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CHALLENGES FOR ENTERPRISE DEVELOPMENT IN FORESTRY, WOOD PROCESSING AND NON-WOOD PRODUCTS AND SERVICES – SEMINAR OVERVIEW

This paper summarizes the main results and messages gained from the 35 scientific reports and presentations of an international seminar and workshop “Challenges for enterprise development in forestry, wood processing and non-wood products and services”, organized by the Institute of Economics at the Bulgarian Academy of Sciences in cooperation with the COST Action E30 of the European Science Foundation, in Yundola, Bulgaria, October 2004. The objective of the scientific reports and discussions was to gain a better understanding of the problems of economic integration of consumers’ demand and forestry production and possible solutions of forest-based entrepreneurship in small-scale forestry, wood processing and non-wood forest products and services.

The defined suggestions are directed to further development of the theory and to practical solutions for planning and implementation of rural development activities such as structural funds in many sparsely populated regions in Europe. The results contribute to a better understanding of similarities and differences in challenges for enterprise development in forestry, wood processing and non-wood products and services in EU member states, Associate candidate states and other countries from Central and South-Eastern Europe.

JEL: O18, Q12, E20, R10

1. Main Messages from the Scientific Presentations during the International Seminar on the 28th October 2004

The seminar in the 28th October was divided into 3 sessions. The first one, chaired by R.Chobanova, senior research fellow at the Institute of Economics at the Bulgarian Academy of Sciences, was devoted to the specific problems of Bulgarian forestry, wood processing and non-wood products and services development. The second session, chaired by Acad. A. Alexandrov (Forestry Institute – Sofia), as well as the third session, chaired by Prof. A. Danchev (Fatih University – Istanbul) put emphasize to the forest sector challenges in the South-East Europe – Romania, Turkey and Bulgaria.

The first plenary paper was presented by acad. Alexander Alexandrov from the Forest Research Institute at the Bulgarian Academy of Sciences. He assumed that the last 14 years included many structural and economic changes, directed to the introduction of market economy. This meant new priorities also in the forestry

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sector development, including: restoration of the economic activities in the state-owned forests; redistribution and exchange of the forests of small forest owners; interruption of experiments in the management of the forestry sector; and attention to the Bulgarian experience and traditions in forestry. Acad. Alexandrov concluded that the forest industry in the transition to market economy after 1989 overcame the state monopolism but went to the opposite extreme. The weak sides of the forest industry in the transition period were summarized as follow: decreasing the production; insufficient availability in quantity and quality of raw material for the existing processing industries; loss of markets in the wood processing industry; and poor credit allowance. The competitive advantages of the Bulgarian forest industry at the moment include the high-qualified specialists and the low labor costs. According to acad. Alexandrov, the strategic aim of the forest industry development is the improvement of effectiveness and competitiveness to achieve 10 % increase in the annual growth of production and export.

Assoc. Prof. Ivan Jovkov, Assoc. Prof. Diana Ivanova, and Assoc. Prof. Nicola Grigorov from the University of Forestry gave the second plenary paper of the seminar on the challenges of forestry management system in Bulgaria. The analysis illustrated deepening crisis in forestry management, operations of nurseries and the forest industry in the years, following 1997. The authors concluded that a change of this situation is of big importance to the Bulgarian forest sector. Otherwise, the resources on the territory of the forest fund will constantly decrease their potential to support economic, social, and ecological objectives of the society, having negative consequences on carbon and water balances, agriculture and forestry, forest industry, tourism and so on.

Assoc. Prof. Simeon Elazarov from the University of Forestry, who also obtained the position of Executive Director of the Sofia Commodity Exchange, presented paper on selling sawn logs at a commodity exchange. He defined the advantages of the commodity exchange for stability of the supply of sawn logs into the markets. Prof. Elazarov also presented a specific example of the arrangement where sawn logs are sold via Sofia commodity exchange Ltd., which is of help for sawn wood traders.

Prof. A. Danchev and M. Kara from Fatih University in Istanbul described the Government policy aimed for stimulating industrial forestry in Turkey in the light of the expected accession to the EU and adjustment of the national economy to the European standards. The authors underline the role of the National Forestry Programme for stimulating industrial forestry. It was indicated that the Command-And-Control instruments are to be complemented by economic instruments as taxation, property rights, etc. The analysis indicated that there is a need of reducing the institutional costs of government policy and increasing the role of private sector especially of the small and medium size enterprises. The conclusion was that the government policy at present is in a stage of dynamic search of modern instruments for increasing the efficiency and competitiveness of forest sector in Turkey.

Dr. Laura Bouriaud, Liviu Nichiforel and Carmen Nastase from the Forestry Faculty, University "Stefan cel Mare" Suceava, Romania, gave an analysis of factors affecting the development of forest enterprises. It was based on empirical data provided by 52 auctions for public timber sales from 1997 to 2002, and on the data concerning the structure of forest enterprises in the Northern part of Romania,

Suceava County. The authors concluded that besides the difficulties of enterprises in the transition to the market economy, e.g. lack of credits and relative cost of investments, costly information, difficulties to reinforce trade contracts, high inflation rate, etc., there are some particularities in the case of forest sector. These particularities are located at the level of timber supply, and originated mainly by the public regulation of timber market (the way of calculating the reserve price; the repartition of annual allowable cut and the public rules of timber sales procedures), but also by natural events (storm damages in 2002). The management of timber sales in general affect the forest enterprise development as well.

Prof. Alexi Danchev, presented a paper 'Land use options of Bulgarian Danube Islands: Industrial poplar forestry versus biodiversity protection'. In his paper, he stated that the case of Bulgarian Danube islands is very indicative as an example of the problems emerging with the growth of industrial forestry when it is not regarded as a complement to the natural forestry. For the study, information about the benefits of preserving natural forests in this area was collected. The results indicated that the conservation of natural forests can be a source of higher benefits than the replacement of natural forests with poplar plantations. The author commented the need of practical implementation of the Strategy for the Protection and Restoration of Floodplain Forests on the Bulgarian Danube Islands, which is to inverse the process of replacement of natural forests with industrial forests. In conclusion, the results of Contingent Valuation study were reproduced indicating unambiguously the multifaceted positive economic effects of conservation of the natural forests in the Bulgarian Danube Islands.

Dr. Said DAĞDAŞ, Şaban ÇETİNER, Central Anatolia Forest Research Institute and Mümtaz TULUKÇU, Forest Engineer (Retired) from Ankara gave a paper dealing with fast-growing plantations in Turkey. The authors defined this problem as very important, because of increasing demand for industrial wood in Turkey, where the imports for industrial wood is rising approximaletly one million cubic meters annually. Because of the mainly semi-arid climatic conditions, the allowable cut from the high forests are very low. Many different programs – national and international, have been introduced to support afforestation activities since 1955. The recent state of the art in Turkey is that in total, the plantation area is about 1,7 million hectares, and additionally about 2 million hectares of land is considered to be used for the establishment of new plantations with fast growing coniferous and broadleaved species. The authors assumed that 700 000 hectares of land located outside of the forestland, can also be allocated for forest plantations to be managed by private sector. In this way, the substitution of wood by forest plantations, they suggest, may help to reduce logging pressure on natural forests in the country.

Assoc. Prof. Nicola Grigorov and Ph.D. student Radulina Tsoleva from the University of Forestry in Sofia presented a paper dealt with problems of adaptation of the Bulgarian enterprises from the forest sector to the processes of European integration and sustainable development. In this respect a special attention was paid to the regional and sectional formations – clusters, basic production facilities, incubators for entrepreneurship, and centers for research and development. They were considered by the authors as the key factors for increasing the competitiveness of enterprises of forest industry and furniture production in Bulgaria.

Prof. Petko Tzenov presented the Bulgarian-Swiss forestry programme (BSFP), supported by “Silvika” foundation. The aim of this programme was to gather information on the public participation in the conducted activities of the BSFP for close-to-nature and sustainable forest management. The results of the survey were identical to some of the existing challenges in the development of forest enterprises, forest industry and their main and secondary products. To meet these challenges, the author concluded that international foundations and projects, which main activity is related to forests, forest industry and their products in the Republic of Bulgaria, are needed.

Dr. Kipra Djevizova from the Institute of Control and Systems Research at the Bulgarian academy of Sciences discussed e-strategies for the promotion of end-use efficiency in products and services in the local market in Sofia area. A focal point of her study was the fulfillment of business strategies that could promote markets and end-use of forestry and non-wood products by utilising traditional and Web channels in attracting consumers. The example considered parquet and raspberry productions in Sofia area. The empirical results illustrated slow infiltration of the Web channels in promoting the end-use of forestry products and services on the local market.

2. Main Messages from the Workshop on the 29th October 2004³

The first session, chaired by Dr. Anssi Niskanen from the Faculty of Forestry of the University of Joensuu, Finland was devoted to the recent impact of industrial evolution to forest sector and value chain of non-wood forest products. The second session, chaired by Dr. Rossitsa Chobanova, senior research fellow from the Institute of Economics at the Bulgarian Academy of Sciences, discussed methodological and country (from Northern and Western Europe) specific problems and approaches to meet the recent challenges to enterprise development in forestry, wood processing and non-wood products and services

Ass. Prof. Eric Hansen gave a presentation on industry evolution and its implications to forest sector. According to industrial organization theory, innovativeness differs along the industry life cycle, being highest at the beginning of the cycle. Hansen had tested the theory with plywood and oriented strand board (OSB) industries in the US. The hypothesis was that the plywood industries would be more innovative due to the demand for changing their product mix after increased competition from OSB industries. The results showed, however, that the OSB mills were more product-innovative, opposite to the theory. The explanation discussed was that the plywood industries found opportunities in the existing markets that tended not to accept OSB product, without need for developing new (product) innovations.

Carsten Smith Olsen's presentation dealt with the value chain of non-wood forest products, using commercial Himalayan medicinal plants as an example. It was discussed that the NWFP provide several opportunities for enterprise development in rural areas of many developing countries, but also in developed countries. The main obstacles for enterprise development include the lack of information on the quantities of different NWFP, lack of legal rights on the products, poor level of

³ All the presentations are available on the COST E30 web site
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organisation and in some occasions, over-pressure on the resource. The examples and obstacles are more studied in developing countries, though most of the conclusions can be applied also in developed countries.

Prof. Bill Slee described the role of forests in rural development by widened the traditional perspective on the relationship to include intangible services that forests provide for other businesses in rural areas. Forests provide an important 'green infrastructure' for other activities, but how it is exploited will be conditioned by the character of the local economy. There is a need to think beyond forests and timber and beyond a uniform model and understand constellations of economic actors in distinct spatial settings as well as understand the trade-offs in terms of local economic activity between one type of forest exploitation and another. There is also widespread 'parasitism' of forests by other businesses and the extent of parasitism is conditioned partly by property rights and partly by owner attitudes. It is, in some circumstances, possible to internalise the externalities and 'repatriate' the benefits to the forest owner.

Dr. Heimo Karppinen described the changing goals and values of forest owners in Finland and their potential impacts and challenges on the operation of forest wood chain. The aging of forest owners, an increase in absentee and joint ownership, urbanization and especially retirement of the great age classes will have major changes in the behaviour of forest owners. Other changes in the non-industrial private forestry in Finland include: increasing emphasise in non-timber production, increasing need for advisory as well as silvicultural services, diminishing of the self-activity of private forest owners, born of new opportunities for entrepreneurship in silvicultural services and forestry planning, increasing other e.g. legal services in forestry, and increasing role of potential subsidies on multifunctional forestry.

Prof. Anders Lunnan discussed in his presentation the competitiveness and barriers to future development of SMEs in wood processing industries. Several studies have been made in Norway on the topic and they identified e.g. the following problems: the competence of these industries is generally low, isolation is of high degree, very few firms are international and innovation intensity is generally low. A study on 37 firms of the wood processing industry showed that the success was positively correlated with cooperation with the customers (market orientation) and a clear strategy.

In the previous meeting in Vienna it was discussed what is the definition for "urban demand" and how it would be possible to estimate. Johan Barstad made a background study on the topic and his conclusion was that the urban consumers are very much similar consumers as any other or "rural" consumers. It would be therefore important to understand the hyper industrial consumption, which is characteristic for all modern consumption. Mostly the information and the research on the demand will be found in either business schools or inside of the commercial firm. The costs in acquiring the information are high and therefore the studies on demand are produced for strategic reasons and they are not often publicly available. There are however some statistics and market research available on consumers' actions and more qualitative studies on attitudes.

3. Main Messages from the Workshop on 30th October 2004⁴

The first topic of the discussions was devoted to the challenges to the forest-based entrepreneurship, putting an accent to the small –scaled practices.

Dr. Laura Bouriaud analysed the meaning of property rights on forests. Addressing the property rights issue within the COST Action E30 means to focus on the question: does the structure of property rights (land, timber, non wood forest products and services) affect the competitiveness of forest product – consumer chain, is the structure of the property rights a barrier to entrepreneurship and what are the main problems and research questions for enterprise development in the forest sector from the viewpoint of the present property rights structure? Separation of the ownership and management rights may be a solution for the fragmentation of the land ownership through associations, forest integrators, co-management with State and management by the State.

Mr. Robert Robek presented some successful examples on the project-based co-operation for sustainable forest management in fragmented ownership in Slovenia. He pointed out that project-based co-operation can substantially improve social capital, entrepreneurship and environment sensitivity at the local level but to reach the objectives of self-management and research and development, project-based co-operation impulses must be guided at least at the regional level.

After the plenary session of the day, the seminar was divided into three parallel sessions according to the COST Action E30 Working Group structure. In Working Group one (WG 1) some examples of prepared country reports were presented from Lithuania (Ms Diana Mizaraite), Ireland (Ms Aine Ni Dubhain) and Norway (Mr Ståle Stordal). From the reports the following needs were emphasised:

- A clear focus on forest owners and their attitudes and actions;
- A focus on where forest owners' actions connect to entrepreneurial activity elsewhere in the economy, whether in timber or non-timber supply chains or through halo effects, especially in locally based activity;
- Recognition of wood and non-wood elements as potential contributions to the entrepreneurial activities;
- Recognition of a regulatory environment which may constrain or enable entrepreneurial actions; and
- Recognition that there is often a structure of forest owners' associations which can help small-scale forest owners to overcome some of the obstacles of small-scale forestry.

The draft country reports showed that the Europe can be divided in six regions, with different perspective on the use of forests, as indicated in the presentation of the COST E30 WG 1 Chair Prof Bill Slee:

- Group 1: Western European low forest cover and large state forest sector countries: UK, Ireland, the Netherlands, Denmark, Iceland.
- Group 2: Northern European family forestry countries: (often with medium scale forest holdings) Norway, Finland.
- Group 3: Southern European functionally with mixed forestry: Italy, Portugal.
- Group 4: Central European family forestry countries: Austria, Germany, Switzerland.

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- Group 5 Baltic States Countries: hybrid between the Nordic family forestry and the transition economy model with medium sized restituted forest holdings
- Group 6: Central European transition economy countries with small-scale restituted forest holdings: Bulgaria, Romania, Hungary, Poland & Slovenia.

The identified future problems in WG 1 to be analysed were: (i) attitudes and values, (ii) forest owners' associations and (iii) policies and projects.

The second Working Group (WG 2) of the COST Action E30 discussed the challenges of the wood-processing industries.

Prof. Pekka Ollongvist gave an overview on the Finnish studies and their results on competitive advantage of the woodworking SMEs in wood home construction business networks. He pointed that the future work in the area is connected with a new project, launched in the Finnish Forest Research Institute on the success factors of Finnish woodworking industry SMEs in a changing competitive environment.

Mr. Leonard Padureanu from Romania and Dr. Luca Cesaro from Italy gave a short overview over the main findings in their country reports.

The identified future problems in WG 2 to be analysed were: (i) wooden houses and frames, (ii) forestry contractors and bioenergy, (iii) demand for forest products and (iv) relocation of wood processing industry.

The third Working Group (WG 3) of the COST Action E30 discussed the challenges to non-wood forest products and services development.

The operational definition for non-wood forest product (NWFP) was based on the presentation of Prof. Udo Mantau. The FAO definition of Non-Wood-Forest-Products – NWFP and its problems were presented as well as criteria for proper scientific definitions, an alternative system of classifying terms for forest products and systems of comparative terms of forest products. He introduced classifying terms for Forest based Goods and Services (FOGS): FOW (Forest based Wood products), FOP (Forest based Plant Products), FORS (Forest based Recreational Services), etc.

Dr. Gerhard Weiss discussed about the role of innovation systems in NWFP Development. Weaknesses of forestry sector innovation systems (SIS) with regard to NWFP development are 1) Lack of comprehensive innovation policies in the forest sector, 2) Lack of interactions of the forestry actors with national innovation system actors, and 3) Lack of interactions with actors from sectors where relevant innovations are occurring, - very often being non-timber demands (e.g. tourism). The key question then is on how to strengthen innovations in NWFP? First of all, information on new market opportunities to forest owners/managers should be provided, including sources for financing innovations. Also cross-sectoral interactions should be stimulated with services sectors that express interest on forest resources, e.g. sports and tourism, nature conservation, etc. which are potential costumers.

The country reports of Italy (Ms. Susanne Klöhn), Romania (Ms. Simona Dragoi) and Finland (Ms. Anne Matilainen) were presented.

The identified future problems in WG 3 to be analysed were: (i) indicators, (ii) "competence for change", (iii) innovation, (iv) marketing and (v) NWFP&S definition.