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MINISTRIA E TREGTISË DHE INDUSTRISË
MINISTARSTVO ZA TRGOVINU I INDUSTRIJU
MINISTRY OF TRADE AND INDUSTRY

# Snapshot of the **CHEMICAL INDUSTRY**

2016

# Snapshot of the Chemical Industry

## A promising industry dominated by micro and small enterprises

2016

# Acknowledgements

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# Introduction

This profile provides an overview of the current situation of the chemical industry in Kosovo. Additionally, it shows the recent developments and trends of this industry. Basic industry characteristics draw mainly on secondary data such as official statistics published by the Tax Administration of Kosovo (TAK), Kosovo Agency of Statistics (KAS) and the Kosovo Business Registration Agency (KBRA). In addition, the profile depicts industry's performance using the data from an enterprise survey conducted by the United Nations Development Programme (UNDP) during October-November, 2015. The sample for this survey consists of 40 out of the 122 registered firms in the TAK database under the Nomenclature des Activités Économiques dans la Communauté Européenne (NACE) codes 2011, 2012, 2013, 2014, 2015, 2030, 2041, 2052, 2053, 2059, and 2060.

For the purpose of this report, the main activities of this industry based on the survey data will be defined as follows: (i) Manufacture of paints, varnishes and similar coatings, printing ink and mastics, (ii) Manufacture of soap and detergents, cleaning and polishing preparations, and (iii) Manufacture of glues and adhesives.

The study shows that the chemical industry is an ever increasing industry in Kosovo, both in terms of sales and employment. Half of the current companies have been created just over the past three years, mainly concentrated in Prishtinë/Priština region. The vast majority of the surveyed firms started exporting after 2010. Currently, less than one-third of firms are engaged in export activities with a symbolic share of exports in their total sales. The gap between imports and exports of chemical products in Kosovo is high; only 3% of imports were covered by total exports in the first three quarters of the year 2015.

The chemical industry is a relatively new and an ever increasing industry in Kosovo. Almost half of the current firms have been created just over the past three years; about one-third of firms are concentrated in Prishtinë/Priština region. Similar geographical distribution is seen also for newly created firms. According to KBRA data, around 36% of the newly created firms are established in the Prishtinë/Priština region. Firms in the chemical industry in Kosovo are mainly active in the following three sub-sectors: manufacture of paints, varnishes and similar coatings, printing ink and mastics, (ii) manufacture of soap and detergents, cleaning and polishing preparations, and (iii) manufacture of glues and adhesives. The majority of them are micro enterprises; small and medium enterprises accounts for 16% of firms in the chemical industry.

Although the chemical industry is not labour intensive, employment is constantly, albeit moderately, increasing. Glues and adhesives manufacturers have experienced the highest growth as far as employment is concerned. However, the data from the survey indicates that women are under-represented in this industry; women account for only 13% of the total workforce in this industry.

The average reported output as well as capacity utilisation, also shows that the overall performance of the chemical industry is improving. The vast majority of the surveyed firms started exporting after 2010; only 30% of firms have been engaged in export activities in 2014. However, there is a positive attitude toward exporting among non-exporting firms as one-third of them declared that they have a plan to export in the future.

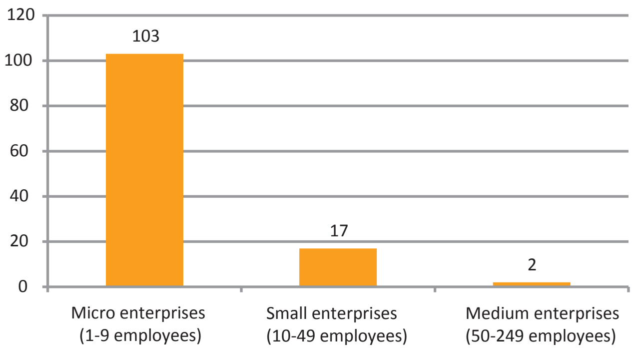
Customs procedures and international quality standards are being considered the main barriers to exporting, whereas limited opportunities to establish links with international buyers and transportation costs are considered as second main barriers to exporting.

The top barriers in the chemical industry appear to be related to the high level of corruption as well as the cost and supply of electricity. Another issue for which firm dissatisfaction is quite high is the level of taxation. The majority of micro and small firms view the level of taxation as being high.

# Basic data and industry characteristics

According to Tax Administration of Kosovo (TAK) database, there are 122 businesses operating in the chemical industry. Around 84% of them (103 firms) are micro enterprises, with 1-9 employees; 17 or 14% are small enterprises (with 10-49 employees) and remaining 2 firms are medium sized firms.

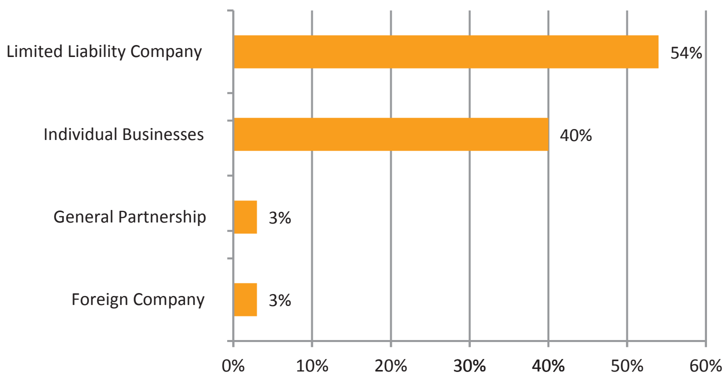
**Figure 1:** *Size of firms in chemical industry*




*Source: TAK (2015)*

Almost half of the current companies have been created just over the past three years. During the period of 2012-2015, a total number of 65 new firms in chemical industry have been created. Out of this number, 94% of firms are registered as Limited Liability Companies (LLC) and Individual Businesses.

**Figure 2:** *Structure of newly created firms for the period 2012-2015*

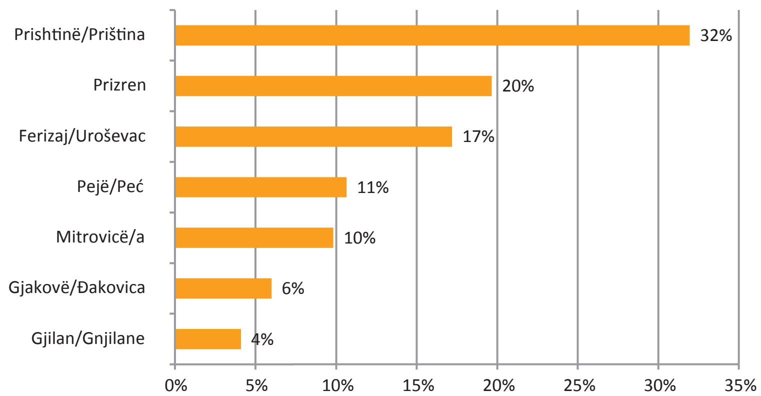



*Source: KBRA (2015)*

Based on NACE classification codes, 33% of newly created enterprises operate in "Manufacture of soap and detergents, cleaning and polishing preparations (code 2041); 14% in "Manufacture of paints, varnishes and similar coatings, printing ink and mastics (code 2030)"; 14% in "Manufacture of dyes and pigments (Code 2012) and 6% in the "Manufacture of fertilisers and nitrogen compounds (code 2015)".

Most of the enterprises are located in Prishtinë/Priština region (around 32% of them); followed by Prizren (20%), Ferizaj/Uroševac region (17%) and so on.

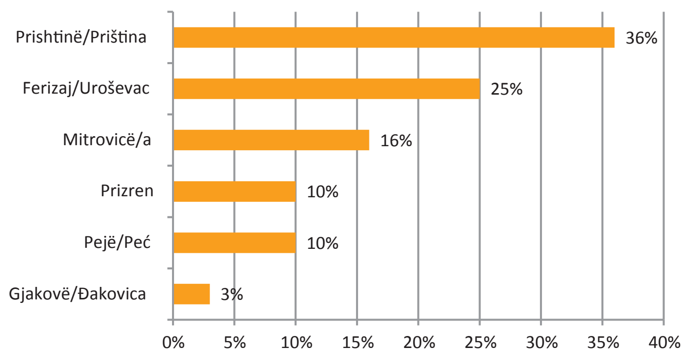
**Figure 3:** *Geographical location of firms in chemical industry*




*Source: TAK (2015)*

Similar geographical distribution is evident in newly created enterprises as well.

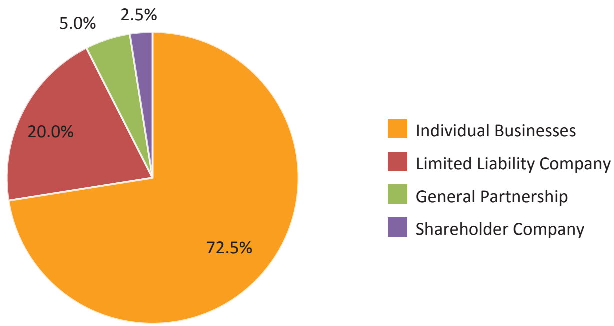
**Figure 4:** *Geographical location of newly created firms*




*Source: KBRA, 2015*

Among the interviewed firms, the vast majority of them (72.5%) are registered as individual businesses – these are usually businesses owned and run by one individual and in which there is no legal distinction between the owner and the business.

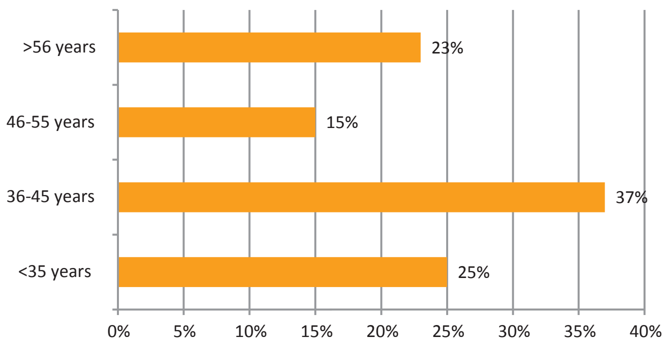
**Figura 5:** Organizational structure of interviewed firms




*Source: UNDP survey, 2015*

The average age of the owner is 45 years; and 99% of the interviewed firms are owned by Kosovo Albanians. Women-owned firms account for only 8% of total number of surveyed firms.

**Figure 6:** Firm ownership according to age groups




*Source: UNDP Survey (2015)*

# Firm/industry input and output

Raw materials and intermediate inputs account for the largest share of the cost of inputs for both micro and small firms in the chemical industry, 74% respectively 68% of the total cost of inputs. On the other hand, the ratio of wage costs to total cost of inputs is 20% for both groups – micro and small firms. The average monthly cost of inputs at the sector level for raw materials, intermediate inputs and wages are roughly EUR 29,000.

**Table 1:** *Average cost of inputs according to firm size in EUR*

| Inputs / Firm size | Raw materials and intermediate Inputs | Wages | Electricity | Water | Fuel | Other |
|---|---|---|---|---|---|---|
| Micro (≤ employees) | 14,705 | 3,961 | 210 | 34 | 416 | 550 |
| Small (10 - 49 employees) | 29,974 | 8,861 | 1,284 | 86 | 3,472 | 185 |
| **Sector average** | 22,496 | 6,286 | 720 | 59 | 1,868 | 307 |

*Source: UNDP Survey (2015)*

Most of the raw materials and intermediate inputs used by Kosovan firms in this industry are imported; almost two thirds of surveyed firms reported that the above inputs are exclusively imported, mainly from European Union (EU) as well as member countries of the Central Europe Free Trade Agreement (CEFTA).

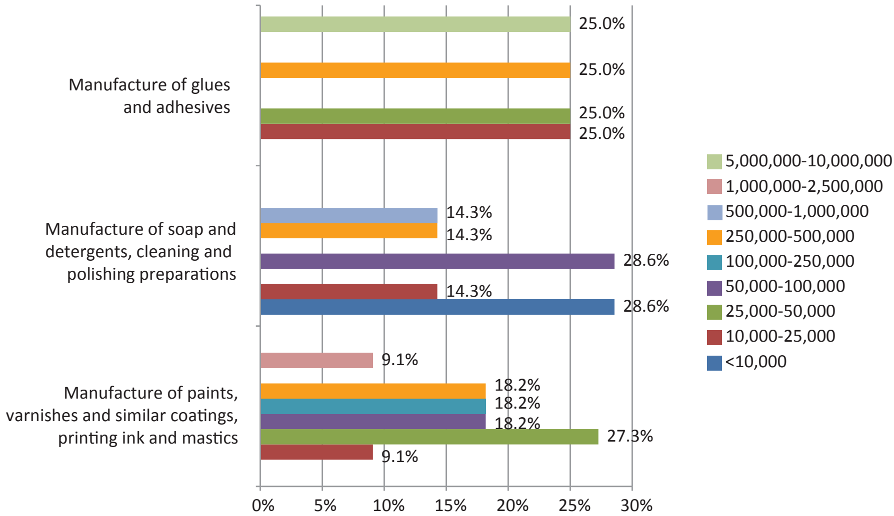
**Tabela 2:** *Structure of raw material and intermediate products*

| Source | Share of firms |
|---|---|
| Exclusively locally produced | 10 % |
| In - house production | 6.0 % |
| Local producers | 4.0 % |
| Mix of locally produced and imported | 25 % |
| Exclusively imported | 65 % |
| Local traders | 20.0 % |
| International traders | 5.0 % |
| Foreign Producers (directly) | 12.5 % |
| Mixed imported | 27.5 % |

*Source: UNDP Survey (2015)*

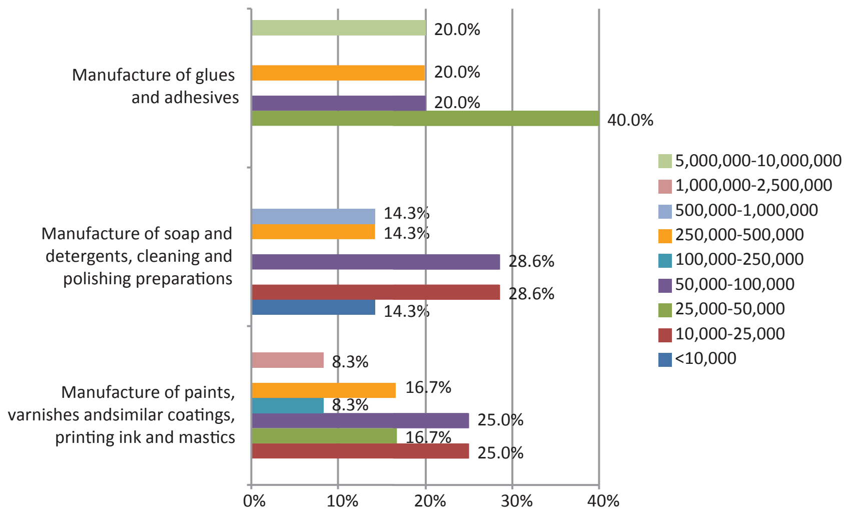
The average value of total output at the industry level in 2014 was around EUR 583,000 (EUR 484,000 in 2013). The annual reported output of all firms that currently manufacture different types of glues and adhesives (mainly used in the construction sector), was greater than EUR 25,000 in 2014. On the other hand, 57% of the soap and other detergent manufacturers respectively 58% of paints, varnishes, and ink manufacturers, reported their annual output above EUR 50,000 for the year 2014.

**Figure 7:** *Annual output value according to firm activity in EUR (2013)*




*Source: UNDP Survey (2015)*

**Figure 8:** *Annual output value according to firm activity in EUR (2014)*




*Source: UNDP Survey (2015)*

# Firm performance and capacity utilisation

The level of capacity utilisation at the sector level has slightly improved in 2014 compared to the year before. The average level of capacity utilisation in the chemical industry sector was 61% in 2013 and 65% in 2014. In 2014, only 10% of the firms have fully utilised their capacities whereas more than 70% have utilised their capacities between 60% and 100%.

**Table 3:** *Capacity utilisation (2013 and 2014)*

| Capacity utilisation | Share of firms | |
|---|---|---|
| | 2013 | 2014 |
| Less than 20% | 2.50% | 2.50% |
| 20% - 39% | 5.00% | 15.00% |
| 40% - 59% | 10.00% | 10.00% |
| 60% - 79% | 40.00% | 35.00% |
| 80% - 100% | 32.50% | 37.50% |
| Total | 100% | 100% |

*Source: UNDP Survey (2015)*

When it comes to capacity utilisation, there is no big difference across subsectors. Similarly, differences in capacity utilisation between firms of different sizes are quite small. Capacity utilisation level is slightly higher in small firms compared to micro ones, 67% respectively 64% in 2014 (Table 4 Panel A and B).

**Table 4:** *Differences in capacity utilisation*

A: Average capacity utilisation according to sector

| Capacity utilisation | Share(%) | |
|---|---|---|
| | 2013 | 2014 |
| Manufacture of paints, varnishes and similar coatings, printing ink and mastics | 50% | 56% |
| Manufacture of soap and detergents, cleaning and polishing preparations | 65% | 69% |
| Manufacture of glues and adhesives | 79% | 81% |
| **Average** | **61%** | **65%** |

*Source: UNDP Survey (2015)*

*B: Average capacity utilisation according to firm size*

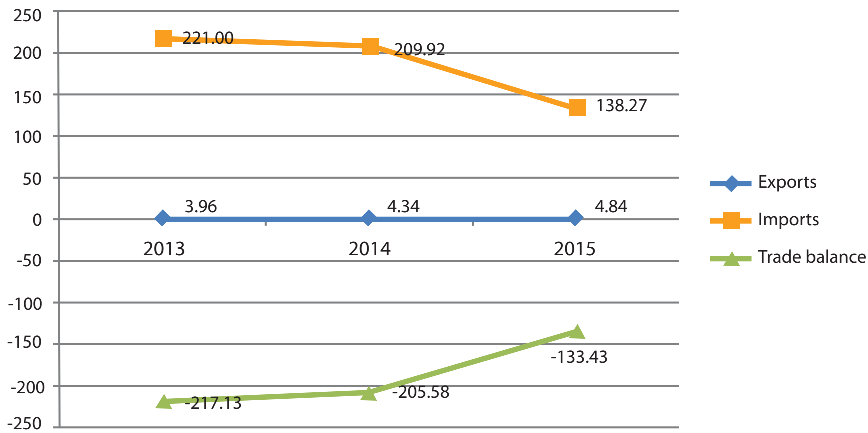
| Capacity utilisation | Share(%) | |
|---|---|---|
| | 2013 | 2014 |
| Micro (≤9 employees) | 56% | 64% |
| Small (10-49 employees) | 66% | 67% |
| **Average** | **61%** | **65%** |

*Source: UNDP Survey (2015)*

## International trade

The overall exports of the chemical manufacturers in Kosovo increased between 2013 and 2015 - although at a very low value - reaching EUR 4.84 million in the first 9 months of 2015. However, the trade deficit has mainly decreased due to decreasing imports.

**Figure 9:** *Trade balance of the chemical industry January 2013 – September 2015 (in million EUR)*




*Source: Kosovo Customs, 2015*

In line with the official customs data, the survey data show a substantial increase of exporting firms in the chemical industry in 2014 compared to a year before. The export intensity, measured by the average share of export sales on total turnover, has increased to 20% in 2014 compared to 19% in 2013.

### Box 1: Documents required for cross-border trading

*Documents required for export:*

- *Single Administrative Document (i.e. customs declaration)*
- *Commercial Invoice*

*Documents required for import:*

- *Single Administrative Document (i.e. customs declaration)*
- *Commercial Invoice*
- *Certificate of Origin (for countries Kosovo has an FTA with or any other Agreement which covers exemptions based on rules of origin)*

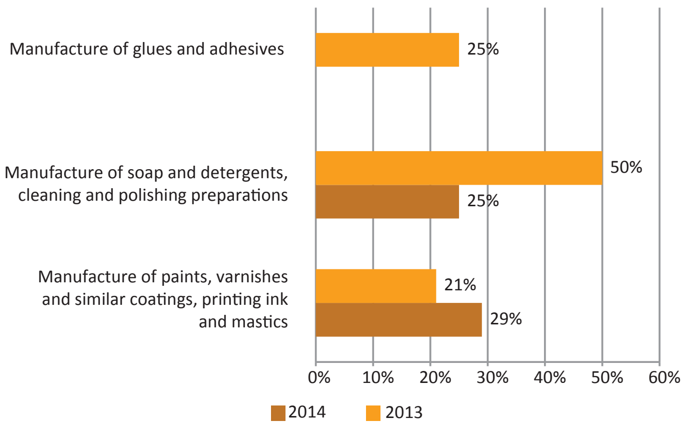
**Table 5:** *Percentage of exporting firms and the average share of export sales on total turnover*

| | 2013 | 2014 |
|---|---|---|
| Percentage of exporting firms in the sector | 18% | 30% |
| Average share of export sales on total turnover | 19% | 20% |

*Source: UNDP Survey (2015)*

The highest percentage of exporters is reported by manufacturers of soap and detergents, cleaning and polishing preparations, with about 50% of the exporting firms in 2014.

**Figure 10:** *Percentage of exporting firms by activity*

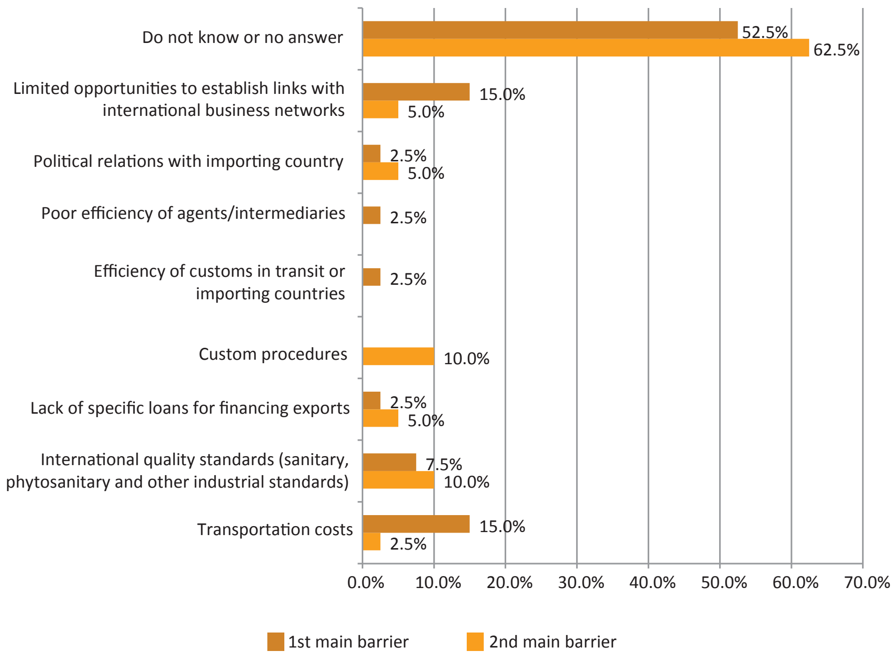



*Source: UNDP Survey (2015)*

Main exported products were detergents, glues and adhesives. Main destination countries for the chemical sector products are Albania, Germany and Turkey. Destinations with a good perspective for exports mainly include European and Balkan countries, such as Belgium, Switzerland, Montenegro, Bosnia and Hercegovina and Macedonia.

The surveyed firms were asked to rank first and second main barriers to exporting. Findings reveal that customs procedures and international quality standards are mostly considered as first main barriers to export, whereas limited opportunities to establish links with international buyers and transportation costs are considered as second main barriers to exporting. Around 63% of the surveyed firms could not name a first main barrier, respectively 52.5% when asked to name the second main barrier to exporting.

**Figure 11:** *First and second main barriers to export*




*Source: UNDP Survey (2015)*

**Box 2: Trade regulations and free trade agreements**

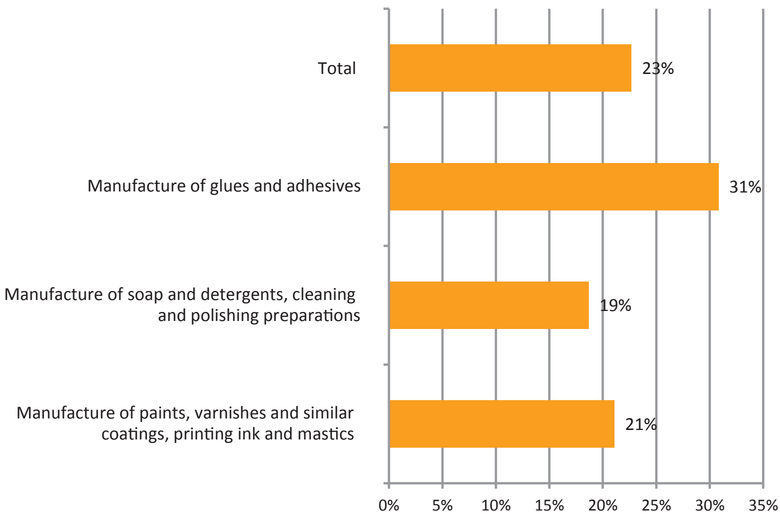
*Kosovo has a general flat rate of 10% for imports and 0% for exports. No custom duties are levied on imports of technology or on intermediate products that are re-exported (after processing). As of 2014, Law No. 04/L-163 on Goods exempt from custom tax and goods with zero rate of customs tax has been enacted, according to which some inputs for the Chemicals Industry (such as pigments and other coloring matter, mixtures of odoriferous substances, , etc.) are treated as zero custom rate products.*

*Kosovo is a member of CEFTA and it enjoys duty-free access to the EU under the Stabilisation and Association Agreement and to the US under the Generalised System of Preferences (GSP). Kosovo has also signed a free trade agreement with Turkey, but this has not come into power yet. Additionally, Kosovo benefits from trade preferences with Japan and Norway that include only few limitations.*

# Human resources

Based on the official statistics published by TAK and KAS, in 2014 the chemical industry accounted for only 0.2% of the total registered employees in Kosovo.[1] However, the data from the survey shows that the number of employees in this sector is constantly increasing. Today, the total number of employees in the surveyed firms is 23% greater than it was in 2014.

**Figure 12:** *Firm growth according to number of employees (2014 – 2015)*

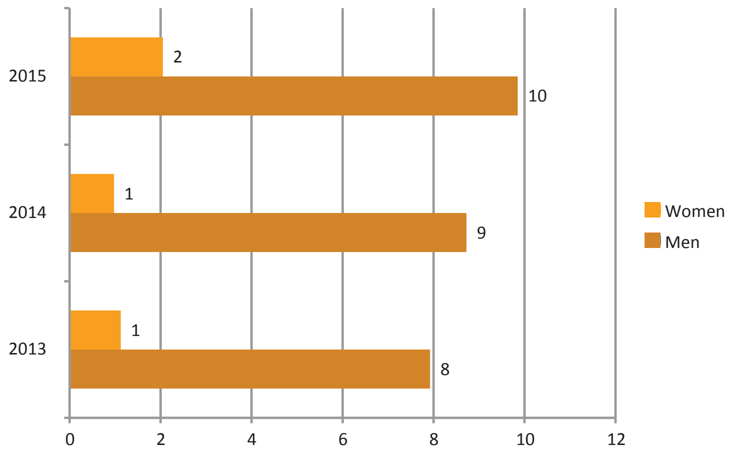



*Source: UNDP Survey (2015)*

Among the surveyed firms, it seems that the chemical industry is men dominated industry; there is a big difference in employment rates between men and women in the chemical industry. On average, women account for only 13% of the total number of employees during 2013-2015.

1 KAS (2015) https://ask.rks-gov.net/ENG/labour-market/publications

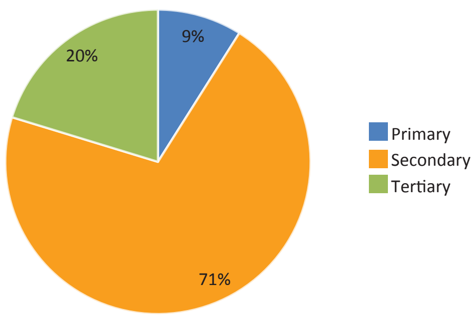
**Figure 13:** *Gender structure and average number of employees (2013–2014)*




*Source: UNDP Survey (2015)*

Secondary education is the highest level of educational attainment for more than 70% of the workforce in firms engaged in manufacturing of chemical products in Kosovo; one fifth of employees have completed tertiary education.

**Figure 14:** *Structure of employees according to educational level*

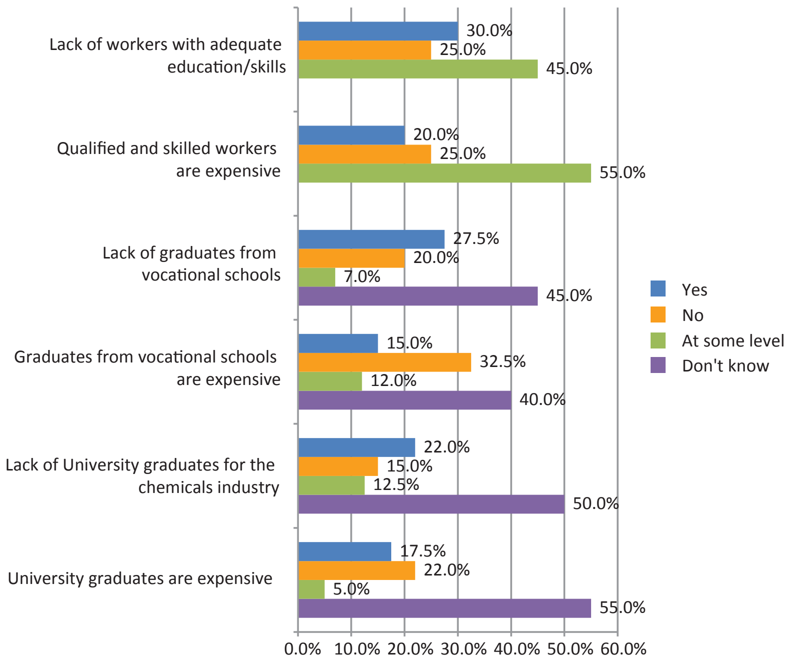



*Source: UNDP Survey (2015)*

## Availability of skilled workforce

The lack of workers with adequate education or skills is one of the main challenges that firms in the chemical industry are currently facing. Qualified workers and university graduates are regarded as expensive by 20% respectively 17.5% of all surveyed firms.

**Figure 15:** *Perception about the cost and availability of skilled and well-educated workers*




*Source: UNDP Survey (2015)*

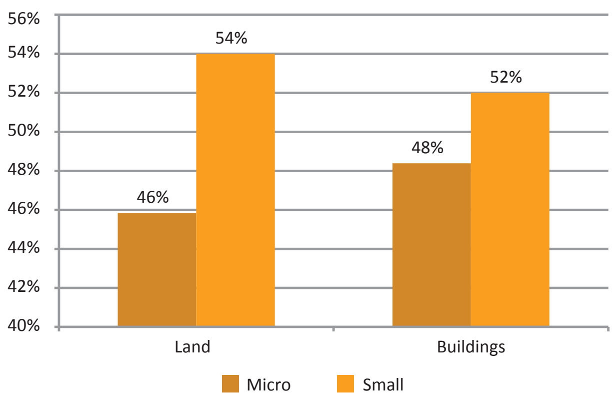
**Box 3: Labour market regulations**

*Kosovo has a highly flexible labour market with a low tax wedge and low rigidities in terms of hiring and firing of workers. The personal income tax rate system is a progressive tax system with a 0-10% tax rate. In addition to that, only a pension contribution of 5% of the total wage is paid by employer (whilst another 5% of the wage is paid by workers). Since 2011, Kosovo has had a minimum wage of €170, or €130 for individuals aged under 35 years. Employment relations are regulated by the Law on Labour (No. 03/L-212) which takes into account the ILO Conventions, EU Legislation and the fundamental principles of free labour market and economy. Since 2013, occupational health and safety are regulated by the Law on Occupational Health and Safety (No. 04/L-161).*

# Assets and investments

The vast majority of firms own most of their assets, with a small percentage of them renting some of the assets. Land is owned by 60% of the firms, buildings by 78% of them, while technology as measured by machinery and equipment is entirely under their ownership. The size of firm is positively correlated with the asset ownership.

**Figure 16:** *Percentage of owned assets by firm size*




*Source: UNDP Survey (2015)*

The value of total assets per company has been reported to be in a range between a minimum of €267,862 and a maximum of €440,000. In 2013, the average value of all assets is estimated to be at around €337,000, increasing to around €389,080 in 2014. This indicates a growing trend of the sector. On average, the share of technology and land in total assets has decreased from 2013 to 2014, whereas the share of buildings in the total assets increased from 30% to 40%.

**Table 6:** *Share of asset type in total assets by firm size*

| Firm size | Micro + Small | | Micro | | Small | |
|---|---|---|---|---|---|---|
| Year | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | 35% | 44% | 29% | 41% | 34% | 62% |
| Buildings | 40% | 30% | 17% | 43% | 41% | 4% |
| Technology | 24% | 26% | 53% | 16% | 24% | 34% |

*Source: UNDP Survey (2015)*

### Box 4: Industrial property and patenting in Kosovo

**Trademarks** *are regulated by the Law on Trademarks (No. 02/L-54)). Trademarks are registered at the Kosovo Industrial Property Agency. The proprietor of a registered trademark will, after registration, have exclusive rights in relation to the goods or/and services covered by the registration. In particular, these rights are: to use the trademark, to authorize another to use the trademark or to obtain legal remedy for a violation of the trademark. Trademark is registered for a period of 10 years and can be renewed for an unlimited time.*

**Industrial design** *is regulated by the Law on Industrial Design (No. 04/L-038). It is protected by the law up to the point that it is an innovation and has a specific character.*
*Protection of an industrial design lasts five years and can be extended to a maximum of 25 years.*

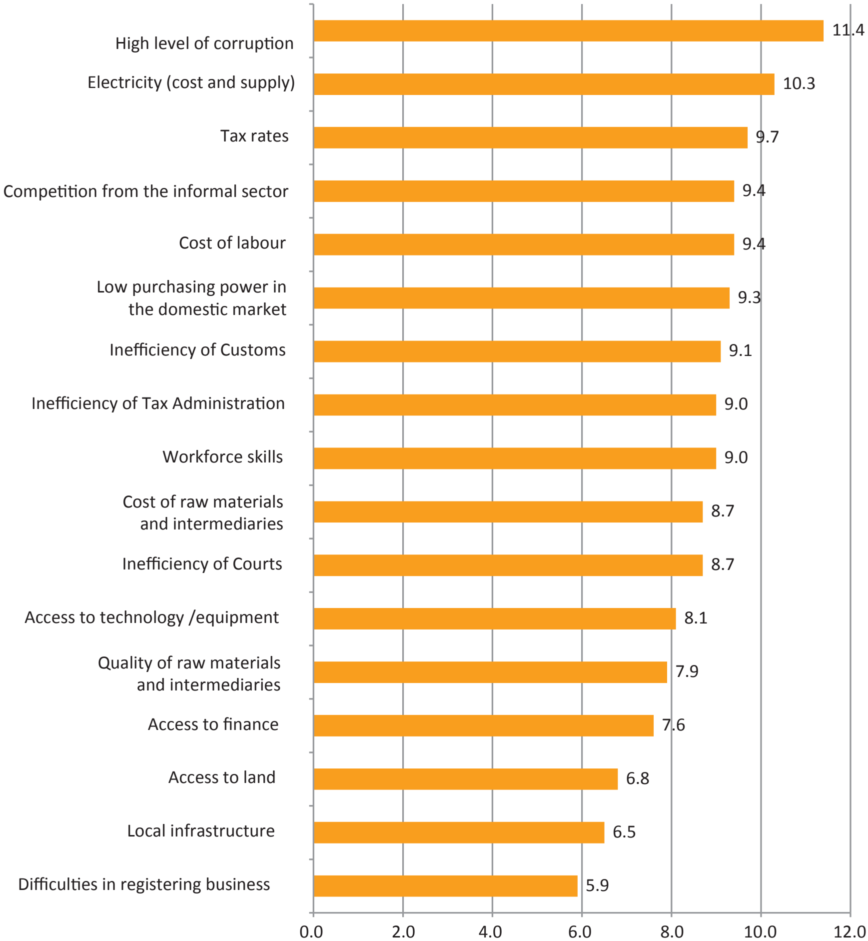
**Patenting** *is regulated by the Law on Patents (No.2004/49). An invention shall be patentable if it is new, involves an inventive step and is industrially applicable. A patent right is granted for the duration of 20 years.*

**Standardisation** *is regulated by the Law on Standardisation (No. 03/L-144). The certification of products, processing, services, quality and personnel systems are regulated by the Law on Standardisation, and the institution responsible for the issuing, application and determination of standards is the Kosovo Standardisation Agency (KSA).*

# Business environment

Firms in the chemical industry reported the high level of corruption, electricity (both in terms of high costs and lack of supply) and tax rates, as top three barriers to their development and growth. On the other hand, firms seem to be generally satisfied with the procedures required to register their businesses, with the local infrastructure – as well as – with the access to land.

**Figure 17:** *Business barriers (average scores, on a scale from 0-17 – 0 minimal, 17 maximal)*




*Source: UNDP Survey (2015)*

**Box 5: Relevant institutions**

- *Kosovo Business Registration Agency (business registration), http://www.arbk.org/*
- *Kosovo Investment and Enterprise Support Agency (information for foreign investors on starting a business, investment opportunities, potential business partners, etc.), http://www.invest-ks.org/*
- *Tax Administration of Kosovo (tax payment), http://www.atk-ks.org/*
- *One stop shops in municipalities (information sources and counselling services)*
- *Kosovo Customs (information on customs duties and procedures), https://dogana.rks-gov.net*
- *Business Associations (business networks, fairs, trade missions, advocacy, etc.): Chamber of Commerce; American Chamber of Commerce; Kosovo Business Alliance.*

**Box 6: List of relevant permits and certificates**

- *Business Certificate*
- *Registration with the Tax Administration of Kosovo*
- *Registration of employees for the pension scheme with Tax Administration*
- *Environmental permit*
- *Fire protection clearance*
- *Clearance for water*
- *Construction permit*
- *Electricity connection*

## Success story: Eco Color

Located in the north of Kosovo, namely Mitrovicë/a, **Eco Color**, is one of the most successful and modern companies in the chemical industry in Kosovo. The company is established in 2008 and currently offers a wide range of paints and varnishes and facades, mainly for the construction sector. It started as an initiative of three enthusiastic entrepreneurs with an extensive experience in this industry.

After several successful years, Eco Color attracted well-known European manufacturers who were interested to enter the Kosovo market. In 2014, one of the largest companies in the chemical industry in Italy, **Gruppo Ivas**, became the fourth shareholder of Eco Color. Gruppo Ivas is a specialised company with more than sixty years of experience in producing paints, varnishes, coatings, and different facades that satisfies the most complex requirements of design and construction of its clients in the European market.

With the new partner on board, the company has recently invested in the new facility with top-of the-line equipment and technology. The company currently employs 14 full-time and other five seasonal workers. However, the new production line that is expected to be operational during the first half of 2016, will double the number of employees.

Eco Color manufactures its products using the technology and expertise of the Italian partner which makes the company the first ever manufacturer in Kosovo that satisfies international standards for energy efficient products. Such products are mainly present in the local market; only 5% of company's total output is exported in the regional market, mainly Albania. On the other hand, raw materials and intermediate inputs are exclusively imported from the EU market, namely Italy and Germany.

Local wholesalers account for 90% of company's customers; the remaining 10% are predominantly construction companies around Kosovo. Due to continuous investments in the newly built facilities, the company is currently utilising only 50% of its 30 tonnes/day installed capacities. Nevertheless, the management is determined to fully utilize company's capacities and further expand its product range in the coming year.

The company is considering Kosovo's fiscal policy as one of the main impediments to their business operations. According to the company's management, customs duty remains applicable for almost all the raw materials that are used for manufacturing of paints and varnishes.

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