

CBI MARKET SURVEY

THE TIMBER AND TIMBER PRODUCTS MARKET IN BULGARIA

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments in the timber and timber products market in Bulgaria. The information is complementary to the information provided in the CBI market survey 'The timber and timber products market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from <http://www.cbi.eu/marketinfo>.

1 Market description: industrial demand and production

In this survey, we will mainly focus on Forest Stewardship Council (FSC) certified timber and timber products. Please be aware that data discussed throughout the report does not differentiate between FSC certified and non-certified timber. However, when information is available on certified timber and timber products, this is specifically mentioned. The International Tropical Timber Organization's (ITTO)¹ is normally the most relevant source when discussing the EU market for timber as the organization is, on a global scale, the most detailed and reliable in its data recording. However, ITTO only records data of the EU15², in stead of the EU27 and the Regional Association of the Wood Processing and Furniture Industries doesn't record data either. Furthermore, ForesSTAT and UNECE do not cover Bulgarian industrial demand for timber. The latest UNECE/FAO Timber market Statement, dating from September 2002, reports consumption of 3.8 million m³ of round wood, 59 thousand m³ of sawn wood and 31 thousand m³ of plywood in 2001. Comparing this data to that of other EU countries, one can conclude that Bulgaria is a small consumer of timber.

Production

The European Commission on Forest-Based Industries (F-BI) recognises the following sectors of forest-based industries: forestry, woodworking, pulp and paper manufacturing and related activities (paper and board converting, printing).

Forestry

- Forest covers 25% of Bulgaria's territory, which is a rather high rate in the EU. In 2005, Bulgaria had 3625 thousand hectares of forest land (Eurostat, Forestry Statistics, 2007).
- Bulgaria currently has 21 thousand hectares of FSC-certified forest, which is only 0.6% of the Bulgarian forests. After three years of intensive lobbying efforts, in 2006, WWF welcomed a decision by the Bulgarian Ministry of Agriculture and Forestry to certify, in the next five years, 30% of the country's state-owned forests, or one million hectares, under the FSC certification scheme.

Wood-working industries

- The wood-working industry accounts for 2.2% of Gross Domestic Product. The industry employs around 18,000 persons and there are more than 5,500 wood-working companies in Bulgaria. Saw mills (2,041) represent 37% of the companies. More than 80% of these wood-working companies has less than three people employed. The overall technology base is poor, with production less than 30% of potential (FAO 2004).

¹ For information on ITTO and the main producing and consuming countries, refer to the CBI Market survey covering the EU market for timber and timber products.

² EU15 refers to the 15 countries in the European Union before the expansion on 1 May 2004. EU25 refers to the composition of the EU as it was until January 2007 (without Bulgaria and Romania).

- Despite the communist past, the harvesting and wood processing industries are nowadays close to 100% privatised.
- In 2006, the construction industry accounted roughly for 7% of GDP, which corresponds to € 4,500 million.
- Although the strong growth in furniture production is slowing down somewhat, the furniture sector still enjoyed growth in sales over the course of 2006. The intensive growth of furniture production is propelled by the constant increase in furniture export; the export share of the domestic furniture production is over 60%.

Product groups

- As shown in Table 1.1, Bulgaria is growing in importance as a producer of timber and timber products. Apart from wood-based panel production, all product groups experienced growth in output, which can not be said for the forest-based industries in most other EU countries. In particular, the growth in paper and paperboard production was strong, with an average annual increase of 18% in the period reviewed. The main type of paper produced in Bulgaria is Craft, with volumes totalling 76 thousand tons in 2005. The main part of this volume, 72 thousand tons, is exported (UNECE, 2006).
- The main producer of bleached sulphate pulpwood from deciduous tree species is the factory „Sviloza“ GSC, located in Svishtov town. Annual production totalled 60 thousand tons in 2005. Of this volume, 95% or 57 thousand tons was exported in the same year.
- A large part of the production of fibreboard is exported- 77 thousand m³ or 70% - mainly to Italy, Sudan, Romania, Macedonia, Turkey and Greece. There is no installation for the production of MDF in Bulgaria. In 2005, high import volumes were registered for this product, 84 thousand m³, mainly from Germany, Poland, Switzerland, Turkey and Romania (UNECE).
- In addition to the information provided in Table 1.2, production of fuel wood increased in 2003 by 17.1% as opposed to the previous year, totalling 1,180 thousand m³. Hardwood accounted for 1,480 thousand m³ of total round wood production in 2003, which is less than 10% of total round wood production.

Table 1.1 Production of selected timber and timber products in Bulgaria, 2001-2005, in 1,000 m³

	2001	2003	2005	Annual change	Share in EU27 production (2005)
Round wood	3,992	4,833	5,862	10%	1%
Sawn wood	332	332	569	14%	1%
Wood based panels	533	519	347	-10%	1%
<i>Fiberboard</i>	282	282	110	-21%	1%
<i>Particle board</i>	193	193	160	-5%	0%
<i>Plywood</i>	51	37	58	3%	1%
<i>Veneer sheets</i>	7	7	19	28%	1%
Paper and paperboard	171	171	326	18%	0%

Source: Foresstat (2007)

- In 2005, 2,678 thousand m³ timber of wood fuel was harvested, of which 318 thousand m³ were coniferous and 2,360 thousand m³ were deciduous. Relatively large exports of deciduous wood fuel, 90 thousand m³, are realized, mainly to Turkey, Greece and Macedonia.

Trends

- The forest-based industry in Bulgaria is facing some difficulties, which hamper the competitiveness of the sector:
 - The production processes suffers from difficult and unreliable access to raw material. Low quality wood is mainly supplied, which is unsuited for high-quality sawn wood and furniture.
 - Domestic consumer demand for furniture and wood products is small.

- There is lack of understanding about the role and necessity of standards in modern industry. Only a small number of the European standards have been adopted in the Bulgarian wood-based industry.
- High requirements for loan mortgages are imposed by the financial institutions in Bulgaria, which is an obstacle for investment in the sector. (FAO, 2004).
- The construction business is booming in Bulgaria. During the last 10 years, the faces of most of the major cities have changed completely. There is a tremendous potential in new construction, as costs are quite low compared to Western European standards and the quality is high. The construction industry is likely to contribute 6.7% to gross domestic product (GDP) by 2011, from an estimated 5.7% in 2006 (<http://www.businessmonitor.com/infra/bulgaria.html>).
- Bulgaria is receiving funding from institutions such as the European Investment Bank (EIB) as well as European Bank for Reconstruction and Development (EBRD), for the development of infrastructure in the country.

Opportunities and threats

- + Building activities in Bulgaria are rapidly growing. The construction sector and property market mark an average annual growth of 15%. Lots of investments are being made in administrative, residential, tourist, industrial and infrastructure building projects, some of them financed by the EU, the European Bank for Reconstruction and Development, the World Bank, as well as by many foreign private banks. This will boost and sustain a growing demand for timber and timber products in the near future (<http://www.bulgariaconstruction.com/>).
- Purchasing power is low in Bulgaria, therefore consumption of durable and more expensive tropical timber will most likely remain low for the next couple of years.
- FSC certification in Bulgaria is quite new. Only in 2006 were the first two FSC certificates made official by the Woodmark Soil Association Certification. Consequently, FSC certification does not play a major role in Bulgaria and consumer awareness of FSC is low.

Please refer to chapter 7 of the CBI market survey covering the EU market for more information on opportunities and threats.

2 Trade channels for market entry

- The distribution of timber from developing countries to Bulgarian consumers is somewhat different from other EU countries, because Bulgaria is a land-locked country. Since it does not possess a port, the country mainly relies on re-exports from Germany for its supply of tropical timber. Consequently, tropical timber imports from developing countries are "hidden" in the international trade statistics and developing countries account for a very small share of imports (see section 3).
- FSC products are likely to play a very limited role in the Bulgarian market. Moreover, little tropical timber is imported. A large buyer in Bulgaria is the construction, woodworking company and timber trader <http://www.balkanstroy.com>.
- FSC-certified products in Bulgaria are mostly marketed in DIY stores, but also in the paper sector. Please note that DIY chains usually source through wholesalers or buying agents. As the market is not very transparent, information about the suppliers they are dealing with can be obtained through contacting these chains. The most important retail/DIY channels for timber and timber products are foreign (German) and include Metro <http://www.metro.bg> and Praktiker <http://www.praktiker.bg>. Therefore, purchasing decisions are not necessarily made in Bulgaria.
- It is very difficult to present an overview of the different margins which apply throughout the various trade channels, as margins depend on species, quantity, quality and stage of processing. Also, the transport costs vary, depending on the country of origin and destination, the proximity of the forest plantation and the saw mill to a port, the volume of the shipment, fuel prices etc. In general, timber prices at the final consumer destination (DIY, wholesalers, garden centres) do not vary much across Europe. Prices found at DIY chains can be indicative for prices wholesalers are willing to pay. As a rule of thumb you

should be able to offer products for not more than 40% of retail prices. Please refer to the CBI market survey covering the EU market for more specific information on margins.

There is a growing trend in the timber trade to use the Internet for sourcing timber and timber products (E-commerce). The use of Internet reduces the trade chain by several links, cuts transaction costs and improves efficiency.

- *On-line company database* for finding companies working in the timber and timber products market is:
 - Europages, an online business directory, with full EU coverage. Wood and furniture are a separate product group and it is possible to include Bulgaria in the search options: : <http://www.europages.com>
- Also refer to the CBI market survey covering the EU market for more information on on-line company databases.

3 Trade: imports and exports

Imports

- Bulgaria is one of the smallest importers of timber and timber products in the EU. Only Cyprus and Malta import less. Imports in value increased strongly, on average by 27% annually, totalling € 89 million / 201 thousand tonnes in the latter year.
- Between 2001 and 2005, several product groups showed very strong increase in imports, most notably sawn wood (41% annually), wood-based panels (39% annually) and builder's joinery (58% annually).
- The three main suppliers were Germany, Turkey and Poland, supplying a little less than half of Bulgaria's total imports.
- Developing countries accounted for 23% of Bulgaria's timber imports, which is slightly more than the EU average of 19%. Imports from developing countries increased on average by 47% annually between 2001 and 2005. The main suppliers were China (€ 9.0 million in 2005), and Turkey (€ 6.5 million), followed at a distance by Croatia, Indonesia and Brazil. All these developing countries performed well between 2001 and 2005. The strongest increase was for China (+371% annually) and Brazil (126% annually). Remarkable is that Bulgaria hardly sources any timber in African countries. Nigeria and Congo saw their export to Bulgaria grow in the five year period, but imports from Gabon and Zimbabwe decreased considerably in the same period.

Exports

- Bulgaria is a net exporter of timber and timber products. Exports increased on average by 12% annually, totalling € 131 million / 883 thousand tonnes in 2005.
- Its main export destinations are Greece, Turkey and Italy.

Opportunities and threats

- + Bulgaria could become an interesting trade partner for developing country suppliers. Although the country plays a small role in EU timber trade, this is changing since both import and export increased strongly in the review period.
- + Developing countries' import market share is above EU average and imports from developing countries also increased above EU average in the review period.
- Imports from developing countries are dominated by China and Turkey.

Please refer to chapter 7 of the CBI market survey covering the EU market for more information on opportunities and threats.

Useful sources

- EU Expanding Exports Helpdesk - <http://export-help.cec.eu.int/>
- Eurostat – official statistical office of the EU - <http://epp.eurostat.cec.eu.int>

4 Price developments

Bulgarian timber market prices do not significantly differ from general EU prices. Therefore, no country specific websites exist for up-to-date prices and price information. Please refer to chapter 5 of the CBI market survey covering the EU market for information on price developments and useful sources.

5 Market access requirements

As a manufacturer in a developing country preparing to access Bulgaria, you should be aware of the market access requirements of your trading partners and the Bulgarian government.

For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select timber and Bulgaria in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: <http://www.intracen.org/ep/packaging/packit.htm>

Information on tariffs and quota can be found at <http://export-help.cec.eu.int/>

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from <http://www.cbi.eu/marketinfo> - go to search publications. For more information on doing business in Bulgaria, visit the following websites:

Trade Associations

- Bulgarian Building and Construction Chamber: <http://www.bbcc-bg.org/> (website in Bulgarian only)
- Bulgarian Industrial Association: <http://www.bia-bg.com/>
- Bulgarian Chamber of Commerce and Industry: <http://www.bcci.bg/>
- Regional Association of the Wood Processing and Furniture Companies - Stara Zagora: <http://radmi.hit.bg/> (website in Bulgarian only)
- Branch Chamber of the Bulgarian Timber and Furniture Industry <http://www.timberchamber.com>
- The Bulgarian Windows and Doors Association: <http://www.bulwindoors.org/>

Trade Fairs

- Bulgaria Building Week is an international building & construction exhibition. The fair takes place every year and the next event will be held in Sofia, March 11 – 15, 2008: <http://www.bulgarreklama.com/>
- TECHNOMEBEL is an international, specialized wood-processing and furniture exhibition. The fair takes place once a year and the next event will be held in Sofia, March 26 – 30, 2008: <http://www.bulgarreklama.com/>

Trade Press

- Information from the Ministry of Agriculture and Forestry: http://www.mzgar.government.bg/mz_eng/default.asp
- Mebeli, Magazine for furniture and woodworking industry <http://www.mebeli.info/>
- Information and publications on Bulgarian furniture and related subjects: <http://www.bulfurniture.com/>
- Bulgarian construction news: <http://www.bulgariaconstruction.com/>

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