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MARKET STATEMENT OF THE CZECH REPUBLIC

1. General economic trends affecting the forest and forest industries sector

Tendencies of the development within the forest-based sector are to be assessed together with the development trends of the economy of the whole country. Trends of the economic development of the Czech Republic have been shaping – mainly since 2004 – very dynamically. The positive development trend was further notably increased during 2005, and it continues to grow also in this year.
In 2005, the Gross domestic product (GDP) of the Czech Republic reached whole 6.1 % at constant prices of 1995, when compared to 2004, and in the fourth quarter of 2005 even 6.9 %. One can assume that the dynamics of the GDP growth will further increase this year (first quarter 7.4 %) and reach up to 6.3 % and up to 6.5 %, respectively. Forecast for 2007 indicates that these trends will continue.
The dynamics of GDP growth from last year is a record-breaking result of the economic development of the Czech Republic. This development means that the GDP per capita reached last year 73 % of the figures presented by EU-15 states. In 2000, it was only 63.8 %. Considering this index, the Czech Republic overshadowed several other countries within the European Union.

Industrial output total and mainly the manufacturing industry (making up 92 %) is the dominant source of the GDP in the Czech economy. Within the manufacturing industry there are branches composing the woodworking complex. The annual change of industrial output total in per cent (index) accounted for 9.6 % in 2004, 6.7 % in 2005 and the estimates for this year assume an increase of 9 %. The dynamics of the increase of 2004 was enhanced among others by the establishment of new production capacities in the automotive industry and by increased production within branches with links to this industry. In 2005, it was enhanced by the increase in manufacturing and marketing of traditional Czech engineering, electronics and optics. Structural changes in manufacturing industry were intensified, growth of the productivity of labour increased, and competitiveness of Czech manufactures rose mainly within the production for exports. The support of foreign investments in manufacturing industry contributed to a conjuncture in growth. Within the woodworking complex, the company KRONOSPAN built a new production facility for oriented strand boards in 2005, and the company Stora Enso Timber started to build a new sawmill for sawnwood. Due to the ongoing run on the products of the Czech manufacturing industry both at home and abroad – mainly by developed economies – and due to the ongoing foreign investments in 2006 – although not originally expected – the industrial development can be considered as very favourable in the next years.

In 2005, **in external trade** exports exceeded imports significantly for the first time since 2000. Annual exports of goods increased by 8.9 % whereas imports grew only by 4.9 %.

The external trade became in this year for the first time the main source of the economic development of the Czech Republic, because since 1993 it has been the first year with a trade balance surplus, namely a surplus of 40 billion CZK. The Czech Republic was permanently recording a passive balance of the whole external trade since 1993, in 2002 71.3 billion CZK, in 2003 69.8 billion CZK, and in 2004 only 26.4 billion CZK. The woodworking complex produced a positive balance of 29.4 billion CZK in 2000, and in 2005 already 41 billion CZK. While the economic growth of the Czech Republic was driven only by domestic demand in the period from 2001 to 2003, in 2004, it were the investments that contributed significantly to the growth, and in 2005, there was a definite positive outcome of the external trade balance. In the future, favourable tendencies of the external trade development in the Czech Republic are assumed to continue, due to the distinctively rising competitiveness of domestic companies mainly in Western Europe.

Although the **forest-based sector** represented in the annual production – measured by sales – of the Czech manufacturing industry only 8.9 % in 2005 (in 2000, it represented 12.5 %), the production of this sector is indispensable for the Czech economy. Decrease of the ratio of this sector relates to the fast growing production of vehicles, computers, electronics and other products that are not based on manufacturing domestic renewable raw materials. The decrease of the ratio of the woodworking sector within the manufacturing industry is estimated to reach another 3.5 % to 4 % in 2006; however, this sector cannot be viewed as less important. When compared with the production of machinery and equipment, the production of these branches is five times smaller than the whole woodworking sector. Food industry and tobacco industry are also smaller, namely by 7 %. The woodworking sector can be also compared with production of the Czech chemical, pharmaceutical, rubber and plastics industry, concluding that these industries are by 12 % bigger than the woodworking sector. The automotive industry is bigger by 60 % and it is the biggest industry of all manufacturing industries. The woodworking sector makes up regularly 16 % of the employment within the manufacturing industry, and moreover, the jobs are placed outside of the industrial centres. Although automation and introducing robots cannot occur to such an extend as in other sectors, the total sector shows a productivity of labour per worker of 82 % of the average value of this index within the whole manufacturing industry. It provides also good outputs in terms of making profit out of 100 billion CZK of sales, so, it returns more money per this unit to the national budget than other sectors, including automotive industry.
Overall the woodworking sector increased at constant prices the production measured by sales. In 2004 and 2005, there was an increase by 8.1 % and 5.1 % respectively, and in 2006, it is estimated to increase by more than 4 %. The sector does not fully process the harvested raw material and exports it – as in the case of sawnwood and pulp – in considerable volumes. Although the sector posses capacities for processing the domestic raw material completely, it is mainly the domestic demand for wood products that makes this impossible. The demand is in comparison to neighbouring countries including e.g. Austria and Germany extremely low, comprising also building of wooden family houses and multi-storey buildings or houses built largely out of wood. It is provided for measures in order to change these tendencies, also within the European Union.

Construction output is growing in the Czech Republic for the sixth year. The reason for the growth over the last two years are mainly both important capital projects in the civil engineering (new plants, transport infrastructure, building shopping and logistics centres) and building of houses. The index of the growth of construction output was 4.2 % year-on-year in 2005, and it is estimated to increase by 5.5 % in 2006. Concerning the construction of houses, the dynamics of the development has been growing mainly since 2002, enhanced by good

interest rates of mortgage credits, savings in buildings societies and national subsidy to young married couples. The numbers of flats with construction works started grew by 3.5 % year-on-year, numbers of finished flats by 2 %, and those of flats under construction by 6 %.

2. Policy measures taken over the past 18 months, which might have a bearing on trade and markets of forest products or forest management.

Concerning forests, the only measure provided for the trade over the last 18 months was the amendment of the Trade of Reproduction Material of Forest Tree Species Act. The Czech Ministry of Agriculture did not provide for any other legislation or measures within this field during the period. Nevertheless, new Forest Act is under construction, dealing also with the aforementioned issues.
Within the woodworking sectors there are certain subsidies from the Operational Programme for Industry and Enterprise, established by the Czech Ministry of Industry and Trade for the year 2005, for small and middle enterprises, covered by financial means of the Ministry and valid also for the year 2006. To be specific, it is e.g. the operational programme called MARKETING, making possible to enhance the competitiveness of Czech exporters – also exporters of woodworking products – in foreign markets. Similarly, there is a programme called KLASTRY, making possible e.g. to improve the quality and to extend the production, trade and current markets including the woodworking products. There is also the programme called KREDIT, supporting only small enterprises – making up the majority of the woodworking sector – and enabling the development of their enterprise projects focused on widening the range of the trade and on searching for new markets.

3. Market drivers.

The woodworking sector is still searching for new markets mainly in developed economies and is enhancing its trade outlets both in economies of EU member states and in other countries in the world. Woodworking products are currently penetrating into the markets of Russia, Arab Emirates, India, Egypt and Asia, mainly of China.
In 2005, the sale at constant prices of woodworking products amounted to 282 billion CZK, increasing so by 6 % when compared to 2004. Exports amounted to 149 billion CZK, an increase of 7 % when compared to 2004. The sector makes up more than 8 % of total exports of the Czech Republic. This is almost the same figure as the percentage of the production of the sector within the whole manufacturing industry. Penetrating into new markets of wood and wood products causes the woodworking complex to be the reason for a positive balance between exports and imports of the whole Czech economy. The home trade covers 60 % of the sector and the domestic market is assumed to continue to grow. Due to the difficulties caused by exports of significant amounts of wood raw material, mainly of roundwood and pulpwood (the wood raw material market is absolutely free and no duty applies), it was provided for several internal measures to boost the supply to the home economy. The effectiveness of these measures is subject to evaluation. Lately, several Clusters were established with the support of the government in order to enhance the markets of wood products. Simultaneously, actions of businesspeople of this sector, of their interest associations, and of universities are encouraged along with architecture and constructive competitions in creating an effective and low-energy-consumption wooden family house or a flat building.

4. Developments in forest products markets sectors

A. Wood raw materials

In 2005, removals of wood raw material dropped by 91 thousand m^3 i.e. by 0.6 % year-on-year, and totalled to 15 510 thousand m^3, with softwood amounting to 13 883 thousand m^3 and hardwood to 1 627 thousand m^3. Removals of softwood and hardwood decreased by 37 thousand m^3 and by 54 thousand m^3, respectively. This was caused by the rising prices of roundwood on average by 6 % and of pulpwood by 2 % due to the higher demand by domestic customers.
Due to the increased demand, exports of wood raw material dropped by 201 thousand m^3 in 2005, which is considered to be the correct trend. However, exports of wood raw material accounts for 23.5 % of the whole production. On the other hand, imports increased by 494 thousand m^3 year-on-year. Most of the wood is exported to EU countries, namely 99.5 % (75.7 % to Austria and 16.3 % to Germany). Similarly, most of the wood is imported from EU countries, namely up to 85 % (39.3 % from Slovakia and 29.8 % from Germany). Increasing the domestic demand for wood raw material and producing subsequently goods with higher and high VAT charge is a very positive trend.

In 2005, **removals of coniferous sawlogs and veneer logs** accounted for 93.4 % (7 613 thousand m^3) of the removals of sawlogs and veneer logs, which means a decrease of the production by 2.6 % when compared to 2004. Concerning the wood market, imports and exports of coniferous roundwood increased by 8.5 % to 767 thousand m^3 and by 1.4 % to 1 960 thousand m^3, respectively. Apparent consumption rose by 1.7 % to 6 420 thousand m^3, as expected. The assortments were imported from EU countries, and to be more specific from Slovakia, Germany and Austria.

In 2005, **removals of non-coniferous sawlogs and veneer logs** recorded in comparison to the previous year a decrease by 11.3 % to 540 thousand m^3. Imports rose by 28 % to 160 thousand m^3 and exports by 9.1 % to 50 thousand m^3. Apparent consumption dropped by 8 % to 650 thousand m^3.
The non-coniferous sawlogs were traded mainly in European countries.

In 2005, **removals of pulpwood (round and split)** rose in comparison to 2004 by 2.7 % to 5 742 thousand m^3, with coniferous pulpwood growing by 3 % to 5 180 thousand m^3. Considering the coniferous pulpwood trade, imports, exports and apparent consumption rose by 5.9 % to 200 thousand m^3, by 3.4 % to 580 thousand m^3, and by 4.4 % to 4 800 thousand m^3, respectively. The main consumer of the coniferous pulpwood is the pulp and paper industry for the production of wood pulp.
Importers and exporters were mainly the European countries.

In 2005, **removals of non-coniferous pulpwood (round and split)** accounted only for 10 % of the pulpwood removals i.e. 562 thousand m^3, equalling the same amount as in the previous year. In 2005, the import of 20 thousand m^3 dropped only by 1 thousand m^3 year-on-year, exports rose by 4.1 % to 352 thousand m^3, and apparent consumption dropped by 6 %.

Removals of wood raw material are estimated to increase by 5.2 % to 15 590 thousand m^3 year-on-year in 2006. A proportional increase is expected in following productions: coniferous sawlogs and veneer logs (by 5.5 %), non-coniferous sawlogs and veneer logs (by

approx. 1 %), coniferous pulpwood – round and split (by more than 1 %), and non-coniferous pulpwood – round and split (only slightly).
In comparison to 2006, the forecast for 2007 anticipates the removals of wood raw material to increase by 0.7 % (15 700 thousand m^3), with production, imports, exports and apparent consumptions of individual raw wood assortments reaching higher or equal values.

B. Wood energy

The energy form wood makes up only from 1 to 1.5 % of the whole production. The government of the Czech Republic deals within the National Forestry Programme – using the means of provision made by the appropriate departments of the Ministry of Agriculture and Ministry of Industry and Trade – with issues of how to contribute to energy production by delivering lower-quality wood, namely by growing fast-growing tree species, and issues how to process the raw material during the energy production in the most effective way. The Czech Republic posses land used in the past for coal mining, gradually re-cultivated, and land used in the past for agriculture purposes. At the present, this land is more and more used for growing fast-growing tree species, especially those suitable for energy production. Therefore, new, highly effective burning furnaces are produced in the Czech Republic.

C. Certified forest products

There are two systems to certify forest in the Czech Republic – PEFC and FSC system. Most of the Czech forests – 80 % of the total forest cover – posses the PEFC certificate. The C-o-C certificates are awarded to wood-processing entities, wood-trading companies, sawmills, paper industry and construction. Czech consumers and therefore also sellers require year by year more information whether the product was made out of certified wood, including further details.

D. Value-added wood products

In 2005, trade in value-added wood products recorded in terms of value (CZK million FOB/CIF, current prices) in the assortment of:

- further processed sawnwood a decrease in imports by 2 % to 598 million CZK and a increase in exports by 4 % to 1 063 million CZK;
- wooden wrapping and packing equipment a substantial fall of imports by 34 % to 70 200 million CZK and of exports by 16 % to 2 885 million CZK;
- builder's joinery and carpentry of wood again a decrease in imports by 2.3 % to 2 194 million CZK and an increase in exports by 10.5 % to 4 765 million CZK;
- wooden furniture an increase in imports and exports by 4.2 % to 6 172 million CZK and by 3 % to 7 293 million CZK, respectively.

According to analyses, there is a year-on-year increase of the assortment of value-added wood products forecasted in 2006.

E. Sawn softwood

In 2005, the production of sawn softwood increased by 2.2 % year-on-year to 3 730 thousand m^3. Trade with sawn softwood recorded an increase in imports by 40.7 % to 380 thousand m^3 and in exports by 9.1 % to 1 710 thousand m^3. Apparent consumption of softwood in the

domestic market dropped by 2.1 % to 2 300 thousand m^3. Exports of this product account for 45.8 % of its whole production (it is exported mainly to Austria). In 2005, sales of the wood-working industry increased by 7.5 % in comparison to 2004; however, the growth of roundwood prices meant higher costs and lower productivity of labour of the accounting value added.

In 2005, sawn softwood was mainly imported from Russia, Germany, Austria and Slovakia, and to smaller extend also from other European countries; it was exported largely to European countries, mainly to Austria, Germany, Italy, and to non-European countries such as the USA, Australia and Japan.

In 2006, in comparison to 2005, sawn softwood is expected to develop as follows: a small increase of the production by 0.8 % to 3 760 thousand m^3, a decrease of imports and exports by 8 % to 350 thousand m^3 and by 3.5 % to 1 650 thousand m^3, respectively, and an increase of the apparent consumption by 7 %.

F. Sawn hardwood

Similarly to the previous year, the production of temperate and tropical sawn hardwood dropped in 2005, namely by 6.5 % to 273 thousand m^3. Concerning the sawn hardwood trade, imports increased by 14 % to 155 thousand m^3, both exports and consumption did not record any changes when compared to 2004. Apparent consumption of tropical sawnwood grew slightly. Sawn hardwood was imported mainly from Slovakia, Germany and it was exported to a whole range of European countries.

The forecast for 2006 estimates an increase in production by 7 % year-on-year to 292 thousand m^3, a slight decrease of imports, an insignificant increase of exports, and an increase of the apparent consumption by 7 %.

G. Wood-based panels

Veneer sheets

In 2005 – similarly to the previous year and the estimates for this one – the veneer sheets production remained at the same level – 19 thousand m^3. Imports and exports show similar tendencies; they stay the same in both given years and in the forecast for 2007, reaching 24 thousand m^3 and 23 thousand m^3, respectively. Apparent consumption is estimated to amount to 20 thousand m^3 from 2005 to 2007.

Veneer sheets are imported mainly from European countries, to small extend from Asia, Africa and the USA; they are exported to European countries, mainly to Germany and Austria.

Plywood

In 2005, in comparison to 2004, there was an increase of plywood production by 7.8 % to 165 thousand m^3, and imports and exports rose by 7.3 % to 59 thousand m^3 and by 4.4 % to 96 thousand m^3, respectively. Demand on the domestic market climbed up as well, by 10.3 % to 128 thousand m^3. The increase of the production and consumption of plywood with

a tropical wood layer is probably linked to the increase of furniture production and to exports of it and its parts, caused rather by the increased home-building than by the renovation works.

The estimates for 2006, compared to 2005, assume an increase in production by 3 % to 170 thousand m^3. Imports are expected to remain the same and exports to increase by 15.6 % to 111 thousand m^3. The forecast for 2007, compared to 2006, predicts as follows: an increase in production by 3 % to 175 thousand m^3, an increase in exports and imports by 13.5 % to 115 thousand m^3 and by 10 % to 65 thousand m^3, respectively and an increase in apparent consumption by 6 % to 125 thousand m^3.

Particle board

In 2005, compared to 2004, the production, imports and exports of particle boards rose by 8 % to 1 218 thousand m^3, by 22 % to 295 thousand m^3, and by 9.2 % to 608 thousand m^3, respectively. Apparent consumption rose by 11.3 % to 905 thousand m^3. In 2005, imports of oriented strand board (OSB) continued to grow, due to the higher demand by the construction and by the population.
Boards were imported from European countries, mainly from Germany and Austria, and exported mainly to Rumania, Hungary, Slovakia and Poland.

The estimates for 2006 show an increase in production by 1.4 % to 1 235 thousand m^3. Imports are expected to grow by 1.7 %, exports to grow barely, and apparent consumption by more than 2 %.

Fibreboard

In 2005, production of MDF boards remained the same as in the previous year – 90 thousand m^3. Concerning the trade of all board assortments – hardboard, MDF boards and insulation boards – imports fell by 8 % to 205 thousand m^3, exports by 47 % to 50 thousand m^3, and the apparent consumption grew by 12.4 % to 245 thousand m^3.
Fibreboards were imported mainly from Germany, Poland and Austria and exported to Slovakia and Poland.

Estimates for 2006 and 2007 show an increase in production by more than 2 %. In 2006, imports are expected to grow approx. by 5 %, and in 2007, to drop approx. by 2 %. Apparent consumption is assumed to grow by 4.5 % in 2006, and to drop probably by 1 % in 2007.

H. Pulp and paper

In 2005, production of wood pulp increased by almost 3 % to 753 thousand tonnes when compared to 2004. Concerning the trade of wood pulp, exports climbed up by 5.3 % to 358 thousand tonnes, imports fell down by more than 18 % to 193 thousand tonnes, and apparent consumption grew by 6 % to 588 thousand tonnes year-on-year.

Pulp is mainly imported from European countries, such as Russia, Finland, Sweden, but also from the USA. Similarly, it is exported largely to European countries (Germany, Italy, Austria, and Slovakia) and to Asia.

Production of wood pulp is estimated to grow approx. by 1 % to 760 thousand tonnes when comparing 2006 with 2005. Imports and exports are to increase slightly to 194 thousand

tonnes and to 360 thousand tonnes, respectively. Apparent consumption is to grow approx. by 1 % to 594 thousand tonnes. Forecast for 2007 assumes the year-on-year development to remain unchanged.

Concerning **the assortment of paper and paperboard**, the production recorded an increase by 3.7 % year-on-year to 969 thousand tonnes in 2005. Imports and exports rose by over 30 % to 1 270 thousand tonnes and by 15.5 % to 828 thousand tonnes, respectively. Apparent consumption also grew by 18.3 % year-on-year to 1 411 thousand tonnes.

Paper and paperboard were imported mainly from European countries (Germany and Austria) and were exported again to European countries, such as Germany, Slovakia, Poland, and to smaller extend also to other continents.

Estimates for 2006 show an increase in production by more than 6 % to 975 thousand tonnes. Imports and exports will probably decrease by more than 3 % to 1 224 thousand tonnes and by 7 % to 770 thousand tonnes, respectively. Nevertheless, apparent consumption is to rise approx. by 1 % to 1 429 thousand tonnes. The forecast for 2007 assumes the production to increase slightly to 981 thousand tonnes; however, imports and exports are to remain at the level of 2006. On the other hand, apparent consumption is expected to grow by more than 4 % to 1 435 thousand tonnes.

5. Tables

Selected economic indicators

Country: Czech Republic

Indicator	**Percentage change compared to previous year**			
	Actual			Estimate
	2003	2004	2005	2006
Gross domestic product (1995 constant prices)	3.2	4.2	6.1	6.3
Industrial production (2000 constant prices)	5.5	9.6	6.7	9.0
of which:				
- woodworking industry	3.6	6.6	6.2	7.5
- pulp, paper and printing industry	-1.0	7.3	6.0	3.5
Construction (2000 constant prices)	8.9	9.7	4.2	5.5
External trade (FOB/CIF, current prices)				
of which:				
- Imports	8.7	21.4	4.9	11.5
- Exports	9.2	25.7	8.8	11.9

Production (removals) of wood in the rough (1000 m3)

Country: Czech Republic

Product	Year	Industrial roundwood				Wood fuel	Total
		Total	Sawlogs Veneer logs	Pulpwood	Other		
Total	2005	14,285	8,153	5,742	390	1,225	15,510
	2006	14,360	8,200	5,800	360	1,230	15,590
	2007	14,465	8,240	5,860	365	1,235	15,700
of which:	2005	1,122	540	562	20	505	1,627
non-coniferous	2006	1,140	545	563	32	510	1,650
	2007	1,160	555	565	40	515	1,675

Summary of statistics and estimates (1000 m3), (1000 mt)

Country: Czech Republic

Product	Year	Production	Imports	Exports	Apparent consumption
Sawnwood, coniferous	2005	3,730	380	1,710	2,300
	2006	3,760	350	1,650	2,460
	2007	3,790	350	1,650	2,490
Sawnwood, non-coniferous	2005	273	155	48	380
	2006	292	150	50	392
	2007	310	155	53	412
Sawlogs and veneer logs, coniferous	2005	7,613	767	1,960	6,420
	2006	7,655	770	1,980	6,445
	2007	7,685	770	1,980	6,475
Sawlogs and veneer logs, non-coniferous	2005	540	160	50	650
	2006	545	160	50	655
	2007	555	160	50	665
Pulpwood (round, split) coniferous	2005	5,180	200	580	4,800
	2006	5,237	220	560	4,897
	2007	5,295	240	550	4,985
Pulpwood (round,split) non-coniferous	2005	562	20	352	230
	2006	563	20	350	233
	2007	565	20	350	235
Veneer sheets	2005	19	24	23	20
	2006	19	24	23	20
	2007	19	24	23	20
Plywood	2005	165	59	96	128
	2006	170	59	111	118
	2007	175	65	115	125
Particle board	2005	1,218	295	608	905
	2006	1,235	300	610	925
	2007	1,238	305	610	930
Fibreboard	2005	90	205	50	245
	2006	92	215	51	256
	2007	94	210	52	252
Wood pulp	2005	753	193	358	588
	2006	760	194	360	594
	2007	760	194	360	594
Paper and paperboard	2005	969	1,270	828	1,411
	2006	975	1,224	770	1,429
	2007	981	1,224	770	1,435