Romania Market Statement 2013

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

In 2013, strong growth of 3.5% was driven by exports and an abundant harvest. A gradual rebalancing of growth towards domestic demand is expected in 2014 and 2015 with real GDP growth forecast to be above 2%. Annual average inflation is projected to decelerate to 2.4% in 2014 while unemployment is expected to decrease only in 2015. The fiscal adjustment is forecast to continue. It is projected to remain above potential over the forecast horizon, reflecting improved confidence and more supportive international conditions but also the payoff of product and labour market reforms implemented under the financial support programmes. Growth drivers are expected to gradually switch from (net) exports to domestic demand over the forecast horizon.

Over the past years, the forest sector, including industry, has contributed between 2.2% and 4.5% to Gross Domestic Product (GDP) (Abrudan et al, 2009, FAO, 2012). In 2006, the sawmilling sector contributed 3.5 percent of GDP and made up 6 percent of manufacturing sector output (EBRD and MARD, 2007). In 2009, the furniture manufacturing sector represented 1.6% of the Romanian GDP and in 2010 (FRD Center, 2011). According to the Romanian Center for Trade and Investment, the share of furniture export in the total Romanian exports was 3.86 percent in 2009 and 3.45 percent in 2010 (FRD Center, 2011). In 2010, the forest sector and wood industry contributed 3.5% of GDP (source INS-CON105D) compared to 13.5% from agriculture and food industry. In 2011, the percentage of national exports from the forest sector was 7% (compared to 10% from agriculture sector and food industry).

Romania is known globally for its wood products. Wood products in Romania include sawnwood, lumber, pulp and paper, panel and veneer and furniture. There is a longstanding tradition of producting solid wood furniture, some of which are specialized furniture for foreign markets. Local manufacturers are actively involved in the sector. There also are several domestic and foreign investors in Romania. The latter include investors from Spain, Italy, Germany, Austria and Sweden. In 2013, there were 15,853 companies . There are 4,204 companies in silviculture and logginf. The primary wood processing industry, has 7,254 operational companies. The Romanian furniture market is made up of 4,425 companies of which only 100 are big companies. The majority of the companies are small and medium-sized enterprises (SMEs). This sector is especially attractive for small entrepreneurs, and approximately 96 percent of all wood processing companies are SMEs.

Challenges for economic contribution of the sector:

1.Poor accessibility: The average road density is 6.4 m/ha (and decreasing due to lack of funds for rehabilitation). This results in a more than 2 million ha of forests being practically out of reach for technical and economic reasons (World Bank, 2011). Poor accessibility also has implications for management of the forest stands independent of the management objective.

2.Outdated technology: technologies continue to be outdated and production processes are inefficient for many firms in the Romanian forest sector. This is especially true for timber harvesting companies. Inefficient technologies also reduce the amount firms can pay for a cubic meter of standing timber.

3.Weak forest associations: Given the number of smallholders involved in the sector, economies of scale are hard to achieve unless there are well functioning associations. Due to historical reasons, small holders have been apprehensive to engage in associations. This, however, is changing. There increasingly are examples of successful associations in the country.

As a result Romania suffers from overcapacity in the primary wood processing sector.

2.Policy measures taken in your country over the past 18 months

New Forest Strategy

In November 2012, the Delegate Ministry of Forests started the process of elaborating the new Forest Development Strategy for a 10 years period. A draft strategy was produced in June 2013 and final consultations are expected to be completed in 2014. The draft strategy envisages a role for forests in climate change mitigation and highlights necessary measures for adapting forests. These measures include:

- Increasing forest coverage by afforestation of degraded land;
- Developing new scientifically sound methodology for compensating private forest owners;
- Developing new technical guidance for forest management that reflects climate change adaptation;
- Creating National Forestry Body to supervise and monitor forestry;
- Increasing the accessibility of forests;
- Increasing investments in watershed management.

An area where the strategy could be further improved is by taking into account economic aspects of the sector. This would facilitate developing a realistic prioritization and also putting in place market and non-market incentives for achieving the objectives of the strategy.

New Forest Code

The first Forest Code in Romania was adopted in 1881, and has subsequently been revised continually. Now in force is the Forestry Code of 2008, the law no. 46 of 2008. Some of its provisions have been replaced or amended over a period of years.

The new Forest Code regulates proposed changes and additions that cover the following topics:
- The establishment and sustainable management of national forests;
- Judicious administration of national forest on the principle of territoriality, with solutions for managing small forest properties which are currently not covered by forest management and services (about 5000,000 ha);
- Regulation prohibiting harvesting of timber harvesting in advance of the previsions of the management plan, without possibility of exceeding the amount determined to be harvested annually from forests according to forest management plans;
- Regulating punishment under criminal law for acts of cutting, theft and destruction of forest trees without right. Currently, the Forest Code regulates sanctioning constituting offenses only

if the damage caused is at least 5 times higher than the average price of a cubic meter of standing timber on finding the deed;

- Regulating punishment under criminal law acts of receiving, storing, processing and / or marketing of wood materials without legal documents or no documents provenance and transport related community;
- Establish professional criteria that must be met forestry staff that manages the national forests;
- Streamlining the process of drafting and approving forest planning and regulation of development of forest management plans for smallholders (for about 500,000 ha forest management plans are not developed);
- Prohibiting alienation of part or all of the property undivided associative forms (rural communities, co-owners and the like);
- Regulating land concession and assets selling by RNP Romsilva (national administrator of state forests);
- Investing RNP Romsilva with locus standi;
- Regulating the juditious use of the conservation and regeneration founds for forests;
- Clarification on when it is possible to remove permanent or temporary occupation of land in the national forest and regulated procedures to protect against the reduction of the national forests area;
- Better use of wood products from the national forests;

Government Decision no. 470/2014 – The forest radar

By adopting the Government Decision no. 470/2014 is deleted the regulatory duplication of Government Decision no. 996/2008 and Law. 171/2010, by removing from its judgment provisions which are contained in Law no. 171 / 2010.

There is established a set of clarifications regarding the use of special documents to prevent the introduction on the market of illegally harvested timber, whilst changing forms documents. To follow timber traceability chain of custody is established the "due diligence" and the obligation to contract with providers and beneficiaries to keep information about them on for at least 5 years.
There are also be determined by this law penalties applicable to infringements of the aforementioned European regulations and national legislation. Furthermore to reduce the risk of introduction on the internal market of illegally harvested timber and timber products derived from it, this law requires that operators who are placing on the market wood and wood products, to implement and use a "due diligence" system required by Regulation (EU) no. 995/2010 of the European Parliament and of the Council of 20 October 2010, laying down the obligations for operators who place timber and timber products on the wood market.

This bill seeks to improve the institutional capacity of the Department of Waters, Forests and Fisheries and territorial structures specialized of the central public authority by creating and developing a system for control and supervision of wood material traceability. At the start of the transport of wood from harvesting or storage, delivery note issuer must send in the computer system, online and / or offline, as appropriate, a standardized information transmission. When the sender of the information is in a GSM coverage area, the computer system generates real-time unique code that is included in the delivery note. If the sender of information is not in a GSM network coverage, the computer system generates a code offline, which at the entry into the GSM coverage area, the system will generate an unique code. The unique code is then entered in the delivery note. The recipient is obliged to check the unique code doing a query in the application.

3.Market drivers

In the near future, sawing capacity is forecast to mainly grow in Romania. Depending on how consumption in Eastern Europe continues to recover,
growing production could further increase Europe's net exports of softwood
lumber to other regions in the world.

4.Developments in forest products markets sectors

The area of the forest fund on December 31, 2013, compared to the same date of 2012, increased by around 0.1%. The increase is mainly the result of some replanning of wooded pastures and of the insertion of degraded and un-forested lands in the forest fund, established by law to be afforested (Law no. 46/2008 on Forest Code, with subsequent amendments). The forest area represents 97.6% of the national forest fund.

In 2013, the volume of harvested wood decreased by around 0.1% compared to 2012. The area of cuttings for the forest regeneration, performed within the forest treatments for the forest transition from one generation to another, decreased by around 1.2% compared to 2012. Out of this area, the flat cuttings (areas on which wood was fully harvested) represent 4.5%. In 2013, forest regeneration works were performed on an area of 26285 ha, 2.2% more compared to 2012.

The distribution of the forest fund by development regions shows a significant concentration in the CENTRE (19.3% of the total forest fund) and NORTH-EAST (18.2%), followed by the development regions WEST (16.0%), NORTH-WEST (15.2%), SOUTH-WEST-OLTENIA (12.4%), SOUTH-MUNTENIA (10.1%), SOUTH-EAST (8.4%) and BUCHAREST-ILFOV (0.4%).

The biggest volume of wood was harvested in the NORTH-EAST development region (28.4% of the total volume of harvested wood), followed by the CENTRE development region (22.2%) and to a lesser extent by the development regions WEST (12.2%), NORTH-WEST (12.1%), SOUTH-MUNTENIA (9.9%), SOUTH-WEST OLTENIA (7.4%), SOUTH-EAST (7.4%) and BUCHAREST-ILFOV (0.4%).

The largest areas, on which forest regeneration works were performed in the development regions NORTH-EAST (22.2% of the total regenerated area) and CENTRE (17.5%), followed by the development regions SOUTH-EAST (13.4%), SOUTH-MUNTENIA (12.8%), WEST (12.0%), NORTH-WEST (12.0%), SOUTH-WEST-OLTENIA (9.4%) and BUCHAREST-ILFOV (0.7%).

In 2013, the volume of exploited wood by economic operators with logging activity was by 1.2% lower than in 2012. Out of round wood volume, 38.8% represents coniferous and 61.2% hardwood.

In 2013 compared to 2012, a fall by 1.0% was registered in the volume of round wood because of the decrease in the volume of exploited wood.

The manufacturing of logs into sawn timber represented the main destination of exploited round wood, 54.7 %, by 2.8 percentage points less than in 2012.

Sawnwood

From the harvested logs about one third is used as fuel, another third is hardwood and the other proportion is softwood used for industrial purposes. They generate 3.762 million m³ in sawn wood from large sized companies (about two third in the Schweighofer group). Small size sawmills process larger diameter softwood and hardwoods. Traditional exportation of logs after 1990 decreased by 200,000m³/year. New industrial development imports logs from Ukraine and Russia, about 400,000m³ (95% softwood for sawing). The exportation of sawn wood increased again after the foreign investment and is about 2.6 million m³ to China, the Near East, and North of Africa. A new sawmill owned by Schweighofer is about 1 million m³ which was announced to start in 2014 in Brasov area (Reci).

Panels

The wood based panels industry in Romania received new equipment from the foreign investors such as Austria, Turkey and Germany and covered all types of boards (PY, PB, MDF, OSB, MB). About 1 million m³ PB (Kronospan in Sebes and Brasov, Egger in Radauti), 600.000m³ MDF (Kronospan in Sebes, Kastamonu in Reghin) and 900.000m³ OSB (Kronospan in Brasov and Egger in Radauti) are produced. Another large capacity for PB was announced by Kastamonu in Reghin, which also is producing molded doorskins from HDF in dry process. About 1.1 million m³ boards, especially PB and MDF are exported to foreign markets. In the recent years, especially before the new capacities, imports comprised 600,000m³ of the panels (half PB and OSB, half MDF). OSB is still used inthe local markets for construction. About 50,000m³ PY is produced in a few factories mainly for exportation (80%). The traditional plywood production was partially replaced with molded shells. Also the well-known wet process for fiberboard were demolished altogether with the dozen small capacities PB plants erected with Western technologies in 70’s and 80’s. A continuation of one layer massive boards (block boards) traditional production was possible again by foreign capital at two main modern sites (160,000m³) in Comanesti (2010 bought by Schweighofer from FinForest) and Siret (2009 bought by Schweighofer from Ikea).

Decorative veneer

Traditional veneering was made by the furniture industry with one exception in Constanta harbor. Today the capacity is reduced by more than 50% at about 57,000m^3, which gives Romania a place in the top 10 of Europe. Some companies mostly with foreign capital from Spain, Austria and Germany and modern equipment are continuing the success story. The capacity of such factories ranges between 2 and 20 million m^2/year. Tropical wood is also imported via Black See and processed at the harbor. 35,000m^3 of decorative veneers are also exported.

Furniture

Before 1989 Romania was in the top 10 furniture producers and exporters of Europe. Today it has worldwide rankings of 27 and 14 in Europe (also as exporting country). The entire furniture industry generates about 1 billion €/year within 1,000 small to large size companies employing about 50,000 people. About 65% of the production is for export, especially within EU28 but also to Russia and Near East (luxury segment) market. It is famous for its massive furniture made from precious hardwoods containing handmade decoration or sculpture especially for offices, dining rooms, dormitories for domestic or public use. A new generation of furniture for kitchen, bath rooms and public offices combining wood based panels and different coatings are emerging. Investors from Italy, The Netherlands, Germany, France and Sweden are notable. They are mostly co-owned and support the acquisition of modern technologies and finishing materials which are accepted on the European markets. The Romanian furniture industry is also supplying the main hotel chains, conference centers and top-end of cultural institution of the world and is competing in exhibitions recognized nationally and internationally. Furniture imports are 118 million € recorded. A successful continuation of the wooden based musical instruments production exists in Romania for all levels of arts.

Pulp and Paper

Romania lost the main part of its pulp industry in the last two decades producing only 15,000t of chemical pulp and become anet importer (60,000t). The cardboard and packaging paper has a

significant
value of about 180,000t developing together with the graphic (over 40,000t) and sanitary paper (about
20,000t). To process this amount, 470,000t paper are imported yearly (70,000 newsprint, 195,000t printing,
185,000t packaging papers). The only exportation made by Romania is 90,000t as packaging and sanitary
paper.

Recycling and biomass energy

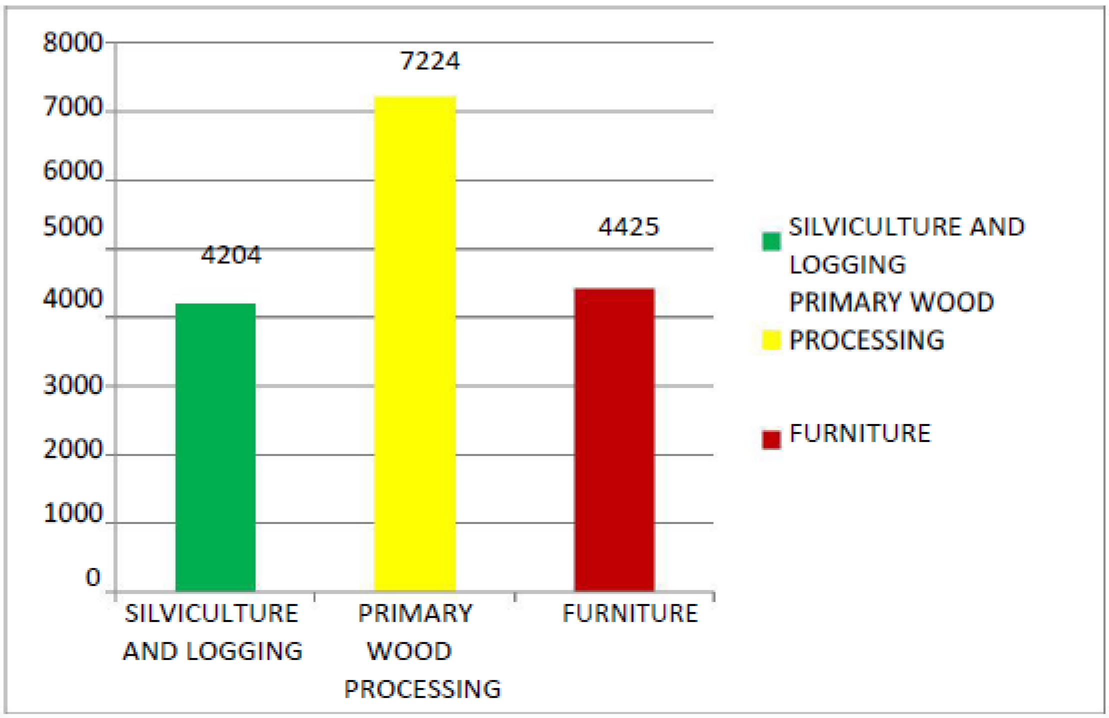
Romania is recycling about 800,000t of wood waste and 325,000t of paper and cardboard residues. About 200,000 t of pellets are produced mainly by foreign capital groups. Biomass based energy generation started at a small scale in the last years. Important installed capacities are inside of the saw mills and panels factories owned by Austrian groups.

5.Tables

a) Economic indicators

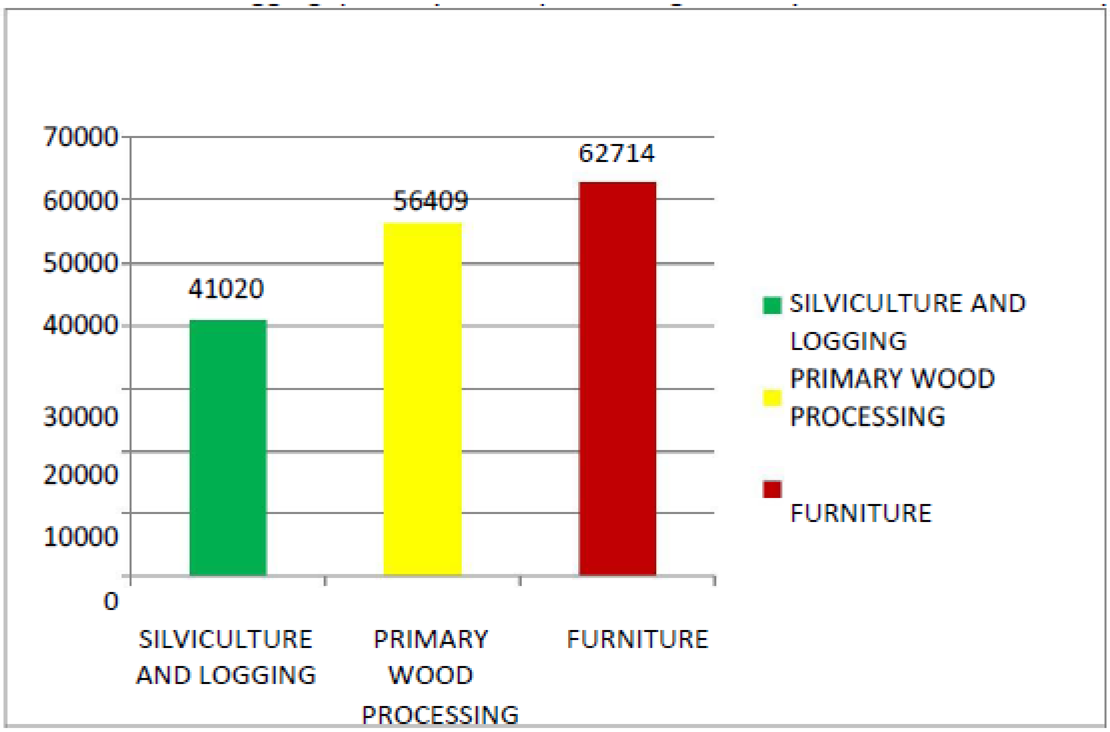
Number of companies in silviculture and logging, primary wood processing industry and furniture industry

NACE Code		Nr. of enterprises	%
21,22	Silviculture and logging	4,204	26.65%
16	Primary wood processing	7,224	45.57%
31	Furniture	4,425	27.91%
	Total	**15,853**	**100%**



Number of employees in silviculture and logging, primary wood processing industry and furniture industry

NACE Code		Nr. of employees	%
21,22	Silviculture and logging	41,020	26.61%
16	Primary wood processing	56,409	35.22%
31	Furniture	62,714	39.16%
	Total	**160,143**	**100%**



The evolution of the main indicators in 2013 compared to 2012

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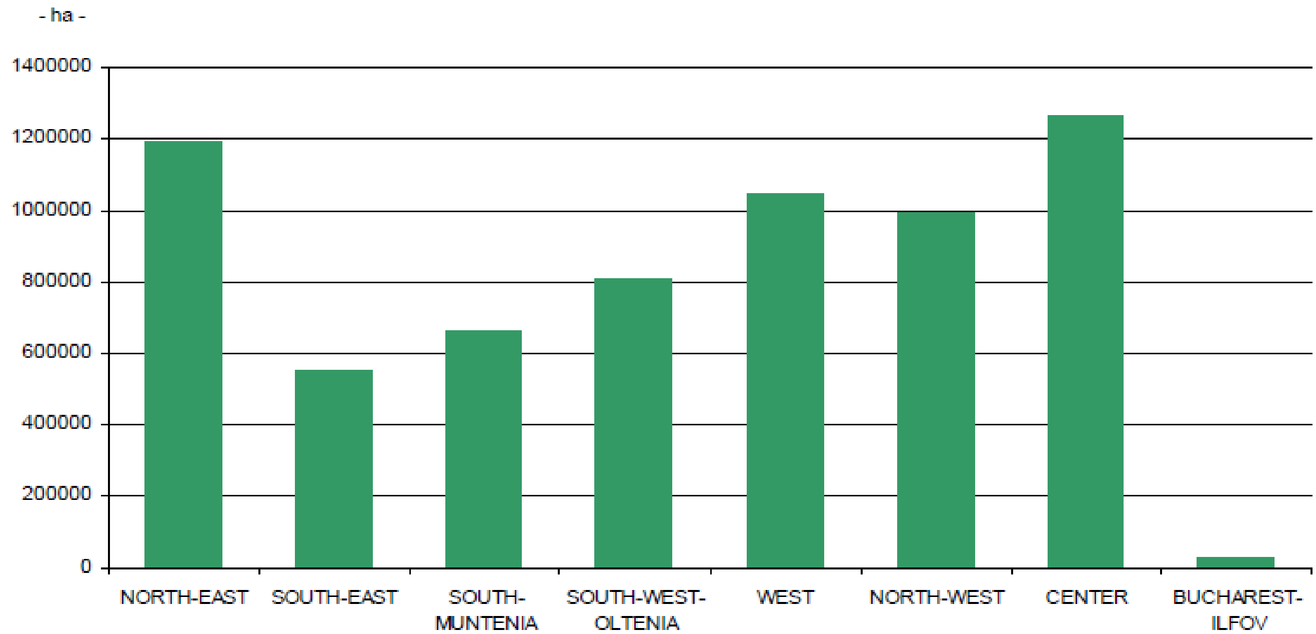
Name of indicator	U.M.	2012	2013	Differences (+/-) 2013 compared to 2012
Forest fund (at the end of the year) – total of which:	ha	6529166	6538522	+9356
- Forest area	ha	6372823	6380599	+7776
Harvested wood	Thousands of m3	19081.2	19063.8	-17.4
Area of cuttings for forest regeneration – total of which	ha	109615	108315	-1300
- Flat cuttings	ha	4569	4876	+307
Regenerated area - total	ha	25727	26285	+558

Forest fund, by development regions, at the end of 2013



The volume of exploited wood in 2013 compared to 2012, by wood species

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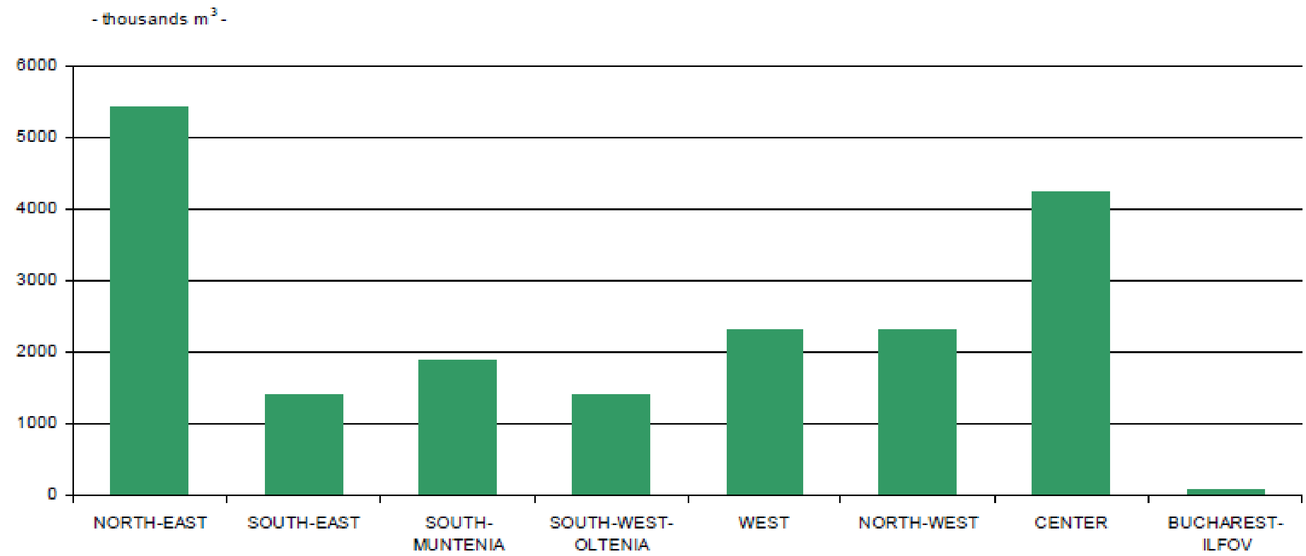
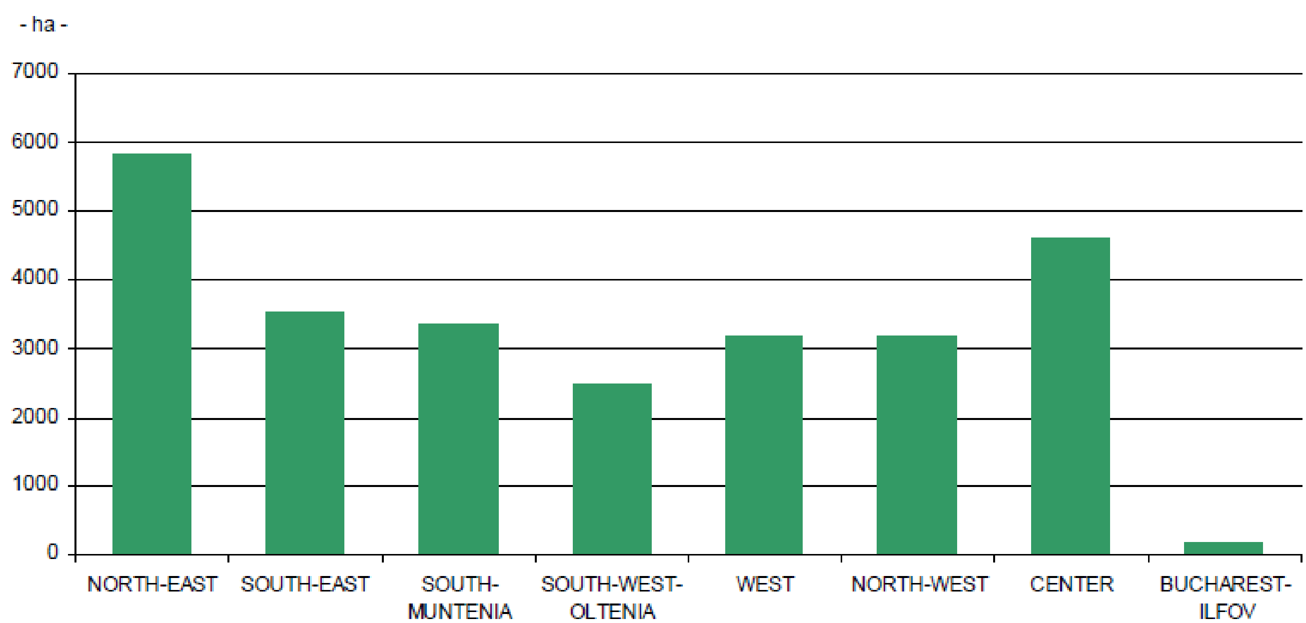
	2012	2013	Differences (+/-) 2013 compared to 2012
Total	**16981**	**16778**	**-203**
Round wood - total	**15345**	**15195**	**-150**
- Coniferous	5846	5902	+56
- Beech	5243	5178	-65
- Oak	1308	1437	+129
- Various strong wood	1526	1507	-19
- Variosus soft wood	1422	1171	-251
Bark	**809**	**848**	**+39**
Other types	**827**	**735**	**-92**

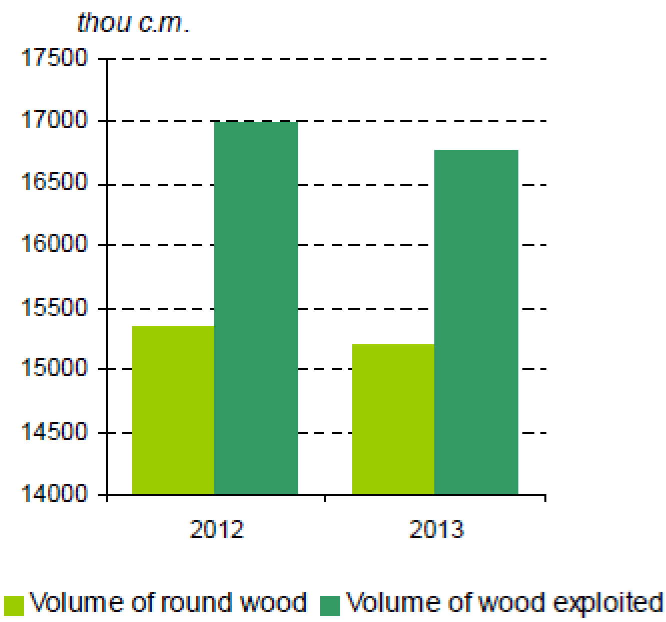
Harvested wood, by development regions, in 2013



Forest regeneration works, by development regions, in 2013



Volume of round timber in 2013 compared with 2012



Destination of round wood in 2013 compared to 2012

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	2012	2013	Differences (+/-) compared to 2012
Total	**15345**	**15195**	**-150**
Logs for sawn timber	8817	8309	-508
Logs for veneer	276	299	+23
Logs for resonance	*)	*)	*)
Pulpwood	334	305	-29
Wood for boards	247	275	+28
Fender	17	15	-2
Wood for buildings	810	830	+20
Tanning wood	-	1	+1
Charcoal wood	45	42	-3
Wood for other uses	44	57	+13
Fuelwood	4755	5062	+307

*) data lower that 0.5