

AN ATTEMPT AT A CRITICAL ASSESSMENT OF CURRENT SOLUTIONS CONCERNING VINDICATION OF LIABILITIES FOR SOLD TIMBER IN POLISH FORESTRY AS EXEMPLIFIED BY THE REGIONAL DIRECTORATE OF STATE FORESTS IN POZNAŃ

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Abstract. The primary aim of the study was to determine methods of securing commercial timber sales transactions, used by forest inspectorates, to assess them in terms of the vindication process and to present new possibilities to secure sales transactions of goods and services. Thus, the aim of the investigations was to evaluate the cash-credit sales of timber, to describe forms of securing timber sales transactions used at present by forest inspectorates, to present the effect of individual security instruments on the vindication process of receivables from credit timber sales transactions concluded by forest inspectorates. The investigations were conducted on the basis of the data (approx. 37 thousand transactions) collected in the Regional Directorate of State Forests in Poznań, which is one of the 17 directorates in Poland. At the time of the study the Directorate consisted of 26 forests inspectorates.

Key words: economics of forestry, marketing, sale of wood, dynamics of sale, structure of sale

INTRODUCTION

In Poland, in 1980s, the economy was still governed by principles of central planning of production and sale of goods and these principles applied also to wood industry. Credit relationships between large state enterprises and the private sector was extremely rare. It was only in early 1990s that the principles of central fixing of timber prices was abandoned and the decision-making process was passed down to regional administrative units of the State Forests. From that time on, we can talk about market timber trading. This situation created many new trading opportunities (primarily, the development of marketing in State Forests) but it also brought some hitherto unknown risks and haz-

ards, among others, trading risk which has to be borne by the involved parties in the conditions of market economy.

One of the major obstacles on the road to the development of economy in Poland is the lack of capital and continuing ignorance of market rules among persons undertaking economic activities. Many companies have problems associated with carrying out economic activities in conditions of free market which contributes to troubles connected with prompt settlement of their liabilities [Adamowicz and Szramka 2002].

Gaps and defects in the existing legal system are gradually being repaired by the legislative power by way of the adjustment of Polish regulations to those of the European laws in connection with Poland's accession to the European Union [Troicka-Sosińska et al. 1999]. Nevertheless, the carrying out of economic activities continues to be associated with the failure to achieve the predicted or expected economic-financial results.

The ownership structure of forests in Poland is still dominated by public forests – 82.6%, of which 78.4% remain within the control of the State Forestry Enterprise – “State Forests” (according to GUS – as of 31.12.2002). The dominant position the State Forestry Enterprise – “State Forests” both in silviculture and production of timber raw material makes it possible to present the key problems of vindication of liabilities for the sold timber in Polish forestry taking as an example one of its 17 administrative units, namely the Regional Directorate of State Forests (RDSF) in Poznań.

CHARACTERIZATION OF THE PRIMARY TIMBER MARKET

The majority of wholesale customers buying timber from forest districts make an agreement based on the deferred period of payment. On average, in the analysed RDFS in years 1999-2002, the value of credit transactions for timber sales amounted to 517 089 792 PLZ which constituted 76% of the total value of the sold wood. This means that the economical activity of forest districts is burdened with the risk associated with carrying out trade operations of credit nature. This, of course, should not come as a surprise because in conditions of market economy, it is not possible to conduct serious transactions without granting trade credits. Giving this type of credit allows companies to attract more customers and this, in turn, results in sales increases and, consequently, profit. However, the sale of goods or services involving deferred period of payment is connected with dangers of delays in the payment of dues by customers [Bień 2002].

Current trading policies employed by forests districts in Poland indicate that there is a trend to restrict the sale of timber for trade credit. This is clearly evident in the fact that in 1999, in the analysed RDSF in Poznań, 87% of the value of the sold timber raw material was credited, whereas in 2002 – only 74%. A particularly dramatic decline in the proportion of timber raw material sold with the granting of trading credit was recorded in 2001 (68%), which was probably caused by an exceptionally difficult financial situation of State Forests at this time (Fig. 1).

Concern connected with financial fluidity is one of the most important tasks of company boards. Because of payment problems, the control over payables constitutes “to be or not to be” of many enterprises. One of the causes of poor financial fluidity of many companies is inadequate payment of dues by customers. That is why current information about disturbances in the prompt payment for the delivery of goods and services is one of the first signals indicating potential troubles with the financial fluidity [Wędzki

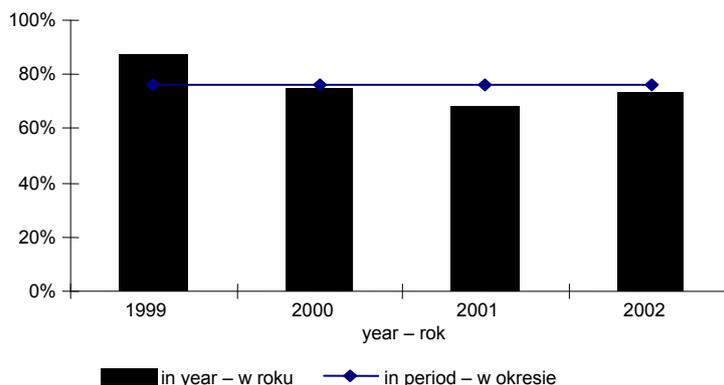


Fig. 1. Proportion of credit transactions in the income from timber sales in forest districts administered by the Poznań RDSF in years 1999-2002

Rys. 1. Udział transakcji kredytowych w przychodach ze sprzedaży drewna w nadleśnictwach administrowanych przez RDLP w Poznaniu w latach 1999-2002

2000]. In the light of the above conclusion, the assessment of the average period of vindication of liabilities in the forest districts of the RDSF in Poznań in order to establish possible signals concerning changes in the process of vindication of liabilities connected with timber sales appears justified.

VINDICATION OF LIABILITIES ASSOCIATED WITH TIMBER SALES

It was found on the basis of the performed studies that the average period of vindication of liabilities connected with timber sales in the region administered by the RDSF in Poznań during the period from 1999-2002 was 32 days. Wędzki [2000] maintains that the period from 7 to 21 days is a suitable period for the realisation of liabilities. However, the Main Statistical Office (GUS) claims that, on average, debts in the economy are collected only after 45 days. Therefore, it can be said that the calculated mean period of realization of liabilities by customers in forest districts in Poland, when viewed from the perspective of the economic realities is, by no means, very bad. Nevertheless, it is worth stressing that in years 1999-2002, this period was gradually extended from the initial 26 to 41 days, which confirms the deterioration of the conditions of vindication of liabilities (Fig. 2). It should also be mentioned here that the period of average payment of debt was lengthened despite the fact that the number of realized transactions for which trade credit was granted declined (Fig. 1).

A disturbing process of lengthening of the period of recovery of debts is also corroborated by the results of investigations concerning the mean period of vindication of liabilities in credit transactions. It was found that during the examined period, it amounted to 42 days. Similarly to the mean period of payment of liabilities of all transactions, also in this group the mean period of debt vindication during the discussed years from 1999 to 2002 was extended from 29 days in 1999 to 56 days in 2002.

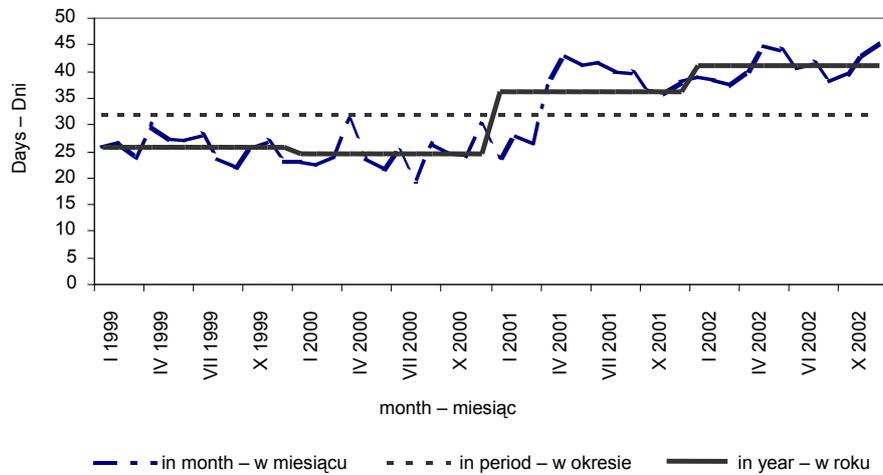


Fig. 2. Mean vindication period of debts from timber sales in forest districts belonging to the Poznań RDSF in years 1999-2002

Rys. 2. Przeciętny okres windykacji należności za sprzedaż drewna w nadleśnictwach RDLP w Poznaniu w latach 1999-2002

The performed studies allowed characterizing the growing problem associated with the lengthening period of debt vindication. There is no doubt that punctual vindication is gaining now and will continue to gain in importance in the nearest future. Bień [2002] maintains that, since 1998, a considerable increase of unpaid debts has been observed which can, at least partially, be attributed to the deterioration of the economic situation resulting in the decline of payment capacities as well as bankruptcies of many enterprises. However, this is certainly not the sole cause of the development of payment blockages. We can still observe a high level of real interest rates of bank loans which encourages many companies to take advantage of allegedly free of charge trading credits.

This situation causes that many suppliers have to cope with unpunctual payments of the delivered goods and services. In the case of forest districts belonging to the RDSF in Poznań, on average, 23% of all liabilities underwent transformation into overdue debts. It is somewhat worrying that when analysing the dynamics of changes of the mean annual proportion of overdue liabilities in the debts which developed as a result of timber sales, we can observe an increase of these liabilities in their overall value (Fig. 3).

According to Niezbecka et al. [2000] the trade credit and its security and, hence, the entire process of debt vindication, should be treated as an economic phenomenon of dynamic character. Bearing in mind this opinion, as well as taking into account the above-described economic situation associated with changes taking place in timber selling processes carried out by individual forest districts, an attempt was made to assess the impact of securing of trade transactions on economic results. Classical methods protecting receivables can exert influence on the economic results of enterprises in the area of shortening vindication periods and restricting the practice of turning current liabilities into overdue debts.

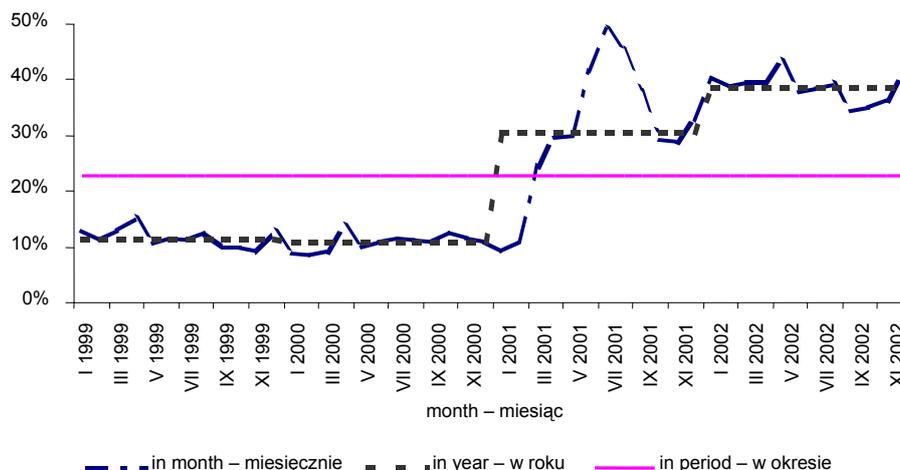


Fig. 3. Relative value of overdue payments in forest districts belonging to the Poznań RDSF in years 1999-2002

Rys. 3. Względna wielkość należności przeterminowanych w nadleśnictwach RDLP w Poznaniu w latach 1999-2002

LEGAL INSURANCE OF DEBT VINDICATION FOR SOLD TIMBER

In the course of the 4-year long experimental period, the total of 37 042 transactions of timber raw material sales from 26 forest districts were analysed which allowed to identify trade contracts protected by means of individual protection methods employed by forest districts. The obtained data allowed assessing the impact of individual protection methods on the process of vindication of debts for the sold timber. Detailed analysis of trade agreements and timber sale transactions allowed answering the question whether all transactions of timber sales which created potential hazards of delaying the period of payment of the debt or its loss were legally protected.

On the basis of the performed investigations, it was found that in years 1999-2002, the examined forest districts, on average, secured 35% of the value of all credit transactions. The value of the secured transactions in individual forest districts varied. It was found that in the case of 15 forest districts, the value of the secured transactions was smaller than the calculated average for the RDSF in Poznań and in 11 others, it was higher. This indicates that the phenomenon of insuring trade transactions using different available legal-economic means is a new element in the trading activity of forest districts. This thesis appears to be corroborated by the fact that at the beginning of these experiments, i.e. in 1999, six of the examined forest districts failed to employ any protection of timber sale transactions and another three ones protected their transactions only marginally. Later on, the proportion of secured transactions increased gradually. This indicates increased interest in methods securing timber sale transactions by head-foresters and managers responsible for timber distribution.

The highest proportion of protected transactions was recorded in 2001 (47%). Presumably, it was a reaction to a difficult financial situation and deteriorating market situation at that period. On the basis of the observed response, a hypothesis can be drawn that the deterioration of market conditions for carrying out trade activities favours the application of security measures of trading transactions. However, further investigations are necessary to confirm this hypothesis.

An additional confirmation of the claim that the process of securing receivables is a new phenomenon in the economical activities of forest districts in Poland is the fact that during the period of these studies only a part of the available forms of protection of trade transactions was utilized. Although the authors identified methods which belong to all groups of insurance, i.e. personal, collateral as well as legal-economic instruments indirectly affecting the process of protection of vindication of payables, nevertheless only two methods were found dominant.

Personal security was a dominant group with regard to the value of protected transactions in forest districts belonging to the RDSF in Poznań. Their proportion in all the protected transactions amounted to 53%. It is worth noting that only three methods were employed from this group of insurances. Another important observation is that the bill of exchange constituted 98% of trade transaction insurance by means of personal methods. Blank bill, due to the simplicity of its application, turned out to be the most popular method of security of receivables derived from timber sales. During the period of investigations, all the forest districts applied this form of payment insurance. This was further confirmed by the fact that the bill occupied the first position among all the methods insuring the correct course of vindications. Its proportion in the security of the value of all protected transactions reached 52%.

The dominant role of the bill of exchange to insure receivables and the rare employment of other methods of protection of payables indicates that the economic and legal knowledge from the area of protection of the vindication process of liabilities among persons responsible for timber sales is far from satisfactory. The application of one of the simplest forms of security of payables is the result of insufficient knowledge about other methods. The fact that, in the case of 20 forest districts, no more than 3 methods of insurance of liabilities were applied seems to support this opinion.

Factoring, which belongs to indirect methods of insurance, occupied the second position with regard to the value proportion of protected transactions. This method is used, primarily, to guarantee the financial fluidity of companies that employ it. Full factoring, which was applied by forest districts, additionally, fulfilled protective functions.

EVALUATION OF THE IMPACT OF TRANSACTION INSURANCE ON THE VINDICATION PROCESS OF PAYABLES

The study made an attempt to assess the influence of insurance on the economic results achieved by the examined forest districts by determining their impact on the mean vindication period of liabilities. Investigations concerning the mean vindication period of liabilities showed that in the distinct majority of forest districts the vindication period of insured liabilities was shorter than the mean vindication period of liabilities derived from credit transactions of timber sales. Only in the case of two forest districts, no distinct influence of insurance on the shortening of the period of realization of payables

was observed. On this basis, it can be concluded that the protection of trade transactions exerts a significant effect on the vindication period of liabilities. This thesis was confirmed by our research results. It was calculated that the mean period of realization of credit payables insured using various methods amounted to 32 days, which means that it was by 10 days shorter than the mean period of vindication realisation of all credit transactions. The comparison of mean vindication periods of payables derived from insured transactions of timber sales with transactions without insurance (52 days) shows even more clearly the impact of insurance on the proper vindication. The difference between these two periods reached 21 days.

The authors also tried to evaluate the influence of individual insurance methods on the vindication period of liabilities. It is worth noticing that the vindication period of liabilities from transaction protected with personal securities was the longest.

It should be remembered that in years 1999-2002 most of the concluded transactions were insured with this group of methods. Assignment of debts played a significant role in the lengthening of the average vindication period of payables. The mean realization period of debts insured by this method lasted 72 days. The vindication period insured using the most popular method, i.e. with the bill of exchange, lasted 39 days. The shortest (28 days) mean vindication period of payables in this group of methods was observed when the bank guarantee was applied.

The vindication period of receivables was the shortest when transactions were insured by collateral methods. It appears that referring possible claims to definite property elements of the debtor exerts a strong pressure on their psyche. The threat to lose a specific property, e.g. a car, which is the object of the pledge, compels the debtors to keep their promises.

The shortest vindication period of liabilities occurred when transactions were insured with the mortgage. The investigations carried out in the forest districts belonging to the RDSF in Poznań corroborated the opinion expressed by Herapolitańska or Sikorski who maintain that mortgage is the best method of protecting liabilities. The fact that this method provides possibilities of reclaiming by the creditor of his own claims from the property regardless who it is owned by (with a priority over personal creditors of the owner of the property) strengthens its position in the ranking of insurance methods [Łabedny et al. 1999].

Some customers offering advance payments utilized the system of timber sales applied by the State Forests for their own purposes. It is not uncommon to find in economical practice cases of down payments for a specific sum of money and then collection of timber raw material exceeding the value of the advance payment.

Another procedure employed by forest districts is the sale of timber to customers who have not yet paid their debts on conditions that they make a down payment for the current purchase. Bień [2002] maintains that in cases of payment delays by reliable clients who have been cooperating with a given company for a long time, payment delays are temporarily tolerated.

However, it is important that this leniency should include customers who hold promise to recover full financial fluidity. There is no doubt that one of the ways to limit the range of risks is reliable information about future customers. For some time now, a computer program called "Debtor" has become operational in administrative units of State Forests which can be treated as a substitute for professional ratings. It can only be

hoped that the initiated process of rating in the State Forests will be developed and expanded.

In the course of the performed investigations, the process of transferring current into overdue payables was also analysed. In all the examined forest districts, insurances restricted the process of the transformation of current into overdue payables and, consequently, reduced payment blockages. At the same time, it was found that the applied insurances failed to eliminate completely the transfer of current into overdue payables.

It appears that Bień [2002] is right when he says that the declining trend of the periodical payment of dues is treated as a normal phenomenon. Despite considerable and constantly growing overdue liabilities, quite frequently suppliers either chose not to respond quickly or delay the initiation of legal actions or allow the case to drag on for a long time. The above-described phenomenon also referred to the examined forest districts.

The developed overdue payments associated with transactions insured with the aid of different methods were finally paid back. It can be said that the applied insurance methods to protect trade transactions concluded by the examined forest districts in years 1999 – 2002 had a positive impact on the vindication process of liabilities.

CONCLUSIONS

1. At present, many Polish forest districts sell timber raw material with a deferred period of payment.

On the basis of the performed analyses of 37 042 transactions of timber sales it was found that 76% of the value of all contracts concluded in forest districts used trade credit. Therefore, forest districts carrying out trading activities which involved granting of credits were exposed to financial risks connected with it.

A decline in timber sales for trade credit was observed in the examined period. In 1999, credit transactions constituted 87% of income from timber sales, while in 2002 – only 74%.

2. A gradual lengthening of the mean period of vindication of liabilities derived from timber sales can be observed in Poland.

In the course of the performed investigations, the average vindication period of dues for timber sales in the forest districts belonging to the RDSF in Poznań was 32 days. The length of this period increased gradually from 26 days in 1999 to 41 days in 2002.

In addition, the average vindication period of credit payments which amounted to 42 days also increased gradually from 29 days in 1999 to 56 days in 2002. This indicates that it is necessary to look for new solutions aiming at the stabilization of the period of debt payments derived from timber sales.

3. The sale of timber in Poland is associated with risks of transfer of the current into overdue payments.

The performed analysis of the vindication process of debts proved that, in the case of the examined administrative units of State Forests, some of the payments were overdue. On average, 23% of the payments in the examined forest districts in the Poznań RDSF were transferred into overdue receivables. The above-mentioned phenomenon was found to intensify during the examined period of time indicating deterioration of the economic environment for forest districts.

4. Not all credit transactions were insured by appropriate legal means.

On average, 35% of the total value of credit timber sales was protected by different methods of insurance of trade transactions. The value of insured transactions differed in individual forest districts and ranged from 17% to 64%.

In years 1999 to 2002 the value of protected transactions increased indicating a growing interest of forest districts in the protection of liabilities derived from timber sales. The fact that in 1999 some forest districts did not apply any insurance for their transactions shows that the process of legal-economical protection of liabilities is a new phenomenon of the economical practice of forest districts.

5. The examined forest districts apply trade transaction insurance.

In the course of the performed investigations, different methods of payment insurance applied by individual forest districts were identified. They belonged to all types of insurance, i.e. personal, collateral as well as some others identified by the author and referred to as legal-economic instruments indirectly affecting forward transactions. The majority (53%) of the income from timber sale transactions was insured by personal instruments. Collateral methods were used to protect the lowest value of the conducted transactions.

The performed analyses proved that not all possible methods of insurance forward transactions were employed. The blank bill of exchange turned out to be the dominant method of protection followed by factoring and advanced payment. Apart from the above-mentioned forms of protection, other methods of insurance forward transactions were also employed when selling timber, e.g. assignment of liabilities, bank guarantee, temporary transfer of property rights, mortgage, notarial act, blockage of bank account and certified cheque.

6. Credit insurance of transactions of timber sales affected the economic results of forest districts associated with the vindication process.

The comparison of mean periods of protected and unprotected payment of dues for sold timber confirms a distinct impact of insurance on the shortening of the vindication period of liabilities.

The longest vindication period of debts for sold timber was recorded when the transactions were insured by personal methods and the shortest – when they were protected by collateral means.

The performed detailed analysis of protected transactions of timber sales shows that only in the case of one method protecting liabilities, the mean period of realization of credit liabilities, calculated for all the examined forest districts, was longer than the mean period of realisation of liabilities derived from unprotected transactions. With the exception of debts insured by the assignment of liabilities, all the remaining protected liabilities were paid back during the period shorter than the period of debt repayment of transactions for timber sales which were not protected formally.

The performed investigations proved that the applied methods protecting the vindication process limited the transfer of current into overdue debts. Although the applied methods of protecting the realisation of forward transactions failed to eliminate completely the transfer of current into overdue payables, nevertheless they succeeded in limiting their occurrence significantly.

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**PRÓBA KRYTYCZNEJ OCENY DOTYCHCZASOWYCH ROZWIĄZAŃ
DOTYCZĄCYCH WINDYKACJI NALEŻNOŚCI ZA SPRZEDANE DREWNO
W POLSKIM LEŚNICTWIE NA PRZYKŁADZIE REGIONALNEJ DYREKCJI
LASÓW PAŃSTWOWYCH W POZNANIU**

Streszczenie. W pracy podjęto próbę oceny dotychczasowych rozwiązań dotyczących windykacji należności za sprzedane drewno w polskim leśnictwie. Badania oparto na informacjach rynkowych pochodzących z przykładowej dyrekcji regionalnej PGL LP. Przedstawiono wpływ stosowanych metod zabezpieczeń transakcji kredytowych na proces windykacji należności. Opracowanie ma charakter dyskusji wspartej konkretnymi wynikami badań autora oraz poglądami innych przedstawicieli tego nurtu ekonomicznego.

Słowa kluczowe: ekonomika leśnictwa, marketing, cena drewna, dynamika cenowa, struktura cenowa

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