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P O L A N D
**STATEMENT ON THE CONDITION
OF ECONOMY AND WOOD MARKET**

Ministry of the Environment

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

The forest wood-sector as an integral part of the Polish economy is dependent on the business cycle. The development of the sector is determined by a constant and stable progression of the economy. In 2005-2006 following factors have had the greatest bearing on the Polish economy and the wood market: Poland's membership in the European Union and therefore the business cycle of Western European countries and opportunities and threats resulting from the chance to compete in the common market, an increase in the activity of Eastern European and Asian countries, especially China.

In 2005, after a period of significant economic boom, Polish economy slowed down. The **gross domestic product** was 981 billion PLN (303 billion USD) which meant a real increase by 3.4% in relation to the previous year (the GDP rose by 5.3% in 2004). In 2006 the increase should be 4.3%-4.6%. The contribution of forestry to the creation of GDP is 0.3%, and the contribution of the wood sector (including furniture and pulp and paper production) is 2.3%. In the near future the economic development should be determined to a greater extent than previously by an increase in domestic consumption, mainly in investment demand. In 2006 and in the next years the **dynamics of domestic demand** should be 4.7%-5% (in 2005 the increase was 2.2% in relation to 2004). In 2005 the **gross expenditure on capital assets** rose by 6.5%. In 2006 it is expected to increase by 8.5% which to a great extent is owed to the implementation of investments financed by the EU. In 2005 the dynamics of the **sold production of industry** was lower than in the previous years – in real terms it was 3.8% in relation to 12.6% in 2004 when the economic activity increase was especially high due to Poland's accession to the European Union. A positive phenomenon is a persisting upward trend in work effectiveness in industry and a high dynamics of production in sectors counted among the so called progress carriers (an increase by over 6%). The increase of the sold production of industry is forecasted to be higher and reach 8-9% in 2006. The wood sector accounts for 8.7% of the sold production of industry. In 2005 the dynamics of the sold production of wood branches was higher than the industry average (especially the dynamics of the pulp and paper production which rose by 6.8% and the dynamics of the production of wood products – an increase by 6.2%).

A boom in investment activity and the situation in construction, especially in housing construction, had a significant effect on the Polish wood market in 2005. It is forecasted that the dynamics of investment outlays, which was 106.6% in 2005 in relation to 2004, should be distinctly higher than the GDP growth rate in the next years. To a great extent the investments will be financed from the European Union funds. **Construction** which is a direct consumer of wood materials simultaneously creates demand for finished wood products. The year 2005 was third in a row when there was an increase in the construction and assembly production (by 5%), both in investment and refurbishment activities. Furthermore, almost 6% more dwellings than in the previous year was completed (the highest increase was in the group of dwellings intended for sale or rental). However, there are still not enough dwellings built in Poland in relation to the needs. It is a positive phenomenon though, that the number of

dwellings under construction and the number of issued construction permits have been on the rise.

Foreign investments have been and will be an important pro-development factor in the next years. In 2005 they reached 7.7 billion USD, and their accumulated value (for the period 1990-2005) is estimated to be around 92 billion USD. Foreign direct investments, and especially “greenfield” investments, have been effectively aiding the competitiveness of the Polish economy and Polish producers in international markets.

In 2005 the situation in the **labour market** slightly improved – the number of the employed rose, especially in the processing industries (an increase of over 2%) and service. A high unemployment rate, which is one of the most significant problems of Polish economy, dropped to 17.6% at the end of the year. It is expected that demand for labour will rise further in 2006, and thus the unemployment rate will be reduced to 15.9%. The dynamics of the employment growth in the wood branches was 3%, which was higher than the industry average. The employed in the wood sector are 11% of the average paid employment in industry.

Exports have a vital influence on the economic development of Poland. Although Polish currency strengthened (in relation to euro as well as to dollar) the dynamics of exports remained high in 2005 (in relative prices it was 110.6% in relation to 2004). This, in connection with a lower dynamics of imports (105.2%), resulted in the improvement of a passive foreign trade balance. The high dynamics of both exports (a growth of about 12% is forecasted) and imports (10%) should keep up also in 2006. In foreign trade wood products are important for they account for 12% of the exports value (furniture are one of the most important product groups in Polish exports) and for 5% of the imports value. In contrast to the overall trend in Polish exports, wood products generate an active balance of exports and imports.

In 2005 the **inflation** was 2.1% (in 2004 – 3.5%). In 2006 price indices of consumer goods and services will be around 0.8%. The restriction of inflation pressure will stem for the most part from the situation on the labour market, i.e. a slow real increase in pays (in 2005 pays rose by 2.6%, and in the enterprises sector by 1.2%) and a still high unemployment rate.

In the nearest future the social-economic development of Poland should be characterized by a stable rate of economic growth at a level of around 5% a year and acceleration of the moment when Poland reaches the EU level of economic development.

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

Forest management in Poland is conducted to assure a sustainable development of forests with preservation of all their functions – economic, social and ecological. Peaceable functioning of Polish forests is also a basic task of the forest owner who dominates in the wood market – The National Forest Holding - State Forests. The task is defined, among other things, by the National Forest Policy (a document adopted by

the Council of Ministers in 1997) and the Act on Forests (Dz. U. 1991 no. 101, item 444 with subsequent changes).

An element of the state policies – economic, forest, spatial and environmental – is a drive towards a systematic increase in the country's forest cover – up to 30% in 2020 and 33% beyond 2050 as a target. An instrument to achieve this goal is the National Programme for the Augmentation of Forest Cover. For the part concerning afforestation of agricultural lands which are private property the Programme is financed by The Forest Fund created in the National Forest Holding - State Forests and EU funds for subsidies to afforestation which are granted when agricultural lands are converted into forests. Forest management in Poland, like in the European Union, is considered to be territorially and functionally connected with agricultural management for which it can constitute a complementary or an alternative to agriculture form of economic and social activity. Afforestation is a way to make use of low quality lands, where agricultural use is not economically sound, thus to increase the profitability of the agriculture overall. Afforestation of agricultural lands is one of the most important actions set forth in the Rural Development Plan for Poland 2004–2006. It is also mentioned in the Sectoral Operational Programme for Rural Development 2007-2013 and in the Guidelines on the National Rural Development Programme 2007-2015.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change came into force in 2005, therefore effective environmental protection through carbon fixation and diminishing of the green house effect has been becoming more and more important task of forestry. Trade in emission permits has become one of the new problems though. Poland is currently on its way to introduce legislation concerning permit trade and forests companies are included in the process.

The **economy** of Poland is the market economy therefore there is a drive towards reducing any interference in its mechanisms. However, a functional framework is laid out. Strategic objectives for the period 2007-2013 and beyond concerning the economy and relating also to the forest-wood sector are in the first place determined by the following documents:

- the Development Strategy of Poland 2007-2015 – a basic document (a draft was adopted by the Council of Ministers on 27 June 2006) which is superior to other programmes of the government and self-governments; the documents lays out the country's development prospects and areas of state activity in the economy while at the same time the balance between economic, social and environmental goals is kept;
- the National Cohesion Strategy – a document (the National Strategic Reference Framework which supports economic growth and employment – a draft was approved by the Council of Ministers on 14 February 2006) defining priorities, application areas and the system of implementation of funds granted within the framework of the EU Cohesion Policy 2007-2013 (European Regional Development Fund, European Social Fund and Cohesion Fund);
- the Convergence Programme – an update of the Convergence Programme 2006-2008; a document prepared according to the Code of Conduct which was approved by the Ecofin Council in 2005.

The priority of the Polish economy is a constant and high growth which ensures stability of basic macroeconomic indices, increase in employment and development of

entrepreneurship, competitiveness and innovation. All the instruments of the state policy facilitating the economic growth had and will still have a decisive bearing on the scope and pace of changes in the Polish forest-wood sector. One of the mechanisms helping the development of the wood branches is public aid for companies operating in special economic zones (SEZ). In most of the 14 such zones in Poland there are involved investors connected, among others, with sawmill production, in production of wood-based panels, floorings, furniture, paper and paperboard, and paper products. In the nearest future the guidelines of the European Commission for the years 2007-2013 on reducing national regional aid for special economic zones will cause a decrease in and a considerable differentiation of the regional aid intensity in areas which qualified for it. This in turn will reduce the attractiveness of these zones to present and prospect investors also from the wood sector.

In Poland a significant instrument helping the economic growth is export. Therefore, any mechanism prompting export and extending previous fields of cooperation, among other things, with dynamically developing markets of Asian countries, is important. The main goal of Polish trade policy towards China is supporting Polish entrepreneurs (through intergovernmental agreements, agreements in the field of scientific and technical cooperation and of phytosanitary regulations, mutual recognition of tests, certificates and conformity markings) and promotion of Poland. In 2005 the value of imports from China to Poland was almost 18 billion PLN (5.4% of the total value of imports). Polish exports, however, were insignificant and their value was less than 2 billion PLN (0.7% of the total value of Polish exports). The prospective fields of Polish-Chinese cooperation are the wood and furniture industries. Currently Polish imports from China are mainly furniture and wood accessories (2.5% of the total import of wood products). Exports of wood products to Chinese market are insignificant (0.3% of the total value of Polish export of wood products). An emerging problem is that Polish products are faced with the necessity to compete with Chinese products on the Western European markets.

Since 2004 Polish wood market has been characterized by a raw material deficit. This deficit is a national issue and in principle concerns all roundwood assortments. If business conditions in the wood sector are relatively good the deficit may be relatively permanent. Consultations, which for some time have been carried out between forestry, branch self-government, which represents producers, and government administration, are currently aimed at developing mechanisms which will stabilize Polish wood market and at laying out the market development strategy till 2010.

3. DEVELOPMENTS IN FOREST PRODUCTS MARKETS SECTORS

3.1. (A) Wood raw materials

In 2005 31.9 million m³ of roundwood was harvested in Poland, i.e. 98% of the amount of 2004. In the structure of removals dominated coniferous species which accounted for over 72% (23 million m³), including large-size softwood which amounted to 9.9 million m³, medium-size softwood which was almost 12 million m³ (softwood pulpwood was 9.8 million m³). Removals of hardwood were relatively smaller (97% of the amount of 2004) – around 9 million m³, including large-size

hardwood which accounted for 31% and medium-size hardwood which was 57% (hardwood pulpwood was 3.9 million m³). Wood intended for production accounted for 89%. In 2005, when harvesting of roundwood was smaller, the amount of fuelwood was relatively higher – 3.4 million m³ (0.5% more than in the previous year). In a situation, where there is a lasting deficit in raw material on the domestic market, fuelwood was to a great extent designed also for production purposes, mainly for the production of wood-based panels.

In 2005 there were important changes in Polish foreign trade in roundwood. The wood deficit on the domestic market caused further reduction in the volume of exports and a significant increase in imports. Exports amounted to 0.6 million m³, i.e. 41% less than in the previous year. 92% of exports was wood intended for industrial processing (91% of it was softwood). Exports of fuelwood also decreased – from 54 thou. m³ to 46 thou. m³ (a decrease by 15%), whereas wood supplies from abroad increased twofold (to over 2 million m³). Around 98% of it was industrial raw material. Imports of fuelwood increased more than threefold. However, the amount is still relatively insignificant (37 thou. m³).

It is anticipated that in 2006 there will be a slight drop in roundwood removals (31.7 million m³) while in the following years there will be some increase in removals (up to 32.1 million m³ in 2007). An upward trend should be observed in the case of fuelwood, mainly softwood. Still the amount of removed pulpwood will be the highest but its share in the structure of roundwood removals will decrease to the advantage of sawnwood. It is forecasted that in foreign trade a downward trend in wood exports will linger on (in 2007 it will be 72% of the amount of 2005) and supplies from abroad will be increasing systematically (up to 2.3-2.4 million m³ in 2007).

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

Rational use of renewable energy sources (RES) is a strategic objective of the energy policy of Poland. The European Union set indicative quantity goals for its member states. These goals relate to a share of electric energy from renewable energy sources in the gross consumption of electric energy. Till 2010 Poland should generate 7.5% of energy from renewable energy sources. Presently around 3% is generated from RES. Directive 2001/77/EC of the European Parliament and of the Council on Electricity Production from Renewable Energy Sources was taken into consideration in Polish legislation (Energy Law, The Strategy for Renewable Energy Development) and one of the effective legal instruments is the obligation of power plants to purchase energy from RES. In Poland considerable part of this energy comes from biomass and for the main part from wood. It was assumed in the economic policy though, that use of biomass ought not to cause shortages of wood intended for industry purposes. To counteract a possible wood deficit it is postulated that energy plantations should be considerably forced ahead, new varieties of energy plants should be introduced and the land area for plantations should be increased. Such plantations are presently promoted by government administration, self-government and some power plants as a new area of agricultural production, an additional source of income and effective use of lands which are not cultivated. However, the market in biomass from plantations is growing very slowly (willow is usable after 3 years and poplar after 7-8 years). It can be

assumed that in the nearest future energy from biomass will be a desired, yet not fully alternative, energy source in Poland.

3.3. (C) Certified forest products

Forest policy of the state and the strategy of the State Forest National Forest Holding which owns 78% of Polish forests both guarantee that forests develop in a sustainable way and fulfil their production, ecological and social functions at the same time. From environmental, economic and social perspective forest management in Poland meets criteria of “Good Forest Management” which are a starting point for forest certification according to standards of the global system Forest Stewardship Council (FSC). Currently 76% of forestlands in Poland are certified in accordance with the system. It accounts for almost 18% of forests in Europe and 9% of world forests certified by the FSC.

In Poland awareness of the advantages stemming from certification of the whole wood products supply chain has been growing. For many wood sector companies possession of the **Chain of Custody (CoC)** certificate has become one of basic marketing instruments facilitating trade negotiations, especially in Western Europe. Currently 340 producers are in possession of the certificate of product origin control confirming that wood used by a company in the production process originates from a certified, i.e. rationally managed, forest. These producers possess 415 CoC certificates which accounts for close to 12% of certificates issued in the FSC system in Europe, and in that respect Poland is third, next to United Kingdom and Germany. Approximately 81% of certified companies are production plants, including producers of wooden garden products (35%) and producers of sawnwood of various transformation degrees (28%). The CoC certificates are also in possession of, among others, the producers of wood-based panels (all particleboards companies and most of fibreboards and plywood producers), producers of furniture, wooden accessories, packaging, builders’ carpentry and joinery products and charcoal.

The Programme for the Endorsement of Forest Certification (PEFC, previously Pan-European Forestry Certification), where certification is based on national criteria of sustainable forest management, is being implemented in Poland as well. National standards and specific for the Polish situation criteria and indices of the system of wood products supply chain certification were adopted by the “PEFC Poland” Council in 2005. There is an assumption according to which forests hitherto certified in the FSC system are to be verified in accordance with the new national standards.

3.4. (D) Value-added wood products

On the Polish market of value-added wood products furniture is dominant. Builders’ carpentry and joinery products, floorings and wooden packaging are important as well. A separate and significant group consists of products made from recycled paper and paperboard.

In 2005 the value of **furniture** produced in Poland amounted to over 20 billion PLN (6 billion USD), i.e. in relative prices it was 6% more than in the previous year. Wooden furniture (without furniture parts made of wood) accounted for around 68% of it (14 billion PLN, 4.2 billion USD). 83% of the total amount of produced furniture was exported (16.7 billion PLN, 5.2 billion USD) and exports of wooden furniture

were 72% (without furniture parts). In 2005 exports of wooden furniture amounted to 9.9 billion PLN (approximately 3 billion USD) and it was close to the level of 2004. About 45% of wooden furniture exported from Poland is furniture for seating (upholstered and non-upholstered). Imports of furniture was 2.7 billion PLN overall (0.8 billion USD) and wooden furniture (without furniture parts) accounted for 20% of this amount (0.5 billion PLN, 0.1 billion USD). It was 16% more than in the previous year.

In 2005 50.5 million m² of **floorings** was produced in Poland (17% more than in 2004). Approximately 65% of it were laminated floor panels. Almost 11.4 million m² of **wooden doors and windows** was also produced but it was over 2% less than in the previous year. Pallets dominated the production of **wooden packaging** – their production amounted to around 47 million pieces in 2005. Value-added wood products are also significant in foreign trade. While the value of builders' carpentry and joinery production was 4.1 billion PLN (1.3 billion USD), exports of these products amounted to 1.5 billion PLN (0.5 billion USD) and imports to 0.2 billion PLN (0.08 billion USD). Wooden packaging exports amounted to 0.8 billion PLN (0.3 billion USD) and imports to 0.1 billion PLN (0.04 billion USD).

In 2005 production of **paper products** was 14.6 billion PLN (4.5 billion USD), including 34% of books, papers and similar printed matters. It meant an over 5% increase in the production in relation to 2004. Foreign trade has an important bearing on the paper products market. Exports of paper products amounted to 5.1 billion PLN (1.6 billion USD) and the value of their supplies to Poland was 3.6 billion PLN (1.1 billion USD). Paper products for households and sanitary purposes (41%) and printing products (26%) dominated the assortment structure of exports. Significant items in imports are books, papers (and similar printing products) which account for 26% of the imports value, whereas packaging products are 23% of the value.

The value-added wood products market, the market of products made from recycled sawnwood as well as products of paper and paperboard processing, will still be a fast-growing market in the next years.

3.5. (E) Sawn softwood

In 2005 3.9 million m³ of sawnwood was produced in Poland, i.e. by almost 5% more than in 2004. Sawn softwood accounted for 83% of it (3.3 million m³). Exports amounted to 0.5 million m³, and were around 15% of the production. In relation to 2004 exports dropped by 25%. In the overall sawnwood exports volume sawn softwood accounted for 73%. On the other hand, imports of sawn softwood rose by 37% and it was 0.4 million m³. Sawn softwood accounted for around 56% of the imported sawnwood.

It is forecasted that the demand for sawnwood will be on the rise in Poland. Sawn softwood production should increase up to 3.5 million m³ till 2007. As to foreign trade, it is predicted that exports of sawn softwood will drop further and its imports will increase.

3.6. (F) Sawn hardwood

In 2005 sawn hardwood production was 0.7 million m³ and it was 6% higher than in the previous year. Sawn hardwood accounted for 17% of the total production of sawnwood. Sawn hardwood exports amounted to 0.2 million m³, and were by 21% lower than in the previous year. Sawn hardwood exports accounted for 26% of the production. On the other hand, imports of sawn hardwood rose by 14% and amounted to 0.3 million m³.

Production of sawn hardwood is forecasted to rise by another 6% till 2007. A downward trend in exports should last (by 15% in relation to 2005). However, an increase in sawn hardwood imports (by 11%) is forecasted.

3.7. (G) Wood-based panels

In 2005 6.7 million m³ of wood-based panels was produced in Poland. The structure of production is dominated by particleboards (3.9 million m³) which account for 58% (a 2% increase in OSB production) and fibreboards which account for 35% (2.3 million m³, 65% of it are dry-process fibreboards). Plywood was produced in the amount of 0.4 million m³ and veneer sheets in the amount of 0.1 million m³. In 2005 35% of the produced wood-based panels was exported (2.4 million m³, i.e. 4% more than in the previous year). In this amount 0.9 million m³ were particleboards (including 0.3 million m³ of OSB) and 1.2 million m³ were fibreboards (including around 0.5 million m³ of each dry-process boards and insulating boards). Imports of wood-based panels accounted for 23% of the production. The volume of imports was 1.5 million m³ and it was 9% higher than in 2004. Poland imported 0.9 million m³ of particleboards (including 0.1 million m³ of OSB) and 0.4 million of fibreboards (0.2 million m³ of hardboards and 0.2 million m³ of dry-process fibreboards).

Production of wood-based panels will probably rise by 11% till 2007 (in relation to 2005). It will be a result of increased production capacities in the scope of particleboards and dry-process fibreboards. According to forecasts exports should amount to around 2.5 million m³, i.e. there will be a 4% increase in relation to 2005. In relation to the production the increase will be 33%. The structure of exported wood-based panels will be dominated by particleboards and dry-process fibreboards. Imports will remain at the level of 1.5 million m³. A downward trend will probably be observed in fibreboards imports, mainly dry-process fibreboards and insulating boards. It is expected that the amount of imported plywood will rise.

3.8. (H) Pulp and paper

Production of wood pulp has been maintained at the level of 1-1.1 million tons in recent years in Poland. In 2005 77% of the total wood pulp production (0.8 million tons) was wood pulp, 15% semi-chemical wood pulp and 8% mechanical wood pulp. Exports are insignificant and amount to 4% of the production. A growing domestic demand results in imports increase. In 2005 Poland imported 0.5 million tons of wood pulp which was 47% of the production.

It is forecasted that in the nearest future there will be no significant changes on the wood pulp market in Poland. A slowly growing domestic demand together with the lack of possibilities of increasing national production will probably lead to a further

increase in imports (by 12% in 2007 in relation to 2005).

In 2005 production of paper and paperboard was 2.7 million tons. It was by 4% more than in the previous year. 72 kilograms of paper and paperboard is produced per one resident of Poland, which means that it is still less than in Western European countries. In the production structure packaging papers are dominant (50%) and printing papers account for 36%. Foreign trade is important to Polish paper and paperboard market. In 2005 in relation to production exports (1.4 million tons) accounted for 51% of it and imports for 79% (2.2 million tons).

It is predicted that production of paper and paperboard will still be on the rise till 2007 – by 9% in relation to 2005 (an increase up to almost 3 million tons). It is also expected that exports of paper and paperboard will increase to 1.4 million tons (by 10% in relation to 2005) Imports of paper and paperboard is predicted to rise as well (it will amount to 2.4 million tons, i.e. a 9% increase in relation to 2005).

Economic indicators

Indicator	1995	2000	2001	2002	2003	2004	2005
	% change on previous year						
Gross Domestic Product	107,0	104,2	101,1	101,4	103,8	105,3	103,4
Sold production of industry	109,7	106,7	100,6	101,1	108,3	112,6	103,8
Construction and assembly production	108,1	101,4	88,3	95,9	101,6	104,7	105,0
Dwellings completed	88,2	107,1	120,7	92,1	166,7	66,5	105,5
Dwellings under construction	105,5	105,7	101,2	97,1	88,5	99,0	98,7
Average paid employment							
- total	102,8	97,1	96,8	98,5	99,0	99,9	101,7
- in the enterprises sector	101,0	96,7	96,7	95,6	96,2	99,1	101,9
Registered unemployment rate (at the end of the year) ¹	14,9	15,1	19,4	20,0	20,0	19,1	17,6
Average monthly gross real wages and salaries							
- total	102,8	101,0	102,5	100,7	103,4	100,7	102,6
- in the enterprises sector	103,2	101,3	101,6	101,5	102,0	100,8	101,2
Price indices of consumer goods and services (inflation)	127,8	110,1	105,5	101,9	100,8	103,5	102,1
Investment outlays	117,1	101,4	90,5	90,0	100,6	106,5	106,6
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	288 780,8
Imports	70 502,3	213 071,8	206 252,8	224 815,8	265 133,5	325 596,3	328 192,0
Balance of trade	-14 987,2	-75 163,1	-58 138,3	-57 477,7	-56 189,2	-53 493,9	-39 411,2
millions of USD, current prices							
Exports	22 894,9	31 651,3	36 092,2	41 009,8	53 576,9	73 781,2	89 378,1
Imports	29 049,7	48 940,2	50 275,1	55 112,7	68 003,9	88 156,4	101 538,8
Balance of trade	-6 154,8	-17 288,9	-14 182,9	-14 102,9	-14 427,0	-14 375,2	-12 160,7
millions of EUR, current prices							
Exports	-	34 373,4	40 194,8	43 499,3	47 526,4	59 698,0	71 423,5
Imports	-	53 084,8	56 034,5	58 480,2	60 353,8	71 354,3	81 169,7
Balance of trade	-	-18 711,2	-15 839,7	-14 980,9	-12 827,4	-11 565,3	-9 746,2

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