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MARKET STATEMENT OF THE CZECH REPUBLIC

The year of 2006 was the second very successful year concerning the economy growth of the Czech Republic. In this year, the Gross Domestic Product (hereinafter as the GDP) of the Czech Republic reached whole 6.4 % at constant prices. The total volume of GDP has exceeded for the first time 3 trillion CZK at current prices since the establishment of the Czech Republic. Due this record growth the Czech Republic was listed among countries with the fastest growth. Only in small Baltic Republics and in the Slovakia the GDP growth was faster than in the Czech Republic; when compared to the Eurozone the GDP growth was 2.5 bigger in the Czech Republic. However, the Czech Republic profited partly from the accelerated development of the EU economy, mainly of the Federal Republic of Germany, during this period. The productivity of labour provided for the GDP growth by two thirds in the Czech Republic. The most important source of the growth was the domestic demand as compared to the benefits from foreign trade, which was the source of the growth in 2005. Concerning the proportion of individual sectors of the Czech economy on the GDP growth, the industry amounted to 32.6 %, construction to 6.7 %, agriculture and forestry to 2.7 %, and services to 58 %. According to data on the GDP growth it is expected that its yearly increase could reach the dynamics ranging to 6.0 % this year. It is also expected that the formation of the groos fixed capital will develop faster as compared to the final household consumption. Till 2008 the development of the Czech economy should continue with the positive trends and reflect the stabilized economic environment.

In 2006, the **Czech industry** that form one third of GDP recorded a success too. The industry production index – calculated with values from 2000 – amounted to 111.2 %. This two-figure dynamics of year-on-year growth means the biggest growth of the Czech industry since the independent Czech Republic was established. It was the investment that was the most important factor influencing the growth and that brought along the establishment of new capacity of production. Within the branches of this processing industry, this concerned mainly the automotive, electronics and computer industry. The production of technologically demanding products with higher and high value added was increased significantly. In 2006, although the employment grew by 1 %, the productivity of labour in the Czech Industry grew by 9.2 % and the wages recorded a growth dynamics of 9 %. This was then reflected by the favourable growth of the unit labour costs. Based on the development so far, the indicator of overall trust of the business sector, and the job creation one may asses that the growth of industry production will increase to 10.8 % year-on-year in 2007. The forecast for 2008 assumes that the present development will be maintained or drop only moderately.

In 2006 the **foreign trade** showed the ongoing tendency of export exceeding the import, albeit the difference was smaller than the one of 2005. The year-on-year growth of export and import amounted to 14.6 % and 14.2 %, respectively. The positive trade balance amounted to 56.8 billion CZK. The foreign trade balance is positive for a second year in a row. The trade exchange of goods with the EU countries was further increased. It amounted to more than 75 % of the total turnover. The trade of machinery and transportation vehicle and of HIGH-TECH products in general increased significantly. The growth of the Czech foreign trade was negatively influenced by the rise of import prices for fuel and chemicals including the related products thereof.

Construction increased the speed of the growth of construction works by 6.6 %. The main factors of the development comprised important investments in the transport infrastructure and vast development projects that focused mainly on the administration and multifunctional centres. The direct foreign investments amounted to 6 billion CZK in 2006, and the largest investors in the Czech Republic come from Germany, the Netherlands and Japan. The number of flats with construction works started grew by 8.3 % year-on-year, number of flats under construction by 8.8 %, and of finished flats by 8.1 %. The assessment of the year-on-year growth of the construction production is assumed to be by 11.0 to 12.0 % higher. The forecast for 2008 assumes the growth dynamics to slow down slightly.

1. Overview of forest products markets and policies, 2006-2007

In 2006 the forest products market recorded a positive development in accordance with the overall development of the whole Czech economy. The supply of wood amounted to 17 678 thousand m³ in 2006, this means a year-on-.year increase by 2 168 thousand m³, i.e. by 14 %. This is an exceptional and only temporary dynamics that has not been achieved in the previous years. The main reason lays in the salvage felling. Concerning the supply in 2006, the Czech Republic achieved the same harvest as the neighbouring Austria, where the forest coverage is much higher. The roundwood supply increased by 19.1 % year-on-year so that its proportion on the total supply amounted to 56 %; pulp supply increased by 7.1 % year-on-year and its proportion on the total annual supply amounted to 36 %; fuel wood supply amounted to 1 345 thousand m³, which means a growth by 10 % and the proportion on the total supply equalling to 7.6 %; and the wood chips supply amounted to 93 thousand m³, which means a year-on-year decrease by 10 %.

Concerning all assortments, i.e. the total wood supply, 3 773 thousand m³ were exported, and 1 366 thousand m³ were imported in 2006. There were exported the total of 2 679 thousand m³ and imported 1 225 thousand m³ of coniferous roundwood and pulp and broad-leaved roundwood and pulp, i.e. the total of the coniferous and broad-leaved timber-wood. The export and import of charcoal amounted to 3 thousand m³ and 10 thousand m³, respectively; the export and import of fuel wood amounted to 280 thousand m³ and 48 thousand m³, respectively; the export and import of wood chips, sawdust and waste timber amounted to 811 thousand m³ and 83 thousand m³, respectively.

Within the processing industry, concerning the processing of wood and of forest products, the volume of production facilities with more than 100 employees (except for those producing furniture) including the trade margin reached 34 229 million CZK in 2006. Within this industry branch, mainly sawmills and wood impregnation recorded a significant increase, namely by 16.8 % (its proportion within the branch equals to 33.8 %). The production of carpentry and timberwork recorded a year-on-year increase of operation of 14 % and its proportion within the branch equals to 31 %. The production of agglomerated products increased by 11.2 %. The production o pulp, paper and paper products (by organisation with more than 100 employees) achieved 41 651 million CZK, 1 % less than in 2005. Within polygraphy the operation amounted to 31 631 million CZK in 2006; the furniture production reached 55 686 million CZK. Data on organisation of the processing industry with less than 100 employees are temporarily missing. In the Czech Republic, both types of organisations contribute to the total operation within the branch of wood processing and furniture production to the same extent (50 %). The revenue of sales of own products and services of the wood

processing industry grew by 15.5 % year-on-year and the revenue of direct exports by 11.4 %; concerning the production of pulp and paper products this figure equals to 0.4 % and -3.6 %, respectively; concerning the polygraphy production it is -2.1 % and 14.6 %, respectively; and concerning the furniture production it is 0.2 % and -3.1 %, respectively.
The estimates of the total supply of industrial wood assume the total production to amount to 15 700 thousand m^3 in 2007, which means a year-on-year decrease by 11 %. The forecast for 2008 expects the supply to amount to 15 910 thousand m^3, which means an increase by 1.4 %.

2. Policy issues influencing forest products markets

The economy of the Czech Republic is fully liberal. Its development and effectiveness is controlled by the offer and demand – the competition. The government does not intervene in these processes by any measures. It neither controls nor regulates them by any policies or other instruments. It neither controls nor regulates the production process, movement of goods within the EU or other trade, or other processes of economic development of the country. For potential regulation, general instruments such as tax, fees, etc. are used as in other countries of free world and of the European Union. Should there be used any other instruments apart from the above mentioned ones, these comprise only such instruments provided for by the Directives or Decisions of the European Union. This concerns automatic licences for raw timber that were cancelled upon the accession of the Czech Republic to the EU and that monitored the amount of exported wood. The trade with this commodity is fully liberal in the Czech Republic and there is also no duty introduced on imports and exports. In the Czech Republic, like in the European Union, the export of raw timber is not limited by any licences. In the Czech Republic, the import quotas are set according to the amount laid down by the Brussels for the whole territory of the EU. The free movement of goods within the EU countries is simplified and recorded in Intrastat, the trade with non-members is recorded in Extrastat. The figures do not include the data of small enterprises that do not pay the VAT. As for the forestry branch, it also concern the measures for preventing the introduction of harmful organisms when importing or exporting raw timber, forest seeds, plants, etc. As for the measures for market support, it concerns programmes for development of enterprises focusing on the support of small and medium-seized enterprises. It also comprises investments incentives available for both the domestic and foreign investors. Newly, the measures for amending the Directive of the European Commission on providing service in other EU member countries not only in the old countries are processed. The purpose of these measures is to remove the presently effective administrative obstacles restricting to the entrepreneurs from new countries (also from the Czech Republic) the free movement of services, and to provide them with the free movement of services all over the EU. This concerns acquiring the trade licence for the given field, establishing branches, tackling legal issues that would be the same all over the EU.
Evaluation of the policies effective in the Czech Republic in 2006 show that medium-seized enterprises, wood or wood-products exporters make use of the programmes for development of enterprises, however to an absolutely insufficient extent. The reason thereof lays in the harsh conditions of financing of small and medium-seized enterprises as they have only limited option to take a credit. Concerning the subsidy within the investment incentives, the evaluation shows that the projects of technological centres and centres of strategic services are of advantage.

3. Economic and construction developments influencing forest products markets

The previous chapter contains some of the instruments used in the Czech Republic as incentives, stimulants of interests in order to improve the business, competitiveness and the market with forest based products in general. The development shows that the benefits created by these instruments are not sufficient and within the whole forest wood-processing sector even insignificant. The Czech Republic poses significant amount of domestic wood, the basic raw material for wood-processing industry. However, the domestic raw material is not sufficiently processed in the Czech Republic and it is exported together with sawn timber in large amounts. We harvest large amount of timber, but we do not use the ecological wood and its products. The use of wood per capita and per year amounts in the Czech Republic to 0.23 m^3, in Austria to 0.62 m^3, and in the Scandinavia up to 1 m^3. And yet there are capacities to process completely the raw timber in the FBI complex. Over 20 % of the harvested roundwood and over 40 % of sawn timber is exported, and meanwhile large amounts of wood products – actually with higher value added – are imported. In Germany, approx. 7 % of the total construction of houses is made up by wooden houses; in Austria it is 10 %, in Finland, Norway, Sweden, Denmark it is up to 60 %, in USA 65 %, in the Czech Republic only 0.5 %. These examples are enough to point out the need for the use of wood and wood products to be increased in the Czech economy, mainly in the construction. Ecologist, designers, constructors and various non-governmental organizations provide for different events in order to stimulate an increase of processing the wood and wood products. However, these events are organized for the purpose of own lobbing rather than for the economy, even though it is obvious that the benefits of this area – increase of competitiveness in the Czech Republic – will increase the benefits also for the European Union. Processing the domestic raw material by Czech enterprises will increase also the employment, mainly in regions with less developed processing industry. Those issues will have to be tackled also with the help provided by the EU.

4. Wood raw material markets

In 2006, the production of coniferous and broad-leaved sawtimber and veneer log amounted to 9 841 thousand m^3 out of the total raw timber supply (as described in chapter 1). When compared to the situation of 2005, this means an increase by 1 688 thousand m^3, i.e. by 21 %. The supply of coniferous roundwood equalled to 9 355 thousand m^3, which means a year-on-year increase by 1 742 thousand m^3. The supply of broad-leaved roundwood equalled to 486 thousand m^3, which means year-on-year decrease by 54 thousand m^3. In 2006 the export of coniferous and broad-leaved sawtimber and veneer log amounted to 1 854 thousand m^3, where the coniferous sawtimber amounted to 1 794 thousand m^3 and broad-leaved sawtimber amounted to 60 thousand m^3. The supply into apparent consumption amounted to 9 032 thousand m^3. Concerning the total coniferous and broad-leaved sawtimber and veneer log, the supply of coniferous and broad-leaved sawtimber to apparent consumption amounted to 8 426 thousand m^3 and 606 thousand m^3, respectively. When compared to 2005, the supply of sawtimber to the apparent consumption was by 1 962 thousand m^3 higher, which means an increase by 27.8 %. In 2006, there were produced 5 080 thousand m^3 of sawn timber, i.e. 1077 thousand m^3 more than in 2005, which means an increase by 26.9 %. The total export of coniferous an broad-leaved sawn timber amounted to 2 000 thousand m^3, which means that almost 40 % of the total sawn timber and 19 % of sawtimber production was exported. These commodities were exported to Germany, Austria, and Italy.

In 2006, the total pulpwood production amounted to 6 398 thousand m^3, where 5 868 thousand m^3 were coniferous pulpwood and 530 thousand m^3 broad-leaved pulpwood.

Concerning the trade with the coniferous pulpwood, a decrease of imports, namely by 20.5 % i.e. to 159 thousand m³, and an increase of exports by 10.3 % to the total of 640 thousand m³ was recorded. The apparent consumption increased by 12.2 % to the total of 5 387 thousand m³. In the Czech Republic, the major consumer of pulpwood is the pulp and paper industry for the production of pulp. Concerning the broad-leaved pulpwood, the production decreased by 5.7 % year-on-year to the total of 530 thousand m³. The import remained almost the same as in the year before. The export of pulpwood amounted to 185 thousand m³ as compared to 352 thousand m³ in 2005. The apparent consumption of broad-leaved pulpwood increased to 366 thousand m³, i.e. by 59 % due to the decreased exports.

Albeit the long term situation in the export of raw wood, sawtimber and sawn timber, the efficiency of the wood-processing industry continues to grow, mainly due to the establishments operating in the Czech Republic under the foreign control. However, such establishments are scarce in the Czech Republic. In 2006 the accounting value added of establishments under foreign control was almost by 90 % higher than of the establishments under domestic control. This is also one of the reasons for increasing the competitiveness.

5. Sawn softwood markets

In 2006 the Czech Republic produced 4 830 thousand m³ of sawn soft wood. This means and year-on-year increase by 30 %, and increase that is higher than the whole production of Lithuania and Latvia together and three times higher than the production of this sawn wood in Slovakia. The export of the sawn softwood amounted to 1 943 thousand m³; this means a year-on-year increase by 13.6 %. The import amounted to 355 thousand m³; this means a year-on-year decrease of import by 25 thousand m³, i.e. by 6.6 %. Due to the high increase of the construction, including construction of flats (but not the wooden houses), and higher operation in the processing industry, the apparent consumption increased by 35 % to the total of 3 242 thousand m³. This means that the yearly apparent consumption is higher than the reported consumption of Poland with three time higher population than the Czech Republic. The trade of this commodity has therefore increased its trading income by 30 % as compared in 2005. Nevertheless, if one compares the increase of the achieved operation with the increase of the reported profit, then one has to conclude that the trade affectivity is unacceptable. The assessments of the production for 2007 are lower than in 2006 and amount to the yearly production of approx. 3 800 thousand m³. The forecast for 2008 assumes a moderate increase in the production, namely by 60 thousand m³.

6. Sawn hardwood markets

This branch makes up only approx. 5 % of the yearly production of sawn softwood due to the high forest coverage of coniferous species in the Czech Republic. In 2006, 250 thousand m³ were produced in the Czech Republic, which means a year-on-year decrease of production by 8 %. The import amounts to approx. 152 thousand m³ every year and in 2006 the export equalled to 57 thousand m³. In 2006 the apparent consumption of this product equalled to 345 thousand m³. As for the year of 2007, a decrease of production is assumed, namely to approx 248 thousand m³. This year, the apparent consumption should increase to 351 thousand m³. The forecast for 2008 assumes the production to reach the same figures as in 2007. From the perspective of the trade, this activity is effective. This shows also the fact that while the production went down in 2006 as compared to 2005, during the same period the gross trading income grew by 20 %.

7. Panel markets

This group comprises the production of veneer, plywood, particle boards and fibreboards.

a) Veneer. In 2006, the production, import, export and apparent consumption of this product remained at the same level as in the previous years. Veneer is mainly imported from the EU countries, smaller amounts also from Asia and USA. The Czech Republic exports mainly to Germany and Austria. As for 2007 and 2008 the increase of neither production nor apparent consumption of this product is expected.

b) Plywood. In 2006, 170 thousand m^3 of plywood were produced, which means a year-on-year increase by 3 %. The import of 67 thousand m^3 was increased by 13.6 % year-on-year. The export amounting to 103 thousand m^3 represents an increase by 7.3 %. The demand on domestic market increased to the total of 134 thousand m^3, i.e. by 4.7 %. The increase was caused mainly by growth of plywood sales for furniture production. In 2007, the plywood production should grow by approx. 3 % year-on-year and the apparent consumption by 0.8 %. The forecast for 2008 assumes a year-on-year increase in the production by 4 % and in apparent consumption by 4.4 %.

c) Particle boards. In 2006, the production of this higher value-added product increased partially, namely by 1.8 % year-on-year to the total volume of 1 287 thousand m^3. This was caused by the opening of a new OSB production line at the end of 2006. Due to the increase of construction and insufficient domestic production, the import of this commodity had to increase; in 2006, the import amounted to 325 thousand m^3, which means a year-on-year increase by 10.2 %. The countries of import comprised Germany and Austria. Nevertheless, 769 thousand m^3 of particle boards were exported, which represent a year-on-year growth by 26.5 %. The apparent consumption dropped from 905 thousand m^3 in 2005 to 843 thousand m^3 in 2006 due to the overall increased use of these products made out of plastic. In 2007 a growth of production by 11 % to 1 428 thousand m^3 is expected. Imports should remain the same as in 2006. Exports should increase to 970 thousand m^3 due to the increase of production. The apparent consumption should grow up to 793 thousand m^3. The forecast for 2008 assumes the production and exports to reach 1 530 thousand m^3 and 1 027 thousand m^3, respectively; imports are assumed to drop to 300 thousand m^3 and the apparent consumption to rise to the total volume of 803 thousand m^3.

d) Fibre boards. In the Czech Republic, the production of this commodity has been always low. It amounts to approx. 90 thousand m^3 every year. Therefore, up to 224 thousand m^3 of this commodity are imported. This represents a year-on-year increase by 9.3 %. Nevertheless, exports were increased by 34 % to 67 thousand m^3 in 2006 as compared to 2005. The apparent consumption recorded a year-on-year increase, namely by 0.8 %. In 2007 and 2008, the production is expected to rise by 4 thousand m^3, respectively, and the apparent consumption by 2% and 2.4 %, respectively.

8. Paper, paperboard and pulp markets

a) Pulp production. In 2006, the pulp and paper industry produced 761 thousand tonnes of pulp. This meant a year-on-year increase by 1.1 %. 184 thousand tonnes were imported, i.e. by 4.7 % less then in 2005. Exports dropped too, namely by 4.2 %. The apparent consumption grew to 602 thousand tonnes, i.e. by 2.4 %. In 2007 the situation is expected to remain the same as in 2006. The forecast for 2008 assumes the production to rise to 764 thousand tonnes. Both exports and imports should increase adequately. The apparent consumption is assessed to amount to approx. 609 thousand tonnes.

b) Paper and paperboard production. In 2006, the production of paper and paperboard amounted to 1 042 thousand tonnes in the Czech Republic. This means a year-on-year increase by 7.5 %. Both exports and imports dropped by 15 %, respectively, as compared to 2005. The apparent consumption grew by less than 1 %. Concerning the paper and paperboard, products with low value added are exported, however products with higher value added are imported. Therefore, the balance of foreign trade is negative every year. In 2006 the gross trading income of these commodities dropped by 12 % year-on-year.

9. Wood energy markets

The energy form wood makes up only 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.

10. Certified forest products markets

There are two systems to certify forest in the Czech Republic – PEFC and FSC system. Most of the Czech forests – 75 % 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 a wood product was made out of certified wood, including further details. Therefore the certification process continues.

11. Value-added wood products markets

The trade with value-added wood products comprise mainly the following:

a) Furniture production. In 2006 the furniture produced by organisation with more than 100 employees reached 55 686 million CZK (concerning the operation). This represents a year-on-year increase by 2.2 %. Furniture producers that are located in the Czech Republic and are under foreign control amounted to the 35 billion CZK out of the above mentioned figure, and the rest was produced by Czech (national) establishments. In 2006 there were 84 national enterprises and 36 establishments under foreign control. The accounting added value per employee amounted to 350 thousand CZK in national enterprises and to 758 thousand CZK in establishments under foreign control. As for 2007 and 2008, the operation of furniture producers is expected to rise by 3 to 8 % in each of the years, as compared to 2005.

b) Profiled timber production. When compared to 2005, this production did not record any significant changes in 2006. Significant changes concerning the production of this commodity are expected to come no earlier than around 2008.
c) Production of wooden packing. The production of this commodity has been on decline since certain production boom in previous years due to the plastic packing. In 2006, the operation of this production grew by 4.2 % year-on-year, however, the yearly volume of the production was lower only by 0.8 % as compared to 2005. In 2007 and 2008 the production of this commodity is estimated either to maintain the same level or to decrease moderately. The main factor may be the petrol prices.
d) Further wood, cork, wicker and straw products. The demand for these products has increased recently. In 2006 these branches recorded an increase in the production by up to 11 % (concerning the operation). Wicker furniture and cork products find again their way to the customers; however, the production of such product is insignificant. In 2007 and 2008 this production may rise.

12. Tropical timber markets

Also this sphere of trade is insignificant for the economy of the Czech Republic. Actually, only tropical veneers and plywood are traded partially. No tropical sawn timber is imported to the Czech Republic. Concerning the tropical veneer, only less than 1 thousand m³ of the import of this commodity is processed within the Czech economy. The import of tropical plywood is higher: less than 9 thousand m³ are imported and processed. These products are used only within the furniture production.