

Economic Commission for Europe

Timber Committee

Sixtieth session

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Geneva

**Country: LITHUANIA**

## **MARKET STATEMENT**

### **1. General economic trends**

According to Statistics Department, gross domestic product showed an increase of 5,8% during the first six months of 2002. Experts forecast the growth in GDP by 4-5% for this year. The growth this year is mainly determined by rise in the value added in industry sector and sectors directly connected to the final consumption: financial sector, transport, construction, wholesale and retail trade, energy sectors.

Capital investments are growing in Lithuania this year. In II quarter capital investments were by 30% up as compared to the corresponding period of 2001, and more than half of investments (57%) went for construction and repairs. During I quarter of this year, foreign direct investment (FDI) increased by 2,1%. As of 1<sup>st</sup> April this year FDI into forest industry totalled EUR 79 million and accounted for 2,2% of total FDI or 10,1% of FDI into manufacturing industry. Forest industries altogether (woodworking, paper and furniture) remained the second biggest subsector behind textile industry according FDI into Lithuanian manufacturing industry.

In July 2002 consumer price index was at 99,1% (December 2001 = 100). In July manufacturing industry producer prices were by 0,2% down, compared to July 2001. Woodworking industry producer prices showed drop of 6,9%, pulp and paper industry – 5,7%, furniture industry – 0,1% during seven months of this year. Industrial roundwood prices dropped by 5% during six months of this year.

In June 2002 construction cost index was at 101,5% (December 2001 = 100). Cost for residential construction reduced by 2,0%, for non-residential construction – 0,6% and renovation – 1,3% during first six months of this year.

Lithuania's exports increased by 3,3% and imports by 13,1% during the first six months of this year. Exports of wood and wood products increased by 12%, year on year. An increase of value-added products' share in exports this year is noticeable.

According to Department of Statistics figures, the woodworking industry showed an increase in sales during the first seven months of this year, rising by 25% on 2001. Furniture producers posted 10% and paper industry 43% growth. Such an increase of forest industry was clearly overtaking overall growth in manufacturing industry (+4%).

From 1 February 2002 Lithuanian currency litas (LTL) was pegged to the euro at 1 euro per 3,4528 LTL. Before this date litas was fixed to US dollar (\$1=4LTL). For most forest products exporters this change gave stability as 60% of wood products are exported to EU countries, however several sawmills exporting goods to U.S. suffered from steep devaluation of dollar in later months.

### **2. Developments in forest products markets sectors**

#### ***Value-added forest products and engineered wood products***

During the last years Lithuanian exports of value-added forest products has grown considerably. In 2001, export of further processed sawnwood, joinery goods, packing equipment, wooden furniture and prefabricated buildings increased by 25% to US\$ 150 million, as compared to 2000. For comparison, exports of these goods amounted to US\$ 70 million in 1996. Particularly export of furniture and prefabricated buildings was growing over the last years.

In first months this year, exports of value-added forest products grew by further 20%, mainly because of increase by 35% in furniture exports. Above mentioned value added forest products (including paper products) account for 60% of Lithuanian forest products export value this year (in 2001 – 56%).

Among engineered wood products only gluelam is produced in Lithuania. The biggest producer (15,000 m<sup>3</sup>/yr) sells its product mainly to Germany, Poland and Baltic states market. Domestic market for gluelam remains limited due to relatively high price for this product, and in Lithuania it is sold only for non-residential sector.

### **Certified forest products**

In 2000 an initiative for certification came from Lithuania's state forest authorities, which applied for FSC certification of 70,000 ha of state forest. In autumn this year FSC certificates were issued for 70,000 ha of state forest (encompassing 2 state forest enterprises, including 1 state-owned sawmill).

In 2001 four Lithuanian wood processing industries were awarded with FSC chain-of-custody (CoC) certificates, and several companies already applied for the FSC chain-of-custody certification in 2002. By the day of the writing the report there were at least five forest industry companies which had FSC CoC certificates.

Raw material (roundwood) supply side for the year 2002 could be estimated 250,000 m<sup>3</sup>/yr, i.e. up to 5% of total removals in Lithuania. Expectations that FSC certification will help forest management companies to find new markets and get higher prices for logs has not become a reality so far. Interviews with wood processing companies having FSC CoC certificates proves, that in nine months only 1,500-2,000 m<sup>3</sup> of roundwood (birch logs) were converted into value added products (furniture components, dowels) which were exported for U.S. and UK markets with FSC label. Several wood processing companies having FSC certificate so far have not sold any FSC-labelled products.

In general, current situation with FSC-labelled wood products in Lithuania could be described as following:

- very small volumes have entered marketplace;
- FSC label does not influence any price increase (buyers are not willing to pay extra);
- Label gives the possibility to secure some contracts and buyers.

In spite of limited demand for certified wood so far, several state forest enterprises are seeking for FSC certificate, and the area of FSC certified forest should increase in nearest years.

Forest owners association is elaborating national PEFC standard.

### **Sawn softwood**

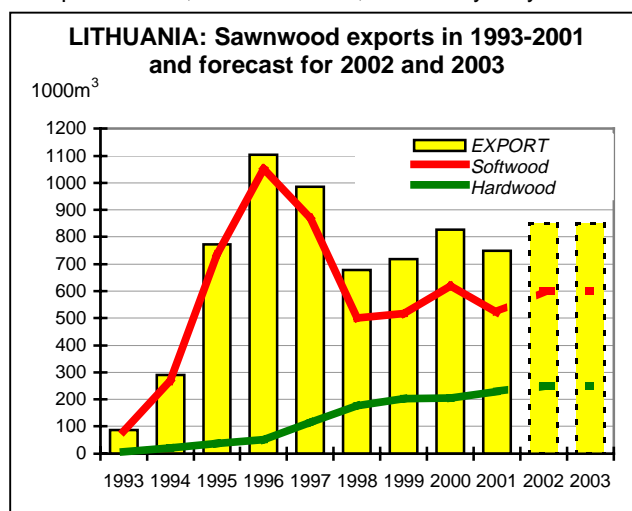
In 2001, production of sawn softwood declined by 10% to 0,9 million m<sup>3</sup>, as compared to 2000. Decrease was determined by shortage of spruce logs, which removals are expected to decreased and competition from exporters has grown.

This year sawn softwood production is expected to recover to 1 million m<sup>3</sup>, as the availability of logs increased due to additional volumes coming from fellings in storms (in winter and July) damaged areas. Also supply from private forest is growing.

In first six months of 2002 sawn softwood exports increased by 20% and will total about 600,000 m<sup>3</sup>, close to the level of 2000. Imports same as exports is expected to reach volume of 2000 (250,000 m<sup>3</sup>). Apparent consumption of sawn softwood is expected to grow further in coming years. Upward tendency on domestic consumption is based on consistent growth of value-added products export and growing economy in Lithuania.

This year, exports to the main market – Germany, which account for 30% of sawn softwood exports, remained at the same level as in 2001. Deliveries to the second biggest export market, North America, in January-May accounted for 28% of exports. In first months of the year exports to North America were by even 40% up as compared to the corresponding period of 2001. Sales to the third biggest market – UK increased by 60% this year accounting for 15% of exports. It is expected that in the second half of the year deliveries to U.S. will reduce and more softwood will go for UK and other markets because of unfavourable development in US\$ exchange rate (the biggest Lithuanian sawmill announced that in June).

Sawn softwood imports are on 10-15% increase this year because of bigger volumes coming from Russia. The main sources of imports are Russia (80%) and Belarus (15%). Most of this wood is converted into value-added products (planed, kiln dried timber, also prefabricated buildings, joinery goods, gluelam, etc.), which are sold both in external and domestic markets.



Summarising, it should be stressed that big structural changes are coming into Lithuanian softwood sawmilling sector. Two of biggest softwood sawmills invested in capacity expansion recently (+50%). In August it was announced that the biggest Estonian sawmilling group is going to build greenfield softwood sawmill (capacity 100-200,000 m<sup>3</sup>/yr) and already acquired the land for it. Taking into account that today the biggest Lithuanian sawmill produces ~100,000 m<sup>3</sup> per year, and total sawn softwood production is estimated at 1 million m<sup>3</sup>, it is clear that the new sawmill will change the picture of Lithuanian sawmill industry in coming years. Today nearly 70-80% of sawn softwood is produced by small companies (up to 10,000 m<sup>3</sup>/yr). In recent years small scale Lithuanian sawmills sell more and more wood for domestic consumers and the producers/exporters of value added products (secondary processed sawnwood, joinery and carpentry goods, solid wood panels, prefabricated wooden buildings, furniture and others), and this tendency should continue.

### ***Sawn hardwood***

In 2001, sawn hardwood production remained stable at 300,000 m<sup>3</sup>. This year hardwood production is expected to grow by 10-15%. Packaging grades account for the main share in Lithuania's sawn hardwood production and exports, however birch sawnwood, which later is converted into solid wood panel, furniture components was growing consistently during the last years.

In first six months 2002 sawn hardwood exports showed further increase by 10%, compared to 2001. Sales to Germany remained unchanged and to Belgium increased by 20%. These two countries account for 70% share in Lithuania hardwood exports, most of which are packaging grades. Oak, which accounts for 10% of sawn hardwood exports, deliveries remained stable this year.

Sawn hardwood imports unchanged this year. Sawn oak and beech (mainly from Ukraine, Russia) accounts for 50% of hardwood imports.

Export is expected to grow more slowly than production, as the domestic consumption is growing together with increasing demand from furniture, furniture components, solid wood panel producers.

### ***Wood-based panels***

Lithuanian wood-based panel sector experienced the biggest changes among the forest industries in 2001. Greenfield factory was built which will produce 50-100,000 m<sup>3</sup>/yr of peeled and sliced veneers (also plywood) from birch, beech, alder, oak, ash, pine in nearest future. However in the first half of 2002 the factory was not running at full capacity, most possible that the real volumes will be produced in 2003.

Wood-based panel producers in first months of this year were meeting insufficient supply of roundwood. Roundwood for particle and fibreboard was in shortage because of growing demand from energy sector. Therefore prices for raw material increased by 10-15% in spring. Plywood producers were in shortage of birch logs because of increased fellings in storm damaged spruce stands.

In first seven months of this year plywood production in Lithuania decreased by 5%, mainly due to shortage of logs for this industry. It is expected that production this year will remain at the same level as in last year, and growth is expected from next year, when the new mill will start operations in bigger scale.

In seven months this year production of particleboard declined slightly (by 2%), but by the end of the year it is expected to be close to previous year's level. Export this year dropped by 20% and imports increased by 20% this year, mainly because of increasing demand in domestic market (furniture industry). Apparent consumption of particleboard is expected to grow further in nearest years.

Fibreboard (hardboard) production is has decreased by 10%, mainly because of the same reasons as particleboard (competition from energy sector).

### ***Pulp and paper***

Since early 1990's pulp production discontinued in Lithuania, and there are no any plans to launch production in nearest future. Imported pulp is re-exported mainly.

Paper production declined by 90% to 10,000 t/yr during 1990s. No any plans to boost the production in future are announced by the time being.

Paperboard production is recovering since 1994 (8,000 tons) reaching 54,000 tons in 2001. The major producer carried out investments (new recovered paper lines were installed) in 2000-2001, and this year paperboard production should be at 60-70,000 t. Even this paperboard production level will remain by 20-30% less than in 1980's.

In 2001, apparent consumption of paper and paperboard is rose by 12% to 105,000 tons. Figures for the first half of this year prove that consumption will grow by further 10-15% this year.

## Wood raw materials

Natural calamities in 1994–1996 (windfalls and bark beetle damages in spruce stands) caused steep increase in volumes and structure of roundwood removals. During 1997-1999 removals stabilised at 5 million m<sup>3</sup> level. The storm Anatol in December 1999 damaged about 0,5 million m<sup>3</sup> of trees (70-80% spruce), which were removed in 2000. This factor together with growing fellings in private forests influenced the growth in removals by 10% to 5,5 million m<sup>3</sup> in 2000.

In 2001, due to insufficient demand by domestic industries and low roundwood prices (prices are at the lowest level since 1996) removals increased slightly (3-5%), because of growing supply from private forests (2 million m<sup>3</sup>). While fellings in state forests decreased by 5% to 3,7 million m<sup>3</sup> in 2001.

This year removals are expected to increase by 5-10%, both in state and private forests. Mild winter hampered logging operations in first months of this year, however in later spring months supply of logs recovered. Storms in January and July damaged about 0,4-0,5 mill.m<sup>3</sup> of timber, mainly in spruce stands.

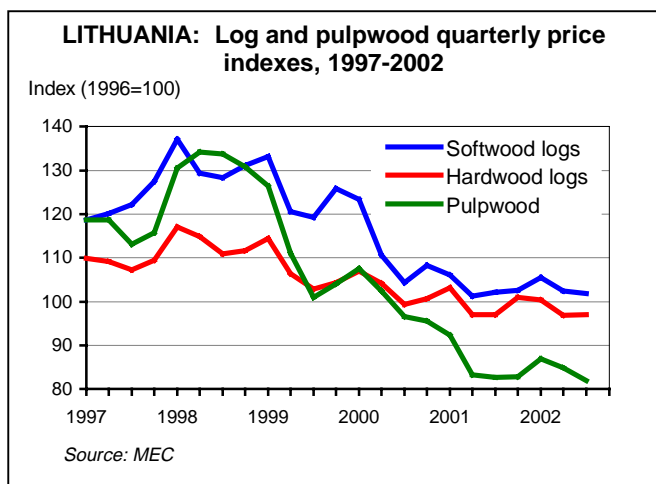
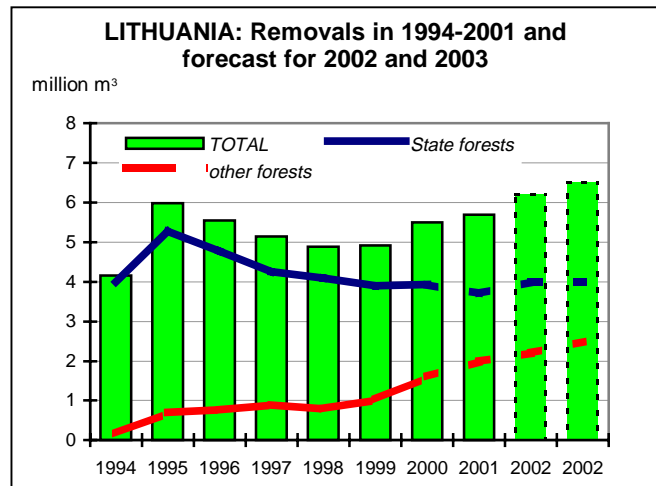
This year softwood log removals are expected to increase by 10-20% as compared to 2001. Spruce sawlog volume will increase because of removals in storm damaged stands. Spruce logs meet good demand this year both from local sawmills and exporters. Prices for spruce logs are at the similar level as in 2001, even higher prices for small diameter logs are noticed. On the other hand, pine log supply decreased by 5-10% this year, mainly due to stopped exports to Poland, which in previous years was absorbing about 30% of Lithuanian pine logs. However growing domestic demand for pine logs, especially from 2<sup>nd</sup> quarter this year is noticed. Pine sawlogs prices declined by about 5% in the beginning of this year and haven't recovered so far.

Export of softwood logs is expected to grow by 10% to 250,000 m<sup>3</sup> this year. The main buyer of logs is Latvia, also Sweden this year, while deliveries to Poland practically discontinued. In next years softwood log export is expected to reduce because of announce big investment projects in local sawmilling industry.

This year removals of hardwood logs are expected to grow by 10% to 1,2 mill m<sup>3</sup>. Hardwood logs are consumed by domestic sawmill and plywood industry, and export does not play significant role (20-30,000 m<sup>3</sup>/yr). Hardwood log prices remained stable this year comparing to 2001. Imports is expected to increase by 20% to 40,000 m<sup>3</sup> this year. The main tree species imported are oak (from Russia, Ukraine), which accounts for 80% of imports. Also beech, which is not growing naturally in Lithuania, import is increasing (mainly from Ukraine). Also import of birch logs started this year.

Pulpwood (including wood for board industry) supply is expected to be at the similar level this year as in 2001 (1,2 million m<sup>3</sup>). Coniferous pulpwood production and exports will increase by 10-20% due to increased felling in damaged spruce stands. While non-coniferous pulpwood production and exports are expected to be by 5-10% than in 2001 because of reduced fellings in birch stands. Pulpwood export prices this year were at the similar level as in 2001. Only spruce was up by 5% in 1<sup>st</sup> quarter, but in 2<sup>nd</sup> quarter went down the the previous level. Also slight upward tendency is noticed for birch pulpwood prices, and this development was mainly influenced by insufficient supply in the first months of this year.

The new development this year in roundwood market was increase of fuelwood prices by 10-15% in winter. This development was influenced by increasing demand of wood (fuelwood, chips, sawdust, bark) by the local energy sector. During 2000-2001 conversion of local boilers into wood using widely took place in Lithuania, and in some regions which are far from industries and port, fuelwood started to compete with pulpwood used by board industries,



also aspen pulpwood for export. Conversion of boilers is continuing widely also this year, and it is not easy to predict what will happen in woodfuel market in coming heating season. Already now boilers started to compete on wood fuel among each other, and this year production of chips from felling residues in forest started.

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*By Centre of Forest Economics (MEC)*

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