CBI MARKET SURVEY

THE TIMBER AND TIMBER PRODUCTS MARKET IN HUNGARY

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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 Hungary. 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. It should be noted that detailed statistical data on the certified timber market are scarce and that reliable figures are hard to obtain. 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 EU15[2], in stead of the EU27. Unfortunately, the Hungarian Federation of Forestry and Wood Industries (FAGOSZ) does not record data either. Furthermore, ForesSTAT and UNECE do not cover Hungarian industrial demand for timber. The latest UNECE/FAO Timber Market Statement, dating from September 2004, reports a growing market for timber and FSC-certified timber products in Hungary. Nevertheless, the participation of Hungary in the international timber trade is marginal.

- Removals can give an indication of domestic industrial demand, although this does not include imports or deduct exports, therefore actual consumption might turn out to be a rather different figure. In 2003, fellings were performed on 93 thousand hectares, from which some 21 thousand hectares were harvested. The removed gross amount of 7.1 billion m^3 of timber, represents 72% of the sustainable forest plan potentials (Ministry of Agriculture and Regional Development Department of Forestry, Market Statement Hungary 2003/04).

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

- Compared to other East European countries, Hungary is a country forested at lower level than the average. In 2005, forest covered 1,976 thousand hectares of total Hungarian land (Eurostat, Forestry Statistics, 2007). Of this total forest land, 57% was state owned and 42% private-owned. The growing stock was 336 gross million m^3 in 2003. Both the

[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).

forested area and the growing stock have improved between 2001 and 2005 (Hungarian Department of Forestry, Hungary Market Statement, 2004).

- The Hungarian forest consists of the following main species: oak (23%); black locust (20%); pine and fir (15%); Austrian and turkey oak (11%); poplars (9%); beech (6%); hornbeam (6%); and others (10%) (http://www.nationsencyclopedia.com/Europe/Hungary-FORESTRY.html).
- In Hungary, 34.4% of the total forested area is protected and this trend puts further limits to timber harvesting.
- In 2006, the country contained 189 thousand hectares of FSC certified forest. The country had no forest certified under the Programme Endorsement of Forest Certification Schemes. (PEFC).

Wood-working industries

- Production in the wood-processing industries in 2003 showed an increase of 4% as opposed to the previous year. Production in the primary processing section, including wood-based panels, fell back in the wood processing industry. The overall expansion of the branch's output has principally contributed to the development of house building. At the same time, the share of furniture production decreased.
- The vast majority of wood-working companies is low-key, with less than 10 employees.
- The sub-branches that employ the highest number of workers are builder's carpentry and joinery (39%) and sawmilling (24%) (http://www.trademeeting.com/).

Product groups

- Total production of wood raw materials in 2003 grew by 2.5% compared to the figures of the previous year. Within this growth, pulpwood production increased by 8.8%, fuel wood by 10.5%, while production of logs dropped by 3.1% and that of chip wood by more than 10% (Hungarian Department of Forestry, Hungary Market Statement, 2004).
- In 2003, forest product sales decreased by 0.9% compared to the previous year's figure. (Under forest products, the Hungarian Ministry of Agriculture and Regional Development Department of Forestry refers to round wood, pulpwood, chipwood and fuel wood). Only the sales volume of fuel wood showed growth (Hungarian Department of Forestry, Hungary Market Statement, 2004).
- As shown in table 1.2, between 2001 and 2005, plywood and veneer sheets production in Hungary showed an increase of 46% and 15% annually respectively. Hungary is now responsible for 2% of total EU veneer sheets production. Production of sawn wood and fibreboards decreased by 5% annually during the same period.

Table 1.1 Production of selected timber and timber products in Hungary, 2001-2005, in 1000 m^3

	2001	2003	2005	Annual change	Share in EU27 production (2005)
Round wood	5,811	5,785	5,940	1%	1%
Sawn wood	264	299	215	-5%	0%
Wood-based panels	572	608	674	4%	1%
Fiberboard	*60*	*55*	*49*	*-5%*	*0%*
Particle board	*485*	*489*	*564*	*4%*	*1%*
Plywood	*5*	*18*	*23*	*46%*	*1%*
Veneer sheets	*22*	*46*	*38*	*15%*	*2%*
Paper and paperboard	495	546	571	4%	1%

Source: Foresstat (2007)

Trends

- The programme of building homes initiated by the Hungarian Government gives new perspectives to the housing industry and, as a consequence, positive prospects to the wood-working industry.
- Saw-milling industry may derive benefit from the home-building programme in the short term and the panel industry in the long term. This may also mean that the import of

coniferous round wood and sawn wood, as well as that of wood-based panels, will probably increase.

Opportunities and threats

+ Hungary is increasingly developing its wood-based industry, specially its construction and furniture industries.
+ FSC is increasingly playing a role in certification in Hungary. However, consumer awareness of FSC is still low.
- Hungary is a growing market for timber and for FSC-certified timber, however this increase does not necessarily include tropical timber, as tropical timber consumption is small in Hungary.
- Approximately more than 25% of the total cost of furniture production in the EU15 consists of labour costs. This gives the newer EU member states (amongst which Poland, Hungary, Slovakia, Slovenia) a stronger starting position in the cost race because, today, the labour cost in these countries is still a fraction of what it is in the EU15. On the other hand, the European market is relatively far away. Therefore, Eastern Europe will not be such a great threat to developing country producers of hardwood furniture as could be expected.

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 most important trade channels for exporters in developing countries to enter the Hungarian market are through sales agents, importers/traders and importers/processors.
- The distribution of timber from developing countries to Hungarian consumers is somewhat different from other EU countries, because Hungary 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).
- The role of FSC on the Hungarian market is likely to be very limited, and no companies importing FSC products were encountered. Most importers encountered are mostly focussed on importing timber from former Soviet Republics or other East European countries. Those of interest for developing countries are best encountered by using the Fakat directory and include:
    - Erdért: http://www.erdert.hu/
    - Jaf Holz Magyarország: http://www.jafholz.hu/
    - Zatik: http://www.zatik.hu/
    - Matra Parkett is a member of the European Federation for the Parquet Industry:http://www.matraparkett.hu/
    - Graboplast is a member of the European Federation for the Parquet Industry: http://www.graboplast.hu/index.php
- FSC-certified products in Hungary are marketed mostly in DIY stores, but also in the paper sector. The DIY sector is highly concentrated and mainly in the hands of multinationals, meaning that purchasing decisions are not necessarily made in Hungary. Few smaller retailers remain. Between 1999 and 2004, the Hungarian DIY market expanded significantly, increasing by 160% in current value terms to € 0.7 billion by the end of 2004, from € 0.2 billion in 1999. Reasons for this increase were, among others, the government contribution to the cost of mortgages and an increasing disposable income for Hungarians. The Hungarian DIY market is expected to perform well in the future. The estimated size of the market in 2009 is 0.8 billion which indicates an increase of 25% on the market value of 0.7 billion in 2004 (Euromonitor, 2006).
- 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:

- Baumax Magyarorszag: http://www.baumax.hu (Austria)
- Bricostore KFT: http://www.bricostore.hu/
- Obi: http://www.obi.hu/hu/ (Germany)
- Praktiker: http://www.praktiker.hu (Germany)

- 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 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 are:
  - Europages, an online business directory, with full EU coverage. Wood and furniture are a separate product group and it is possible to include Hungary in the search options: http://www.europages.com
  - Fakat Wood Directory Hungary: http://www.fakat.hu/indexe.htm
- 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

- Hungary was the seventeenth largest importer of timber and timber products in the EU, accounting for only 1.3% of total EU imports.
- Between 2001 and 2005, Hungarian imports increased on average by 6% in terms of value, totalling € 362 million / 1.6 million tonnes in the latter year.
- Hungary is an increasing importer of fuel wood. Between 2001 and 2005, the country had an increase of 92% in fuel wood imports. More than half of Hungary's demand for fuel wood was supplied by Slovakia and Austria.
- Hungary is also an increasing importer of builder's joinery. Between 2001 and 2005, the country had an increase of 20% in imports. The two main suppliers of builder's joinery were Germany and Austria.
- Developing countries accounted for 18% of Hungary's timber imports, a percentage very near to the EU average of 19%.
- Between 2001 and 2005, imports from developing countries increased on average by 14% annually. Hungary's main supplier from the developing countries was Ukraine, accounting for 14% of the country's imports.
- 70% of total timber imports comes from intra-EU sources. Neighbouring countries, such as Germany and Austria, were the main suppliers.

Exports

- Hungary is a minor exporter of timber and timber products in the EU. Between 2001 and 2005, exports increased on average by 5% annually, totalling € 362 million / 1.5 million tonnes in 2005.
- Hungary's exports of densified wood increased on average by 62% annually between 2001 and 2005, turning the country into the fifth largest exporter of densified wood in the EU. Almost the entire export is destined for Italy. Furthermore, small amounts are exported to Ukraine and the USA.

- Between 2001 and 2005, Hungary's exports of wood-based panels and builder's joinery increased by 11% and 13% respectively. However, Hungary's exports of mouldings and wooden frames decreased by 6% and 13% respectively.

Opportunities and threats

\+ Hungary's timber trade is expanding, for imports as well as exports, and this offers opportunities for developing countries. Furthermore, developing countries already account for a considerable imports market share and this share has increased during the review period as well.

\+ Imports from extra-EU countries, excluding developing countries, is decreasing. Developing countries may be a practical substitute.

\- The Ukraine dominates supplies from developing countries.

\- Hungary is increasing its imports of raw or basic processed timber products (e.g. fuel wood), which are not really interesting for developing countries, because of the globally applied import/export bans on raw timber material and because of the limited value-addition possibilities.

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

Hungarian timber market prices for tropical timber do not 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 survey covering the EU for information on price developments and useful sources.

In big timber producing countries like Latvia, Slovakia, Poland and some other East European countries, the wood is slightly cheaper (around 10%). In countries were there is not much raw material available (as in some southern EU countries) wood is around 10% more expensive (or importers are willing to pay around 10% more, which can be an advantage for exporters). Also, in countries like Germany and the UK, the demand for quality is higher, and thus the prises are higher.

In general for hardwood prices, the Southern EU countries, as well as Germany and the UK are paying the best prices. The second best group is the Eastern EU countries and Scandinavia. The third and last group (paying low prices) are the Benelux and France. The price for softwood differs per country, depending on the amount of forest and wood available locally.

5 Market access requirements

As a manufacturer in a developing country preparing to access Hungary, you should be aware of the market access requirements of your trading partners and the Hungarian government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select timber and Hungary 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 Hungary, visit the following websites:

Trade Associations
- Hungarian Federation of Forestry and Wood Industries (FAGOSZ): http://www.fagosz.hu/
- FSC Hungary: http://www.wwf.hu/ (Website in Hungarian only).

Trade Fairs
- Construma is a fair that is held in Budapest every year. The last one was held in April 2007: http://www.construma.hu/2007l_kiallitas.php

Trade Press
- The Hungarian Federation of Forestry and Wood Industries (FAGOSZ) has a list of books and interesting information on its website: http://www.fagosz.hu/

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