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Solid Wood Products

Annual

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Report Highlights:

Romania's domestic furniture industry and the housing sector are both expected to expand in 2002, raising consumption of solid wood products for the third consecutive year. The number of housing starts will increase following GOR's increased credit subsidies offered to young couples and needy families to finance construction of affordable apartments. Opportunities for U.S. solid wood product exports to Romania will continue to be limited, although exports hardwood veneer for quality furniture can be expected to expand.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1], RO

Production	2
Forest Situation and Outlook	2
Policy	3
Trade	3
Market Segment Analysis	4
Construction Sector	4
Furniture and Interiors Sector	5
Opportunities for U.S. Products	5
PSD Table for Softwood Logs	6
PSD Table for Softwood Lumber	7
PSD Table for Temperate Hardwood Logs	8
PSD Table for Temperate Hardwood Lumber	9
Strategic Indicator Tables	10

Production

Forest Situation and Outlook

Forests cover about 26.7 percent of Romania's total land area. This average places Romania on the 17th place in Europe. The current total forest area is 6.35 million hectares or 10,000 hectares less than in 2001. The long-term situation indicates a steady decline of area covered with forests. The continuous reduction of the forest area is due to the restitution process of forest land which started in early 1990 and to the reduced government support for forest conservation and reforestation. The forestry sector's contribution to Romania's GDP is about 5.5 percent. At the same time, the forestry sector exports about 10-11 percent of the country's total exports.

According to official data, the composition of Romanian forests by species is as following:

- beech: 31.8 percent;
- spruce: 29.2 percent;
- oak: 18 percent;
- other hard species: 13.8 percent;
- other soft species: 7.2 percent.

An estimated 60 percent of total commercial forests are located in the mountainous regions; about 30 percent are located in the hilly areas and the remaining 10 percent are located in the plains.

Since the start of the forest restitution process, which started in 1991, an estimated 75 percent of claimants have received ownership titles. The process of forest restitution has been extremely slow, reportedly because of frequent changes of the legislation, bureaucratic implementation delays and incomplete documents submitted by claimants. The GOR stated this year that it is determined to speed up the restitution process: the government estimates that by the end of the current year, about 90 percent of forest claimants will receive ownership titles. When completed, about 3.0 million hectares of forests will be in private ownership. The new private forest owners have not followed sound conservation policies which led to a continuous forest deterioration.

Romania's harvest season is between November and April. Each year, the government has established the allowable cut. For the current year, the allowable cut ceiling has been established at 16.0 million cubic meters (cum). However, because the network of forest roads is insufficient, AgBucharest estimates that only 15.15 million cum will be harvested. Of the total timber wood to be cut this year, we estimate that 14.95 million cum will be from state-owner and 1.2 million cum from privately-owned forests.

The 2001 utilization of roundwood (all species) has been estimated by AgBucharest as following: 47 percent for industrial processing, 17 percent for firewood, 15 percent for pulp and paper, 12 percent for construction and 9 percent for woodchips and losses.

The GOR allocated financial resources which were used to build about 180 kilometers of forest roads during 1996-2001 period. However, a recent study indicates that Romania will need to build about

2,500 kilometers of additional forest roads to reach all timber which could be cut. Also because of insufficient funding, AgBucharest estimates that in 2002 new forests will be established on 12,000 hectares. This area is considered as insufficient: for comparison, in 1989, Romania reforested 41,400 hectares. Insufficient financing of forest projects will have a negative impact on Romania's solid wood situation: we estimate that during the next several years, Romania will increase its imports of logs and lumber.

The short-term outlook of Romanian forestry sector indicates that, even after the privatization process will be completed, the state will still retain a monopolistic position, which will allow it to control the wood supplies and prices.

The severe droughts of the last several years have slowed the forest growth rate, especially in forests located in the plains and hilly areas. The highest incidence of forest fires occurred in 2000 year when about 3,400 hectares of forests were destroyed/damaged. The critical periods for forest fires are June/July and September/October.

Studies run by government forest institutes indicate that about 40-45 percent of all forests are affected by diseases, insects and air pollution. Also, as a result of intensive tree cut, especially in privately-owned forests, many areas are highly eroded and require immediate reforestation. Severe soil loss and degradation leads to landslides which requires additional costs for remedies.

Policy

The 2001 decision of the GOR to ban log exports has been also extended during 2002. This decision followed strong protests of the furniture industry. Furniture industry representatives claimed that log exports bring reduced revenues and increase production costs of the industry. A cubic meter of exported furniture brings as much as five times more than a cubic meter of logs. This decision has affected the trade structure of Romanian solid wood exports which now consists entirely of lumber.

Foreign companies expressed an interest to invest in Romania's wood processing sector. However, because of current monopolistic position of the GOR in price fixing, they have delayed these plans until Romania will make progress on forestry issues. Specifically, foreign companies would like to be able to cover their roundwood requirements through longer-term arrangements (5-10 years) as opposed to yearly auctions which is the current situation. Longer-term auctions will allow companies to better plan their projects.

Trade

Romania is a net exporter of solid wood products and furniture. In order to increase the export of high value products, especially of furniture, the GOR banned in January 2001 exports of logs. This trade measure also increased exports of lumber. In 2001, Romanian exports of lumber increased compared to 2000 and are preliminary estimated at 500,000 cum (softwood; 2000 - 380,000 cum) and at 220,000 cum (hardwood; 2000 - 200,000). At the same time, furniture exports were estimated at

about \$525 million in 2001.

Romanian softwood and hardwood export markets were especially countries in Middle East and Mediterranean region, such as Saudi Arabia, Syria, Lebanon, Egypt, Turkey.

For 2002, we estimate that Romanian exports of furniture will further increase to about \$650 million. Important markets for Romanian furniture include Western European countries and Japan.

Romania is promoting its exports of lumber and furniture on short-term commercial credits. Because of budget limitations, no government credits are available to promote exports.

Market Segment Analysis

Construction Sector

The demand for housing remains high. The GOR estimated that about one million families requested a new apartment or house. Because the cost of new housing remains high (about \$300/square meter) and the average income per person is only \$100/person/month, a recent study revealed that it will take about 100 years for a family with an average income to save money for a new house or apartment. During the past 10 years, all governments have promised to take measures which will alleviate the housing shortage. In 2001, the GOR started to provide long-term, subsidized credits for young couples or for low income families. In 2001, an estimated 500 apartments have been completed while during the current year, the government hopes to finalize 2,800 apartments.

The price of new housing projects in Romania range between \$100-400 per square meter, depending on location, quality of construction material and price of land. This price does not include VAT which has been waived for housing, in order to keep the final price at affordable levels.

Most of the new housing is currently built in the rural areas with private financial resources. Because of the high price of construction materials and old technologies, the time needed to finish a house is 6-12 months.

AgBucharest estimates that approximately 30,000 housing units will be built in 2002. This represents an increase compared to the 2001 figure of 28,500. Most of the new housing projects will be built in the rural areas and will be privately financed.

Government officials announced that the Ministry of Finance has exerted pressure to introduce the VAT for housing starting with 2005 year. If such a measure will be introduced, the price of new housing projects will increase by an estimated 20 percent.

Furniture and Interiors Sector

Romania's furniture industry is well developed and export oriented. A total of over 1,500 companies have manufactured furniture in 2001. The 2001 value of furniture production was officially estimated at \$850 million. About 75 percent of all furniture is exported mostly to European countries (Germany, France, Italy, Austria, England) but also to Japan. Furniture industry representatives are concerned about the loss of the Russian market after 1990. They stated that Romanian furniture could re-enter the Russian market only if government-to-government agreements will be reached (Romanian furniture exports in exchange for crude +oil or natural gas).

Romanian furniture imports in 2001 were valued at \$75 million and were made mainly from France and Italy. These data indicate that Romania registered a hefty surplus of about \$775 million in 2001.

Industry contacts and media reports indicate that the Romanian furniture industry is slowly remodeling its technologies and equipment to produce high class products which can be successfully exported.

Opportunities for U.S. Products

Opportunities for U.S. exports of solid woods to Romania are limited. Romania imports, on average, about \$1 million of chips, panel products and oak veneer. Oak veneer is particularly appreciated by local furniture industry and is used for high quality products for Western European markets. Opportunities are limited reportedly because of high shipping costs and lack of credit.

PSD Table for Softwood Logs

PSD Table						
Country	Romania					
Commodity	Softwood Logs				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	2200	2200	2200	2210	0	2215
Imports	0	0	0	0	0	5
TOTAL SUPPLY	2200	2200	2200	2210	0	2220
Exports	0	0	0	0	0	0
Domestic Consumption	2200	2200	2200	2210	0	2220
TOTAL DISTRIBUTION	2200	2200	2200	2210	0	2220

PSD Table for Softwood Lumber

PSD Table						
Country	Romania					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	1400	1400	1400	1405	0	1405
Imports	5	10	0	10	0	10
TOTAL SUPPLY	1405	1410	1400	1415	0	1415
Exports	500	470	500	480	0	490
Domestic Consumption	905	940	900	935	0	925
TOTAL DISTRIBUTION	1405	1410	1400	1415	0	1415

PSD Table for Temperate Hardwood Logs

PSD Table						
Country	Romania					
Commodity	Temperate Hardwood Logs				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	2700	2700	2700	2730	0	2730
Imports	0	0	0	0	0	0
TOTAL SUPPLY	2700	2700	2700	2730	0	2730
Exports	2700	0	2700	0	0	0
Domestic Consumption	0	2700	0	2730	0	2730
TOTAL DISTRIBUTION	2700	2700	2700	2730	0	2730

PSD Table for Temperate Hardwood Lumber

PSD Table						
Country	Romania					
Commodity	Temperate Hardwood Lumber				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	860	860	860	885	0	890
Imports	5	5	5	5	0	10
TOTAL SUPPLY	865	865	865	890	0	900
Exports	220	220	220	230	0	235
Domestic Consumption	645	645	645	660	0	665
TOTAL DISTRIBUTION	865	865	865	890	0	900

Strategic Indicator Tables

FOREST PRODUCT			
STRATEGIC INDICATOR TABLES FOR ROMANIA			
CONSTRUCTION MARKET			
Country: Romania	Previous	Current	Following
Report Year: 2002	Calendar Year	Calendar Year	Calendar Year
Total Housing Starts (thousand units)	28,500	30,000	31,000
--of which, wood frame (thousand units)	2,700	2,200	2,000
--of which, steel, masonry, other materials	25,800	27,800	29,000
(thousand units)			
--of total starts, residential (thousand units)	5,500	5,000	5,200
----of residential, single family (thousand units)	4,100	4,000	4,000
----of residential, multi-family (thousand units)	1,400	1,000	1,200
--of total starts, commercial (thousand units)	1,800	1,800	2,000
Total Value of Commercial Construction Market (\$US mil)	735	740	750
Total Value of Repair and Remodeling Market (\$US million)	510	520	530
FURNITURE & INTERIORS MARKET			
Country: Romania	Previous	Current	Following
Report Year: 2002	Calendar Year	Calendar Year	Calendar Year

Total Housing Starts (number of units)	28,500	30,000	31,000
Total Number of Households)	7,190,000	7,185,000	7,182,000
Furniture Production (\$US million)	850	880	870
Total Furniture Imports (\$US million)	75	70	70
Total Furniture Exports (\$US million)	640	650	650
Interiors Market Size (\$US million)	48	50	50
MATERIAL HANDLING MARKET			
Country: Romania	Previous	Current	Following
Report Year: 2002	Calendar Year	Calendar Year	Calendar Year
Total Value of Industrial Output (\$US million)	7	7	8
New Pallet Production (million units)	0.6	0.6	0.7
FOREST AREA			
Country: Romania	Previous	Current	Following
Report Year: 2002	Calendar Year	Calendar Year	Calendar Year
Total Land Area (million hectares)	23.75	23.75	23.75
Total Forest Area (million hectares)	6.35	6.35	6.34
--of which, Commercial ('000 hectares)	6,160	6,160	6,150
----of commercial, tropical hardwood ('000 hectares)	0	0	0
----of commercial, temperate hardwood ('000 hectares)	4,260	4,260	4,250
----of commercial, softwood ('000 hectares)	1,900	1,900	1,900
Forest Type			
--of which, virgin ('000 hectares)	400	400	400
--of which, plantation ('000 hectares)	5,100	5,100	5,100
--of which, other commercial (regrowth) ('000 hectares)	840	840	830
Total Volume of Standing Timber (thousand cubic meters)	1,398,000	1,400,000	1,399,000
--of which, Commercial Timber ('000 cum)	1,350,000	1,349,000	1,348,000

Annual Timber Removal ('000 cum) 1/	15,100	15,150	15,150
Annual Timber Growth Rate ('000 cum)	27,900	27,890	27,880
Annual Allowable Cut ('000 cum)	17,000	16,000	16,000
1/ If Removals exceeds growth rate, analyze impact in text.			
WOOD PRODUCTS SUBSIDIES			
Country: Romania	Previous	Current	Following
Year of Report: 2002	Calendar Year	Calendar Year	Calendar Year
Total Solid Wood Export Subsidy Outlay (\$US million)	0	0	0
Is there a ban on the export of logs, lumber, or veneer? 1/ Yes/Logs Yes/Logs			Yes/ Logs
Are there export taxes (yes/no)? 2/	No	No	No
Total Wood Production Subsidy (\$US million)	0	0	0
Scope (thousands of hectares)	0	0	0
Are there other wood products export expansion activities? 1/			No
	No	No	No
1/ If yes, describe in report.			
2/ If yes, identify in Tariff and Tax Strategic Indicator Table.			
FOREST PRODUCT TARIFFS AND TAXES (percent)		Tariff	Tariff
Country: Romania	Product	Current	Following
Report Year: 2002	Description 1/	Year	Year
4401	Firewood	3 % (EU and CEFTA-0)	3% (EU and CEFTA-0)

4403	Timber	3% (EU and CEFTA-0)	3% (EU and CEFTA-0)
4404	Lumber for barrels	10% (EU and CEFTA-0)	10% (EU AND CEFTA-0)
4405	Woodwool/wood flower	10% (EU and CEFTA-0)	10% (EU and CEFTA-0)
4406	Flitch wood	10% (EU and CEFTA-10)	10% (EU and CEFTA-0)
4407	Lumber	7% (EU and CEFTA-0)	7% (EU and CEFTA-0)
4408	Peeled wood	10% (EU and CEFTA-0)	10% (EU AND CEFTA-0)
4410	Waferboard/OSB	10% (EU-5%; CEFTA 0-2.5%)	10% (EU-5%; CEFTA-0-2.5%)
4411	Hardboard	10% (EU5%; CEFTA 0-4.5%)	10% (EU-5%; CEFTA-0-2.5%)
4412	Plywood	8% (EU 0-4%; CEFTA 0-2%)	8% (EU 0-4%; CEFTA 0-2%)
4413	Compressed wood	10% (EU 5%; CEFTA 0-2.5%)	10% (EU 5%; CEFTA 0-2.5%)

4414	Moldings	25% (EU 12.5% CEFTA 0-6.3%)	25% (EU 12.5% CEFTA 0-6.3%)
4415	Wood packaging	25% (EU 12.5% CEFTA 0-6.3%)	25% (EU 12.5% CEFTA 0-6.3%)
4416	Wood barrels	25% (EU 12.5% CEFTA 0%)	25% (EU 12.5% CEFTA 0%)
4418	Wood joinery	15% (EU 7.5% CEFTA 0%)	15% (EU 7.5% CEFTA 0%)
4419	Wood for kitchen	40% (EU 20% CEFTA 0%)	40% (EU 20% CEFTA 0%)
4420	Decorative panels	25% (EU 12.5% CEFTA 0%)	25% (EU 12.5% CEFTA 0%)
4421	Other wood	25% (EU 12.5% CEFTA 0%)	25% (EU 12.5% CEFTA 0%)
4422	N/A	N/A	N/A
4423	N/A	N/A	N/A
4424	N/A	N/A	N/A
4425	N/A	N/A	N/A
0			