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## **DEVELOPMENT OF FOREIGN TRADE ACTIVITY IN THE CONDITIONS OF TIMBER MARKET OF UKRAINE**

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Ukraine constantly develops foreign economic relations with the countries of all the continents. Being an independent country, owning land, natural and forest resources, having favorable climate and geographic conditions, borders with many countries, access to the sea, Ukraine has a rather powerful potential for effective integration of its wood market to the world economy.

Forests are situated very disproportionally on the territory of Ukraine and their area comprises 9.4 million hectares. Ukraine rates only the eighth in Europe by the percentage of forest lands. In fact, its forest land area makes up 15,6% which is 4,4% lower than the optimal index.

Wood is a strategically important resource of Ukraine; its rational use is a significant component of ecological security of the country. A complicated ecological situation, scarce forest resources have always given rise to two opposite interests – protection and consumption. Twenty five years ago Ukraine yearly consumed 30-40 million m<sup>3</sup> timber, only 15 million m<sup>3</sup> being its own wood products. The main supplier of imported timber was Russia (60%). At present the amount of merchantable timber has not changed, the use of yearly growth (about 45%) is twice lower than in European countries and a yearly amount of wood harvesting is 0,9% of standing crop which is three times less than in Sweden and Finland.

A lot of Ukrainian researchers such as Hunchak N.V., Dyshko I.Yu., Karpuk A., Ovcharuk V.V., Stehniy O., and others [1-7] investigated the issues of foreign trade at the wood market. However, their researches were aimed at considering the issues of competitiveness of timber at the foreign market and analyzing current trends of export-import activities. At the same time further development of wood market of Ukraine at the world arena needs detailed research of trends in all the segments.

Methodology of the research. Theoretical and methodological basis of the research were scientific works by Ukrainian authors and statistical information of the state authorities. In the course of the research the method of structural and factor analysis (analysis of changes in the product and geographical structure of export and import of the researched commodity) were used.

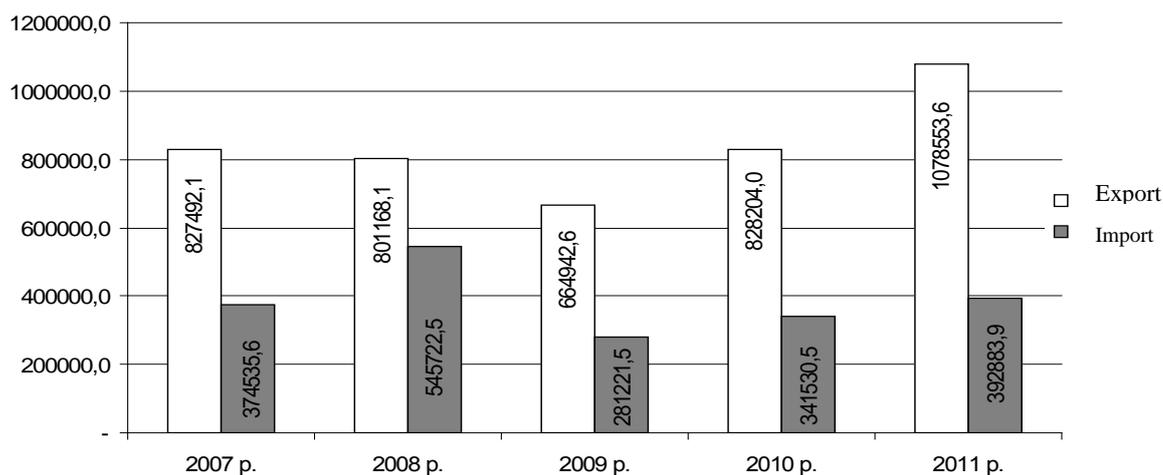
Results of the research. One of the prerequisites of the efficient functioning of the economy of any country in the conditions of global integration is conducting export activity as due to country's export operations its international relations are broadened, extra incomes are created, balance of payment is improved.

Export is a structure-forming factor, a booster of economic growth on the basis of international specialization, an anti-cyclic means of overcoming the conjuncture decline of the economy. The maintenance and extension of export potential is the main priority of economic development [3].

However, taking into account the present conditions, it is obvious that considerable negative changes in the world economy, especially in timber sector are

observed. The economic crisis influenced considerably the timber market of the countries-members of the European Economic Commission of the UN which includes 56 countries of Europe, Central Asia and Trans –Caucasus as well as the USA, Canada and Israel where 42% of the planet’s forests, 60% of production, 57% of consumption, 77% of export and 70% of import of comprehensive amount of wood and paper products are concentrated [2,5].

During the years of Independence Ukraine has turned from a big timber importer into its exporter (fig,1). A significant difference in prices and absence of export duties facilitated the increase of attractiveness of national timber export.



**Fig.1. Dynamics of foreign timber trade operations of Ukraine, thousand US dollars\***

*\*grouped by the author on the basis of the State Statistics Service of Ukraine data*

At present timber export and import in Ukraine are not regulated: timber exporters do not pay export duties, charges, VAD, which makes export activity an attractive and profitable business. Besides, according to the Tax Code of Ukraine [1], while exporting timber products (associated services) in export tax regime an enterprise has the right for budget VAD restitution, paid to goods (services) suppliers, the cost of which is included to production factors.

Timber products export in 2007 twice as much exceeded import (timber and timber products export in 2007 was more than 780 million US dollars, that is 2% of all the export. The amount of export of rough timber by state forestry enterprises during January-May period of 2008 reached 1203,3 thousand m<sup>3</sup>, that is 7% less than during the similar period of the previous year. The structure of export includes: technical raw materials and paper wood – 57,1%, bold timber – 42,7%, plywood raw material– 0,2%. Species export composition of rough timber is different and comprises: wood of coniferous trees– 47,9%, hardwood – 41,2%, other species – 10 [6]. Having entered the WTO Ukraine undertook commitments concerning reduction of import duties to zero level practically for all kinds of products by group 44 of UKT ZED (Ukrainian classification of commodities for foreign economic activity) which influenced the indexes of foreign timber trade in 2008-2010[4].

Dynamics and structure of timber foreign trade is gradually changing both in qualitative and quantitative aspects (table. 1).

### 1. Dynamics of timber trade from Ukraine, thousand US dollars\*

Kind of produce	2007	2008	2009	2010	2011	Structure 2011, %
Firewood	31504,5	35768,5	50778,0	65801,6	86395,0	8,01
Wood charcoal	20202,4	23928,0	29912,1	30506,4	37368,3	3,46
Rough wood	165757,3	157541,0	118136,8	181692,9	234866,7	21,78
Cooper wood	240,7	382,8	599,1	650,7	719,3	0,07
Wooden sleepers	5368,6	3494,8	2986,6	2488,4	4522,2	0,42
Sawn and split wood	319726,7	272518,6	194944,0	229397,3	285509,3	26,47
Facing sheets	62513,4	68491,8	57271,0	58193,6	66661,4	6,18
Wood sawn products	16006,9	15956,2	10132,5	12302,2	17381,6	1,61
Wood filing plates	75016,5	58579,2	60637,5	81473,7	114530,1	10,62
Hardboard plates	2640,9	3674,0	6311,7	8900,4	28698,9	2,66
Laminated veneer	54217,0	48905,9	31149,1	37671,1	43975,3	4,08
Wooden tare	16455,6	17584,6	10919,1	12335,5	18329,3	1,70
Tools of wood	2778,4	3333,8	3806,9	4430,6	5284,3	0,49
Joinery	40438,4	71042,7	70360,8	83842,1	108607,5	10,07
Other wood products	10446,9	14303,0	13478,3	15598,1	21430,4	1,99
Total	827492,1	801168,1	664942,6	828204,0	1078553,6	100,00

*\*grouped by the author basing on the data of State Statistics Service of Ukraine*

Export of Ukrainian timber in 2011 exceeds import three times. In 2011 the proceeds from export of wood and wood products comprised 1078,55 million US dollars which is 251 million dollars more than in 2007. In commodity composition of output the sawn and split timber comprises– 26%; rough lumber – 22%; wood-chip boards – 11% and joinery products – 10%.

Ukraine exports timber to different countries of the world (table 2).

In 2007-2011 export of rough timber from Ukraine increased by 69109,4 thousand US dollars. During this period the sale of sawn and split timber to the foreign market reduced by 34217,4 thousand US dollars which proves the general tendency to decreasing the export of engineered wood products.

In 2009 the decline of export of Ukrainian wood products, connected with the crisis phenomena in the world economy, was observed. That year the amount of exported produce has decreased by 136 million US dollars in comparison with the previous period but in 2010, when the tendency to recovery of the world economic system was observed, the amounts of export increased even compared to the crisis period.

Turkey, Romania, Poland, Germany remain the main buyers of Ukrainian timber. The main importer of Ukrainian rough timber is Turkey with 43%. The amount of export in 2011 increased nearly by 1,5 times in comparison with 2007. During recent years Ukraine established closer partner relations with Great Britain and China. In the period under scrutiny Ukraine sold rough timber to China 30 million US dollars more than in the base period [4].

## 2. Geography of timber export in Ukraine by the kinds of wood products, thousand US dollars\*

Country	2007	2008	2009	2010	2011	Absolute deviation (+/-) 2011-2007
<b>Rough timber</b>						
Turkey	70372,3	69911,4	54276,3	86018,7	101486,3	31114,0
Romania	16171,5	13248,2	19079,9	25583,4	36737,6	20566,2
China	264,4		4052,1	10226,6	30410,0	30145,6
Great Britain	-	73,3	98,5	-	10275,6	10275,6
Hungary	14100,8	11799,7	7015,1	8708,0	8912,3	-5188,5
Bulgaria	19719,2	15060,1	4450,9	2882,0	3434,1	-16285,1
<b>Sawn and split timber</b>						
Italy	38587,7	33441,9	22973,3	27205,2	36686,6	-1901,1
Poland	43371,6	33441,9	20940,2	23964,0	32379,0	-10992,6
Hungary	58507,3	33861,0	28718,9	26808,6	30051,9	-28455,4
Turkey	19591,5	21118,5	17744,6	26925,1	45001,7	25410,2
Germany	31538,7	23932,2	16057,5	21888,7	23997,1	-7541,6
Moldova	12101,1	14184,3	10880,5	10486,1	13491,5	1390,3
Netherlands	13344,9	10676,1	7046,8	7222,3	8304,5	-5040,5
Lithuania	14242,4	13209,2	8574,7	11384,8	15109,7	867,3
<b>Wood-chip boards</b>						
Belarus	15497,1	17545,1	13606,9	19724,1	25306,0	9808,9
Kazakhstan	5839,7	5107,5	5728,7	15459,7	29825,3	23985,5
Moldova	4117,1	3855,8	3713,6	5234,8	8537,5	4420,4
Russian Federation	17498,2	15913,2	1543,4	1071,4	2591,7	-14906,5
Uzbekistan	7309,4	2561,6	1694,2	3676,5	3113,1	-4196,2
Poland	19252,8	2755,0	12604,1	19361,4	17783,9	-1468,9
Romania	831,4	938,1	4148,9	4196,1	5195,4	4364,0
<b>Joinery products</b>						
Russian Federation	7605,8	16459,3	23586,6	26481,3	28827,0	21221,2
Kazakhstan	1043,0	2075,8	3268,2	8919,6	19203,7	18160,7
Moldova	1560,4	1954,8	1304,0	1732,0	2553,9	993,5
Poland	5457,9	25401,2	17893,5	23449,4	25730,9	20273,0
Great Britain	3279,0	3481,4	3120,2	3585,8	4171,0	892,0
Italy	3337,2	2910,2	3328,9	2221,6	2852,2	-485,0
Germany	7692,6	7843,6	7703,9	7243,1	9885,0	2192,4

*\*grouped by the author basing on the data of State Statistics Service of Ukraine*

Ukrainian wood and wood products foreign trade is developing dynamically. The countries of EU-27 and Turkey are the main trade partners of Ukraine. The main part of commodity composition of output of group 44 of UKT ZED is taken by rough wood (22%) and engineered wood (28%). Ukraine exports mainly wood boards (40%), joinery and carpentry products, woodwork construction parts (36%).

Ukraine has comparative trade advantages in comparison with EU-27 in production of round wood, worked lumber, veneer sheets and glued veneer. However, the country does not have such advantages in trading the commodities with a higher degree of processing (boards, joinery and woodwork construction goods).

The perspectives of the development of Ukrainian added-value wood processing and wood products export sector depends on forest resource base and attraction of investments which, in its turn, depends on institutional arrangement of forest management as well as on increasing consumer demand for final wood products[4].

The biggest importers of sawn and split timber in 2011 are European countries, among which are Italy – 12,8%, Poland – 11,3%, Hungary – 10,5%, Germany – 8,4%. The CIS countries buy 70% of wood-chip boards and 50% of joinery and carpentry products.

In 2011 wood and wood products (except furniture) worth total 392883,9 thousand US dollars were imported. The dynamics of import during the period of 2007-2011 is presented on table 3.

### 3. The dynamics of wood products import of Ukraine, thousand US dollars\*

Kind of produce	2007	2008	2009	2010	2011	Structure 2011p., %
Wood charcoal	382,5	573,3	493,4	679,2	614,8	0,16
Rough timber	12896,3	16641,1	1346,7	2046,1	2768,5	0,70
Sawdust and chips	2290,9	2857,3	3220,9	3339,4	3913,3	1,00
Sawn and split timber	3822,6	7538,3	3077,3	3686,8	5643,5	1,44
Facing sheets	5589,2	7171,4	5058,1	5821,0	6087,4	1,55
Sawn wood products	4943,0	9760,9	6032,2	6693,5	9033,4	2,30
Wood-chip boards	83230,4	130316,5	68261,6	81997,5	99777,3	25,40
Wood-fiber boards	65882,6	82604,6	44420,8	52934,8	108669,2	27,66
Laminated veneer	25084,6	31447,1	8828,7	13666,6	21719,8	5,53
Wooden tare	5956,2	7376,4	4970,4	6015,3	4591,5	1,17
Cooperage	619,8	687,3	518,5	593,4	721,0	0,18
Joinery products	136689,2	203486,9	109117,6	124060,6	86830,1	22,10
Wooden kitchenware	915,5	2930,2	3015,8	4651,5	3938,7	1,00
Wooden decorative goods	1351,1	3380,7	1593,8	2124,7	3105,3	0,79
Other wooden products	7457,5	14346,6	8080,8	10687,8	13399,7	3,41
Cork and cork products	9385,9	10614,1	6608,0	11589,0	13417,4	3,42
Baskets and wickerwork	2146,0	4537,7	2833,4	5846,6	5051,4	1,29
Total	374535,6	545722,5	281221,5	341530,5	392883,9	100,0

\*grouped by the author basing on the data of State Statistics Service of Ukraine

The main part of Ukrainian import in forestry sector is comprised by chemical

and mechanical wood processing products such as wood fiber board (28%) and secondary wood processing products, for example, wood-chip boards (25%), joinery and carpentry products. The imported boards are the basic material for the development of furniture industry.

The total volume of import rose by 5% during the period under scrutiny herewith procurement of rough, sawn and split timber and joinery and carpentry products decreased considerably which is connected with the development of the corresponding segments at the domestic market. Average prices of imported timber (mainly without taking into consideration species, grade and conditions of delivery) are approximately 10% lower than export process. The exception is wood-chip boards, sleepers and sawn semi-manufactured articles.

The geography of main kinds of imported Ukrainian wood products during 2007-2011 is presented on table 4.

#### **4. Geography of import of main kinds of wood products in Ukraine, thousand US dollars\***

Country	2007	2008	2009	2010	2011	Absolute deviation (+/-) 2011-2007 pp.
<b>Wood-chip boards</b>						
Russian Federation	9558,2	8812,3	3624,0	3348,4	2360,9	-7197,3
Austria	8230,6	5853,8	1952,5	3433,5	2633,4	-5597,3
Poland	19546,4	28958,0	18385,9	21198,2	29713,8	10167,4
Romania	7801,3	12993,4	12392,8	28160,4	38905,4	31104,1
Slovakia	8120,8	17386,9	6337,5	6679,8	6333,0	-1787,8
Czech Republic	11431,4	15612,7	13337,0	2133,9	1459,0	-9972,4
Canada	2121,6	5144,4	1355,4	4381,5	7328,1	5206,5
USA	1605,6	10194,8	448,1	259,1	3226,9	1621,3
<b>Wood-fiber boards</b>						
Russian Federation	14974,8	8981,5	3423,8	4317,9	6497,0	-8477,8
Germany	627,5	1576,0	218,3	362,3	22045,5	21418,0
Poland	29785,0	35423,0	25832,1	30149,6	46990,7	17205,7
China	240,3	870,7	56,6	303,2	8610,4	8370,1
<b>Joinery</b>						
Belarus	18965,8	30371,9	11814,0	11155,4	9745,1	-9220,7
Russian Federation	18881,3	20563,5	8253,6	6407,7	6050,7	-12830,6
Germany	19791,4	29459,0	26956,5	42663,2	16706,1	-3085,3
Poland	36145,0	54782,7	28569,3	27604,9	19147,9	-16997,1
Serbia	3585,4	4202,8	1893,6	3709,5	5312,2	1726,8
Hungary	2655,8	3812,6	1197,8	1821,9	4154,1	1498,3
China	8732,4	22915,3	12231,8	14435,6	5611,9	-3120,5

*\*grouped by the author basing on the data of State Statistics Service of Ukraine*

As can be seen from table 4, during the period of 2007-2011 the tendency of decreasing wood products import from Russian Federation is observed: decrease of import of wood-strip boards and wood-fiber boards by 7197,3 and 8477,8 thousand US dollars correspondingly and joinery products by 12830,6 thousand US dollars. Herewith, the import of Polish, Romanian, German and Chinese wood boards is

increasing.

**Conclusions.** The transition from distributive economy to the market economy called forth a number of drastic changes in the economic mechanism of forestry sector of Ukraine. The most important of them appeared to be the refusal from the state monopoly for timber export. As a result state forestry enterprises received the opportunity of entering foreign markets. In general, Ukrainian export of wood products increased by 1,3 times and import – by 1,05 times. The main kinds of exported wood products are rough timber, sawn and split timber, wood-split and wood-fiber boards. The domestic market is import-oriented in terms of buying wood-split and wood-fiber boards and joinery boards. The main partners of national enterprises in export operations are Turkey, China, Kazakhstan, and Russian Federation, while in importing wood products they are Romania, Germany and Poland.

Sharp increase of amounts of foreign trade operations at the wood market requires adequate and timely changes in the normative base as well as improvement of export-import activity in the regions.

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