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# MANUFACTURE AND TRADE OF WOOD PRODUCTS IN BULGARIA IN THE IN THE CONTEXT OF STABILITY, GROWTH AND GOVERNMENT POLICY

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## ABSTRACT

Over the years before and after the transition of Bulgarian economy from governmentally planned to market economy the wooden products played important role in many regions of the country. During the past few years and especially in the time of crisis many of the enterprises suffered of low revenues and some went bankrupt. It is important to prescreen the past and the present of wood working sector in Bulgaria to reveal its stability and growth.

**Key words**: woodworking, sector analysis, crisis, Bulgaria

## INTRODUCTION

Bulgarian woodprocessing has always had its place in bulgarian indsutry and foreighn trade. It was stable sector of economy, which gave (and still gives) earnings to not a small part of the country population. Before the transition to market economy main supplier and customer, in the same time, was Eastern Europe. Producers used large quantities of coniferous species and made many governmentally planned products for export. After the year of 1989 almost everything changed, and the only things remained over next few years were approximate stability and usage of the old trade channels. Many governments changed, many policies were implemented and during this time nothing so important was made by the government. Integrated policy was not pursued and there was not continuity between the governments.

International financial and economic crisis caused output and sales fall into Bulgarian economy and particularly wood processing and furniture industry. Differentiating the influences between external and internal markets (market reasons) can show up premises existed before crisis appearance. Increased import during the period between 2007 and 2008 forced the pressure over Bulgarian producers. In this period the economic „boom” motivated a great deal of traders to increase the import. But the main task after the economic impacts over the both industries is: It’s very important, almost vital distribution market to be diversified on international and in the same time internal base. By this way each producer and industries are more independent by price balloons and speculative prices.

Today many lessons have been learned and many obstacles were surmounted. Nowadays appears different problem. Many of foreign investors exploit former state properties with their obsolete machines without having any intention to invest in new ones. By this way in complementation of very low wages they achieve small production costs and remain their market shares in the costs of unhealthy working conditions in many enterprises.

Now it is important to make a reassessment of the effects on wood producing in times of different governments and to compare with other East European countries.

The main purpose of this research is statistically to describe stages, stability and direction of improvement of Bulgarian woodprocessing and to compare it with similar countries to distinguish differences and similarities between these sectors in two countries.

## MATERIAL AND METHODS

For the comparison in the research have been used statistical data from Eurostat and Bulgarian National Institute, and information about type and duration of the Bulgarian and some European governments. Different products have been analyzed, especially their production, export and import during the period 1999 – 2010.

Methodic of research includes following methods:

- graphical visualization and interpretation of data;
- structure analysis;
- regression analysis;
- trendline analysis.

## RESULTS AND DISCUSSION

From the beginning of the transition of Bulgarian economy to market eleven governments have changed. In the very beginning replacement was intensive and consequently results were insufficient. In figure 1 is shown the overall improvement of production of wood based panels.

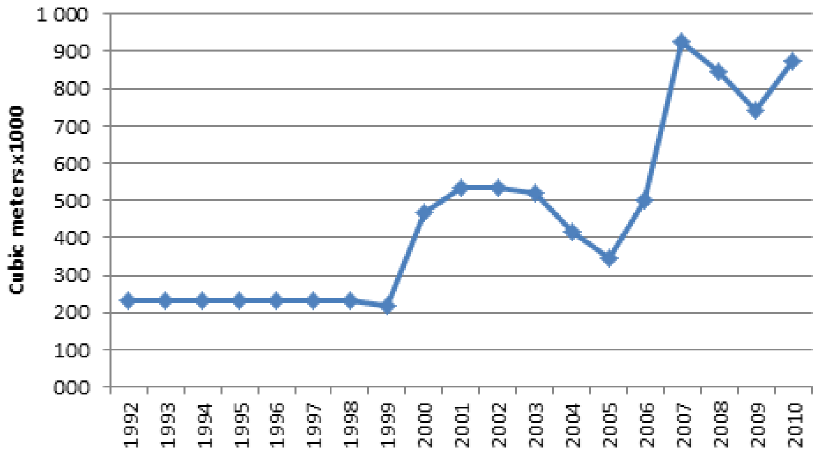



**Figure 1: Production of Wood-based panels in Bulgaria [1]**

On the fig 1 is shown the production in cubic meters in Bulgaria in the period 1992 – 2010. From 1992 to 1999 the production is stable (if statistical data, collected from Bulgaria are relevant). That could be a result of economic momentum from the past years of central economy. In this period 6 governments changed. The result of ant type of governmental policy appeared in the year of 1999 during the government of Ivan Kostov. The sector policy of that government could be accepted by successful because of the increasing production volumes. In compare in that time some countries have decreasing rates of Wood-based panels production. The next period is 2001 – 2005. During this time is the government of Simeon Borisov of Saxe-Coburg and Gotha. Production volumes decreased. In the same time countries like Romania, Slovakia and Czech Republic expanded their output. Situation again was not good but immediately after the replacement of this government an economic boom appeared. This is the period of Sergey Stanishev’s government. It cannot be stated that the government is the right reason for the good sector statement, but maybe the circumstances of global economic boom forced production of Wood-based panels to rise dramatically.

It is visible that stability of the sector is low and the direction of improvement changes within periods of different governments. Following statistical indicators of Wood-based panels production reveal the situation before the crisis in some Central and East European countries shown on table 1.

**Table 1: Characteristics of the East and Central European producers of Wood-based panels, for the period 1999 – 2005 [2–13]**

| Country | Variation coefficient | Average index of growth of production | Market share- East and Central Europe | Number of governments form different political parties |
|---|---|---|---|---|
| Hungary | 8 % | 2 % | 4 % | 3 |
| Estonia | 9 % | 1 % | 3 % | 3 |
| Latvia | 13 % | 2 % | 2 % | 5 |
| Slovenia | 15 % | 1 % | 6 % | 2 |
| Croatia | 17 % | 3 % | 1 % | 2 |
| Poland | 18 % | 4 % | 38 % | 4 |
| Czech Republic | 19 % | 4 % | 7 % | 3 |
| Slovakia | 21 % | 5 % | 6 % | 2 |
| Russia | 22 % | 6 % | 81 % | 2 |
| Lithuania | 22 % | 7 % | 2 % | 2 |
| Bulgaria | 25 % | 4 % | 3 % | 5 |
| Romania | 43 % | 10 % | 7 % | 2 |

Table 1 shows that Bulgaria and Romania has the biggest variation just before the economic boom 2006–2008 and the crisis. During the research was not found any connection between number of governments and growth or stability. In Bulgaria indicators are from the worst in the table. Growth is low, variation is high and there is no continuity between government's politics. For example Poland has bigger capability to survive in the crisis. It is interesting to compare these indicators with the same during the crisis and after. Countries with bigger market shares and higher index rates have to exit faster and earlier than the others. There exists a relation between stability of output and average rate of growth. It is shown on fig. 2.

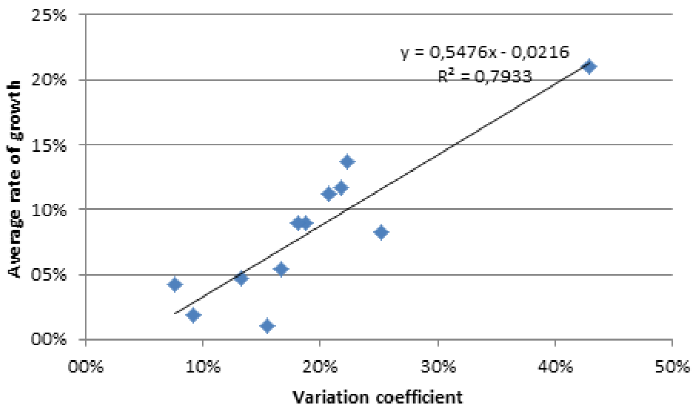



**Figure 2: Relation between variation and growth in Central and East European producers of Wood-based panels**

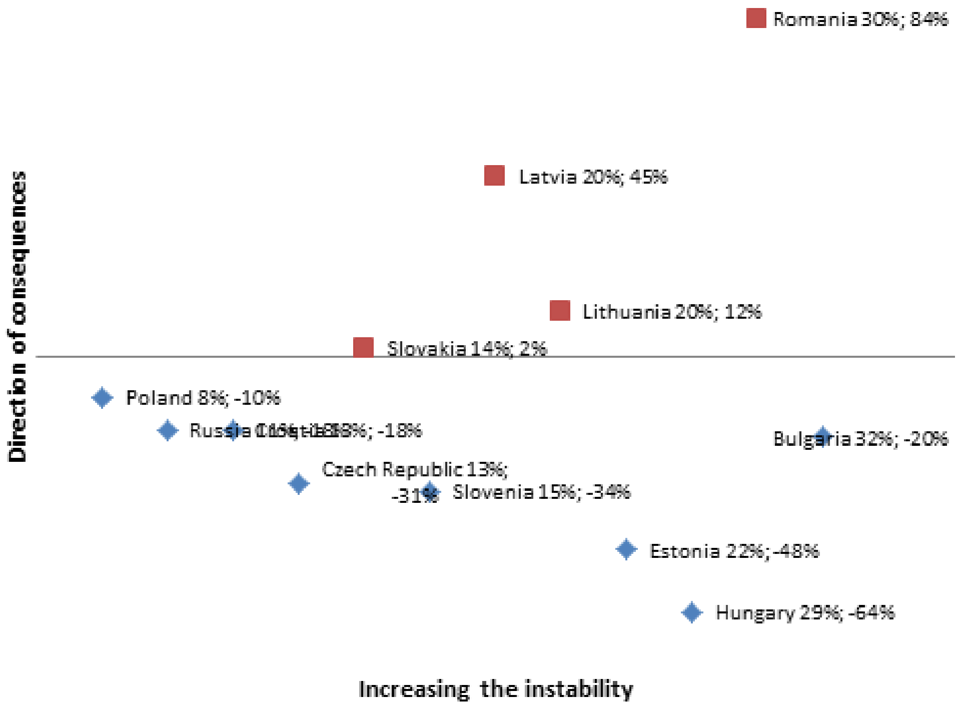
Obtained equation on fig. 2. reveals that in almost 80 % of the countries, 1% instability as a result of active governmental policy has contributed to the growth with 0,54 %. That means, that in 80 % of the countries average efforts to make sector better have brought positive output increment. What happened with other, like Bulgaria (in our opinion). They generated insufficient results to the end of 2005. Activeness of their governments was not intended to economic growth and especially in wood processing. Like it is shown on fig. 1. at the end of 2005 output fell from 500000 m3 to almost 350000 $m^3$. In table 2 are shown some indices for the selected products.

**Table 2: Indices of chosen wood products in Bulgaria for the period of 1999-2005**

| | Variation coefficient | Average growth | Average share | Average share growth |
|---|---|---|---|---|
| Veneer sheets | 71 % | 47 % | 2 % | 17 % |
| Plywood | 14 % | 5 % | 13 % | -8 % |
| OSB | 18 % | 7 % | 41 % | -3 % |
| Fibreboard | 42 % | 9 % | 44 % | 6 % |

Table 2 proves that unstable producing generates higher increment over this period. Production of Fiberboard incrementally fell in compare of increase of Veneer sheets. That means Bulgaria began to produce wood products with lower value added. Negative tendencies of Plywood and OSB mean that national production had lost some opportunities to occupy bigger share in European and world markets of products with higher value added. Fibreboard has the biggest share and continues to rise. This type of production is permanently intensive in the country due to the production technologies.

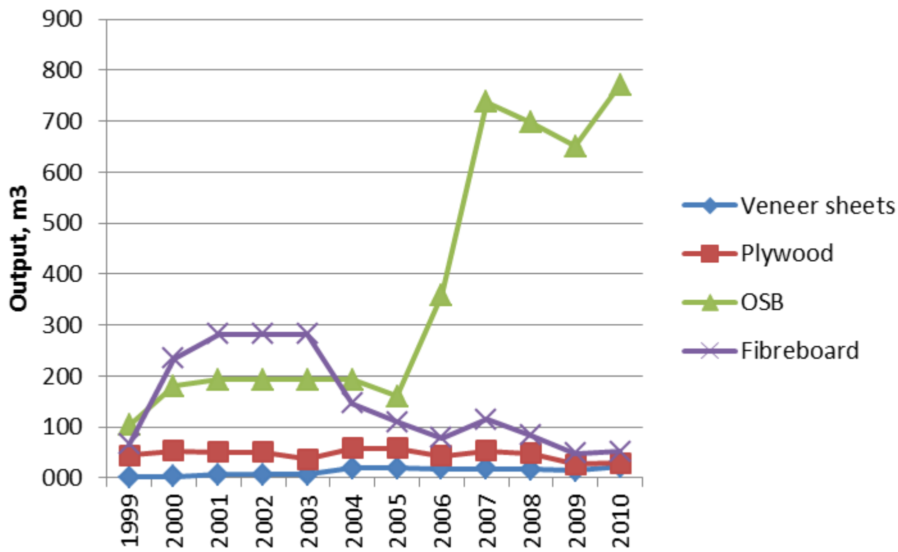
After came economic boom for the country and woodprocessing in Europe. In EU-27 jump in the output was more than 9 %, more than 30 % in Russia, more than 3,5 % in Germany and 40 % in Slovakia. In Bulgaria jump was more than 160 % (more than twice). The reason was intensive construction of new buildings in Sofia, Bansko and seaside. The crisis came, stopped the growth and the results are shown below, on fig. 3.




**Figuure 3: Two main directions of improvement of Wood-based panels production during and after the world economic crisis -2007-2009 in compare of the stability during the larger period 2005-2009 [1]**

Fig. 3 shows that in some countries tendencies are positive and In other exists negative relation between stability and fall in output. This is the effect of lagged crisis interference to the economy of these countries. But in fact countries like Romania used the crisis for gaining advantages.

Tendencies for now are difficult task to resolve. In 2010 output began to increase. In some countries like Slovakia it continued to fall. Bulgaria had better opportunities to gain advantage in European market. Prediction is placed on fig 4.




**Figype 4: Time series of wood based products output in cubic meters for Bulgaria**

From the image of fig. 4 is obvious that the product which pulls the sector out of the crisis is OSB. Others have lost their market shares. In compare plywood is not anymore such a preferable material for furniture and other industries. Cheaper materials took positions even before the crisis and show better capability for improvement and profitableness of the producers. In any type of strand boards began to be preferable material in construction and especially hotel furnishing.

The future of Bulgarian woodprocessing is unclear. Statistics shows that OSB is leader product (a star) but is has its own limits of market supply. Producers suffer of low quality and intensive competition of polish and german brands. Plywood and veneers productions suffer of low investments and obsolete technologies. In our opinion in the next two-three years the production will fall with on average 150 – 300 thousand cubic meters per year. Production of veneer sheets will exceed plywood after 2013.

## CONCLUSION

Analysis above presents that the situation in Bulgarian wood processing is not much good. Years of latency of the governments leave sector on its own and conscience of private investors. Trough ineffective regulation, low subsidiaries, absence of incentives for the producers, capabilities for quality and profitable producing are poor. The future given especially in hands of free market is not desirable for the country. It is matter of jobs and living of many locals in regions of Bulgaria, where no other sector is placed. We have to hold as a model countries like Romania, Baltic countries and in some ways Slovakia. Slovakia itself shows the continuity of the governments and stable growth over the years. May be the truth is somewhere between stability and Romanian proactive policy. In any case the government should not stay outside and look with indifference.

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