

## **Forest products market statement in Ukraine**

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## **General economic trends affecting the forest and forest industries sector**

Since April 2008, the forest industry in Ukraine has been affected by the global financial crisis. Starting from the year 2000, forestry's economic situation in Ukraine was improving steadily, but during 2008-2009, the state enterprises faced difficulties in selling timber, which led to a reduction in the overall timber harvest, and consequently, to decrease of investments in the state budget and social funds

During the past year, the Government of Ukraine adopted a strategy aimed at supporting national (domestic) wood producers. In this connection, providing the enterprises of Ukraine with wood raw material has become one of the major priorities in the forest sector. This influenced the growth of the domestic market and resulted in a reduction in exports. The decrease of export offers led to higher export prices for wood.

Instability of the exchange rate of national currencies of the countries-importers against the US dollar and EURO turned to be a negative tendency which affected the export of forest products. Decrease in exchange rate of the national currencies led to the decrease of export of forest products from the territory of Ukraine.

## **Changes in legislation, which affect development of forestry sector and forest product market, which have occurred over the past 18 months.**

The expansion of the use of practices of the timber works on a competitive basis and purchasing of services on transportation of a wood transportation aimed at reduction of the non-productive expenses and on establishment of the competitive environment, continue.

Application of electronic devices for measurement, such as electronic plugs and height-measuring equipment, with the further data led to positive results, especially in the wood-cutting areas and separation (sorting) of the trunks for the (grading, sizing, sorting) purposes. The production of higher value wood has risen considerably, and the income from selling these products has increased.

The State unified system of electronic registration (account) of wood, approved by the Government, includes:

- Marking pieces of wood in the wood-cutting areas and storage yards, with uniform plastic markers, containing a digital code and a letter-code to record the origin, qualitative and quantity indicators of wood, using of modern electronic tools and further computerized registration (account).
- Automation of the receiving and inventory of wood, both from the wood-cutting areas, as well as from the storage areas, their storage and shipment to the end-users.
- Automation of the registration (account) process of sale of wood, both from the wood-cutting areas, as well as from the storage yards;
- Use of electronic control methods on the move of forest materials from roots preparations to the end-users and exportation outside Ukraine, introducing of the modern equipment for effective control over the violation of the forest code and illegal preparation and sale of wood.

## **Wood market**

State wood production enterprises located mainly in rural areas, with 267 small processing units, provide jobs for 6000 persons. Every year, around 1.2 million m<sup>3</sup> of poor quality wood is processed for manufacture of consumer goods, souvenirs, or parquets procurements (stock). During the past two years, the development of domestic wood processing industries resulted in a considerable reduction in the volume of wood production, and re-directed 700,000 m<sup>3</sup> from export to meet the needs of the domestic market.

Selling roundwood at auction sale was first introduced in 2005. Since 2007, a decree of the State Agency on Forestry (Forest Resources) of Ukraine, requires that all roundwood, except those amounts used by enterprises to meet their own needs (construction, repairs) must be sold through the auctions in the market. Only "subject" of economic activities dealing with the wood processing (manufacturing), could participate in the auctions (market). Technical raw materials, balances and raw material for plywood production can be realized only by the subjects of the activities, which have their own panel, veneer and pulp and paper production during specialized tenders in the market during one auction session with other, unprocessed (raw) wood. The wood, which was not sold through the auctions, could be sold by the enterprises, which are constant users, with the direct agreements (contracts) and with the prices not lower than the prices fixed at the latest auction.

The main exports are roundwood and sawnwood, while the principal import is wood-based panels.

## **Wood industry**

The wood industry of Ukraine passed through a deep crisis during the mid-1990s, with privatization and the bankruptcy of big number of enterprises. Its further development is characterized by establishment of a considerable number of private enterprises specialized sawing (mills) and of big and medium joint ventures specializing in wood processing. Priority The development of the wood-working industry, especially in the north and west of the country, where the main forest resources are concentrated as well as furniture manufacturing, became a priority.

The following factors have contributed to the steady development of the industry:

- reconstruction and technical equipment of the existing furniture and wood-working enterprises;
- use of modern technologies, structural changes in the national furniture and wood products market;
- the establishment of small and medium business enterprises;
- growth in scientific and innovation activities.

The following factors have acted as deterrents:

- unfair competition from foreign exporters who sell their goods in Ukraine under the dumping prices,
- increased tariffs for rail transportation, especially of the tariffs for transportation of bad quality raw material for panels, which results in the increase of the cost both, on fibreboards, and on the furniture as the end-product.

## **Tendencies of the wood market**

As from the 1st quarter of 2010, after the economic crisis of 2008-2009, Ukraine resumed auction sales of the raw wood for the needs of the home market. Selling wood by auction gives the possibility to define the real need for wood raw material and to determine its market price.

As of today, certain transparency of sale and availability of a wood resource to all subjects has been achieved.

Analysis of results of the auctions conducted so far, show a growth of demand in the domestic market as a result of an improving economic situation and modernization of the processing of the wood products in small and medium business.

The main tendencies are the following:

Historically, Turkey is one of the main consumers of Ukrainian wood materials. However, in 2010, the cost of the freight of barges from ports in Ukraine to Turkish ports almost doubled (1.8 x). At the same time, the cost of wood for manufacturing technological chips in Turkey was not increased, and this resulted in significant reduction to supplies to this market because of the lack of profit. Same reasons (low profit) influence the volume of export to Turkey of For the same reason problem and low profitable there is an export to Turkey of sawlogs and sawnwood of coniferous breeds.

As from 2010, exports of oak and coniferous sawlogs to the Chinese market have increase in volume; this is a new market for Ukraine. The low price of the freight of sea containers and intensive development of the Chinese economy contribute to this.

At present, the expansion of export trade from Ukraine into new markets for wood products to countries in North Africa, Asia and the Near East is problematic due to the political instability in some of the countries and the high cost of freight.