

## Wood processing sector in 2010

As one more year has passed since the start of the financial crisis, the dates are being revised and losses recalculated. This crisis, unlike the preceding ones, began with no point of origin. There are allegations that some malevolent commercial banks were behind it. However, if that was the case, what reasons have resulted in them not receiving any form of punishment?

The influence and impact of rapid growth and modernisation in the Chinese economy on our country and the global economic crisis has not been discussed well enough. Despite long-years of observation of the wood sector - the ups and downs of its branches, foreign trade balance and company finance - I still cannot fully evaluate the extent of the damage that was inflicted upon this sector by the crisis.

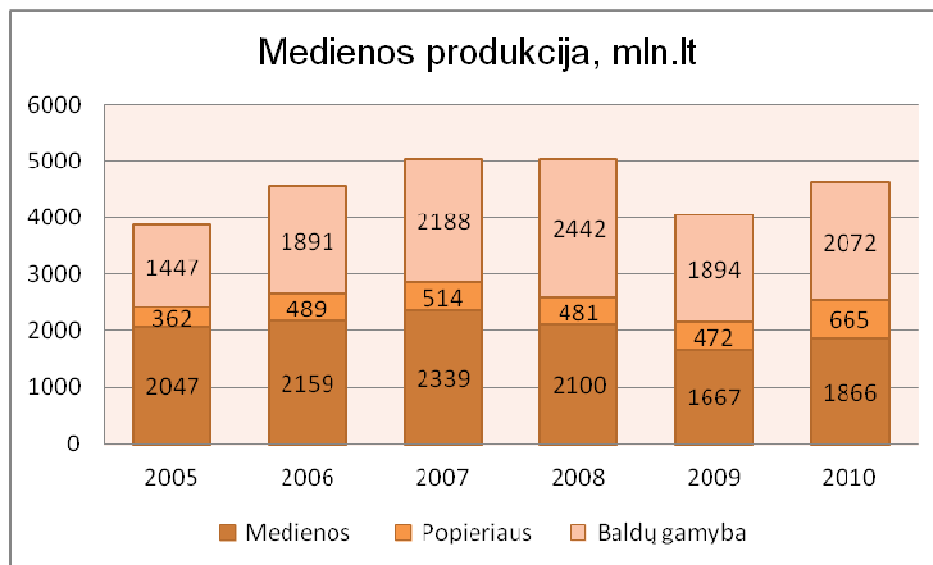
No doubt some positive changes occurred in the country's economy as a result: the crisis was a kind of test for companies, their managers and specialists, who underwent a process of selection. Some companies vanished, while others grew, managers and specialists who can cooperate with foreign partners without intermediaries became more visible.

To survive the crisis, companies had to look for new, more efficient ways of production and management. A number of them (e.g. AB Grigiškės, UAB Boen Lietuva etc.) achieved good results through the introduction of Toyota's lean manufacturing practice, which optimises the production process and boosts labour efficiency. The owner of the SBA concern, Arūnas Martinkevičius, who was formerly its sole shareholder, made a decision to sell some stock to the employees in order to enhance their interest in the final result.

Table 1. Number of wood processing companies (in the beginning of the year)

		2008	2009	2010	2011
1.	Bendrovės, iš viso Joint stock companies, total	1571	1647	1625	1628
	Medienos Timber	938	946	915	911
	Popieriaus Paper	76	76	77	83
	Baldų Furniture	557	625	633	634
2.	Individualios įm., iš viso Individual companies, total	683	625	537	490
	Medienos Timber	496	430	361	330
	Popieriaus Paper	20	19	15	11
	Baldų Furniture	167	176	161	149

1 diagrama. Medienos produkcija 2005–2010 m., mln. Lt  
Diagram 1. Timber production, 2005-2010, in m Lt



## Production

Statistical data shows that despite the painful effects of the crisis, the Lithuanian wood sector is not just recovering, but is also achieving qualitative gains. The data on the dynamics of the number of acting companies is proof of this: the number of companies which produce products of higher added value is on the increase (Table 1). At the same time the number of small individual sawmilling enterprises has decreased considerably. These enterprises could not afford modern technologies and were bound to pass away. There were too many of these companies and in many cases their profitability was too low. This process is not evidence of a sector-wide crisis, as was sometimes described in the press.

The sales dynamics of industrial output show that the wood sector experienced its deepest crisis in 2009. The crisis started in 2008, when the demand for wood as well as timber production decreased sharply. There was a slight decrease in paper production, but production of furniture was still on the increase (Diagram 1). Drawing comparison between the sales levels of all three branches of the wood sector (timber, furniture, paper) in 2007 and 2008 the change was inconsiderable (5041 mln. litai in 2007 and 5023 mln. litai in 2008). In 2009, compared with 2008, the drop was 20 per cent, while in 2010 there was another 8.4 per cent decrease. In 2010 sales of paper products had grown 38 per cent compared with the figures from 2008. Timber production sales were up 9.1 per cent, while sales of furniture were 1.5 per cent below their 2008 level.

However, the level of production of different wood products in 2010 still failed to reach the pre-crisis level (Table 2). Only one (corrugated board) out of 10 products reached the pre-crisis level in 2010. Production of furniture, chipboard and especially joinery products (windows and doors) is still lagging behind. Both the beginning and the end of 2010 was difficult for the wood sector, the increase in the volume of furniture production was slow (Diagram 2).

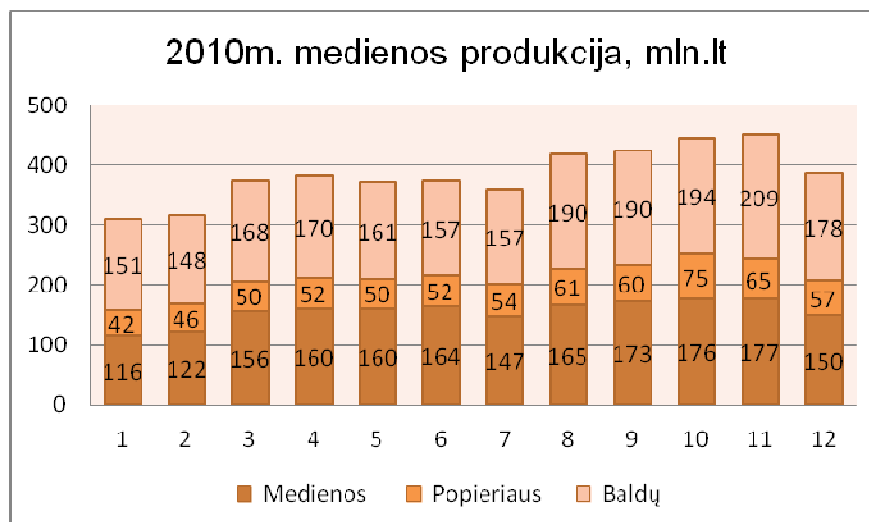
At present the country's wood sector is being well represented abroad by 10 companies with an annual turnover of over 100 million litai and twice as many companies with a turnover between 20 million and 100 million litai. All of them have successfully overcome the crisis.

Over the last few years, several larger companies with previously good operational records were forced to cease their activities for a variety of reasons. Office furniture producer UAB Narbutas ir Ko, chair manufacturer AB Venta, furniture producers AB Dilikas, UAB Wood Team Production and UAB Dalios Baldai as well as sawmilling companies UAB Pajūrio Mediena and UAB Ochoco Lumber had to file for bankruptcy. A number of other companies stopped operations upon their own initiative. Fortunately, some of the bankrupt companies (Narbutas ir Ko, Venta, Dalios Baldai) have subsequently managed to restart production.

Table 2. Main timber products

	2007	2008	2009	2010
Langai ir jų staktos, tūkst. vnt. Windows and frames, in thous. units	195,3	170,8	119,3	110,4
Durys ir jų staktos, tūkst. vnt. Doors and jambs, in thous. units	551,1	668,2	393,4	445,1
Klijuota fanera, tūkst. m <sup>3</sup> Plywood, in thous. m <sup>3</sup>	64,0	43,5	47,1	56,2
Drožlių plokštė, tūkst. m <sup>3</sup> Chipboard, in thous. m <sup>3</sup>	624,7	652,1	498,8	551,1
Plaušų plokštės, mln. m <sup>2</sup> Hardboard, in thous. m <sup>2</sup>	37,1	3,3	20,7	28,2
Popierius ir kartonas, tūkst. t Paper and cardboard, in thous. t	125,0	119,7	86,4	113,1
Raukšlėtasis kartonas ir tara, tūkst. t Corrugated cardboard and packaging, in thous. t	70,3	61,9	55,9	78,1
Baldai, mln. Lt, 2005 m. kainomis Furniture, in m Lt (in 2005 prices)	2188	2442	1894	2072
Baldai, mln.lt, tų metų kainomis Furniture, in m Lt (in actual prices)	2263	2573	1996	2192

Diagram 2



The sales dynamics of the largest companies during the last four years have shown that half of them either did not experience the effects of the crisis at all, or that they have already returned to their pre-crisis levels (Table 3). The input of the large enterprises in the sector has been increasing for several years. In 2007 they were producing 25.9 per cent of all wood production, while in 2010 their share stood at 32.2 per cent.

Table 3. Sales of largest companies, in m Lt

<b>Company</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. „Swedspan girių bizonas“	194,2	247,9	211,3	198,4
2. „Vilniaus baldai“	151,5	137,5	149,0	197,2
3. „Boen Lietuva“	192,0	187,0	152,0	189,6
4. „Klaipėdos mediena“	113,2	144,1	153,5	167,8
5. „Freda“	113,3	112,6	105,4	157,4
6. „Klaipėdos baldai“	154,3	185,3	170,0	151,1
7. „Grigiškės“	134,1	135,5	109,7	129,7
8. „Klaipėdos kartonas“	121,0	107,6	63,2	114,7
9. „Stora Enso Timber“	88,0	59,6	59,0	92,1
10. „Šilutės baldai“	100,2	99,4	72,5	80,6
11. „Sakuona“	40,5	37,7	49,2	67,9

12. "Tido"	26,2	31,9	28,2	42,0
Total for 12 companies	1428,5	1486,1	1323,0	1588,5
All timber producers	5507	5624	4334	4923
Share of 12 largest, %	25,9	26,4	30,5	32,2

Two companies with about the same annual turnover (2010 results) - UAB Swedspan Girių Bizonas and AB Vilniaus Baldai - lead the list of largest companies. The first one emerged in 2009 after UAB Girių Bizonas was reorganised into two companies: Swedspan Girių Bizonas, the Baltic states' largest chipboard manufacturer, and Swedwood Kazlų Rūda, producer of furniture. Both of them belong to Sweden's giant IKEA. Last year Swedwood Kazlų Rūda had a turnover of 139 million litai and earned 11 million litai of audited net profit. The company, which employs 510 people, plans to boost its sales to 158 million litai in 2011.

Lithuania's largest furniture producer Vilniaus Baldai reported sales of 197.2 million litai in 2010, which marked a 32.3 per cent increase from the 2009 result (149 million litai). To meet the demand of its major partner – IKEA – the company operated at full capacity last year and at the same time fulfilled the high quality requirements imposed by the Swedish concern.

The two largest companies of the UAB Vakarų Medienos Grupė (VMG) are successfully operating for the fourth year in succession. AB Klaipėdos Mediena will be further reorganised to concentrate on furniture production. Its premises will move away from the embankment of the Danė River: the old veneer production facilities will be demolished, while new premises for furniture production will be built further away from the river. The construction of a modern boiler house, as well as the installation of air filters, is under way, which will greatly reduce the levels of pollution produced. The second company – Sakuona, which started operations in 1995, is to modernise its manufacturing technologies and products. The company increased its sales during the crisis. In 2008 its sales totalled 37.7 million, in 2009 – 49.2 million and in 2010 they increased to 68 million litai. At present, it produces bed frames of glued veneer, with an annual output of 18,000 m<sup>3</sup>. The products are in great demand abroad and 97 per cent of its output is exported to Sweden, Germany, Italy, France and Denmark.

The two VMG companies pay a great deal of attention to the optimisation of labour organisation. Klaipėdos Mediena, which has been producing glued veneer, terminated its production and it was concentrated in Sakuona. Within the coming two years Sakuona is to invest 30 million litai into the production of a new product. The company intends to start production of curve-shaped furniture – chairs, armchairs and other items of higher added value. There were reports that the company's new products will be sold to IKEA.

VMG had plans to invest in the construction of chipboard and furniture production facilities in the southern Lithuanian town of Alytus, but failing to gather support from the Government, chose to invest in Belarus instead.

UAB Boen Lietuva, which had to release a number of its employees due to the crisis, began hiring again in 2010. Last year the company increased its capacity as well as improved the organisation of production and management structures. Due to the increased efficiency of labour, the time taken to fulfil orders was reduced from one month to one week. The company plans to build a combined heat boiler.

The group of companies of AB Grigiškės experienced substantial growth in 2010: it acquired and revived AB Klaipėdos Kartonai, which was on the verge of bankruptcy. Last year the group's consolidated sales grew to 230 million litai, which is 111.1 million litai above the 2009 results. The group's turnover is expected to increase to 300 million litai in 2011, which is 30 per cent more than in the preceding year. The group's pre-tax profit is expected to be 12 million litai, an increase of 58 per cent from 2010. AB Grigiškės reported revenues of 130 million litai last year, which is below the pre-crisis result, which was 135 million litai in 2008. However, their projected income for 2011 is 145 million litai.

NASDAQ OMX Baltic Stock Exchange acknowledged Grigiškės made the most visible improvement in investor relations in 2010, after evaluating the activities of 56 listed companies in the three Baltic countries. The company's performance rose 33 per cent over the course of the year. It is quite likely the Grigiškės group will be among the largest and most active groups in Lithuania's wood sector.

The SBA group is the largest industrial group in the wood sector at present – its annual turnover is double the size of that achieved by the Grigiškės group. Three comparably small companies belong to the Baltic American Concord group. The UAB Baltijos Baldu Grupė and The Libra Group have lost some of their companies; Libra has announced it is leaving the wood business.

UAB Likmerė, AB Grafobal Vilnius, UAB Juodeliai and some other companies have reported good results for 2010. Likmerė – birch veneer producer that belongs to the Latvian concern Latvijas Finieris says the crisis is over: it is operating at full capacity and is planning to launch the second production line. In 2011 Likmerė is to process 180,000 m<sup>3</sup> of wood and to reach an annual turnover of between 60 million and 65 million litai. In 2012 the company plans to build a veneer drying kiln.

Lithuanian-Slovak packaging producer Grafobal Vilnius that belongs to one of Europe's largest packaging producers, the Grafobal Group, invested 20 million litai into a new packaging plant in the Naujoji Vilnia district of the capital city in 2010. The company, which supplies packaging to the food industry was the first in its field to receive the EU Hygiene Management Certificate in Lithuania. The company employs 150 people; 80 per cent of its production being sold as exports.

Juodeliai is one of the country's largest producers of wooden pallets. The company exports most of its production and reached a turnover of 30 million litai in 2010. This is 62 per cent above the 2009 result. The company has grown considerably over the last 16 years: it has two subsidiaries - Akmenynai and Jūrė - and employs 200 people. In 2011 its turnover is forecast to be 36 million litai.

To summarise the operational results of all three branches of the wood sector (timber, paper, furniture) for the period of 2008-2010 it is possible to state that the Lithuanian wood processing sector has successfully overcome the economic downfall: the losses experienced by some companies were compensated by the growth of others. It is also important to stress that the crisis cannot be blamed for all recent company failures.

## Operational results

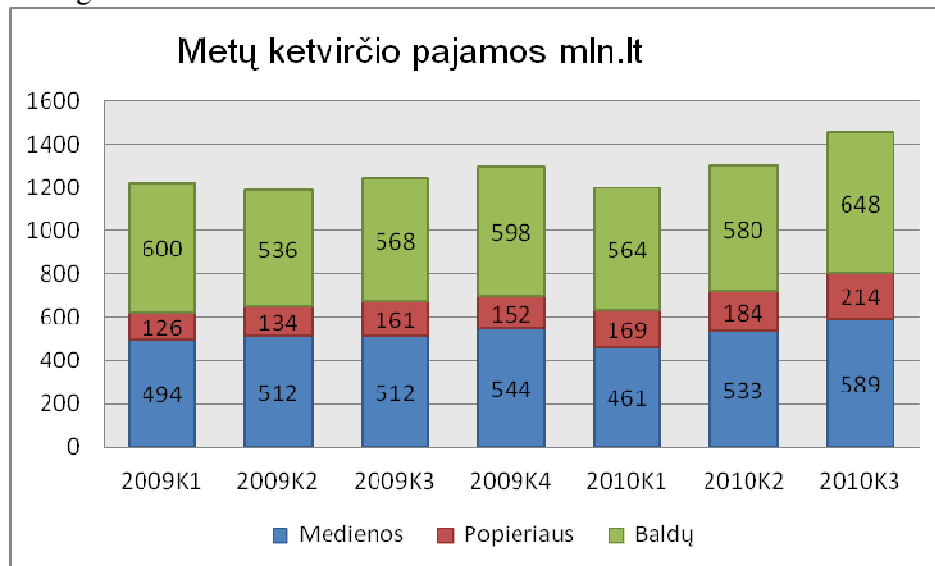
Company financial reports provide a good illustration of the downfall of enterprises in the wood sector - figures on the number of companies, their assets, revenues, profits and investment dynamics (Table 4). The assets of companies, which release financial reports, shrank almost 20 per cent, while investments shrank more than two-fold. This will be the biggest problem in the coming years. The differences are particularly visible in the furniture industry, which has the largest share of production, revenues and profits. The furniture industry lags behind in the sphere of material investments. However the decrease in the number of companies should not provide cause for concern. One of the reasons is the migration of business people in search of higher revenues as a result of price differences for raw materials, more favourable credits etc. The profit and revenue dynamics has been optimistic lately (Diagram 3)

Table 4. Operational results (3<sup>rd</sup> quarter)

	2007	2008	2009	2010
Įmonių skaičius Number of companies				
Medienos /Timber	948	943	939	880
Popieriaus/Paper	77	76	73	73
Baldų/Furniture	500	578	633	621
	1525	1597	1645	1574
Turtas, mln. Lt Assets, in m Lt				
Medienos/Timber	2075	2207	2105	1926
Popieriaus/Paper	510	662	664	760
Baldų/Furniture	1504	1987	1491	1423
Iš viso/Total	4089	4856	4260	4109
Pardavimo pajamos, mln. Lt Sales, in m Lt				
Medienos/Timber	657	628	512	589
Popieriaus /Paper	149	160	161	214
Baldų/Furniture	604	736	568	648
Iš viso/Total	1410	1524	1241	1451
Pelnas/nuostolis (-), mln. Lt Profit/loss (-), in m Lt				
Medienos/Timber	22	-28	11	36
Popieriaus/Paper	8	5	16	18
Baldų/Furniture	41	28	56	49
Iš viso/Total	71	5	83	103
Investicijos, mln. Lt Investments, in m Lt				
Medienos/Timber	45	70	23	25
Popieriaus/Paper	19	12	4	18
Baldų /Furniture	63	17	8	9

Iš viso/Total	127	99	35	52
---------------	-----	----	----	----

3 Diagram



Foreign trade

Foreign trade in timber goods was positive: this does not only apply to the balance of foreign trade, but also the degree of improvement achieved (Diagram 4). Exports exceeded 5 billion litai. Exports of furniture grew 11 per cent over the last year and surpassed pre-crisis levels. The overall result was greatly influenced by an increase of exports at Klaipėdos Mediena (67.2 million litai) Vilniaus Baldai (46.5 million litai) and Sakuona (28.7 million litai). The share of furniture in the overall exports of wood products grew. Exports of paper products grew 47 per cent. It was Grigiškės (19.3 million litai), which had the largest input in the result, followed by packaging producers Grafobal, PAX Markas and Bigsas. Good results were achieved by wooden pallet producers. Compared to 2009, there was an increase in exports of round wood, pellets, prefabricated wooden houses and joinery products. One of the main reasons for the increase in the number of wooden products being exported was the low level of demand in the domestic market.

4 Diagram

