

PROSPECTS FOR EXPORT DIVERSIFICATION OF STATE FORESTRY ENTERPRISES IN LVIV REGION OF UKRAINE

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Abstract: *This study focuses on analyzing the opportunities for export diversification of the state forestry enterprises in the Lviv region. The research is based on the statistical information of the state forestry enterprises from Lviv region for the period of 2009-2017. The diversification need results from the current trends in the development of the forestry sector in Ukraine, which is substantially affected by a temporary export ban of unprocessed wood and the prospects for the growth of the European fuel pallet market. Consequently, the proposal is to organize the production and the export of new products for the state forestry enterprises, such as fuel wood pallets, to European countries.*

Key words: *state forestry enterprises, activity, diversification, wood pallets, export.*

1. Introduction

Ukraine occupies the eighth position in Europe for the total forest area (10.8 million hectares) and the sixth largest for the timber resource. The ratio of forest land to total land area is 15.9%, which is almost three times lower than the average in Europe. In April 2015, the Ukrainian government adopted the Law on amendments to the Law of Ukraine “On the Peculiarities of State Regulation of the Business Entities Activity Related to the Trade and Export of Timber Products” concerning the temporary export ban of

unprocessed wood”, which banned export of unprocessed wood for 10 years, except for pine, – from November 1, 2015; pine species – from January 1, 2017 [11].

In Ukraine, in 2013-2014, 20 million cubic meters of timber were harvested, in 2017 – 21.9 million m³. Among them, the profitable wood– 19.6 million m³. However, only less than half – 8.3 million m³ is suitable for the production of finished products (for example, plywood, veneers, joinery products etc.). The rest of 11.2 million m³ is firewood, including wood for heating and technological needs, which continue to be legally exported.

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Ukrainian government has limited internal consumption of the unprocessed timber in the amount of 25 million m³ per year for the duration of the export ban of the unprocessed timber outside the customs territory of Ukraine (export). From January 1, 2019, the export ban of firewood is expected [11]. In 2017, state forestry enterprises of Lviv region exported firewood for more than one million USD. In the event of implementation of the law on the export ban of firewood the next year, these enterprises will not be able to export firewood, and accordingly to receive a substantial part of income in freely convertible currency. In such a situation, the state forestry enterprises can focus on the production of processed wood. One of the promising areas of diversification of the export activity of the aforementioned enterprises is the production of fuel pallets.

The purpose of this work is to substantiate the feasibility of export diversification at the state forestry enterprises. The study is based on current data of export development of these enterprises and key trends both in the field of Ukrainian legislation and in the production and consumption of fuel pallets in Europe.

2. Material and Methods

The theoretical and methodological bases of the research are based on a comprehensive normative and economic analysis of conditions and state of the state forestry enterprises of Lviv region in particular, the export activity of seventeen forestry enterprises was analyzed. The analysis was carried out on the basis of the collected documentary reporting of enterprises.

In the process of research, the following methods and approaches have been used: a systematic approach – for a more precise representation of the research object and its place in the system of functioning of forest holdings, methods of induction and deduction – to generalize the main theoretical positions of the research and for the wording of conclusions and recommendations.

3. Results and Discussion

Despite the fact that there is a certain contradiction between the economic benefits of the export of products and certain negative environmental and social consequences of this type of activity in the forest sector of Ukraine, nowadays, and probably in the long run, the financial condition of the forestry enterprises and the industry as a whole will significantly depend on the possibility of selling wood and other forestry products on the foreign market.

The priority of this direction of development of forest enterprises is determined by the fact that [10], [13]:

- Firstly, until today, the price level of external and internal markets for similar products differ by 1,3-1,7 times;
- Secondly, the active privatization of the enterprises in those sectors of the economy that used forestry products (coal industry, construction etc.) in their activities, which was performed against the backdrop of a radical change in the conditions of farming, led to a significant reduction in their production, and as a consequence, to a sharp decline in demand for wood in the domestic market;
- Thirdly, foreign economic activity is an opportunity to engage in the advanced

practices of growing forests and production of forestry products, to create a favourable climate for international investment, to enhance the image of the enterprise and the forest sector as a whole.

The comparative characteristics of the volumes of exports of the processed and unprocessed wood are shown in Table 1 and Figures 1 and 2.

Table 1

Exports of forest products in the Lviv region, Ukraine

Years		Timber	Proces- sed logging	Other process- ed products	Total process- ed/unpr ocessed materials	Sawlog	Technical raw material	Other unproces- sed products	Total unproces- sed products	Total products for export under the contract
2009	m ³	34600	27300	0	61900	163020	257480	17900	438400	500300
	%	56,0	44,0	0	100	37,0	59,0	4,0	100	100
2010	m ³	29740	29650	1000	60390	258750	291565	23080	573395	633725
	%	49,0	49,0	2,0	100	45,0	51,0	4,0	100	100
2011	m ³	38480	22800	700	61980	216350	185150	31750	433250	495230
	%	62,0	37,0	1,0	100	50,0	43,0	7,0	100	100
2012	m ³	25400	17750	3000	46150	182500	124200	2100	308800	354950
	%	55,0	38,0	7,0	100	59,0	40,0	1,0	100	100
2013	m ³	40220	27050	18750	86020	255700	197200	2200	455100	541120
	%	47,0	31,0	22,0	100	56,0	43,0	1,0	100	100
2014	m ³	34175	26450	33250	93875	251900	210600	2100	464600	558475
	%	36,4	28,2	35,4	100	54,2	45,3	0,01	100	100
2015	m ³	35845	26250	14200	76295	228400	250200	5100	483700	559995
	%	47,0	34,4	18,6	100	47,2	51,7	1,1	100	100
2016	m ³	41550	29120	13100	83770	49650	-	159500	209150	292920
	%	49,6	34,8	15,6	100	23,7	-	76,3	100	100
2017	m ³	44120	30850	11250	86220	-	-	50200	50200	136420
	%	51,2	35,8	13,0	100	-	-	100	100	100

The situation with regard to wood exports by the forestry enterprises of Lviv region can be roughly divided into two periods from 2009 to 2013 and from 2013 to 2017, as in the second period of time there was a significant impact of a number of bills that restricted the export of certain types of products, in particular, the moratorium on the export of round wood. Accordingly, the volume of exports and its structure has changed significantly. From the data shown in Figure 1, it is clear that the forestry enterprises of Lviv region successfully coped with the crisis

phenomena of 2010-2012 (in terms of export activity) and proved the volume of export contracts in 2013 to 541.120 m³, which is 40.820 m³ or almost 9% more than in 2009. In 2013, compared to 2009, export of processed wood increased by almost 40%, indicating an increase in the value chain in the production of export products. At the same time, a significant part of exports of forestry enterprises of Lviv region until 2013 occupied the unprocessed wood. In 2009, their share in total exports amounted to almost 87% (total exports in 2009 amounted to 500

300 m³, and the volume of the unprocessed products was 438 400 m³). The turning point in the structure of timber exports was 2013, when the share of the unprocessed products in total exports amounted to 84%, which is 3%

less than in 2009, since the export of the processed forest products has significant economic benefits. World prices for the forest products are significantly differentiated depending on the degree of product processing.

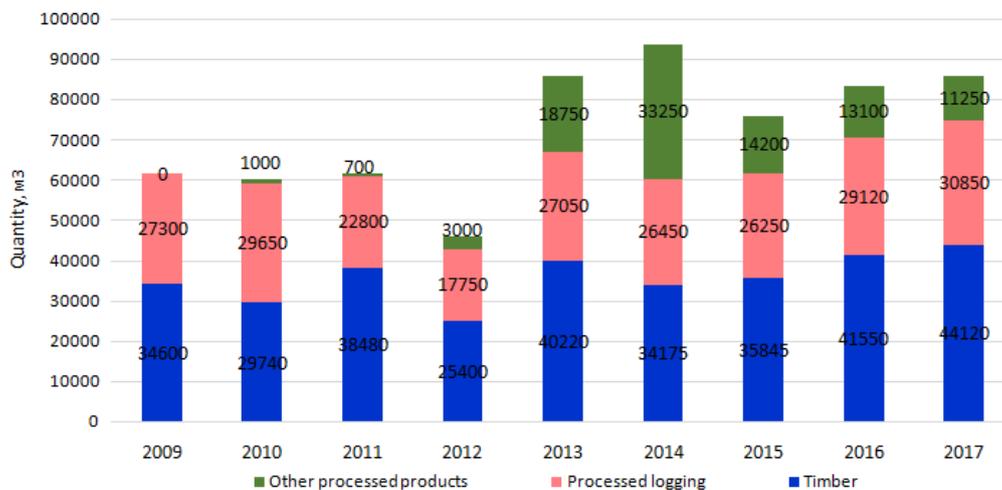


Fig. 1. Dynamics of exports of the processed timber, m³

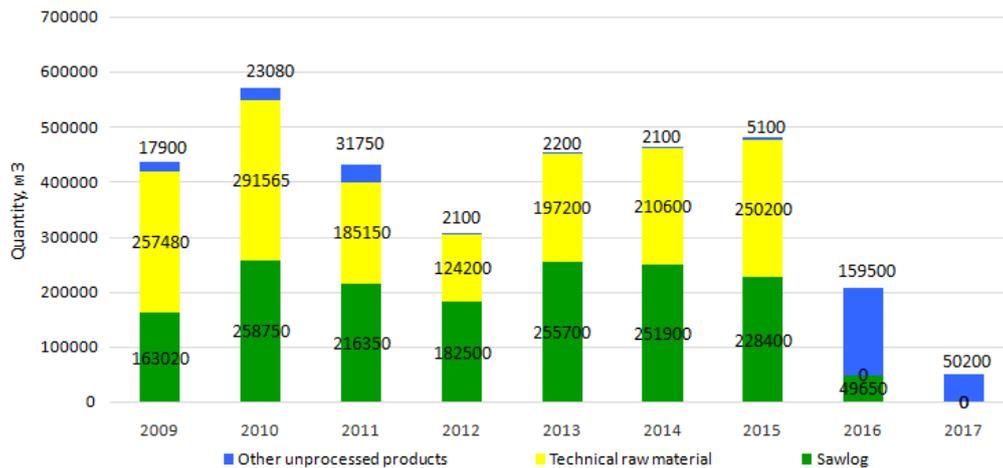


Fig. 2. Dynamics of exports of the unprocessed timber, m³

The moratorium introduced stimulated activation and development of the processed industry at the forestry enterprises. Thus, in 2014, the share of

exports of processed timber of the investigated enterprises was the highest and in the following years the enterprises exported mainly the processed wood. In

2015, the export of sawlogs and technical raw materials of coniferous species was still in small volumes, but in the following years, fuel wood was mainly sold for export. As mentioned above, the Ukrainian government has limited internal consumption of unprocessed timber in the amount of 25 million cubic meters per year for the duration of the export ban outside the customs territory of Ukraine (export) of unprocessed timber, and from January 1, 2019, the export ban of firewood is expected [13].

In this situation, in our opinion, it would be more appropriate to diversify the export activity of forestry enterprises.

Diversification – (Latin *Diversus* – various and Lat. *Facere* – to do) the process of development of the enterprise activity associated with an increase in the range of species and penetration into new spheres of activity, the development of new industries, the expansion of the range of goods, which includes not only the diversification of product lines, but also the expansion of entrepreneurial activity to new ones and unrelated with the main activities of the firm [4]. The need for diversification is determined by a whole range of motivations and conditions. It consists of two sub-complexes: of internal and external origin. They in turn interact with each other and exist in close interconnection and interdependence. And the fact is that for a single market entity for certain conditions (internal and external) it is a motive reason to diversification, for another it may be its condition.

This transformation is based not only on the specific characteristics inherent at each enterprise, but also depends on timing of the definition of motives and conditions.

Cumulative motives reason and conditions of internal and external character form the possibility of choosing one or several possible directions of diversification.

The sub-complex of external origin is primary in relation to the sub-complex of internal origin, which is the result of the operation of market mechanisms.

At the same time, the sub-complex of internal origin is transformed into a sub-complex of external origin for other elements in the market environment. Such a transformation is an expression of organic dependence between all economic agents, which shows that changes in the behaviour of one of its elements reflects adequately on the management of all other elements. Besides, this transformation allows considering sub-complexes of motivations and conditions of internal origin as an important link of the sub-complex of external origin. This re-element of the general complex has the same structure as the original one [6].

Korinko M.D. grouped types of diversification according to many features, including corporate, inter-firm, industrial, inter-industrial, state and global [9].

At present, we can apply diversification in export and also in import. With the diversification of export, there is an expansion of the nomenclature, assortment of goods and services that are being exported, in order to ensure better conditions of functioning due to possible changes in market conditions, exchange rate etc. [7].

Some scientists point out two areas of implementation of export diversification [5]:

- Innovative diversification – the development of innovative business,

the production of high-tech products, the transition to high-tech industries, etc. Accordingly, all this leads to rational use of resources and the ability to export finished products;

- Inertial diversification – updating of the structure of exports of goods and services that are necessary on the world market. Accordingly, the effectiveness of the implementation of this direction of diversification depends on the appropriate state support system for export activity.

According to another author, the diversification of export is an increase in the number of types and names of products and services intended for export [8].

In our opinion, the promising direction of diversification of the state forestry enterprises is the production and export of wood pallets (which are currently not manufactured at the investigated enterprises). At the same time, domestic private enterprises successfully produce and export wooden pallets, purchasing raw materials for their production at the state forestry enterprises. Within eight months of 2016 (January-August), exports of wooden pallets reached 92.71 thousand tons, which is in the monetary equivalent of 9.21 million USD (according to the State Statistics Service of Ukraine). The main consumer market is Poland, to which within eight months the Ukrainian enterprises exported 29.40 thousand tons of wooden pallets, representing 31.7% of the total volume of export of these products. In addition to Poland, the top 10 countries include Italy, Germany, Czech Republic, Romania, Denmark, Slovakia, Bulgaria, Hungary and Slovenia [12].

In case of the establishment of wooden pallets production at the forestry enterprises of Lviv region, prospective

buyers of these products may be European countries. The five leading European consumer countries are Italy, Denmark, Germany, Sweden and France. The demand for wooden pallets in Europe will grow.

The European market for wooden pallets has grown from 9 million tons in 2013 to 13 million tons in 2017. The largest European country importing pallets in 2017 was the United Kingdom – 6.8 million tons.

The total installed capacity for the development in Europe of energy using wooden pallets by 2020 should be about 8000 MW [1].

In order to organize the production of new export products in the framework of diversification, additional investments in equipment are required.

Potentially, the state forestry enterprises are extremely attractive for investment, as they have a predicted forest raw material base for the medium and long-term perspective (according to the forest management plans), which is a very important factor in persuading foreign and domestic investors to finance forestry projects. Taking into account the potentially high attractiveness of forestry for strategic investors both for residents and non-residents, and assessing the existing shortage of financing of capital investments at state forestry enterprises, it is necessary to increase the effectiveness of incentives at the state level to increase investment in the forestry and wood-working industry. One of such incentives, implemented administratively, may be the legalization of direct long-term contracts between the state forestry enterprises and foreign investors regarding the sale of the last processed wood, while complying with the

requirements of the antimonopoly legislation and ensuring fair competition on the forest product market.

An important factor in increasing capital investment in the forestry and wood processing would be simplification of the leasing mechanism [3].

In case of impossibility to attract investments in the production of export products it is expedient to use tolling.

The production of finished goods from tolling raw materials, called business turnover, as "tolling operations" (from the English word "Tolling"), which literally means payment for services on the processing of customer's raw materials with the same raw material, has been widely used in world economic practice and is recognized by the World Trade Organization (WTO) as one form of international division of labor [2]. In broad sense, under tolling operations we understand the organization of production of tolling raw materials processing, the terms and forms of payments for services for processing, methods for the implementation of finished products, manufactured from tolling raw materials [2].

4. Conclusions

1. The Law of Ukraine on amendments to the Law of Ukraine "On the Peculiarities of the State Regulation of the Business Entities Activity Related to the Trade and Export of Timber Products" has been significantly influenced by the development of export activities of state forestry enterprises in relation to the temporary export ban of unprocessed timber, which banned the export of unprocessed timber for a period of 10 years. In this situation, it would be appropriate to diversify the export activities of forestry enterprises. The need for diversification is determined by a whole range of motivations and conditions.
2. The situation regarding the export of timber by the forestry enterprises of Lviv region can be divided into two periods from 2009 till 2013 and from 2013 to 2017, as in the second period of time a significant number of bills influenced the export of certain types of products, in particular, the introduced moratorium on export of the round forest. Accordingly, the volume of exports and its structure has changed significantly.
3. The promising direction of diversification of the state forestry enterprises is the production and export of wooden pallets (which are currently not manufactured at these enterprises). At the same time, domestic private enterprises successfully produce and export wooden pallets, they purchase raw materials for their production from the state forestry enterprises.
4. In the case of establishing the production of wooden pallets at the forestry enterprises of the Lviv region, prospective buyers of this product may be European countries. The total installed capacity for the development in Europe of energy using wooden pallets by 2020 should be about 8000 MW.
5. In order to organize the production of new export products in the framework of diversification, additional investments in equipment are required. An important factor in increasing capital investment in the forestry and wood processing would be

the simplification of the leasing mechanism. In case of impossibility to attract investments in the production of export products it is expedient to use tolling.

6. The organization of the production and export of wooden pallets will enable state forestry enterprises to sell competitive products successfully in the European market, to receive additional foreign exchange funds, to generate employment.

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