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P O L A N D
S T A T E M E N T ON THE CONDITION OF ECONOMY AND WOOD MARKET

Ministry of the Environment

1. GENERAL ECONOMIC TRENDS AFFECTING THE FOREST AND FOREST INDUSTRIES SECTOR

After many years of stagnation and negative tendencies the 2004-2005 period was exceptionally favourable for the Polish economy and the forest-wood sector. The main development stimuli and trends in the wood market in this period were:

- Poland's accession to the European Union on 1st May 2004 which accelerated the economic growth,
- increase in foreign direct investments inflow,
- periodically favourable foreign exchange rates (PLN to EUR) for exporters affecting growth of exports and production,
- relatively good demand for Polish wood products from foreign markets favourable for improvement of the economic situation of most of the wood branches but at the same time – causing difficulty in the supply of wood from domestic raw material base,
- increase in demand for some wood assortments and industrial wood waste used as biomass for energy purposes which additionally magnifies problems in the roundwood market,
- increase in significance of EU standards concerning product quality.

In 2004 the **gross domestic product** increased by 5.4% and it was the highest growth in the last seven years. The GDP value in 2004 was 885 billion PLN (242 billion USD). The contribution of forestry to the GDP was around 0.3% and of woodworking industries (wood, furniture and pulp and paper industries) – 2%. There were periods of high progression and to a great extent this was the result of Poland's accession to the EU. Behaviour of producers and consumers in this period strongly stimulated **domestic demand** (5% increase in relation to 2003) and the **individual consumption expenditure** (increase of about 3.4%). For years 2005 and 2006 a reduction in economic growth rate to 3-4% a year is expected. This estimate is justified, among other things, by the observed reduction in the first months of 2005 in the **sold production of industry** to a level of 1-2% in relation to the analogical period of the previous year (in 2004 it was close to 12%).

Foreign investments are a key factor in the development of the Polish economy and also the forest-wood sector. Their results: modern technologies, efficient work organization, optimal management and appropriate marketing, positive changes of production structure and sale forms – are favourable for an increase in competitiveness of Polish goods on foreign markets. In 2004 Poland witnessed the biggest foreign capital inflow since 2000. It amounted to approximately 8 billion USD and was by 1.4 billion USD higher than in the previous year (accumulated value of foreign direct investments was at the end of 2004 84.5 billion USD). 2004 was also a peak year in regards to the share of so called greenfield investments. They accounted for 58% of the total value of foreign investments in Poland.

Exports still have significantly impacted the favourable economic development of Poland. In 2004 its value in PLN increased by 30% (in USD it was 38% and in EUR – 26%). Nevertheless, the lingering recession in Western Europe and also less favourable exchange rates of PLN and EUR result in slower growth of foreign demand

for Polish goods and services in 2005 (in the first quarter of 2005 Poland's exports in relation to the first quarter of 2004 increased by less than 5%). In 2005 the dynamics of **imports** was also reduced (in 2004 the value increased by 23%). The Polish foreign trade balance is still passive. It is, however, lower than in previous periods which stems from the improvement of the balance of exports to and imports from the countries of the EU.

Wood products (especially furniture) are one of Poland's main exports and account for 13% of its value. Over 80% of wood products are exported to the EU-25. Wood products' part in Poland's imports is 5%, while 88% of supplies come from the EU countries. Contrary to the overall situation in the Polish foreign trade, wood products, for the most part, are generating an active balance between exports and imports.

On the domestic market demand for wood products is determined mainly by the situation on the labour market, inflation and investment activity, especially in the construction industry. Rapid increase in the prices of some product groups in the periods before and right after Poland's accession to the EU brought about an average year increase in the prices of consumer goods and services (3.5%) in 2004 which was higher than in previous years and than anticipated in the national budget. Results from 2005 have so far shown weaker dynamics of and a slow decrease in **inflation**. The stabilisation of prices should have a positive influence on the condition of the Polish economy and the development of the forest-wood sector. In 2005 the situation in **the labour market** is much better than in previous years yet still difficult. The pace of employment decrease was restrained and the unemployment rate – which was 19.1% at the end of 2004 – decreased to 18% in June 2005.

The economic boom observed since 2004 has not yet brought about a significant and steady growth of **investment activity**. The same can be observed in the construction and assembly production. There is a downward trend in the sale of investment works and a trend towards the intensification of refurbishment works. For the wood sector the results of the **construction industry** are of great importance. There are still not enough dwellings built in relation to the needs – in the first half of 2005 the amount of dwellings completed was by 5% smaller than in the same period of the previous year. The quantity of apartments under construction also fell (by around 2%). The only positive phenomenon is an increase in the amount of issued construction permits concerning new apartments. In the near future it should increase the pace of the construction industry development which to a significant extent creates a demand for wood products.

The above factors were responsible for the **high growth rate in the wood sectors in 2004** (dynamics at the level of the average dynamics in Polish industry overall). However, in the first months of 2005, similar to the whole economy, this growth was reduced. Despite this, the wood sectors have had good economic-financial results, especially in the production of wood-based panels, paper and cardboard, and furniture. The sawmilling industry, which had been in a crisis for many years, is also profiting. The branch, however, faces a shortage in roundwood, which has appeared in the last two years, although Polish wood management is to a great extent self-sufficient nationally. Wood shortages are present in the whole country and basically concern all wood assortments. In the near future, if the economic boom continuous –

the deficit may become relatively permanent. At the same time the increasing domestic demand is causing rise in roundwood prices. Additionally, the energy sector is competing with the wood branches for access to wood.

Imports, due to high transport costs, have limited importance to the roundwood market and are not a factor that would significantly regulate the market. Roundwood from the neighbouring countries (also the wood from forests of southern Sweden devastated by gales), despite of relatively lower prices, can compete with domestic wood mainly in the frontier areas and on a fairly small scale.

It is estimated that the present positive trends in the economy will be continued and intensified in the next years, and the negative trends at least inhibited. This will be the same in the wood sector as well.

2. POLICY MEASURES TAKEN IN POLAND OVER THE PAST 18 MONTHS, WHICH MIGHT HAVE A BEARING ON TRADE AND MARKETS OF FOREST PRODUCTS OR FOREST MANAGEMENT

State forest policy (and actions of the state wood producer dominating in the market) is aimed at sustainable forest development with preservation of all its functions – ecological, social and economic. One particular task of forestry is to intensify processes of effective environmental protection through fixing of carbon and limiting the greenhouse effect (it is of great significance taking into consideration the Kyoto Protocol's coming into force in 2005). Presently the share of the Polish forests in the compensation of national carbon dioxide emission is estimated to account for around 6%. Further increase in the level of carbon accumulation is conditioned by augmentation of forests and wood resources, where constant conversion of stands and other cultivation measures are part of the process.

In Poland the principle of state economic and trade policy is to respect rules of the market economy and limit interference in its mechanisms. That is why in recent years (in 2004 and 2005) no special measures have been taken in this field, although the government has gotten involved in discussion about ways to stabilise the wood market. Disruptions on the market were caused by an insufficient supply of Polish wood in relation to the demand by wood products manufacturers taking advantage of the economic boom in 2004.

In 2004 a deficit occurred on the Polish wood market, which had been previously self-sufficient, causing huge difficulties in the operation of practically all wood branches. Numerous interventions by representatives of the economic branch self-government brought about cross-sectoral (economy/forestry) consultations. They are supposed to result in the development of strategy for the wood market in Poland and measures for its stabilisation at different stages of the trade cycle.

Since accession to the EU Poland's **trade policy** has been identical to the EU policy. In regards to trade with the EU countries it additionally stimulated an increase in sales, whereas in the case of trade with countries outside the EU some specific problems occurred (phytosanitary requirements, competitive products from China).

The economic boom in Poland, reflected by the growth of exports, brought about, among other things, an increase in the importance of fulfilment of phytosanitary requirements for wood packaging, including pallets. It especially concerns exports of goods which come supplied with them to the USA, Canada, Mexico, South Korea, China and Australia. Thanks to appropriate organizational solutions of government agencies (State Plant Health and Seed Inspection Service) there are practically no technical restrictions to obtaining certificates of fulfilment of such requirements in Poland.

In the field of international competition the aggressive trade policy of China has recently been noticed on the Polish wood market. Polish producers and exporters of plywood (and products using it) are most affected by it. For Polish exporters, competition from the Chinese plywood is strongest on the markets of Great Britain and the Netherlands. So far, Polish producers have only taken advantage of the "shield" solutions applied by the EU, however.

It is worth mentioning, that up to 2004 Poland was one of only a few countries where wood had not been promoted by institutions. An independent Wood Promotion Foundation "Wood Now", whose aim is to increase wood consumption in Poland, was established last year.

It should be emphasized, that for the last few years Polish public statistics have been transformed to achieve compliance with the EU standards. This has caused temporary problems with access to comparable data and hinders analyses and accurate interpretation of market and economy phenomena.

3. DEVELOPMENTS IN FOREST PRODUCTS MARKETS SECTORS

3.1. (A) Wood raw materials

In 2004 32.7 million m^3 of roundwood was harvested in Poland, i.e. over 6% more than in the previous year. Softwood accounts for around 72% of removals. It is 10.2 million m^3 of large-size wood (including sawlogs accounting for over 99%) and 12.1 million m^3 of medium-size wood (softwood pulpwood – 9.8 million m^3). Removals of hardwood amounted to 9.2 million m^3, where large-size wood accounted for 31% and medium-size for 57%. Almost 90% of removals are designated for production, i.e. 29.3 million m^3. Removals of fuelwood amounted to 3.4 million m^3, which was over 6% less than in the previous year (about 61%, i.e. 2.1 million m^3, was medium-size fuelwood). In a situation, where there is a shortage on the wood market, fuelwood is designated not only for combustion but also, to a larger extent than previously, for production purposes (wood-based panels production).

Exports of wood in 2004 amounted to 1 million m^3 and it was 2% more than in 2003. Industrial roundwood (92% softwood) accounted for approximately 95% of the exported roundwood. In 2004 there was a significant increase in imports of wood – by 43% in relation to the previous year, i.e. imports increased to a level of about 1 million m^3. Almost entirely it was wood designated for industrial purposes (68% hardwood). In the case of fuelwood a decrease in its exports (by 20%) and an increase in its imports (almost twofold) were recorded. However, the amounts are still insignificant (exports 54 thousand m^3, imports 11 thousand m^3).

It is anticipated that. in relation to the previous year, throughout 2005 there will be a slight drop (2%) in roundwood removals which will mainly concern softwood. In 2006 removals should rise to a level near that of 2004. Changes in removals will be in wood designated for industry purposes. Removals of fuelwood will be the same as in 2004. Where there is a shortage of roundwood on the domestic market imports of wood are forecasted to keep increasing in the next years (by 30% till 2006) and exports to fall (by 20% in 2006 in relation to 2004).

3.2. (B) **Wood energy, with a focus on government policies promoting wood energy**

In Poland's energy balance renewable energy (including wood energy) had no real significance until recently, mainly due to relatively big coal resources at our disposal. Upon accession to the EU Poland's energy policy adopted a strategic objective of generating 7.5% of energy from renewable resources before 2010 (presently renewable energy accounts for 3%). The existing shape of the energy infrastructure and capital-intensive and time-consuming nature of possible alternative solutions (wind or water power plants) led to a situation where the main direction of renewable energy development in Poland is combustion of biomass, including for the most part – wood (co-firing of coal and biomass). Since there are no mechanisms for the wood market's protection, this has contributed to the utilization of whole wood by power plants. This along with an economic boom in the wood industry in 2004 led to the shortages of wood needed for industrial purposes. For the time being, cultivation of trees and quick-growing shrubs in Poland cannot be considered a renewable energy source, because at present for example willow suitable for energy purposes is grown on only a few thousand hectares and possible biomass from plantations being presently set up will not be available for a few years.

3.3. (C) **Certified forest products**

In Poland, sustainable development of forests, which does not disturb any of their functions, is assured by the state's forest policy. Forestry acts within the framework of a planned management, where there is an appropriate level of investment in the cultivation and protection of forests. This enables consumers to access wood of the appropriate quality, coming from rationally managed areas. However, it is a common opinion that because of advancing globalization, certification is a necessity and a basis for functioning on the international market. That is the reason for the certification of Polish forests which has been carried out in recent years (in accordance with the Forest Stewardship Council system).

Presently 16 out of 17 Regional Directorates of the State Forests and most of the so called forest experimental stations in Poland have a **Forest Management Certificate** which confirms definite forest management standards. The area of certified forests is 6.8 million hectares, i.e. 76% of the total forest area. It accounts for 22% of forests certified in the FSC system in Europe. 90% of acquired roundwood comes from the certified forests.

Theoretically in Poland, where a relatively strong wood industry uses mainly domestic raw material, holding a certificate by an owner and manager of forests should stimulate demand for certified wood. For the time being, however, manufacturers of

wood products or trade companies of these products use the fact of holding the certificate of product origin control, **"Chain of Custody"** (CoC), as a marketing instrument on a fairly small, but increasing, scale. A proof that products are made of certified wood has particular meaning for companies which export a great deal of their goods to countries and trade concerns which require such certificate, because they perceive it to be an important instrument of their marketing policy. Currently in Poland 311 companies have the CoC certificate (some multiple-plant companies). It accounts for over 13% of the certificates issued in Europe by the FSC. Around 25% of certified enterprises are trade companies (agents, consultancies, export-import firms). Among the producers of wood products having this certificate, manufacturers of sawnwood and garden programme goods are the dominating groups – being 65% of the total number of certified companies. All of the particle board and fibreboard producers have the CoC certificate.

Within the framework of Poland's introduction into certification of forests and wood products in the Pan-European Forest Certification (PEFC) system, a pilot certification in one of forest inspectorates was carried out in the phase of preparatory works.

3.4. (D) **Value-added wood products**

In Poland the market in value-added wood products has been developing dynamically for many years. These will be progressive markets in the near future as well. **Furniture** is of greatest importance among these products. In 2004 furniture production amounted to approximately 19 billion PLN (5 billion USD), including wooden furniture (without some of furniture made of wood) which accounted for about 75% (14 billion PLN; 3.8 billion USD). Furniture production quantity is determined by foreign demand and the exchange rate of PLN to EUR. In 2004 the value of furniture exports was close to 17 billion PLN (4.6 billion USD). 86% of this was exported to the EU-25 countries. Exports of wooden furniture amounted to 10 billion PLN (2.8 billion USD) and were 15% higher than in the previous year. Imports of furniture have relatively little significance for the Polish furniture market. In 2004 imports amounted to 2.5 billion PLN (0.7 billion USD). The value of wooden furniture imported to Poland was 0.5 billion PLN (0.1 billion USD) and was 6% lower than in 2003.

Flooring, builder's joinery and carpentry of wood and wooden wrapping and packing equipment have an important place on the value-added wood products market. In Poland in 2004 approximately 43 million m^2 of **flooring** was produced, including 16 million m^2 of solid wood flooring and over 27 million m^2 of laminated floor panels. Production of **wooden doors and windows** increased to 12.8 million m^2 in 2004 (an increase by 5% in relation to the previous year). Over 54 million pieces of **pallets** were produced as well. The above-mentioned group of value-added wood products has an important place in Polish foreign trade. In 2004 exports of pallets and other wooden packaging amounted to 1 billion PLN (0.3 billion USD) and it was 26% more than in 2003. Exports of builders' carpentry and joinery products (including prefabricated buildings of wood) was 1.7 billion PLN (0.5 billion USD) and that meant an increase by 28% in relation to the previous year. Whereas imports of pallets and other wooden packaging amounted to 0.1 billion PLN (0.03 billion USD) and of builders' carpentry

and joinery products – to 0.2 billion PLN (0.06 billion USD).

Secondary paper products form a separate group of value-added wood products. In 2004 their production amounted to over 13 billion PLN (3.7 billion USD), where printing products (books, papers and similar printed matters) accounted for over 32% of it. Exports of secondary paper products amounted to 5 billion PLN (1.4 billion USD) and were 13% higher than in the previous year. Paper conversion products for households and sanitary purposes (43%) and printing articles (with the share of 25%) dominated the assortment structure of exports. In 2004 also imports of paper conversion products increased – by 4% in relation to 2003. It amounted to 3.9 billion PLN (1.1 billion USD). Around 27% of it was printing products and 22% secondary paper products for packaging (cartons, boxes etc.). It is anticipated that in the next years existing trends on the paper conversion products market will be continued both in production and in foreign trade.

3.5. (E) **Sawn softwood**

In 2004 3.7 million m^3 of sawnwood was produced, that meant an increase of almost 11% in relation to the previous year. Sawn softwood was 83% of this, i.e. 3.1 million m^3. In relation to 2003 their production increased 11%. Exports of sawn softwood amounted to about 643 thousand m^3, and imports – to more than 271 thousand m^3. Relation of exports of these materials to domestic production was 21% (compared to 25% the previous year), and relation of imports – 9% (compared to 7% the previous year). The share of sawn softwood in the exports of sawnwood in general was 74% in 2004 (72% in 2003), and in the imports 51% (48% in 2003).

It is estimated that in 2005-2006 production of sawn softwood will reach 3.8 million m^3 in 2006. Due to the anticipated growth of domestic demand, foreign trade of sawn softwood will be shaped in such a way that exports stabilise at the level of 2004 and imports increase considerably (by 22%).

3.6. (F) **Sawn hardwood**

Production of sawn hardwood in 2004 was 641 thousand m^3, 13% more than in 2003. In the overall production of sawnwood sawn hardwood accounted for 17%. Exports of sawn hardwood in 2004 reached 225 thousand m^3, and imports – almost 260 thousand m^3. In relation to production it was respectively: 35% (compared to 46% in 2003) and 40% (compared to 39% the year before). The share of sawn hardwood in the exports of sawnwood in general was 26% in 2004 (28% in 2003), and in the imports 49% (52% in 2003).

It is forecasted that in 2005-2006 production of sawn hardwood will increase to 680 thousand m^3. Exports of sawn hardwood should stay almost unchanged, whereas imports will rise (by approximately 7%).

3.7. (G) **Wood-based panels**

In 2004 production of wood-based panels in Poland amounted to 6.5 million m^3 and this was an increase of 11% over 2003. An increase was recorded in production of all kinds of panels, nevertheless it was most visible in the case of particle boards and fibreboards (mainly wet process hardboards and insulating boards). Particle boards – a

share of 63% (4.1 million m^3 including 0.57 million m^3 of OSB) dominate the structure of wood-based panels production; fibreboards, whose share is 30%, are also important (1.9 million m^3). In the group of fibreboards dry process boards are the biggest part (HDF, MDF and LDF). Veneer sheets accounted for less than 2% of manufactured wood-based panels in 2004, and plywood – 5%. In 2004 about 2.3 million m^3 of wood-based panels was exported (36% of the production volume), i.e. 16% more than the year before. Most of the Polish panels which are exported (52%) are fibreboards (for the most part dry process and wet process insulating boards). Around 39% of exports are particle boards (27% of it are OSB). The volume of imports of wood-based panels was 1.4 million m^3 (21% in relation to production) and was 31% higher than in 2003. The main imports were particle boards (0.9 million m^3) and fibreboards (0.4 million m^3).

In 2005-2006 no important changes in the Polish wood-based panels market are forecasted. Due to the fact that wood-based panels are manufactured at full economic capacity, anticipated growth of production will be around 1% a year on average (production of insulating boards will be mainly on the rise). It is predicted that 6.7 million m3 of wood-based panels will be manufactured in Poland in 2006. Also the volume and the structure of exports and imports should be similar to 2004's. Due to growing domestic production of insulating boards the downward trend in the already low volume of their imports will continue, whilst their exports may increase. The downward trend will also be characteristic of the exports of particle boards (due to constantly increasing domestic demand, especially from the furniture industry).

3.8. (H) **Pulp and paper**

Manufacturing at full economic capacity is the reason why production of **wood pulp** and its structure has remained almost unchanged for the last few years in Poland. In 2004 production of wood pulp was 1 million tons, where chemical wood pulp accounted for 77%, mechanical wood pulp for 7% and semi-chemical wood pulp for 16%. Exports are relatively small (4% of the production volume – 41 thousand tons), while imports of wood pulp are highly significant for the Polish wood pulp market. It is almost 12-fold higher than exports and accounts for approximately half of the domestic production volume.

It is assumed that in 2005-2006 the volume and structure of wood pulp production will not change. Existing trends in foreign trade will also remain as they are. However, growing domestic demand will bring about further increase in imports of wood pulp (in 2006 the imports will increase by over 13% in relation to 2004).

In 2004 production of **paper and paperboard** was 7% higher than in the previous year and it amounted to 2.6 million tons. Currently, 69 kilograms of paper and paperboard is produced per one resident of Poland. In the production structure packaging papers are dominant (51%) and printing papers account for 28%. In foreign trade imports surpass exports by 55%. In 2004 the volume of Poland's exports of paper and paperboard was 1.3 million tons – that was mainly packaging paper and paperboards (60%). Imports were 2 million tons, mainly packaging and printing papers (51% and 46%, respectively).

In the near future production of paper and paperboard is anticipated to keep increasing – by 3-4% a year on average – and to reach 2.9 million tons in 2006. As to

foreign trade a slower pace of imports and an increase in exports (by about 3-4% a year) are expected.

Subject: Country market statements for Timber Committee Market Discussions

Table 1

Economic indicators

Indicator	1995	2000	2001	2002	2003	2004
	% change on previous year					
Gross Domestic Product	107,0	104,0	101,0	101,4	103,8	105,4
Sold production of industry	109,7	106,7	100,6	101,1	108,3	111,7
Construction and assembly production	108,1	101,4	88,3	95,9	101,6	99,5
Dwellings completed	88,2	107,1	120,7	92,1	166,7	66,5
Dwellings under construction	105,5	105,7	101,2	97,1	88,5	98,2
Average paid employment						
- total	102,8	97,1	96,8	98,5	99,0	99,9
- in the enterprises sector	101,0	96,7	96,7	95,6	96,2	99,1
Registered unemployment rate (*at the end of the year*)[1]	14,9	15,1	19,4	20,0	20,0	19,1
Average monthly gross real wages and salaries						
- total	102,8	101,0	102,5	100,7	103,4	101,5
- in the enterprises sector	103,2	101,3	101,6	101,5	102,0	100,8
Price indices of consumer goods and services (*inflation*)	127,8	110,1	105,5	101,9	100,8	103,5
Investment outlays	117,1	101,4	90,5	90,0	100,6	105,1
Trade						
millions of PLN, current prices						
Exports	55 515,1	137 908,7	148 114,5	167 338,1	208 944,3	272 102,4
Imports	70 502,3	213 071,8	206 252,8	224 815,8	265 133,5	325 596,3
Balance of trade	-14 987,2	-75 163,1	-58 138,3	-57 477,7	-56 189,2	-53 493,9
millions of USD, current prices						
Exports	22 894,9	31 651,3	36 092,2	41 009,8	53 576,9	73 781,2
Imports	29 049,7	48 940,2	50 275,1	55 112,7	68 003,9	88 156,4
Balance of trade	-6 154,8	-17 288,9	-14 182,9	-14 102,9	-14 427,0	-14 375,2
millions of EUR, current prices						
Exports	-	34 373,4	40 194,8	43 499,3	47 526,4	59 698,0
Imports	-	53 084,8	56 034,5	58 480,2	60 353,8	71 354,3
Balance of trade	-	-18 711,2	-15 839,7	-14 980,9	-12 827,4	-11 565,3

[1] as a ratio of registered unemployed persons to the economically active civil population