CYPRUS MARKET STATEMENT 2020

1. General economic trends

Although Cyprus was on a solid growth path before the global outbreak of Covid-19, the pandemic and the confinement measures that followed have dramatically changed the picture. During the past year, the economy continued to grow, albeit at a decelerated pace, with real GDP growth estimated at 3.2%, compared to 4.1% in 2018. However, in the first quarter of 2020, economic growth slowed down considerably (0.8%), reflecting a significant fall in external demand for goods and tourism. As a result, real GDP is forecast to contract by 7.7% in 2020 and to partially recover in 2021 by 5.3%. Regarding the labour market, by February 2020, all indicators were improving and the labour market was steadily recovering. At the same time, unemployment rose to 5.8%, recording a decrease of 1.3% compared to the same month last year. Besides this, the almost total suspension of work in all companies in Cyprus (except for basic services) to combat Covid-19, continues to affect the labour market in Cyprus with the loss of many jobs and rising unemployment in the coming months.

Private consumption and investment, notably in equipment, are expected to decline substantially. The stimulus measures adopted are expected to support employment and household incomes and help businesses to continue investing and maintaining their capacity, thus somewhat mitigating the severe impact on domestic demand. This is also reflected in a robust increase in public consumption. At the same time, tourism, the main pillar of Cyprus' economy, has been severely affected. The Covid-19 pandemic is expected to significantly dampen international demand for tourism. Tourist arrivals and revenues decreased by 46.5% and 52.4%, respectively in the first quarter of 2020. The travel restrictions in place throughout the second quarter had a severe impact on the sector. Taking into account that the gradual recovery will take much time, revenues from tourism could hover around 25% of last year's level. Furthermore, the sharp increase in unemployment in services linked to tourism and the increased risk of bankruptcies does not bode well for the recovery in 2021 (Table A).

Table A: Main economic indicators (2011 - 2019)

Indicators	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross Domestic Product - (GDP) (%)	0.4	-3.4	-6.6	-1.9	3.4	6.7	4.4*	4.1*	3.2*
Harmonized rate of unemployment (%)	9.7	13.7	16.2	16.4	13.1	12.8	10.4	7.6	6.3
Inflation Rate (%) (2015=100)	3.3	2.4	-0.4	-1.4	-2.1	-1.4	0.5	1.4	0.3
General Government Surplus/ Deficit (% of GDP)	-5.7	-5.6	-5.8	-8.7	-1.0	0.3	2.0*	-3.7*	1.7*
General Government Debt (% of GDP)	65.9	80.3	104.0	109.2	107.5	103.4	93.9*	100.6*	95.5*

* Provisional data I Source: Cyprus Central Bank last updates 23/07/2020

2. <u>Policy measures</u>

2.1. Forest Legislation

In 2012, a new Forest Legislation (Forest Law and Regulations) was adopted by the Parliament. The Forest Law and Regulations are setting the relevant legal framework for the Conservation, Protection, Sustainable Management, and Development of the Forests of Cyprus. The new Forest Law incorporates the main international commitments related to forests (i.e. climate change, protective forests, protected areas, etc.). In 2016 and 2018, the new forest legislation was further amended in order to meet the challenges arisen from the economic crisis and the need to further regulate/control the preconditions for the disposal and use of state forest land and the issue of felling licenses.

2.2. European Union Timber Regulation (EUTR)

In 2013 a new national legislation for the control of illegal logging and associated timber and timber products trade, in line with EU Timber Regulation (EC995/2012) and Regulations 363/2012 and 607/2012 was adopted by the Parliament. Through this law, the Department of Forests has been officially assigned as the Competent Authority for the implementation of the EU Timber Regulation. This law regulates the trade of timber and requires those who place timber for the first time on the market to have a due diligence system in place. This law sets also penalties and fines.

2.3. Forest Policy

In 2013, the Council of Ministers adopted a new Forest Policy. This Policy Statement sets the following strategic priorities:

- Conservation of forests and other wooded lands,
- Protection of forests from fire and other abiotic and biotic agents,
- Improvement and expansion of forests and the vegetation in general,
- Adaptation of forests to climate change and enhancement of the contribution of forests to climate change,
- Protection of biodiversity, landscapes, and cultural heritage,
- Promotion of forest recreation and tourism,
- Provision of employment and improvement of the quality of life for the residents of mountainous areas,
- Strengthening of the protective role of forests and their role in addressing desertification,
- Production of timber and other forest products,
- Strengthening of forest education and enlightenment and promotion of forest research,
- Construction and improvement of infrastructure,
- Alignment with European and international forest policy,
- Improvement and strengthening of the policy framework and the administrative and institutional framework.

2.4. The National Forest Programme (NFP)

The process for the new NFP was halted at its starting point due to the severe and abrupt economic recession. Instead, a New Strategic Plan (NSP) for a short-term period (2016-2018) was set up as a general governmental policy and decision to address the strong effects of the economic crisis. Since then, the Strategic Plan is modified every three years. The new NSP incorporates the strategic planning for the Department of Forests which provides for the development of forest and forestry as an integral part of the national development strategy. It includes the Vision, Mission and Strategic Objectives of the Department of Forests and activities to achieve these objectives. Criteria and Indicators for the evaluation of the implementation of the strategic plan were also set up.

2.5. Forest Subsidization

Practically all subsidies of relevance to forestry in Cyprus are bundled in the national programme of the European Union Rural Development Regulation. The Cyprus 2014 - 2020 Program for the Development of Rural Areas was approved by the European Commission in December 2015. Funds in the amount of 6,5 million are foreseen for forest-related measures, provided by the EU and the Government of Cyprus.

2.6. Green Public Procurements

The Government of Cyprus adopted a National Action Plan for Green Public Procurements in which timber products are included. The National Action Plan for Green Public Procurements provides for the use of woody materials derived from sustainably managed forests and aims at increasing the use of certified timber products from internationally recognised certifying organizations up to 50%. This Action Plan also provides for the use of timber and timber products from legal sources.

2.7. Research and development policies

Scientific research and knowledge have been the backbone of most policy-related decisions and actions taken by the Department of Forests. For instance, the development of the NFP and the formulation of the new Forest Policy were based on such knowledge. Similarly, the adoption of forestry measures in the Rural Development Programme and the procedure for the formulation of the Cyprus Criteria and Indicators for SFM have also taken into consideration the scientific research and knowledge.

The capacity of research institutions in Cyprus has been strengthened, especially during the last years, through various projects and co-operation on a national and regional level. Funding is ensured either through the national budget or other international sources. Regarding the forestry sector, a considerable number of applied research programs dealing with the management and exploitation of forest resources is elaborated in Cyprus. During the last years, there has been a noticeable improvement in the quality, quantity, and accuracy of the information collected by the Department of Forests concerning the state and the development of national forest resources. Collecting mechanisms have been redesigned to comply with modern trends, needs and technologies i.e. GPS, GIS, remote sensing, etc.

2.8. Energy and the forest sector

The energy sector of Cyprus is transformed thanks to the new discoveries of natural gas in the Exclusive Economic Zone (EEZ), which allow the country to move from exploration to production and to become a key energy hub in the region. Certainly, the oil and gas sector is expected to become a key driver of economic growth, with Cyprus actively considering options for the exploitation of its natural gas, hoping for high revenues in the future. In addition, the discovery of gas is very promising in terms of diversification of energy sources, as it will allow Cyprus to move away from its excessive dependence on oil imports. Cyprus currently relies on imports of fuel oil and diesel for its electricity needs and spends a significant percentage of its GDP to cover costs. Since December 2011, when the first gas discovery was made, to date, several exploration drills were made which have revealed vast natural gas reserves. The drillings in Cyprus' EEZ will continue for years to come and based to plan, the first gas is expected between 2024 and 2025.

Cyprus has also strong potential for the production of solar energy. Measures for the installation of photovoltaic systems on the public and private buildings are now in place. Until July 2020, 6 Aeolian Parks with a total power of 157.500 KW were under operation, as well as 1980 photovoltaic systems and 14 biomass/biogas units with a total power of 117.493 KW and 9.714 KW respectively. Projects like these will help Cyprus in meeting the 2020 targets regarding the production of energy from renewable sources.

The exploitation of biomass from Cyprus forests is uneconomical mainly because of the low productivity, the steep slopes and the irregular terrain, the relatively low density of road network and the long distances between the place of production and the place of processing. The most important factor limiting the production of biomass and negatively affecting the cost of its production are the adverse soil and climatic conditions that exist in Cyprus. Therefore, the biomass production in the Cyprus forests cannot support any serious investment. According to their productive potentials, Cyprus forests can only occasionally support any biomass processing industry. The use of industrial and municipal wastes can support only periodically small-scale biomass processing industries.

Due to the economic crisis and the rise in the price of heating oil the demand for firewood has further increased as private households started using firewood as an alternate fuel to heat their houses. The Department of Forests, in its efforts to meet the increased demand, has made quantities of firewood available to the public. Also, large amounts of firewood were imported from European and third countries.

2.9. Climate change and forest products markets

Climate change and forests are quite linked; On the one hand, climate change can stress forests affecting forest production and health and on the other hand forests act as a sink of carbon dioxide, playing a major role in mitigating climate change. Climatic changes stress Cyprus forests through higher mean annual temperatures, lower precipitation and unusual distribution, extreme weather events leading to desertification, higher forest fire risks, etc. A short-term plan for the mitigation of drought has been prepared. The Department of Forests, having the essential know-how, has been focused on three measures to reduce the consequences of drought on forests. These are related to forest fire prevention and suppression, the expansion of forests through afforestation and the reforestation of degraded, burned forest areas and the effective control of grazing on forest land in order to prevent forest degradation.

The forests (living biomass) in Cyprus are estimated to contain 4,1 million tons of carbon (2018). This amount has increased during the last decade since the annual increment for the same period exceeded the harvesting drain. Thus, more carbon is sequestered in forests than what is released in harvesting. The forests of Cyprus are capable of blocking approximately 68 thousand tons of carbon as estimated by the gross increment of the forest. This amount represents about 0.70% of the total carbon emissions in Cyprus.

3. **Market Drivers**

The construction sector is one of the most important sectors for wood and wood-based products and one of the main engines of the economy. The demand for forest products is closely related to the level of house buildings. Other significant markets for wood and wood-based products are the furniture, kitchen utensils, fencing, and outdoor-use markets. The major markets for wood and wood products experienced severe reductions in demand as the Cyprus economy entered into recession in the last decade. However, recent stabilization of the economy has helped the recovery of construction activity, which traditionally dominates the end-use of sawn wood and carpentry products. Despite the number of building permits authorized for dwelling units increased by 55.25% in 2019 (9627) compared to 2018 (6201), due to the pandemic crisis, there was a slight decrease in permits authorized for dwelling units, during the period January-May, 2020.

The Forestry sector in Cyprus has also been affected by the economic crisis even though the level of investment in Cyprus forestry is very low in relation to the investments in other sectors and branches of the productive activities in Cyprus (the contribution of forestry to the Gross Domestic Production is far below 1%). The worsening external environment and the tightening financial and fiscal situation have had a major negative impact on employment and the budget of the Department of Forests. Some positions remain vacant and the available budget is still low.

Even though the significance of forestry as a driver of economic growth is negligible, the environmental and social outputs from the Cyprus forests are highly valued by the public. However, many of these environmental and social outputs do not have a place in the market and therefore the forest owner does not have any direct economic benefit for providing them. The lack of economic benefit is one of the reasons why private forestry in Cyprus is almost non-existent and therefore the effects of the economic crisis on private forestry are not visible.

In Cyprus, very few people depend exclusively on forestry. This is merely due to the low productivity of forests and the dependence of the market on the imports of finished or processed wood products. Thus, timber-based industries are gradually shrinking since the wood market is heavily dependent on imported final products. Additionally, rural depopulation has been alienating people from the forests, pushing them to urban centers where the service sector is growing. However, urbanization induces increasing demand for recreational services and option values rather than for timber products. An economic valuation study shows that the overall social and environmental value of forests exceeds by far the commercial use-value of trees as a wood material.

Cyprus forests provide important indirect benefits and services such as protection of soil and water resources, conservation of biological diversity, support to agricultural productivity, picnicking, camping, hiking, walking, cycling, skiing, bird-watching, sightseeing, hunting, fishing, carbon sequestration and mitigation of global warming, combating desertification, mushrooms, medicinal and aromatic plants, cones, acorns, resin, etc. Furthermore, the importance of ecotourism is more and more increasing as individuals come closer to nature for outdoor experiences. Several ecotourism enterprises were founded especially in communities around the forests. The importance of these enterprises is significant to rural people as a source of employment and income. The number of visitors with special interest on the flora and fauna of the island has an increasing trend.

4. <u>Developments in forest products markets sectors</u>

Cyprus is a net wood importing country. The overall wood market imports account up to 98%, while exports are negligible. Consequently, Cyprus is very vulnerable to market developments elsewhere. The main commercial value species of Cyprus forests is Pinus brutia, which constitutes about 80% of the area of forests and 80% of the growing stock. Although Pinus brutia can reach large sizes and produce good quality timber, the growth rate is low accounting only to about 1,3 m^3 /ha/year. In addition, some areas are critically understocked, and regeneration is inadequate. Consequently, large areas are excluded from felling to allow for the growing stock to recover and obtain the desired stocking. The yield is mainly obtained from the productive state forests and it is sold to sawmill owners or wood-cutter associations through open tenders.

The local production can only satisfy a small portion of the local demand for wood, thus timber-based industries are supported on imported timber, which accounts for up to 98% of their timber needs. The local yield ends up to some private sawmills that produce tailor made products for constructional purposes mainly for renovation of traditional buildings, light weight packaging for fruit and vegetables and pallets for the export trade.

4.1. Marketing and Consumption of Forest Products

During 2019, 2445 m³ roundwood over bark (R.O.B.) of timber were extracted from state forests and sold to private sawmills and other individuals for the production of pallets, light weight packaging for fruit and vegetables and tailor-made products, etc. Furthermore, a volume of 11 m³ R.O.B. of timber was extracted from haliland[1] and other areas. In addition to the above, timber from state forests, equivalent to 7419 m³ R.O.B. (of which 3279 m³ from burnt areas), was extracted and sold to private individuals as firewood. Also, a volume of 1676 m³ R.O.B. of firewood was extracted from private forests and another 87m³ R.O.B were extracted from haliland and other areas.

The local needs are satisfied by importing timber and timber products from abroad. The most important products imported are sawnwood, wood-based panels, and paper and paperboard. During 2019, there was a slight increase in sawnwood imports, as opposed to imports of wood-based panels, and paper and paperboard which remain stable (Table B). On the contrary, there are not any significant exports of any wood-based products from Cyprus, except from recovered paper for recycling purposes. (All traded quantities of wood and wood-based products can be seen on the attached TF1 and TF2 tables).

Table B: Imports of wood and wood-based products (2011-2019)

Timber and timber products	Total volume of imports								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sawn wood (thousand m³)	56,045	35,129	28,982	33,162	33,380	39,762	41,142	42,337	48,475
Wood based panels (thousand m³)	90,852	60,777	50,835	54,454	50,435	76,870	88,912	95,770	95,530
Paper & paperboard (thousand Mt)	74,063	59,100	55,192	55,668	52,052	53,433	52,642	50,556	50,409

4.2. Forest Industries

The timber-based industries of the island are gradually shrinking and there is a tendency of wood market shifting to imported final products mainly due to limited raw material availability. Initiated or planned bans on exports of unprocessed round wood in Eastern Europe are not expected to affect the wood processing sector of the island, since only very small quantities of round wood are imported. In 2019, eleven (11) small capacity mills producing pallets and lightweight packaging for fruit and vegetables and also one (1) larger mill producing constructional timber, were operating. The pallets in Cyprus have a very high rate of reuse, repair and recycling and they are used for wood energy at the end of their useful life.

[1] Hali-land is scattered land throughout the island, not regularly exploited for the last 300 years. Hali-lands are areas never been claimed by anyone due to heavy property and farming taxes imposed by the Ottoman administration (Thirgood, 1987). Later on, these areas were declared as common lands and the ownership passed to the State (Ioannou, 1991). Some of these areas have been naturally forested. Periodically, parts of these areas are declared as State Forests (FAO 2010; available at: http://www.fao.org/docrep/013/al487E/al487E.pdf).

5. TF1 and TF2 Tables

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TF1

TIMBER FORECAST QUESTIONNAIRE

Roundwood

Country: Cyprus | **Date:** 24/8/2020

Name of Official responsible for reply: Sawas Andrea

Official Address (in full):

CY - 1414 NICOSIA, CYPRUS

Telephone: 00357 22805517 | **Fax:** 00357 22805542

E-mail: planning@fd.moa.gov.cy

Product Code	Product	Unit	Historical data 2018	Historical data 2019	Revised 2019	Estimate 2020	Forecast 2021
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS						
	Removals	1000 m^3 ub	2	2		2	2
	Imports	1000 m^3 ub	0 #	0 #		0	0
	Exports	1000 m^3 ub	0 #	0 #		0	0
	Apparent consumption	1000 m^3 ub	2	2		2	2
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS						
	Removals	1000 m^3 ub	0	0		0	0
	Imports	1000 m^3 ub	0 #	0 #		0	0
	Exports	1000 m^3 ub	0 #	0 #		0	0
	Apparent consumption	1000 m^3 ub	0	0		0	0
1.2.1.NC.T	of which, tropical logs						
	Imports	1000 m^3 ub	0 #	0 #		0	0
	Exports	1000 m^3 ub	0 #	0 #		0	0
	Net Trade	1000 m^3 ub	0	0		0	0
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS						
	Removals	1000 m^3 ub	0	0		0	0
	Imports	1000 m^3 ub	0 #	0 #		0	0
	Exports	1000 m^3 ub	0 #	0 #		0	0
	Apparent consumption	1000 m^3 ub	0	0		0	0
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS						
	Removals	1000 m^3 ub	0	0		0	0
	Imports	1000 m^3 ub	0 #	0 #		0	0
	Exports	1000 m^3 ub	0 #	0 #		0	0
	Apparent consumption	1000 m^3 ub	0	0		0	0
3	WOOD CHIPS, PARTICLES AND RESIDUES						
	Domestic supply	1000 m^3	10 C	8 C		9	9
	Imports	1000 m^3	0 C	1 C		1	1
	Exports	1000 m^3	0 C	0 C		0	0
	Apparent consumption	1000 m^3	10	9		10	10
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS						
	Removals	1000 m^3 ub	0	0		0	0
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS						
	Removals	1000 m^3 ub	0	0		0	0
1.1.C	WOOD FUEL, CONIFEROUS						
	Removals	1000 m^3 ub	8	6		7	7
1.1.NC	WOOD FUEL, NON-CONIFEROUS						
	Removals	1000 m^3 ub	1	1		1	1

Please return (preferably by e-mail) to Timber Section no later than 11 September 2020.

By e-mail to stats.timber@un.org.

Questions? Please contact Alex McCusker at the above address or telephone +41 22 917 2880.

The historical data are from the most recent Joint Forest Sector Questionnaire (blank) or the Timber Forecast Questionnaire (#). For explanations please see cover letter.

These data are flagged with E, R, N or C for secretariat estimate, repeat, national estimate or calculated totals (from subitems). If there is no flag, this indicates officially supplied data.

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TF2

TIMBER FORECAST QUESTIONNAIRE

Forest products

Country: Cyprus		Date:	24/8/2020
Name of Official responsible for reply:	Savvas Andrea		
Official Address (in full):			
CY - 1414 NICOSIA, CYPRUS			
Telephone:	00357 22805517	Fax: 00357 22805542	
E-mail:	planning@fd.moa.gov.cy		

Product Code	Product	Unit	Historical data 2018	Historical data 2019	Revised 2019	Estimate 2020	Forecast 2021
6.C	SAWNWOOD, CONIFEROUS						
	Production	1000 m^3	1	1		1	1
	Imports	1000 m^3	33	36		37	37
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	34	37		38	38
6.NC	SAWNWOOD, NON-CONIFEROUS						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	9	13		13	13
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	9	13		13	13
6.NC.T	of which, tropical sawnwood						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	2	6		5	5
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	2	6		5	5
7	VENEER SHEETS						
	Production	1000 m^3	0 C	0 C		0	0
	Imports	1000 m^3	1 C	1 C		1	1
	Exports	1000 m^3	0 C	0 C		0	0
	Apparent consumption	1000 m^3	2	1		1	1
7.NC.T	of which, tropical veneer sheets						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	0	0		0	0
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	0	0		0	0
8.1	PLYWOOD						
	Production	1000 m^3	0 C	0 C		0	0
	Imports	1000 m^3	15 C	21 C		21	21
	Exports	1000 m^3	0 C	0 C		0	0
	Apparent consumption	1000 m^3	15	21		21	21
8.1.NC.T	of which, tropical plywood						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	1	1		1	1
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	1	1		1	1
8.2	PARTICLE BOARD (including OSB)						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	60	57		60	60
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	60	57		60	60
8.2.1	of which, OSB						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	17	15		17	17
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	17	15		17	17
8.3	FIBREBOARD						
	Production	1000 m^3	0 C	0 C		0	0
	Imports	1000 m^3	21 C	17 C		17	17
	Exports	1000 m^3	0 C	0 C		0	0
	Apparent consumption	1000 m^3	21	17		17	17
8.3.1	Hardboard						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	1	1		1	1
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	1	1		1	1
8.3.2	MDF/HDF (Medium density/high density)						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	15	13		13	13
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	15	13		13	13
8.3.3	Other fibreboard						
	Production	1000 m^3	0	0		0	0
	Imports	1000 m^3	4	2		2	2
	Exports	1000 m^3	0	0		0	0
	Apparent consumption	1000 m^3	4	2		2	2
9	WOOD PULP						
	Production	1000 m.t.	0 C	0 C		0	0
	Imports	1000 m.t.	1 C	0 C		0	0
	Exports	1000 m.t.	0 C	0 C		0	0
	Apparent consumption	1000 m.t.	1	0		0	0
12	PAPER & PAPERBOARD						
	Production	1000 m.t.	0 C	0 C		0	0
	Imports	1000 m.t.	51 C	50 C		50	50
	Exports	1000 m.t.	0 C	0 C		0	0
	Apparent consumption	1000 m.t.	50	50		50	50
5.1	WOOD PELLETS						
	Production	1000 m.t.	0	0		0	0
	Imports	1000 m.t.	2	3		3	3
	Exports	1000 m.t.	0	0		0	0
	Apparent consumption	1000 m.t.	2	3		3	3

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