STATEMENT

submitted by the Delegation of **Germany**
to the **sixty-first session of the ECE Timber Committee**
Geneva, 7 - 10 October 2003

Federal Ministry of Consumer Protection, Food and Agriculture, Bonn

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1. General economic trends affecting the forest industries sector

The year 2002 initially saw a cautious economic recovery which then slackened off in the course of the fourth quarter. The average real gross domestic product (GDP) in 2002 was 0.2% higher than the year before. The upswing was obviously slowed down by the negative economic mood – not least in connection with the smouldering crisis in the Middle East – and the delayed recovery in the United States.

The preliminary figures of the Federal Statistical Office for the second quarter of 2003 show that the expected onset of an economic upturn had not taken place by then. According to these figures, the GDP in the first quarter of 2003 was slightly below that of the quarter before (-0,1% after seasonal adjustments and adjustments for price rises). Individual data show that the economic growth was slowed down by weak exports due to the repercussions of the war in Iraq and the high exchange rate of the euro. But the domestic economy also lacked growth impulses. Private consumption and capital expenditure on machinery and equipment were stagnating. The overall economic performance in the first half of 2003 was about the same as the year before (real GDP –0.1%). The employment situation continues to be difficult. There are still significantly more than four million people out of work.

Individual data also underline that the macroeconomic stagnation has not yet been overcome. But the leading indicators determined from survey results offer some clear rays of hope for the potential onset of an economic recovery in the course of the last third of this year.

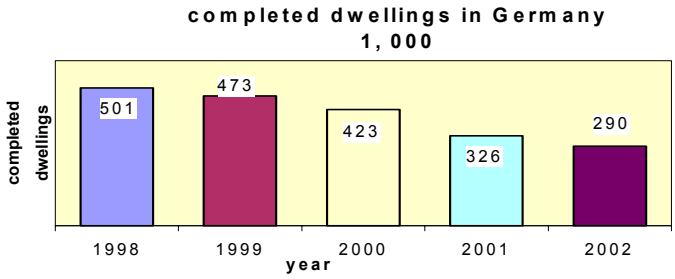
- All in all, industrial production and the intake of orders showed a downward trend until the month of June. But the general mood in the industrial enterprises has brightened up again: In August, the *ifo* poll on business climate (www.ifo.de) improved for the fourth time in a row which normally indicates a turnaround of the economy. More recently, the better mood in the entire economic sector cannot only be attributed to the more optimistic expectations but also to a slightly better assessment of the current situation.

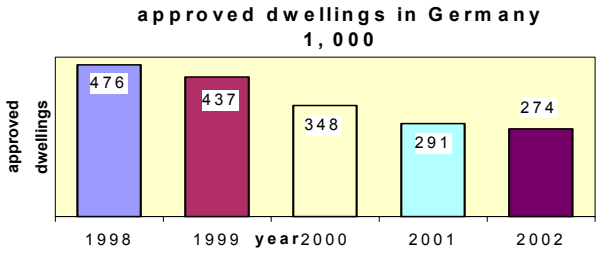
- The exportation of goods, for quite some time an essential support for economic activity, has shown a slight downward trend in recent months. The continuously weak worldwide economic activity and the high exchange rate of the euro have obviously made foreign business more difficult. The strong increase in exports experienced in May was followed by a significant decrease in June (–2.5% against the previous month due to seasonal influences) though it should be noted that total exports between January and June 2003 were 2.1% higher than the year before.

In general there are chances that the wait-and-see attitude of consumers and investors might slowly disappear. The prospects for a recovery of the German economy in the second half of 2003 therefore seem to be rather good.

The favourable macroeconomic environment also gives reason to believe that an economic recovery may be imminent: signs of a worldwide economic recovery, moderate oil prices and a slight increase in unit labour costs within the country, better chances of profit for enterprises, low short- and long-term nominal interest rates as well as stable prices. Another revaluation of the euro might put a break on the export dynamics but, on the other hand, would also lower the price and cost level within the country. A strong economic impetus can also be expected by the planned acceleration of the German tax reform (next step in 2004 instead of 2005).

As in the past, the **construction industry** will exert a great influence on timber sales in the future. It is estimated that approximately two thirds of annual forest cuts in the form of sawnwood, boards and constructional elements go towards this economic sector.





Intensive marketing activities are also designed to help revive timber sales, inter alia, in the building industry. The **German Timber Sales Promotion Fund** (www.haf.de) is of key importance in this context.

The Timber Sales Promotion Fund meets the statutory task of centrally promoting the sale and the use of products made by German forestry and forest industries. For this purpose, around € 11 million are made available annually. Apart from advertising and public relations, market and marketing research, expert advice for timber construction and product research number among the principal marketing instruments.

The continuing bad economic condition of the building industry and the consumer reluctance in other economic sectors have a negative effect on the demand for wood and wood products. In light of the worsening framework conditions, timber sales promotion therefore primarily aims at concentrating promotion measures on the areas of building, housing and living and at drawing the attention of potential builders and consumers to timber as an environmentally friendly building material.
Another core activity is the conceptual reorganisation of the regional and national expert advice for timber construction. The Timber Sales Promotion Fund ensures that architects, supporting structure planners, builders and institutions of higher education get continuous and high-quality advice on the possible uses of timber in the construction industry.

2. Developments in forest products market sectors

A. Value-added forest products and engineered wood products

The general economic situation also affected the situation of the timber and paper industries. With approximately € 81 billion in 2002, sales declined by 6% against the previous year. Particularly hard hit were timber retailers and the furniture industry. The number of people employed in the timber industry decreased from approx. 605,000 to approx. 560,000 (–7.5%) while the number of enterprises remained about the same.

The decrease in sales continued in the first half of 2003 and affected both the particularly important sector of the furniture industry and timber trade. However, the German timber and furniture industry sees first indications of a possible end to the negative trend from the fall of 2003. But a real turnaround, which might boost sales in this sector for the first time since 2000, is not expected before 2004.

B. Certified forest products

With approx. 7 million hectares, about 65% of the total forest area in Germany have now been certified according to the certification systems of the Forest Stewardship Council - FSC (www.fsc-deutschland.de), the Pan-European Forest Certification - PEFC (www.pefc.de) and the *Naturland* guidelines (www.naturland.de). An ongoing upward trend can be observed but seems to be less dynamic than in previous years.

Certified forest areas in Germany

Certification system	Certified areas (ha)	Percentage of total forest area (%)
FSC	447,035	4.2
PEFC	6,497,509	60.5
Naturland	56,429	0.5

Yet, the expenditure involved in verifying the chain of custody still only allows a comparatively minor percentage of certified finished products to enter the market. This is also indicated by the relatively low number of chain of custody certificates. Great efforts are therefore being made to shape the chain of custody system in a more feasible manner.

Chain of Custody Certificates in Germany

Certification system	Certificates
FSC	197
PEFC	333
Naturland	-

If a change in consumer behaviour is to be provoked, the quantity of certified end products plays an essential role as it is decisive for the degree of familiarity with the respective certification system. Regulations governing the procurement of certified products are also dependent on a great supply of certified end products.

The coalition agreement of governing parties of September 2002 provides, among other things, that the Federal Republic, within its remit, is to procure tropical timber according

to FSC with immediate effect and all other timber according to FSC over the course of the present parliamentary term. A similar regulation for the procurement of wood and wood products is currently being worked out. In this context it has become clear that the procurement law does not allow the naming of a particular certification system. It was therefore decided to define certain criteria aiming at FSC requirements which are currently being discussed in detail.

In the context of certification, the issue of "illegal logging" is increasingly gaining in importance. It can be assumed that certified wood products can also make a key contribution to controlling illegal logging. Yet, the success here depends again on whether certification schemes can be shaped in a practicable way. In view of the hardly curbed forest destruction in many regions of the world it would be desirable for certified wood products to enter the markets successfully in the near future.

C. Sawn softwood

With approx. 16 million m^3, the production of coniferous sawnwood in 2002 was about 6% over that of the previous year. A stagnation has been anticipated both for the current and the following year. With regard to foreign trade, the trade association expects a slight reduction in imports and a significant rise in exports. In the course of 2002, the producer price index dropped from 89.8 to 89.4 points (1995 = 100).

D. Sawn hardwood (temperate and tropical)

With 1 million m^3, the production of non-coniferous sawnwood in 2002 was again significantly below the previous year's level. In this sector as well, the trade association expects a stagnation in 2003 and 2004. Foreign trade is also expected to slacken.

E. Wood-based panels (particle board, fibreboard and MDF, OSB, plywood)

Plywood production plunged further to 270,000 m^3 (–14%) in 2002. In this product area, foreign supplies play a far greater, and ever increasing, role than domestic production. In foreign trade, a slight increase in imports and a further decline in exports is expected.

Particle board production decreased by approx. 4% to 9.5 million m^3 in 2002. A further slight decrease is anticipated for the current year, followed by a significant increase in 2004. The foreign trade surplus could be consolidated.

F. Pulp and paper

In 2002, the production of mechanical pulp (1.25 million t) and chemical pulp (0.9 million t) amounted to a total of approx. 2.1 million t (+2%). During the period of reference, pulpwood consumption (industrial wood, wood residues) rose by 4% to 7.2 million m^3. If the pulp manufacturing plant in Stendal will be able to take up production as planned by the end of 2004, pulp production is likely to rise to almost 1.5 million t per year. It is to be expected that this will also lead to a rise in demand for wood.

With a production of 18.5 million t of paper, paper board and cardboard (+4% against the previous year), the German paper industry remained the by far largest paper producer in Europe. This growth could primarily be attributed to increased exports (approx. 9.5 million t of paper exported, i.e. +9% against 2001). About 70% of these exports went to EU markets, 12% to Eastern European countries and the rest overseas. A similar increase in exports has been expected for 2003. The export growth can be attributed to the globalisation of the German paper industry (successful international positioning of small- and medium-sized companies in market niches and the increased integration of German factories into multinational corporate groups).
In 2002, more than 12 million t of waste paper were utilised (+4% against 2001). As this increase corresponded with the rise in paper production, the waste paper utilisation rate remained at the same high level of 65%.

G. Wood raw materials (e.g. roundwood including sawlogs and pulpwood)

In the forestry year 2002, roundwood logging in the Federal Republic of Germany amounted to a total of 42.379 million m^3 (+7.3%). This included 21.089 million m^3 of coniferous logs, 3.375 million m^3 of non-coniferous logs and 17.933 million m^3 of other types. This increase was primarily due to the increased felling of coniferous logs (+15.8%) and other types (+5.3%) while the felling of non-coniferous logs decreased by 20.9%.

The movement of prices for roundwood is shown in the producer price index for forest products from state forests in Germany. According to the 2002 index, roundwood slightly decreased by 1.1% to 86.7 points. This can probably be attributed to falling prices for logs of all species and types but particularly also to windfall timber sales from wet timber preservation yards. The index only shows price increases for beech rail (+2.3%), industrial oak (+21.7%) and industrial spruce (+0.1%) against 2001.

The situation of the German timber market in 2002 is clearly demonstrated by the development of logging and the price indices. The overall economic situation, the situation of the construction industry and the reduction of stocks in wet timber preservation yards

following the gale "Lothar" still affected the timber market and the economic situation of the German forest enterprises in 2002. Towards the end of the forestry year, a clear rise in demand for freshly-felled coniferous logs and industrial wood led to a normalisation of the situation and to slightly increased prices of coniferous logs.

This situation continued in the current forestry year 2003. As a consequence of the long drought, business has been hampered by a considerable accumulation of beetle-damaged timber since the summer months not only in southwestern Germany but also in North Rhine-Westphalia.
To ease the pressure on the market, fresh wood cutting has already been stopped in the Baden-Württemberg state forest. Most contractual obligations are fulfilled with the help of beetle-damaged timber. But due to the high accumulation, it is to be expected that contracts to exclusively provide beetle-damaged timber will be concluded.
A drop in prices has already become apparent and the market for coniferous logs is currently described as rather confusing.

Energy recovery is of increasing importance to the sale of forest products. With the Renewable Energy Sources Act (*Erneuerbare-Energien-Gesetz; EEG*) the conditions for the generation of power from wood have improved. In view of the current compensation rates, particularly low-cost **recovered wood** can be used economically for the generation of power within the scope of the EEG. So far, the compensation rates for power generation from raw wood (forest thinnings and wood residues) are insufficient.
The EEG is currently being amended. The amendment is aimed at improving the energy use of wood by way of higher compensation rates.

Please find further information on the following topics at the internet sites listed below:

www.bmvel.de
www.infoholz.de
www.holz.de

3. **Tables**

A Economic indicators

Country: Federal Republic of Germany

	2001 (actual)	2002 (actual)	2003 (forecast)	2004 (forecast)
	(%age change on previous year)			
Gross Domestic Product[1)]	+ 0,8	+ 0,2	+ $^{3}/_{4}$	+ 2
Industrial production[1) 2)]	- 0,7	- 0,1	+ 1	+ 3
Construction investment[1)]	- 4,8	- 5,8	- $1^{1}/_{2}$	- 1
of which:				
- new dwellings (completions)	- 6,2	- 5,8	- 2	- ½
- new non-dwelling construction	- 2,8	- 6,0	- 1	- 2

[1)] Constant prices of 1995
[2)] Industry excluding construction
Source: Spring Forecast 2003, Federal Ministry of Economics and Labour (Germany)

B Enterprises, workers and turnover in the German timber and paper industry

Economic sector	Notes	Enterprises		Workers		Turnover - million €-	
		2001	2002	2001	2002	2001	2002
wood processing [1)7) 9)]		2508	2364	47782	44317	8550	8406
-sawmills [2)]		2229	2099	27255	25307	4342	4185
-wood-based panel production		279	265	20527	19010	4208	4221
Secondary wood processing [3) 9)]	excluding wood and upholstered furniture manufacturing	976	904	64508	57867	8078	7643
Furniture industry [3) 5)9)]	also from materials other than wood	1334	1276	152251	141749	21629	19362
Woodcraft industry [4) 7)]	excluding furniture-manufacturing, excluding timber-related building crafts	14453[8)]	14510[8)]	59244	54552	4555	4227
Furniture manufacturing crafts [4) 5) 7)]	also from materials other than wood	7656[8)]	7748[8)]	34731	34365	2587	2293
Timber-related building crafts [1) 7)]		28857[8)]	28959[8)]	151830	135970	10918	10165
Timber wholesale trade[6) 7)]		4431[a)]	4431[a)]	47651	44230	15459	14534
Pulp and paper production [1) 7)9)]		279	277	47173	46670	14445	14276
Total forest industries [7)]		60488[8)]	60469[8)]	605170	559720	86221	80906

1) businesses with one or more workers

2) sawmills with 5,000 cubic metres of roundwood (solid measure) or more annual removals

3) businesses with 20 or more workers, including craft businesses

4) businesses with 1 to 19 workers

5) excluding mattress production

6) businesses with a minimum turnover of EURO 12 782

a) 1 626 of which are accounted for by the trademark number 51.53.1

7) partly estimated

8) craft undertakings in 1994 in accordance with the 1995 craft census

9) monthly report as of 1997 refers to the reported group which was expanded by units of the 1995 craft census

*) **divergences from earlier results can be explained by the corrections applied meanwhile due to actual surveys**

Source: Federal Statistical Office/ Federal Ministry of Consumer Protection, Food and Agriculture (532)