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Austrian Market Report 2005

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1. General economic situation

The cyclical recovery is projected to continue, although being held back by the high euro exchange rate. The Austrian economy is set to grow by 2¼ percent in 2005, somewhat less than expected so far. Global risks deriving from high macro-economic imbalances have increased in recent months. The tax reform will contribute towards GDP growth in Austria exceeding the euro area average.

The draft federal budget for 2006 is shaped by the impact of the 2004-05 tax reform and the persistence of high unemployment. The deficits (in the Maastricht definition) in the general as well as in the federal government households will therefore narrow only to a limited extent. Expenditure and revenue continue to fall as a ratio of GDP, both for the central and the general government. The share of transfer payments in total federal spending is rising once again, with family benefits posting the strongest increase. Since 2000, emphasis on the expenditure side has also been given to infrastructure and research. On the revenue side, one-off measures are losing in importance over time. The longer-term trend towards greater reliance on indirect tax revenues is becoming somewhat flatter in 2006.

Since late autumn 2004, stimulus from exports is weakening and manufacturing output is losing momentum. Consumer demand from private households has not revived so far. In the second half of 2005, business activity may recover, on the back of an expected stabilisation of exports and industrial production accompanied by somewhat higher consumer spending and construction investment. For the whole year 2005, WIFO projects real GDP to grow by 1.8 percent, markedly below last year's rate of 2.2 percent. Prospects for 2006 are particularly uncertain at the present juncture; the WIFO projections are for growth at a broadly similar pace as in the current year (+1.9 percent). Despite healthy growth of employment, unemployment is set to rise further to a rate of 7.3 percent of the dependent labour force, on account of a strong increase in labour supply. Due to high energy prices, rising housing costs and the increase in the tobacco tax, headline inflation will reach 2.5 percent this year before moderating to 1.9 percent in 2006. Subdued business activity and rising unemployment continue to weigh on public finances, such that the general government deficit may remain broadly unchanged at 1.9 percent of GDP next year.

The projection for GDP growth in 2005 and 2006 remains unchanged, but the risk of adverse developments has increased. The further cyclical profile in the euro area is uncertain, since the gains in exports and corporate earnings have so far not translated into the expected higher investment and consumption. The high oil prices constitute a further risk element. The Austrian economy should fare better than the euro area average, on account of the demand incentives resulting from the tax reform. GDP is projected to grow at a steady 2¼ percent annual rate in 2005 and 2006. This will not suffice to lower the rate of unemployment, given the massive increase in labour supply.

The high energy prices put strain on the economic activities of industrial countries. Based on the euro, crude oil was in summer by 50% more expensive than last year. The upturn in prices is due to the massive demand in Asia and North America, but is also a consequence of speculative influences. The lack of refinery capacities in the U.S.A. – a result of insufficient investments – is presently forcing up the prices of fuels and fuel oil in all industrial countries. The high costs of energy are over the short term partly cushioned by reduced consumer saving; they will curb the

expenses for other consumer goods only with a certain time lag. This is particularly seriously affecting the economic activity in the euro zone, which has already for a rather long period been characterised by a continued weak consumption demand from the part of private households. In the U.S.A., business activities are less severely hit, as consumer demand is there supported by high real estate prices and enterprises continue their lively investment activity.

Since spring the favourable overall construction activity has also shown its positive impact on the employment trend: For the first time since 1997 the construction industry has not lost jobs. Additional manpower is required in the sector of outsourced services, in trade and in the public sector. On the other hand, the highly productive export sector is reducing its staff levels. Although the number of actively employed persons in total economy is rising (August +30,600 as compared to the previous year), also the number of unemployed persons is growing (+12,500). The seasonally adjusted unemployment rate rose to 7.3% of the dependent economically active population and to 5.1 % of the economically active population according to Eurostat.

2. Policy measures

Government programme

Since February 28, 2003 the Federal Government in office, Mr. Schüssel's second Cabinet, has been working on the basis of the government programme agreed upon between the Austrian People's Party and Austria's Freedom Party. This programme is among other things aiming at a more ecological orientation ("greening") of the tax system, the promotion of renewable sources of energy, and higher energy efficiency. In order to meet these goals the taxation of fossil fuels as well as transport-related taxes and charges are to be further developed. Renewable sources of energy are to be enhanced and measures to get closer to the Kyoto target are to be supported in all fields. In concrete terms, the use of biomass is to be raised by 75 % until 2010, the share of renewable sources of energy in the total energy consumption by 1 % annually. The share of eco-electricity is to be raised to 78.1% by 2008.

Legal measures

The Tariff Ordinance ("Tarifverordnung") to the Eco-Electricity Act, which entered into force on 1 January 2003, provides for attractive and nationally uniform feed-in tariffs for electricity from new eco-electricity plants (from wind, sun, biomass, small-size hydraulic power units, geothermal plants) approved until 2004. This measure also contributed to increasing the competitive capacity of wood as a provider of energy and has given important stimulatory impulses for investments in new biomass plants. At the end of July 2004 the Federal Ministry for Labour and Economics introduced a bill for an amendment to the Eco-Electricity Act for evaluation. Agriculture and forestry as well as eco-electricity producers are rejecting the bill because they think it will substantially affect the framework conditions for investments in biomass plants.

On 1 January 2004 a road pricing system for trucks was introduced on Austria's highways. This leads to additional costs for the transport-intensive forest and timber sectors.

As opposed to this, an amendment to the Federal Act on Automobile Motoring ("Kraftfahrzeuggesetz") has had a very positive effect. Since 11 August 2004 roundwood transports of up to 44 tons are possible also with five-axle vehicles (three-axle tractor and two-axle trailer), where the rear axle of the trailer is fitted with twin tyres. This modification facilitates

the transport of roundwood from forests. Exemption permits for roundwood transports with 44 t are no longer required.

Due to the 2005 Tax Reform Act ("Steuerreformgesetz" among other things the corporate tax will be reduced from 1 January 2005 onward, which will be an advantage for the wood and paper industry, and a compensation for the mineral oil tax paid on fuels (diesel) needed in agriculture and forestry will be introduced.

Forest law enforcement, governance and trade

See Austrian Country Report to the Joint UNECE/FAO Workshop on Illegal Logging and Trade of Illegally-derived Forest Products in the UNECE Region, Geneva, Switzerland, 16-17 September 2004 (http://www.unece.org/trade/timber/docs/sem/2004-1/full_reports/Austria.pdf).

Wood promotion

proHolz Austria continued its campaign "Wood is ingenious." ("Holz ist genial.") by means of television, radio spots and printed announcements. The campaign is intended to position wood as an innovative, efficient material from sustainable production. proHolz is a working association of the Austrian forestry and forest industry pursuing the goal of effective timber marketing in Austria and abroad. Marketing, publicity and information on wood are the instruments applied to achieve this objective. (www.proHolz.at)

proHolz Austria is active also beyond Austrian borders. The primary goal is to increase timber exports from Austria on interesting outlets and target markets. The know-how of Austrian enterprises will be communicated hand in hand with image publicity for domestic timber types. Most important are the activities taken in Italy under the title "promo_legno". (www.promolegno.com)

Asia is of prime importance as a market for European timber products, the big chance being the opening-up of the market over the medium term – a perspective which can be made use of only in cooperation with other European producer countries. proHolz Austria has therefore together with Nordic Timber Council, the German timber marketing fund, and French Timber established the "European Wood Initiative". Under the flag of "European Wood" the Asian market will be prepared in mutual cooperation.

Also the new EU Member States, first and foremost those bordering Austria, offer important market potentials for wood consumption. Here, information campaigns similar to those undertaken by proHolz/promo_legno can provide valuable impulses in order to raise the presently low consumption of wood.

Austrian Forest Dialogue

In spring 2003 the Federal Minister for Agriculture, Forestry, Environment and Water Management launched the Austrian Forest Dialogue with the objective of working out a National Forest Programme until end 2005. Representatives of 82 public authorities and institutions, public and private interest groups, and forest stakeholders are taking actively part in the deliberation on forest relevant issues.

3. Developments in forest-products markets sectors

A. Wood raw materials

With a share of 47.2% of the federal territory and 171,000 forest enterprises forests play an important part with respect to farmers' income and to the value added in rural areas in Austria. Maintaining and increasing the yield of forests is thus of high significance not only for agriculture and forestry but also for wood-processing enterprises. However, the most recent results from the Austrian Forest Inventory (2000-2002) show that the intensity of utilization has decreased markedly, in particular in private forests. Lately only 60 % of the totally 31.5 million cubic metres o.b. of annual increment have been utilized. This development is first of all a result of the decreasing contribution margins and the ensuing lower interest of many forest owners in wood utilization. In view of the large processing capacities of the wood and paper industry in Austria and the required imports of roundwood (according to most recent data approximately 7.5 million cubic metres) and the objective to increase the share of biomass in energy generation, mobilizing the available resources is one of the major goals of Austria's forest policy.

In 2004 16.5 million cubic metres of timber under bark were harvested in Austria, an amount by 3.4% lower than that in 2003. With a total of 5,55 million cubic metres, the amount of damaged wood was by 32,6% lower than hat in 2003.

In 2004, average prices of roundwood remained by 0.4% below last–year's prices. The value of production of domestic forestry (incl. forest services and non-separable non-forest secondary activities) reached 1.2 billion Euro in 2004, as compared to 2003 a decline by -2%.

The roundwood market at the beginning of the 2004 autumn season

The roundwood supply in Austrian sawmills is secured until late autumn. There is a demand for high-quality roundwood, as sawmills have lately also been offered bark-beetle-infested wood. An unjustified upsurge of prices has been observed in the past few weeks. We have to wait and see how the planned investments in Bavaria and Eastern Europe will influence the supply of Austrian sawmills.

B. Wood energy

Energy production from wood plays a key role in the Austrian Climate Strategy and with respect to higher supply security in the field of energy. Therefore also the government programme provides for a 75 % increase in the use of biomass by 2010. Due to the new framework conditions (Eco-Electricity Act – Ordinance on a Feed-in Tariff for Electricity) the targeted supply of existing biomass heating plants and new large-sized plants through forestry will gain significance. Austrian forests clearly have the capacity required therefore. The essential thing is now to accept the logistic challenges and to intensify forest tending measures. In the logistics field research and the economy have initiated promising projects over the past few years. An amendment to the Eco-Electricity Act, as is currently being discussed at government level, would however again have a negative impact on the framework conditions for investments in biomass plants.

C. Certified forest products

Pan-European Forest Certification (PEFC)

Since the Austrian certification system was officially recognised by the PEFC Council in September 2000 it has been applied in practice. Both forest certification by means of the regional model and the “Chain of Custody” (CoC) monitoring by group schemes for small- and medium-sized enterprises are tailor-made for Austrian conditions. The first region was certified in December 2000. Since February 2002 all forest regions in Austria, totally 3.9 million hectares, have been certified according to PEFC.

Certification in the timber-processing chain and in the timber trade is well under way. The certification of individual enterprises in the paper and pulp, the fibreboard and chipboard industries as well as of the big sawmills has for the most part already been completed. For small and medium-sized sawmills as well as for the timber trade an efficient group scheme has been developed which allows cost-efficient participation in the system. At present, about 300 timber-processing enterprises and timber traders are certified. At the moment PEFC is working to place the logo on the market.

Forest Stewardship Council (FSC)

FSC has not played a major role in the practical implementation of certification in Austria. Timber for FSC-certified products marketed in Austria (e.g. garden furniture made of teak) is mostly imported.

D. Value-added wood products

Apart from the sawmilling and board industries (see E, F and G), the furniture industry, the construction sector, and the ski industry represent important lines of business of the timber industry.

The production marketed in the construction sector amounted to 1.83 billion Euro in 2004 (+9.6% as compared to 2003), of which 324 million Euro (-3.6%) were attributable to the production of windows, 389 million Euro (16.4%) to prefabricated houses made of wood, 208 million Euro (+4.8%) to doors, 183 million Euro (+4.4%) to wood floors, and 217 million Euro (+21.4%) to glued wood building components.

The Austrian furniture industry produced furniture worth 2.4 billion Euro in 2004 (+11%).

Austria’s ski industry is producing about 60% of the global production of Alpine skis, 2.9 million pairs in 2002. In 2003, 2.4 million pairs of alpine skis, worth 187 million Euro, were exported. If we add cross-country skis and snowboards, the export value amounted to 280 million Euro.

E. Sawn softwood

The marked involvement of the Austrian sawmilling industry both in Italy and on overseas markets is reflected in another increase in export deliveries in 2004. The development in the current business year is showing a stabilisation at a very high level. The positive environment for business activities and improved framework conditions make Austrian enterprises optimistic. Sawnwood sales are good in Austria.

In 2004, the production amounted to 2.1 billion Euros (+9%). The production of sawnwood increased to 11.18 million m³. Exports of coniferous sawnwood reached a volume of about 7.3 million m³, this is a 10.2% increase compared to 2003. In terms of value, this means exports of 1.2 billion Euros (2003: 1.1 billion Euros).

The sawnwood market at the beginning of the 2005 autumn season

The pleasing business environment allowed further successes of the domestic sawmilling industry. Both production and export went up in 2004. The present economic projections make the Austrian sawmilling industry slightly optimistic. The U.S.A. continues to emphasise its role as a driver of economic activity. Solely the prospects in Germany raise concern. The forthcoming elections there might bring about the long-desired trend reversal.

After the record year 2004 a stabilisation at a high level is expected. Almost 3 million cubic meters of coniferous sawnwood were exported in the first five months of 2005.

The export boom continues to be supported by the most important trading partner, Italy, and the promo_legno initiative there. Two thirds of the domestic coniferous sawnwood are exported to Italy. The timber sector is among the few industrial sectors in Italy which has permanently grown in recent years. The sales volume of approximately 1.9 million cubic metres of coniferous sawnwood in the first month of this year give a positive signal.
The order position for the next few months is encouraging. There is a rising demand for main products and secondary products in chipped form. The development for glue binders and solid wood for construction is stable. The marketability of centimetre wood and shorts is presently poor.

The US market proved dynamic during the first half of the year 2005. Being a major pillar its importance even rose and the U.S. market is our second-most important trading partner. In spite of the weak dollar Austrian deliveries to the U.S.A. increased by 26.7% to 238,000 cubic meters of coniferous sawnwood compared to the reference period 01-05/2004 and might therefore achieve record results. The collapse of prices during the past few weeks have caused insecurity.

Austrian sales of coniferous sawnwood to the Japanese market showed a reduction by slightly less than 20%. Nevertheless, taking everything into account an export volume similar to that of the total year 2005 is projected - in particular as a result of the losses of deliveries from Finland due to the strike in the paper industry. After Germany, Japan is the fourth-important trading partner of the Austrian sawmilling industry.

For the German market a slight reduction was observed.

In the Levant, the expected stimulation caused by the improved income situation has become reality as a result of the higher oil price.

F. Sawn hardwood

The production of non-coniferous sawnwood increased to 216,000 m³ in 2004. Exports of sawn hardwood, whereas, increased. In all, 150,000 m³ were exported. This is an increase of 3% as compared to 2003. Imports of sawn hardwood dropped by 0,5%, thus reaching 215,000 m³.

G. Wood-based panels

For Austria's wood-material producers the year 2004 was absolutely successful. Even though the overall conditions for economic activities were not perfect, products from Austria proved definitely competitive. Structural changes on the raw chipboard market – had a positive impact on the 2004 result – especially in Germany.

Enterprises of the chipboard, MDF and fibreboard industries were able to raise their sales volumes again, to about EUR 856 million. This means an increase by approximately 5%. The share of processed products and, consequently, the value added, continued to grow. This holds true both for coated boards and for laminated floorings.

The largest part of the turnover is made with – predominantly coated – chipboards, followed by MDF (two manufacturers) and fibreboard (one manufacturer). Unfortunately, the favourable development recorded for 2004 has not continued in the first quarter of 2005. In the first months of the present year it was not possible to further raise yields. In any case, the situation in the European furniture industry and the general developments in the construction sector dampen the expectations for 2005.

Also in 2004 the Austrian wood material industry earned a considerable foreign trade surplus of approx. EUR 520 million. Whereas the "traditional" export markets like Germany, Italy, and the former EU-15 developed slightly positive or remained stable, markets in the new EU Member States saw satisfactory growth rates.
Positive results were recorded also on the overseas markets.

With more than 3,000 directly employed persons - and, in addition, several thousand indirectly employed persons – the Austrian chipboard, MDF and fibreboard industries are among the sectors which have provided high job security for their workers for many years.

The wood-based materials sector of the timber industry comprises the production of chipboard, fibreboard, and solid wood boards. For solid wood boards, figures can be published for the production of three- and multi-layer solid-wood boards (hardwood and coniferous wood) and for the production of single-layer solid wood boards. The production value of the single-layer solid-wood boards is however secret in the annual evaluation. The production value of the three- and multi-layer solid-wood boards amounts to EUR 36 million in 2004.

Totally, 2004 saw a 2.2% rise in the export of solid-wood boards compared to the reference period of the previous year and this amounts to EUR 257.7 million. Imports, however, declined by 10.7% to EUR 88.6 million, leading to a 10.7% increase in the foreign-trade balance surplus. With two thirds of the exports the countries of the EU-24 embody the most important target market. Exports to these countries rose by slightly more than 4%. The second-most important export market are the EFTA states, which account for 25.2%. Exports to these countries show a slightly downward trend (1.5%). The share of Eastern Europe amounts to about 1%, though exports to these countries shrank by more than 48%.

Imports of solid-wood boards come with 87% predominantly from the EU-24. This is a reduction by 12%. The second-most important import market are the Eastern European countries with a - this time - very tiny share of approximately 7% This means an increase by 3%. Summed up, imports from EFTA states and other countries account for about the same rates as those from

Eastern European countries. Imports from EFTA states declined by approximately 15%, those from other countries rose by 7%.

H. Pulp and paper

In 2004 a record quantity of 4.85 million tonnes of paper, cardboard and paperboard was produced in Austria. The export quota rose to 85.1%. However, for the paper industry the quantitatively successful year 2004 was characterised by a continued downward trend in prices. Production increased by 6.3%, but, due to the unfavourable price situation, the turnover of the sector rose by only 1.9% to totally EUR 3.4 billion. The 2000-record turnover was thus not reached another time. The wood consumption of the paper industry increased by 7.1% to 7.7 million cubic metres, of which 3.6 million cubic metres accounted for roundwood (-0.1%) and 4.1 million cubic metres for secondary sawmill products (+14.4%); the import share dropped from 19.5% to 16.4%. The consumption of waste paper showed an increase by 7.5% to 2.1 million tonnes.

No improvements for the paper industry was recorded in early-2005. For some varieties even massive setbacks in terms of quantity were recorded as a result of the economic situation. It will therefore not be possible to repeat the outstanding quantitative growth, especially as the growth forecasts for 2005 in Austria and internationally have been revised down. Sales of the heavily export-oriented paper industry have been affected in Europe by the insufficient economic growth. The low dollar is exerting additional pressure on prices. These are unfavourable preconditions for the urgently needed price advances.
For many varieties excess capacities are still recorded at the international level, which is why it was not possible to raise paper prices suitably. Moreover, corporate balances were stressed by rising costs particularly of energy and transport. The increase of the energy tax, rising mark-ups on green electricity, and high feed-in tariffs almost completely offset the benefits created by the liberalisation of the energy market.

The conditions for paper production are extraordinarily favourable in Austria. Wood, water as well as excellently trained workers are available in sufficient quantities and also in the field of paper recycling our country is among the world's best. However, to allow important investments also in the future, and thereby to ensure that additional high-quality jobs are created, it is also necessary to curb the cost burden in the field of energy and to attain a committed international approach in climate policy instead of the continuation of the single-handed EU approach. At present, these factors have an adverse effect as regards the international competition for business locations. Also the speedy reform of the Eco-electricity Act, taking into account efficiency criteria and cost-benefit assessments in CO2 abatement, is a must. Additionally required quantities of energy wood must be provided without endangering the recovery of wood, which creates significantly more value added and employment. Investment-promoting framework conditions for cogeneration plants would significantly contribute to stimulate projects which are useful in terms of the energy policy.

Tables

Economic indicators

	2001	2002	2003	2004	2005	2006
	Percentage changes from previous year					
GDP Volume	+ 0.7	+ 1.2	+ 0.8	+ 2.2	+ 1.8	+1.9
GDP Value	+ 2.5	+ 2.5	+ 2.3	+ 4.1	+ 3.9	+3.8
Export of goods Volume	+ 7.3	+ 4.3	+ 2.5	+ 13,1	+ 4.2	+5.5
Export of goods Value	+ 6.5	+ 4.2	+ 1.9	+13.9	+5.6	+6.0
Import of goods Volume	+ 5.5	+ 0.3	+ 6.8	+ 10.4	+2.6	+5.0
Import of goods Value	+ 5.0	- 2.0	+ 5.0	+ 12.0	+ 4.7	+5.7
Consumer prices	+ 2.7	+ 1.8	+ 1.3	+ 1.9	+ 1.8	+1,9
Dependent employment	+ 0.4	- 0.5	+ 0.2	+ 0.6	+ 0.9	+0.6

Roundwood

Product	Year	Production	Imports	Exports
		1,000 m³		
Industrial Roundwood	2002	14,264	7,275	872
	2003	14,313	7,493	780
	2004	13,885	8,030	715
	2005	14,430	7,900	650
	2006	13,630	8,820	660
Wood residues, chips, particles	2002	6,139	802	826
	2003	6,746	741	1,176
	2004	6,900	680	980
	2005	7,025	680	950
	2006	7,400	800	1,200
Fuelwood	2002	3,036	163	29
	2003	3,336	196	72
	2004	3,200		
	2005	3,500		
	2006	3,539		

Sawnwood

Product	Year	Production	Imports	Exports
		1,000 m³		
Coniferous sawnwood	2002	10,191	1,138	6,289
	2003	10,263	1,227	6,626
	2004	10,500	1,300	6,750

	2005	10,700	1,300	6,900
	2006	10,700	1,300	6,900
Non-coniferous sawnwood	2002	224	213	133
	2003	210	216	146
	2004	225	250	160
	2005	230	240	160
	2006	230	240	160