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**POLAND - STATEMENT  
WOOD MARKET REVIEW AND PROSPECTS**

**Ministry of Environment**

## 1. GENERAL ECONOMIC TRENDS AFFECTING THE FOREST AND FORESTS INDUSTRIES SECTOR

After a period of dynamic growth of the Polish economy in the mid-1990s, the growth rate declined towards the end of the last decade from 7.0% in 1995 to 1.4% in 2002 (Appendix 1). In 2002, Polish Gross Domestic Product (GDP) was 772.2 billion PLN (US\$ 189.3 billion) with Gross Value Added at 87.5%.

It is estimated that Poland may stand a chance of returning onto the path of fast economic growth in 2003, even though not all the difficulties were overcome. There are forecasts of a relatively **high growth of the sold production in the industry** (it was almost 7% in the first half of 2003) and a **reduction of the decline in the construction and assembly production**. After a slump in building activities in 2002, the number of dwellings built increased by almost 50% in the first half of 2003. **Individual consumption expenditure** is expected to grow, although an increase is predicted to be slower than in 2002 due to a forecasted cessation of the decline in the rate of savings. **Increased investment outlays** are also to be expected. For the first time since 1999 some analysts have believed that the rate of growth for investment expenditure will be higher than the one for GDP. **The decline in employment slowed down**, even though the number of unemployed people is higher than a year before by approximately 44,000 (the total 3.1 million of unemployed; registered unemployment rate 17.8% June, 2003). However, with 3% cutback in employment the productivity rate increased by 10%. At the same time, **disinflation processes are underway** though the price indices of consumer goods and services built up by only 0.5% in the first half of 2003. This resulted mainly from a significant decrease in food prices (with a high supply of agricultural products), a low level of domestic demand, and a low level of real salaries. Despite the international economic situation that is noticeably worse than expected, both worldwide and in the European Union, **Polish foreign exchange is still vigorous, with export stronger than import**. This means that Polish manufacturers and Polish goods are becoming increasingly competitive on the international market. However, an unfavourable factor is the fact that the negative foreign trade balance has started to grow again, mainly as a result of growing domestic demand.

Taking into account the required expansion in general economic activity, in particular in the industry and service sector, as well as acceleration of the restructuring processes, the forecasted GDP growth rate is 3% and 5% in 2003 and 2004, respectively.

## **2. WOOD AND WOOD PRODUCTS MARKET**

### **2.1 Overview of the forest and forest industries sector**

**Forests** maintain 28.5% (8.9 million ha in 2002) of the total area of Poland. Public forests account for 83%, with the “State Forests” National Forest Holding owning almost 79% of the forested area. Ninety four percent of the total amount of timber (roundwood) removals and 85% of growing stock are managed by the “State Forests” National Forest Holding. As far as the species structure of Polish forests is concerned, coniferous trees predominate and cover 76% of the total forest area. This is mainly pine (68% of the total forest cover). The health status of Polish forests has not changed much in recent years; however, in comparison to other European countries, the rate of forest damage is estimated to be relatively high. In 2002, the percentage of healthy trees decreased to 8.8% (it was 9.9% in 2001), and the percentage of damaged trees (defoliation of more than 25%) increased to 32.7% (it was 30.6% in 2001). The level of insect threat decreased, while the fire risk enhanced. In 2002, more than 10,000 fires occurred in Polish forests that are approximately 2.5 times more than in 2001.

**Woodworking industries** (including manufacture of pulp, paper and furniture) play an important role in the Polish economy. In 2002, they generated approximately 9% of the total sold production of the industry and more than 10% of the manufacturing. The sectors employed more than 224,000 people that accounted for 9% of the total employment in the industry, and 11% of the total employment in manufacturing. The sawmilling industry, which is the largest wood user (39%), produced materials for the remaining wood-related industries, but it was still economically weak. The main reason for this was an increase of wood prices in the mid-1990s, accompanied by extremely low levels of domestic demand, as well as the overly slow restructuring processes in some mills. Foreign investment was also inadequate in this sector. Additionally, in 2001-2002, there was a collapse on the window and door market. On the other hand, the production of wood-based panels and furniture was growing dynamically, to a large extent due to foreign investments.

Poland is a net exporter of wood products. Imports exceed exports for wood pulp, paper and paperboard. In recent years, the volume of both exports and imports of most wood products has been on the rise.

## **2.2. The wood and main wood products market**

### ***Roundwood***

In recent years, 25-27 million m<sup>3</sup> of timber have been annually removed in Polish forests. In 2002 harvesting increased by 8.5% in comparison to 2001 and reached approximately 29 million m<sup>3</sup> (including 27.1 million m<sup>3</sup> of roundwood). Softwood was mainly removed (73% of roundwood). Pulpwood dominated (46%) along with sawlogs (39%). The removal of wood fuel gradually increased (from 6% in 1999 to 8% in 2002).

A slight increase of removals is forecasted for 2003-2004. This will mainly involve coniferous sawlogs (average annual growth of 2%; questionnaire TC1).

Despite the expansion both in export and import volumes in the recent years, foreign exchange rates have had a limited influence on the Polish wood market. In 2002, roundwood exports amounted to 723,000 m<sup>3</sup> (US\$ 39 million), which was twice as much as in 2001, but still amounted only to 3% of the total removals. Wood fuel accounted for approximately 6% of the roundwood exports. Roundwood imports, in turn, accounted for between 2.4% (1999) and 3.5% (2001) of the total removals. In 2002, imports of roundwood into Poland amounted to 727,000 m<sup>3</sup> (2,6% of the total removals), i.e. 18% less than in 2001. The total value of the imports was US\$ 31 million. Softwood dominated the exports (87% in 2002) and hardwood accounted for most of the imports (68%).

No significant changes in foreign exchange are forecasted for 2003 and 2004. A slight increase in exports of coniferous sawlogs is possible.

### ***Sawnwood***

In recent years, the production of most wood products in Poland has showed a trend of steady growth. However, there have been difficulties on the sawnwood market since 2001. These resulted from the economic weakness of producers that was caused mainly by high levels of sawlogs prices. In 2002, the production of coniferous sawnwood was 2.6 million m<sup>3</sup> while that of hardwood was 0.6 million m<sup>3</sup>. These were respectively 73% and 83% of the production levels of softwood and hardwood in 2000. On the other hand, in 2002 the exports of sawnwood increased (5% more than in 2001) and amounted to 789,000 m<sup>3</sup> (US\$ 138 million US\$). This resulted from an increase in the exports of coniferous sawnwood (8%), which accounted for 71%. In comparison with the previous year the imports of sawnwood in 2002 rose

(by 8%), reaching 496,000 m<sup>3</sup> (US\$ 85 million). The imports of non-coniferous sawnwood (48% of the total volume) built up markedly (16%).

The current situation shows that a moderate growth in the production of sawnwood, especially coniferous, should be expected in 2003 and 2004. However, the 2004 production levels will not exceed those of 2000. At the same time, a slower growth in the exports of sawnwood is forecasted, due to an expected increase in domestic demand. The imports of non-coniferous sawnwood should grow relatively quickly.

### ***Wood-based panels***

The situation on the market of wood-based panels fluctuated. The production of the dominant panel type, i.e. particleboard, was approximately 3 million m<sup>3</sup>, of which almost 11% were OSB panels. Fibreboard production was growing dynamically – from 1.3 million m<sup>3</sup> in 2000 to 1.8 million m<sup>3</sup> in 2002. This was mainly due to the expansion of the production of MDF panels (1,250,000 m<sup>3</sup> in 2002). The demand for insulating board also grew, which was reflected by an increase in the production (307,000 m<sup>3</sup> in 2002 against 239,000 m<sup>3</sup> in 2000). Between 2001 and 2002, the production of plywood increased from 242,000 m<sup>3</sup> to 261,000 m<sup>3</sup> (i.e. by 8%).

In the next two years, the production of particleboard (including OSB), fibreboard and plywood should remain at the current levels. On the other hand, a slight growth of the production of insulating board (by 2% in 2004 against 2002) and a decrease in hardboard production (by 1%) are likely.

Poland is also a significant supplier of wood-based panels to the European market. In 2002, exports amounted to 1.6 million m<sup>3</sup> (US\$ 393 million). Particleboard (729,000 m<sup>3</sup>) and fibreboard (728,000 m<sup>3</sup>) accounted for 45% of the total volume. OSB panels accounted for about 37% of the exported particleboard.

In turn, 946,000 m<sup>3</sup> of wood-based panels were imported into Poland in 2002 (US\$ 239 million). Fifty nine percent of these were particleboard with 23% of OSB panels. As a result of a significant growth in the domestic production, the imports of insulating board were not important in 2002 and amounted to as little as 31,000 m<sup>3</sup>, which was 45% less than in the previous year. However, the imports of hardboard were on the increase (by 40% in 2002 against the previous year) and so were those for MDF panels (by 20%), accounting respectively for 38% and 51% of the total imports of fibreboard into Poland.

It is expected that no significant changes will occur in the foreign exchange in 2003-2004. The volume of exports and imports of wood-based panels will grow by

1-2% however, a decrease in exports is forecasted for 2004 due to an increased demand on the domestic market.

### ***Wood pulp***

The average annual production of wood pulp in Poland was about 1 million tons, with cellulose (chemical wood pulp) accounting for 77%. Exports were low (29,000 tons in 2002), while imports were 13 times more than the exports (367,000 tons). In 2003-2004, wood pulp production is not expected to change. The current trends in foreign exchange will also continue.

### ***Paper and paperboard***

Between 2000 and 2002, paper and paperboard production in Poland increased by 8-12% annually, reaching 2.3 million tons in 2002 (equivalent to 61 kg per capita). Newsprint accounted for 9% of that. Despite of a constant growth in paper and paperboard exports in the recent years (by 33% in 2002 against 2001, i.e. 1.1 million tons), the exports were still lower than the imports (almost 1.5 million tons). The import showed a slow decreasing trend. Newsprint accounted for a small percentage of both the exports (8%) and imports (4%) of paper and paperboard. In 2003-2004, paper and paperboard production should grow at a rate of 3% annually.

### ***Value added wood products***

Furniture is the main value added wood product in Poland. Flooring, builder's joinery, carpentry of wood, wooden wrapping and equipment (pallets) also play an important role on the market. In 2002, the value of wooden furniture production was US\$ 2.5 billion. A further consistent growth in production is expected, with 65-80% going for export.

It is estimated that until 2004 the average annual growth rate for furniture production should be approximately 7-10%, which will additionally be driven by foreign demand. In 2002, the value of the exports of wood furniture was US\$ 1.8 billion, showing an increase of more than 10% against 2001. A further moderate growth is to be expected. On the remaining wood product markets, a collapse was only visible in the builder's joinery and carpentry sector in 2001-2002. Nevertheless, in general, all these markets are promising; it is expected that until 2004 the production will grow at a rate of about 10% annually (particularly for windows and pallets). Exports of construction joinery and packaging also showed a marked rising trend.

Among secondary processed paper products, household and sanitary products

were most important for export (US\$ 420 million in 2002; 14% increase against 2001), while printed articles dominated the imports (US\$ 241 million; increase by 1%). No major changes on this market are expected, either in production or foreign exchange.

### **2.3. Certification of forestry and wood products in Poland**

In Poland, 6.7 million ha of forests are subject to certification, accounting for 76% of the total forest area. Sixteen out of seventeen Regional Directorates of State Forests have already been granted the Forest Stewardship Council (FSC) certificate. It is expected that by the end of 2003 all wood coming from the “State Forests” National Forest Holding will be certified. This will guarantee that materials come from legal sources and from well managed forests. Approximately 130 companies have also been granted the Chain of Custody (CoC) certificate. Producers of small wooden garden products and producers of sawmilling products are the majority among the CoC certified makers (34% and 22%, respectively). At the same time, preliminary work has been undertaken to implement the Pan-European Forest Certification (PEFC) programme.

### **2.4. Market effects of wood energy policies**

The issue of balanced power production policy to a large extent based on renewable energy sources has been taken up in Poland only recently. The need to promote cheap and ecological energy sources, as well as energy saving is stressed more and more often. Wood has singled out as fuel that has not been sufficiently exploited so far; both in a form of raw wood removed from forests, as well as industrial waste and used wood.

**It is mainly wood fuel** (billets, split logs, poles-wood) **and slash for fuel** (poles, limbes) that can be potentially used for energy production. The supply of this kind of wood was growing dynamically – from 2.2 million m<sup>3</sup> in 1998 to 2.5 million m<sup>3</sup> in 2001, and up to 3.2 million m<sup>3</sup> in 2002. The share of slash for fuel was decreasing, while the importance of fuel wood increased (2.1 million m<sup>3</sup> in 2002). Experts believe that wood fuel should be more and more often adapted for burning in a form of chips due to the characteristics of heating systems.

**As far as industrial waste wood** is concerned (approximately 7.5 million m<sup>3</sup> annually), solid wood, wood derived materials produced at various stages of wood processing (mostly sawdust), waste chips and bark are used for burning. It is estimated that about 44% of waste wood produced by wood processing industries is used this way. The demand for waste wood of this kind as an energy source is generated by

various production sectors, including sawmilling and furniture industries.

So far, the question of **exploiting used wood, as an energy** source has not been addressed in Poland. Growing interest in this area has been fostered lately as a result of efforts of Poland aimed at joining the European Union, followed by the requirement to harmonise Polish law with the EU legislation and to adapt Polish environmental protection principles to the EU standards, and finally, economic difficulties that local authorities have been facing recently. As a result of research carried out in 2003 at the Wood Technology Institute in Poznań, it was confirmed that the potential supply of used wood in Poland amounted to 5 million m<sup>3</sup> annually (2.8 million tons). An important practical problem to be solved is an establishment of a system of used wood collection. Also, important issue is an increase of the amount of equipment for lowering emissions of harmful products of burning, and practical implementation of economic incentives to make profitable the usage of alternative energy sources to coal. The issue of using wood from plantations of fast-growing trees and shrubs, which is material mainly useful as an energy source, seems to be less important in Poland.

In general, Polish experts prefer to use waste wood in the industry. At the same time, the government has not provided so far a clear strategy for a promotion of wood as an energy source.

## **2.5. Market issues arising from measures to combat illegal logging**

Illegal logging has been notified in Poland, in spite of the requirement to mark wood and to certify the legality of the sources of wood coming from forests that are not property of the Treasury. The Forest Guard that co-operates with the police forces, Fishing Guard, Nature Protection, and other services are responsible for preventing theft and other illegal activities in forests. The Forest Guard are authorised to instigate investigations, track down perpetrators and monitor illegal felling in privately owned forests (i.e. felling that violates the current simplified forest management plan). On the strength of the Forest Act, Forest Guard officers are also authorised to inspect wood shipments carried on public roads and wood processing plants.

## General Economic Indicators

Description	1995	2000	2001	2002
	previous year = 100%			
Gross Domestic Product	107,0	104,0	101,0	101,4
Sold production of industry	109,7	106,7	100,6	101,4
Construction and assembly production	108,1	101,4	88,3	91,3
Dwellings completed	88,2	107,1	120,7	92,1
Dwellings under construction	105,5	105,7	101,2	97,1
Average paid employment				
- total	102,8	97,1	96,8	98,5
- in enterprise sector	101,0	96,7	96,7	95,6
Registered unemployment rate (at year-end) <sup>1</sup>	14,9	15,1	17,5	18,1
Average monthly gross real wages and salaries				
- total	102,8	101,0	102,5	102,4
- in enterprise sector	103,2	101,3	101,6	101,5
Price indices of consumer goods and services (inflation)	127,8	110,1	105,5	101,9
Investment outlays	117,1	101,4	90,5	90,0
<b>Trade</b>	mio US\$, current prices			
Exports	22 894,9	31 651,3	36 092,2	41 009,8
Imports	29 049,7	48 940,2	50 275,1	55 112,7
Balance of trade	-6 154,8	-17 288,9	-14 182,9	-14 102,9

<sup>1</sup> as a ratio of registered unemployed persons to the economically active civil population

Source: Prices in the national economy in 2002, Central Statistical Office 2003; Concise Statistical Yearbook of Poland, Central Statistical Office 2003; Statistical Bulletin, Central Statistical Office 2003, N° 6; Report on Poland's Socio-Economics Standing in 2002, Central Statistical Office 2003; Foreign trade I-XII 2002, Central Statistical Office 2003