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# Country Market Statement: Switzerland

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

### 1.1 Overview

The economic upturn has been further consolidated in Switzerland in the course of 2006; real GDP increased significantly again in the first quarter (+0.9% as compared with the previous quarter and +3.5% as compared with the same quarter last year). Goods exports have been exceptionally buoyant since early 2006 and domestic demand is also growing rapidly. The clear acceleration in growth in capital expenditure on equipment in the first quarter is an indicator of rising confidence among companies. The reversal in labour market trends also appears to have been consolidated. The slight increase in full-time equivalent employment, which can be observed since the second quarter of 2005, accelerated in the first quarter of 2006, and seasonally adjusted unemployment has been decreasing consistently since late autumn 2005.

### 1.2 Economic forecast

The early economic indicators for Switzerland would also prompt expectations of dynamic economic development for the second half of 2006. Based on this, the Swiss Confederation's expert group has radically revised its growth forecast for 2006 to 2.7% (up from 2.0%); if fulfilled, this growth rate would constitute the strongest experienced since the boom year of 2000 (+3.6%).
The Swiss economy is still expected to slow down in 2007 and the earlier growth forecast of 1.5% for 2007 has not been revised. While this may signal a cooling off of the economy at an initial glance, it should not be interpreted as a downturn but as a return to normality following an extraordinarily good year in 2006. It may be assumed that the expected economic slow-down in many OECD regions which are currently experiencing strong growth will trigger a downturn in foreign trade. The fact that a period of expansion in the construction sector in Switzerland is probably coming to an end also has a role to play here. This sector performed well in recent years on the basis of high investment levels which have now peaked, not least as a result of an increase in the cost of finance due to the rise in interest rates. Given the decline in the buoyancy of the financial markets, the rapid rate of growth in value-added in the financial sector should also slow down.

### 1.3 Industry

The positive situation in industry was further boosted in the first quarter. Value-added increased by 0.8% as compared with the previous quarter. As the surveys carried out by the economic research institute of the Swiss Federal Institute of Technology Zurich show, domestic-market-oriented companies in particular have been able to increase their value-added. As opposed to this, growth in value-added for export-oriented companies levelled off somewhat.
The prospects for the future remain bright: the sales managers in the industrial sector surveyed by Crédit Suisse and the Schweizerischen Verband für Materialwirtschaft und Einkauf/SVME (Swiss Association for Materials Management and Purchasing) assessed their orders on hand as being even higher than in the boom year of 2000.

### 1.4 Construction sector

Activity in the construction sector slowed down temporarily due to the long winter, and value added remained at the level of the previous quarter. Nonetheless, companies surveyed by the Schweizerischer Baumeisterverband (Swiss Association of Building Contractors) expressed optimism, confirming that an increase in orders could be observed in both the building construction and civil engineering sectors.

### 1.5 Investment in construction

Despite the excellent order situation, investment in construction showed a decline of 2.7% as compared with the previous quarter. Various projects had to be postponed due to the long winter. Nonetheless, the building construction sector largely managed to maintain the level achieved in the previous quarter. Thus, a compensatory effect may be expected in the coming months. This is also confirmed by the data collected by the Schweizerischer Baumeisterverband (Swiss Association of Building Contractors): the companies surveyed in the first quarter still have a very high volume of orders on hand and even reported an increase in the intake of new orders.

### 1.6 Foreign trade

Three quarters after the outstanding results achieved in the second quarter of 2005, exports of goods and services are growing strongly again at a rate of 4.3%. At 5.8%, goods exports made a crucial contribution to this growth.

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

### 2.1 Forest law enforcement, governance and trade and initiatives

The demand for the inclusion of a general ban on deforestation and clearcutting, the mandatory reparation of forest damage in all forest areas and the organization of forest maintenance by the state in the Swiss Federal Constitution was raised in 2005 through a popular initiative entitled "Rettet den Schweizer Wald", i.e. "Save the Swiss Forest". The initiative was rejected by the Federal Council (Swiss government) in 2006 which instead presented an alternative proposal to the electorate, i.e. the revision of the Federal Law on Forests. The revised legislation is to include provisions on: (1) a new policy on forest area; (2) priority services; (3) minimum management principles; (4) the new division of tasks between the Confederation, cantons and forest owners; (5) the promotion of wood as a raw material and energy source.

### 2.2 Policies promoting the sound use of wood as well as Initiatives aimed at increasing global competitiveness in wood and wood products markets, and overall performance of the sector

In spring 2006, the Federal Office of the Environment (FOEN) launched the "Swiss Wood" action plan, through which FOEN aims to contribute to the strengthening of the competitiveness of the wood value chain in Switzerland. The following areas have been identified as priorities:

- Improving the exploitation of the production potential of the Swiss forest.
- Increasing domestic wood processing and consumption.
- Increasing value added and ensuring that it benefits the domestic market more.

Based on an economic analysis of the wood value chain, areas of action have been defined for the relevant sectors and the public service which should give rise to a new wood resource policy developed in conjunction with practitioners and scientists. The first measures based on this new wood resource policy should be implemented from mid-2007. Potential measures here include the implementation of a new wood promotion programme from 2008, i.e. when the holz21 wood promotion programme has ended (see below).

### 2.3 Climate change policy

In 2004, on the basis of a parliamentary motion, the Swiss Parliament decided to elect forest management as an activity under Article 3.4 of the Kyoto Protocol. Case studies on several areas were started in various regions of the country. These should provide the basis for national rules for assessing and accounting for removals by sinks and emissions by sources in the forest management sector.
There is a certain discrepancy between the main objectives of the National Forest Programme and the election of forest management under Article 3.4 of the Kyoto Protocol. Under the National Forest Programme, the main objective of Swiss forest policy is to promote the sustainable use of timber, with the aim of substituting for fossil fuels, rather than enhancing sink capacity. The National Forest Programme takes this into account by considering the contribution of forest carbon sinks to meeting the Kyoto target as a subsidiary goal. Nevertheless, implementation of the forest programme will lead to reduced carbon sequestration in forests.

### 2.4 Wood energy promotion policies

According to the Federal Office for Energy (FOE), 3.1 million cubic metres of fuelwood (not including waste incineration plants) was consumed and 30,450 TJ final energy was produced from wood in Switzerland in 2005; thus, wood energy represented 3.4% of the total final energy consumption. The increasing demand for electricity, the conditions of compliance with the Kyoto Protocol, the growing scarcity of fossil fuels and the gap in the electricity supply predicted to arise from 2020 prompted the FOE to launch the SwissEnergy programme. One aim of SwissEnergy is to double wood energy by the year 2020. The extent to which this is possible, is being clarified on behalf of all stakeholders by means of a potential analysis of wood energy.
FOEN advocates the sustainable and efficient use of wood energy because this energy source is climate neutral and reduces $CO_2$ emissions by 1.3 tonnes annually. Its use as an energy source offers a worthwhile complement to its use as a raw material. FOEN supports consultancy and public relations activities in this area through the Wood Energy Switzerland (Holzenergie Schweiz/HES) office and commissions third parties to carry out specific research studies. FOEN is aiming to complete the revision of the Ordinance on Air Pollution Control by summer 2007 to enable a gradual reduction in particulate matter emissions. This is necessary because wood-fired heating systems generate an average of

8% of all particulate matter emissions. This measure is also supported by the wood energy sector.

### 2.5 Research and development policies

The following objectives have been pursued since the launch of FOEN's "holz 21" wood promotion programme in 2001: a) to increase the sales of Swiss timber and b) to increase the competitiveness of the wood value chain.
Greater efforts have recently been made in the forest sector to provide information about and promote cost-effective timber harvesting and logistics processes for forestry decision-makers in the context of knowledge transfer projects. In the area of timber use, information is being made available on the new possibilities for multi-story timber construction, which are now available thanks to the completion of comprehensive groundwork – largely co-financed by "holz 21"– (project on fire safety). In addition, "holz 21" supports two information campaigns promoting the use of timber in construction and the use of wood energy. The "holz 21" promotion programme is currently being evaluated with a view to its continuation from 2008 (see above).
Support for projects in the area of applied R&D, the aim of which is the optimization of wood as a resource and raw material, can be provided by the Fonds zur Förderung der Wald- und Holzforschung (Foundation for the Promotion of Forest and Timber Research). The Foundation, which was established for an unlimited period in 1946, is supported and financed by the federal authorities and the cantons.

### 2.6 Trade policy and tariff and non-tariff barriers

Switzerland is extremely concerned about ensuring maximum transparency in timber trade flows and, in particular, that no timber from illegal sources is used. It is not currently planned to introduced a general duty of declaration for wood and wood products. However, continuing efforts are being made with the involvement of the relevant sectors to ensure that voluntary methods for the labelling of wood and wood products are used. These voluntary measures include the use of recognized wood labels (FSC, PEFC, Q-Swiss-Quality), which are already used by numerous suppliers in the construction and furniture sectors. They also include private agreements between sectoral associations and environmental associations, for example a code of behaviour for the procurement of tropical timber for the production of doors: the members of the association in question undertake to declare the origin of the timber used. Switzerland also follows and takes note of international developments, for example the FLEGT licensing scheme for imports of timber into the European Community, so as to avoid any obstacles to trade.

## 3 Developments in forest products markets sectors

### 3.1 Overview

Against the background of the positive economic climate, the forest and timber sector showed strong development last year and up to now in 2006.

- Demand in the construction sector, in particular in the area of timber-intensive housing construction, has remained high, and demand is also growing in the civil engineering sector, which less significant for the timber sector.
- Timber is enjoying enduring popularity as a construction material. This boom has been further enhanced by the relaxation of the fire protection regulation of 1.1.2005 which favours the use of timber.
- Demand for packaging should receive a boost from the positive industrial trends and growth in the export of goods.

- The strong growth in the services sector and the generally positive economic climate will have a positive effect on the demand for paper and paper products.
- The sustained elevation of energy and oil prices should give a boost to substitute products, in particular also renewable energy sources. The increase in energy wood use in the forest, which was recorded in 2005, will persist for 2006 at least and continue in 2007.

### 3.2 Roundwood: sawlogs, pulpwood and fuelwood

According to the Swiss forest statistics, 5.3 million cubic metres of timber were harvested in Swiss forests in 2005: i.e. 3.4 million cubic metres roundwood (of which 3.1 million cubic metres soft roundwood), 0.6 million cubic metres pulpwood and 1.3 million cubic metres of fuelwood. It should be noted that actual utilization is underestimated by around 10% in the Swiss forest statistics.
The roundwood market has been rapidly transformed from a buyer's to a seller's market. For the first time in many years, clear price increases can be observed for almost all species. Price differences between the main and auxiliary species, for example between spruce and fir, are rapidly diminishing. Neighbouring countries in which sawmill capacity is undergoing significant development provide an important impetus for the roundwood market. The ongoing expansion of wood incineration capacities is strongly stimulating the demand for energy wood and high oil prices are making it possible to increase the price of energy wood. The volume used should rise again this year, particularly in view of the current increases in roundwood prices. However, utilization is not following the increase in price to the expected extent. It is possible that some forest owners are holding back with logging in the expectation that they will be able to benefit from even higher prices later. Calls for the mobilization of timber reserves are increasing throughout the wood processing sector in response to the development of processing capacities in the Swiss timber industry. A number of parties have also raised the question of the potential volume of timber that can be mobilized in the Swiss forest.

### 3.3 Certified forest and forest products

At the beginning of 2006, approximately 650,000 hectares of Swiss forest (i.e. 53% of the total forest area) were certified. Most of the certified areas have both the FSC and Q/PEFC certificates. Forty percent hold the FSC certificate only and only 4% hold the Q/PEFC certificate only.
At present, almost 500 companies operating at all levels in the timber processing sector hold a certificate: 79 forestry operations, 140 sawmills, 57 timber traders and 211 other wood processors. In contrast to the situation in the forest sector, the majority of these companies only hold the FSC certificate. Forty percent hold both the FSC and Q/PEFC certificate and only 1% hold a Q/PEFC certificate only.

### 3.4 Sawnwood

The production of soft sawnwood in Switzerland increased by 6% to 1.5 million cubic metres in 2005. At 90,000 cubic metres in 2005, the volume of hard sawnwood produced remains insignificant.
Companies in the sawmill sector reported generally positive business trends for 2006. Although corresponding statistics are not available, it may be assumed that production has increased slightly. The sawnwood markets are buoyant; price increases were successfully applied to construction and packaging timber. The prospects for by-products are also promising.
A large new softwood sawmill with a capacity of 600,000 cubic metres is currently being built and production is scheduled to start there in spring 2007. Planning for an additional

sawmill (capacity of 1 million cubic metres of softwood) is at an advanced stage. Based on the implementation of various major projects in neighbouring countries, it may be assumed that competition will be strong, primarily on the procurement market. Restructuring may be expected within the small domestic-market-oriented sawmill sector. Switzerland still lacks capacities for the processing of hard roundwood.

### 3.5 Wood-based panels

Capacity utilization in the Swiss wood-based panel industry is good. An increase in capacity with a corresponding increase in the demand for wood is being considered. Price adjustments were successfully applied to particleboard and are due to be applied to MDF panels.
The wood-based panel industry experienced various difficulties with the supply of roundwood and wood residues over the past 12 months.

### 3.6 Pulp and paper

The market for newsprint is healthy. Energy costs are a matter for concern. Wood supply is described as sufficient. Excess capacity exists on the European market for enhanced printing papers (LWC). At least the same volume of wood will be required this year as was required last year. The importation of TMP woodchips poses problems.

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