Summary (Valeriy Podkorytov)

Recommendations for the Development of the Rules for Sale of Untreated Timber

The existing untreated timber trade rules were put in place by the Order of the State Forestry Committee of Ukraine No. 42 of 19.02.2007. Along with their introduction, all direct contracts for the supply of raw timber were cancelled. New trade rules for untreated timber were introduced to improve the provision of raw timber for domestic producer, but in practice it turned out quite the opposite.

The main disadvantages of the “Regulations on the Organization and Conduct of Auctions for the Sale of Untreated Timber” are as follows:

1. According to para 1.1 of the Regulations timber has never been put for auction in full quarterly felling volume (30-40% of the quarterly resource at best). The bulk of the most demanded soft timber and hard timber is exported under direct contracts.

2. The auctions are constantly attended by “speculators” purchasing round timber for subsequent resale. The share of forest resources consumption by resellers is up to 30% of commercial timber sold at commercial timber auctions. There are no effective mechanisms to limit the admission of resellers to the auction bidding, so their number is constantly increasing.

3. The Regulation provides for the redistribution of timber not sold at auction through its sale under direct contracts of state forest enterprises with customers. In practice, it is often prohibited, and resources so arising are available for export.

4. The Regulation does not provide for any penalties for failure to comply with obligations under the auction by both sellers and consumers.

5. Raw exchange markets do not exercise any control of execution of the exchange-traded contracts and do not take any measures for their compliance.

As a result of the established rules of trade, domestic consumers constantly suffer a shortage of raw materials, and are forced to reduce production volumes and number of jobs.

To improve trade in untreated timber, it is suggested that the following forms are introduced in trade practices:

1. Direct contracts for medium and large woodworking enterprises, as well as for enterprises located in forest regions. The term of contracts shall be 1 year with possible prolongation and adjustment of auction price based on the results of the latest auction. The volume of sales for each customer is determined individually based on purchase history over the past three years.

2. Auction bidding:
- for sale of timber for small wood processing enterprises;
- for sale of high-grade timber;
- for sale of timber for export to non-residents of Ukraine.

Auction bidding is organized through electronic trading platforms using one of the following options:

- through the specialized timber trading server of the State Forestry Committee of Ukraine using experiences of Poland and Turkey

or

- through the commodity exchange server using experiences of the Republic of Belarus

Frequency: 1 time per month. This will allow more efficient use of sold timber stock and prevent its “freezing”.

Terms of timber sale to the domestic market: for own use (conversion).

Timber sale for export is carried out on a residual basis after the seller has complied with its obligations under the direct and auction contracts in the domestic market.

3. Retail trade of round timber for individuals

In organizing timber trade, to provide mutual material liability of the parties for failure to comply with their obligations.

Define a single form of purchase and sale agreements under direct contracts and through auctions.

To ensure access to timber procurement for real manufacturers, provide for registration of woodworking enterprises in the Chamber of Commerce of Ukraine with the issuance of personal identification documents giving the exclusive right to participate in the bidding.

Changing conditions and rules of trade in untreated timber will avoid the ban on round timber exports. Along with this, a flexible system of trade and the possibility of redistribution of available forest resources will provide their most optimal and efficient consumption and obtaining a maximum of economic benefits.