

**Market statement
Ukraine**

Kiev 2007

General economic trends

Beginning from year 2000 economical situation in forestry of Ukraine like in general in country steadily improves. Having almost stable rate of national currency GDP has grown on 68% during last 6 years. Estimating so impressive rate of growth, it is necessary to consider, that in many cases it was caused by the lowest starting level.

Main socio-economic items

	2004	2005	2006	2007 (7 months)
Rate of GDP growth, %	112.1	102.7	107.1	107.9
Incomes of the population, M.UAH ¹	264 382	365 923	475 200	260 249
State budget, bill UAH.				
income	91.6	134.2	171.8	95
expenses	101.4	141.7	175.3	90
State budget income from forestry		1991.1	2451.1	1402.6
Share of forestry in state budget income, %		0.45	0.46	0.4
Export of products and services, bill \$	37980.21	40421.51	45873.2	26946.7
Incl. wood export (44 group) M\$	516.4	533.8	602.8	397.9
Share of wood and wood products (44 group) in total export volume	1.6	1.6	1.6	1.7
Average salary, UAH	590	865	1041	1253
Average salary in forestry, UAH	537	721	924	1132

The role of forestry in a national economy is insignificant – 0,4 % of GDP. The payment for wood harvesting in state forest is about 0.3 % of income of the state budget of the country. More significant is income from realization of wood and wood products (especially, share of round wood and sawn-timber in cumulative export volume). It grows and in first half of 2007 has reached 1.7%. Average salary in forestry remains lower than in total for the whole country.

Policy measures have been taken over the last 18 months.

After adoption of the Land Code there has been a hot discussion on how the forestry sector should be developed. A number of draft laws according the forest sector have been elaborated and submitted but in most cases they are not adopted. Most of them proposed limiting or banning final felling, banning export of round and sawn wood or establishment a high taxes in this case. In 2005 law “About regulation of wood export” passed the Parliament’s reading and was signed by a President. According to this law certificate of origin of harvested wood was introduced. Now without this certificate no export operation is available.

In year 2006 after two years battle in a Parliament Forest Code or better to say enlarged amendments to previous Forest Code was adopted. The main idea of it was harmonizing Forest Code with new Land Code. Main changes reduced to the following:

- Three categories of forest property are recognized – state, communal and private.
- The definition of “forest” was changed
- The role of the State in regulation of forest management is emphasized
- Right for disposal of forest land now was raised from local to oblast administration
- Division of forests into target groups was simplified

¹ Exchange rate for 2004 -1UAH is 5.44 \$, for 2005 -1UAH is 5.33 \$, 2006 -1UAH is 5.05 \$,

- Some small changes are introduced into the articles regulating the responsibility of forest management and silviculture
- Many provisions regulating practical aspects of forest management are placed into by-laws. In year 2007 it will be finished process of elaborating complex of by-laws and regulations, which develop main provisions of Forest Code. It should be mentioned that lawmaking process according to forestry issues in most cases is directed to creation amendments to existing law and do not create any cardinal changes to forestry practice.

Strategy for forest sector development

In the middle of 2005 Conception of Ukrainian forest sector development was elaborated and in May of 2006 this Conception was adopted by a Government. Main features of Conception are follows:

- Transferring all state forests excluding forest assigning for defence to State Forestry Committee (SFC)²
- Creating better possibility for contractual work in forestry
- Improving system of payment for forest resources
- Optimizing structure and number of SFE according to natural zone and significance
- Improving forest management according to new system of dividing forest by target use and developing system of use of forest resources
- Improving system of use of forest resources

In the end of February 2006 President provided meeting with forest specialists aiming discussing problem of forest sector. According to decision of this meeting “road map” for year 2006 and strategy for the further time was prepared by SFC and now approved only by working group in which representatives from different Ministries was participated. According to this document it was planned:

- Developing regulations and legal base
- Increasing of afforestation work
- Using new technologies and equipment for forest operation
- Increasing area of nature reserve fund
- Reforming some wood processing facilities of state forest enterprises
- For preventing illegal logging it is planned:
 - Enlargement work for forest certification.
 - Compiling database of primary documents on sales of forest products under SFC and forest users that deal with foreign economic activity
 - Preparing automated wood accounting system for all region
 - Enlargement auction wood selling

In March 2006 decree of Cabinet of Ministries has pronounced transferring all state forests excluding forest assigning for defense and forests within cities to SFC. In the beginning of this

² The main state authority responsible for forest and hunting management

year Cabinet of Ministries established inter-departmental commission which main task is elaborating procedure of transferring forest under responsibility of SFC.

Aiming attraction of investments in wood processing industry and creation of favorable conditions for development of deep processing per 2007-2011 the gradual dividing of wood processing activity of State Forestry Committee enterprises from forest activity will be lead.

To attract investments into wood-processing industry of Ukraine and create favorable conditions for deep wood processing, the years of 2007-2011 will be provided a gradual separation of the wood-processing sector at the enterprises of the State Forestry Committee from forestry practice. This program will be carried out by liquidating ineffective production units, their reorganization, sale and rent. As a result, it is expected improving efficiency in forest utilization in Ukraine, increasing investments into the wood-processing industry, and rising output of deep wood processed products. It is expected developing system of selling wood through tenders and auctions with the promotion similar system of sales of forest products by other users to form a transparent wood market that is oriented on meeting society demand in raw materials.

In forest sector now it is implementing two state program – “Forests of Ukraine” for period of 2002-2015 and program of development of industry which cover also wood processing and pulp and paper industry for period of 2003-2011.

Market drivers

All state forest enterprises are independent entities and until year 2007 had the right to sell round wood and forest products at the domestic market and for export. However, their activity was coordinated both at the regional (oblast) level and at the level of the SCF. Control implied estimation of a level of prices and conditions of the export contracts. From year 2005 the auction sales of high-quality wood was introduced in Ukraine. From March 2007 according to order of SFC all volume of roundwood timber harvested by all permanent users (with exceptions only for firewood and wood for construction) should be sold through auctions. These auctions should be provided quarterly in each region centers. Participation in these auctions could be taken by enterprises which have their own wood processing facilities. In case if roundwood timber will not be sold permanent user has a right to sell it by direct contract with price which is not below than price at the last auction

Main products in export are roundwood and board, in import fibreboard and chipboard. The SCF share in the export volumes of round wood in 2006 was 78.9% and only 23.4% of processed sawn wood. Enterprises of the Ministry of Agrarian Policy have a small market segment (1.7% of round wood and 1.3% of processed sawn wood supplies). In the western areas considerable volumes of wood are sold by physical persons (3.6% of the round wood and 23.8% of processed sawn wood supplies). Private enterprises are leading in supplies of the processed sawn wood.

Forest industry

Timber industry of Ukraine went through a deep crisis in mid-1990s due to privatization of basic facilities and bankruptcy of many enterprises that followed. Its further development is

characterized by appearance of a large number of petty private enterprises and entrepreneurs that specialize in sawmilling, and by creation of a number of large and medium-size foreign enterprises and joint ventures oriented at deeper timber processing. Prioritized development wood processing and furniture industry have become in northern and western part country where most essential forest resources are situated.

Stable development of wood processing industry was promoted by following factors: realization of reconstruction and technical development of existing furniture wood processing enterprises, introduction of new technologies, structural changes on wood products and furniture market, creation small and medium size enterprises, activation of scientific and innovation activities.

Restrain factors for wood processing industry development are: unfair competition from foreign exporters, which are delivered to Ukraine goods behind to dumping prices, increasing of tariffs for rail transportation especially for low-grade raw material for board industry which are leading for raising in price for fiber board and furniture in particular.

Developments in forest products market sectors

Wood raw materials

Complicated environmental situation and timber deficit always gives a double concern to two different interests in forest – conservation and consumption. Recently in Ukraine there was annually consumption about 30-40 million m³ of timber, including 15 million m³ of domestic wood.

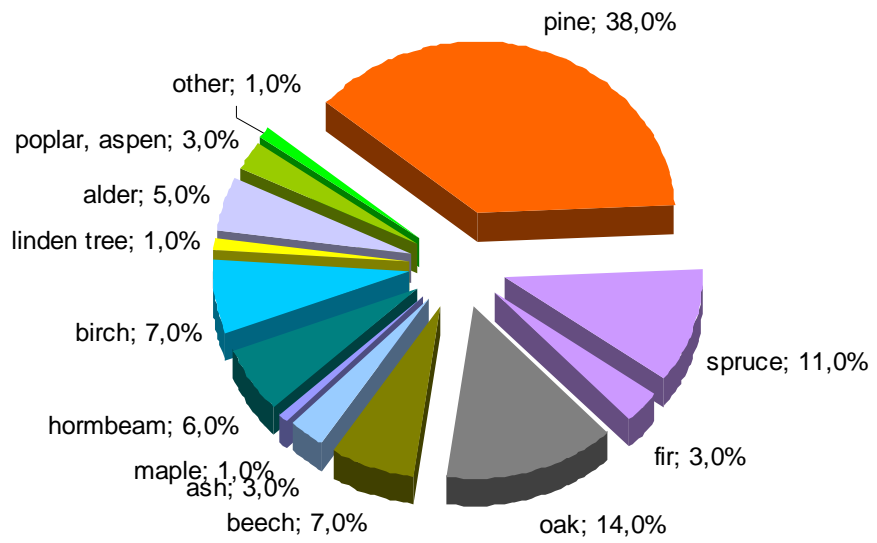
Timber harvested as a percentage of wood increment proves the insufficient utilization of forest resources. In Ukraine for the late years this correlation is up 45-50%. For comparison, in Austria, Hungary, Sweden, Switzerland and other countries 50-80% of increment is harvested.

Ukraine harvests only 0.9% of growing stock per year while the same coefficient constitutes 1.9% in Switzerland, 2.4% in Czech Republic, 2.8% in Finland, 3% and 3.1% in Great Britain and Belgium respectively.

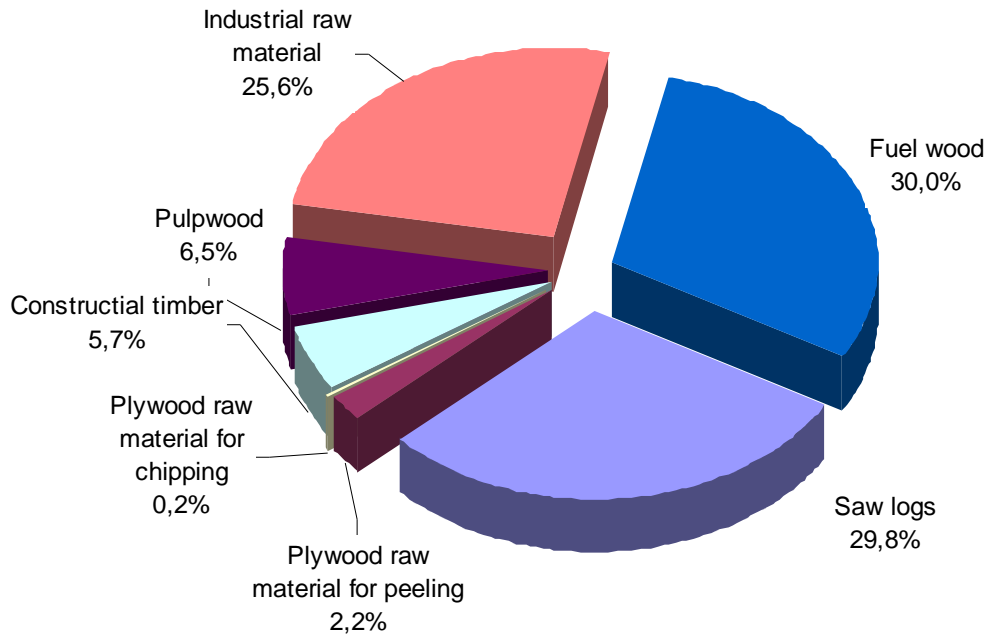
But in future the extension of mature and over-mature forests may lead to increase of the annual allowed cut in Ukrainian forest. Research and planning institutions have defined that the annual allowed cut (in final felling) may increase by 10-15% to 2010.

Timber is the main forest resource in Ukraine. The annual harvest of all merchantable wood is about 15 million m³ (12,5 million m³ by the State Forestry Committee), that includes 6,4 million m³ of timber removed from final felling (5,6 million m³ by the State Forestry Committee).

Structure of finel felling harvesting by tree species



Main assortments of wood harvesting



Assortment structure of harvested wood, thou m3

	2005	2006
Total volume of harvested wood	15244.3	15848.6
incl. sawlogs	4293.4	4554.4
coniferous	3044.2	3302.4
oak	498.8	510.9
beech	220.5	206.7
ash	86.4	92.5
plywood raw material for peeling	338.2	336.1
oak	20.8	22.2
beech	6.6	6.9
ash	3.0	4.3
plywood raw material for chipping	26.4	28.5
construction timber	876.0	864.5
pulpwood	953.1	1000.1
industrial raw material	3748.6	3912.0
fuel wood	4397.0	4581.7

Certification

In Ukraine work on forest certification started on a voluntary basis in 1999 as a procedure of evaluation correspondence of forest management to the principles of sustainable development with drawing up appropriate documents. In year 2000 an independent audit company 'Institute of market economy' (Switzerland) certified the Teterev research and productive forest enterprise in the Kyiv region and three state forest enterprises in the Zhytomyr region under the scheme of the Forest Stewardship Council (FSC). This certification was conducted at the request of an Italian partner of the above mentioned enterprises who sought certain advantages in the West-European market which required from forest products to be not only ecologically clean, but environmentally friendly as well.

A considerable intensive for development of forest certification for Ukraine was the entrance of the traditional exporters of Ukrainian timber (first of all, Poland, Slovakia and Hungary) into the European Union in May 2004. Naturally, a demand rose in these countries for timber certified under the FSC scheme.

Over the last years, the process of certification and awarding certificates was undergone by all the state forest enterprises subordinated to State Forestry Committee in the Lviv and Zakarpatya regions, some state forest enterprises in the regions of Ryvny, Zhytomyr and Kyiv.

In 2007, the area of Ukraine's forests certified under the FSC scheme exceeded 1.4 million ha and, no doubt, will increase in the years ahead. Work is under way now on certification of forests belonging to several forest enterprises in the regions of Zhytomyr, Kharkiv and Chernihiv as well as all the forest enterprises in the region of Chernivtsy.

Aiming developing Ukrainian national standards for voluntary forest certification with a financial support from Fund for Protection of Wild Nature and World Bank (since 2006 also from Swedish IKEA company), in 2004 it was organized National working group with active participation of specialists of State Forestry Committee, the Ukrainian Research Institute of

Forestry and Forest Melioration named after G.M.Vysotskiy (URIF&FM), Ukrderzhlisproekt, regional forestry administrations, and state forest enterprises. In 2007, a second version of Ukrainian standards for forest certification has been developed in accordance with the principles of FSC. In summer 2007, the field tests of these standards have started.

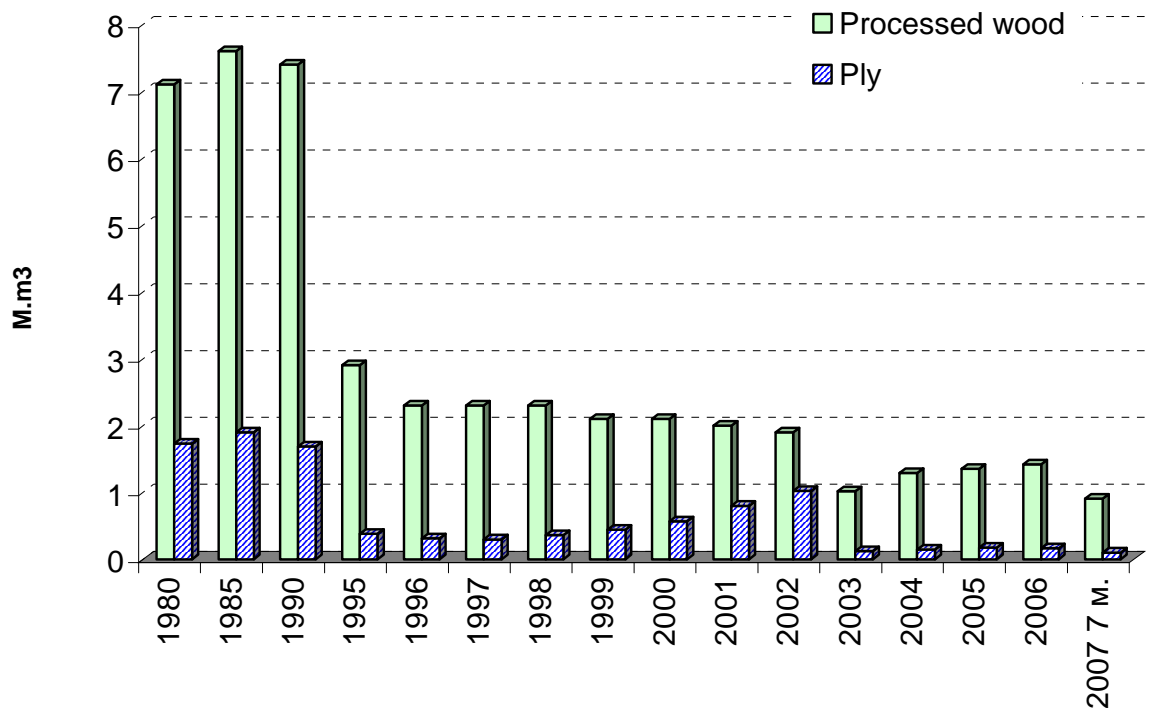
In the process of forest certification state forest enterprises proved that level of forest management in Ukraine meets the modern international requirements. Ukrainian forests are managed in compliance with principles of sustainable development and balance of ecological, social and economic issues.

Sawn wood

Volume of production on wood processing enterprises in January-July of 2007 in comparison with the same period of 2006 has been grown on 27,5%. It has been grown production of particle board, windows, doors, chipped plywood (on 37-48%), wooden containers and its parts, a parquet wooden panel boards, peeled plywood (on 10–13%). Besides it was down production of planks and friezes for a parquet or wooden covering of a floor from broadleaved species, wooden pallets and wood along sawn or split, thickness more than 6 mm.

Volume of production on wood processing enterprises in 2006 in comparison with 2005 has been grown on 13.9%. It has been grown production of wooden pallets, windows, doors, wooden thresholds (on 26–37%), parquet wooden panel boards, no processed fiber boards (on 10–16%). Besides it was down production of planks and parquet from broadleaved species and wood along sawn or split, thickness more than 6 mm.

Wood-processing industry production



Wood-based panels

In January-June of 2007 the best rate of growing in wood processing industry was in production of fiber boards. It was produced 802 thou m³ which is on 41.6 % more than for the same period of the last year. In this amount it is included production of 540 thou m³ of laminated fiber boards, which is on 43.9 % more than for the same period of the last year.

In January-June of 2007 production of particle boards was 12.8 M m³ which is on 9.3 % more than for the same period of last year. In January-June of 2007 production of veneered panels was 84.4 thou m³ which is on 3.4 % more than for the same period of last year.

Pulp and paper

In January-June of 2007 in pulp and paper industry volume of production has been grown on 8.6% with comparison with the same period of last year.

It has been grown production of uncoated test-liner (on 40%), boxes, cases, bags and other packing containers from paper and paperboard, note books, special uncoated paper and paperboards, cigarette paper not cut to size, paper for gofer from cellulose (on 15–24%). Besides it was down production of uncoated paper and paperboards for graphic purposes.

In year 2006 in comparison with c 2005 volume of production has been grown on 10.3% in pulp and paper industry. It has been grown production of uncoated test-liner, paper for gofer from cellulose, craft paper and uncoated paperboard (on 17–23%), paper for newsprint, labels from paper and paper boards, boxes, cases, bags and other packing containers from paper and paperboard (on 6–9%). Besides it was down production of paper and paperboards for household or sanitary purposes, wallpaper and similar wall coverings.

Dynamic of production of wood processing and pulp and paper industry

	2003	2004	2005	2006	7 month of 2007
Wood along sawn or split, thickness more than 6 mm, thou m3	1 017	1 293	1 348	1 418	907
Veneered panels, thou m3	114	145	173	164	99
Fiber boards, thou m3	732	975	1 150	1 329	943
Uncoated paper and paperboards for graphic purposes, thou.t	25,9	39,3	44	47	23,6
Paper and paperboards for household or sanitary purposes, thou.t	93,4	107	111	112	67,2
Special uncoated paper and paperboards, cigarette paper, not cut to size, thou.t	249	287	318	318	216

Literature:

1. Statistical booklet “About forest management activities in 2006”
2. Data of State Committee of Statistics <http://www.ukrstat.gov.ua/>
3. Data of Ministry of Industrial policy <http://www.ukrstat.gov.ua/>
4. Data of Ministry of economics <http://www.ukrstat.gov.ua/>
5. Booklet “Forest management in Ukraine”.