

## **Cyprus Timber Market Statement – October 2014**

### **1. General economic trends affecting the forest and forest industries sector**

The impact of the debt crisis in the EU and particularly in the euro area, but also the delay in the decision-making at national level, exacerbated the macroeconomic imbalances and structural problems faced by the Cyprus economy.

Economic events in the past months were dominated by the decisions of the Eurogroup on 25 March 2013 and the conclusion of an agreement with the troika (IMF, European Commission and European Central Bank) for a loan agreement of €10 billion and for funding from own resources. The Eurogroup's decision included the restructuring of the banking sector of the island. A significant amount of wealth as proportion to GDP was eliminated following the bail-in of uninsured deposits which included their write-down and conversion into equity.

Fiscal consolidation measures for curbing public expenditure (such as cuts in emoluments of public sector employees and pensioners) and measures to increase government revenue stipulated by the economic adjustment programme are expected to reduce disposable income and demand and have a negative effect on the level of economic activity.

The Cyprus economy, after the March 2013 events, presented further deterioration during the first semester of 2013. Based on estimates of the Statistical Service, the seasonally adjusted GDP, in constant prices, declined by 1,8% during the 2<sup>nd</sup> quarter of 2013 compared to the 1<sup>st</sup> quarter of 2013. On an annual basis the seasonally adjusted GDP declined by 5,8% during the 2<sup>nd</sup> quarter of 2013 compared to the same quarter of 2012.

The deterioration in growth in the 2<sup>nd</sup> quarter of 2013 compared to the previous quarters was mainly due to the negative growth rates of the secondary sector of the economy (construction and industry) as well as the sectors of trade and banking. For the first half of 2013 the reduction in the production volume was estimated at around 5,4%. For 2013 as a whole, the rate of economic growth was forecasted to be negative and to be around 8,7% according to the forecast included in the macroeconomic adjustment programme.

The Cyprus economy is expected to continue contracting in 2014 and show a negative growth rate of 3,9% according to the original provision included in the macroeconomic adjustment programme. The environment of lack of confidence, the uncertainty, the fiscal challenges, the narrow liquidity and the general developments in the banking sector are expected to continue to negatively impact growth.

On the supply side, the outlook is negative for most sectors of the economy, due to the shrinkage of the financial sector and the broader challenges that it faces, the reduced

liquidity in the economy and the expected further decline in consumer demand and investments. Particularly likely to be affected adversely are the industry, construction and trade sectors. Beyond that, the negative trend is expected to continue in financial services, while other sectors of services will also face serious challenges, especially those related to trade and construction.

The main economic indicators for years 2008, 2009, 2010, 2011, 2012 and 2013 are presented in **Table A**.

## **2. Policy measures**

### **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 (ie climate change, protective forests, protected areas etc.). In 2014, 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.

### **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 EU Timber Regulation.

This law regulates the trade of timber and requires from those who place timber for first time on the market to have a due diligence system in place. This law sets also penalties and fines.

### **Forest Policy**

In 2013, the Council of Ministers adopted a new Forest Policy.

This Policy Statement sets the following strategic priorities:

1. Conservation of forests and other wooded lands,
2. Protection of forests from fire and other abiotic and biotic agents,
3. Improvement and expansion of forests and the vegetation in general,
4. Adaptation of forests to climate change and enhancement of the contribution of forests to climate change,

5. Protection of biodiversity, landscapes and cultural heritage,
6. Promotion of forest recreation and tourism,
7. Provision of employment and improvement of the quality of life for the residents of mountainous areas,
8. Strengthening of the protective role of forests and their role in addressing desertification,
9. Production of timber and other forest products,
10. Strengthening of forest education and enlightenment and promotion of forest research,
11. Construction and improvement of infrastructure,
12. Alignment with European and international forest policy,
13. Improvement and strengthening of the policy framework and the administrative and institutional framework.

### **The National Forest Programme**

The process for the new NFP was halted at its starting point due to the severe and abrupt economic recession. Instead, a new strategic planning for a short-term period (2015-17) was set up as a general governmental policy and decision to overcome the strong effects of the economic crisis.

The new national Strategic Planning 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.

### **Green Public Procurements**

The Government of Cyprus adopted a National Action Plan (2012 – 2014) 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.

### **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 existing National Forest Program and the formulation of the new Forest Policy were based on such knowledge. Similarly, the adoption of forestry measures in the Rural Development Programmes 2007 – 2013 and 2014 - 2020 and the procedure for the

formulation of the Cyprus Criteria and Indicators for SFM have also taken into consideration the scientific research and knowledge.

During the last years, there has been a noticeable improvement on the quality, the quantity and the accuracy of 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.

A considerable number of applied research programs dealing with the management and exploitation of forests resources is elaborated in Cyprus.

The capacity of research institutions in Cyprus has been strengthened, especially during the last years, through various projects and co-operation on national and regional level. Funding is ensured either through the national budget or other international sources.

### **Energy and the forest sector**

The recent gas discovery (December 2011) in Cyprus's Exclusive Economic Zone is very promising for the diversification of energy sources, allowing Cyprus to move away from its excessive reliance on oil imports. In October 2013, Cyprus completed preliminary appraisal of hydrocarbon deposits in its territorial waters, which revealed significant natural gas reserves. Additional exploration drilling is likely to continue in 2014-2015.

Cyprus has 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 May 2014, 5 Aeolian parks were under operation with total power of 146,7 MW. 1779 small photovoltaic systems and 14 biomass/biogas units were established with a total power of 34,58 MW and 9,71 MW respectively.

Projects like these will help Cyprus in meeting the 2020 targets regarding 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 costs of its production are the adverse soil and climatic conditions that exist in Cyprus. It deserves to point out that from a study carried out in natural pine stands, it was found out that the average time needed for trees to reach the breast height ranges between 12 and 35 years depending on the site quality.

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 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 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

### **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 stresses 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 was prepared. Also a decision was taken for the preparation of an action plan for the adaptation of forests to climatic change.

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 nearly 3,63 million tons of carbon. 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 forest than what is released in harvesting. The forests of Cyprus are capable of blocking approximately 70 thousand tons of carbon as estimated by the gross increment of the forest. This amount makes up the 0,73 % of the total 2013 emissions of carbon in Cyprus.

### **3. Market Drivers**

Construction is one of the most important sectors for wood and wood based products and one of the main engines of the economy. 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. The construction industry has been particularly badly affected by the recession. The number of building permits authorized for dwelling units for 2013 was 30% lower compared to 2012 and 53% lower compared to 2011. This had a direct impact on the consumption of wood and wood based products. There has been a significant decrease in the amount of imports during 2012 and 2013.

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. Several positions remain vacant and the available budget was decreased. Private forestry in Cyprus is almost not existed. Almost no management is carried out in private forests and therefore, the effects of the economic crisis on private forestry are not visible.

Even though the significance of forestry as a driver of the 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 market and therefore the forest owner does not have any direct economic benefit for providing them.

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. Additionally, rural depopulation has been alienating people from the forests, pushing them to urban centers where the service sector is growing.

Conversely, 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 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.

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.

Timber-based industries are gradually shrinking since the wood market is heavily depended on imported final products.

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

Cyprus is a net wood importing country. The overall wood market imports accounts up to 98%, while exports are negligible.

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<sup>3</sup> per ha per 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 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, box-shooks and pallets for the export trade.

#### **Marketing and Consumption of Forest Products**

During 2013, 3492 m<sup>3</sup> R.O.B. (of which 176 m<sup>3</sup> from burnt areas) of timber were extracted from state forests and sold to private sawmills and other individuals for the production of box-shooks, pallets, and tailor made products etc. In addition, a volume of 1166 m<sup>3</sup> R.O.B. of timber was extracted from private and other forests.

In addition to the above, timber from state forests, equivalent to 6207 m<sup>3</sup> R.O.B. (of which 939 m<sup>3</sup> from burnt areas), was extracted and sold to private individuals as firewood. In addition, a volume of 821 m<sup>3</sup> R.O.B. (of firewood was extracted from private and other forests.

The local needs are satisfied by importing timber from abroad. The most important products imported are sawnwood and wood based panels. There has been a significant decrease in the amount of wood and wood product imports during 2013. The 2010, 2011, 2012 and 2013 level of sawnwood, wood based panels and paper and paperboard imports are presented in the table below:

	Total volume of imports (thousand m <sup>3</sup> )			
	2010	2011	2012	2013
Sawnwood (thousand m <sup>3</sup> )	73,642	56,045	35,129	28,982
Wood based panels (thousand m <sup>3</sup> )	108,695	90,852	60,777	50,835
Paper and paperboard (thousand mt)	75,795	74,063	59,100	55,192

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.

### **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.

In 2013, sixteen small band mills producing pallets and box-shooks and one larger mill producing, in addition, constructional timber were in operation.

## **5. Tables**

### **Table A: Economic indicators**

Indicators	2008	2009	2010	2011	2012 Prov.	2013 Prov.
1. Gross Domestic Product (GDP)	3,6%	-1,9%	1,3%	0,5%	-2,4	-5,4
2. Registered Unemployment	2,9%	4,3%	5,5%	6,7%	8,5	11
3. Inflation Rate	4,67%	0,33%	2,43%	3,29%	2,39	-0,4
4. General Government Deficit % of GDP	0,9%	-6,1%	-5,3%	-6,3%	-6,4	-5,4
5. General Government Debt % of GDP	48,9%	58,5%	61,3%	71,5%	86,6	111,7

Source: Cyprus Statistical Service last updates 20/08/2014

### **Table B: TF1 and TF2 Tables**

See attachment