



Parallel Session 4

Competitiveness of the forest production sector: wood & non-wood products, supply chains, and strategies for a forest-based local governance

Rents transfer in the Romanian stumpage sale system: between state quasi-monopoly and firms' oligopoly

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Background data

Suceava Branch of NFA

- 440000 ha of forests
- 73% is publicly owned (quasi- monopoly)

Annual harvesting quota

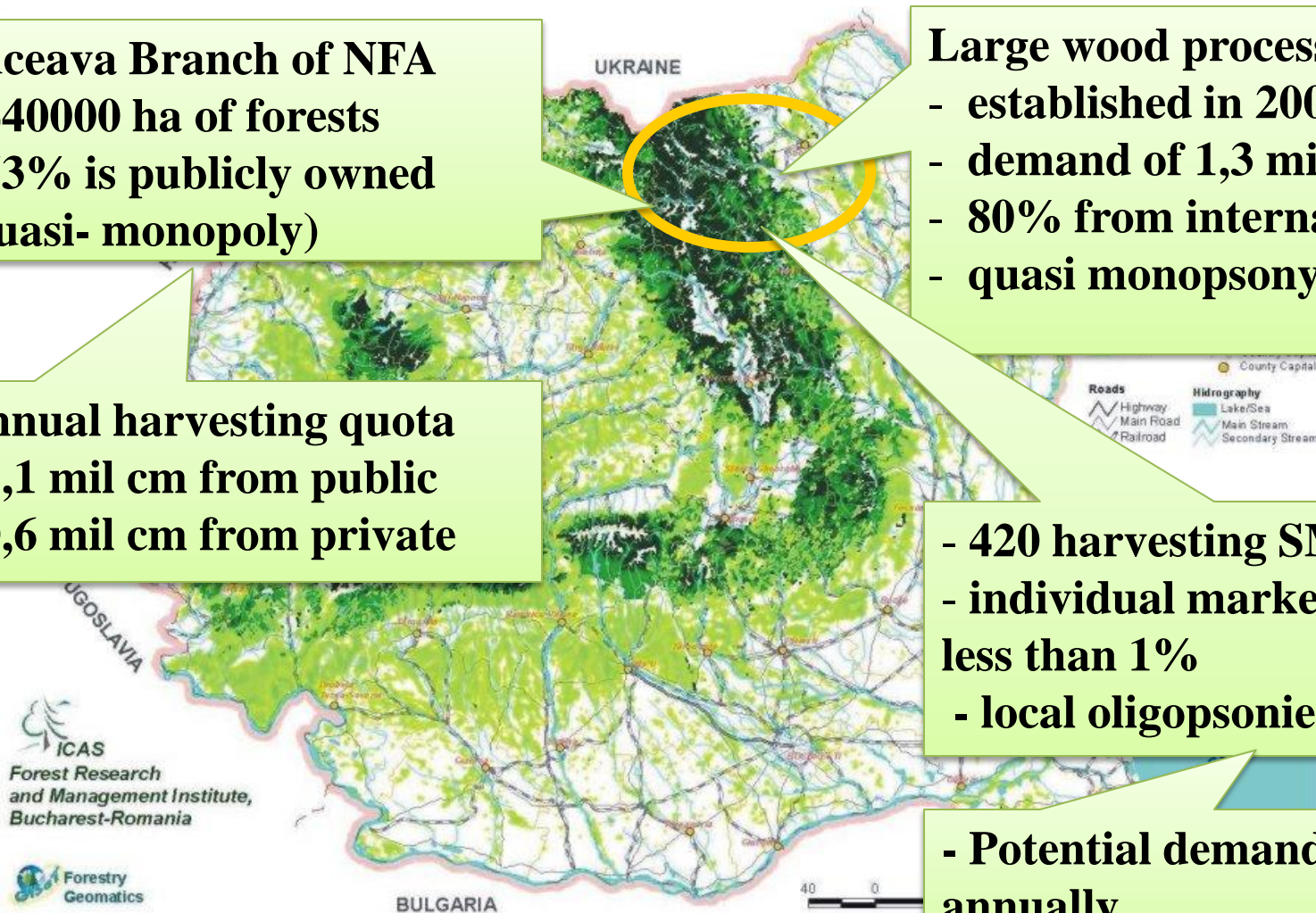
- 1,1 mil cm from public
- 0,6 mil cm from private

Large wood processing company

- established in 2008
- demand of 1,3 mil cm/year
- 80% from internal markets
- quasi monopsony

- 420 harvesting SMES
- individual market shares of less than 1%
- local oligopsonies

- Potential demand of 4,3 mil cm annually



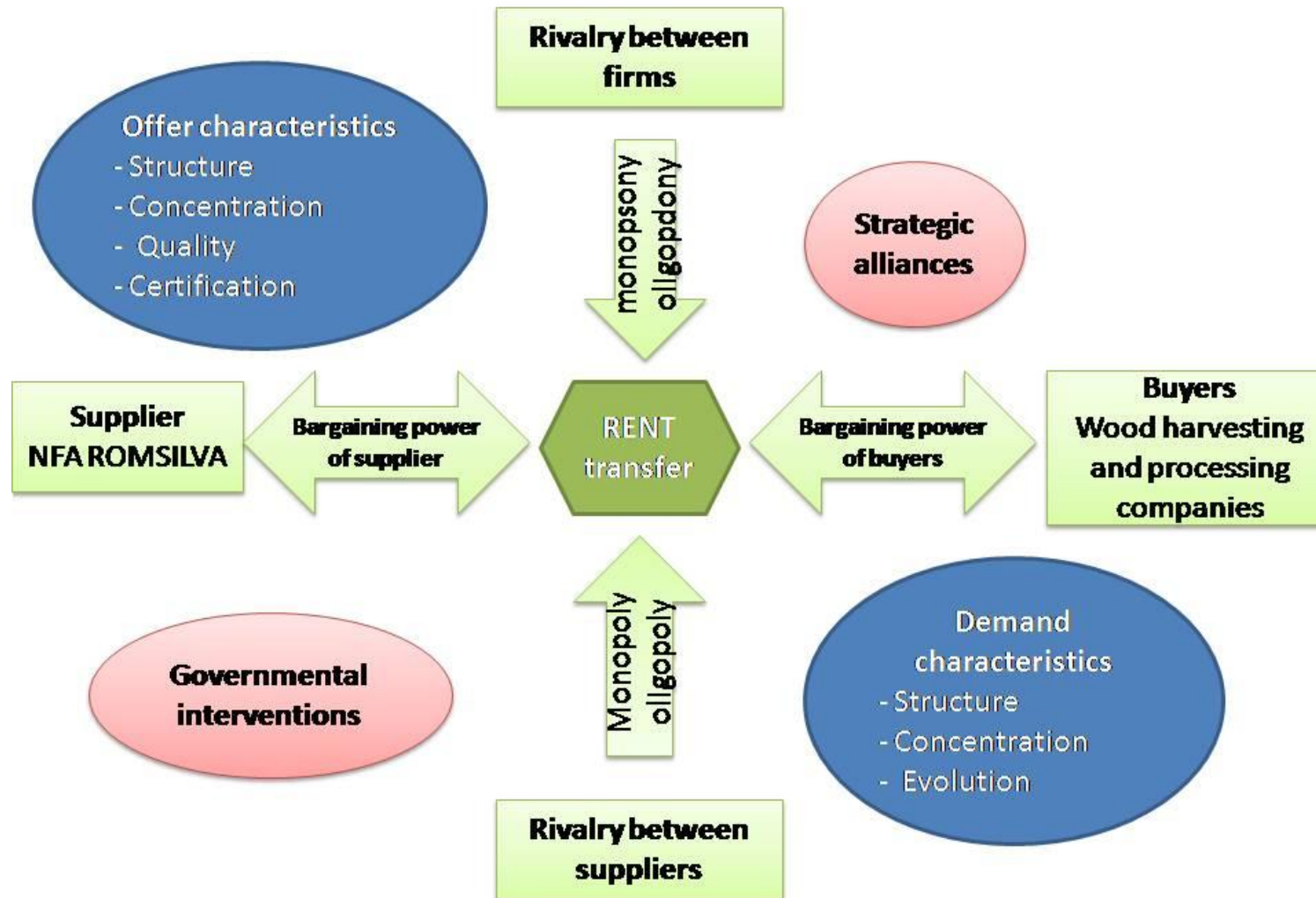
Methodology

- 66 interviews with market actors (2009-2010)
 - 15 representatives of NFA
 - 51 representatives of harvesting companies
- Data for main stumpage auctions from 1995 - 2010
- Econometric analysis of 3396 tracts (standing timber) sold at auctions between May 2008 – and May 2010

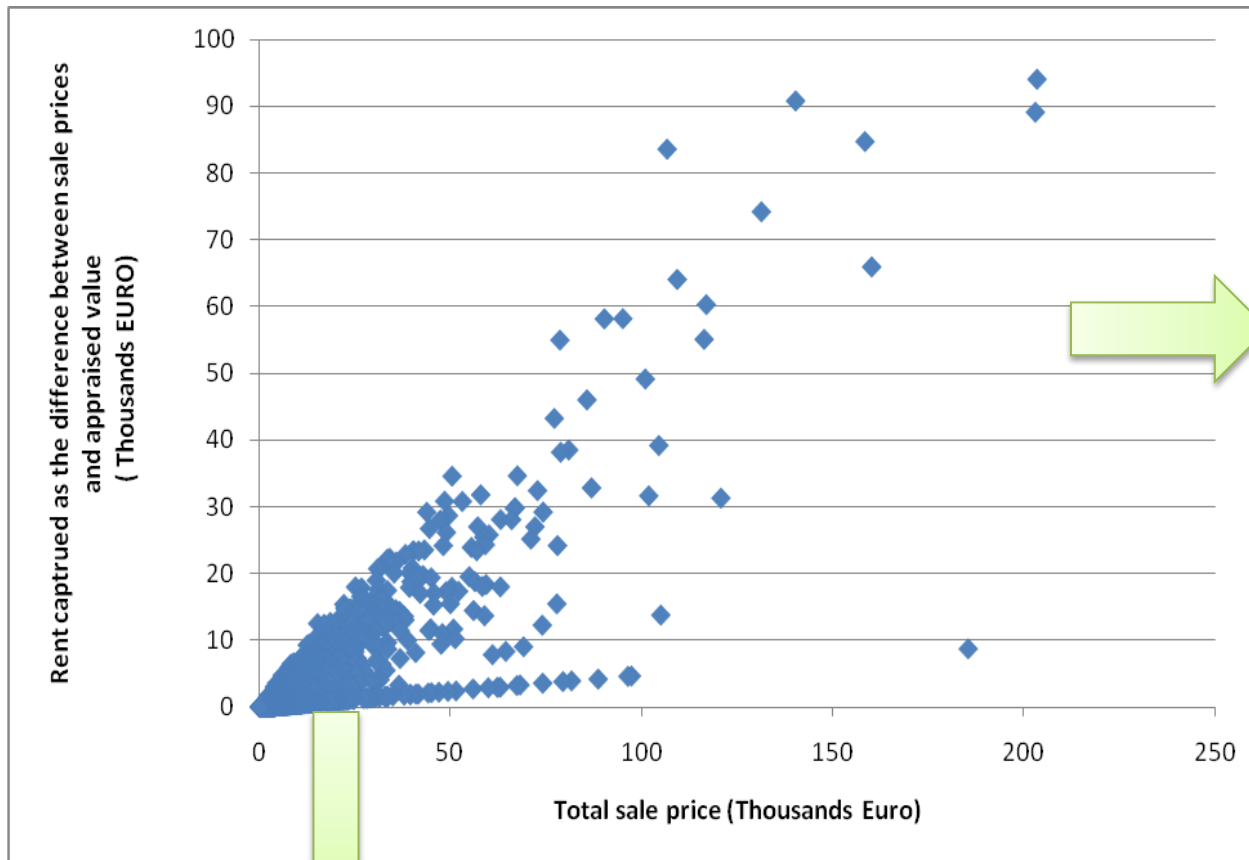
Rents and rent-seeking

- Forest markets as institutionally embedded
 - Market actors guided by rules of the games shaped by “rule makers” and “rule takers”
- Rent seeking – inputs spent in
 - Political and bureaucratic arenas in order to change “the rules for the market”
 - and in market transactions in order to change “the rules within the market” (e.g. contractual provisions)

Rents transfer in the stumpage pricing system



Rents distribution through stumpage auctions



8 mil Euro the difference between the reserve price and the appraised value

(May 2008 – May 2010)

- 45 % of tracts have been sold after the first bid
- - 20% of the companies bought 60% of the tracts

strategic alliances between SMES

NFA rent-seeking behavior

- The pricing policy integrates only the supply conditions and no factors from the demand side
- Unilateral implementation of contractual agreement
- Arbitrary selection of commercial strategies limiting the long-term planning for SMEs

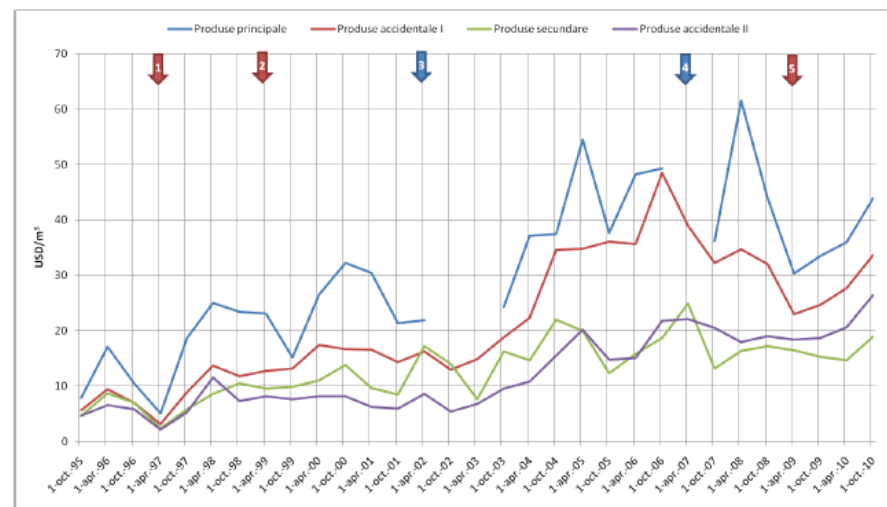
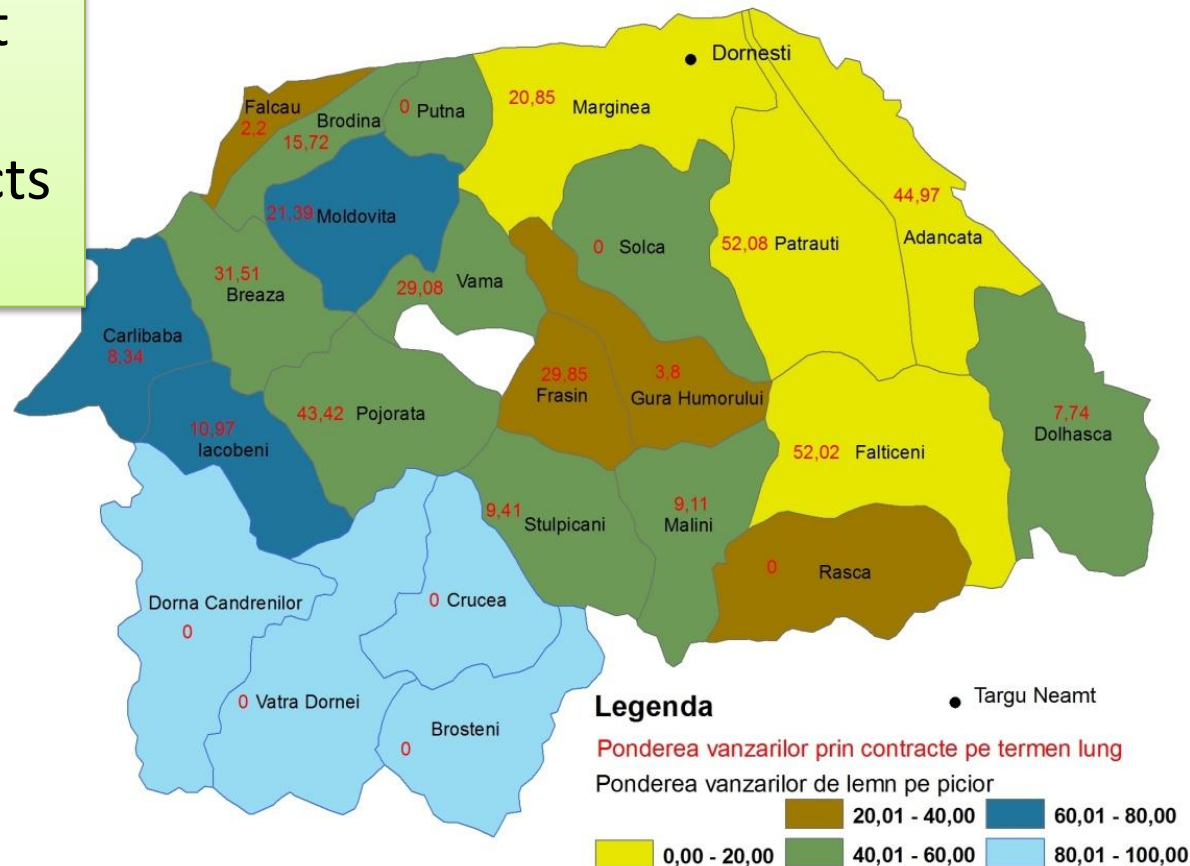


Figura 69: Seria cronologică a prețurilor medii de adjudecare, pe tipuri de produse

The impact of commercial strategies on the level of competition

1. Auctions for standing timber
2. Auctions for logs “at road”
3. Long – term contracts for LWPCs

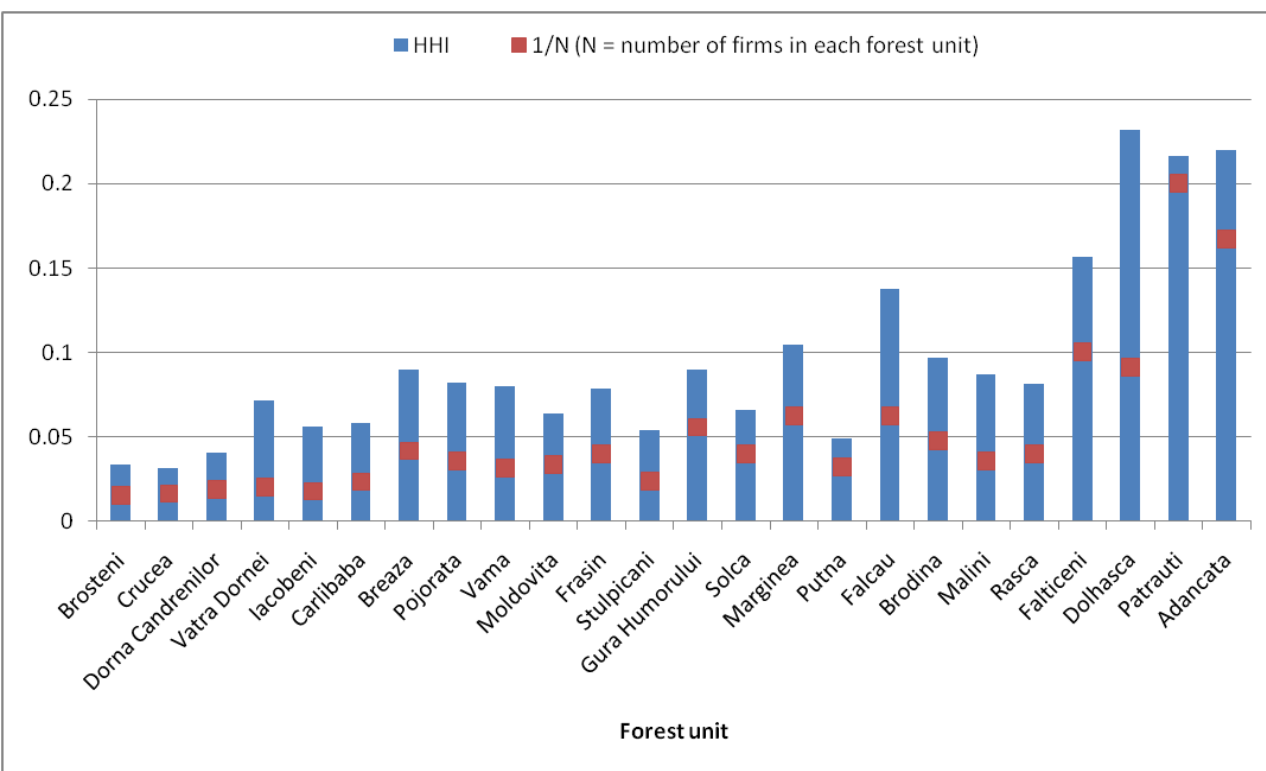
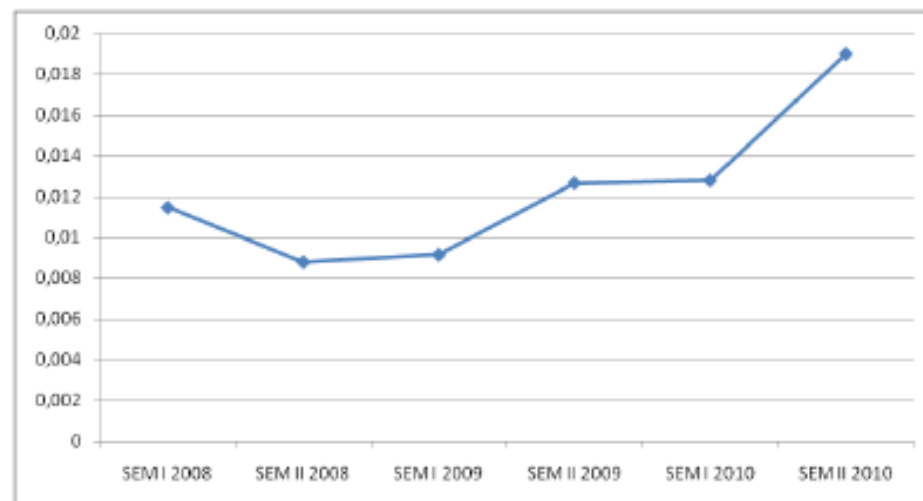
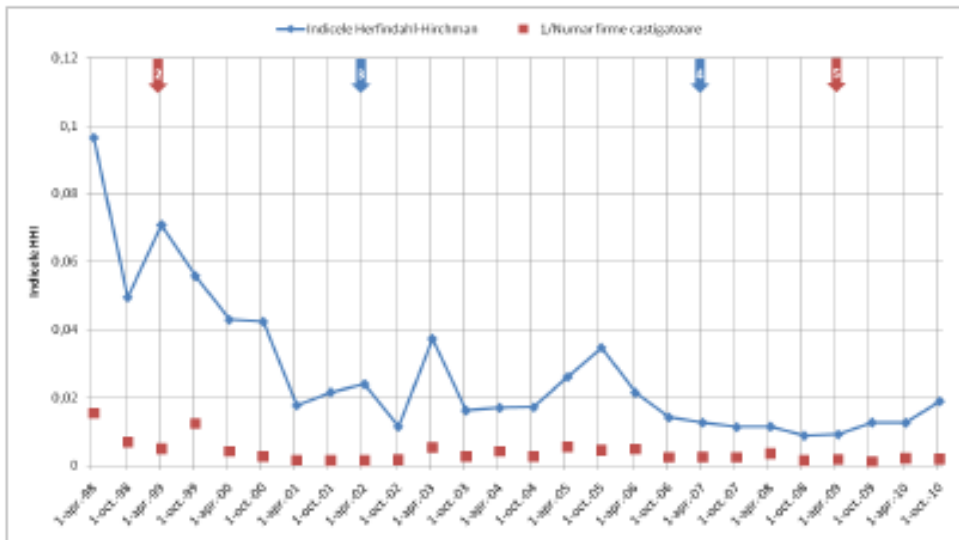


Oligopsony rents of SMEs

- Efforts spent by SMEs to limit the level of competition through strategic alliances
 - Bidder collusion in stumpage auctions
 - Keeping away the outsiders by intimidating practices

vs.

- offering prices for stumpage consistently above the residual value, thus divulging the premise for illegal activities



**Herfindahl –
Hirschman index**

$$E_i = \sum r^2$$

Market concentration

Proxy indicators for strategic alliances

1. the share of tracts sold after the first bid
2. the share of tracts with low level of competition
3. the share of firm auctioning timber only on specific forest units

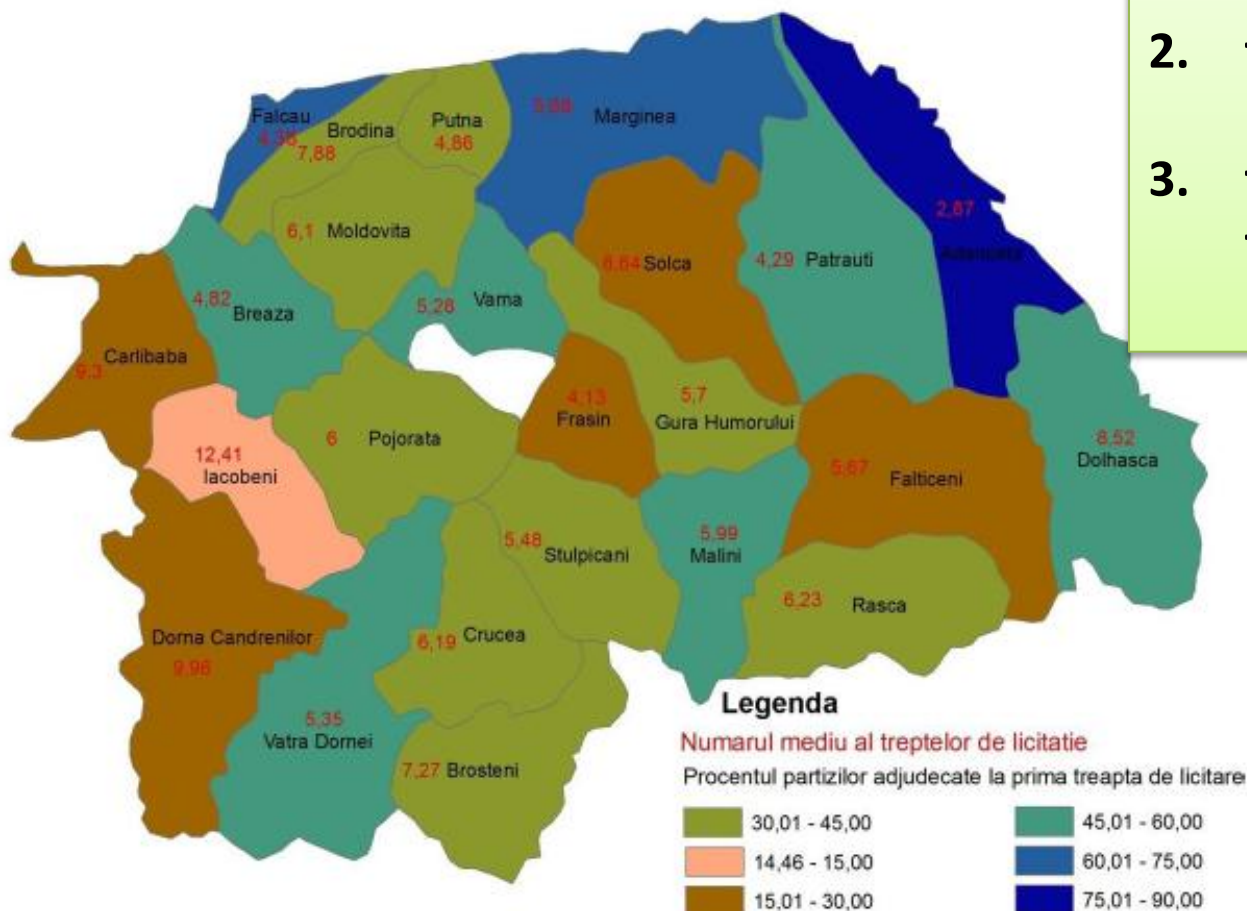
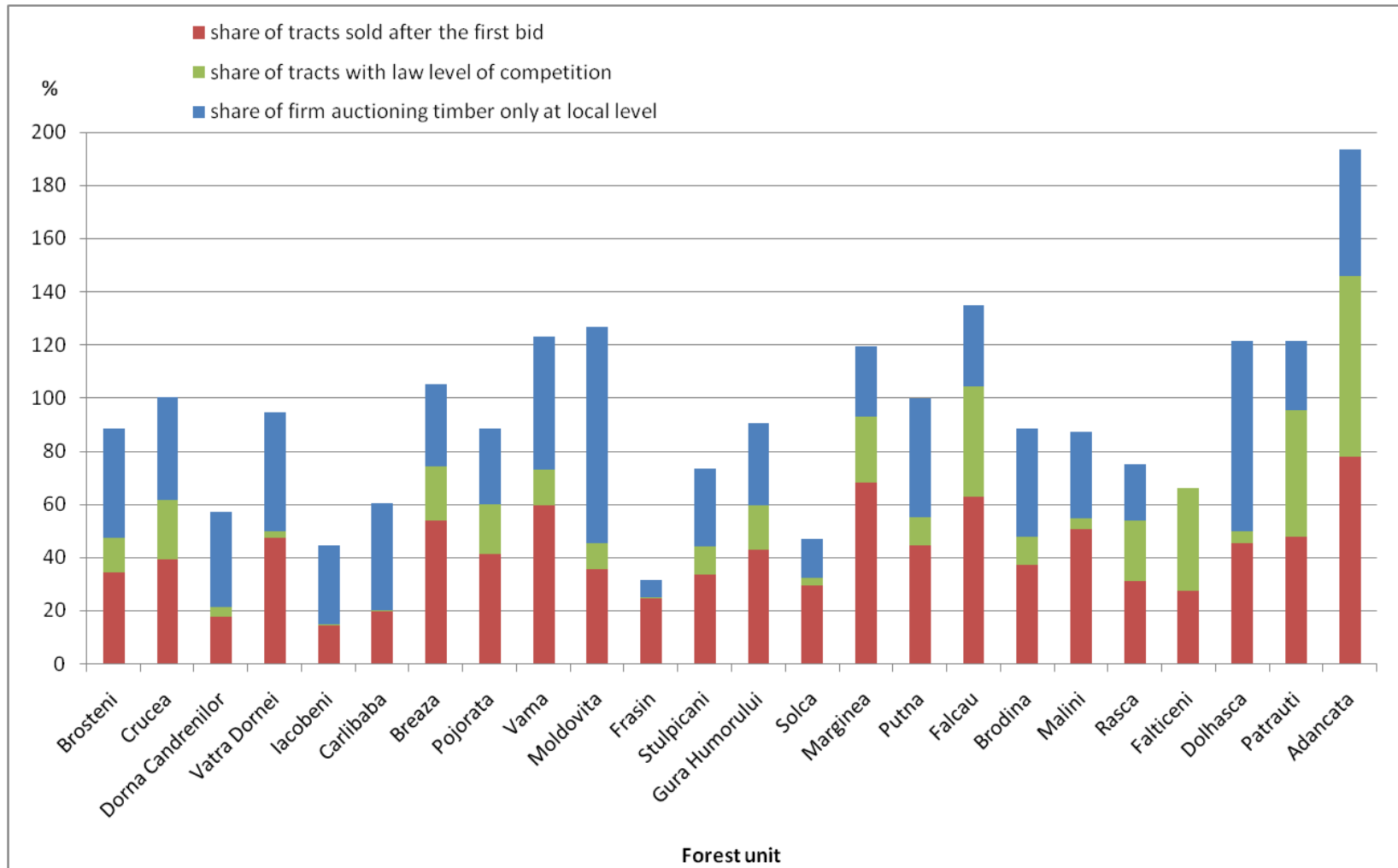


Figura 27: Distribuția zonală procentuală a volumului partizilor adjudecate la prima treaptă

Identifying strategic alliances between SMEs



Max Price for standing timber

=

**Residual value for
stumpage**

Max Price for logs

-

Average harvesting cost

	Max log price RON/m³	Average harvesting costs RON/m³	Max price for stumpage RON/m³
Area 1	199	35	154
Area 2	253	28	225
Area 3	253	25	228

1 RON = 4,2 euro

- 74 tracts sold above the residual value

Conclusions

- Emerging timber markets are influenced by rent-seeking processes
 - (Quasi) monopoly rent-seeking from NFA
 - (Quasi) monopsony rent-seeking from LWPC
 - Oligopoly rent-seeking from SMEs
- The quality of forest management is affected
 - High pressure on forest resources, in order to assure the survival of SMEs on the market
- The utility of econometric tools in detecting illegal logging activities

- “rules of the game” created for wood markets are important in rural development
 - Lack of policies supporting the integration of SMEs in the NFA’s long term planning of the timber commercial policies

