Statement
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1. General economic trends

The prospects for a continuation of the economic dynamic in Germany are favourable. World economic growth remains robust despite recently slowing in the United States. With the global economy showing ongoing growth vitality, world trade continues to expand sharply. The German economy stands to benefit from the favourable trend of the world economy since price competitiveness of German firms remains healthy and continues to improve particularly by European comparison.

Domestic demand will also continue to expand. Investment in plant and equipment has been on the uptrend already since mid 2004. With a high degree of capacity utilization and a further good outlook for sales, a continuation of brisk investment should be expected.

Private consumption will expand again after the decline of the first quarter of 2007 that was brought about by the hike in value added tax; however, it will remain restrained throughout 2007 on the whole. By far the largest component of gross domestic product (GDP), private consumption is likely to significantly recover in the year ahead in the face of good prospects for the labour market and incomes that are rising at a faster pace.

For the year 2007, the German government expects GDP to expand by a real 2.3 % and thus lies within the range of other forecasts submitted by national and international institutions. For the upcoming year, it presupposes a GDP increase of 2.4 %. The basis for these expectations is ongoing brisk investment activity, particularly the increasing growth contributions by private consumption. Compared with previous years, the foreign balance will provide less pronounced but still strong impulses.

The unemployment rate of 8.1 % in 2006 was about 1 % below the rate 2005. The situation on the labour market will brighten further over the course of this year. The number of gainfully employed persons is likely to increase by 1.2 % (plus 470,000 people) on average for 2007. It is

expected that the trend will continue in 2008 (+ 0.8 % or +310,000 persons). The number of jobless people will decline on annual average for 2007 by just under 750,000 people to roughly 3.7 million and in 2008 by an additional 270,000 people to below 3.5 million.

2. Policy measures influencing forest management and forest products sector

a) National forest inventory

The results of the 2nd National Forest Inventory (NFI), which were published in 2004/2005, show very high timber stocks and biomass increment in German forests, resulting on the one hand in increased potential for the forestry and forest-based industries to make sustainable use of timber and on the other in a development towards greater naturalness. According to these results timber stocks now amount to 3.4 billion m^3. This stock development can be attributed to various causes. A study on the wood potential estimates the annual harvesting potential to reach a level of up to 80 million m^3. Against the background of growing wood demand and thus growing raw material competition between energy generation of wood and traditional timber utilization (especially panel and paper production), discussions have started if the annual harvesting potential could be increased without jeopardising the requirements of sustainability.

The considerable importance of the NFI results with regard to forestry policy means that further in-depth analyses and regular repetition of inventories are necessary. The same applies in respect of the nation-wide forest soil survey, which is now repeated after an interval of approximately 15 years. A third NFI is to be carried out in 2012.

b) Support of sustainable forest management

The ongoing destruction of forests in certain regions of the world in the one hand and increasing importance of the forestry and forest-based industries in the other hand has prompted the Federal Government to push ahead with the promotion of sustainably produced products while also paying due regard to global ecological aspects. Illegally logged timber, and timber which has not been sustainably produced, contributes to the global destruction of the forests and damages the competitiveness of the domestic forestry and forest-based industries.

In the fight against the illegal felling of timber and against infringements of sustainability principles and social standards, Federal Government attaches great importance to importers making voluntary commitment agreements. It welcomes the fact that, following the German Pulp and Paper Association, the German Timber Trade Federation also has also concluded such an agreement this summer. The decisions of major market players to take over responsibility for the support of sustainable and legal forest management offer strong signals to be well recognised in the public.

Already in January 2007 the Federal Government has adopted a procurement regime for wood products in order to actively support the certification of sustainable forest management as well as sustainable and legal timber trade. In accordance with this regulation, wood products procured by the federal administration must demonstrably come from legal and sustainable forest management. The bidder must furnish proof of this by presenting a certificate of FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification Schemes), a comparable certificate or by producing individual specifications. Comparable certificates or individual specifications are accepted if the bidder can prove that the criteria of FSC or PEFC that apply to the respective country of origin have been met. This instruction is valid for 4 years and will be audited before prolongation.

An important initiative on international level is the EU FLEGT Action Plan on Illegal Logging (Forest Law Enforcement, Governance and Trade), representing a joint action programme against illegal logging. This means that an important first step has been taken towards improved control of timber imports. The Federal Government is backing preparations and negotiations with potential candidate countries of voluntary FLEGT partnership agreements with the EU. Work on improved methods for timber origin identification to be used by enforcement agencies continues with a scientific stocktaking workshop, October 2007.

c) Charter for Wood Promotion (Woodcharter)

The German Woodcharter, which was passed in September 2004, aims at stimulation of timber demand and promotion of the acceptance for wood products on consumer level. There are continued efforts of all stakeholders (government, forest owners, industry and associations, science, social partners) to increase the sale of forest products. Therefore the Woodcharter contains of specific measures which are to be gradually implemented (e.g. improvement of timber supply and logistics along the whole wood-chain, marketing campaigns, research and development, standardisation, product quality, education). Because of growing raw material demand, intensified mobilisation of wood resources will play a particularly important role in this regard.

Additionally the Federal Research Centre for Forestry and Forest Products was commissioned within this framework to draw up a National Cluster Study of the forestry and timber sector. This study is intended to provide the data pool for improved cooperation between forestry and forest-based industries in the region. For instance, the aim is to better exploit the existing harvest potential of forests and to attain a greater value added and higher employment. The results of the National Cluster Study will be available at the end of 2007.They shall offer the basis for a improved cluster management in suitable regions (e.g specific cooperation projects between forest enterprises and timber industry on all levels).

The per-capita consumption of roundwood, semi-finished and finished wood products (calculated together in m^3 roundwood equivalent) has risen since the Woodcharter was passed. Starting three years ago on a level of about 1.1 m^3 per year, preliminary figures give now consumption as being almost 1.2 m^3 per year. All stakeholders have consequently already made large strides towards attaining the objective stated in the Woodcharter of there being a per-capita wood consumption of 1.3 m^3 per year by 2014.

d) Research and development

In 2004, the Federal Government adopted a framework programme entitled “Research for Sustainability”. Over the following 5 years, an average of 160 million € will be made available for research on sustainable development in Germany. This framework programme is seen as a major element of the innovation initiative for growth and employment as well as for achieving a sustainable society.

One particular area of support is “sustainable forest management”, where project funds up to now are totalling over 24 million €. As a contribution to ecological forestry, to the forest-timber products value chain including production systems, the objectives are to foster trans-disciplinary research, technological developments and innovations. The initiative is alos part of the European network WoodWisdom-Net (Era-Net). The aim of promotion is to strengthen the national and international competitiveness of the forest-timber chain. Beyond this it aims at contributing to the national sustainability strategy as well as to the German Woodcharter.

As another important source for promotion the German Agency of Renewable Resources was integrated more closely into forestry research & development with regard to non-energetic utilization of wood. In 2005, a new support priority was established there which provides inter alia for financial support in the area of logistics and timber supply. This area is to be further expanded.

e) Construction sector

With regard to the timber-intensive construction of one- and two-family homes, the number of building permits granted in 2006 was 0.5 % above the levels of the previous year. The building permits for flats in the residential and non-residential construction sector rose in 2006 by almost 3% compared with the previous year, corresponding to an increase of a good 616,000 units.

However, comparing the first half of 2007 against the respective time period of 2006, the permits granted for residential and non-residential construction fell by about 40% from 146,000 to approximately 88,000 units! At first the deadline announced for the abolition of the owner-occupier housing subsidy has provided a certain stimulus. But at least the discontinuation of this home ownership grant as of 1 January 2006 has been as well a market burden as the increase of the

value-added tax (from 16 to 19%) or significantly rising energy and steel costs. Those facts contributed to slow down private builders' willingness to invest in spite of still low mortgage rates. But it must be borne in mind that for years the timber construction and prefabricated housing sectors have been developing better than the construction sector as a whole (market share of timber construction rose to nearly 15%). Now the German construction industry is hoping for an end to the lull. Considerable need for development, alteration and modernisation work, accompanied by new perspectives for ecological and energy-saving construction may open up new market opportunities especially for ecologically favourable timber constructions.

In Germany there are approx. 17.3 million residential buildings, plus around 1,5 million non-residential buildings. 73% of residential buildings were constructed before 1978, that is before the first Thermal Insulation Regulation came into effect. Improved insulating of the building envelope can reduce energy demand by between one third and one half. The Federal Government considered the harnessing and systematic use of this potential for conservation in the building stock to be a task for society as a whole. In order to provide a major impetus to this process and to speed it up, it launched a programme to reduce CO_2-emissions from buildings in 2001 (additional effects: reduction of individual energy consumption, promotion of economic growth and new jobs). In February 2006 this programme was increased to around 1 billion € per annum for the next four years (three times as much as the assistance provided previously). On 1 January 2007 the programme was redesigned and expanded by introducing direct grants alongside the loan variant.

3. Market drivers

a) Storm “Kyrill” hit Germany’s forests

After the last severe storm “Lothar” in December 1999, which concentrated in the Southwest (about 35 million m^3 forest damage), another hurricane swept over central parts of Germany in January 2007, causing again considerable damage also in the forests. Winds speeded up to 225 km/h and destroyed an area of about 50,000 ha of forest land heavily affecting Northrhine-Westfalia (15.7 million m^3), Hesse (4.5 million m^3), Bavaria (4 million m^3), Thuringia (2.5 million m^3), Lower Saxony (2 million m^3) and Saxony (1.5 million m^3). This means in Northrhine-Westfalia 3.7 times annual cut! In total about 50% of normal annual removals have been thrown.

In spite of severe damage in certain forests, prevailing opinion in Germany was that the effects of “Kyrill” should be managed by market driven instruments as far as possible. Compared with previous storm damage, market conditions seemed to be much more favourable (e.g. exports). With the exception of Sweden, Czech Republic, Austria and Poland there was only limited damage in neighbouring countries. Due to the considerable percentage of broken trees (approx. 25%) only a certain share of wind thrown timber will be suitable to reach roundwood markets. Addi-

tionally, forest owners in less affected areas should support market stabilisation by voluntarily reducing removals and finally there has been no significant indication of upcoming bark beetle disease. Thus the Logging Restriction Ordinance has not been put into effect. Necessary action to overcome the disaster concentrated on other activities proved to be successful in the past (e.g. easements in taxes, facilitation of transports, financial aid). So far timber markets were able to absorb large amounts of windthrown timber. In most regions concerned there has been good progress in clearing the damaged stands and marketing of windthrown timber. Depending on the region price levels lowered by a total of some 15 to 25 % (softwood). Price drops have been less in Southern Germany, where in the meantime signals of price recovery can be recognised again.

In order to support forest owners in this difficult situation and to back up timber markets, the Federal Government and Federal States have taken a package of urgent steps. Due to the high velocity of clearing action in the stands it was important to overcome the bottlenecks caused by insufficient transport capacities. As in the past the situation could be eased inter alia by

- practising live conservation (leave thrown timber with sufficient root contact) and by
- medium and long term conservation (dry-/wet storage).

In order to facilitate the removal of windthrown timber, special authorisations which are limited in time, have provided governmental support:

- The increase of the permitted total weight for heavy duty vehicles up to 44 t and
- the suspension of the driving ban on Sundays and holidays.

Intensive efforts have been made to mobilise additional cargo space on an international level, too.

In the German system of subsidiarity the Federal States are principally responsible for providing help in case of natural disasters. For instance Northrhine-Westfalia earmarked funds to the tune of 100 million € e.g. for

- timber processing in order to clear up damaged areas,
- establishment and management of storage sites including logistic,
- reconstruction of forest roads,
- reforestation of damaged areas.

In the framework of a special loan programme for agricultural and forest holdings, loans with a reduced interest rate have been made available (e.g. 2.5 – 2.65%).

An increasing fuelwood demand may offer new opportunities, because of the relatively high share of broken trees in the stands that are not suitable for higher value purposes. Actually there are plans in Northrhine-Westfalia to set up 10 cogeneration facilities until 2020 (yearly fuelwood consumption per unit: about 450,000 m^3).

In addition certain tax reductions have come into force and tax offices relieve concerned holdings with tax deferment, special depreciation and reduced prepayment.

The European Commission has just decided to offer financial aid within the framework of solidarity funding (about 167 million €) in order to support measures such as clearing of damaged areas or reconstruction of destroyed infrastructure in storm-affected regions.

b) Wood energy

In Germany renewable energy accounted for 5.8% of primary energy consumption in 2006 and the share of renewable energy in total gross electricity consumption rose to 12%. Including all forms of renewables such as hydropower, biomass and solar energy, a share of around 14% is expected by the end of the year. In relation to total road traffic, the contribution of biofuels to fuel supply reached 6.6% and, in the heat market (until today the most important for fuelwood), renewables' share in total heat provision was 6%. Its proportion in the total final energy consumption rose to 8%. A turnover of 11.3 billion € arose from the erection of plants and 10.3 billion € from the operation of the plants. Some 214,000 people are now employed in the renewable energy sector and may have managed to prevent some 101 million tons of carbon dioxide from being released into the atmosphere in 2006.
The Federal Government has provided the impetus for this development, particularly by regulating the payment for electricity from renewable energy fed into the grid through the Renewable Energy Sources Act (EEG), and through other support programmes such as the Market Incentive Programme. Renewable energy technologies in Germany have become an important industrial sector with high annual growth rates in the last years.

The use of fuelwood has developed continually and recently received extraordinary impetus due to the huge increases in oil and gas prices. Heating with CO^2-neutral wooden pellets has increasingly become a cost-effective alternative to conventional fuels. So much use was made of the support options offered by the Federal Government that the budgetary funds were completely exhausted in 2005. In 2006, 160,000 applications have already been made (50% more than the total number supported in 2005). In order to support the latest initiatives against climate change, the promotion programmes will be continued and intensified. The pellet production is developing into another economic mainstay for an increasing number of enterprises in the sawmilling and timber industry, often in addition to their own generation of heat or electricity based on bark and wood residues.

As an example for the upswing of wood energy the German Pellet Association (DEPV) expects the number of pellet-fuelled heating systems in Germany to rise significantly. In 2006 a total of 70,000 units have been installed. It is expected that the number of pellet systems will raise significantly. In 2006 the pellet production in Germany reached a level of 500,000 tons (half of existing production capacity). So far main raw material sources for pellet production are wood residues originating from softwood sawmills. In future, additional sources (e.g. residues from forests or plantations of fast-growing species) may become more important for pellet manufacturers.

The growing demand for fuelwood has led to increased raw material competition. Although it is generally up to the markets to balance demand and supply, the Federal Government is exploring

means to increase domestic timber supply (e.g. Cluster analysis in order to intensify regional cooperation within forestry and forest-based industry, agroforestry).

c) Certified forest products

In Germany, 70.1 % of the total forest area (11.1 million ha) has been certified in 2007, including about 7.2 million ha forests certified according to PEFC-criteria and 593,100 ha according to FSC-criteria. Thus in the last 12 months the certified forest area in Germany rose by 0.4 %. The Federal Government supports certification of sustainably managed forests and is backing the further development, harmonisation and mutual recognition of the systems. It takes the view that wood and wood products may only be procured from stocks with credible certificates. In 1996 a first government initiative was set up that tropical timber should come from sustainable forestry, attended by credible certification. In 2002 discussions focussed on specific procedural requirements to further develop this initiative. The result was a procurement regulation, which was implemented in January 2007 (see para 2b).

4. Developments in forest products markets sector

a) Wood raw materials

Since the end of the 1990s, the trend in Germany has been to raise removals; this trend continues. In 2006, a total amount of 62.3 million m³ of roundwood was put on the market, 9.4% more than in the previous year. Compared with the average amount of felling over the last 10 years (47.5 million m^3), this is an increase of 31%. Coniferous logs make up 34.4 million m³ (hardwood logs make up about 3.8 million m³, other varieties make up 24 million m³). According to expert opinion, the statistically recorded felling is still subject to system-related underestimates; Germany has therefore made it its task to substantially improve timber statistics (inter alia increased research into causes, alterations to recording methods in certain federal states, simplification of the assortment structure and harmonisation with international definitions). The first changes are due to be introduced in 2008.

The **attached graphs** show roundwood price developments of wood in the rough (roundwood and industrial wood) in state owned forests over the last four decades until end of 2006.

b) Value-added wood products

The annual sales of German woodworking (prefabricated houses, construction elements, wood-based materials) and furniture industry (kitchen, office-, store-furniture, seatings) amount to 37 billion €. At present, about 200,000 people are employed in some 2,600 companies. The turnover has increased by 11.5% in 2006.

Germany belongs to the world's most important producer countries of furniture. Currently, about 1,125 furniture companies employ 105,000 people. 2006 has been favourable for the furniture industry. German manufactures have sold goods to the value of 18.4 billion € (+ 7% against previous year). While there was moderate rise in domestic business the exports grew significantly over 16% to 6.2 billion €. The export rate has steadily increased since 2000 (23.8%), actually levelling at 36.8% and is expected to reach 40% until the end of 2007. Most important export markets are located in Western Europe (64.8% market share), Eastern Europe (13.6%), Asia (4.6%) and North America (3.6%).

c) Sawnwood (softwood and hardwood)

In 2006 the sawn softwood industry continued to expand its leading market position in Europe. Thanks to excellent global market conditions exports were again driving forces in spite of some weakness at last on the US market. In contrast to previous years German construction sector offered additional market opportunities in the course of 2006. However, during the first half of 2007 a downward trend in building investments again deceived hopes. The overall turnover of the sawmilling sector rose in 2006 to 4.8 billion €, achieving an increase of 16%. During the first half of 2007 this development has continued (+ 18% against first half 2005). The export rates in the sector were steadily increasing over the last 6 years, reaching 31% (sawn softwood) and about 64% (sawn hardwood) in 2006.

German sawn softwood producers increased output in 2006 by 12.4% up to 23.3 million m³ (+ 2.5 million m³). Starting 2002, the production of sawn softwood in Germany has significantly risen within 5 years with a total increase of about 7.5 million m³ (+ 48%). Exports in 2006 have exceeded 7 million m³ (+ 6.3% against 2005). Overall, imports of sawn softwood are declining once more. In 2006 they sank to 4 million m³ against 2005 (- 4.5%). This means that Germany has extended its position as a net exporter. The brisk building activity in many European countries has decisively favoured export sales. Exports are expected further to rise whereas estimation of import development predict some decline for the coming time period.
The production of sawn hardwood rose between 2005 and 2006 by 4.4% to an amount of nearly 1.2 million m^3. The sector achieved a positive sales development for oak and was able to stabilise the difficult situation in the beech segment by means of intensive development of foreign markets. In the hardwood sector, oak sales continue to rise, while the beech market is gradually stabilising as well as export operations (+ 1% in 2006 against 2005).

The development on the German timber market is underlined by the creation of new production capacities at various locations, in particular in the sawmilling industry. According to the timber industry, there are some difficulties with roundwood supply in certain regions and with regard to certain tree species (mainly coniferous timber) in spite of further growing timber stocks in the forest. It is conceivable that limited reductions of the enormous timber stocks could be realised

providing certain amounts of additional timber volumes. Thus the evaluation of intensified mobilisation of forest resources may become one major issue in forest policy discussion. To this end, existing concepts must be further developed across all stages of the value-added chain to ensure that wood can be made available to processing operations on a competitive basis (e.g. amendment of the Federal Forest Act in order to improve the scope of forest associations, studying framework conditions for plantations, implementation of satellite-based routing system for trucks in the forests in order to reduce time lost during timber transport).

e) Wood-based panels (particle board, fibreboard and MDF, OSB, plywood)

The German panel industry (turnover of about 14.6 billion €; 16,000 employees) is the largest producer of wood-based panels in Europe. Production of particleboards lowered from 10.9 million m³ in 2005 to 10.8 million m³ in 2006 (- 0.8%). Fibreboard production (fibreboard, MDF, hardboard) rose from 11 to 11.8 million m³ in the same time period (+7.1%). This output volume is made up of approx. 5.9 million m³ fibreboard, 2.7 million m³ MDF (medium density fibreboard) and 3.2 million m³ hardboard. Plywood production decreased by 17,000 m³ from 236,000 m³ (2005) to 219,000 m³ in 2006 (-7.2%). Due to a significant raise of both, domestic demand and export, significant production growth has been recorded for the first quarter 2007 (against respective time period 2006):

- Particle board: up to 2.15 million m^3 (+ 7%),
- OSB: up to 267,000 m^3 (+ 5%),
- MDF and fibreboard: each +11%.

In the same time period turnover rose against first quarter 2006 by 13% to about 2.34 billion €. In 2006 particleboard exports increased from 3.46 to 3.53 million m^3 (+ 1.9%) against 2005. Fibreboard exports dropped in the same time period from 3.77 to 2.86 million m³ (- 24%). With regard to imports, only plywood imports are worthy of mention: they rose from 6,400 m³ in 2003 to 70,000 m³ in 2004 and then to 101,000 m³ in 2005.

f) Pulp and paper

From 2005 to 2006 the German paper industry achieved an increase in production of about 4.2%. It remained by far the largest producer of paper in Europe, with a record production of approx. 22.6 million tons paper and paperboard. Germany was even the fourth largest producer in the world, ahead of Canada and behind the USA, China and Japan. In 2006, wastepaper consumption reached a total of about15.2 million tons (+ 6 % against 2005) which means a further rise of the wastepaper recovery rate up to 67 % (+ 1 % against 2005).

On average, production grew annually by 4% over the last 5 years. Paper exports (about 13.4 million tons in 2006) were once more the main driver behind the growth; domestic demand remained weak. In 2006, it is expected that exports will remain the mainstay of the German paper industry; in view of the general economic situation, there are also expectations of an upswing in domestic demand.

5. Additional information sources

Forest products production and trade in 2006, 2007 and 2008 (**attachment**)

The following web sites provide additional information on forestry and timber sector:

- www.verbraucherministerium.de
- www.bundeswaldinventur.de
- www.holzabsatzfonds.de
- www.infoholz.de
- www.holz.de
- www.dhwr.de
- www.dfwr.de
- www.fsc-deutschland.de
- www.pefc.de
- www.fnr.de
- www.erneuerbare-energien.de
- www.bfafh.de