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MARKET STATEMENT OF THE CZECH REPUBLIC

1. General economic trends

The year 2003 had been already the fifth running to see the growing performance of the Czech economy. Gross domestic product accelerated its growth rate year-on-year and other important economic indicators, outputs in industry, construction, transport and other services, exports and imports in external trade, also increased considerably. GDP for 2003 increased by 2.9% year-on-year (at constant prices of 1995). In 2002 it grew by 2.0%.

Industrial output rose by 5.8% in 2003, its development being relatively stable in the individual quarters. The growth of sales was heavily affected by direct exports of which foreign controlled corporations took over a 70% share. These corporations already gained decisive weight in the manufacture of transport equipment, of electrical and optical instruments, of rubber and plastic products, and of pulp, paper and paper products, in publishing, and in other areas. The volume of new orders signed in selected industries was 8.1% up on the year 2002, of which non-domestic orders grew by 8.8%.

The output of manufacturing grew at the same rate as the total output of which it accounted for 82%. Manufacture of wood and wood products in 2003 was higher by 5.7% year-on-year and manufacture of pulp, paper and paper products and publishing increased by 9.5%, all at constant prices of 2000.

The year 2003 was also very favourable as far as financial performance results of industrial enterprises are concerned. Gross profits of large enterprises (with 100+ employees) were 12% up on the year 2002, and their profit-to-cost and profit-to-own capital ratios got better, too.

In the first half of 2004, industrial output was 10.8% higher (at constant prices of 2000) than in the corresponding period of 2003. Of the 10.8% increase, the manufacture of wood and wood products and the manufacture of pulp, paper and paper products plus publishing grew by 8.6% and 9.1%, respectively.

Construction output was growing at a high rate in 2003, especially in the 2nd quarter. The volume of construction work increased by 8.9% year-on-year in real terms. The favourable development was mainly due to (i) a considerable concentration of work carried out on large construction projects of building and civil engineering, (ii) housing construction fuelled by developments in the mortgage-credit and saving-in-building-society markets, and (iii) the level of interest rates. The number of the mortgage credits granted increased by 49.3% compared to 2002. The development was further influenced by expected changes connected

with the accession of the CR to the EU. About 85% of construction work in enterprises with 20+ employees was done on new construction, reconstruction and modernization. The percentage of repair and maintenance work stood at more than 14% of the total.

Construction output in the first half of 2004 grew by 17.0% (16.1% in the first and 17.5% in the second quarters). This growth was affected markedly by (i) the intensive continuation of work on transport infrastructure constructions, (ii) development of new projects of trade and administrative centres, (iii) enlarged extent of work on housing construction, and (iv) implementation of production and non-production constructions for foreign investors. About 85% of the construction work came under new construction, reconstruction and modernization.

In external trade in 2003 exports grew by 9.3% to CZK 1 370 930 million and imports by 8.7% to CZK 1 440 723 million year-on-year (at current prices CIF/FOB). Total trade deficit amounting to CZK 69.793 billion increased by CZK 3.8 billion.

Trade in chemicals, machinery, transport equipment, and consumer goods in particular continued its long-term growth. Territorially, trade surplus increases were recorded for trade with the EU member states (by CZK 35.0 billion), whereas trade deficit grew in trade with developing economies (by CZK 11.3 billion), China (by CZK 10.2 billion) and Russia (by CZK 4.7 billion).

External trade prices were dropping year-on-year in the first months of 2003. They started growing from the second quarter (export prices) and the 2nd half (import prices). Over the whole year, however, their movement was rather non-distinct: import prices dropped by 0.3% and export prices rose by 0.9%. In 2002, the price changes were much bigger: the prices dropped by 8.5% and 6.7%, respectively. One of the reasons of this different development in 2003 was also the influence of the exchange rate of the Czech *koruna* to foreign currencies.

Import prices for 2003 remained slightly below their level in 2002. This is a significant change because the year 2002 saw a much bigger price drop. Export prices, too, experienced marked year-on-year price shifts when their considerable drop in 2002 changed for a mild price growth in the following year. In 2003 the price level of almost all measured groups increased. In annual averages the export prices has been surpassing the import ones since 2001 and the terms of trade thus maintain their positive values.

Generally, the import price index and the export price index increased in the first half of 2004 by 0.9% and 3.2% year-on-year, respectively. Of this, the import price index of wood and products thereof (according to the Harmonized System nomenclature) increased by 0.8% and that of pulp, paper, paperboard and products thereof decreased by 3.4%. The export price indices of wood and products thereof and pulp, paper, paperboard and products thereof decreased by 0.9% and 1%, respectively.

The accession to the European Union made it possible for the Czech Republic to incorporate into the largest free trade zone in the world and improve conditions for trading. After the removal of customs barriers and the shift of customs frontiers, the Czech Republic became part of the enormous internal market of the enlarged European Union with the population over 452 million. The development of the external trade was thus affected by number of new (administrative and economic) factors.

The change in the trading conditions became evident in the first half of 2004 in the favourable development of the external trade, which was characterized especially by:

- high export and import growth rates which translated into reaching the record-breaking value of external trade turnover. In January to June, exports grew by 21.6% (CZK 145.5 billion) and imports by 20.2% (CZK 139.8 billion). External trade turnover thus increased by 20.9% and was CZK 1 650.2 billion. In terms of the euro, exports increased by 18.4% and imports by 17.1%, while in terms of the US dollar they increased by 31.2% and 29.7%, respectively (all year-on-year);

- a slight lead of the growth rate of exports on the growth rate of imports. Imports still prevailed over exports, but the difference was diminishing. The CZK 11.7 billion external trade deficit was down by CZK 5.7 billion year-on-year;

- changes in the territorial structure of the external trade. These were heavily influenced by the accession of the CR to the EU. In the first half of 2004, the EU-25 member states accounted for 86.8% of the total value of exports and for 73.9% of the total value of imports; the corresponding figures for the European transitive economies were 2.0% and 0.6%, respectively;

- movements in the commodity structure of the external trade. Imports increase year-on-year in all SITC sections;

- different ways of collecting data and changes in the methodology and legislation before and after the accession of the CR to the EU – these considerably affected the external trade statistics. The data collection system for a prevailing part of the external trade changed in principle.

2. Policy measures, which might have a bearing on trade and markets of forest products or forest management

Resolution of the Government of the Czech Republic No. 53 of 13 January 2003, on the National Forestry Programme assigns the agriculture, environment, industry, trade and other ministers to take account of the Programme's intentions when implementing medium term policies in their departments and recommends that the agriculture minister should update in cooperation with the environment minister the Programme after 2006 according to the current development of forests an forest management.

The programme measures concerning the production and use of wood consist in enforcing sustainable forest management principles to ensure the permanency and safety of wood-producing and non-wood-producing effects and the re-assessment of forestry legal regulations with the aim to accomplish this objective. Raising the level of production, consumption and exports of wood and paper commodities with a higher degree of processing belongs to one of the most significant issues in this area.

3. Development in forest products markets sectors

A. Wood raw material

In 2003, removals of wood raw material increased on the previous year by 4.1% to 15 140 thousand m^3. Production of industrial wood grew by 3.1% to 13 960 thousand m^3 and that of fuel wood increased by 17.1% to 1 180 thousand m^3. Softwood prevails (90.2%, 13 660 thousand m^3) in the total production of wood raw material. Hardwood accounts for 1 480 thousand m^3. The industrial wood amounting to 13 960 thousand m^3 includes 59.3% of sawlogs (8 605 thousand m^3) 33% of pulpwood (4 965 thousand m^3) and 2.7% of other wood.

In 2003, removals of coniferous sawlogs and veneer logs increased by 7.5% to 8 108 thousand m^3, imports dropped by 17.5% to 307 thousand m^3 and exports rose by 37.6% to 2 155 thousand m^3 year-on-year.

As in the previous years, Austria was the main purchaser of coniferous sawlogs and veneer logs in 2003. The Austrian market developed a high demand for first-rate coniferous roundwood in the second half of 2003. This situation in Austria arose as a result of violent windstorms between October 2002 and January 2003 as these left behind over 5 million m^3 of breakage and the following extremely dry and hot summer when the breakage wood was attacked by pests. In response to the inquiry made in the Austrian market, deliveries of coniferous sawlogs and veneer logs from the Czech Republic were raised. A smaller proportion of these goods was exported to Germany.

In comparison with 2002, removals of non-coniferous roundwood decreased in 2003 by 6.7% to 497 thousand m^3, imports grew by 42% to 121 thousand m^3, exports decreased by more than half to 27 thousand m^3, and consumption increased by 3.6% to 591 thousand m^3.

In comparison with 2002, removals of pulpwood decreased in 2003 by 2.3% to 4 965 thousand $m^3$of which removals of coniferous pulpwood grew by 0.7% to 4 492 thousand m^3 and removals of non-coniferous pulpwood dropped by 23.8% to 473 thousand m^3. In the pulpwood trade, imports of coniferous pulpwood dropped by 60% to 162 thousand m^3. The coniferous pulpwood is imported by the pulp and paper industry for production of pulp; these imports have had a downward trend since 1998, as more and more of this material is used from domestic sources. The exports increased by 21.4% to 533 thousand m^3 and domestic consumption decreased a little. Imports of non-coniferous pulpwood dropped to 7 thousand m^3 and exports increased by 3.6% to 240 thousand m^3.

In trade with industrial roundwood, the year 2003 saw imports of the roundwood down by 40% at 597 thousand m^3 and exports up by 28.3% at 2 955 thousand m^3, compared to 2002.

B. Wood energy

Resolution of the Government of the Czech Republic No. 53 of 13 January 2003, on the National Forestry Programme includes in its programme measures the re-assessment of the possibility to contribute with deliveries of lower-quality wood and wood waste to energy purposes of the Czech Republic, as well as the assessment of preconditions and possibility to

raise the production of wood by growing fast-growing tree species in a plantation way on agricultural land and on areas reclaimed after coal mining, supported in the framework of the National Programme on the Support of Energy Saving and the Use of Renewable Energy Sources.

C. Certified forest products

In the Czech Republic, the area of forests certified according to the Pan European Forest Certification (PEFC) totalled 1 909 747 ha, which is approximately 72% of the total forest area in the Czech Republic. At present, small municipalities and small forest owners in particular are getting involved in the forest certification.

Along with the forest certification, certification of wood and pulp and paper products is under way in the consumer chain. As at 31 December 2003, the companies were issued 59 individual and group certificates according to the PEFC system and 12 certificates according to Forest Stewardship Council (FSC) system.

D. Value added wood products

In terms of value (CZK million FOB/FOB, current prices), trade in value-added wood products recorded (i) a drop of 6.1% to CZK 582 million for imports and an increase of 17.1% to CZK 883 million for exports in the assortment of further processed sawnwood, (ii) an increase of 19.6% to CZK 714 million for imports and an increase of 5.6% to CZK 2 456 million for exports in the assortment of wooden wrapping and packing equipment, (iii) an increase of 24.5% to CZK 1 789 million for imports and a decrease of 1% to CZK 3 886 million in the assortment of builder's joinery and carpentry of wood, and (iv) an increase of 18.1% to CZK 5 391 million for imports and an increase of 0.4% to CZK 6 898 million for exports for the assortment of wooden furniture.

The trade in these assortments of value-added wood products is expected to grow further in 2004 and 2005.

E. Sawn softwood

Production of sawn softwood in 2003 remained practically at its 2002 level – it increased slightly to 3 502 thousand m^3. In the sawn softwood trade, imports grew by 3.2% to 256 thousand m^3 and exports by 1.3% to 1 413 thousand m^3. Both export and import prices were generally higher. Domestic consumption was slightly lower, 2 345 thousand m^3. (All year-on-year.)

In 2003, sawn softwood was imported from Germany, Russian Federation and Slovakia and exported mainly, about 80%, to European destinations (Austria, Germany and Great Britain) and overseas (the USA, Japan and Australia).

In May 2004, a new sawmill of Mayr-Melnhof Holz GmBH was opened in the municipality of Paskov not far from the town of Ostrava. Production capacities: sawing 1 million m^3 of

coniferous roundwood in the final stage of construction, planing 250 000 m^3, drying 380 000 m^3. Sawn softwood will be supplied to the domestic market and traditional markets in Europe and overseas. A decrease in exports and an increase in imports of coniferous roundwood are expected in connection with ensuring raw material, coniferous roundwood, for this new production capacity.

The estimate of sawn softwood production in 2004 counts with the lowest variant, 3 600 thousand m^3 – i.e. an increase of 2.7% on the year 2003, which is likely to be overcome. The raw material, coniferous roundwood, for the higher production of sawn softwood should be obtained by another reduction in exports of coniferous roundwood than it is given, i.e. 1 675 thousand m^3.

F. Sawn hardwood

Production of sawn hardwood in 2003 increased by 1% to 303 thousand m^3; imports decreased by 15% to 113 thousand m^3 and exports by 24% to 41 thousand m^3, and domestic consumption remained at its 2002 level (375 thousand m^3). Imports and consumption of tropic wood increased by 100% to 6 thousand m^3 both.

G. Wood-based panels

Veneer sheets

In 2003, production of veneer sheets increased by 21.4 % to 17 thousand m3, imports dropped from 24 to 21 thousand m3 and exports and consumption remained at 2002 level, 18 and 20 thousand m3, respectively.

Plywood

Plywood saw a decline in 2003 compared to 2002 in both production (by 8.6% to 127 thousand m^3), imports (26.7% to 52 thousand m^3), exports (26.1% to 82 thousand m^3) and consumption (only 2% to 97 thousand m^3). They were imported from Finland and other European countries and exported to Germany, Austria and Italy in particular.

Based on the first half of 2004 data, production of plywood is expected to increase by 10.2% to 140 thousand m^3, imports by 1.9% to 53 thousand m^3, exports by 13.4% to 93 thousand m^3, and consumption by 3% to 100 thousand m^3 – all compared to 2003. Another year-on-year increase in production, exports and consumption should occur in 2005.

Particle board

Records made for particle board in 2003 show that the production increased by 27.3% to 1 113 thousand m^3, imports decreased by 16.5% to 214 thousand m^3, exports increased by 3.5% to 520 thousand m^3, and consumption increased by 28.5% to 807 thousand m^3 year-on-year.

Production of particle board in 2003 is the figure of the Czech Statistical Office and includes all kinds of particle board according to the harmonized system, including particle board of other ligneous materials, not of wood (HS 441090) and data on surface treatment of purchased particle boards (with melamine resin HS 441032 or decorative laminate HS 441033). In the previous years, including 2002, these data were not included in production of particle board from the point of view of monitoring the balance of wood substance. The rising number of enterprises which purchase and surface particle board with melamine resin or decorative laminate makes the monitoring of the balance of wood substance difficult.

In 2004, the production should rise by 0.6% to 1 120 thousand m^3, imports should remain unchanged, and exports are expected to rise by 13.4% to 590 thousand m^3, compared to 2003. Consumption is expected to drop by 7.7% to 745 thousand m^3. The year 2005 should see a rather small increase in production, the same level of imports and a small increase in consumption in comparison with 2004.

Fibreboard

Of the assortment of fibreboard, only MDF board is manufactured. In 2003 the production grew by 7.3% to 88 thousand m^3 year-on-year. All the fibreboard assortment – hardboard, MDF board and insulating board – is both imported and exported. Total imports of fibreboard dropped by 13.8% to 224 thousand m^3, exports dropped by 15.7% to 81 thousand m^3, and a decrease was also recorded for consumption, by 6% to 231 thousand m^3. Fibreboard was imported mainly from Germany, Austria and Poland and its largest exports went mainly to Poland, Slovakia and Finland.

In 2004, the production should rise by 1.1% to 89 thousand m^3, and no changes are expected in imports, exports and consumption. No changes are forecast in 2005 compared to 2004.

H. Pulp and paper

Production of wood pulp in 2003 grew by 2.3% year-on-year to 718 thousand tonnes. Imports increased by 8.7% to 174 thousand tonnes, over 80% of the imported quantity being bleached sulphate chemical pulp. Exports went up by 1.5% to 335 thousand tonnes and bleached sulphite chemical pulp made up 70% of total quantity. Production of other pulp, i.e. of pulp from fibres other than wood and from recovered fibres, increased from 1 thousand tonnes in 2002 to 3 thousand tonnes. Consumption of paper recovered for pulp production grew by 1.8% to 386 thousand tonnes, imports fell by 12% to 36 thousand tonnes and exports rose by 6% to 140 thousand tonnes.

Europe was the main destination for both imports and exports of wood pulp in 2003. Only 14% of imports was from overseas, especially from the USA and (a smaller part) from Canada. Exports to countries outside Europe (where Germany, Austria, Slovakia and Slovenia prevail), to Asia stood at about 4%. Imports and export prices of wood pulp were lower than in 2002.

In the first half of 2004, wood pulp production maintained its upward trend - it grew by 1.4%. It is expected to rise by 1.4-2% over the whole 2004 and this trend should also be in 2005. Year-on-year increases in imports and exports of wood pulp in 2004 are expected at values as in 2002 and the same is expected for 2005.

In the assortment of paper and paperboard, the year 2003 saw the production increased by 5,7% to 920 thousand tonnes; imports and exports grew by 22.8% to 823 thousand tonnes and 19% to 681 thousand tonnes, respectively. Traditionally, imports are higher than exports. Import and export prices of paper and paperboard were generally lower in 2003 than in the previous year.

In 2004, 3-4% year-on-year increases are expected in production, imports, exports and consumption, which should occur in 2005.