MARKET STATEMENT 2015

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

Lithuanian economy continued to grow in 2015. Gross domestic product (GDP) increased by 2.9% (2014 – 3.3%). By latest scenario GDP will increase by 1.9%. Prognoses for 2016 are more optimistic – 3.2%.
Total industry sales decreased by 6% in 2014. The decrease was mainly caused by refined petroleum products sales drop by 24%. However, at the same time sales in woodworking, pulp and paper industry increased by 8%, furniture industry by 13%.
The export decreased by 1% in 2014. The European Union remained the main market for Lithuanian producers. Export to this market comprised 55% of the total Lithuania's export.
Export of wood and wood products increased by 10.2% to 2525 million EURO. The share of these products in the total export increased from 9.3% up to 10.4%. Germany (314 million EURO), Sweden (283 million EURO) and Russia (268 million EURO) were the main export markets for wood and wood industry products. Almost 66% of wood industry products were exported to the countries of the European Union.
Imports decreased by 1%. Import of wood and wood products has increased by 19.5% to 1144 million EURO. The greatest trade partner remained Poland – 233 million EURO. Import from Germany reached 126 million EURO and Latvia – 124 million EURO.
The growth of forestry sector was slowed down by transport sector problems, which appeared after Russia‘s imposed import ban on meat, fish, fruit, vegetables and dairy imports from all the EU countries in 2014. As a result, these direct effects of sanctions on transport sector made secondary negative impact on forest sector in first half of 2015. Currently the impact of transport sector is decreasing due to positive tendencies in transport sector.

2. Policy measures taken in Lithuania

As one of forest policy measure Lithuania took a decision to apply wood in the rough selling by electronic (online) auctions system since 2012. This system covers all wood produced in state forests (about 50 % of all forests). Wood selling by auctions system is continuously being improved and ensures simpler and more transparent trade of wood, broader participation of buyers, creates a real competitive environment in the Lithuanian forest sector, which ensures maximum benefits for the state both in the long and short terms.
There is general trend that taxes in forestry sector are increasing since 2009. For example, all forest holders have to pay additional 5 % tax for wood in the rough sold since 2015 (in addition to income, profit, value added and etc. taxes).
50 % of Lithuania's forests are state forests and 39 % - private forests. Due to unfinished land reform in Lithuania also there are about 238,000 ha or 11 % of total forest area reserved for restitution. Forest management activities in these forests are not performed. If normal forest management activities would be restored in these forests, it could result increase of wood supply by up to 10 %.
As regards renewable energy policies biomass becomes one of the most important resource in total energy balance in Lithuania. It is expected that biofuel will account for more than 50 % of total fuel consumed for heat production in Lithuania in 2015. The National Forestry Sector Development Programme for 2012–2020, adopted by the Government in 2012, foresees to increase the volume of non-merchantable timber and forest felling residues used for biofuel production each year from 0.3 mill. m^3 in 2015 to 0.5 mill. m^3 in 2020. In addition to that, in 2015 the Ministry of Environment prepared Biofuel Mobilization Plan. It creates preconditions to increase amount of biofuel supplied to the market from forests at least 0.5 mill. m^3 without subsidies, bearing in mind biodiversity conservation and forest industry needs. As one of the measure of Biofuel Mobilization Plan, Minister of Environment approved new Felling Regulations, which allowed to increase fellings in

overmature stands (commercial forests) and full stem utilization (chipping) technologies in certain forest stands.

In 2015 Lithuania started mid-term review process of the National forestry Development Programme for 2012-2020. Independent evaluation of the implementation is already performed and the proposed amendments will be discussed and elaborated further by the end of 2015 - beginning of 2016. Those amendments will address national measures taken to promote the role of the forest sector in a green economy and the issues from Rovaniemi Action Plan.

Lithuania also constantly uses other forest policy measures to enhance forest resources. One of the most important measure is support for afforestation. Each year private and state land holders plant about 3,000 ha of new forests.

3. Market drivers

Starting from the 1st January of 2015 Lithuania has joined Eurozone. One of the actual current positive results is lower interest rates, absence of currency exchange costs, increased confidence of the markets, etc.

Currently there is excess of wood for energy production due to warm winters and increased import from neighbor countries, thus prices of wood for energy are decreasing. However, competition for wood between energy and wood industry sectors should increase demand in near future. For example, capacity of heating plants based on biofuel will increase almost twice by 2020, thus it could cause significant demand for wood.

One of the most important market drivers is foreign markets for wood products. Stable situation and increase of demand in these markets caused increase of forest products export, especially furniture (14 % growth in 2014). If stable situation continuous, export values should stay the same level or will be slightly growing.

Also there are signals that Belarus can ban export of wood, thus it may have impact on Lithuania's forestry sector.

4. Developments in forest products markets sectors (major emphasis)

Roundwood

The volume of removals reached 7.6 million m³ in 2014 and was by 4% higher than in 2013. Harvesting level in state forests remained almost at the same level like in previous years 3.8 million m³. Amount of wood produced in private forests increased by 9% up to 3.8 million m³.

There were significant changes in roundwood prices during 2014. After increase in January prices slowly fell until the end of the year. Price of softwood and hardwood logs in December 2014 decreased by 4% compared with January. Prices of pulpwood fell down by 10%. Price of firewood has decreased by 4%.

It is expected decrease of removals by 7% in 2015. Decrease is related with unfavorable changes of roundwood prices, which will cause lower production in private forests. Softwood logs prices since January 2015 fell down by 10%. Drop of pulpwood was even more significant.

Export of industrial roundwood decreased by 5% to 1.7 million m³ in 2014. Export to Latvia, main export market in 2014, increased by 23% to 0.76 million m³. Sales in Poland market grew up by 12% to 0.32 million m³ and in Sweden fell by 4% to 0.23 million m³.

Exports of roundwood continued to decline in the first half of the year 2015.

Wood energy

Demand on energy wood is constantly increasing during last years. Consumption of fuelwood and wood waste for energy purposes increased until 5.5 million m³ in 2014, mainly reflecting a 0.5

million m³ rise of consumption in public and autoproducer heat plants. Growing consumption partly was covered by imported wood fuels. The import of wood fuel such as firewood, chips, particles, wood briquettes and pellets increased from 0.33 million t to 0.48 million t.

Certified forest products

All state forest enterprises (42), which manage about 50 % of all forests, are certified for Forest Stewardship Council (FSC) forest management and chain of custody. State forest enterprises each year produce about 3.8 mill m³ of FSC certified round wood or about 50 % of round wood produced in Lithuania.

Value-added wood products

The significant widening in furniture sales was found in 2014. Grew up was caused by increase of exports. Growth of furniture export was 14 % and totaled 1321 million EURO in 2014. Furniture predominated among other exported forest sector goods. The value of the furniture constitutes 55% in total wood goods exports.
Exports of other value-added wood products continued to grow too. Value of exported joinery and carpentry products increased by 16%, wooden wrapping and packing equipment – 6%.

Sawn softwood

Production of sawn softwood was nearly 0.88 million m³ in 2014. The export of sawn softwood reached 0.49 million m³. The main export market becomes Denmark, where sales of sawn softwood increased by 13% to 64,000 m³. The export to Germany decreased by 10% to 61,000 m³.
Import of sawn softwood grew up by 39% up to 399,000 m³ in 2014. Belarus remained the main supplier and provided 159,000 m³ of sawn softwood.

Sawn hardwood

Production of sawn hardwood was nearly 0.47 million m³ in 2014. Export increased by 31% to 243,000 m³. Sawn hardwood was mainly sold in Germany (107,000 m³), Belgium (34,000 m³) and Netherlands (23,000 m³). Sales in Germany market comparing to previous year increased by 24%, Belgium by 34%, Netherlands by 45%.
Import of sawn hardwood grew up by 23% up to 122,000 m³. The largest volumes of timber were received from Ukraine (50,000 m³) and Poland (15,000 m³).

Wood-based panels

0.71 million m³ of particleboard (including OSB) was produced in 2014. Production increase by 4% didn't cover growing demand in domestic market. Export of particleboard decreased by 56% to 88,000 m³. Imports grew up by 9% to 363,000 m³.

5. Tables

Key Economic Development Indicators in Lithuania

	2010	2011	2012	2013	2014
Employment rate of the population aged 15-74 years, %	57.6	60.2	62	63.7	65.7
Unemployment rate, %	17.8	15.4	13.4	11.8	10.7
Inflation calculated based on the consumer price index, %	3.8	3.4	2.8	0.4	-0.3
Consumer price changes, % (as compared to the previous period)	1.3	4.1	3.1	1	0.1

Changes in gross domestic product, %	1.6	6.1	3.8	3.3	2.9
General government sector balance compared with GDP, %	-0.3	-3.9	-1.2	1.5	3.6
General government debt compared with GDP, %	34	35	37	36	40
Import, million EUR	15651	20151	23047	24545	24361
Export, million EUR	17653	22826	24879	26208	25890
Export-import balance, million EUR	-2002	-2675	-1832	-1663	-1528
Foreign direct investment, end of the year,	10	11	12.1	12.7	12.9
Changes in construction work carried out within the country and abroad, %	-5.1	22.6	-5.7	11.3	16.4

Forest products production and trade in 2014, 2015 and 2016

Product Code	Product	Unit	Historical data 2014	Estimate 2015	Forecast 2016
1.2.1.C	**SAWLOGS AND VENEER LOGS, CONIFEROUS**				
	Removals	1000 m^3	**2.415**	**2.150**	**2.300**
	Imports	1000 m^3	**86**	**60**	**70**
	Exports	1000 m^3	**781**	**560**	**620**
	Apparent consumption	1000 m^3	**1.719**	**1.650**	**1.750**
1.2.1.NC	**SAWLOGS AND VENEER LOGS, NON-CONIFEROUS**				
	Removals	1000 m^3	**1.409**	**1.280**	**1.300**
	Imports	1000 m^3	**34**	**30**	**20**
	Exports	1000 m^3	**203**	**170**	**190**
	Apparent consumption	1000 m^3	**1.240**	**1.140**	**1.130**
1.2.1.NC.T	**of which, tropical logs**				
	Imports	1000 m^3	**0**	**0**	**0**
	Exports	1000 m^3	**0**	**0**	**0**
	Net Trade	1000 m^3	**0**	**0**	**0**
1.2.2.C	**PULPWOOD (ROUND AND SPLIT), CONIFEROUS**				
	Removals	1000 m^3	**689**	**620**	**640**
	Imports	1000 m^3	**49**	**55**	**50**
	Exports	1000 m^3	**421**	**370**	**380**
	Apparent consumption	1000 m^3	**317**	**305**	**310**
1.2.2.NC	**PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS**				
	Removals	1000 m^3	**522**	**500**	**510**
	Imports	1000 m^3	**172**	**185**	**190**
	Exports	1000 m^3	**310**	**290**	**300**
	Apparent consumption	1000 m^3	**384**	**395**	**400**
3	**WOOD CHIPS, PARTICLES**				

	AND RESIDUES				
	Domestic supply	1000 m^3	2.070	1.780	1.850
	Imports	1000 m^3	701	545	500
	Exports	1000 m^3	715	700	700
	Apparent consumption	1000 m^3	2.056	1.625	1.650
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS				
	Removals	1000 m^3	0	0	0
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS				
	Removals	1000 m^3	0	0	0
1.1.C	WOOD FUEL, CONIFEROUS				
	Removals	1000 m^3	612	570	600
1.1.NC	WOOD FUEL, NON-CONIFEROUS				
	Removals	1000 m^3	1.704	1.730	1.720

Product Code	Product	Unit	Historical data 2014	Estimate 2015	Forecast 2016
5.C	SAWNWOOD, CONIFEROUS				
	Production	1000 m^3	859	825	875
	Imports	1000 m^3	395	452	480
	Exports	1000 m^3	493	591	620
	Apparent consumption	1000 m^3	761	686	735
5.NC	SAWNWOOD, NON-CONIFEROUS				
	Production	1000 m^3	520	460	455
	Imports	1000 m^3	122	151	160
	Exports	1000 m^3	243	290	280
	Apparent consumption	1000 m^3	398	321	335
5.NC.T	of which, tropical sawnwood				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	7	8	9
	Exports	1000 m^3	1	2	2
	Apparent consumption	1000 m^3	5	6	7
6.1	VENEER SHEETS				
	Production	1000 m^3	75	75	80
	Imports	1000 m^3	31	34	37
	Exports	1000 m^3	79	77	80
	Apparent consumption	1000 m^3	27	32	37
6.1.NC.T	of which, tropical veneer sheets				

	Production	1000 m^3	0	0	0
	Imports	1000 m^3	1	0	0
	Exports	1000 m^3	1	0	0
	judas	1000 m^3	0	0	0
6.2	PLYWOOD				
	Production	1000 m^3	45	50	52
	Imports	1000 m^3	65	64	67
	Exports	1000 m^3	7	8	9
	Apparent consumption	1000 m^3	103	105	110
6.2.NC.T	of which, tropical plywood				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	0	1	1
	Exports	1000 m^3	0	0	0
	Apparent consumption	1000 m^3	0	1	1
6.3	PARTICLE BOARD (including OSB)				
	Production	1000 m^3	711	740	760
	Imports	1000 m^3	363	381	410
	Exports	1000 m^3	88	129	90
	Apparent consumption	1000 m^3	986	992	1.080
6.3.1	of which, OSB				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	70	75	80
	Exports	1000 m^3	11	12	13
	Apparent consumption	1000 m^3	59	63	67
6.4	FIBREBOARD				
	Production	1000 m^3	64	70	73
	Imports	1000 m^3	149	177	195
	Exports	1000 m^3	71	75	80
	Apparent consumption	1000 m^3	142	172	188
6.4.1	Hardboard				
	Production	1000 m^3	64	70	72
	Imports	1000 m^3	65	71	75
	Exports	1000 m^3	56	66	70
	Apparent consumption	1000 m^3	73	75	77
6.4.2	MDF (Medium density)				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	60	75	78
	Exports	1000 m^3	7	5	8
	Apparent consumption	1000 m^3	53	70	70
6.4.3	Other fibreboard				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	24	31	35
	Exports	1000 m^3	8	3	5
	Apparent consumption	1000 m^3	17	27	30

7	**WOOD PULP**				
	Production	1000 m.t.	**0**	**0**	**0**
	Imports	1000 m.t.	**27**	**23**	**18**
	Exports	1000 m.t.	**24**	**15**	**9**
	Apparent consumption	1000 m.t.	**3**	**8**	**9**
10	**PAPER & PAPERBOARD**				
	Production	1000 m.t.	**140**	**152**	**160**
	Imports	1000 m.t.	**293**	**275**	**280**
	Exports	1000 m.t.	**121**	**118**	**120**
	Apparent consumption	1000 m.t.	**311**	**309**	**320**