



USAID | **KOSOVO**
NGA POPULLI AMERIKAN
OD AMERIČKOG NARODA

ENGINEERED WOOD FLOORING

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT

<p>SwedeCo Wood Floors The Warmth & Beauty of Real Wood</p>  <p><i>Combining the advantages of real wood with today's technology</i></p> <p>Professional Hardwood Strip Flooring</p>	<p>SwedeCo Wood Floors The Warmth & Beauty of Real Wood</p>  <p><i>Combining the advantages of real wood with today's technology</i></p> <p>Premium Series Strip & Plank</p>	<p>SwedeCo Wood Floors The Warmth & Beauty of Real Wood</p>  <p><i>Combining the advantages of real wood with today's technology</i></p> <p>Architectural Hardwood Plank Flooring</p>
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05 January 2006

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ENGINEERED WOOD FLOORING

THE REPORT DETAILS THE OPPORTUNITIES FOR EXPORTING IN SIGNIFICANT QUANTITIES A NEW WOOD PRODUCT TO AN ESTABLISHED DISTRIBUTOR IN THE UNITED STATES. IT IDENTIFIES TWO KOSOVO COMPANIES WHO ARE CAPABLE OF DEVELOPING THE MANUFACTURING CAPACITY AND ARE COMMITTED TO MAKING THE NECESSARY INVESTMENT TO MANUFACTURE THE PRODUCT IN THE QUALITY AND QUANTITIES DEMANDED BY THE US DISTRIBUTOR. THE REPORT PRESENTS A PROJECT IMPLEMENTATION PLAN.

Kosovo Cluster and Business Support project "Engineered Wood Flooring"
Contract No. AFP-I-00-03-00030-00, TO #800

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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PURPOSE OF ASSIGNMENT

This short two-phase assignment will develop a plan for establishing production capability and technology know-how in Kosovo for manufacturing engineered wood flooring products for which export potential to markets in the United States has already been identified. The first phase involves a visit to Thailand, during which the consultant will provide technical assistance and guidance to the management of two Kosovo wood processing companies, "KORENICA/Rahoveci and UKAJ/Peja, as they observe the manufacture of engineered wood flooring products being made for the US market. The second phase of the assignment, undertaken following the group's return from Thailand, includes the preparation of a proposed project schedule addressing activities and timing necessary for the two companies to implement the project. This schedule is tentative and may be affected in part due to weather conditions during construction phases, acquisition of equipment and availability of raw materials. Once the two companies have signaled their intent to enter this market and have secured the financial means to execute the necessary investment, a second long term assignment is anticipated.

BACKGROUND:

The engineered wood flooring project has enormous potential. KCBS has the opportunity to support the development of several wood processors who could sustain a new manufacturing sub sector that would bolster the economy with the potential of 2 – 3 million euros per month in export revenues. The US importer, identifies as SwedeCo Wood Floors, is confident that these projections are not only realistic, but conservative, since their similar high production facilities in other global regions generate revenues significantly higher than those initially proposed for Kosovo. Through this consultant's personal efforts from the US, work completed as a Business Development and Wood Processing Industry Specialist during both the USAID KBS and KCBS projects, and his 30-year business relationship with US importer, this project effectively affords these Kosovo wood processors a **"once in a lifetime"** chance to export into an existing global market that would normally take years of specialized marketing expertise to develop. This is an opportunity that should be explored to the fullest extent and be given a high priority for USAID development assistance.

EXECUTIVE SUMMARY

The potential for development of the primary and secondary wood processing industries in Kosovo as a source of stable employment and a significant revenue stream for the region has been identified by several USAID sponsored consultants over the past 5 years, including Peter Beardsley, PhD, Stein Hellem, FAO Mechanical Wood Industry Specialist and Ray Lapof, CDC/IESC in 2001 and 2002, and Matt Anderson who completed industry assessments and wrote both the KBS Wood Processing and Construction Sector Analyses and the Sector Action Plans in 2003. With continued support from donor agencies, certain Kosovo companies have an exceptional opportunity to become the basis for a strong manufacturing sector in Kosovo. However, many companies stress that there must be a continuity of assistance provided by professionals who have practical industry expertise, not theoretical knowledge.

During my tenure with the former KBS project, I proposed the potential for exporting certain wood based products from Kosovo to the US, and over the past two years have actively pursued bringing together several Kosovo wood processors with SwedeCo Wood Floors, a major engineered wood flooring manufacturer/importer/distributor from the US with operations in Indonesia, Thailand and China. I have made personal commitments to assist Kosovo wood processing companies develop such a market by pairing them with an aggressive US company I have secured a commitment from Gerald Perlot, CEO of SwedeCo Wood Floors, to support the development of another product source outside of Asia, specifically in Eastern Europe. These commitments have created the opportunity for two companies to export engineered wood flooring and other potential ancillary products for SwedeCo's global resource requirements servicing several large wholesale/retail distributors in their US client base distributing primarily into the contractor and homeowner do-it-yourself markets.

In 2004, the former KBS Project Wood Processing team developed and provided profiles for a dozen client companies that we felt met the criteria, and SwedeCo then selected Korenica, Ukaj, and Brovina as companies of interest and wish to further explore their individual or joint manufacturing capabilities. Because of my long term business relationship with this manufacturer, and based on my recommendations, Mr. Perlot committed to working with Korenica and Ukaj, arranging visits to his facilities in Bangkok, Thailand. A third wood processor, Brovina, may join the project in a lesser capacity later in the first year of the project. With over 20 years of manufacturing experience in this business, Mr. Perlot has, however, expressed some concerns about the lack of "certified graded" beech lumber for export into the US market, and I have shared some of the initiatives being explored by AWPK and several of the local processors with regard to certification in Kosovo.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

With 4 days of international travel required, leaving only 14 working days to accomplish the tasks identified in the SOW, I have again opted to present my daily activities in journal form to detail the activities during the Bangkok trip and the level of focus required to prepare the engineered wood flooring implementation plan and SOW for the follow-on project scheduled to begin in January 2006. Much of the dialog is highly technical in nature, which will serve as a guideline for follow up activities during the implementation period.

PHASE I: Bangkok Trip Report 12/5/05 through 12/12/05

PURPOSE:

This phase of the assignment was designated to provide technical assistance and guidance to the owners of two Kosovo wood processing companies, KORENICA and UKAJ, during a week long visit to Bangkok, Thailand, to observe the manufacturing processes for Engineered Wood Flooring products being produced for the US market. Gerald Perlot, CEO of SwedeCo, a US Manufacturer and importer, arranged for the Kosovo companies to visit two of their 11 manufacturing facilities, with different levels of production and operations styles. Participants were Matt Anderson, KCBS Wood Processing Industry Specialist, Mustafe Korenica, Sheqer Ukaj and Burim Meqa, KCBS Wood Processing Specialist, Sakda Jaruthassanakul, Owner/Manager Rung Ruang Parquet Industry Co., Ltd., and Somchit Bosereewong, CEO/Owner of Singha Paratech, PLC.

The Trip Schedule and Accomplishments:

The work/visit schedule commenced on Wednesday, December 7th, and continued through December 12th; when Korenica, Ukaj, Meqa and Anderson traveled back to Kosovo.

Wednesday/Thursday – 12/7 & 12/8:

Anderson, Korenica and Ukaj visited Rung Ruang Parquet Industry Co., Ltd. - Sakda Jaruthassanakul Owner/Manager talked at length with us regarding their operations management system, inventory, quality control management, process flow and cost control system, product quality & quality control, costs, manufacturing procedures, etc. Fortunately, both Mustafe and Sheqer have a very good understanding of operations flow and processes, so this facility was straight forward and reasonably uncomplicated. Although running at much higher levels of production than operations in Kosovo, they gained insight into what will be expected as they develop their own engineered flooring facilities. They were most interested in a couple of pieces of equipment, and took pictures for reference – there was particular interest in the machine for making parquet strips for flooring tiles and the equipment and processes used in the finishing line.

Sakda was very open to answering any and all questions about his manufacturing operation, his relationship with SwedeCo, and spent a great deal of time with us, offering to field future questions from Korenica and Ukaj relative to setting up their facilities in Kosovo.

Friday – 12/9:

Burim Meqa joined the participants for the visit to Singha Paratech PLC - Somchit Bosereewong CEO/Owner, hosted the tour of this enormous high-production facility. He seemed less open to discussing some of their particular processes, but with a multi-product manufacturing operation, there was a lot to observe in only one day. This high-tech facility produces not only for SwedeCo, but they also manufacture a “clip & lock” flooring system for some European customers – a point of interest illustrating a more diversified operation producing more than a single product.

Saturday – 12/10:

Korenica, Ukaj, Meqa and Anderson met to discuss questions about some of the machinery and processes they had observed. Sakda Jaruthassanakul also arranged a visit to O.K. Wood Product Co., LTD, a producer of outdoor furniture from Teak for export to Europe. Thanun Ounkomol, Managing Director, took us through the facility. It was not an especially impressive operation, but we did get an idea for exterior wood flooring (deck type) using a PVC backing (Mustafe picked up a sample). Both Mustafe and Sheqer commented on the huge investment of work in process and other inventories with all the companies we visited.

Since there was some time available on Saturday, Sakda took us to a large retailer displaying the types of flooring products typically for sale in their local markets.

Sunday – 12/11:

SwedeCo's Asian Representative met with, Sakda and the KCBS participants to review products and procedures and to discuss what the group had seen to date. Sakda cancelled previous plans in order to be available to meet with us prior to our midnight departure.

Conclusions:

The trip focused attention on the operational, machinery and facility requirements for maintaining high production levels and the changes in management and long term thinking needed to make this project a reality and attain the expected export revenue levels. Both Mustafe Korenica and Sheqer Ukaj found the trip to be necessary and most productive. They both see the enormous potential involved in the production and export of engineered wood flooring, particularly since they will have a "built-in" market with SwedeCo. In addition to flooring, they were also exposed to the development of secondary product lines that could be manufactured while the engineered flooring products are being developed over the next year. Discussions also focused on expanding the product lines from beech to exotic African species – such as producing a wear layer in Kosovo from exotic woods imported from Africa.

This engineered wood flooring project has enormous potential, and KCBS has the unique opportunity to support the development of several wood processors who could sustain a new manufacturing sub-sector that would eventually bolster the economy with the potential of 2 – 3 million euros per month in export revenues. This project again echoes how the project affords a **"once in a lifetime"** opportunity to export into an existing global market that would normally take years of specialized marketing expertise to develop.

Both companies are highly motivated and prepared to work with Anderson and Meqa to develop a detailed project schedule that will enable them to meet SwedeCo's anticipated timeline for first shipments by September 2006. Korenica is prepared to move forward without hesitation, and will meet with Anderson and Meqa Thursday 12/15 to begin discussing an implementation schedule.

Ukaj is weighing how he will need to change his expansion plans, possibly by halting his proposed move to Pristina, and reconsidering the purchase of the former SOE facility in Decan, in order to bring the project to fruition. Anderson and Meqa will meet with Ukaj on Wednesday 12/14 to discuss his decision and additional discussions to consider moving forward with Ukaj producing tables and chairs for SwedeCo, initially, and transitioning into flooring production in late June or July.

PHASE II: Project design work in Kosovo 12/12/05 through 12/22/05

Purpose:

The second phase of this assignment involved detailed sessions with Ukaj and Korenica to discuss the results of the Bangkok trip and to incorporate specific requirements into the design of the Engineered Wood Flooring Project Implementation Plan. In addition, a SOW and deliverables for the follow-on project to begin January 2006 was to be drafted. Again, in the interest of time, this segment is presented in journal format, with deliverables attached as Annexes.

Monday – 12/12

Traveling from Bangkok to Pristina via Vienna

Tuesday – 12/13

Pristina –KCBS office:

1. Documented activities during Bangkok trip, and completed trip report for submission to COP.
2. Enver Haziri, owner of Euro Art in Vitia talked with Burim and is researching equipment to manufacture mosaic floor tile for local distribution and export. Will attempt to visit his new facility and discuss further assistance.
3. Discussed the Bangkok trip with SwedeCo CEO, Jerry Perlot;
 - a. Although the trip was considered a huge success, he had anticipated that Jim Stumbo, SwedeCo's China sales representative and Sakda Jaruthassanakul, Rung Ruang's owner would have been able to show us an off-site the conditioning room where we could have observed single strip pecan flooring being made by Rung Ruang. He had also hoped we had time to see a feed through press being manufactured locally which was nearing completion.
 - b. Perlot wants to start a beech single strip product, and during our discussion he thought that a micro-lam product would be a perfect fit for the Kosovo companies. The demand is increasing and they are having difficulty finding companies to manufacture this product.
 - c. Perlot is interested in acquiring floor tile also, but the volumes would be low. I told him how Euro-Art, the company interested in manufacturing mosaic flooring would be a great source for the product. He thought they would be a natural for producing this product since the demand is erratic, but would be a good supplement for other similar products.
 - d. Perlot will be sending samples of product either to me in the US or directly to Kosovo, depending upon the DHL schedule for delivery from Bangkok. He will also email me more info on the various products.

Since, both Mustafe and Sheqer have concerns about the typical "copy cat" mentality of the Kosovo manufacturers, we will need to be cautious when approaching Euro Art about floor tile manufacturing. It is possible that Korenica may be interested in producing that product, and we would not want to create undue competition before the entire project gets off the ground.

Wednesday – 12/14

Peje – Ukaj: Met with Sheqer to discuss moving forward with the program. We talked some about machinery necessary for production of single strip flooring and also the manufacturing

of the micro-lam. He is a good businessman and raises the appropriate questions and concerns.

He feels that there are 3 approaches he can take for the manufacturing facility:

1. Continue with the development of the Pristina project (detailed in the October STTA report) with phase I being completed by March/April 2006 (construction of first half of 4000 sq meter factory) which should put him in position to start production of flooring May/June of 2006
2. Submit a bid for the Decan furniture facility (SOE to be privatized through KTA). At this point it is unclear whether this could be put up for auction in March or June of 2006, then there is the other problem - what if he is not awarded the bid. If acquired in March, it would still be June/July before production startup, but if acquisition were done in June, then production would probably be more likely to begin in September/October of 2006
3. Lease one of two buildings from Wood Combine, who owns the SOE next to their sawmill facility. They have 1500 and 1800 sq meter buildings available for lease. Sheqer's main concern is that they would "copy-cat" his flooring line, but I have assured him that if he leased buildings from WC and they proceeded to copy his line, they would have no market with SwedeCo. It is possible, that we might consider WC for producing other non-conflicting products for export to the US. Again only if Korenica and Ukaj showed no interest in producing such products.

Sheqer left us briefly to assess the Wood Combine buildings. Upon returning, he indicated the building would require significant renovation, but the roofs were sound. WC is asking 3.5 euros per sq meter rent (too much in my opinion, since so much work is needed to bring them up to standards for the project purpose). In any case, he could be ready for flooring production by March/April of 2006 if this approach is used.

We had to cut short our conversation with Sheqer, since he had an appointment at Raiffaisen Bank to discuss potential financing for this project. So with time available, we stopped by to visit Naim Gacaferi.

Peje – Gacaferi: Naim Gacaferi has begun production of the second phase of the new building on his site. Our discussions centered on:

1. His sourcing for a new machinery line to manufacture kitchens with an expected capacity of 50 kitchens per day. An Italian company has expressed interest in marketing his product
2. They plan to drop all other production to concentrate solely on kitchens
3. They are confident they can export to surrounding countries with the current product lines

I discussed with him the potential of exporting to the US. I told him I had shown his brochure (created under KBS) to Jerry Perlot, and that he has expressed interest in assisting us in distribution of those products. I also, clearly explained to Naim that I am in the early stages of any such conversations and it may take several months for serious discussions to take place. Obviously, Gacaferi is most interested in the potential SwedeCo collaboration and will wait for my further contact.

Pristina – AWPK: Met with Arjeta Vula, AWPK Executive Director. Although working with the association is not part of this assignment, it is obvious that additional work is definitely needed for the proper development of an effective trade association. Should a long term assignment result, working with AWPK may be a necessary

Thursday – 12/15

Rahovec – Korenica: Went to Korenica to meet with Mustafe and see the SOE he recently purchased in Xerxe. He does not yet have ownership, since KTA hasn't signed final papers transferring the ownership to Korenica. Mustafe is confident the final transfer will take place in mid-January, so he can begin renovating the existing facility.

The building is comprised of several sections all under one roof:

1. Offices: they need a great deal of work before they can be used, but once complete he will relocate his main offices from Rahovec to this site.
2. Finished goods warehouse: he plans to convert this area into his PVC window operation, including glazing.
3. Main manufacturing: this is large enough that he will divide it into two areas. One area will be used to operate certain portions of the old PVC line, producing various extruded products for domestic market and possibly export. The second area will house the engineered flooring operation and possibly his wood window and door production.
4. Maintenance and laboratory: will remain as they are adding additional equipment to meet the needs of the additional types of production being introduced to the facility.
5. Raw material warehouse: this section will eventually house dry kilns and a conditioning room for lumber being purchased for production.

He is considering the potential for building a sawmill onsite at a later date to meet his requirements for wood products.

Sheqer Ukaj met us at the site in Xerxe and toured the facility with us. The cooperation between these two companies is a huge step forward for Kosovo businessmen generally so wary of other companies. We all met back at Korenica's office in Rahovec to discuss various aspects of the engineered flooring project – their collaborative efforts will be one step towards the successful implementation of the wood flooring project.

Korenica:

1. Anticipates final ownership documents from KTA by mid-January, so he can start renovating facility to house engineered flooring, PVC window, wooden door and window and PVC products.
2. With final documents signed in January he plans to be producing engineered flooring by March/April of 2006 (a very ambitious move, requiring complete commitment, considering he must relocate the other operations as well during this period).
3. Interested in producing:
 - a. Wood floor tiles (has some other ideas for products that fit this requirement involving the PVC extruding machinery purchased with the building).
 - b. Single strip engineered flooring with wear-layers from:
 - i. Beech (to be manufactured from local species) - Potentially 5 different color stains and unfinished line
 - ii. European White Oak – purchased and imported - Potentially 3 different color stains and unfinished line.
 - iii. Walnut – purchased and imported - Natural finish
 - iv. Various African Exotic species – Teak, Mahogany, etc. (consultant is researching further to determine availability of various species and associated costs). Unsure about how these would be finished but likely a natural product

- v. Micro-Lam from beech – manufactured locally from available Beech. This product could have several color stains but will be finished for a natural look.

Ukaj:

Will proceed with construction of his Pristina facility with Phase 1 (2000 sq. meter) building to be completed March/April 2006. The Decan facility won't be offered for bid until June, with no guarantees that he will be top bidder, subsequently wasting 6 months for the development of this project. Renting the space from WC at 3.5 euros per sq. meter is a bit steep and not practical considering the other renovation costs involved.

Ukaj will proceed with plans to produce single strip and micro-lam at this facility.

Other items discussed with Korenica and Ukaj:

1. Type of glue to be used – waterproof PVA of D3 type as found in Germany
2. Various types of wear-layers to be manufactured and purchased: finished thickness of wear-layer to be 3mm so must purchase 3.2mm to allow for machining.
3. Backing to be Beech if at all possible – again to be purchased locally with finished thickness to be 2mm (may be able to buy at net size if the surface of material is satisfactory)
4. Types and color of finishes to be purchased – will have to get detailed information from SwedeCo.
5. Packaging samples – due from Perlot

Friday – 12/16

Peje & Decan – Ukaj: Traveled to Decan to assess this former SOE facility in detail with Sheqer possibly for acquisition later and then fitting it into the program.

Primarily went to Decan to at Sheqer Ukaj's request to assess this entire operation from a cost perspective. He wanted to be sure that his decision to eliminate the SOE facility from his list of potential manufacturing locations was sound. The end result will be to confirm his decision to eliminate the acquisition of the SOE for engineered flooring production - however, he may reconsider the purchase at a later date depending upon how the flooring project develops.

Saturday – 12/17

Pristina Office & Vitia – Euro-Art: Scheduled to go to Euro-Art, but was snowing heavily during the morning and if it did not subside we would cancel. Roads cleared enough to make the short trip to Vitia. Enver and I discussed the production of wood flooring tile from Beech, since he already intends to produce mosaic tile for local and European markets.

He recently moved into the new facility and was curious to see how he set the new facility up, since under KBS, his facility was critiqued by the wood processing team. He is just starting to research the machinery and other requirements to manufacture this product. His concept is to buy trim ends from various sources, sawmills, furniture manufacturers, window & door manufacturers, etc. He has not yet considered the handling problems with such materials, increased manufacturing costs, etc. All he sees is being able to buy for raw material 100 euros per cubic meter and sell product for 500 euros per cubic meter. Just trying to kiln dry any of this type of material can cause manufacturing problems.

Sunday – 12/17

Rahovec – Korenica & Ukaj:

Reviewed their collective letter of intent to be sent to SwedeCo CEO, Jerry Perlot, and is included as Annex II to this report. Perlot has reciprocated by drafting a letter of commitment to Korenica and Ukaj, see Annex III. Once the samples are produced and product is validated Letters of Credit will be issued for the product.

Much of the conversation was a reiteration of prior discussions and served to answer additional technical questions. Discussed wear-layer production and what would be the best method to begin with. They both agreed that the frame saw type machinery would be best since they would be a lesser investment allowing them to purchase 2 or 3 to produce the wear layers. The best aspect of buying this type is that one person could feed multiple machines, if one is down for maintenance or repairs, production would continue and if necessary 2 or 3 thicknesses of veneer could be produced at the same time if required. It was made very clear to both of them that the more expensive waterproof PVA glue was mandatory, and that quality issues would arise with use of the less expensive urea type glues which are not waterproof.

Manufacturing of the engineered wood flooring core was discussed and they both agreed on a method by which the spacing requirement of 1mm between strips could be obtained. Korenica already owns a machine that can achieve this spacing, and freely shared the info with Ukaj.

I indicated I would verify that SwedeCo will assist in providing glue, finishing materials and possibly wear-layer materials for the initial startup phase of production. I will also secure additional information concerning packaging and shipping requirements. Discussed the opportunity to explore other exportable wood product lines, and how SwedeCo can assist by offering direct contacts or by helping to develop connections in the US and European markets. Once the supply chain is established, there is endless opportunity.

Mustafe and Sheqer will be attending the World Trade Fair for Floor Coverings, held in Hanover, Germany beginning January 14, 2006.

Monday – Wednesday 12/19 through 12/21

Pristina Office: Developed Engineered Wood Flooring Project implementation timeline, [Annex IV]; created SOW and deliverables for the follow on project [Annex V], and began compiling the final report for the STTA.

Thursday – 12/22

USAID – Pristina: Invited to USAID to discuss my activities and progress with the STTA - Several USAID staff members were in attendance. Had a lengthy discussion about plans for scheduling the implementation of the engineered wood flooring project. Many questions concerning the project, the potential for growing these local businesses into global exporters, generation of new jobs over the next several years, and developing a sustainable export revenue stream were raised and after careful discussion, their conclusion was that this project has great potential, and I was then asked whether I would be prepared to return in January 2006 to begin implementation.

Friday – 12/23

Travel Day – Returning to the US via Vienna.

TASK FINDINGS AND RECOMMENDATIONS

Both Ukaj and Korenica showed considerable interest in this project. They have the necessary wood processing expertise on which it will be possible to build the additional skills needed for this new product market. They appreciated the technology required and gathered information in Thailand. They have development plans for obtaining new manufacturing space. They are committed to visiting equipment manufacturers in Europe in early January 2006 to source additional equipment that the production requires.

At this point in the project, Ukaj and Korenica are confident that they have already secured sufficient financing for their respective facility requirements and have indicated they will seek assistance if needed. If deemed necessary in the future, formal business plans could be developed utilizing KCBS local professionals or local service providers.

Both companies are highly motivated and prepared to work with Anderson and Meqa to follow a detailed project schedule that will enable them to meet SwedeCo's anticipated timeline for first shipments by or before September 2006. Mustafe Korenica and Sheqer Ukaj have written a collective letter of intent to proceed with this project presented herein to USAID. SwedeCo has responded with a reciprocal letter of commitment to Korenica and Ukaj.

This engineered wood flooring project has enormous potential, and KCBS/USAID have the unique opportunity to support the development of several wood processors who could sustain a new manufacturing sub-sector that would eventually bolster the economy with the potential of 2 – 3 million euros per month in export revenues. This again echoes how the project affords a ***“once in a lifetime”*** opportunity to export into an existing global market that would normally take years of specialized marketing expertise to develop – this is an opportunity that should be explored to the fullest extent, and given a high priority for SME development assistance. As David Leong, USAID Deputy Chief of Mission so aptly observed during our meeting in October 2005, ***“that using the higher number in those revenue projections would indicate that this project has the potential to more than double the current export output for all of Kosovo”***.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

It is recommended that USAID support the further development of this opportunity by engaging the consultant on a long term basis to manage the implementation of the project by fulfilling the scope of work as set out in Annex V in general accordance with the implementation schedule included as Annex IV.

ANNEXES

Annex I	Company Contacts and Site Visits
Annex II	Letter of Intent from Kosovo Companies to SwedeCo Wood Floors
Annex III	Letter of Intent from SwedeCo Wood Floors to Kosovo Companies
Annex IV	Project Implementation Schedule
Annex V	Draft Scope of Work for Long Term Technical Advisor

ANNEX I – Company Contacts and Sites Visited

Association of Wood Processors in Kosovo (AWPK) – Pristina

Arjeta Vula, Director

Ukaj –Peje

Sheqer Ukaj, Owner
(+381 39 180)

Korenica – Rahovec

Mustafe Korenica, Owner
(+381 29 77 263)

Singha Paratech PLC.

Somchit Bosereewong, CEO
Factory Office: Singburi, Thailand (66) 0-3659-9379
Bangkok, Thailand Office: (66) 0-2950-9994

Rung Ruang Parquet Industry Co., Ltd

Sakda Jaruthassanakul Owner
Bangiak, Prakanong, Bangkok, Thailand
Office: (66) 02 331 2248 or 9

O.K. Wood Product Co., Ltd.

Thanun Ounkomol, Managing Director
Factory Office: Bangsue, Thailand (66) 2587-8720

Euro Art - Vitia

Enver Haziri, Owner
(+381 0 280 81 460)

Gacaferi - Peje

Naim Gacaferi, Owner
(044 501 626)

ANNEX II - Letter of Intent

Wood Processing Companies to SwedeCo

18 December 2005

Mr. Gerald Perlot, CEO
SwedeCo
2092 NW Bucklin Hill Rd.
Silverdale, WA 98383 USA

Dear Mr. Perlot,

First, we thank you for arranging our visits to your factories in Bangkok, Thailand. The opportunity to observe the engineered wood flooring production process in action has only reinforced our commitment to proceed with this project, and we appreciated their cooperation and answers to our many questions.

We have had many long, but productive meetings and detailed discussions with Mr. Matt Anderson about SwedeCo's opportunity, as well as the product and quality requirements. We have worked with him for more than two years, and are confident that he will guide us step-by-step through the process of building or redesigning our facilities and processes in order to manufacture our products to SwedeCo's specifications and production levels. Because of his efforts to bring Kosovo's wood processors together during the USAID KBS and KCBS projects, UKAJ and KORENICA are collaborating on this project to insure success for both companies.

We are both planning to attend the Flooring Machinery Show in Hanover, Germany on January 14th to research the necessary machinery and equipment acquisitions. Along with Mr. Anderson, we will design a development plan with implementation to begin in January 2006. Since our visits to your operations in Thailand, and with the knowledge we gained, we feel certain that, with Mr. Anderson's expertise and guidance, we will be able to meet your expectations for initial wood flooring shipments with KORENICA aiming for March/April and UKAJ for June/July 2006.

We each are prepared to build new facilities or upgrade our current operations, allowing us to create new jobs, and we thank you and Mr. Anderson for making this opportunity to enter the US market a reality for Kosovo wood processors. Mr. Perlot, please consider this our letter of intent to proceed with the engineered wood flooring project. We look forward to a long and profitable business relationship, and hope to meet you personally, in the near future.

Best regards,

Mustafe Korenica, Owner
KORENICA

Sheqer Ukaj, Owner
UKAJ

ANNEX III - Letter of Intent SwedeCo to Wood Processing Companies

January 3, 2006

Mr. Mustafe Korenica, Owner
Korenica

Mr. Sheqer Ukaj, Owner
Ukaj

Gentlemen:

First of all HAPPY NEW YEAR – 2006!

I apologize for the delay in answering your joint letter of December 19th. Matt Anderson was trying to chase me down – but I was involved in some serious family matters. These matters are now resolved, and I am anxious to get down to business.

I want you to know, I appreciate very much, your willingness to visit Bangkok, and see the operations Rung Ruang and Singha Paratech.

I am somewhat embarrassed that Sakda and Jim did not take you to the Kilns/Conditioning Room operations just a few miles away from the Rung Ruang factory. I understand that due to Sakda's press being down – he had cleaned out the Work-in-process – and had it back into the conditioning warehouse. I would have like you to see the various stages of the product (physical samples).

I am having Jim Stumbo gather up these samples so you can see each phase...

1. Backer/Core blank (first press cycle).
2. Wear Layer.
3. Flooring Blank (second press cycle).
4. Puttied/Sanded Flooring Blank.
5. Molded (Long Face) Flooring Blank.
6. Tenoned (Ends) Flooring Blank.
7. Finish Sanded Flooring.
8. Finished/Lacquered Flooring.

Depending on your facilities, you know as experienced wood workers, you may want to Sand, Finish and then Mill (for Square Edge) or alternately, do the process I've outlined above. With micro-bevel you can still mill afterwards – but you'd need to hold the last two "top coats" in finishing for the last step.

As you experiment and discuss manufacturing techniques, and which processes work better for your respective factories – please keep us advised and send samples so that we can comment and help you avoid going down the wrong paths – where possible.

That is the advantage of having Matt Anderson in the loop – since he and I can brainstorm – and with our combined experience – try to help you achieve the best product in the most appropriate manner for your respective factories. As the saying goes “there’s always more than one way to skin a cat!”

Our interest is in seeing you become successful and profitable! That is what would then make our partnership appropriate and worth while.

Matt has told me you have White Oak, Beech and Walnut available fairly readily. And he has told me you would be interested in doing unfinished first.

My thinking is to then have you start up doing “hand scraped” ready for finishing – and some “unfinished” plain plank. We do have one customer who does their own detail work/finishing for high, high end Architectural floors. They can use the Walnut for sure. Possibly the Beech and I will push them towards the White Oak – though that SKU may need to wait for the finishing phase.

I am sending to Matt Anderson – some additional samples of our regular items/SKU’s in Beech, Walnut, Maple and Mountain Pecan. These are products currently used by the customer (Hardwood Flooring Galleria) whom we will start you with.

Your starting times March/April for Korenica and June/July for Ukaj should fit our timing nicely.

Our recommendation would be for each factory to do a phased start – along the lines of....

15,000 sq ft – Month one.

30,000 sq ft – Month two.

60,000 sq ft – Month three.

90,000 sq ft – Month four.

And 200,000 sq ft/month by Month six.

We would have to then allocate other customers into your supply pipeline – but we would be comfortable doing so by that time.

Depending on your ultimate objectives (volume objectives) we may then put you into a more mainstream “big box” venue such as Home Depot, or Costco Wholesale or Lowe’s Home Centers or Ikea, etc. I wouldn’t advise that initially, because we want to establish you as “higher end” product

manufacturers. Once you “earn your stripes” – we can then leverage your quality into the “big box” stores as “fashion/decorator/builder quality” rather than the low end commodity “price sensitive” product those guys normally try to buy. Understand, it has been our experience with our other companies, that achieving “big box” store production levels takes as much as 2-3 years with continuous intensive hands-on management by a seasoned Operations Manager like Matt Anderson.

Swedeco doesn't play “commodity” low price games. (Although we do the tile at Rung Ruang more as a favor to Sakda – as well as to keep our position in The Home Depot and others – it is more for visibility – not our mainstream business). We make it very clear to even The Home Depot – that we only do quality – and if they want to buy from us – then we do the strategy and we do the product mix and they pay a fair/proper price.

You'll find that while Swedeco does have to be aware of, and play in the world markets – we don't have to be the lowest cost provider. Quality is King – and quality with Swedeco – will always trump lowest price.

I will sit down with Rich Perlot our President/COO and he'll coordinate with Jim Stumbo to analyze our needs and timing – so they can be ready to mainstream your product into the production mix – as you progress.

Our initial objective is to have Matt Anderson be the eyes and ears over in Eastern Europe – to ensure your operations get up and running properly – and the product is to Swedeco specification and quality. The startup, development and ramping up of this program over the next 3 years and how that plays out between USAID, and your companies and Matt – is up to you guys. Once Matt has informed us about how you all intend to proceed, I will fly to New York to get the financial instruments setup to allow for smooth startup. Our intent is to begin sourcing out of Eastern Europe – and you guys are the ones we want to work with. (I trust Matt's judgment implicitly).

You and Matt will be getting further communications/samples/Quality Assurance standards/Information from us over the next few weeks. We'll put together a Standard Price List for the products we are initially planning – so you can work on your own costing, and business analysis. I'm sure Matt has already shared with you – our initial “guideline pricing”. We don't want you to have any surprises. Both sides need a common road map!

We are meeting with several of our customers at the Surfaces 2006 Flooring Show in Las Vegas, NV between January 31st and February 3rd – and I'm hoping we can meet with Matt if possible – to further align him with our product needs/objectives.

Once again, please accept our gratitude for making that trip to Bangkok. I'm sure what you've seen will help in your own initial startups, development and production ramp-up.

We look forward to a growing/long term relationship with both your companies and in getting you to the “big box” requirements over the next 2-3 years.

Best regards,

Gerald L. Perlot
Chairman/CEO
Swedeco, Inc.

cc: Rich Perlot, Pres/COO – Swedeco
Jim Stumbo, GM – Swedeco Asia
Matt Anderson – USAID/KCBS

ANNEX IV – Project Implementation Schedule

ANNEX V – Draft Scope of Work for LTТА

Engineered Wood Flooring Manufacturing Development Project

Purpose:

This LTТА is intended to provide technical assistance and guidance to the management of “KORENICA and UKAJ during the development, start-up of their facilities to manufacture Engineered Wood Flooring products for export to the US markets.

The assignment should consist of three consecutive phases.

- During the first 6-8 months, Phase I will provide direct assistance for the start-up of the manufacturing facilities, securing raw materials, equipment and development of the initial engineered wood flooring product line.
- Phase II will be initiated by the initial shipments of engineered wood flooring products and will focus on monitoring quality assurance and production demands due to increased volumes as the facilities ramp-up to optimal production levels during the critical 4-6 months after the initial shipments.
- Phase III may overlap Phase II, and will expand the engineered wood flooring product line and develop ancillary products, providing Phase II is successful and the operations are capable of sustained production of the initial product line.

Background:

The engineered wood flooring project has enormous potential. KCBS and USAID have the opportunity to support the development of several wood processors who could sustain a new manufacturing sub sector that would bolster the Kosovo economy with the potential for 2–3 million euros per month in export revenues. The US importer, SwedeCo is confident that these projections are not only realistic, but conservative, since their similar high production facilities in other global regions generate revenues significantly higher than those initially proposed for Kosovo. Through this consultant’s personal efforts over the past two years from the US, work completed as a Business Development and Wood Processing Industry Specialist during both the USAID KBS and KCBS projects, and his 30-year business relationship with US importer, this project effectively affords these Kosovo wood processors a **“once in a lifetime”** chance to export into an existing global market that would normally take years of specialized marketing expertise and great expense to develop – this is an opportunity that should be explored to the fullest extent, and given a high priority for SME development assistance.

Tasks:

1. Identify initial engineered flooring products to be manufactured by Kosovo Companies and export to the US.
2. Assist engineered wood flooring manufacturers with cost analysis to ascertain and maintain profitability for current and future products.
3. Assist flooring manufacturers with developing purchasing, production, quality control, quality assurance and inventory control and preventive maintenance procedures.
4. Explore additional products for export utilizing local and imported materials; identify Kosovo companies with the manufacturing capability for producing future SwedeCo requirements.
5. Identify and monitor manufacturing materials (local and imported) required for engineered flooring, researching suppliers and overseeing preliminary supplier contracts.

6. Prepare business plan guidelines for selected companies requiring additional financial assistance for the acquisition of machinery, equipment or other necessary components for the purpose of upgrading existing facilities or building new facilities to manufacture engineered wood flooring.
7. Identify machinery requirements and sources for eventual acquisition to meet the requirements for engineered wood flooring production.
8. Develop detailed profiles for companies exporting engineered wood flooring and for those capable of producing and exporting other wood products.
9. Assist companies in doing a facility development analysis in preparation for renovation and construction of required manufacturing buildings.
10. Where necessary and appropriate, assist companies with employee training or acquisition of training by machinery or equipment manufacturers.
11. Assist in securing Letters of Credit (LC) from the buyer(s) and in developing a planned production schedule.
12. Provide critical project oversight assistance for the first 4 to 6 months of production.

Deliverables:

1. Provide a detailed definition of types of engineered wood flooring products to be manufactured for export to the US.
2. Identify and define ancillary products to be manufactured for export to the US.
3. Provide copies of production forms, procedures and programs developed.
4. Provide copies of company profiles.
5. Successful completion of initial shipments developing into long term production and future shipping requirements.

Level of Effort:

Based on industry experience, taking a manufacturing facility from start-up to optimal sustained production may take up to 2 years. Due to the importance of this project and potential impact to export revenues for Kosovo, and because of the lack of industry expertise in mass production techniques, it is suggested that LOE for this LTТА be set at a minimum of 2 years.

