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# Timber Market Report 2006

# Bulgaria

**REPUBLIC OF BULGARIA**
**MINISTRY OF AGRICULTURE AND FORESTRY**
**NATIONAL FORESTRY BOARD**

# TIMBER MARKET IN BULGARIA

## I. Common view of the Bulgarian economy, main economic tendencies with influence on the forestry and timber processing sector

Bulgaria is small country with highly open economy, which determines the relation of the main macroeconomic indexes from factors, external for the system. Independently from the dependence of our economy to the development of the world economy and especially the oil prices, during the last years our country reached macroeconomic stability and development which remains in 2006. In January 1999 according to the Bulgarian National Bank Act the Bulgarian currency – LEV was fixed to the EURO (1€ =1,95583 levs) in the same correlation as the German mark, which was made with the setting of the “Currency board” in our country. During the last 5 years the stability of the Bulgarian economy is the main factor for stable economic development. The real Gross Domestic Product (GDP), on the base of 2000 is 4,5 % in 2003, 5,6 % in 2004, 5,2 % in 2005. The Governments’ programme and forecast are foreseeing for 2006 and 2007 the economic development(through the real development of the GDP) to be, 5,3 % and 5,5 % - one of the highest in Eastern Europe.

The changes in some of the main macroeconomic indexes for 2003-2005, the programme for 2006 and the forecast for 2007 are bellow in Table 1.

Table 1

| # | Main macroeconomic indexes | 2003 | 2004 | 2005 | 2006 programme | 2007 forecast |
|---|---|---|---|---|---|---|
| 1 | GDP – current prices (mill.leva) | 34547,0 | 38008,0 | 41948 | 44655,4 | 48761,5 |
| 2 | Real development of the GDP on annual base(real development-%) | 4,5 | 5,6 | 5,2 | 5,3 | 5,5 |
| 3 | Inflation (%)<br>- at the end of the year<br>- in the middle of the perio | <br>5,7<br>2,4 | <br>4,0<br>6,1 | <br>3,4<br>3,7 | <br>3,9<br>3,7 | <br>4,0<br>4,0 |
| 4 | Currency course(leva/USD) -annual average | 1,73 | 1,57 | 1,53 | 1,57 | 1,57 |
| 5 | Level of unemployment-(% at the end of the period) | 13,5 | 12,2 | 10,7 | 11,7 | 11,7 |
| 6 | State and state guaranteed debt - % of GDP | 48,2 | 40,7 | 31,9 | 27,0 | |

** Sources of information: Ministry of finances, Ministry of economics, Agency for economic analyses and forecasts, Bulgarian National Banc, National Statistical Institute*

Main factors for the good economic development are mainly the high level of investments, the increment of the export, internal consumption, financed with the increase of currency supply from real increment of the salaries, the employment and the real estate and personal credits.

One of the main indicators of the macroeconomic stability is the low **inflation** during the last several years. The state finance and the Currency board are stable. The inflation in 2003 – 2005 decreased from 5,7 % to 3,4 %. According to 2006 programme, the inflation must be 3,9 %, and for 2007 – 4 %. The stable prices decreased the business risk, gave possibilities for long term planning and implementation of large scale capital projects with possibility of high level added value, and this increases the economic development.

**The currency course,** after the starting of the Currency board, is stable and despite of that according to the negotiations with ICF was set a course 1,80 leva for 1 USD, the forecast for the next two years it will stay on a level 1,50 – 1,60 leva for 1 USD.

**The Bulgarian export** for 2005 is for 47,2 billion leva and has increment of 23,1 % compared with the previous year. There is a new tendency – the export is increasing more than the import. In 2005 the import is for 18,5 billion leva, which is increment of 18,6 % compared with 2004.

These auspicious signals for the development of the Bulgaria economy leaded to the increasing of the foreign investments in the country. For 2003 the amount of investments is 1,8 billion € and this will remains for 2005 also.

There is a stable tendency in the last two years for decreasing of the **unemployment** in the country. Logically, for the period 2003 - 2005 it decreased with 2 %, reaching 10,7 %, which in absolute numbers shows a decreasing on the registered unemployed persons from 500 664 in the end 2003 to 397 340 for 2005. The expectations for 2006, as well as for the following two years are for increasing of the employment with 1 to 2 % per year, as bigger part of the economic growth will continue to be reached by increasing the labour productivity.

The Bulgarian state debt for 2005 is 14 014,4 mill. leva and it is mostly foreign - approximately 80 % - 11 232 mill. leva. In 2002, after the adoption of the State Debt Act was created a clearness for the procedures and jurisdictions in debt issuing. During the last few years was reached improvement in terms of its management and decreasing.

The economic situation in the country in 2005 and the first half of 2006 remains favourable. The average level of the common business climate index for 2005 is with 10,4 points over its long-term average value for the past 10 years - from 1994 to 2005.

Very auspicious are the indexes of the manufacturing production and for the selling in 2005, which, according to official statistic data from the National Statistic Institute (NSI) at the end of the year, are increased with 79,3 % and 74,6 %, calculated on base 'year 2000 = 100'. In particular, the indexes of manufacturing production of timber and wood products, without furniture and pulp, paper, cardboard and others are respectively 142,6 % and 115,9 %, and the indexes of selling these products are 127,3 % and 127,8 %.

After this short analysis of the main macroeconomic indicators for the development of the Bulgarian economy, we can definitely say that moving close to the date of full acception in EU, it overcomes more of the economic obstacles and challenges and shows accelerated economic development.

## II. Political and legislative measures, related to the trade and forest product's market. Market mechanisms

The legislative base, related to the trade and timber and forest product's market is common, concerning the common statutory and trade rules, and specific – connected with the present forestry legislation base.

In the present report we will see in brief the specific legislative base and I have to say, that during the last 5 years were made some amendments in the **Forest Act (FA)** and **Regulation for Implementation of the FA (RIFA),** aiming the optimization of the timber utilization and trade.

According to FA and the RIFA, for the utilization and the timber selling from the Bulgarian forests is used one of the following ways:

1. standing timber fee;
2. assigning of the harvesting and the selling of timber from storage;
3. auction, competition or negotiations for provision of cutting area;
4. auction, competition or negotiations for provision of implementation of activities, foreseen in the Forest management plans for whole State Forestries(SF) or part of them;
5. Concession;
6. State Forestries, which independently organize and implement the harvesting and transporting activities.

The timber utilization, regardless from ownership is done according to Forest management plans and programmes. In the FA and the RIFA are stated the main rules, order, conditions, technologies, terms, control and documentation for the timber utilization from the forest fund and its selling. In these Acts to the State Forestries is given the possibility to assign or to do by themselves the timber harvesting and transport activities. They can organize the timber selling from temporary storages or to make preliminary selling of forecasting quantities through auctions or direct negotiations. Traders, registered in the National Forestry Board(NFB)'s public register, can participate in these procedures for assigning the right of timber utilization.

In the FA, Section "Export and Import" is regulated the export regime for round timber and mushrooms, as well as the order for permission or registration of export deals with these products.

As a gap in the present FA we can point the lack of regime for trade with wood materials and the possibilities for long term framework timber contracting, which is a fault according to the fact, that in the market economy conditions, the state forest structures will have to make deals with the produced from them round materials more and more.

In the present moment in the Council of Ministers (CM) and the Parliament Commission "Agriculture and Forests" is ongoing a procedure for adoption of new Forest Act, in which is foreseen the creation of a new independent economic structure - „State enterprise for forestry activities", which will utilize and trade timber and non timber products and benefits from the state forests. Parallel to that, will continue the existence of NFB within the Ministry of Agriculture and Forestry with mainly control functions and is foreseen the establishment of State Fund "Bulgarian Forest", in which will be accumulated certain amounts, used subsequently for reinvesting in the regeneration of the Bulgarian Forests, in the construction and reconstruction of forest infrastructure and others.

***Hunting and Game Protection Act (HGPA)*** – the Act arranges the relations, connected with the ownership, game protection and game management, the organization of hunting grounds, the right for hunting and trade with game and game products. 39 Game Breeding Stations (GBS) are established as legal persons with a status of state enterprises on article 62, paragraph 3 from the Trade Act, in which organizations one of the main activities is the timber utilization from the State Forest Fund, strictly subordinated with the preserving the biotopes and improving the game areas. The timber from the state forests within the relevant GBSs is used according to the FA in return of payment of percent from the selling price, set with tariff.

There are CM's legal documents, which have direct influence on the timber trade. For example, in 2002 with CM's Executive order № 233 for the regulation of the Bulgarian export regime was forbidden the export of burned timber.

Regarding the trade with rough non processed timber, Bulgaria adopted EU Directive 89/68 and in 2004-2005 made amendments in the FA and the RIFA, with which, if necessary, the timber is calcified according the statutory.

In 2005 CM elaborated and adopted „**National strategy – Sustainable development of the forest sector in Bulgaria, 2006-2015".** With the support of World Bank, within the framework of Forest Sector Development Project was made **"Research on the restructuring of NFB and the state forest administration",** concerning the future development of the forest sector.

The strategic goals, which have to be reached in the forest sector, are focused on the achievement of balance between the economic, ecological and social functions of the Bulgarian forests. As main priorities are pointed: increasing the forest areas and the wood biomass for energy; conducting institutional reform in the forest sector; overcoming the erosion processes and protection of the biologic diversity (NATURA 2000); improving the forest protection.

The State Forest Fund, managed by the NFB within the MAF, presently manages approximately 73 % from the forest fund. The municipality timber's utilization and selling is according to the requirements of the FA and the RIFA and are made according to decisions of the relevant municipality councils. The harvesting from other forests, owned by physical and legal persons is according to the requirements of the FA and the RIFA and the timber selling is free. The secondary timber market is free, only the export of round wood is based on regulating regime.

### III. Development of the timber and wood products market in Bulgaria

### A. Brief characteristics of the forest sector and the wood processing industry:

1. The State Forest Fund (SFF) is 77 % from the country's forest fund, including the forests and lands from the forest fund, which are managed by the Ministry of Environment and Waters (MEW) (National parks, Reserves and others) and Training Forestries, managed by University of Forestry. The rest 23 % are owned by municipalities, physical and legal persons, religious communities and others. SFF is managed by NFB – State budget administration with three level structure and approximately 9500 employees. NFB has common and specialized administration, organized in three Directorates. The regional and local structures of NFB are the 16 Regional Forestry Boards, 141 SF, 37 GBS and 19 research, seed control, forest protection and other Stations and Sections. The forest sector has a share of 0,55 % from the GDP;
2. The harvesting and wood processing industries are close to 100% private and the wood processing industry has 2,2 % from the GDB and 18 000 employees.
3. Forest certification – till the present moment in Bulgaria are certified only 21 427 ha forest, in SF Dospat, RFB Smolian and Forest industry complex "Borika", Stoykite village, which is only 0,5 % from the Bulgarian forests. The certification is made on FSC.

### B. Common view on the timber and wood product market in Bulgaria

The statistic information for production, export and import of round wood and main products of the wood processing industry, as well as the programme for 2006 and the forecast for 2007 are presented in the attached Table 2. The information is from NFB's internal statistics and Customs Agency, from diaries for received, processed and expedited wood materials, as well as from inquiries made with the wood processing factories. Before the short review of the market, I have to point, that during the last few years can be stated increasing of the demands of timber and shortage of certain timber sizes, based on the huge internal consumption by the wood processing and furniture industries, for building and for heating fuel.

#### *B.1 Round wood*

The total amount of round wood, harvested in 2005 is 5 768 000 m3, which is 2 % less compared to 2004. The volume of the harvested during the year **logs** is 1367 000 m3, from which coniferous are 920 000 m3. The volume of the **deciduous logs** is 447 000 m3, as in this group during the last few years is realized relevantly large import, which for 2005 is 48 000 m3, mainly poplar logs for plywood.

The total volume of the harvested in 2005 technologic timber for production of **wood plates and pulpwood** is 1723 000 m3, from which 943 000 m3 is coniferous and 780 000 m3 deciduous. During the last few years Bulgaria exports bigger volumes of technologic timber, mainly for Greece and Turkey – for 2005 it is 343 000 m3, from which 133 000 m3 is coniferous and 210 000 m3 deciduous.

In 2005 in Bulgaria are harvested 2 678 000 m3 for **wood fuel**, from which 318 000 m3 are coniferous and 2 360 000 m3 are deciduous. Relevant large export of deciduous wood fuel – 90 000 m3 is realized, mainly to Turkey, Greece and Macedonia.

#### *B.2 Sawnwood*

The total volume of the produced Sawnwood is increasing and for 2005 is 1279 000 m3, from which 260 000 m3 is exported. From the produced timber 828 000 m3 or 65 % is coniferous timber. Relevant large is the exported part from the deciduous sawmill timber – from 451 000 m3 produced 27 % or 125 000 m3 is exported.

#### *B.3 Plywood*

The total volume of the produced plywood is relevant the same during the last few years and for 2005 is 50 000 m3, as well as in 2005 is registered relevant high import of this product – 30 000 m3, mainly from China and Greece, partly from Romania.

***B.4 Particleboards, including OSB***

The total volume of the produced particleboards during the last few years is increasing and for 2005 are produced 420 000 m3, mainly light – from coniferous and soft deciduous tree species. The volume of the produced OSB boards is 160 000 m3 or 38 %. Relevant high is the export of the particleboards - 345 000 m3 or 82 % from the production, mainly to Turkey, Greece, Azerbaijan, Macedonia, Lebanon and other.

***B.5 Fiberboards including hard(HB) and middle hard (MDF) solidity***

The total volume of the produced fiberboards is increasing during the last few years and for 2005 are produced 110 000 m3, all of them HB. Relevant high is the export of the fiberboards –HB - 77 000 m3 or 70 % from the production, mainly to Italy, Sudan, Romania, Macedonia, Turkey, Greece and other. There is no installation for production of MDF in Bulgaria. In 2005 is registered relevant high import of this product – 84 000 m3, mainly from Germany, Poland, Switzerland, Turkey, Romania and other.

***B.6 Pulpwood***

In Bulgaria is producing sulphate pulpwood from coniferous and deciduous tree species. The pulpwood, produced in Paper Factory Stamboliyski (now Mondi-Packaging) is use for the production of Craft paper, and for this reason we do not include it in the present report. Main producer of bleached sulphate pulpwood from deciduous tree species is the factory „Sviloza" GSC, town Svishtov, which annual production is relevant equal – 60 000 tons, as it is for 2005. Form this volume 95 % or 57 000 tons is exported in the same year.

***B.7 Paper(craft)***

The main type of paper, which is produced in Bulgaria, is Craft and its volume during the last few years is increasing to reach in 2005 - 76 000 tons. From this volume main part, 72 000 tons, is exported and only 4 000 tons is for the internal market.

## IV. Production of wood for energy source

Bulgaria has stable energy sector. The legislative base, regulating the relations in it includes: Energy strategy of Bulgaria, Energy Act, Energy Efficiency Act, National Long Term Programme for Energy Efficiency (NLTPEE) and a number of other legislative documents – Regulations, Directives and others. Moreover, the vision for the energy efficiency is connected with the sustainable and multifunctional management of the forests and the forest territories.

With a CM's Decision, Bulgaria joints the EC Programme "Intelligent Energy for Europe". In the Bulgarian legislation is foreseen stimulation of the energy production from Renewable energy resources and for 2010 is foreseen a part of 11 %. In the NLTPEE the share of biomass is relevant large in the Final Energy Consumption (FEC) – 7,7-7,9 %, while the share of biomass in the Primary Energy Consumption (PEC) is approximately 4 %. As a main energy component from the different types of biomass, in NLTPEE is the free biomass. The total volume of harvested wood fuel in Bulgaria is over 2,5 mill. m3. We are in a process of researching and introducing highly efficient cauldrons and energy systems for utilization of the removals from the harvesting and timber processing productions, and expert assessment is that the useful wood residues are annually approximately 500 000 m3.

Moreover, there are developed agreements and programmes with other Ministries and organizations, with which annually is ensured a certain volume of wood fuel for social programmes.

**Annex:** Table 2 [see Timber Committee forecast data]