FOREST PRODUCTS MARKET IN 2005
AND PROSPECTS FOR 2006
IN ROMANIA

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1.General economic trends affecting the forest and forest industries sector

The preliminary data provided by National Institute of Statistics for the first half year 2005, confirm the trends of economical growth in Romania, which have been outlined in the previous years.

So, in the period 1st January – 30 td June 2005, the processing industry gross production rate increased by 4.0 % in comparison with the same period of the previous year, and per total industry, the same rate shows an increase by 3 %.

The economical growth has stimulated the people consumption and the investments. From G.D.P. utilization point of view, the total end consumption increased by 6.9 % in comparison with the same period of the year 2004, the individual real end consumption of people increased by 7.2 %, the public administration consumption increased by 4.6 %, and the fixed capital gross accumulation registered an increase rate by 9.1 %.

In this context, were enhanced also other indicators, the comparison of realizations in 2005 with these of previous years, pointing out:

-the increase of investments volume by 4.8 % in the first quarter 2005 comparative to correspondent period of anterior year; the increase of construction volume during 1st.01 – 30td.06.2005 in comparison with the same period of 2004, by 3.3 %, from constructions types pointing out the civil engineering with an increase by 11.6 %. In the first quarter of 2005 were finished 4,161 dwellings (84 % from people's funds) and were in different execution stages, 82,886 dwellings. x)

It was kept the more accentuated increase trend of goods and services imports comparatively with those of exports, that responding in a negative net export in the first 7 month 2005.

The FOB exports in the period 1st.01 – 31st.07.2005 were higher by 15.2 % than those from the period 1st.01 – 31st.07.2004.

In July 2005, the FOB exports amount was of 1,993.5 million Euro (with 8.2 % higher than in July 2004), representing the highest monthly value registered since 1990 till in the present. xx)

The exports value towards EU-25 in the period 1st.01 – 31st.07.2005 increased by 7.1% in comparison with the same period of the anterior year, accounting for 68.6 % from total exports.

The CIF imports value in the period 1st.01 – 31st.07.2005 was with 21.8% higher than those of the period 1st.01 – 31st.07.2004.

The import value from EU-25 in the period 1st.01 – 31st.07.2005 increased by 17.7% in comparison with the same period of 2004, accounting for 63.0% from total imports.

The preoccupation for enhancing the efficiency in the industry, covered with new jobs creating actions, determined a lower unemployment rate than these registered in 2003, at the end of June 2005 this being of 5.5 % (6.6 % in June 2004)

The economical analysis carried out at macro-economic level, considered that the main indicators and the presented trends will not suffer major changes in the following months.

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x) National Institute of Statistics – Monthly Statistical Bulletin – issue 6 / June 2005

xx) National Institute of Statistics – Press Release nr. 43/2005

Because the unfavourable climatic conditions, it's estimated that in the agriculture and forestry will not be obtained the expected results. The inflation rate is expected not to exceed 10 %.

2.Legislation adopted in the last 18 month, which might have a bearing on trade markets of wood and forest management

The main concerns of improvement and completion of the legislation with implications in forest fund management, were presented in the *Romania Report at the fifth Session of UN's Forum for Forest – April 2005.* It mentions the concern for forest management assurance in accordance with the principles of natural resources sustainable management taking into account the diversification of forest fund ownership.

The calamities happened in the summer time of this year, outlined a manifold of disorders in the forestry regime observance in some regions (for example in Vrancea), with serious implications in the forest future development, which determinate the urgent release of some normative acts to complete the legislation in force. It's mentioned: The Law 183 / June 2005 for modification of paragraph 1 – art. 32 from 0916/1998 which lays down penalties for trees cutting or destroying, seedlings from national forest fund or out of this, unhanging of their ownership type.

-The Order of Agriculture, Forests and Rural Development Ministry – MAPDR, nr. 693 from the 14 th July 2005 for the approval of authorisation methodology of specialised units to elaborate forest managements, summary management studies and for the conversion of grazing forests.

-The Order MAPDR 729 / 29 th July 2005 to approve the attestation of project chiefs for forest management and of the experts who certify the works quality from technical point of view.

MAPDR has issued a law and norms set which follows to be submitted to Parliament approval, mentioning the projects:

-The Order of Urgency concerning the forests management in Romania, which regulates the management of around one million ha which changed the owner ship by application of the Law 247 / 2005 regarding the reform of property and justice.

-The Law concerning the bad lands improvement by afforestation.

-The Law for completion of Art. 1 from the Law 570 / 2003 regarding the prohibition of removals from national forest fund and out of this, for a period of 3 years in 10 counties.

Finally is targeted that by this legislative set implementation, the forest shall be subject of silvicultural system, unhanging of property right bearer upon it.

As regard the wood market, both the production and the trade have followed further the products quality increase, those alignment to the international market requirements and the improvement of work conditions in the production.

It's developing further the *Program of products competitiveness enhancing*, approved through G.D. 357 / 2004. Through normative acts was targeted the alignment to EC decisions regarding the products (incl. wood) conformity certification intended to constructions. It's mentioned, also, the G.D. 522 / June 2005 to establish the criteria for environmental friendly labelling of products group manufactured from absorbent paper (in accordance with EC Decision 2001 / 405 CE).

Hawing the target the monitoring of engagement fulfil pledged to be done through the documents which laid at the basis of negotiations for Romania adhering at EU, it was elaborated by the Order of Economy and Trade Minister, the reporting procedure of data concerning the activity of environment protection by the economic units with industrial activity, where are included the fields:

-DD – Wood and wood-based products manufacturing, CAEN code 2010-2052;

-Pulp, paper and paper products manufacturing, CAEN 2111-2125.

The patronage associations from the field, have further an efficient contribution to legislation improvement, to information access support as well as to the initiation of same business relationships with domestic and foreign companies.

For completion of informations from previous years, it's mentioned that since 2004, The Association of Romanian Foresters – ASFOR, has became fellow of European Organization of the Sawmill Industry (EOS).

3.Trends and developments on forest products market

A. Wood raw materials (logs for sawn timber, for boards and fuel wood)

In 2005, the maximal wooden mass approved to be harvested [x)] is of 18.2 million m^3, of which 11.3 million m^3 from state property forests managed by National Forest Administration (62.08 % from total) and 3.7 million m^3 from private property forests (20.3 % from total). The calamities from the summer of 2005, respective the floods happened in May – August period, made more difficult the harvesting, the removals from forest and logs transport. There were especially damaged the forest roads on a total length of about 475 km. Due to this situation, it is foreseen that till the end of the year 2005, may be harvested only a rough wooden mass volume of 17 million m^3, of which 39 %, respective 6.6 million m^3 resinous wood.

In the context when the demands on the soft-wood sawn timber market remain high both for export and for domestic consumption, the estimated resinous logs to be harvested, i.e. 4,650 thousand m^3 net volume will be used by domestic production, being foreseen also an import of approx. 320 thousand m^3. The same situation is refound also in case of wood intended to boards and pulp manufacturing, the whole volume being utilized in the domestic production.

It is foreseen for 2005 a nonconiferous logs volume removal aproximatively equal with those from 2004. Exports are estimated not to exceed 80 thousand m^3.

The timber for wood panels and pulp, will be destined almost in totality to domestic market. Imports will be insignificant.

For the year 2006, the maximal rough volume of wooden mass approved to be harvested, is of 18.5 million m^3. [xx)]

It's provided further the decrease of harvested volume by the National Forest Administration, at 11.1 million m^3 (60 % from total) and the increase of harvested volume from private forests, up to 4.0 million m^3 (21.6 % from total).

[x)] G.D. 1325 / 2004 – The Order of Agriculture, Forests and Rural Development Ministry, nr. 155 / 2005

[xx)] G.D. of Romania 789 / 14 th July 2005

The soft-wood will account for 38 % from total. The domestic market of round timber keeps the same features. In these conditions, there aren't foreseen exports of soft-wood, while the imports will exceed 300 thousand m^3 / year and the export of nonconiferous logs will lay under 100 thousand m^3 / year. The wood for panels and pulp will be, also, intended to domestic market. The same destination will have the timber for other industrial purposes and fuel wood.

B. Wood as energy source and it's promoting policy

The consumption of wood wastes in the thermal plants of the enterprises, is estimated to reach in 2005, the quantity of 1,500 thousand m^3. Besides the thermal plants designed and realized using the technical solution from international projects NNE 5 and PHARE, in 2004 were put into operation within the Program "Sawndust 2000", four thermal plants and in 2005, one plant, the total waste consumption of these reaching 125 thousand m^3 / year.

At the end the year 2003, through G.D. 1553/December 2003, was approved the ***Strategy of renewable energy sources utilization***. Within the frame of this strategy, are provided measures to take, which, through turning into account the biomass energetical potential, will reach an equivalent consumption of cca 3,347.3 tpe (tone echivalent petroleum) till in the year 2010, with an average energy out put of 97.5 tpe (1134 GWh). Out of these, a consumption of 1,662 tpe can be reached through utilization of residues resulting from forest exploitations and fuel wood, saw-dust and wood wastes from industrialization. This objective can be materialized through establishment of new capacities or units in co-generation, based on biomass utilization.

The National Institute of Wood – Bucharest, is responsible, under the coordination of Ministry of Economy and Trade Environment, and the Ministry of Water Management for the elaboration ***of feseability studies and of execution projects of pilot plants and demonstration units and thermal plants.*** Till in the year 2010, the Government will allocate to these actions, 100 million Euro, being necessary also foreign financing sources of cca. 140 million Euro. The legislation in this field was completed with the G.D. of Romania, 1892/2004 regarding the establishment of promoting system for power production using renewable energy sources. The Decision

is applicable to electric energy production using renewable sources (among which also the biomass, respective wood wastes) in power stations with an installed power lower or equal with 10 MW, put into operation or modernized since 2004, and provides the application of compulsory rates of power input, combined with the trading system of green certificates (document which proves that a quantity of 1 MWh power (electrical energy) was produced from renewable energy sources).

C. Certified forest products

The forest certification in Romania is regarded as a forestry policy issue with an important commercial component but with positive effects on the sustainable management of forests.

Since the year 1999, there is in Romania a national group for forests certification, group which organized numerous meetings with decision makers interested in this process and in forest management, in general.

Within the workframe of the project FAO-TCP-ROM/6612, concerning the application of forestry development strategies in Romania, the activities for implementation of forest certification system in accordance with FSC norms, had, a first final stage in 2002, through forests certification on 31.6 thousand ha in two forest ranges of National Forest Administration Patrimony.

The National Forests Administration concluded with Woodmark Soil Association, an organism accreditated by FSC, a contract for forests certification on 1 million ha located on the areas of 8 Forestry Regional Districts. In 2004 was finalized the pre-estimating action, the final report of certification body being foreseen for the end of 2005.

The National Forests Administration has selected as method, the “group certification”. This method allows small modifications of the areas being certificated. This option was selected because two reasons: is cheaper and allows a certain flexibility, especially useful under the conditions of forests on going restitution.

The actual forestry policy has as target for the forest certification in Romania, also other recognized certification systems at international level (for example PEFC) and pleads for mutual recognition of certification systems.

The certification action was overtaken also by the forests private owners. A first example is the private Forest Range Nãruja in Vrancea county, which certificated FSC, 15 thousand ha with the Company Rainforest Alliance USA.

An action of interest for the companies of wood industry, represents the "certification of Chain of Custodies" (COC). In the first half year 2005, there are 18 certificated companies.

D. Value added forest products and engineered wood products

It keeps high the share of furniture production in the whole wood-based products manufacturing. The turnover of furniture industry (on the entire domestic and foreign markets) increased in the first half year 2005, by 15.4 % in comparison with the same period of 2004. [x)] The export realized in the same period, in value of 582 million $ USA, shows an increase by 15.3 % and is to be mentioned that 86 % from Romanian furniture delivery markets are within EU countries. Because the problems related to efficiency, it estimates but, that for the entire year 2005, the turnover and exports values will increase bellow 10 %.

The construction sector in development, influences positively the production of doors-windows, prefab houses, estimating also for these sectors an increase by cca. 15% of the production and by 18 % of the export (cca. 69 % from doors-windows production and 85% from prefab houses production are exported).[xx)]

As regard the paper and paperboards production, the decline is obvious, the production of 2005 is estimated to lay only at 84 % from production level of the year 2004. It isn't expected an amelioration of situation in 2006, fact which will lead to the significant increase of imports.

[x)] Provisional features form National Institute of Statistics–Monthly Statistical Bulletin–issue 6/June 2005

[xx)] Provisional features – Ministry of Economy and Trade

The manufactures of value – added wood products and especially the furniture and paper manufactures, face, in present, with a series of problems generated by raw materials and energy prices increase. The appreciation of national currency RON in comparison with the Dollar ($) and Euro, lead to significant looses in the export activity. The Furniture Manufacturers Association of Romania estimates that in the first half year 2005, the expenses of furniture manufacturers increased, in average by 10 %, the exporters incomes decreased by cca. 12 %, the two components influencing negatively the productivity by over 20 %.[x)]

In these conditions, the main concerns of the decision makers in the field, are the improvement of management performances and the technological modernizing. Will result a measures program following the finalization of the work "*Strategy of furniture industry, wood products, pulp and paper, with the target of a more efficient utilization of wood resources for the improvement of sector competitiveness*" – having deadline the year 2006 – Beneficiary: The Ministry of Economy and Trade, elaborators: The National Institute of Wood – I.N.L. Bucharest and The Institute of Research and Development for Pulp and Paper – CEPROHART Brãila.

E. Sawn soft-wood

Correlated with the wood mass allowed to be harvested, it estimates for 2005 a production of 2,850 thousand m^3 sawn soft-wood and of 2,900 thousand m^3 for 2006.

Despite the increase of demands on domestic market, the exports level remains high (1,900 thousand m^3 in 2005 and 1,950 thousand m^3 in 2006).

In this sector it is to mention the putting into operation at the end of 2004, of the sawn-timber, half finished and prefabs mill with a processing capacity of 1 million m^3 soft – wood, built up by the Austrian company Schweighofer, in Sebeş – Alba county. Because the company assures 30 % from raw material from imports, the imported soft-wood logs volume is expected to exceed 300 thousand m^3 / year.

[x)] Informative Bulletin by Furniture Manufacturers Association of Romania-APMR–issue 6/2005

F. Sawn hardwood (temperate and tropical)

The production of sawn hardwood of 1,884 thousand m^3 registered in 2005 an increase by 5.8 % in comparison with 2004, and it's foreseen an increase also in 2006 till a volume of 1,950 thousand m^3 (+ 3.5 % in comparison with 2005). To assure the domestic prognosticated consumption (1,200 thousand m^3 / year) the exports along the whole period will account for cca. 40 % from total out-put. There aren't expected significant imports.

G. Wood – based panels (particleboard, fibreboard, MDF, OSB, plywood)

Within this products group, the **plywood** will register a slight increase of the production, i.e. 124 thousand m^3 / year in the years 2005-2006. The domestic consumption will continue around a volume of 30 thousand m^3 while is expected an export about 116 thousand m^3 and imports increase by cca. 3 thousand m^3 / year.

The **veneer**, lacking significant possibilities of 38 thousand m^3 in 2005 and 40 thousand m^3 in 2006 production volume modification, knows an increasing demand on domestic market correlated with the increase of furniture production. In these conditions, it estimates an import of 46 thousand m^3 in 2005 and of 48 thousand m^3 for 2006, from which 12 thousand m^3 tropical species (in comparison with only 22 thousand m^3 respective 9 thousand m^3 tropical species manufactured veneers) in the year 2003. The export in the first half year 2005 was only of 16 thousand m^3, which allows a prediction for the whole year of maximum 35 thousand m^3 and a foresight of 38 thousand m^3 for the year 2006.

As regard the **particle boards and the fibre boards**, didn't occur changes, the Group Kronospan – Sebeş being further the largest manufacturer. It estimates for this year to reach per total, the prognosticated production of **wood particle boards (PAL)**, of 530 thousand m^3, despite that the particle board installation from Sebeş was stopped two month for modernizing. Due to this reason, the export in the first half year 2005, decreased – 96 thousand m^3 – expecting that the situation will pick-up again till the end of the years, i.e. will be exported 238 thousand m^3 particle boards (45 % from total out-put).

The import is estimated that will continue to lay at aproximatively the same level reached in 2004, i.e. – 350 thousand m^3, the Romanian consumers keeping further the contracts with the foreign partners due to lower prices practiced by these and to market demand of such products.

For the years 2006 it is foreseen a production of 580 thousand m^3 and an export of 340 thousand m^3, while the import will slightly decrease.

The production of **fibre boards** - 454 thousand m^3 – total foreseen in the year 2005, knows a significant increase by reaching the capacity of 400 thousand m^3 / year at the MDF factory from Sebeş.

It is estimated a total export of 362 thousand m^3, of which 340 thousand m^3 MDF (85% from MDF total out-put) and an import of cca. 120 thousand m^3, that will lead to an apparent consumption of over 200 thousand m^3.

Because there aren't provided modification of production capacities, the situation will remain the same also in the year 2006.

H. Pulp and paper

The estimated level of pulp production – 175 thousand tons – for the year 2005, accounts for cca. 66 % from the production of 2004, as consequence of:

-stopping at the begining of the year, of natural sulphate pulp factory from the company AMBRO S.A. Suceava, which has a production capacity of 125,000 tons / years;

-decrease of primary fibrous materials production in the other factories of this sector, as consequence of raw material (wood) and utilities (electric and thermal power) prices increase.

In consequence, it is estimated on short term, a slight increase of pulp import concomitant with exported quantity reduction.

As regard the paper and paper boards production, is registered an alarming decline – 380 thousand tons in 2005 and 400 thousand tons in 2006 in comparison with 454 thousand tons in 2004 – due mainly to:

-stopping the modernized machine, manufacturing cover paper for corrugated boards, with a rated capacity of 165,000 tons / year, from the company AMBRO S.A. Suceava;

-the increase of raw materials and energy prices and steady appreciation of national currency, that led to significant financial looses especially for exporters.

The reduction of domestic production of papers and paper boards, had as consequence the significant increase, in 2005 of paper goods import, reaching for the first time an import level - of 425 thousand tons - higher than the production, and implicitly, the reduction of paper and paperboards export with the stabilization of basic consumption level of this increased import.

The prognosis for the year 2006 are relatively close to the estimates for the year 2005, the macro-economic context being unfavourable to certain production increases.

4. Tables

Forest products production and trade in 2003, 2004, 2005 and 2006