

**THE NETHERLANDS
NATIONAL MARKET REPORT 2006**

**PRESENTED TO
THE SIXTY-THIRD SESSION OF
ECE/TIMBER COMMITTEE
3 – 6 OCTOBER, 2006
GENEVA**

Institute of forestry and forest products, Probos
Netherlands' Timber Trade Association, VVNH
Netherlands' Paper and Board Association, VNP
Ministry of agriculture, nature and food quality

1 GENERAL ECONOMIC TRENDS AFFECTING THE FOREST INDUSTRIES SECTOR

The Dutch economy is on the rise. This year, economic growth is expected to pick up to 3%, falling back slightly to 2.75% in 2007.

In several respects, the year 2006 reflects a turn for the better. For the first time in this century, Dutch economic growth is likely to outweigh the average economic growth in the euro area. Household expenditure will increase as a consequence of the recovery of purchasing power and employment. Furthermore, investments and exports also rise, while unemployment swiftly decreases. Next year, the government budget will almost be in balance.

The international economic prospects, highly relevant for the Dutch economy, are favourable for 2006 and 2007. The average increase of the Gross Domestic Product (GDP) in the euro area will probably improve from 1.3% in 2005 to 2.25% in 2006 - the highest growth rate since 2000.

Exports and investments are the most important contributors to the favourable development. Next year, GDP growth in the euro area is expected to lose momentum, mainly due to the restrictive budgetary policy in Germany, the recent appreciation of the euro, and the assumed increase of interest rates.

There has been a considerable reduction in unemployment since the end of 2005. For the first time since 2002, employment will show a substantial increase in 2006. This positive development is expected to intensify firmly next year. As a result, unemployment could diminish by 135,000 persons in two years; i.e. by almost 30%.

Inflation is estimated to be 1.25% this year, after 1.7% in 2005. The abolition of the users' part of property taxes pushes down inflation this year, but it will no longer be influential next year. Rising unit labour costs constitute another upward effect on prices in 2007. On the other hand, energy prices will then probably contribute less to inflation. On balance, inflation is expected to be 1.5% next year.

2 POLICY MEASURES INFLUENCING TIMBER TRADE AND MARKETING

a. Law Sustainable Produced Wood (by M. Vos)

In earlier reports The Netherlands informed the ECE/Timber Committee on the Dutch Act on labelling of forest products. Originally this draft legislation of the Dutch Parliament was presenting a mandatory 'red and green labelling' of all timber and paper products sold in The Netherlands. After discussions in The Upper House of Dutch Parliament in 2002 the initiator skipped the red label. The European Commission subsequently requested the Dutch authorities to present the new draft law for a notification procedure. So far the Commission and four member states gave their detailed opinion. The Commission is of the opinion that the draft, despite the progress made, still contains provisions which may constitute measures of equivalent effect to quantitative import restrictions. Furthermore the Commission questions the exclusive reference to the Forest Stewardship Council in respect of other existing systems for marking, tracing and certifying wood.

In January 2005 the Dutch Parliament treated an actualized draft, which was brought more into line with the development of the National Guideline for the Assessment of certified Wood Products. Different amendments were discussed with the initiator MP Mrs. Vos. Up to now the Parliament is waiting for Mrs. Vos answer.

In a recent discussion in Parliament the party of Mrs. Vos, Green Left, announced to make a revised draft, which will be presented in the next cabinet period.

b. National Guideline for the Assessment of Certified Wood Products

In relation with the discussions on the labelling act the Dutch government took the initiative in 2002 to set up a guideline for the assessment of certified wood products based on the Dutch standards for sustainable forest management. Wood and wooden products brought on the Dutch market which fulfil the standard could be provided with a special mark.

The whole process is co-ordinated by the ministry of Housing, Spatial Planning and the Environment (VROM). A broad variety of environmental and organizations for indigenous people are involved, also different branch organizations from forestry and the forest based industry and officials from different ministries. In 2003 the final draft of the Guidelines was produced together with an Assessment protocol. In 2004 these drafts were evaluated on their performance in pilots, in which wood products were imported from different countries. Comments were discussed and the project group finalized their documents. At the same time the representatives of the Dutch forest based industries discussed the final drafts with their international sister organizations.

At the end of 2005 there was an agreement about the content of the national guideline. However the environmental organisations could not agree with the proposed organisational structure and withdraw from the process. The ministry decided to continue. Next step will be to install a board for controlling the assessment of certification systems. The board will be asked to perform a number of pilot assessments for different certification systems during the end of this year.

The co-ordinating ministry will take the final decision for the implementation of the Guideline before the end of 2006.

c. Illegal Logging

The use of illegal and unsustainably produced timber is a growing political issue within the Netherlands. The Netherlands has since the beginning of the 1990's invested heavily in the area of sustainable development. As a result the Netherlands has become one of the largest donors in the area of sustainable forest management in relation to poverty alleviation with an annual budget for such initiatives of about €70 million per year. In the light of this effort to improve sustainable management of forests on the supply side it is increasingly difficult to explain to the public that the country is also a major importer of timber from potentially illegal sources.

As a small country open to trade the Netherlands favours the use of multilateral or at least EU wide approaches over bilateral agreements to tackle the problem of illegal logging. The Netherlands supports the development of the EU FLEGT action plan and its Voluntary Partnership Agreements with key timber producing countries. The ministry of Agriculture, Nature and Food quality started this year a project in Malaysia to support this country to prevent illegal logging and to stimulate sustainable forest certification under MTCC. The Netherlands also supports the development of FLEG and other regional forest initiatives in Asia, Russia en Africa.

The Dutch private sector is also active in developing measures against illegal timber. In January 2004 the Netherlands Timber Trade Association (NTTA) adopted a code of conduct, which binds its members to exclusively trade in timber from legal sources. The NTTA is also engaged in projects together with European sister organizations aiming to clean up its supply chain in the most important tropical hardwood delivering countries. Recently the Dutch government supported the NTTA project financially to broaden the number of tropical countries where illegal harvesting takes place.

As part of their new policy plan 2006-2009 the NTTA has developed a legality verification protocol for its members. Last year this draft protocol was discussed with the NGO's and government officials. Introduction of this protocol has taken place in 2006.

d. Green Public Procurement Policies

Another activity is the use of green public procurement policies aiming to provide an incentive for those countries and timber traders that producing in a legal and sustainable manner. In June 2004 the Dutch cabinet decided that timber purchases by central Government bodies would have to be of guaranteed legal origin and where possible from sustainably managed sources. The co-ordinating ministry of Housing, Spatial Planning and the Environment is setting up the new rules now for implementation. The National Guideline for the Assessment of certified wood products will be an important tool and integrated in this procurement policy.

3 DEVELOPMENTS IN DUTCH FOREST PRODUCTS MARKETS SECTORS

a. Wood energy

The Dutch government aims to produce 5% renewable energy by 2010 and 10% by the year 2020, half of which will have to come from bio-energy. In 2005 2.5% of the total national energy consumption (i.e. 3280 PJ) came from renewable sources. In 2004 this figure was 1.8%. Main reason for this increase is the co-combustion of biomass in coal fueled power plants for the production of green electricity.

Sustainable energy in The Netherlands is for three quarter available as electricity. The domestic production of green electricity went up from 4.3% of total electricity consumption in 2004 to 6.2% in 2005. This increase is also created by the growing amount of biomass used for co-combustion in coal fueled power plants. For some power plants technical adjustments were made for the co-combustion of biomass. The financial support from government was enough last year to meet the extra costs for the use of biomass in stead of natural gas.

In 2004 the wood processing sectors in The Netherlands have produced 1.1 million m³ of residues in total, of which approximately 1 million m³ has been sold. This corresponds with a trading volume of 514,000 oven dry tonnes/a. The primary wood processing sectors sold virtually all their residues (96%). The finished products sectors sold 87% of their residues and used about 13% for their own internal heat supply. The total amount of wood residues used internally for heat production was about 100,000 m³ for both sectors together. From the 1 million m³ of residues sold, approximately 50,000 m³ was sold directly to utilities for the production of bio-energy and 644,000 m³ was sold to traders, 10% of which was delivered to bioenergy utilities (i.e 60,000 m³). Thus the total amount of wood processing residues used for bio-energy purposes in 2004 was 210,000 m³ of round wood equivalents. Figures for 2005 are not yet available.

b. Round wood

In 2005 the removals from the Dutch forests were with 1.11 million m³ 8% higher than in the year before. The supply from coniferous sawlogs increased with 20% to .45 million m³, that is more than half of the industrial roundwood production. Consumption of coniferous sawlogs in the Netherlands increased by 60%. The Dutch sawing industry consumed 45.000 m³ more from Dutch forests. Possible explanation is the restricted availability in Europe and the price-rise for sawnwood.

From our statistics we can conclude that industrial roundwood consumption in The Netherlands has reduced since the year 2000. Last year there was a remarkable change by more sawing activities.

c. Certified forest products

The most recent monitoring for the use of certified wood in the Netherlands has been made for FSC products on the Dutch market in 2005. Last year 900.000 m³ rwe was available as FSC wood, about 13 % of total use of construction timber in The Netherlands. The total import volume of FSC timber was 595.000 m³ rwe, that is about

nearly 9 % of the total net import of construction timber. In 2005 11 % of the FSC imported tropical hardwoods came from FSC forests.

At the same time Probos is now monitoring the volumes for certified wood brought on the Dutch market for all certificates. Probos also investigates the timber volumes imported in The Netherlands which originates from certified forests.

d. Sawn softwood

The economic indicators for The Netherlands in 2006 and 2007 are very sound. Especially the strong increase in new dwellings, the recovery of private consumption and the growing investments will result in a growing demand for softwood products. However the availability of softwood in the European market is since last year pressurized. Supply and demand more and more diverged the first quarter of this year. The professionals expect this trend will be boosted.

The substantial increase in prices from January 2006 on the market for softwood products has different causes, which are on their own not dramatic, but together has a great impact on prices.

Climatic conditions (very wet autumn last year, extreme snowfall in wintertime, a wet spring in Scandinavia and floods in Central Europe stagnated the transport of roundwood to the sawmills) in combination with new tax regulations in Finland and the growing demand are the main reasons for the strong price-rise. Information from the market in the third quarter of 2006 indicate further price increases. Although supply and demand will be in balance again, this is not the case in 2006 and even not in 2007. The woodworking industry should realize prices are structural at a higher level. On the long run there is no need to worry about the availability of softwood.

The decrease of import from the Baltic states in 2004 with 30% was compensated in 2005. The import from Sweden and Finland again was reduced. Striking is the further increased import of sawn softwood from Germany. Germany is now after Sweden the second exporting country for the Netherlands.

Table 1
Key facts of the Dutch sawn softwood market

	1998	1999	2000	2001	2002	2003	2004	2005
	X 1000 m3							
Domestic Production	196	203	247	168	149	164	175	176
Net Imports	2658	2629	2770	2450	2229	2230	2245	2116
Stock Change	25	-68	-25	-25	-91	9	26	139
Apparent Consumption	2829	2900	3042	2643	2469	2385	2394	2431

Sources: National Statistics (CBS) / Netherlands's Timber Trade Association (VVNH)/ Probos

e. Sawn hardwood

In the hardwood market the consumption of tropical products remained at the same level, while in the non-tropical hardwoods there was a decrease in consumption of 6%. The increase of tropical hardwoods could be found in the growing import of different FSC species.

The availability of hardwoods is also a bottleneck. There is a growing demand now which resulted in a considerable price-rise. As with the softwood these prices will stay at the higher level in the coming years.

Table 2
Key facts of the Dutch sawn hardwood market

	1998	1999	2000	2001	2002	2003	2004	2005
	X 1000 m3							
Domestic Production	153	159	143	100	109	105	98	103
of which tropical	40	45	40	23	25	22	19	19
Net Imports	468	542	634	532	431	533	534	992
of which tropical	276	315	405	327	277	347	377	379
Apparent Consumption	621	701	777	632	540	638	632	595
of which tropical	316	360	445	350	302	369	396	398

Sources: Probos, National Statistics (CBS)

f. Pulp and paper

Two paper plants in The Netherlands are using fresh fibres for the production of newsprint and for board for folding boxes. The fresh fibres are produced from poplar and Norway spruce. The consumption of roundwood decreased again. Both production plants consume also recovered fibres. Table 4 shows an increase during the last years in the use of TMP chips mostly imported from the sawing industries.

Table 3
Fibre furnish of the Dutch paper and board industry

	1998	1999	2000	2001	2002	2003	2004	2005
	X 1000 m3 roundwood equivalents under bark							
Roundwood	157	160	171	165	159	161	117	104
Chips	130	135	137	170	160	174	194	203
Market pulp	3,411	3,127	2,658	2,856	2,935	3,148	3,308	3,452
Recovered paper	7,365	7,719	7,846	7,540	7,710	7,725	7,735	8,001
Total fibre input	11,063	11,141	10,812	10,731	10,967	11,208	11,354	11,760

Source: Probos, VNP

Economic status of the Dutch paper and board industry

Rising energy prices placed a heavier cost burden on the paper industry, particularly in view of its high energy use. Royal VNP expects that in the coming year the cost of energy to the industry will exceed its labour costs. There was little change in raw material prices in 2005, while the cost of water is still relatively high in the Netherlands. Not all cost increases could be passed on in the sales prices. Hence the margins of the paper industry came under further pressure over the past year.

Sales by the Dutch paper and board industry rose 0,3% in 2005. The total annual production volume reached almost 3.5 million tonnes of paper and board. The rise in production volume was slightly below growth throughout Europe which was almost 1%. Rising sales in the Netherlands were largely due to greater exports of packaging paper. Turnover of the Dutch paper and board industry also rose by 0,3% to a little over 2 billion euros. This was just below the growth in Dutch GNP, which was 1,1%.

Table 4*Recent developments of the Dutch paper and board industries*

	1998	1999	2000	2001	2002	2003	2004	2005
Charge in production in %:								
Thermo-mechanical pulp (integrated)	-8.8	11.0	16.0	-2	-9	+12	-9	9
Newsprint	-7.0	8.0	10.0	-4	-10	+20	-1	0
(Other) graphic papers	0.0	2.0	3.0	-17	-5	+2	+4	-2
Case materials	2.0	8.0	0.0	-5	+14	-6	+3	+5
Wrappings upto 150 gsm	-3.0	17.0	-8.0	-5	+2	-4	+13	0
Folding boxboard and other paper & board for packaging	4.0	2.0	2.0	-1	+5	-3	-27*)	-1
Sanitary & household	0.0	14.0	-8.0	-3	-1	-1	+4	-5
Total paper & board	1.0	2.0	2.0	-5	+5	0	+4	0
(Turnover [million Euro])	1,923	1,960	2,300	2,197	2,165	2,032	1,996	2,001
Price change of production of paper and board industries	2.75	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Royal VNP

*) Fire damage in the Mayr-Melnhof factory

4. TABLES

A. ECONOMIC INDICATORS FOR THE NETHERLANDS

Change in %, unless otherwise specified	2004	2005	2006	2007
GDP	1.7	1.1	3	2.75
Private consumption	0.0	0.4	1.75	1
Private gross fixed investment (excl. housing)	3.3	0.5	8.5	4
Exports of goods	9.4	6.6	7.5	8.25
Imports of goods	9.0	5.1	7.5	7
Production, market sector	1.9	1.7	4	3.5
Consumer Price Index (inflation)	1.2	1.7	1.25	1.5
Compensation per employee, market sector	2.5	1	0.25	?
Productivity, market sector	4.3	2.4	2.5	1.5
Unit labour costs, manufacturing	- 1.4	0.3	- 3.25	-1.75
Labour income share, market sector, level in %	80.0	79.3	79	79
Employment, whole economy (persons)	- 1.2	0.0	1.75	2.25
Employment, market sector (labour years)	-1.6	- 0.6	1.5	2
Unemployment, level, % labour force	6.5	6.5	5.75	4.5
EMU-debt, level in % GDP	52.6	53.0	51.0	49.6
EMU-balance, level in % GDP	- 2.1	- 0.3	- 0.5	-0.1

Source: CPB, MEV2005

B. FOREST PRODUCTS PRODUCTION AND TRADE IN 2005, 2006 AND 2007

Table 6
Forest production and trade in 2005, 2006 and 2007

Product Code	Product	Unit	Revised	Estimate	Forecast
			2005	2006	2007
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS				
	Removals	1000 m ³	364	375	380
	Imports	1000 m ³	185	150	150
	Exports	1000 m ³	212	225	225
	Apparent consumption	1000 m ³	337	300	305
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS				
	Removals	1000 m ³	84	85	90
	Imports	1000 m ³	21	20	20
	Exports	1000 m ³	18	20	20
	Apparent consumption	1000 m ³	87	85	90
1.2.1.NC.T	of which, tropical logs				
	Imports	1000 m ³	12	10	10
	Exports	1000 m ³	25	5	5
	Net Trade	1000 m ³	-13	5	5
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS				
	Removals	1000 m ³	212	200	210
	Imports	1000 m ³	36	40	40
	Exports	1000 m ³	129	120	120
	Apparent consumption	1000 m ³	119	120	130
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS				
	Removals	1000 m ³	116	100	110
	Imports	1000 m ³	8	10	10
	Exports	1000 m ³	2	5	5
	Apparent consumption	1000 m ³	122	105	115
3 + 4	WOOD RESIDUES, CHIPS AND PARTICLES				
	Domestic supply	1000 m ³	1.280	1.580	1.280
	Imports	1000 m ³	1.238	1.500	1.600
	Exports	1000 m ³	357	400	400
	Apparent consumption	1000 m ³	2.161	2.680	2.480
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS				
	Removals	1000 m ³	31	25	25
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS				
	Removals	1000 m ³	13	15	15
1.1.C	WOOD FUEL, CONIFEROUS				
	Removals	1000 m ³	50	50	100
1.1.NC	WOOD FUEL, NON-CONIFEROUS				
	Removals	1000 m ³	240	240	250

Product Code	Product	Unit	Revised	Estimate	Forecast
			2005	2006	2007
5.C	SAWNWOOD, CONIFEROUS				
	Production	1000 m ³	176	175	175
	Imports	1000 m ³	2.481	2.730	2.750
	Exports	1000 m ³	361	300	300
	Apparent consumption	1000 m ³	2.296	2.605	2.625
5.NC	SAWNWOOD, NON-CONIFEROUS				
	Production	1000 m ³	103	100	100
	Imports	1000 m ³	619	650	660
	Exports	1000 m ³	104	110	110
	Apparent consumption	1000 m ³	618	640	650
5.NC.T	of which, tropical sawnwood				
	Production	1000 m ³	19	15	15
	Imports	1000 m ³	443	450	460
	Exports	1000 m ³	84	75	75
	Apparent consumption	1000 m ³	378	390	400
6.1	VENEER SHEETS				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	27	25	25
	Exports	1000 m ³	6	5	5
	Apparent consumption	1000 m ³	21	20	20
6.1.NC.T	of which, tropical veneer sheets				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	13	15	15
	Exports	1000 m ³	3	5	5
	Apparent consumption	1000 m ³	10	10	10
6.2	PLYWOOD				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	526	560	580
	Exports	1000 m ³	40	44	46
	Apparent consumption	1000 m ³	486	516	534
6.2.NC.T	of which, tropical plywood				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	194	175	155
	Exports	1000 m ³	19	17	15
	Apparent consumption	1000 m ³	175	158	140
6.3	PARTICLE BOARD (including OSB)				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	679	710	745
	Exports	1000 m ³	120	133	140
	Apparent consumption	1000 m ³	559	577	605
6.3.1	of which, OSB				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	100	120	120

Product Code	Product	Unit	Revised	Estimate	Forecast
			2005	2006	2007
	Exports	1000 m ³	14	14	14
	Apparent consumption	1000 m ³	86	106	106
6.4	FIBREBOARD				
	Production	1000 m ³	11	10	10
	Imports	1000 m ³	410	441	461
	Exports	1000 m ³	161	173	183
	Apparent consumption	1000 m ³	260	278	288
6.4.1	Hardboard				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	74	75	75
	Exports	1000 m ³	10	10	10
	Apparent consumption	1000 m ³	64	65	65
6.4.2	MDF (Medium density)				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	240	270	290
	Exports	1000 m ³	119	130	140
	Apparent consumption	1000 m ³	121	140	150
6.4.3	Insulating board				
	Production	1000 m ³	11	10	10
	Imports	1000 m ³	96	96	96
	Exports	1000 m ³	33	33	33
	Apparent consumption	1000 m ³	74	73	73
7	WOOD PULP				
	Production	1000 m.t.	117	125	125
	Imports	1000 m.t.	1.419	1.375	1.375
	Exports	1000 m.t.	499	500	500
	Apparent consumption	1000 m.t.	1.037	1.000	1.000
10	PAPER & PAPERBOARD				
	Production	1000 m.t.	3.471	3.540	3.610
	Imports	1000 m.t.	3.386	3.400	3.425
	Exports	1000 m.t.	3.151	3.250	3.275
	Apparent consumption	1000 m.t.	3.706	3.690	3.760