

### **1 General economic trends**

Lithuanian industry continued to grow in 2005. Gross domestic product (GDP) increased by 7.5% in 2005 (2004 – 6.7%). High growth rates are due to rising domestic demand and successful expansion of exports.

Lithuanian GDP continued their fast grow in the first half of 2006 too. Growth rates upraised till 8.8% in the first quarter. In the second they remained similar 8.4%.

In 2005 forest sector accounted for 4.1% in gross value added (in 2004 – 4.0%): forestry made up 0.5% (0.5%), woodworking industry - 1.8% (1.7%), pulp and paper industry - 0.3% (0.3%) and furniture industry - 1.5% (1.5%).

In 2005 the manufacturing industry sales increased by 8.6% and by 14.0% in the first half of 2006.

As of 1st January 2006 foreign direct investment (FDI) totaled EUR 5445.6 million and over 2005 increased by 16.1%. The first two investing leaders remained the same like in 2005. Major country investor was Denmark. Share of Denmark in total investments reached - 15.2 % (2005 – 15.2). The share of Sweden comprised 13.6%. Russia made biggest investment in 2005 and upraised to the third place with share of 12.9%. Germany was in the fourth place - 11.6%. The main investors were EU countries 74.8% of total FDI. Major investments were made into manufacturing – 33.1% of total foreign investments, while to financial intermediation it was invested 15.7% and 13.9% to wholesale and retail trade.

In the manufacturing industry sub-sector of refined petroleum and chemical products attracted 29.7% of investments leaving behind food products, beverages and tobacco with 24.4%. Rubber and plastic products sector attracted 11.1% of investments.

As of 1 April 2006, foreign direct investments were EUR 1600 per capita.

In 2005 export growth rate increased from 16.6% up to 27.1%. The European Union remained the main market for Lithuanian producers. Export to this markets comprising two thirds of the total Lithuania's export.

Export of wood and wood products increased by 16.6% (2004 - 15%). The share of these products in the total export decreased from 11.6% down to 10.6%. Germany, Sweden and the United Kingdom were the main markets of wood and wood industry products. Almost 76% of wood industry products were exported to the countries of the European Union.

The growth of imports increased to 25.0%, surpassing the 2004 growth by 11.4%. The share of the European Union in the total imports of Lithuania amounted to two thirds in 2005.

Import of woodworking industry products has increased by 20.3%. The greatest import partner remained Poland – 20%. The import from Russia reached 13% and 11% from Germany.

### **3 Developments in forest products markets sectors**

#### ***A Roundwood***

Harvesting volume has remaining almost at the same level for the last four years since 2002. Harvesting volumes on average per year reached 6.3 million m<sup>3</sup>.

In 2005 the harvesting volume comprised 6.2 million m<sup>3</sup> or by 0.1 million m<sup>3</sup> less than a year ago. Harvesting in the State forest enterprises remained in the same level 3.6 million m<sup>3</sup>. Total harvesting volume declined, because harvesting rates in private forests were reduced by 4%, down to 2.6 million m<sup>3</sup>.

Storm in July changed situation in roundwood market. In the first half of 2005 roundwood prices fell down especially pulpwood. Subsequences of the storm on pulpwood prices remained to the end of 2005.

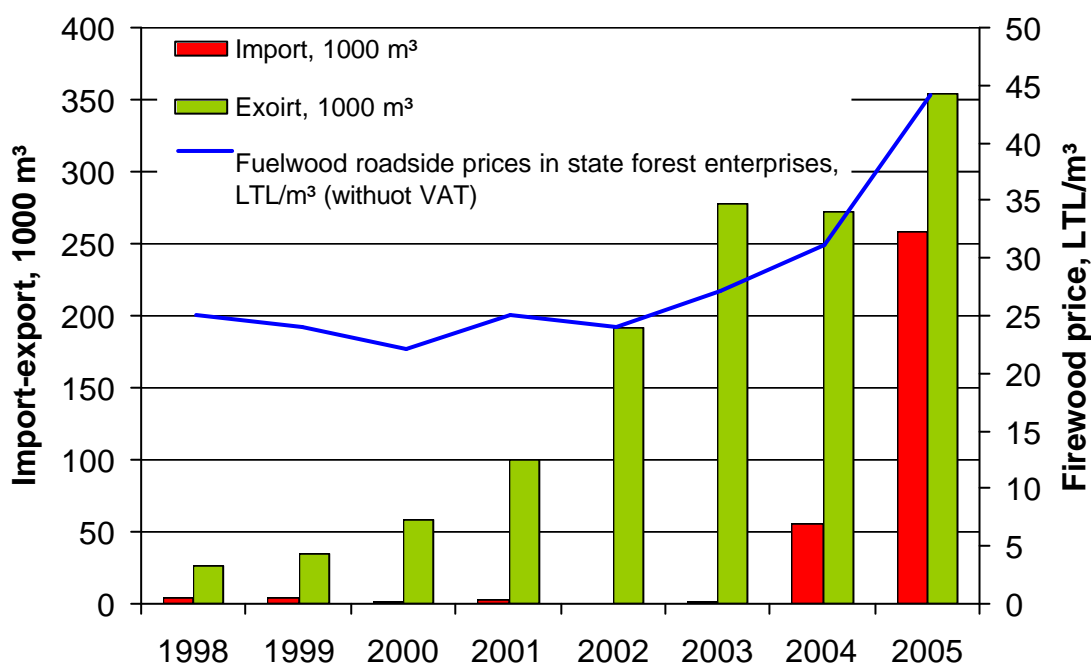
Export of roundwood has decreased by 7% to 1.1 million m<sup>3</sup>. Sales to Sweden, main pulpwood export market, decreased more then twice. Sales in Poland and Finland export markets increased twice.

### ***B Wood energy***

Demand on energy wood is constantly increasing during last years. The increase was caused by the rise of oil prices. Conversion of old boilers and establishment of new is going father. Consumption of wood energy in district heating plants during last decade has jumped more than 30%. Wood energy is removable and one of the cheapest energy alternatives at this moment in Lithuania.

Increasing consumption of wood in this sector raised firewood prices by 40% in 2005.

The export of wood fuel such as firewood, chips, particles, wood briquettes and pellets started rapid grow in 2000. This grow has continued till 2006. During these years export increased from 50.000 m<sup>3</sup> till 350.000 m<sup>3</sup>. With the growth of price in domestic market grow of export started to slow down in the first half of 2006. For the same reason imports of wood fuel started to grow some years ago. In 2003 import was only 2.000 m<sup>3</sup> and in 2005 it reached 269.000 m<sup>3</sup>.



### ***C Certified forest products***

The certification of state forests in FSC system was finished in 2004. Now all state importance forests owned by state forest enterprises are certificated and the area of certified forests in Lithuania amounting to about 1 million ha. It is near to half of all Lithuanian forests.

The first group of private forests certificated according to FSC standard. The certification was carried on the area of 1668 ha of forests.

### ***D Value-added wood products***

Production of the furniture has successively increasing in Lithuania over the last 10 years. More then half of the production goes to the export markets. Growth of furniture export was slightly

slower (15%) in 2005. Furniture predominated among other export goods. The value of the furniture constitutes 45% in total wood goods export. In 2005, the Lithuanian exports of furniture accounted to 80% to EU countries: Sweden, Great Britain and Germany.

Imports of furniture mainly came from Poland.

In 2005 exports of other value-added wood products continued to grow considerably. Growth of export of joinery and carpentry products reached 28%, wooden wrapping and packing equipment –18%.

### ***E Sawn softwood***

In 2005, production of sawn softwood was nearly 1.05 million m<sup>3</sup>. The export of sawn softwood reached 623,000 m<sup>3</sup> in 2005. The main export market remained United Kingdom, where sales of sawn softwood decreased by 8% to 213 000 m<sup>3</sup>. The same situation was in Germany. Export to this country decreased by 8% to 103 000 m<sup>3</sup>. Sales in North America (USA, Canada) market increased by 50% to 169 000 m<sup>3</sup>.

The increasing demand in domestic market further induces the growth of import of sawn softwood. Import of sawn softwood has increased by 27% up to 669 000 m<sup>3</sup> in 2005. Russia and Belarus remained the main suppliers and provided 299 000 m<sup>3</sup> and 214 000 m<sup>3</sup> of sawn softwood

### ***F Sawn hardwood***

Sawn hardwood production decreased to 0.45 million m<sup>3</sup> in 2005. Export decreased by 8% to 288 000 m<sup>3</sup>. Sawn hardwood was mainly sold in Germany (33%) and Belgium (23%). Sales in these markets decreased comparing to previous year by 15%. Export of sawn hardwood to Netherlands increased by 34%.

In 2005, import of sawn hardwood rose by 61% up to 112 000 m<sup>3</sup>. The largest shares of import were received from Russia (38%), Ukraine (20%) and Latvia (17%).

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

It was produced 274 000 m<sup>3</sup> of particleboard in 2005. It is the same quantity like in 2004. More significantly the production can increase only in 2007. The local producers can not to satisfy the growing demand of furniture industry and import still increasing. The volume of imported particleboard increased by 26% to 259 000 m<sup>3</sup> in 2005. Export of particleboard was in the same level (82 000 m<sup>3</sup>).