have developed an operational system availing the application of the value added tax (VAT) in B&H as a whole, the provisions of the present regulation on taxation shall be applied.

Main objective of the harmonizing of taxation systems in the entities is to create a single economic space and to remove barriers to trade in B&H.

Profit tax is regulated by the Law on corporate profit tax (Federation of B&H), the Law on company profit tax (Republika Srpska) and by the Law on income tax (Brčko District).

The tax rate on profit in Federation of B&H is 30%, in Republika Srpska 10% and Brčko District 10%.

REDUCTION OF THE TAX DUTY IS APPLIED:

- in Federation B&H (FB&H) and Brčko District to:

- Start-up enterprise: 100% in the first year, 70% in the second and 30% for the third year of operations,
- Free zone users - 100% during the 5-year period,
- Further investments - Corporate Income Tax is reduced for a period of 5 years equal to the percentage of foreign capital invested in the assets of the company, provided that the foreign capital is larger than 20% of total capital. This incentive includes companies with 100% foreign capital, which are investing in direct production. For other activities the tax liability reduction is up to 75%.
- Domestic enterprise (taxpayer) – with minimum of 20 % foreign capital share. Those pay reduced tax on profit proportionally to the share of foreign capital for the period of at least 5 years.

- in Republika Srpska to:

- Taxpayer investing, within Republika Srpska, into fixed assets or purchase of shares in the own or other enterprise (legal person) - tax base is reduced by the amount of investment.

EXEMPTION FROM THE TAX PAYMENT is applied:

- in FB&H and Brčko District - to enterprise employing more than 50% disabled persons,
- in Republika Srpska - to enterprises for professional rehabilitation, vocational training and employment of disabled persons (in case the enterprise employs at least 40% of such persons).

The Law on profit tax eliminates the double taxation.

Related Laws and Regulations

Laws and regulations at the State level;

- Foreign Trade Policy
- Competition
- Customs Policy
- Customs Tariffs
- Foreign Direct Investment Policy
- Free Zones
- Concessions
- Industrial Property
- Copyrights and Other Related Rights
- Protection on Consumers
- Indirect Taxation System
- Technical Requirements for Products and Conformity Assessment
- Public Procurement
- Framework Law on Registration of Companies
- Branch Offices of Foreign Companies

Laws and regulations at the Entities level:

- Corporate Laws
- Bank Laws
- Taxation System

Overview of Investments in the Automotive Industry in B&H 2000-2004

In recent period Auto components sector of B&H – direct production segment received foreign investments of cca 18.98 mill € (Jajce Alloy Wheels / Croatia and Germany, TMD Cimos / Slovenia, Skania BH / Sweden and Unis Valjcici / Slovakia).

For the same period (especially in 2004) B&H registered large investments in metal sector (Mittal Steel Zenica and Tvoronica glinice Birac), indirectly linked to the automotive industry, in the amount of 345,6 mill €. Prevent d.o.o, as a Slovenian branch in B&H invested in 51 % of ownership in the company FAD Jelach, and additional 32 mill € in ongoing investments in Headquarters, Leather plant, Rubber plant and warehouse.

Trend continued in 2005 with the investment in Foundry Jelsingrad Banja Luka / Ljivica Slovenia of 2,5 mill € and TMD A.I. Srebrenica / Cimos Slovenia 1,2 mill €

Auto-cluster Development Potential

Automotive cluster B&H started its activities in April 2004. The main objective of the Automotive Cluster Bosnia and Herzegovina (AC-B&H) is to increase the competitiveness of its members, which are companies active in the field of the automotive (supplier) industry. The AC-B&H brings together the competences of its members along the supply chain and acts as a platform and engine for technological innovations, national and international co-operations, marketing and distribution.

The realisation of the objectives is done in particular through the following measures:

- Representation of the members' interests with respect to economic and other associations, and admin bodies.
- Support in development of recommendations and strategies - on international co-operation projects e.g. in the areas of market entry, R&D— for the automotive sector,
- Exchange of ideas and information as well as continuous contact with relevant national and international stakeholders,
- Organization and hosting the seminars, workshops and conferences on subjects of interest to the members and to promote exchange of know how and experiences between entrepreneurs, politicians and scientists,
- Setting up and moderating of horizontal network, i.e. promoting co-operation between companies from the same level in the value chain in joint projects, such as distribution, production, purchasing and R & D,
- Setting up and moderating of vertical networks, i.e. promoting co-operation between companies from the different levels in the value chain (R & D, production, marketing) in joint projects to effectively build up module competence,
- Offering of consulting and other services in the framework of the cluster objectives aimed at increasing the competitiveness of the members,
- General measures to increase the renown of the member companies and of B&H as an automotive region with potential for investments for international companies from the automotive supplier sector.

In 2003 turnover of AC-B&H was ca. 65 million Euro. By July 2005 the Automotive Cluster B&H has about 6.000 employees in 26 companies / members:

1. ASA Holding , Sarajevo

Sales of VW Group automobiles, manufacturing of seat covers, leather, rubber parts, brake components
Phone/Fax: + 387 33 77 00 00
www.asa-holding.ba

2. BEKTO-Internacional d.o.o. Goražde

Plastic and metal injection molding, tools for plastic and metal injection castings.
Phone/Fax: + 387 38 24 13 10
bekto@bekto.com; www.bekto.com

3. BUPLAST d.d. Bugojno

Plastic components
Tel/Fax: + 387 30 25 10 15
buplast@bih.net.ba

4. FAD d.d. Jelah

Brake components and systems for passenger cars
Phone/Fax: + 387 32 66 70 00
suvad.ramic@fad.ba; www.fad.ba

5. FAMOS-Fabrika motora Sarajevo a.d.

Engines and gears for commercial vehicles, components for engines and gears
Phone/Fax: + 387 57 34 26 83
sfamos@paleol.net

6. A D FAMOS «Koran» Pale

Engine components and repair
Phone/Fax: +387 57 22 35 98
koran@teol.net; www.famos-koran.com

7. ODP FAP-Autodelovi, Rudo

Fuel, air and oil tanks; exhaust systems
Phone/Fax: +387 58 71 11 12

8. ČAJAVEC FSU A.D. – Laktaši

Electro-mechanical signaling components
Phone/Fax: +387 51 53 21 07
cajfsu@inecco.net; www.cajavec-fsu.com

9. FUSOL A.D. Nevesinje

Steering systems for passenger cars
Phone/Fax: + 387 59 60 16 57

10. JAJCE ALLOY WHEELS d.o.o. Jajce

Alloy rims
Phone/Fax: + 387 30 64 01 33
jaw@tel.net.ba; www.jaw.ba

11. PANAFLEX A.D. Bijeljina

Flexible tubes and drives
Phone/Fax: + 387 55 20 92 11
pan3@rstel.net; www.panaflex.ba

12. POBJEDA d.d. Tesanj

Oil and water pumps, hydraulic components, gearboxes and transmissions
Phone/Fax: + 387 32 65 06 03
info@pobjeda-tesanj.ba; www.pobjeda-tesanj.ba

13. POSLOVNI SISTEM CIMOS TMD

Automobilska industrija d.o.o. Gradacac
Components and accessories for motor vehicles, agro machines, tools
Phone/Fax: + 387 35 81 74 66
Tadija.leutar@cimos.si; www.tmdai.ba

14. SARAJ KOMERC d.o.o. Gornji Vakuf-Uskoplje

Filter caps; springs and spring elements
Phone/Fax: + 387 30 26 53 15
ecolic@bih.net.ba; www.saraj-komerc.com

15. SOKO – Tvornica transmisija, Mostar

Drive shafts, half-axles, reduction gears
Phone/Fax: + 387 36 35 01 32
kardani-soko@tel.net.ba; www.kardani-soko.com

16. STANDARD A.D. Gradiška

Auto-electrical switches, plastic parts
Phone/Fax: + 387 51 81 32 88
standard@gradiska.com; www.standard-gradiska.com

17. TAG Goražde

Cutting tools and design
Phone/Fax: + 387 38 22 17 97
tagdd@bih.net.ba

18. UNIS ZAP TESLA Brčko

Starter batteries
Phone/Fax: + 387 49 21 73 01

19. AD Tvornica precistaca Rogatica

Air, oil and fuel filters for commercial vehicles
Phone/Fax: + 387 58 41 51 65
tpr@paleol.net; www.tpr-filteri.com

20. UNICO FILTER Tesanj

Air, oil and fuel filters for passenger cars
Phone/fax: + 387 32 65 05 85
unico@unico-filter.com
www.unico-filter.com

21. UNIS TOK d.o.o Kalesija

Bearing rings for commercial vehicles, forge
Phone/fax: + 387 35 63 12 95
unistok@bih.net.ba

22. ZRAK AEO Kiseljak

Auto electro equipment
Phone/fax: + 387 30 87 73 43
zrakaeo@tel.net.ba

23. SUR TEC EUROSJAJ d.o.o. Konjic

Galvanisation and chemicals for galvanisation
Phone/Fax: + 387 36 72 91 80
Sur_tec@bih.net.ba

24. TMD Group Brcko

Internal and external bearings rings, straps
Phone/Fax: + 387 49 23 32 80
tmd.group@bih.net.ba

25. Faculty of Mechanics, Sarajevo

Department for Engines and Vehicles
Education, research and development
Tel/Fax: + 387 33 65 08 41
dean@mef.unsa.ba; www.mef.unsa.ba

26. FIPA – Foreign Investment Promotion Agency B&H

Tel/fax: + 387 33 27 80 80, 27 80 81
fipa@fipa.gov.ba, www.fipa.gov.ba

Greenfield Investment Possibilities

An industrial property market is still underdeveloped, with a little comparative evidence for valuation purposes. There is no supporting law on industrial land usage, especially on benefits for Industrial Zones development.

At present the most favorable laws are: Law on Free Zones and Law on Concessions.

In Bosnia and Herzegovina currently actively operate 6 Free Zones:

1. FREE ZONE "VOGOŠĆA"

71320 Vogošća, Igmanska 36
Phone: +387 33 43 25 32 or 43 38 58
e-mail: skoda-bh@bih.net.ba

2. FREE ZONE "VISOKO"

71300 Visoko, Kakanjska 4
Phone/Fax: +387 32 73 80 10

3. FREE ZONE "MOSTAR"

88 000 Mostar , Rodoć bb
Phone/Fax: +387 36 35 02 10; fax: 35 02 21
E-mail: szhercegovina@tel.net.ba

4. FREE ZONE "HOLC" Puracic

75305 Puracic-Lukavac, Puracic bb
Phone: +387 35 55 32 96, 55 33 96, Fax: 55 31 96, 55 02 20
E-mail: holc@bih.net.ba

5. FREE ZONE "BANJA LUKA" A.D. - in process of full activation

78000 Banja Luka, Veljka Mladjenovica bb (INCEL)
Phone: + 387 51 30 50 01, Fax: + 387 51 30 50 97
E-mail: incel_gd@blic.net

6. FREE ZONE "SLOBOMIR" Bijeljina

55 000 Bijeljina, Slobomir
Phone: + 387 55 23 11 46, 23 11 85; Fax: 55 23 11 44
E-mail: office@slobomir.com; www.slobomir.com

Anyhow, each municipality is developing own sites aimed at attraction of Greenfield or Brownfield investments, with own set of advantages for potential investors. Local benefits are usually more favorable than general rules and regulations, and very often subject to direct negotiations. Decision on opening of such a zone under the municipality's responsibility is always made on the base of pre-investment study with full benefits and potentials assessment. It is usually the case with larger cities / municipalities with already developed informally named Industrial Zones, i.e. industrial sites under the full competence of municipalities. Such places are: Sarajevo, Mostar, Banja Luka, Tuzla, Zenica, Tesanj, Bihac, Gracanica and Breza.

Moreover, many of companies associated with Auto Cluster of B&H have available land with or without the facility to rent, sell either to contribute with in potential joint venture company. It is usually with entire infrastructure in place and obtained licenses/permissions to build. Available space varies from 1.500 to 25.000 m². For more details contact the companies or the Auto Cluster.

Foreign companies/individuals have the same right as Bosnians to trade with the land and register the ownership on real estate.

Average price of land is 15-40 €/m². Usually with needed infrastructure.

8. CASE STUDIES – SUCCESS STORIES

ASA Prevent G R O U P



Business premises of 5.306 m²; investment of 5 mill. €

ASA PREVENT Group is a group of successful companies, associated around the joint vision of being the focal automotive supply point in the region of SEE and wider. It's the story about three divisions- AUTOMOBILE Division, AUTOMOTIVE PARTS Division and FINANCE Division.

Automobile Division:

- **ASA AUTO** d.o.o. Sarajevo, private company founded on December 30, 1995. Authorized importer and distributor for B&H, ASA AUTO deals with seals of cars, spare parts, additional and supporting equipment, special tools and the literature from the Volkswagen Concern's for the following types of cars: Audi, Seat, Skoda, Volkswagen passenger cars and Volkswagen vehicles for commercial purposes.

From April 1st, 2005 ASA AUTO has signed contract as importer and distributor for PORSCHE

ASA AUTO's sales and service network consists of 6 authorized dealers for Audi cars, 6 for Seat cars, 18 to Skoda cars, 11 for Volkswagen passenger cars and 11 for Volkswagen vehicles for commercial purposes.

The Sales and Services Organization, which is completely established under the norms of Volkswagen Concern was in the past period, and still is, the leader in the market of B&H.

The company employs 60 persons, fully prepared, educated and trained for this job.

In 2004 ASA AUTO sold 1,435 Volkswagen cars, 203 Audi cars and 110 Seat cars. Out of the total of sold cars 420 was made / assembled in Volkswagen Sarajevo d.o.o.

ASA AUTO plans to place 4,318 vehicles to the B&H market in 2005, which would be 8,5 % more than in 2004.

- ASA PVA d.o.o. Sarajevo, founded in 1998 in Sarajevo. Dealer for Volkswagen and Audi cars, and authorized service and repair shop.
- ASA PSS d.o.o. Sarajevo, established in 1998 to deal with Skoda and Seat cars, also authorized service.
- ASA RENT d.o.o. Sarajevo, established in 1996 as a rent facility.
- ASA MOBIL

ASA Prevent Group has a strong logistics support from own companies: HAAK Trans, ASA Sped and LKW City.

Second division- AUTOMOTIVE Parts Division

Prevent Sarajevo is the largest producer of seat covers in the region, supplying directly the VW, Audi, BMW and Renault with textile and leather seat covers. Developing and implementing a unique know-how system Prevent reached the highest quality and permanent customers abroad.

FAD Jelah is the manufacturer of brake components. Successful Prevent's investment in 51% ownership..

In addition the focus of ASA PREVENT Group will be on further expansion of auto components supply over the region.

FINANCIAL Group (Blago, Prevent Invest, ASA Leasing, ASA Bank, Insurance and Retirement Fond) is within to assist and manage investments.

Over last three years ASA PREVENT Group have made significant financial results/ revenues.

Turnover in 2004, having in mind ASA- PREVENT Group, also Volkswagen Sarajevo is 256 Mio €(EUR).

By December 31 , 2004 37,6 Mio € (EUR) were invested in the automotive industry project.

It still has ongoing investments in Headquarters (3,5 Mio €), Leather plant (21,0 Mio €) and Automobiles Warehouse (0,7 Mio €)

All companies have obtained related quality standard certificates.



The company PS CIMOS "TMD Ai" doo GRADAČAC, was founded at the end of 2001, as a foreign investment, i.e. a joint venture with Slovenian investor CIMOS d.d. Koper.

Basic parameters of success:

- 2002 : 105 employees, 1,68 Mil.€ of sales
- 2003 : 175 employees, 5,40 Mil.€ of sales
- 2004 : 300 employees, 10,60 Mil.€ of sales
- Plan 2005 : 395 employees, 56,00 Mil.€ of sales

Such a dynamic growth and development was direct result of named investment and partnership.

TMD Ai today, is a production centre with technological competencies in production of parts for turbo compressors.

The focus is on management and the strategic policy in operations.

TMD Ai has, besides for the own needs, got the recognition in research and development for internationally renowned automobile manufacturers. That has made the company the creator of processes in automotive industry.

Investment in advanced technologies, design and product development and human resources is the permanent target and activity in company. Customer relationship management is on the core.

Main customers are:

- HONEYWELL GARRETT – USA (distributor ring fit for turbo-compressors)
- PSA (PEUGEOT,CITROEN) (gearshift lever fit)
- WALTERSCHEID -Germany (star-like bonds)
- VOESTALPINE (Belgium, Austria, Germany) (modeling tools)
- FAG Austria (bearing rings)
- ISKRA - Slovenia (alternator strap)

In accordance with the development strategy of CIMOS and with the respect for the available human resources, TMD Ai has opened in July 2005 a new factory in Srebrenica. It already has 25 employees, targeting additional employment of the same number by the end of 2005. In a year ahead should be 120-150 employees. By now it is the production of automobile body parts.

Thinking of beginnings and problems they had, the management of TMD Ai. does not complain. They rather say it was exactly in accordance with expectations. Slow administration and bureaucracy which they have beaten are still persistent and decisive in finding the solutions. They did not give up and the final result was on their benefit.

Human resources have been and remain the core factor in successful business development. Permanent investment in knowledge and research, supported by the good customer relationship management and environment requirements keep them competitive at the market, both local and international. Winning combination of those facts sells the TMD's knowledge, not a product itself.

9. CENTRAL MARKETING MESSAGE

Bosnia and Herzegovina has a long, proved tradition in automotive supply and assembly, directly linked to the Volkswagen, i.e. V.A.G., MAN and Mercedes. In recent period Cimosa TMD Ai. Gradacac has captured a leading position in development and investment in automotive industry in B&H.

The sector is slowly but noticeably recovering from 10 years of slowdown and transitional problems the whole B&H industry had for multiple reasons.

Tradition in metal works based on natural resources (Fe, Manganese, and Bauxite) and energy availability, recent foreign investments in metal industry and skilled labour are in place to improve the overall sector picture.

Located at the favorable position of crossroads and new transport corridors, roads and railways B&H and its industry must find the way to offer and get the benefits of auto components development and production, aimed at the supply to the region of SEE countries, at least.

Being at the new start it has additional advantage of fulfilling the technology gap with the millennium jump in advanced technologies and educated management to make this sector profitable and recognized as a reference address for targeted investments in the region.

Why Invest in Automotive Sector in B&H? – Regional Benefits

- B&H is ideally located - at the crossroads between West and East, the Mediterranean and Continent, just two hours by air from European business centres; also in the future Corridor Vc highway will improve international road transport
- B&H companies have a rich tradition of successful participation in international projects all over the world (pre-war, some of B&H companies were among world leaders in their respective fields);
- Highly educated, qualified and competitively priced work force, quite well skilled in foreign languages:
- Hospitable environment with a long tradition of customers service;
- Stable and convertible currency linked to EURO;
- Lowest inflation in the region, on the average rate below 1%, expected in 2005, too;
- Fully reformed and developed banking sector;

- Investment risk protection (about 30 bilateral agreements on mutual advancement and investment protection already ratified; protection through MIGA - the World Bank);
- 95% of products from B&H are exempted from all taxes on export in EU countries;
- B&H enjoys trading preferences in export to the number of other, non-EU countries;
- Foreign investors have the same rights as local investors;
- Rights of foreign investors in B&H are specifically protected;
- B&H has a modern telecommunications network;
- B&H is an important producer and exporter of electric power in the region;


Strategic location, high quality and reliable suppliers, good educational base, innovations well advanced in B&H although at low level of implementation (number of associations and world awards), infrastructure and energy availability (transport corridors – both road and railway will improve in foreseen period) are the focal points of promises to potential investors.

With all those strategic movements and industry renewal in B&H, auto components supply chain has a good prospective to develop further and serve the needs of wider region.

The flat 17 percent value-added tax which will be put into force from January 1st, 2006 together with the country's advantageous geographical location and its educated, relatively cheap and educated labour force, make Bosnia and Herzegovina a favourable place for investments.

Recommendations and proposal for any potential investor would be to:

1. Consider the opportunity of completion and overall management of the whole technological chain in auto components supply, by investment in bottle necks and filling the gaps in it. That would satisfy the basic requirements of preferential treatment B&H is given by the EU on export of products with prevailing domestic origin.
2. Challenge an ex-Yu and regional links which had since the very beginning the root in B&H's heavy and processing industry, through the joint venture with the Bosnian and regional partners.
3. Human resources with technical skills and expertise are the most favourable advantage!



«B&H recently past through serious difficulties, but now it is important to look at the future. We have unique criteria for all our investments and we buy businesses in which we see potentials. It was the case with BH Steel and Bosnia, and I see brighter future for the company, and wider, for the country as whole».

Roeland Baan, manager of Mittal Steel (Dnevni avaz, April 4, 2005)