THE WOOD/FURNITURE INDUSTRY PROFILE

A. Definition of Industry

1. Description

Wood processing and furniture industry is an important branch of the processing industry and is established based on the long tradition of wood processing in our country. Transformations of post '90 brought about several essential phenomena, such as:

Naissance of new forms of ownership and administration of forests; increase of illegal felling; transformation of totally centralized enterprises to private businesses; liberalization of wood market; and, liberalization of imports and exports.

Passing to the market economy during the transitional period, important changes of both subjective and objective character occurred and these brought about changes in the production chain in this industry and in its structure.

The following table summarizes the main economic data of the industry

Table 1: Main data of the wood processing/furniture industry

General data	1999	Share in manufact. Industry	2000	Share in manufact. Industry	2001	Share in manufact. Industry	2002	Share in manufact. Industry
Production(mln leke)	3,503	9%	3,591	9%	2,390	4%	3953	6%
No. of employees	2,759	8%	3,060	8%	1,846	5%	2752	7%
No. of firms	651	18%	702	20%	698	20%	786	22%
Investment rate(mln leke)	122	3%	378	5%	280	2%	466	6%

Source: Instat, Annual Structural Surveys

The production in this industry has undergone low-paced growth, with the exception of year 2001, in which there was a considerable reduction due to power supply crisis.

In terms of labor power, this indicator has not increased noticeably in years, and in regard to investments, with the exception of year 2001 (of power supply crisis), the trend is increasing, In addition, these indicators are lower than in other manufacturing industries.

The number of firms in this industry is high, reaching to 786 for year 2002 and is related with the nature of the production chain, which is broader than in the other sectors.

The trade balance in this industry is negative.

In thousand dollars

Trade indicators	1999	2000	2001	2002	2003
Export	13,100	13,392	12,872	16,171	12,237
Import	61,844	35,217	42,361	48,371	39,647

2. SIC code (Standard Industry Classification)

36 Manufacture of furniture; manufacturing n.e.c.

361 Manufacture of furniture
3611 - Manufacture of chairs and seats
3612 - Manufacture of other office and shop furniture
3613 - Manufacture of other kitchen furniture
3614 - Manufacture of other furniture

DD. Manufacture of wood and wood products

20 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
201 Sawmilling and planning of wood, impregnation of wood
2010 Sawmilling and planning of wood, impregnation of wood
202 Manufacture of veneer sheets; manufacture of plywood, laminboard, particle board, fiber board and other panels and boards
2020 - Manufacture of veneer sheets; manufacture of plywood, laminboard, particle board, fiber board and other panels and boards
203 Manufacture of builders' carpentry and joinery
2030 - Manufacture of builders' carpentry and joinery
204 Manufacture of wooden containers
2040 - Manufacture of wooden containers
205 Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials
2051 - Manufacture of other products of wood
2052 - Manufacture of articles of cork, straw and plaiting materials

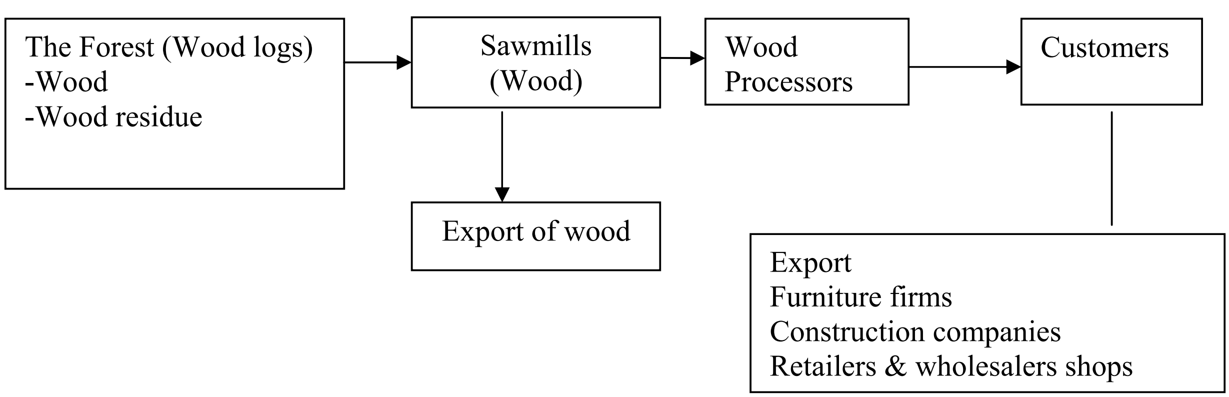
B. Main product/service - existing

The existing products are:

Sawn wood, wood elements, doors and windows, kitchen furniture, bedroom furniture, armchair, other wood products (school, office equipments)

C. Current Industry Structure

The industry of wood processing/furniture is represented



The process undergoes the following phases:

1. Cut of wood in forests by forest exploiting companies and their transformation to logs
2. Sawing of trunks in sawmills and their transformation to planks, and, upon demand, they are naturally and artificially dried.
3. Production of wood commodities by wood processors and construction companies;
4. Production of office, shop, kitchen, living room, and bedroom furniture

1. Exploitation of forests

The forest assets of the Republic of Albania cover a total forest area of 1,057,640 hectares and a volume of 85,583,000 $m^{3.}$

In terms of their function, forests are divided in:

- Production forests, that occupy an area of 848,640 hectares with a volume of 66,804,000 m^3 or 80% of the area;
- Protection forests, that occupy an area of 209,000 hectares with a volume of 18,779,000 m^3 or 20% of the area

Forestry companies run their business activities in areas defined for exploitation by the Forest and Pasture Department. These companies deal with forest tree felling, transform the trunks into logs and transport them to the sawmills.

The main companies operating in this field are geographically located in districts with large forests, such as Librazhd(14 companies), Korce(10), Puke(10), Kukes(9), Bulqize(9), Gramsh(9), Tirane(8), Mirdite(7).

Forest use companies are differential from all other companies in this industry for their backward level of technology. They possess insufficient and inappropriate means for the transportation of timber to sawmill. Consequently, quantities produced by these companies do not meet the needs of sawmills and wood processors for raw material. In general, they operate during spring, summer, autumn, while in winter time they are inactive due to undeveloped infrastructure in forest areas to connect to national and rural roads. In addition, lack of proper technology hinders these companies to operate throughout the year. Forest specialists consider wintertime to be the best season for forestry. During this season, trees preserve their qualities and ensure a consistent quality during processing. Specialists do not recommend exploitation of forests during spring and summer, because tree structure is harmed and it does not ensure the quality of logs during processing. This is one of the reasons that wood products with domestic raw material are generally not of a high quality. Therefore, when exported to international market, they are purchased at a lower price than the same products of same tree origin.

The primary activity of the forestry companies is wood felling and transformation of felled trees to logs of 3-5 m long.

The secondary activity of these companies is felling trees for firewood.

A considerable quantity of timber is, however, exploited illegally and exploiters are abiding to no exploitation criteria on tree felling. This brings about consequences in two directions:

- Huge financial loss in the state budget, since no fiscal form is ever applied; and,
- Stimulates unfair competition, resulting to decrease of prices in timber product markets

2. Sawmills (transformation of logs into planks and processing)

Companies that saw logs and transform them into planks are located mainly at to the national or local roads closest to forestry areas. About 80% of the planks produced from sawmills is destined for the domestic market, and only 20% is exported. There is a concentration of these economic operators in the eastern-central region of Albania (Elbasan, Librazhd, and Gramsh districts).

3. Wood processors or, other wisely known, wood secondary processing companies

The main products produced by the wood processing companies are: semi-ready elements for chairs, tables, and other articles for export; chairs, tables, various furniture, doors, windows, coating elements for floors or ceilings, etc.
80% of the wood elements processed by companies is exported and 20% is sold domestically. An increasing demand for elements by the Albanian market is noticed, since furniture production sector is growing at rapid pace.

4. **Operators of production of consumption commodities**

Export

After a complete liberalization of timber market in 1998, export in this sector has increased. What gave opportunities to this phenomenon was submission of offers by business partners, especially by neighboring countries such as Italy and Greece. These countries explored the timber in the Albanian market, obtained from the forests in an unprocessed form. By ordering a partial processing of the wood they have bought tens of thousands of cubic meters of wood boards and elements of various forms and sizes from the Albanian wood businesses.

Furniture

Production of furniture for office, shop, kitchen, bedroom, living room, etc., is made mainly with imported materials. Only 20% of wood elements processed in the country is used to satisfy country's needs for furniture production mainly aimed at population of low living standards, while 80% of the processed wood elements is exported.
The data generated by INSTAT indicate that for 2003 import covered the following items:

Description	Percentage	Million leks
Plating boards	89%	1,011
Fiber panels	3	35
Plywood	4	45
Densified wood	1	11
Wood s	3	35
Total	100	1,137

As can be noticed, 90% of imported material is used for furniture.

Construction companies

Construction companies are completely supplied from sawmills and other wholesale points that operate in the region. They use boards mainly for concrete frames and little for production of doors, windows and other items for construction objects.

Wholesale and retail points

These units are mainly supplied by sawmills operating in the region. Construction companies, wood processors and other consumers are their major market.

5. Supply firms

i. Business associations

There exist wood processors' associations, and local associations for the protection of forests and environment in the main regions such as Tirana, Elbasan, Librazhd, etc.

ii. Advertising

Advertising is a component of the major businesses' activities.
Participation of wood processing and furniture companies in national and international fairs to expose their products and to establish contracts with potential buyers is quite considerable.

iii. Design

Used designs are mainly of international companies, with which the Albanian companies have established business relations. However, a new generation of designers is emerging in the country, as well. Young Albanian designers are taking advantage of the introduction of advanced computerized systems in the creation of furniture models and various profiles.

iv. Transport

The companies themselves with means of low technical level provide transport for forestry companies. Wood processing and furniture companies make use of transport companies to arrange for their transport. International companies make the transport with their own means.

v. Forest and Pasture Department and Local Forest and Pasture Departments

These are the only governmental institutions that are responsible to define the forest areas for exploitation, and supervisors of forests for their maintenance and governance.

vi. Banking system

Many businesses in this industry have reached such a development stage that they have deemed it very necessary to cooperate with the banking system. Major wood processing and furniture companies are working on credits, but their main concern is the high interests imposed by the banking system.

D. Key Competitors

1. Domestic

This industry features a great number of companies for the very broad nature of production chain. Sawn timber production companies are geographically located in districts with large forests, whereas companies of production of wood element and furniture in particular are located mainly in the major districts of the country. The majority of companies of furniture production are established in Tirana, Durres, and Vlore; sawn wood production companies are concentrated mainly in Rreshen and Puke region. (Annex 1)

2. Import

Foreign competitors include mainly the Italian companies and those in the region, such as Bosnia and Romania that rival our products in terms of quality and design.

E. Potential Substitutes

Potential substitutes are chiefly wood imitation, such as melamine and plaiting boards that are the basis for furniture production at a cost many times lower that wood furniture production. Most people demand low cost furniture.

F. Key political issues

Policies in this industry have been focused mainly in forest area and have been considered in harmony with the other sectors of the country's economy. They address the following:

- Protection and conservation of integrity of forest and pasture wealth;
- Recognition of all forms (state, commune, private) of ownership of forests;
- Transition to market economy for the marketing of all forest products;
- Continuous governance of forests by the state;
- Compliance with international conventions;
- Gradual reduction of usage of firewood for home needs;
- Increase of care for conservation of biodiversity;
- Strengthening of collaboration with international institutions and organizations;

Such policies have never been lacking. Their implementation, however, is of great concern.

Key Economic Issues

The economic issues are evident and are as important as the political issues, and encompass the major problem such as inflation, negative trade balance, the low level of banking credits with unbalanced regional distribution, the informal economy, the inflation and etc.

Key regulatory issues

Since 1991, the Albanian Parliament has approved several laws that directly or indirectly addressed environmental, conservation, and nature protection issues, including laws on land appropriation, compensation, environmental protection, and forest and forestry policy. However, the main issue is enforcement of these laws and regulations, since trained staff, information, and educational campaigns are lacking.

Lack of stringent laws on licensing is another great concern. Unlicensed producers have been able to reach a considerable market with their low prices, since they do not pay both the taxes and the license fee.

Infrastructure issues

The energy crisis has been one of the key reasons that caused the increase of production cost, because companies use power generators to provide continuous electrical power.
The poor quality of infrastructure in forestry area makes it difficult the linkage with national and rural roads, resulting in higher costs of domestic raw materials, and thus emphasizing even more the convenience of imports, and under capacity usage of forestry recourses. Investments are still required in the four Albanian seaports in order to improve efficiency. And the lack of sufficient capacities of the railway system raises the production cost.
Communication lines are sufficiently present in urban areas (yet, mobile communication costs are still high), while the quality of telecommunication is still poor in rural areas. The Internet can be accessed from almost any major Albanian city.

Key technology issues

The technology level at forestry companies and sawmills is really disturbing. Technical equipment is depreciated and outdated leading to failure to fully utilize the production capacities of forests under exploitation. Unlike the former, companies of wood element processing and furniture have made great investments in technological lines, modern equipment and machinery to adapt to quality requirements of both domestic and international markets.

Trends

Companies aspire to increase the level of investment in terms of improving their technology, transportation means, and enhances the working capital, training, especially in sectors of exploitation of forests.

Existing companies are aiming to increase quantity of credits in this industry.
Companies have continuously confirmed their increasing need for consultancy services, information, in particular in regard to marketing and trainings.

The furniture sector is aiming at decreasing imports of furniture by purchasing the raw materials for the production of furniture in the country through imitating foreign models or through producing new ones based on the Albanian tradition.

Current Turnover

Export
The export for wood processing/furniture was 12,237 thousand dollars in 2003.

Import
The import for wood processing/furniture was 39,647 thousand dollars in 2003.

Five –Force Analysis (Wood Processors)

Industry Competitors.

There are a great number of companies, but most of them are the small companies which are competing between them to hold its market by exploiting the cheap labor force and the technological level of their machineries. However, these efforts are limited to short-term strategies with the purpose of survival.
The big companies are competing with each other in relation to their consolidation in domestic and international markets.
Unfair competition is remarkably noticeable in licensing, abuse with the fiscal system, etc.

Suppliers.

Domestic suppliers are numerous, (about 80% of the production of sawn wood is destined for the domestic production) and offers low quality and non differential raw materials.
There are also many international suppliers interested in the production of commodities in wood processing.

Buyers.

Both domestic and international buyers are numerous.
Domestic buyers are those firms that produce furniture of various kinds and armchairs produced for a certain stratum of population with low income and their bargaining power is low.

New entrants.

The increasing number of firms indicates that the number of new entrants is high. However, they are small firms that run activities in wood processing to satisfy the country's needs by making use of cheap and unqualified power labor, especially in rural areas. Big companies find it hard to enter this sector in terms of both the capital and the level of technology required.

Substitutes.

They are mainly imitations of wood, such as melamine and plaiting boards that serve as the basis for the production of furniture at a cost several times lower. People of low income are the main target and buyers of this low cost furniture.

Conclusions/Prospects for Cluster Formation

The industry has ultimately positive growth rates and increasing number of employees. The companies are mainly producing to fill local demand and occasionally for the foreign markets.

The industry represents strong environmental impact, as regard to the sustainability of forestry issues. Nor are the forests badly used and managed, neither have they the quality suitable for furniture products.

Still the industry is having positive growth rates in domestic and export markets. Is seems to be that these rates risk to be in the short-run only, since design and innovation is missing. Also, stronger connections between the respective actors, is required in order to enhance more quality and productivity. Law enforcement & anti-corruption in the forestry sector is crucial for the sustainability. These issues need to be addressed and their resolution might fall into a medium term effort.

Annex 1 – Identification of wood processing entities

No.	City	Number of entities	Division of total as per activity		Division of activity as per capital and juridical status	
			Furniture Production	Sawn Wood Production	Physical entity (2-8 million Leks)	Legal Entity (over 8 million Leks)
1	Lezha	10	8	2	7	3
2	Shkoder	27	19	8	14	13
3	Berat	18	18	0	14	4
4	Lushnje	14	14	0	12	2
5	Fier	15	15	0	11	4
6	Vlore	26	26	0	21	5
7	Durres	25	24	1	17	8
8	Kavaje	6	6	0	4	2
9	Librazhd	9	6	3	6	3
10	Pogradec	19	14	5	12	7
11	Elbasan	23	15	8	13	10
12	Puke	25	5	20	7	18
13	Korce	20	15	5	10	10
14	Kruje	20	18	2	7	13
15	Rreshen	27	5	22	15	12
16	Permet	5	4	1	4	1
17	Tropoje	10	6	4	6	4
18	Burrel	15	5	10	7	8
19	Gramsh	12	4	8	5	7
20	Tirane	137	132	5	110	27
21	Other	197	72	125	144	53
	TOTAL	660	431	229	446	214

Source: Ministry of Industry and Energy