

**Statement submitted by the German Delegation
to the sixty-third session of the ECE Timber Committee
Geneva, 27-30 September 2005**

I. General economic situation

1. Although the economy made a good start to 2005, the main indicators of economic activity have since drifted sideways. The domestic and export economies continue to diverge. Exports have kept up their rising trend since spring 2004. The domestic economy gives grounds for optimism regarding a recovery but still lags behind the export position.

Private consumption continues to be held back by only moderate income expectations coinciding with a renewed hike in key commodity prices, including the price of oil. But other important consumption indicators such as new motor vehicle registrations are on the rise compared with the corresponding prior-year periods. New registrations gained 8.2% in June and were up 2.5% for the year to date compared with the first half of 2004.

As of mid-2005, demand for German industrial goods took a slight upswing. New orders increased by a seasonally adjusted 2.2% in April and May 2005 compared with the same months of 2004. Looking at the 12-month period from May 2004 to May 2005, marked monthly fluctuations give rise to negative commentary, overlooking the slight upward trend. The positive trend recorded by makers of capital goods and the months-long rising trend in domestic orders for consumer goods manufacturers signal a gradual domestic recovery. Increasing new orders above all from the domestic market pushed the ZEW economic sentiment index up to 50.0 points in August, an unexpectedly sharp 13.0-point gain.

Labour market situation

2. Germany adopted a more transparent method of reporting unemployment on 1 January 2005. The number of welfare recipients fell by more than 90% as those capable of working now come under the employment promotion programme. Merging unemployment benefit with welfare benefit lent a new quality to the labour market reform process, significantly reducing the burden on municipal budgets and creating scope for investment in construction, education and many other areas. The more objective reporting of the number of people available to the labour market, including welfare recipients, swelled the unemployed figure to over 5 million overnight from 31/12 to 1/1/2005, but the total has since dropped back to 4.7 million. Under the reporting method used for the past several decades, the unemployment statistics would currently stand at 3.6 million. This clearly demonstrates that the labour market reforms are taking effect. To provide internationally comparable figures for Germany, the number of unemployed in early summer 2005 measured according to the IAO standard is 4.06 million.

The unemployment rate in Germany according to the IAO standard is 9.5%, with marked differences between former West Germany (8.2%) and former East Germany (14%).

The labour market reforms take a challenge-and-encourage approach: challenging in that transfer recipients are effectively put under financial pressure to take vacancies offered, and encouraging by helping those who lack key skills required by the labour market to improve their chances. The reforms aim to achieve greater employment, reduce the burden on welfare systems and cut non-wage costs of labour.

The current numbers in employment have risen compared with the corresponding prior-year figure by 130,000 to 38.839 million. In contrast to the trend in total employment, the number of employees subject to social insurance declined by 330,000 to 26.154 million.

II. Forestry and timber industry operating environment

The German Federal Government has set itself the task of gradually dealing with Germany's huge backlog of reforms. It is forging ahead with the country's modernisation as a location for business and investment. In view of the considerable economic and social challenges of reunification, it will be several years before the changes made show clear signs of success.

The trend towards larger corporate units in Germany has accelerated with increasing market globalisation. This trend received notable new impetus after German reunification, and above all in former East Germany, due to improved financing conditions. The Federal Government and the EU have also put in place highly attractive financing conditions for the wood-based panels and sawmilling industry, prompting substantial capital expenditure in the former East German states.

The new production capacity has tangibly stimulated competitive rivalry, is accelerating structural change, and could also adversely affect the labour market since the ultra-modern production facilities set new standards in terms of automation and rely on a minimum of human effort. Against this backdrop, the Federal Government is anxious to accompany the outcomes of its existing systematic drive to boost competitiveness with a comprehensive package of structural and labour market policies and – something which poses a special challenge in a federal system – to secure agreement on the supplementary measures which sound practical experience proves to be necessary. The requisite consultation processes not infrequently put obstructions in the way of the modernisation agenda.

Alongside the measures immediately relating to structural change and the special demographic challenges of numerically large population groups crowding onto the labour market, the two governing parties – Social Democratic Party of Germany (SPD) and Alliance 90/The Greens – pledged in their Coalition Agreement back in October 2002 to launch a charter promoting the sale and use of timber. In cooperation with the relevant organisations and industry associations, a Charter for Wood Promotion (*'Charta für Holz'*) was published on September 2004. It is being implemented step by step.

The aim of the Charter for Wood Promotion is to increase timber consumption in Germany by 20% over the next ten years. A sound foundation for the action taken is provided by the Federal Forest Inventory II instigated by the Federal Government. The published results of this inventory show annual growth across Germany to be approximately 95 million solid cubic metres of standing crop and that, alongside Switzerland and Austria, Germany has the largest standing crop in Europe at 320 solid cubic metres per hectare, which given its diversity offers attractive potential in both quantitative and qualitative terms.

Among other things, wood-to-energy offers structurally weak but timber-rich regions good opportunities for generating income and jobs. Capital spending to save energy and convert to alternative energy can be subsidised under the Agricultural Investment Promotion Programme (*Agrarinvestitionsförderprogramm*). The former Act on the Sale of Electricity from Renewable Energy Resources to the Grid (*Stromeinspeisegesetz*) was superseded on 1 April 2000 by the Renewable Energies Act (*Erneuerbare-Energien-Gesetz*), a key stepping stone on the way to doubling the renewable energy share of the total energy supply by 2010. Legislation implementing this act for biofuels was enacted in the form of the Biomass Ordinance (*Biomasseverordnung*) on 21 June 2001. The Federal Government has substantially increased the amount of funding available under a market incentives programme to promote investment in systems that make use of alternative energy (approx. €250 million), with a roughly 35% share earmarked for bioenergy. Funding in the bioenergy sector under the Market Incentive Programme for Renewable Energies (MAP) is provided in the form of subsidies and low-interest loans above all for log, woodchip and pellet-fired systems used to supply heat and for district heating networks.

The Federal Ministry of Consumer Protection, Food and Agriculture (BMVEL) budget includes a rise in total funds for its Renewable Resources (*Nachwachsende Rohstoffe*) Funding Programme from €30.5 million in 2004 to €33.6 million in 2005 (an increase of no less than 75%), with approximately €2.7 million tagged for research, development and demonstration. BMVEL also supports the advancement of wood-to-energy technologies under this programme with priority funding for suitable projects. The growth figures are partly offset in the inventory by withdrawals of some 67 million cubic metres a year, leaving about 29% of the growth to accumulate. This represents an average increase in the standing crop of 3.6 m³/a/ha. The figures very clearly demonstrate that only partial use is being made of the available quantities of sustainably exploitable roundwood.

Substantial and increasing reserves will be available in future for use by the various timber-using sectors in Germany. For specific figures on the available reserves broken down by criteria such as type of ownership or region, the Federal Government currently awaits the findings from a detailed cluster analysis due to be presented in autumn 2005. This will provide industry with valuable extra information on the use of the forests with a view to advancing Germany's position as a business and investment location and regarding structural development in rural regions. It will form the basis for decision-making regarding further action.

To take advantage of the resulting excellent prospects, BMVEL has invested over €200 million in research and development since 1998, sending out a signal whose full positive effect will be felt over the coming years. Other government departments such as the Federal Ministry of Education and Research (BMBF) provide tangible added support for the forestry and timber industry research initiative, with €20 million currently available in supplementary funds.

In view of the increased policy importance of the forestry and timber industry and of the ambitious economic goals, the Federal Government is also acting to promote the industry's image, among other things with an eye to global environmental concerns. This image improvement is of central importance in raising timber sales.

The Federal Government has accordingly agreed that all timber or timber products procured for federal use must comply with the high standards of the Forest Stewardship Council (FSC) or an equivalent certification system. Under the proposal, only timber and timber products from sustainably managed forests can be used in federal procurement and construction projects. The requirements are outlined in a formal set of criteria. These are broken down into an organisational Part A governing requirements for certification and a substantive Part B listing requirements for forest management. This second part is based on the three pillars of sustainability: economic, environmental and social policy. The criteria are deemed to be met if a bidder can present the label of a recognised certification system for the offered product. Bidders unable to present a recognised certificate can present suitable other documentary evidence showing compliance with the criteria and the timber's origin.

The requirements imposed by the Federal Government have prompted constructive rivalry among certification systems and a qualitative improvement in the certification standards of competing systems such as PEFC. As a result, and thanks to the voluntary cooperation of forest owners, more than 70% of German forest has been made subject to management standards which, in line with the Federal Government's sustainability strategy, substantially exceed the requirements laid down by the Federal Forest Act and its implementing legislation in each of the sixteen German states.

In support of these activities, special importance accrues to the adoption of a voluntary commitment by the timber trade barring illegally felled timber. Drafted under BMVEL guidance and signed by members of the German Timber Trade Association, the voluntary commitment aims to exclude timber of illegal origin from the German market, in line with the overall Federal Government policy position on international timber policy. It is now up to the industry to deliver on its commitment. With regard to the overall responsibilities of the state, this is the only way to keep the need to legislate at a minimum and to move judiciously forward towards the ever-popular goals of less red tape and lean administration.

Germany also contributes in global efforts to promote the voluntary certification of timber from sustainable forest management and makes use of synergies with the multilateral conferences on Forest Law Enforcement, Governance and Trade (FLEGT) to implement the resolutions of the

Convention on Biodiversity (CBD). BMVEL began backing up the FLEGT Action Plan with national measures as early as October 2004 by organising an EU expert workshop on Illegal Logging and Measures to Combat Money Laundering.

The outcomes of this workshop were encouraging. The participating member states unanimously concluded that existing legal provisions to combat money laundering can also be used to pursue illegal logging. But licensing systems and the provisions of member state law alone may not be enough to prevent imports of illegally extracted timber to the EU in a manner that is both efficient and credible to the consumer.

As early as October 2003, a decision was adopted at ministerial level in the EU Agricultural Council to review options for further legislation to control imports of illegally harvested timber. This is primarily a matter for Community law. It remains vital that the EU Commission present without delay its long-announced proposals for EU-wide legislation to cap illegal timber imports. BMVEL has called upon the EU Commission to set out in a key issues paper how member states can help nationally in augmenting or providing a substitute for harmonised EU arrangements. Raising and harmonising standards at national, EU and also international level is in the economic interests of industry, helps avoid excess red tape and results in law that is easier to comply with.

A national primary forest protection act banning the possession and sale of timber illegally taken from primary forests and of products manufactured from such timber would also – alongside the already initiated process of revising the Federal Forest Act – be a means of creating a framework for implementing the announced EU-wide rules. If the EU-wide rules fail to materialise soon enough or at all, such an act would allow Germany to advance the protection of primary forest despite the lack of specific EU requirements. Partnership-based agreements with the countries of origin are intended to support the objectives of the act.

III. Economic situation of the timber industry

1. Situation in selected segments of the forestry and timber industry

a) Development of the roundwood market

A total of 54.505 million m³ of roundwood was harvested in Germany during 2004, an increase of some 6.5% on the previous year. Within this total, coniferous logs accounted for 28.690 million m³, deciduous logs for 3.551 million m³ and other wood types for 22.264 million m³. Most of the increase was concentrated in coniferous wood (up 7%), although this included a high level of exceptional depletion (insect and drought damage) due to the previous year's extremely hot and dry summer.

Price trends in roundwood are tracked by the producer price index for forest products from Germany's state-owned forests. For roundwood overall, the index for 2004 was 90.2, a decrease of approximately 7% compared with the previous year's 97.4. This will

have mostly reflected falling prices for almost all timber groups and species (excepting an 0.5% rise in oak logs B/EEC and of 8.9% in industrial beech) due to a slight supply-side surplus and the high level of exceptional depletion.

Logging activity continued at a high level into the 2005 forestry year. Supply and demand have largely returned to equilibrium, however. Demand for coniferous and oak logs will even have slightly outstripped supply at times, probably leading in some regions to slight improvements in the price of wooded land. The only drop in logging volumes will have been for beech logs due to the moderate demand for this product.

Weather conditions in 2005, with high precipitation at times and moderate overall temperatures throughout the vegetation period, will probably be a major factor in keeping the level of exceptional depletion below that of the previous year.

b) Analysis by industrial sector

The economic upturn is mirrored in the wood and paper industry. Sales in the wood and paper industry picked up again for the first time in four years (with a 1% increase), totalling €78.1 billion for 2004 versus €77.3 billion in 2003. It did not prove possible, however, to follow the 10-year (1994-2004) record of €90.3 billion in 2000.

The largest sales gains in 2004 were seen in the sawmilling industry (up 5.7%) and in pulp and paper production (up 3.7%). This sales growth continued in both sectors through the first half of 2005. Germany's paper industry has grown to become number one in Europe. On a global comparison it comes in fifth behind the USA, China, Japan and Canada. A total of 3,000 different types of paper are produced, with sales totalling some €13.6 billion and annual output exceeding 20 million tonnes. The sector employs a workforce of over 46,000 at approximately 200 production locations around Germany.

This positive overall trend in the wood and paper industry has been helped along by measures to boost competitiveness. With rationalisation, efficiency gains and improvements in logistics, cooperation and automation, structural change has progressed along with productivity growth – although on the downside this has produced a drop in the workforce from 514,222 in 2003 to 494,338 at the end of 2004, a decline of 3.9%. EU enlargement is also having a positive effect.

Production of sawn softwood in 2004 was some 17.7 million m³, a marked gain on the prior-year total of 16.5 million m³. A 3-4% increase is anticipated for 2005 and 2006. Regarding the foreign trade outlook, the German Timber Trade Association forecasts a decrease of 12% in 2005 and an estimated further 5% in 2006.

On preliminary figures from the German Federal Statistical Office, sawn hardwood output increased to nearly 1.14 million m³ in 2004, 6% above the previous year's level. The Trade Association anticipates a slight (5%) decline for 2005 and estimates that production

will increase by 3% in 2006. Exports rose by 10% to 626,000 m³ while imports fell a good 3% to 594,000 m³. Taking these figures into account, the notional consumption decreased by approximately 1% to 1.11 million m³.

The notional amount of domestic produce on the home market increased by 2% compared with the year before, to 511,000 m³. The export share of domestic output was 55%. The import share of consumption reached 54%. According to the available data, Germany is thus a net exporter of sawn hardwood for the first time. This trend is expected to continue through the current year.

The Trade Association anticipates further gains in exports (by 10% in 2005 and 5% in 2006).

Detailed figures on the current position and forecasts for selected sectors of the economy are provided in the attached tables.

Enterprises, workers and turnover in the German timber and paper industry¹

Economic sector	Enterprises		Workers		Turnover (€million)	
	2003	2004	2003	2004	2003	2004
Total timber industry	58631	58457	514222	494338	77273	78050
Wood processing	2202	2051	42494	41315	8572	8821
- Sawmills	1925	1790	24350	23693	4389	4638
- Wood-based panels	277	261	18144	17622	4183	4183
Secondary wood processing (excluding wood and upholstered furniture manufacturing)	827	795	52203	50517	7081	7135
Furniture industry (including from materials other than wood)	1228	1136	131256	121832	18893	19170
Woodcraft industry (excluding furniture manufacturing and timber-related building crafts)	14313	14277	46683	46126	3763	3771
Furniture manufacturing crafts (including from materials other than wood)	7698	7644	27446	26891	1878	1915
Timber-related building crafts	27655	27851	126407	121808	9424	9208
Timber wholesale trade	4431	4431	41021	39783	13715	13567
Pulp and paper production	277	272	46712	46066	13947	14463

¹ Data partly recomputed for 2003 and 2004. Not comparable with earlier figures.

Source: German Federal Statistical Office/BMVEL (532)

The situation on the construction market continues to be affected by a decrease in the number of planning approvals. The number of approvals for single-family dwellings dropped by about 9% from January to September 2004. The prefabricated housing industry, which has a major influence on the amount of timber used, expects that 2005 will be more difficult still. Despite the domestic economy picking up and interest rates at extraordinarily consumer-friendly levels, the number of approvals for single-family and two-family dwellings fell in Germany during the first quarter of 2005 by 36.5% to 35,619. The prefabricated housing industry was unable to break free of this trend, with a decline of 34.8% to 4,803 units. The prefabricated share of all planning approvals rose to 13.5%.

The timber trade is responding to this trend and making its product range more attractive with products to enhance the home interior (furniture and fittings).

The furniture industry

The German furniture industry exported furniture worth €1.29 billion in the first quarter of 2005, 2.7% more than January to March 2003. This brought the German furniture manufacturing export share up to 25.6%, twice the figure of ten years earlier.

64.1% of all German furniture exports go to Western Europe. There was significant growth above all in exports to Denmark (up 11.7% to €19.4 million), Austria (up 7.7% to €133.6 million) and Spain (up 6% to €50.2 million). The largest buyers in Western Europe continue to be the Netherlands, with an export volume of €190.6 million (down 3.2%). Exports to Eastern European countries were down for the first time in several years, falling 2.7% to €146.5 million. There was a slump in exports to the key trading partner, the Czech Republic (down 11.2% to €35.8 million) and to Poland (down 16.8% to €31.5 million). Export sales to Slovakia, on the other hand, climbed by 35.9% to €23.2 million and those to Russia by 29.7% to €23.1 million. While the German furniture industry saw sales to North America dip 2.4% to €8.9 million, exports to Asia grew 2.6% to €2 million.

Furniture imports to Germany decreased by 8.9% in the first quarter to €1.68 billion, reducing the foreign trade deficit by 34% to €90 million. Despite a sharp, 20.3% reduction, Eastern Europe remained the pre-eminent source region for imported furniture (€726.5 million). There was once again strong growth in imports from Asia (up 25.5% to €249.1 million), most notably from China (up 47.1% to €152.5 million).

III. References

a) Websites

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>

- www.holz.de

- www.dhwr.de

- <http://dfwr.de>

- <http://www.fsc-deutschland.de>

- <http://pefc.de>

- <http://www.fnr.de>

- <http://www.erneuerbare-energien.de>