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MARKET STATEMENT OF THE CZECH REPUBLIC

1. General economic situation

Czech economy entered the year 2002 with good starting conditions created in 2001 in which it managed to maintain relatively fast growth of GDP, especially in the first three quarters. In 2002, the growth rate slowed down. The year 2002 also saw a qualitatively worse development of GDP whose year-round slowdown was adversely affected most by the August destructive floods. In 2002, Czech GDP rose by 2.0% year-on-year (at constant prices of 1995). This rise amounted to almost two thirds of the GDP rise in 2001 (3.1%).

The slowdown of the economic growth was significantly affected by external demand, particularly by the considerably weakened economic boom and the drop in the economic performance of the EU member states – the largest foreign business partners of the Czech Republic. Nevertheless, the growth of Czech GDP in 2002 was a great deal higher than in the EU member states as a whole and diminished the lag of aggregate economic performance of the Czech Republic behind the EU member states or decreased the difference in the volume of GDP per capita (in real terms) between these states and the Czech Republic.

The development of economic relations in external trade and the higher rise in imports of goods and services than in their exports exerted negative effects in 2002, too, though they were smaller than in 2001. The development of aggregate demand was influenced in a prevailing way by realised domestic demand and, to a lesser extent, by external demand. On the other hand, external supply had a key role to play in the development of aggregate supply. Compared to 2001, import and export prices fell by 8.5% and 6.7% on average, respectively.

Investment activities also shrank year-on-year, which was associated with a lower employment rate and a rise in unemployment.

In terms of constant prices of 1995, **GDP** grew **in the first quarter of 2003** by 2.2% year-on-year. A number of factors influenced the economic development in this quarter. They included, among other things, lower demand for domestic services in the countries of our main business partners, gradual appreciation of the Czech *koruna* to US dollar exchange rate (which decreased the competitiveness of domestic producers and created favourable

conditions for the growth of imports), and decreases in investment activities in certain industries.

The second quarter of 2003 saw rather a high growth of industrial output in all of the main industrial groupings and new orders signed in industrial businesses in the CR and abroad. Construction output increased in June in particular when the volume of construction work rose in all segments of the construction market except for construction work done abroad. Favourable development was observed for exports (an increase of 7.4% at current CZK FOB/FOB prices) and imports (an increase of 7.2%).

Industrial output rose **in 2002** by 4.8% (at current prices of 2000). Output of manufacturing, which accounts for 82% of the output of the whole industry, was even higher: by 5.4%. In the framework of manufacturing, the highest increases are achieved in the long run by the manufacture of electrical and optical equipment (by 27.5%), of rubber and plastic products (18.6%), and of wood and wood products (6.1%). The growth of total output was heavily affected by direct exports: these rose by 7.8% year-on-year. Foreign-controlled businesses retained their considerable exports orientation and high growth dynamics. They accounted for about 45% and next to 70% of total sales and total direct exports, respectively.

Manufacture of wood and wood products raised its output in 2002 by 6.1% year-on-year, while the output of manufacture of wood pulp, paper and paperboard, including publishing, printing and reproduction of recorded media, recorded an increase of 2.8% (all at constant prices of 2000).

The sample index of import prices for 'Wood and wood articles' (HS nomenclature, Section IX) stood at 88.1 in 2002, while that of export prices was 90.2 (year 2000 = 100, average from the beginning of year).

The sample index of import prices for 'Wood pulp, paper and paperboard´ (HS nomenclature, Section X) stood at 88.4 in 2002, while that of export prices was 92.3 (year 2000 = 100, average from the beginning of year).

The prices of imports and exports are in terms of trade parity and correspond to prices current prices FOB/FOB.

In the first half of 2003, industrial output at constant prices of 2000 was 5.6% up year-on-year. A marked rise was recorded for manufacture of rubber and plastic products, manufacture of transport equipment, manufacture of wood pulp, paper and paper products, including publishing, printing and reproduction of recorded media, and for production and distribution of electricity, gas and water supply.

In the first half of 2003, output of the manufacture of wood and wood products grew by 4.6% and output of the manufacture of wood pulp, paper and paperboard, including publishing, printing and reproduction of recorded media, increased by 8.1%, compared to the first half of 2002.

Construction raised its output in 2002 by 2.5% year-on-year (constant prices of 2000). The rise was especially due to the construction of transport infrastructure constructions and the renewal of constructions hit by the August floods. New construction, reconstruction and modernization accounted for over 85% of construction work, the balance being repair and

maintenance. Unlike the previous years, housing construction developed better, and the number of started and completed dwellings rose significantly.

Construction output in the first half of 2003 was 2.7% higher on the corresponding period of the previous year (at constant prices of 2000). The highest rise was observed for June and fastest growth of the volume of construction work was recorded for new civil engineering constructions.

In external trade of 2002, exports and imports at FOB/FOB current prices dropped by 1.4% to CZK 1 251.9 billion and CZK 4.3% to CZK 1 326.3 billion year-on-year, respectively. In terms of the euro, they increased by 5.8% (imports) and 9.1% (exports). In US dollars, the growth was also higher: by 11.7% (imports) and 15.0% (exports). However, the development of external trade was gradually deteriorating during the year.

The year-on-year decrease in total imports of 2002 was brought about by lower imports from developed market economies (by CZK 70.2 billion) or the EU member states (by CZK 58.6 billion) and from European transitive economies and the CIS (by CZK 30.8 billion) on the one hand and higher imports from developing economies (by CZK 21.3 billion) and other transitive economies and economies with a state trade system (by CZK 20.5 billion) on the other hand. In comparison to 2001, this development weakened the position of developed market economies or the EU member states, European transitive economies, and the CIS as it raised the proportion of developing economies and other transitive and state economies, strengthening their position. Again, the increase in imports from transitive and state economies reflects a considerable increase in imports from China (by CZK 20.8 billion) which belonged to the highest.

The year-on-year decrease in total exports of 2002 reflected lower exports to developed market economies (by CZK 14.0 billion) or the EU member states (by CZK 19.0 billion), and to European transitive economies and the CIS (CZK 9.0 billion). Exports slightly increased to developing economies (by CZK 1.3 billion) and other transitive and state economies (by CZK 1.3 billion). The year-on-year drop in exports to the EU member states was mainly due to lower exports to the Federal Republic of Germany (by CZK 27.7 billion) and also to Austria, Italy, and Belgium (by CZK 13.3 billion in total, which was partly compensated by higher exports to the Netherlands), France (by CZK 3.9 billion), Great Britain (by CZK 2.7 billion), and Spain (by CZK 2.3 billion).

The growth rates of imports and exports, the amount of trade balance deficit, and the changes of the commodity structure (exports in particular) in **the first half of 2003** confirmed the favourable development of the Czech external trade. Between early January and late June 2003, imports and exports rose by 6.1% and 7.0% (FOB/FOB current prices), respectively. Trade deficit for January-June stood at CZK 18.1 billion, which translates into an improvement of CZK 4.3 billion compared to the corresponding period of the previous year. The trade balance was positively affected by higher exports of parts for office machines, parts and accessories for motor vehicles, and lower imports of crude oil. The rise in trade balance deficit was primarily due to higher imports of passenger cars, drugs and metalworking machines.

2. Developments in forest products markets sectors

Pulp and paper

In 2002, production of wood pulp increased by 2.6% year-on-year to 702 thousand tonnes. In the second quarter of the year the production fell to rose again slightly in the third quarter and reach its maximum in the fourth quarter. Imports of wood pulp in 2002 grew by 20.3% to 160 thousand tonnes and exports were by 4.1% up, reaching 330 thousand tonnes. Production of other pulp, i.e. pulp from fibres other than wood and from recovered fibres, fell from 3 thousand tonnes to 1 thousand tonnes. Consumption of paper recovered for pulp manufacture dropped by 3.5% to 379 thousand tonnes, imports went down by 30% to 41 thousand tonnes while exports went up by 39% to 132 thousand tonnes.

As far as the assortment of wood pulp is concerned, bleached sulphate chemical pulp prevailed traditionally in imports (132 thousand tonnes, 82.5%), while bleached sulphite chemical pulp and bleached sulphate chemical pulp dominated in exports (235 thousand tonnes, 71.2% and 94 thousand tonnes, 28.5%, respectively). The trade was implemented at lower import and export prices compared to prices a year ago. 86% of the wood pulp was imported from European countries, the Russian Federation, Sweden and Finland and 13% from North America (mostly the USA). Except for some small amounts to Asian countries, the wood pulp was exported to European countries.

In production of paper and paperboard – in the assortment measured by UN ECE/FAO according to the classification of products in the HS 96, Section X 'Paper and paperboard' – the production rose in 2002 by 0.7% to 870 thousand tonnes. In this assortment imports increased by 7.2% to 670 thousand tonnes and exports by 1.96% to 572 thousand tonnes. Both export and import prices were down on prices of 2001.

In the first quarter of 2003, production of pulp maintained its upward trend at the level of 2002 and it is forecast that this trend could be on by the end of 2003. A slight increase in the production of paper and paperboard is counted on for 2003 in comparison with 2002. Imports and exports of wood pulp, paper and paperboard are expected to be on the increase in 2003, the former being higher than the latter.

The production, trade and domestic consumption are forecast to maintain their rising trends in 2004.

Roundwood including pulpwood

In comparison with 2001, removals of roundwood including pulpwood increased by 1.16% to 14 541 thousand m^3, of which industrial roundwood by 1.27% to 13 534 thousand m^3 (8 073 thousand m^3 of sawlogs and veneer logs, 5 081 thousand m^3 of pulpwood and 380 thousand m^3 of other industrial roundwood). Production of wood fuel dropped slightly. Proportions of softwood and hardwood are shown in 3. Tables. Imports and exports of industrial roundwood (sawlogs and veneer logs and pulpwood) rose by 1.8% to 994 thousand m^3 and by 1.1% to 2 514 thousand m^3, respectively. Average export prices of the year 2002 were down on the year 2001.

Removals of roundwood including pulpwood in 2003 are expected to be higher than 2002 (by about 1%). Exports should rise slightly, and as far as imports are concerned pulpwood should rise in volume while sawlogs and veneer logs should drop.

The forecast of removals, imports and exports of roundwood including pulpwood in 2004 does not indicate any significant changes in comparison with 2003.

Softwood (sawnwood and logs)

Production of coniferous sawnwood in 2002 decreased by 1.6% year-on-year to 3 500 thousand m^3. In the coniferous sawnwood market imports rose by 9.7% to 248 thousand m^3 and exports went on dropping from the previous year: a decrease of 12.7% to 1 394 thousand m^3. Domestic consumption grew by 7.5%.

Coniferous sawnwood was imported from European countries: the highest volumes from Germany, the Russian Federation, Slovakia, and the Ukraine. Exports were mainly directed to Europe (79.4%), Asia (9.4%, mostly Japan), the USA (6.8%), and Australia (4.4%).

In 2003 and 2004, coniferous sawnwood production and exports are assumed to rise, while imports and consumption are expected to drop slightly in comparison with previous year.

In 2002, removals of coniferous sawlogs and veneer logs increased by 4% year-on-year to 7 540 thousand m^3, imports by 43% to 372 thousand m^3, exports by 27.4% to 1 566 thousand m^3 and domestic consumption grew by 1% to 6 346 thousand m^3 year-on-year. The trade was implemented with European countries at lower prices than in 2001.

In comparison with 2002 the year 2003 is anticipated to see a slight decrease in removals and exports and a slight rise in imports and domestic consumption of coniferous sawlogs and veneer logs.. The trend in 2004 should be the same as in 2003.

Hardwood (sawnwood and logs)

Production of non-coniferous sawnwood in 2002 fell on 2001 by 9% to 300 thousand m^3 and exports by 24% to 54 thousand m^3. Imports and domestic consumption rose by 20.9% to 133 thousand m^3 and 2.7% to 379 thousand m^3, respectively. The trade was mostly implemented with European countries; tropic species of non-coniferous sawnwood were imported from Asia and Africa.

It is anticipated that the production and domestic consumption of and trade in non-coniferous sawnwood in 2003 will be slightly lower than in 2002, while the year 2004 should see no substantial changes in comparison with 2003.

Removals of non-coniferous sawlogs and veneer logs in 2002 were lower by 20% (533 thousand m^3); imports, exports, and domestic consumption fell by 25% (85 thousand m^3), 43% and 18%, respectively (all compared to 2001). The assortment was traded in with European countries only.

It is assumed that the year 2003 in comparison with 2002 will see a rise in removals, imports, exports, and domestic consumption of non-coniferous sawlogs and veneer logs. No considerable changes should occur in 2004.

Wood-based panels

Veneer sheets

In comparison with 2001, production of veneer sheets in 2002 fell by 6.6% to 14 thousand m^3 and imports by 4% to 24 thousand m^3; exports rose by 5.8% to 18 thousand m^3. The year 2003 is likely not to see any rather significant changes; exports should slightly drop in favour of higher domestic consumption year-on-year. The production and exports should slightly revive in 2004.

Plywood

In 2002, plywood production dropped by 7,3% to 139 thousand m^3, imports and exports dropped by 11% to 71 thousand m^3 and by 24% to 111 thousand m^3, respectively, and domestic consumption rose by 19,2 %, all year-on-year. Plywood was imported from Germany and Austria and exported to Germany.

Expected for the whole 2003 are higher plywood production (by 4.3% - 145 thousand m^3), higher imports (only a slight increase to 70 thousand m^3), higher exports (by 3.6% - 115 thousand m^3), and higher domestic consumption (by 1% - 100 thousand m^3) year-on-year. The same trend is expected for 2004.

Particle board

In comparison to the previous year, production of particle board rose in 2002 by 6.5% to 874 thousand m^3, imports by 3.6% to 256 thousand m^3, exports by 4.1% to 502 thousand m^3, and domestic consumption by 7.3% to 628 thousand m^3. Particle board was imported from European countries only (the highest volumes from Germany, Austria and Poland) and exported to European countries, too (Romania, Hungary, Slovakia and Germany).

The trend of the production, imports, exports, and domestic consumption of particle board has been rising for several years and according to the forecast for 2003 the production should mildly rise (by 2%), imports and exports should drop slightly (by 2,3% and 4.4%, respectively), and domestic consumption should increase (by 5,4%). The furniture industry, a user of the particle board, records a permanently rising trend of production.

The year 2004 is expected to see the production, imports, exports, and domestic consumption rising further year-on-year.

Fibreboard

As far as the assortment of fibreboard is concerned, only MDF board has been produced for several years. Production in 2002 rose by 9.3% year-on-year to 82 thousand m^3. Imports of hardboard increased by 11.7% to 181 thousand m^3 and of MDF board by 48.5% to 49 thousand m^3. Imports of insulating board were three times higher, reaching 30 thousand m^3. Exports of fibreboard fell by 5% to 96 thousand m^3, of which MDF board accounted for 51 thousand m^3. Consumption of fibreboard in the domestic market rose by 29,4% to 246 thousand m^3.

Fibreboard was imported from European countries (the largest volumes from Germany, Poland, Austria, and Slovakia) and exported to a number of European countries.

In comparison with 2002, the year 2003 should see the production of fibreboard by 2.4% up (84 thousand m^3), imported volume should be the same (260 thousand m^3), exports slightly up (98 thousand m^3), and domestic consumption the same (246 thousand m^3). No change in the trend is expected for 2004.

Secondary processed wood

In 2002, trade in secondary processed wood in the assortment monitored by the ECE Timber Committee – i.e. in 'Further processed wood' (HS 4409), 'Wooden wrapping and packing equipment' (HS 4415, 4416), 'Builder's joinery and carpentry of wood' (HS 4418), and 'Wooden furniture' (HS 940160) 940130/40/50/60) – considerably increased year-on-year: by 28% - imports and 71.6% - exports (at CZK FOB/FOB current prices).

Certified forest products

Certification of the forests and forestry of the Czech Republic according to the Pan European Forest Certification (PEFC) system is successfully under way and contributes to support sustainable forest management in this country.

In 2002, a contract was signed with the Bureau Veritas Quality International CS Ltd., on the basis of which a certification audit of the forests of the Czech Republic region was carried out. The audit confirmed that these forests were managed in the way that ensured sustainable forest management. This certificate has been in force for five years and entitles the Association of Owners and Managers of Forest Properties of the Czech Republic (an association of legal entities) to issue the Certificate to applicants that undertake to observe the criteria of sustainable forest management. These criteria are defined in PEFC documents.

A total of 424 certificates were issued in 2002 to owners of forests 1 800 thousand ha in total area (two thirds of the total forest area).

By 2002, there had already been eleven national certification systems, incl. the Czech Republic, approved by the Pan European Forest Certification Council based in Luxembourg.

Summary of statistics and estimates (1000 m3)

Country: Czech Republic

Product	Year	Production	Imports	Exports	Apparent consumption
Sawnwood, coniferous	2002	3,500	248	1,394	2,354
	2003	3,535	230	1,420	2,345
	2004	3,540	230	1,425	2,345
Sawnwood, non-coniferous	2002	300	133	54	379
	2003	295	130	50	375
	2004	295	130	50	375
Sawlogs and veneer logs, coniferous	2002	7,540	372	1,566	6,346
	2003	7,516	380	1,548	6,348
	2004	7,560	382	1,540	6,402
Sawlogs and veneer logs, non-coniferous	2002	533	85	48	570
	2003	551	90	50	591
	2004	560	95	55	600
Pulpwood (round and split),coniferous	2002	4,460	412	439	4,433
	2003	4,610	500	550	4,560
	2004	4,675	500	560	4,615
Pulpwood (round and split), non-coniferous	2002	621	121	249	493
	2003	620	120	280	460
	2004	625	110	280	455
Veneer sheets	2002	14	24	18	20
	2003	14	24	16	22
	2004	15	24	17	22
Plywood	2002	139	71	111	99
	2003	145	70	115	100
	2004	150	70	118	102
Particle board	2002	874	256	502	628
	2003	892	250	480	662
	2004	910	250	490	670
Fibreboard	2002	82	260	96	246
	2003	84	260	98	246
	2004	84	260	98	246

Production (removals) of wood in the rough (1000 m3) Country: Czech Republic							
Product	Year	Industrial roundwood				Wood fuel	Total
		Total	Sawlogs Veneer logs	Pulpwood	Other		
Total	2002	13,534	8,073	5,081	380	1,007	14,541
	2003	13,687	8,067	5,230	390	1,030	14,717
	2004	13,810	8,120	5,300	390	1,035	14,845
of which:	2002	1,174	533	621	20	357	1,531
non-coniferous	2003	1,191	551	620	20	340	1,531
	2004	1,205	560	625	20	345	1,550

3. Tables

Selected economic indicators

Country: Czech Republic

Indicator	**Percentage change compared to previous year**			
	Actual			Estimate
	2000	2001	2002	2003
Gross domestic product (1995 constant prices)	3.3	3.1	2.0	2.2 - 3.0
Industrial production (2000 constant prices)	5.4	6.8	4.8	
of which:				
- woodworking industry	15	5.3	6.1	
- pulp, paper and printing industry	1.5	1.0	2.8	
Construction (2000 constant prices)	5.3	9.6	2.5	
External trade (FOB/FOB, current prices)				
of which:				
- Imports	27.6	11.6	-4.3	
- Exports	23.4	13.2	-1.4	