

Country Market Statement: CROATIA

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

Since independence in 1992, Croatia has experienced a process of de-industrialization although less intensive than in other transition countries. According to European Commission's Report 2007, Croatia's economy registered strong and accelerates growth.

Croatia is a small economic country with a population of 4.4 million people which presents 1.2% of the European Union. In 2006 gross domestic product (GDP) growth amounted to 4.8% which represents acceleration of 0.5% when compared to 2005.

The first quarter of 2007 witnessed a substantial expansion of GDP which amounted 7%. In the second quarter of 2007 GDP was 6.6% while in the last two quarters growth was lower (5.1% and 3.7%). In 2007, according to previous statements, gross domestic product growth to 5.6%. The largest contribution to GDP growth came from personal consumption and investments that rose by 6.2% and 6.5%, respectively. A gross domestic growth of 4.6% in 2008 and in 2009 is expected.

Accelerated economic activity in 2006 was accompanied by positive trends in labor market. In all months of 2006 was recorded lower number of unemployed persons when compared to year before. According to Central Bureau of Statistics data, at the end of 2006 there was 4.8% less unemployed people than at the end of year 2005. In 2006 the unemployment rate was at the lowest level in last nine years. Labor market data also show a 2.7% increase in employment in the first three months of 2007.

Industrial production grew annually by 4.5% in 2006 which was a result of high industrial production growth in the first quarter (6.4%), stagnation in the second quarter and again high production growth in the last two quarters (5.9% and 6.1%). Manufacturing which has the highest share in total industrial production (81.1%) grew by 4.5% in 2006.

In year 2007, industrial production increased by 5.6%, which is an acceleration compared to 2006.

In 2007 the annual inflation rate was 2.9% and it accelerated considerably since the middle of the third quarter of 2007.

Construction sector

Construction is the most significant sector in Croatia. There are about 6,400 companies operating in this field. Construction works in the first six months of 2008 increased by 12.1%, as compared to the same period in 2007 development of construction works index is in line with high growth of housing loans which are still increasing.

Foreign trade

The total value of Croatian export was 9.2% higher than value of exports recorded in 2006. On external side, imports were again growing faster than exports during the first four months of 2007, value of imports of goods in comparison with 2006 imports increased by 10.3%.

The highest contribution to total export growth in 2007 came from manufacture of machinery and equipment, whose exports rose by 22.2% compared to 2006. After a strong rise in 2006, shipbuilding reported a substantial contraction of exports, as did the manufacture of refined petroleum products. On the positive side, exports of machinery and equipment, basic metals and wood products expanded by more than one third.

In 2007 exports to EU countries grew below average but it made 60.3% of total Croatian export. Croatia's main trading partner, Italy, registered a significant decline of 9.5% but it still kept the first place when observing Croatian export by counties – in 2007 export to Italy was 19.2%. Following is Bosnia and Herzegovina (14.4%), Germany (10.0%), Slovenia (8.3%) and Austria (6.1%). When compared to 2006, exports to Bosnia and Herzegovina increased by 25% and to Germany 5.9%.

2. Policy measures

2.1 Policy measures taken in Croatia which have a bearing on markets of forest products

2.1.1 National Forestry Policy and Strategy

The Strategy was adopted in July in 2003 by the Government of the Republic of Croatia and it was made by ex Ministry of Agriculture, Forestry and water management. The role of the policy is to solve problems that occur within innovation systems, e.g. by supporting the creation and development of institutions and organizations, supporting network development. Priorities defined in the Strategy are: conservation of forest resources through the application of ecologically and economically acceptable technologies; diminishing the effects of glasshouse gases, due to growing utilization of biomass as energy source.

The National Forestry Policy and Strategy was created to investigate the relationship between innovativeness and creativity, as well as the meaning and definition of innovativeness in Croatian Forestry. Also, analyze the problem of insufficient innovativeness and competitiveness of state and private owners in Croatia

2.1.2. Forest Extension Service (FES)

Forest Extension Service is a specialized public institution for conducting matters in part of public authorities, improving management of forests and woodlands in private

forests. It was founded in June in 2006 by regulation of the Government of the Republic of Croatia. It started work at the beginning of 2007.

FES plan is to make all 100% forest management plan in next ten years. It is important to stress out that all Croatian commercial and industrial companies are obliged to pay 0,07 % forest tax on their turnover for improvement of environmental purposes of karst forests and part of it is used to finance management plans.

2.2. Policy measures promoting the sound use of wood/initiatives aimed at increasing global competitiveness in wood product markets and overall performance of the sector

2.2.1. Operation Program for the Development of the Wood Processing Industry

In August 2004, the Government of Croatia adopted Operational Program for the Developing of the Wood Processing Industry. The program was made by ex Ministry of Agriculture, Forestry and Water Management. The role of the program is to carry out restructuring, directed towards the development of manufacturing high quality products containing a high level of processing supported by sophisticated technology. The main objectives and goals of the Program are: to multiply the value of raw materials by manufacturing products with high level of finish and characterized by quality, design and uniqueness, that wood industry firms become an economically successful and profitable. A next goal is to increase competitiveness to the finished products in domestic and export markets and that this products become recognizable above all else according quality high levels. To create brands within the wood sector and also to increase employment and maintaining population members in rural areas are also some of the goals of the Program.

The Operational program was create because of the lack of direction in products and attempts to create increasingly short-term results (e.g. export of sown timber) and because of increasing imports of wood products and low-priced furniture of an inappropriate quality. It presents an excellent base for developing new products, brands, organizational skills in wood industry in the future.

2.2.2. The Strategy for Developing the Wood and Paper processing Industry

The Strategy was made in 2004 by ex Ministry of Agriculture, Forestry and Water Management and was adopted by the Government of the Republic of Croatia. The main roles are related to modify the existing industrial structure in the sector to the benefit of export of finished products, also to increase the participation of finished products at the market and to stimulate development and protection of industrial wood processing, production of furniture and production paper processing. Harmonizing production programmes of forestry with companies involved in the wood sector in the function of development of industrial processing and creation the largest possible added value with oriented production of finished products are priorities defined in the Strategy as well as establishing control of quality import as a protection of domestic producers by introducing EU standards.

The Strategy for Developing the Wood and Paper processing Industry attempts to stop negative tendency and forecasts in wood processing sector by strengthening export and entrepreneurship.

2.2.3. “Wood is first!” wood promotion programme

In October 2007 Croatian Chamber of Commerce in cooperation with the company “Croatian Forests” and ex Ministry of Agriculture, Forestry and Water Management has started with campaign “Wood is first!” The main goal of the campaign is to increase wood consumption in Croatia and also to increase consumer awareness about benefits of wood and wood products quality and to strength the competitiveness of domestic wood processing firms. During this year in all parts of the country lots of efforts have been made to promote the campaign.

2.3. Wood energy policies

Strategy for the Energy Sector Development

Strategy for the development of energy sector of the Republic of Croatia encompasses the period until 2030, focusing on improvement in energy efficiency as its primary objective. It has been estimated that the share of forest and wood remnants biomass as potential energy source in the Republic of Croatia might come from 50 to 80 PJ by 2030. The importance of the renewable energy sources has been recognized by the Government of the Republic of Croatia who adopted the industrial wood-processing development program that will allocate a significant portion of pecuniary resources to projects of production remnants energy exploitation. This factor provides an opportunity for the wood-processing industry to use huge quantities of wood remnants, about 1,7mil. m³/year, emerging in its primary and final processing.

3. Market drivers

Croatia should be able to cope with competitive pressure and market forces within the EU.

The situation on the wood market constantly changes, the demand for certain sorts or quality of wood falls or grows, the structure of buyers according to their purchasing power gradually changes, the intensity and extent of state regulations changes.

4. Development of wood products markets

Almost 48% percent a Croatian territory is covered by woods and forests and these natural riches greatly influenced fast development of wood processing. Through the history the saw mills were intensely established throughout the region and sawn timber was often due to its quality, exported to the countries of Europe, South America and the Middle East.

By the end of 20th century Croatia became an independent state and introduced free market economy which caused inevitable changes both in organization and production of wood industry.

Croatian wood industry produces sawnwood of all types and sizes, veneer and veneer sheets, particleboards, parquet, floorings, wall linings, carpentry and other products from wood, cork and plaited material, wooden packaging as well as briquettes and pallets.

Although, wood has been the traditional furniture-making raw material and non-wood materials have been recently often used in furniture production in order to improve and accentuate its individual characteristics.

The main types of wood used in Croatian wood industry are: beech, oak, fir, ash, hornbeam, alder, maple and other types of wood, mainly non-coniferous.

The share of wood processing and furniture industry in Croatian export is 7.5%. The Croatian wood processing industry is export oriented and in the past few years the total exports exceeded the imports owing to increased exports of raw wood and wood products, while the import of furniture still exceeds the export.

4.1. Certified forest and forests products

Wood processing companies show considerable interest in introducing and implementing the FSC certificate which regulates the forest management according to strict ecologic, social and economic standards.

The company "Hrvatske šume d.d.o." ("Croatian Forests") which manages almost 2 million square hectares of Croatian forest area obtained FSC certification in 2000 and more than 60 wood processing companies have obtained the FSC certificate.

Quality has traditionally been an important aspect to consider in the Croatian wood processing industry, so some of companies have already been certified to compliance with ISO 9001:2000 quality standard. Also, there has been an increasing number of applications for ISO 14000 standards among companies.

4.2. Wood processing industry– sawnwood, particle board, fiberboard veneer and veneer sheets

In 2007, according to Croatian Bureau of Statistics Croatia produced 733.829 m³ sawnwood which is 37% less than in 2006. Than 733.829m³, 38% is beech sawnwood. Production of oak sawnwood was 229.139 m³ (13.2%), coniferous sawnwood 96.692 m³ (13.2%) and production other sawnwood was 17.4%.

Particle board production was 153.108 m³ and that is 10% less than in year 2006. Compared with 2007, veneer and veneer sheets production is not changed and in

2007 it was 21.321 m³. Fiberboard production amounted 226 m³, which is 7% less in comparison to previous year.

In the period from 1994 to 2007 the total imports value of primary wood products increased by 6.9 times. In 2007 the total imports value of primary wood products was 259.899.588 EUR which is 12% more than in 2006. The import value of particle board and plywood was 83.252.167 EUR and that is 18% more in comparison to previous year. In 2007, the total import value of veneer and veneer sheet was 10.633.093 EUR which is 2% less than in year 2006. The most wood processing products are imported from Slovenia, Austria and Bosnia and Herzegovina. From Slovenia the import of wood processing products increased by 1.2%, from Austria by 25.1% and from Bosnia and Herzegovina by 9.9% compared to 2006.

In the period from 1994 to 2007 the total export value of primary wood products increase by 2.6 times. In 2007 the total export value of primary wood products was 402.898.450 EUR which is 21% more compared to previous year. The export value of particle board and plywood was 36.161.260 EUR and that is 40% more in comparison to previous year. In 2007, the total export value of veneer and veneer sheet was 43.499.804 m³ which is 30% more than in year 2006.

The most wood processing products are exported to Italy, Slovenia and Austria. In Italy the import of Croatian wood processing products increased by 12.3%, in Slovenia by 6.7% and in Austria by 38.3 % compared to 2006.