STATEMENT

submitted by the Delegation of **Germany**

to the **62nd session of the ECE Timber Committee**

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Federal Ministry of Consumer Protection, Food and Agriculture

1. Economic development

The German economy has seen an upward swing since mid-2003. Initial estimates show a 1.88% growth in real GDP in the first six months of 2004. Production capacities have been slightly better utilised for the first time in 3 years, signalling an end to a three-year-long phase of low economic growth. The upward swing has been driven by exports from German industry and thus by the global economic growth which continued at a high rate in the first six months of 2004.

Demand for German products increased significantly in the first six months of 2004. Allowing for seasonal adjustments, orders received in the second quarter rose by 1¾% over the first quarter.

Production levels and order books indicate an upward trend. In the first six months of the year, production was up by 3.4% compared with the same period in the previous year. Foreign orders received in the first six months of the year were 9.1% higher than those received in the same period in the previous year. Deliveries to EU countries were particularly strong in 2003. This is due to the economic upswing in the EU area and German producers' improved competitiveness due to price increases on the domestic market staying low. There were also further rises in exports to Central and Eastern Europe and in deliveries to Russia and China, where economic expansion has continued apace. Exchange rates forced a decline in exports to the US, however.

Domestic demand resulted in only marginal growth in the first six months of 2004. Nevertheless, seasonally adjusted domestic orders rose by 3.5% compared with the same period in the previous year. This signals an end to the period of weak economic growth. But despite economic upswing and better financing conditions, the figures show that investment remains low. One of the main causes is the continued slump in construction, where the long-standing downward trend continued into the first six months of 2004. According to current figures, and after seasonal adjustment, production in the primary construction industry in the second quarter is some 5.8% lower than the already poor first quarter results. Investment in plant and equipment remains in a state of stagnation. In 2003, the number of completed dwellings in Germany dropped to 268,000 units compared with 290,000 in the previous year (a drop of 7.6%). By way of contrast, the number of dwellings approved in the same period increased slightly from 274,000 to 297,000 (a rise of 8.4%).

Private households have remained extremely hesitant when its comes to consumer spending. The causes are the difficulties on the jobs market, only moderate pay developments, and limitations on actual purchasing power brought about by an increase in the price of consumer goods (e.g. higher energy costs due to the strong increase of oil-prices; higher taxation on tobacco).

With some 4.35 million unemployed, the situation on the jobs markets remains difficult (status: late August 2004). The unemployment rate lies at 10.5%. Numerous jobs have been lost in industry and construction, either as a result of downsizing or due to the recent stagnation phase. A range of structural reforms of the Federal Government serve to effect a turnaround in the jobs market (e.g. restructuring of Federal Employment Services to enhance efficiency and to make them a modern employment services provider; establishment of private personnel agencies to assist in finding new jobs; new rules on marginal employment by mini/midi jobs; tightening of the rules on what can be deemed acceptable employment; combining unemployment and welfare benefits into a single needs-based basic benefit).

2. Developments in Forest Products Market Sectors

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

In 2003, a total of 51.2 million m^3 of wood raw materials were used in Germany, representing a nearly 21% increase. Of these, 26.9 million m^3 was in softwood, 3.7 million m^3 in hard wood, and 20.6 million m^3 in other types of wood. The dramatic increase was largely in soft roundwood (+28%), with over-exploitation of wood (damaged by insects and draught) occurring due to the extremely hot and dry summer.

Trends in wood raw material prices are shown in the Product Price Index for forest products from Germany's national forests. For raw wood in general, the 2003 Index indicated a slight reduction, down to 97.4 compared with 98.8 in the previous year. The main reason is probably the drop in prices for roundwood from all timber groups and types (the exception being pine B/EEC +4.9) caused by the high proportion of over-exploited wood. Compared with 2002, the Index also shows price increases for all types of industrial timber (+2.6%), industrial oak (+33.3%), industrial beech (+ 0,8%), industrial spruce-fir (+ 3.6%) and industrial pine (0.7%).

The situation in Fiscal Year 2003 was heavily influenced by the long periods of heat and draught during the summer months. The result was a high proportion of over-exploited wood which was damaged by insects and draught. Southern Germany and North Rhine-Westphalia were particularly badly affected. To relieve the market, fresh logging operations were restricted in state-owned forests in Baden-Württemberg. Over-exploited wood was marketed by channelling it to existing advance orders. The greater the quantity, the lower the price – especially for soft roundwood.

Logging continued at a high rate in Fiscal Year 2004. Nevertheless, the share of over-exploited wood remained below that of the previous year. With high precipitation and what were generally

moderate temperatures, weather conditions in 2004 played a key role in the fact that, for the most part, the feared beetle infestation did not occur.

B. Wood processing industry

Following the 2.2% reduction in total sales in the German wood and furniture industries in 2003 (wood down 2.6%; furniture down 2.1%), the figures for this year again give cause for careful optimism. In the first six months of 2004, sales in the wood based industry rose by 4% to EUR 18.4 billion (up 0.7 billion). The furniture industry, a key market segment within this sector, achieved annual sales of EUR 10.1 billion in the first six months of 2004, representing a 1.5% growth over the previous year. And with foreign orders expected to rise by 1.5% (furniture) and by 6% (other processing sectors) respectively, the outlook is optimistic for 2004 as a whole.

In contrast to the general trend in the German construction industry, the timber construction sector was largely successful in 2003. With growth at almost 10%, Germany's pre-fabricated homes industry clearly profited from the construction of single and two-family dwellings. Annual sales in pre-fabricated timber construction increased to EUR 1.46 billion in 2003 – a 6% rise over the previous year. Prices remained more or less stable. The export sector is seen as a future growth market. At 5.1%, export quotas are currently twice those for 2000. With forecasts indicating significant growth for 2004 Germany's timber construction sector, compared with the construction industry in general, continues to boom.

Sawn softwood

In 2003, production of sawn softwood was around 16.7 million m^3, some 2.5% down on the previous year. An increase of around 3% is expected for both the current and the following years. In terms of foreign trade, the industry association expects a 4% increase in imports and a significant rise in exports, as in the previous year.
The Producer Price Index rose to 91.1 points in 2003 compared with 89.9 points in the previous year (100 in 1995).

Sawn hardwood (temperate and tropical)

Production of sawn hardwood in 2003 was around 1.1 million m^3 and matched the previous year. The industry association expects a slight increase in both the current and the following years. In terms of foreign trade, a slight drop in imports is expected for 2004 and 2005, with a marginal rise in exports.

Panel industry (plywood, particle board, fibreboard, MDF, OSB)

Compared with 2002, last year's production of plywood dropped further to 162,000 m^3 (–42%). In this product area, foreign supplies play an increasingly greater role than domestic production. In foreign trade, a slight increase in imports but also a slight increase in exports is expected.

Particle board production rose by approx. 4.3% to 9.2 million m^3 in 2003. A further slight increase is anticipated for the current year, followed by a slight drop in 2005. The foreign trade surplus could be consolidated.

Pulp and paper

In 2003, the production of mechanical pulp (1.35 million t) and chemical pulp (0.85 million t) amounted to a total of approx. 2.2 million t (+2% against previous year). During the period of reference, pulpwood consumption (industrial wood, wood residues) rose by 5% to 7.7 million m^3.

The new kraft pulp mill in Arneburg/Stendal will take up production as planned by the end of October 2004. Thus pulp production is likely to rise at least to almost 1.5 million t per year after reaching maximum output (production capacity until 600.000 t per year). This investment already had consequences on domestic pulpwood demand and pulpwood prices.

With a production of 19.3 million t of paper, paper board and cardboard in 2003 (+4.3% 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. 10.7 million t of paper exported, i.e. +7.3% against 2002). About 67% of these exports went to EU markets. As expected by most experts the exports to Eastern European countries rose by 24% to 1.5 million t. 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 2003, 12.4 million t of waste paper were utilised (+3% against 2002). The waste paper utilisation rate remained stable at the high level of 65%.

Sales promotion

Sales in the wood and paper industry have dropped again, as they did in the previous reporting period. Sales were down by 4.5% to EUR 77.7 billion compared with EUR 81 billion in 2002. The biggest drop in sales occurred in wood processing and in furniture-making trades.
Of the timber industry's 568,652-strong workforce, some 43,168 jobs have been lost. The number of businesses dropped from 60,500 in 2002 to 59,900 in 2003. The slump in sales continued in the first six months of 2004.

As in previous years, the construction industry continues to influence timber sales. Around two-thirds of the timber felled each year goes to industry in the form of sawn timber, boards and constructional elements. The slump in the construction market and the fall in the use of timber in other market sectors has effected demand for timber and other wood products. Thus, combined with political lobbying on market conditions, the timber sales promotion efforts of the forest and timber industry continue to play a key role.

Timber sales in Germany are promoted under the Timber Sales Funds Act (Holzabsatzfonds-gesetz). With an average volume of EUR 11 million per year, the fund serves promotion of timber sales through the use of marketing tools like advertising and public relations work, market and marketing research, advisory services for the timber industry and product research. With the reorganisation of regional and supraregional research on the timber industry, due consideration is now given to the role played by architects, planners, builders and associated training and education institutes in advising on the wide range of uses for timber in the construction industry.

The German government supports the huge efforts in timber sales promotion with a “Timber Promotion Charter” (Holzcharta) which was published in September 2004 (see http://www.verbraucherministerium.de/data/000E6CB0C2A5113285016521C0A8D816.0.pdf).
The Timber Charter has a clear objective: to effect a 20% increase of the use of wood in Germany over the next decade. To balance greater exploitation of forests with social and environmental needs, sustainable forest management has been enshrined in Germany's National Strategy for Sustainable Development and a National Forest Programme has been drawn up which rests on broad social consensus. This has led to the implementation of some 180 recommendations for action on forest management.

Wood and energy

With the amendment to the Renewable Energy Sources Act, the German government plans to increase the share of renewables in domestic electricity supply to at least 12.5% by 2010 and at least 20% by 2020.

Under the amended Renewable Energy Resources Act, energy generated from biomass – which currently makes up around 65% of all renewable energy consumed in Germany – will play an even greater role thanks to more favourable promotion. A bonus is to be introduced for electricity generated from biomass produced in agriculture, with electricity generated from forest timber receiving 6 cents/KWh for up to 500 KW and 2.5 cents/KWh for over 500 KW. Electricity generated from biomass-fuelled combined heat and power systems will be subject to a bonus of 2 cents/KWh as this makes generation of energy-efficient electricity from wood more attractive. Thus energy use plays an increasingly significant role also in timber sales.

Rates for electricity generated from contaminated waste wood in Categories A III and A IV (e.g. contamination by wood protection chemicals) of the Waste Wood Ordinance (Alt-holzverordnung) will drop to 3.9 cents/KWh with effect from 30 June 2006.

C. Certified Forest Products

Germany has around 7.5 million hectares area of certified forest (67,5 % of whole forest area) of which some 7 million hectares are certified under the “Programme for the Endorsement of Forest Certification Schemes” (PEFC) and, in keeping with the Naturland guidelines, around 500,000 hectares are certified in accordance with “Forest Stewardship Council” (FSC) criteria. Thus in the last 12 months the certified forest area in Germany rose by 6 %.

Certified forest areas in Germany (hectares)

Certification system	**Certified areas**	
	2003	**2004**
PEFC	6,497,500	6,915,438
FSC	447,035	508,259

Independent certification allows consumers to make an informed decision and thus protect them from unintentionally promoting illegal activities, say with regard to logging and origin certification. For this reason, the German government set out the objective in its Coalition Agreement of October 2002 to promote certification and to apply FSC standards to the public procurement of timber and other wood products. The long-term goal is to substantially increase the share of certified timber and wood products on both the European and the global market. The success of the certification system relies on a simple and practicable chain of custody which informs the consumer about product origins and production methods so they can make an informed purchase. The German government thus supports the huge efforts which are underway to make verification of the chain of custody easier and less costly.

Number of Chain of Custody (CoC) Certificates in Germany

Certification system	**CoC-Certificates**	
	2003	**2004**
PEFC	333	484
FSC	197	259

With regard to certification, the subject of illegal logging plays an increasingly important role. The German government thus welcomes the EU Commission's FLEGT Action Plan which serves as a discussion platform to create an effective EU-wide instrument to combat illegal logging.

Economic indicators

Country: Federal Republic of Germany

	2000	2001	2002	2003	2004	2005
	actual				forecast	
	%age change on previous year					
Gross Domestic Product	2,9	0,8	0,1	-0,1	1 1/2 bis 2	1 1/2 bis 2
Industrial Production	3,9	-0,7	-0,1	0,4	4	2 1/4
Contruction investment	-2,6	-4,8	-5,8	-3,4	0	-1/4
new dwellings	-2,6	-6,2	-5,8	-2,7	1	-1/4
new non-dwellings	-2,7	-2,8	-6	-4,3	-1 1/4	0

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

Economic sector	Notes	Enterprises		Workers		Turnover - million € -	
		2002	2003	2002	2003	2002	2003
wood processing[1)9)]		**2 383**	**2 202**	**45 071**	**42 494**	**8 579[7)]**	**8 572**
- sawmills[2)]		2 113	1 925	25 886	24 350	4 344[7)]	4 389
- wood-based panel production		270	277	19 185	18 144	4 235[7)]	4 184
Secondary wood processing[3)9)]	excluding wood and upholstered furniture manufacturing	**926**	**827**	**58 883**	**52 203**	**7 782**	**7 081**
Furniture industry[3)5)9)]	also from materials other than wood	**1 312**	**1 228**	**143 735**	**131 256**	**19 907**	**18 893**
Woodcraft industry[4)]	excluding furniture-manufacturing, excluding timber-related building crafts	**14 510[8)]**	**14 313[8)]**	**54 552**	**50 239**	**4 227**	**3 936**
Furniture manufacturing crafts[4)5)]	also from materials other than wood	**7 748[8)]**	**7 698[8)]**	**34 365**	**30 788**	**2 293[7)]**	**2 127**
Timber-related building crafts[1)]		**28 959[8)]**	**28 924[8)]**	**141 966**	**131 066**	**10 133**	**9 447[7)]**
Timber wholesale trade[6)7)]		**4 431[9)]**	**4 431[9)]**	**43 189**	**40 726**	**14 061**	**13 726**
Pulp and paper production[1)9)]		**281**	**277**	**46 891**	**46 712**	**14 348[7)]**	**13 947**
Total forest industrie		**60 550[8)]**	**59 900[8)]**	**568 652**	**525 484**	**81 330[7)]**	**77 729**

1) business with one or more workers
2) sawmills with 5.000 cubic metres of roundwood (solid measure) or more annual removals
3) business with 20 or more workers, including craft business
4) business with 1 to 19 workers
5) excluding mattress production
6) business with a minimum turnover of EURO 13 000
7) partly estimated
8) craft undertakings in accordance with the 1995 craft census
9) 1 626 of which are accounted for by the trademark number 51.53.1

*) divergences form 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)

Please visit the following web sites for further information on the timber industry and timber marketing in general:

- http://www.verbraucherministerium.de
- http://holzabsatzfonds.de
- http://www.infoholz.de
- http://www.holz.de
- http://www.dhwr.de
- http://www.dfwr.de
- http://www.fsc-deutschland.de
- http://www.pefc.de
- http://www.fnr.de
- http://www.erneuerbare-energien.de