

THE EFFECTS OF THE EURO ADOPTION ON THE TIMBER MARKET IN ROMANIA

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Abstract: *This paper analyses the potential effects of adopting the Euro currency in Romania on the timber prices. We begin from the current situation of Romanian wood auctions (starting price, selling price, timber type, volume auctioned, volume sold) and compare it to the situation in Slovakia. In this case, an in depth analysis on the effects of the currency change will be presented, focusing on the changes that have occurred in the prices of general goods and materials, especially on the timber market, taking into account the changes that have taken place on the Slovakian timber market. We will apply the same trend to Romania and set up a forecasting model and study the potential effects, both immediate and long term of adopting the Euro currency for the timber market (variation in price and timber volume).*

Key words: *timber auctions, prices, volume sold.*

1. Introduction

As part of the European Union, Romania is expected to become part, at some point – decided by a series of criteria, of the monetary union which translates into the adoption of the single currency, the Euro.

This process, from national currency to the Euro, has taken place in many member states and has caused significant changes in all aspects of the economy and state.

The newest member state to take this important step was Slovakia which adopted the Euro from the 1st of January 2009. The effects of this action were widespread and lasting in all levels of society.

In this paper we will make a comparison between the situation in the post-Euro adoption Slovakian market and the timber market in Romania aiming to present several possible outcomes of the single

currency adoption in our country.

2. The timber market in Romania

The timber market is subjected to the same legislation as any other market, but with some specific traits influenced by: total timber mass resources from a specific area, forest accessibility, nature and wood characteristics, seasonality, the way in which the price of wood is calculated in different areas, the sales method (auction or direct sale).

Most of the timber sold legally in Romania goes through an auctioning process, where we have several sellers and buyers, both from the state and private sector. In general, there are several auctions a year, which are set according to the periods best suited for felling and the national legislation regarding auctions (mainly OUG nr. 34/2006 regarding public

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auctions, modified through OUG nr. 72 from the 17th of June 2009).

The market is comprised of dozens of small Romanian companies, several large international corporations, which are the buyers and the Romanian state (represented by Romsilva) which is the main seller, alongside several private forest owners. The market share of the national companies is quite small, under 15% while the rest is dominated by the large corporations.

In our case we will analyse one of the most lucrative areas for timber production in Romania, Maramures. This is not the specific administrative county but a region of four counties under the supervision of

the “Maramures RA” Forestry Department form Baia Mare and only one type of wood: beech. This is the most profitable and sought after type of timber.

The main points of focus are: the asking price, the selling price (both with a minimum and maximum price range, which is affected by both the quality of the wood and its availability), and the specific wood type and function. The last year for which comprehensive data is available is 2010.

The following table presents the situation according to wood types. The Asking and selling prices are an average of the prices (minimum and maximum) of the five to eight auctions held every year.

Shaped wood – Beech – evolution of auction prices 2008-2010 lei/mc Table 1

| Type | | Auctions 2008 | | Auctions 2009 | | Auctions 2010 | |
|---------------------------------|------------|--------------------|---------|---------------|---------|---------------|---------|
| | | Asking | Selling | Asking | Selling | Asking | Selling |
| Round wood for timber | <i>min</i> | 110 | 120 | 129 | 129 | 124 | 124 |
| | <i>Max</i> | 215 | 215 | 220 | 220 | 180 | 180 |
| Round wood for aesthetic veneer | <i>min</i> | 195 | 195 | 205 | 205 | 210 | 210 |
| | <i>Max</i> | 535 | 535 | 550 | 550 | 565 | 565 |
| Round wood for technical veneer | <i>min</i> | 185 | 185 | 220 | 220 | 240 | 240 |
| | <i>Max</i> | 300 | 300 | 220 | 220 | 240 | 240 |
| Fire wood | <i>min</i> | 25 | 25 | 49 | 49 | 60 | 60 |
| | <i>Max</i> | 124 | Dns | 130 | 155 | 135 | 135 |
| | | Dns – did not sell | | | | | |

There are several aspects concerning the current situation: in most cases the selling price is the same as the asking price. The exception is 2008 where for round wood for timber the price rose from 110 to 120 lei/mc (a rise of 9%);

The fact that the selling price is the same as the asking price is not ideal, and does not increase the participants trust in the auctioning system or improve the wood market; this situation proves that in most cases there is an unspoken convention between the participants (there are ‘dummy’ bidders, present only to ensure the minimum number of three participants; the same for ‘cross bidding’ and ‘you

scratch my back and I’ll scratch yours’, to be able to buy at the asking price);

There are significant differences between the minimum and maximum asking prices for some products; leaving out the difference in quality between two batches and other objective traits (including an exceptional high demand for that particular type) in most cases we have an artificial increase in the asking price to obtain higher profits by speculating particular market conditions, and in some cases blocking the sale to wait for a ‘particular’ client who could not attend; sometimes this situation is caused by the fact that large buyers can afford to pay more to have the

best wood and so gain a significant advantage over the smaller companies who do not have the financial resources to compete with them.

We are interested here in the four main categories of timber which are: Round wood for timber, Round wood for aesthetic

veneer, Round wood for technical veneer and Fire wood. These have the highest volumes and are the most exported from Romania.

In the next 2 charts we have the evolution of the selling prices for these four types of wood over the three years.

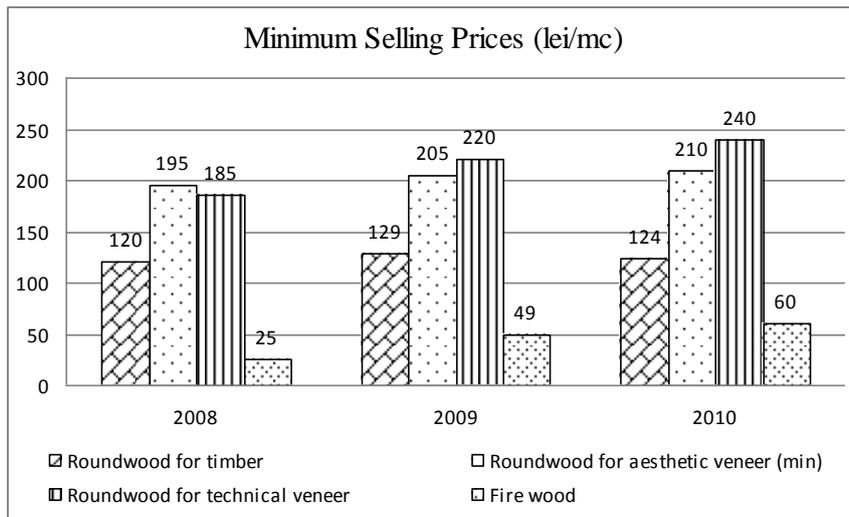


Fig. 1. *Minimum selling prices of beech roundwood*

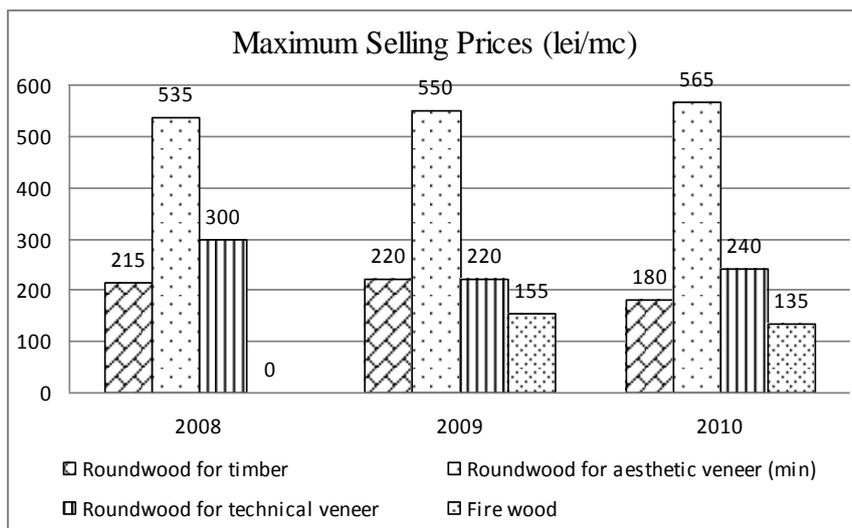


Fig. 2. *Maximum selling prices for beech roundwood*

Apart for the price of the round wood for timber, which has maintained an almost constant level, the prices of the other three types of beech woods have increased constantly. Experts in the field believe that due to the decrease in forested areas in Romania, the new EU legislation regarding felling and the increased interest shown by large timber corporations, the price of wood, and especially beech will continue to rise. The unofficial data concerning beech round wood suggest that the

maximum selling prices for 2012 and 2013 were 560 and 565 lei/mc while the minimum prices were 205 and 210.

The forecast for the years 2013-2016 (based on statistical forecast and economic indicators, as well as the felling quotas allowed for the year) support this theory and are presented in the following chart (we have chosen to present the forecast for round wood for aesthetic veneer as it has the most distinctive evolution):

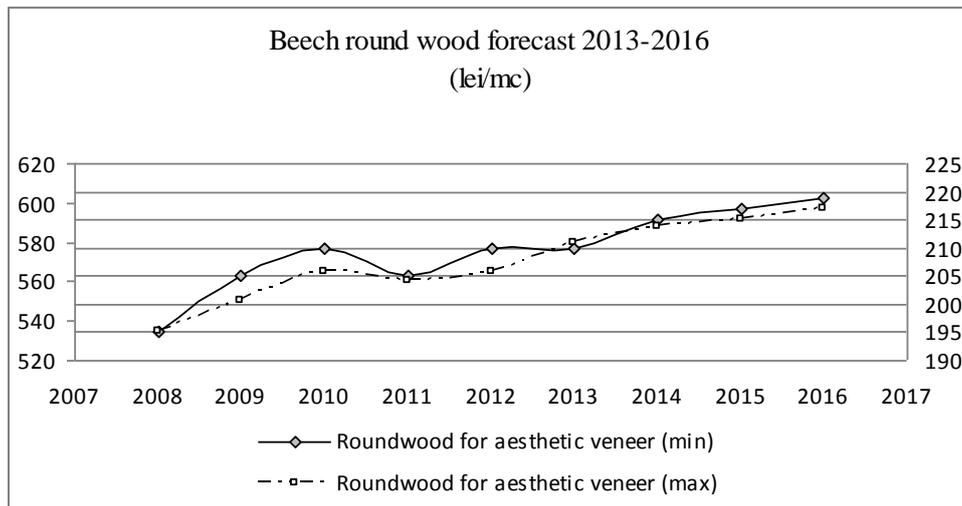


Fig. 3. *Beech roundwood price forecast 2013-2016*

As we can see, the prices maintain a constant level with a slight increase, caused by the factors listed above. This is a strong point for the sellers which can expect higher profits but at the same time, the small scale buyers (especially Romanian companies) will be at a disadvantage in auctions as they can not compete with the purchasing powers of the large international corporations. Furthermore, a larger increase in prices, such as one caused by an increase in inflation, exchange rate or any other event of this type would cause significant

changes in this market as over 50% of the total wood felled is processed and sold abroad.

3. The Slovakian Market after the Euro Adoption in 2009

Slovakia, which has been a member of the European Union since 2004 and of the Eurozone from the 1st of January 2009, has a population of five million and has one of the fastest growth rates in the Union.

At the moment of the currency change, the koruna-Euro exchange rate was 30.126

for 1 Euro.

The Slovakian economy is largely based on the service sector, industry and tourism. The country is attractive for foreign investors as it has low taxes, low wages and well educated labor force. Foreign investments per capita were 22.000\$ at the end of 2008.

When the country entered the Eurozone, most people were afraid of the effects it would have on the overall price levels as well as the costs for the economy.

According to Martin Suster [8] from the National Bank of Slovakia, in his report published in 2006 there are far more forecasted benefits for the economy, such as the reduction of financial transaction costs, administrative costs (0.36% of GDP in savings a year), elimination of the exchange risk, reduction of the capital costs (which would reduce the interest rates from 2% to 1-1.5%), increase of GDP due to increased international trade.

In comparison, the costs would be one off (at the moment of the change, of 0.35 GDP), workforce migration and possible high inflation in the long term.

When the actual change took place, it was just at the beginning of the economic crisis (late 2008) the Slovakian economy had registered one of the best periods of growth in the last decade.

Moreover, the economy was stable as was the exchange rate (one of the prerequisites to join the Eurozone) and the passage to the Euro did not cause extreme effects.

Nevertheless, according to Eurostat [7] report for the end of 2008 and the beginning of 2009 there were some changes in the Harmonized Indices of Consumer Prices (an indicator of inflation and price stability for the European Central

Bank): a decrease from 2.7% in January to 2.4% in February 2009.

Also, the National Bank of Slovakia published a report on the impact of the Euro adoption on inflation in March 2009 which stated that the inflation had increased by 0.002% in January compared to December.

There were also some visible changes in prices (increase) for several products (food and beverages), transport services and domestic and healthcare services.

Eurostat believes that the overall impact on the prices was 0.3% and because there were no other significant events in that period, this increase can only be attributed to the change to the Euro currency.

But the changeover effects in Slovakia were not of a magnitude to determine the development of generalised inflation.

As far as the forestry sector in Slovakia is concerned, out of the 61.48 billion Euro GDP, 0.22% comes from the forestry sector (2010) [9] which is a decrease from 0.28% in 2007.

The main types of wood felled are beech, fir, and spruce.

Even though the percentage in GDP has decreased, the volume felled has increased, reaching 9859.7 thousand square meters in 2010.

Most of the timber felled is sold as is (through an auction system) which means there is not much added value. Nevertheless, the economic result of forestry in Slovakia reached 18,1 million Euros in 2010.

The average price of beech round wood on the Slovakian market has varied, mostly due to changes in the legislation regarding felling and because of the intense competition on the European market.

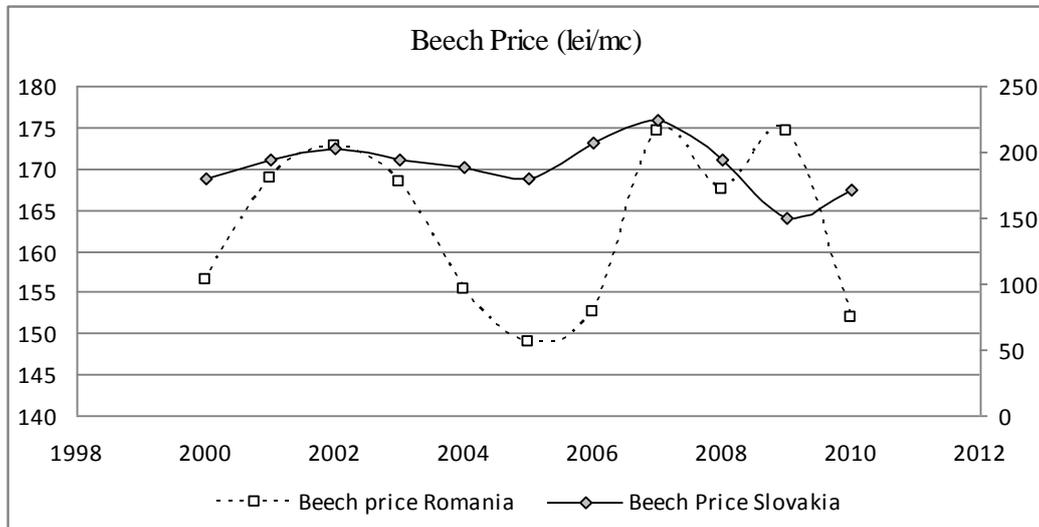


Fig. 4. *The evolution of the price of Beech in Slovakia*

The prices have been converted to lei, for a better comparison. As can be seen from this table and the data from the last three years in Romania, the average price is higher in Slovakia.

Even though the price of goods had risen slightly at the beginning of 2009, mainly due to the introduction of the Euro currency, as we can see from this chart, the average price of wood actually dropped. Nevertheless, this drop was influenced by the global economic crisis. Financial analyst believe that in normal conditions and by removing the direct effect of the economic crisis and the toll it took on the global demand for timber, and applying statistically calculation, the actual price of beech would revolve around 180 lei/mc (40 Euros). [5]

Even though the price dropped after the introduction of the Euro currency, it was not influenced by this measure. In 2010 the price rose again and unofficial data from 2011 and 2012 register values over the levels of 2008.

Experts in the field believe that the introduction of the Euro in Slovakia caused a growth in the average price of wood by

3.5-4% in the 4 year period since the single currency replaced the koruna. This growth is not visible in the chart and data above, as the market was affected by other economic factors. The estimated price for a square meter of beech round wood is estimated to reach 43 Euros in 2013.

4. Forecast of timber (beech) prices in Romania after the Euro Adoption

Until recently the discussed date for Romania joining the Eurozone was 2014-2015. But because of several factors, ranging from the economic crisis, the instability of the exchange rate, the high inflation and years of GDP decrease, this date has been postponed indefinitely.

If we take into account the data from the events which took place in Slovakia we can extrapolate the effects of the Euro adoption on the Romanian timber market.

First of all, the use of the Euro would favour timber exports as there would be no need for a currency exchange (and thus the exchange risk would be eliminated) and transaction costs would be decreased. Moreover the open European market would be more accessible to the higher

quality Romanian timber.

The increase of foreign investments would improve the competition on the market as well as the quality of the products. But this competition will place small Romanian companies at a disadvantage as they can not compete with the large international corporations and their vast resources of capital.

Also, the adoption of the Euro would increase the price transparency and would ameliorate the complicate the intricate auctioning process.

5. Conclusions

As we have shown above, the average wood prices for Romanian felled wood is slightly lower than the one in Slovakia as well as the rest of Europe. The increase in prices, although would create difficulties for the smaller companies (which struggle on the market) it would also increase the profit margins for the companies which mainly focus on exports.

Nevertheless, there are some disadvantages to the Euro Adoption such as the potential increase in timber prices. As far as the Romanian market is concerned, a small increase of 3-4% in the asking price would block small companies from acquiring the best quality wood at auctions as they operate on very small profit margins.

Not only that but the costs implied in switching currency could prove too much for most of the small Romanian companies and this combined with the loss of subsidies given by the national government might mean they will be overtaken by large corporations or disappear all together.

And we must take into account that the Slovakian economy was very stable at the moment of the Euro adoption and the impact on the inflation was maintained at a minimum.

By this standard, if Romania were to adopt the Euro currency on the 1st of January

2015, immediate effects would range (according to financial analysts of the National Bank) from a significant increase of the Harmonized Indices of Consumer Prices which would directly affect the price of wood.

In conclusion, although there are some concerns regarding the increase in prices and stronger competition for the Romanian timber companies, the adoption of the Euro currency would significantly benefit the timber market as it would add stability, transparency and become more interesting for foreign investors.

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