

MARKET STATEMENT OF THE CZECH REPUBLIC

1. Main trends in the development of the economy of the Czech Republic and development of forest management, incl. its position within the economy of the Czech Republic in this year.

a) Main trends in the development of the Economy of the Czech Republic in 2008. The development of the Czech economy was significantly influenced and formed by the dramatic development of the global economy in 2008. This impact expressed itself fully both in the development of the Czech economy and in the overall economy development of EU-27 after the fall of the Lehman Brothers bank. Generally, there was a significant and fast drop in the demand for production in all economies. Czech economy, an economy strongly oriented towards export, was deeply influenced by this situation. The crucial extend of the problems and impacts of the global crisis on the economy in the Czech Republic were formed by the recession in the entire European Union.

This development resulted in the growth of EU-27 gross domestic product (GDP) in constant prices for 2008 amounting to the total of 0.9 % year-on-year, however in the fourth quarter, the EU already recorded a drop by 1.3. %.

This highly adverse drop in the EU-27 economy had a significantly negative impact on the economy of the Czech Republic, which is persistent also in 2009. The growth of the gross domestic product of the Czech Republic has been declining during 2008, mainly after the first half of the year, and in the fourth quarter of the year it dropped in negative figures. Due to the stagnation of the sales, the GDP grew only by 3.1 % year-on-year. Just for comparison, the year-on-year growth of GDP of the Czech Republic amounted to 6.1 % and 7 % at constant prices after specification in 2007 and 2006 respectively. Albeit the significant difficulties of the Czech economy as described above, the final year-on-year growth of GDP of the Czech Republic did not caused any serious problems. It caused the GDP index per capita in the purchasing power parity to amount to 83.1 % of the EU-27 level according to Eurostat data, and moreover this index grew by 1.1 % as compared to 2007. In 2008, the year-on-year growth of GDP of the Czech Republic exceeded by 2.2 percentage points the average of EU-27 and when compared with the 15 countries of the euro area by 2.3 percentage points. This result was archived du to the overall good condition of the Czech economy. Also the bank sector in the Czech Republic contributed to this result, as it has not been directly influenced by the financial crisis. However, as the bank houses tightened the rules for granting loans causing the companies to be less willing to take loans, the stress in the economy was not eased. As already mentioned, at the end of 2008 the situation in the development of the Czech economy was worsening so that the world crisis will have significant impact on the economy of the Czech Republic no earlier than in 2009.

The drop of the Czech production on the EU and global markets resulted in an unexpected deficit of the trade balance due to the year-on-year decrease of exports. The growth of the foreign trade turnover at constant prices was slowed down by more than a half. The development was also influenced by the drop in the investment activities.

The problems with sales had an extremely significant impact on the growth of the industrial production. It dropped by 0.4 % year-on-year. The slowed growth resulted in closing down of several companies, fast increase of unemployment and slowed growth of real wages, which amounted only to 2.1 % year-on-year. Therefore the growth of the retail sales dropped to 2.8 %. The Czech automotive industry has been influenced seriously, where the production was decreased by half year-on-year. In the wood industry, both the production and the exports dropped by 15 % year-on-year.

The inflation growth was not excessive in 2008 and amounted to approx. 3 %. Growth of prices was influenced by the higher prices for energy and housing and by the unstable market with agricultural commodities. In 2008, the rate of exchange of the Czech koruna was appreciated towards euro more than five times and towards dollar less than twice.

The average unemployment rate amounted to 5.5 % in 2008. However, it is below the figures both of EU-27 and of euro area in long term.

The fear of worse development at the end of 2008 influenced the consumers' demand. One started to make savings for bad times. Significant decrease of the Czech economy together with fast growing household savings and decreasing revenue collection exceeded the year 2008 and it has a negative impact also in 2009.

b) Development of forest management incl. its position within the economy of the Czech Republic. The drop in the production and sales has been recorded also in the forest management in the Czech Republic. Harvest of raw timber dropped by 12.4 % as compared to 2007 and as for the roundwood the drop of the deliveries amounted to 15 % year-on-year. The exports of roundwood dropped by 20 %. Also in this sector, this situation caused several problems to forest enterprises, including closing them down and fast drop in the employment rate. The impact of the world economy crisis on this sector of the Czech economy was mitigated by small subsidiaries both on national and European level. Complete data on the development of forest production and the prediction thereof incl. estimates of the macroeconomic development of the Czech economy can be drawn based on the tables attached to this report.

The position of the Czech forest management within the economy – mainly as far as the sector managing and delivering domestic renewable raw material is concerned, which is exceptionally ecological - seems to be irreplaceable and fully linked with the Czech processing industry - in terms of purpose and economy – which processes this timber as raw material. This is due to the reason that one sector cannot work in terms of economy without the other. Forest management has to deliver the raw material to domestic manufactures, as it cannot export all the timber harvested and the wood processing industry has to buy it from the domestic forest production, as it cannot import the volumes necessary. Moreover, forest management provides social and cultural benefits for the country, which other economy branches cannot provide.

When linking the forest management and wood processing industry efficiently in terms of economy and when including science, research and cutting edge technologies and suitable know-how in these sectors sophisticatedly, these sectors are the only ones that can provide economy with fully environmental and harmless brand new products with high value added. Both sectors, mainly the forest sector, can create further opportunities both for people and the national economy. They can create totally new and profitable benefits: intangible benefits, benefits with character of service, which are not used in terms of business and health. So far the use of the forest management and the overall processing industry based on the processing of timber in the Czech Republic and therefore also the position of the forest sector within the national economy has been insufficient for several years. This is caused by very low use of wood and wooden products, incl. building wooden houses, using wooden constructions and industrial wooden buildings, etc. in the Czech Republic.

In order to increase the competitiveness of individual sectors, branches or fields of wood processing and subsequent industry both of individual countries and of the entire EU, it is evident that it is necessary to tackle the following real impulses immediately and in joint action: how to increase the

follow-up cooperation between forest management and branches and sectors of wood processing industry, how to increase the participation in the distribution of labour, in the substantial increase of competitiveness of the products, in providing for new production and technologies which have not been realized in these branches and sectors so far, and in introduction of intangible services, mainly in the environmental field.

There are several impulses and stimulants in the Czech Republic how to increase the use of wood and wooden products within the national economy. They are the result of the efforts made by the Ministry of Industry and Trade, Ministry of Agriculture, but mainly by the entrepreneurs in all branches and fields of the wood processing industry. So far, the necessary funding for that has been missing in the national economy. In EU-27 countries, where the present use of wood and wooden products is insufficient in the national economy, and it is lacking behind the status of developed countries (e.g. former EU-15), it will be reasonable to think together about the measures based on market mechanisms which will make the changes in these fields possible.

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.

a) Economic stimulus policies and forest products markets. Czech Republic has neither over the last 18 months nor at any other point upon introducing the market economy and free trade introduced any nonmarket economic stimuli, which would support the trade with forest or wood products. The trade with these products operates based on principles of free competition and on standing demand and offer. Since to the accession to the EU, Czech Republic has stopped using the so called automatic licenses for raw timber, which were used for recording the exported volume, and it is not levying any import or export duties and has not taken any nonmarket measures.

After 1989, only the relationships that motivate the responsibility of the forest owners for their property and the national interest for managing forests which is important for and exceeds into the landscape are promoted by the government. The promotion above has been provided for in the major legal regulations adopted such as the principles of national forest politics and the Forest Act, which are not against the EU legislation. This comprises mandatory expenditures covered from the national budget. However, the measures go further back and they have not been adopted over the last 18 months. The government helps to the forest owners to provide for protection of forests against harmful agents along with these stimuli such as application of calcific dolomite over the forests located in areas damaged by imissions, air fire protection, consulting and other services. These measures also date back more than 18 months, but they have been used in 2008.

b) Climate change and forest-related markets. Both the Parliament and the Government of the Czech Republic monitor closely the issues of environmental politics. Therefore, different solutions were adopted – also long time before 2008. E.g. the strategy of climate protection in the Czech Republic is presented in the National Programme for Mitigation of Impacts of Climate Change in the Czech Republic. This programme was drafted according to the requests of the Council Decision 99/296/EC and it was adopted by the resolution of the Government of the Czech Republic No. 187 on March 3, 2004. The national programme maps the climate changes in the Czech Republic within individual sectors and forms the national strategy for mitigation of the negative impacts. It also comprises values of greenhouse gas emissions in the Czech Republic incl. prediction of further development and it defines concrete measures to be taken in order to cap the greenhouse gas emissions.

On April 16, 2008, the Government of the Czech Republic evaluated the measures stipulated in the National Programme in terms of the achieved reduction of the emissions and of the economic options of solutions in the future. Over the monitored 18 months, there have been other changes and amendments to the document called Politics of Climate Protection in the Czech Republic. It has been

already published in the Czech Republic and it includes active strategy of climate protection, measures leading towards effective reduction of greenhouse gas emissions and mitigation of the impacts of climate change in the Czech Republic.

The evaluation for 2008 showed that the imission load of the forest stands has been stable in the Czech Republic over the recent years. Also the values of nitrogen oxides were quite low in 2008. Apart from industrial and housing areas the imission limit for vegetation protection has not been exceeded. However, the ozone values are exceeded on the major part of the Czech Republic.

c) Trade policy issues affecting markets. In the Czech Republic there are measures in place for achieving effectivity in various fields of the economy, which would lead to an increase both in business, e.g. exchange of products, and in the business activities or in the development of small and medium sized enterprises, rural areas and the multi-functional agricultural, etc. These measures are always adopted with regard to the EU guidelines. The listed examples do not represent measures adopted in the described field in the Czech Republic over the last 18 months. They are operational programmes effective for a certain period, such as operational programme for business development, for support of small and medium sized enterprises, for rural development and multi-functional agriculture or the programme for rural development in the Czech Republic to 2013, but also investment incentives available for Czech and foreign investors. They really increase the effectivity of the entire economy, they provide for new know-how, new technologies, implementing of new and efficient production and other factors in order to achieve higher performance and higher level of sophistication in the national economy.

d) Corporate social responsibility. General issues of social care for people and employees are tackled jointly in the whole Czech Republic. As for the forest management in the Czech Republic, the social situation can be briefly and simply assessed based on status of the labour market, development of the average salary and health protection and safety at work.

As for the labour market, the number of employees within forestry activities has been permanently declining since 1989. In 2008, the employment rate dropped by 7.4 % year-on-year. From 2005 to 2008 the drop exceeded 13 %. In this period, private forest management recorded the highest decrease of the employment rate, namely by 27 %. Nevertheless, the drop in the number of employees was compensated by higher labour productivity, mainly by the deployment of harvestors, planting machines, etc.

In 2008, the average salary in the forestry sector grew by 4.2 % as compared to 2007, whereas within the industry sector and in the entire Czech Republic it grew only by 7.9 % and 8.0 % respectively. The absolute highest average monthly salary within the forestry sector in 2008 was recorded in the state forest enterprise, namely CZK 18,779 (in industry CZK 21,894 and in national economy CZK 21,957).

Health protection and safety at work have been growing steadily in the forest management in the Czech Republic and more and more funds are spent in this field. Albeit the accident rate was dropping from 2001 to 2008, it was still quite high. In 2008, there were 625 accidents recorded; 652 accidents in 2007, and 1,168 accidents in 2001. 8 accidents of the total number of accidents incurred in 2008 were lethal; however in 2001 only 1 was lethal. The majority of the accidents relates to the dropping qualification, lack of discipline and irresponsibility of the workers towards life and health.

e) Russian forest sector reform and domestic and export market effects. These issues do not apply to forestry and wood processing sector in the Czech Republic.

f) Research and development of policies. In the Czech Republic, the research activities in the field of forest management are conducted mainly by the Forestry and Game Management Research Institute, v.v.i Strnady (VÚLHM, v.v.i.), and by a whole range of public institutions such as faculties

of forestry and wood technology in Prague and in Brno, units of Academy of Sciences of the Czech Republic in České Budějovice and in Brno and private research organisations. In 2007, the Forestry and Game Management Research Institute, v.v.i. has been transformed to a public research organisation pursuant to the Act No. 341/2005 Coll. and in 2008 it performed 64 activities for various clients. In 2008, VÚLHM carried on with the fifth and last year of the research projects, namely with Stabilisation of the forest functions in biotopes disturbed by anthropogenic activity under changing ecological conditions and with Breeding and improvement of forest tree species, valuable and threatened gene pool preservation, including application of biotechnology, molecular biology and seed management in forestry. In 2008, the Institute worked at further 12 projects within the National Agency for Agricultural Research and the National Research Programme I. In 2008, further 11 research projects were worked at for other clients and 4 research projects for the Grant agency of Forests of the Czech Republic. 5 research projects for National Agency for Agricultural Research were started in 2008. 17 projects were realized for the Ministry of Agriculture. Moreover, the cooperation both within the COST research programme, Forest Focus-Biosoil programmes, ICP Forests, Euforgen, TREEBREEDEX and within the bilateral agreements, e.g. Help for Bosnia, etc. carried on. In 2008, the research funds of the Institute amounted to 61 % of the total yield and came mainly from funding provided by the Ministry of Agriculture of the Czech Republic (50.1 %) and from other sectors (10.9 %).

Forest research was also conducted by the Faculty of Forestry, Wildlife and Wood Sciences of the Czech University of Life Science Prague, Faculty of Environmental Science of the Czech University of Life Science Prague, and the Faculty of Forestry and Wood Technology MAFU Brno. Here the research in the field of landscape engineering is conducted, issues of present problems of landscape used for anthropogenic purposes in the Central Europe are solved and impacts on environment (EIA and SEA) are assessed and environmental management systems and environmental education are dealt with.

In the field of the international cooperation the mutual contacts with European and non-European universities focusing on the environment issues, with international organisations and other entities have been extended.

3. Market drivers, including wood and paper procurement policy developments. What market drivers are positively or negatively affecting your country's forest products markets?

Wood and paper, paperboard and pulp industry are the most important processors of wood in the Czech Republic. They process only domestic wood, which is abundant in the Czech Republic and is renewable. The most processed wood comes from coniferous species, non-coniferous species are represented to a significantly smaller extend. Under normal conditions, not in the crisis, these two industry branches process 75 % of all industrial raw wood harvested, i.e. roundwood and pulp wood in the Czech Republic. Processing this raw material delivers quite high volume of products to the Czech economy both for domestic consumption and for potential export.

This determines the influence of relationship of the wood and paper, paperboard and pulp industry on the development of wooden products market and the direct influence on the forest production in the Czech Republic. This is the base for the tasks listed in Chapter 1 B "Development of forest management incl. the its position within the economy of the Czech Republic". The proposals of solutions using the possibilities offered by the economy and the European Union are made with a purpose. They support one of the essential tasks of the EU, i.e. to increase the competitiveness of the EU both as a whole and of the Czech Republic and potentially other countries, if they face similar problems and have similar possibilities to implement such plans.

For both branches of the processing industry - wood and paper, paperboard and pulp industry – the year 2008 was a year full of adverse conditions. They processed only 69 % from the total annual

production of the industrial coniferous and non-coniferous wood originated from the forest enterprises.

Both processing industries in the Czech Republic had to reduce the production during 2008, mainly in the second half of the year, or to stop it completely, with the impacts on the unemployment, and therefore to reduce the values. The sawnwood production was reduced by 15 % year-on-year and the production of newsprint, cardboard and paper board by 10 %.

4. Developments in forest products markets sectors.

a) Wood raw materials. Whereas in 2007 the *harvest of raw wood* has reached the highest values since the establishment of the independent Czech Republic in 1918, in 2008 this harvest recorded an unusual drop. The figures are dropping also in 2009. In 2008, the volume of wood harvested decreased by 12.5 % year-on-year, which is a drop of the volume of harvested timber by 2.3 million m³; the total timber harvested amounted to 16,187 thousand m³ in 2008. 4.2 million m³ of raw wood were exported from the Czech Republic in 2008. As compared to 2007, there is a decrease by 106 thousand m³, whereas 99.5 % of the total exports of the Czech Republic headed to EU-27, mainly to Austria, Germany, and Slovakia. In this year, 1.12 mil. m³ were imported to the Czech Republic, which means a decrease of imports by 145 thousands m³.

As for the production of industrial wood, 8,928 thousand m³ *of roundwood* were harvested and delivered on the market for consumption or export in the Czech Republic. As compared to 2007, the deliveries of roundwood dropped by the total of 15 % year-on-year due to the sales crisis in the whole world and due to the fact that the global crisis had a severe impact particularly on Europe. Therefore the export of roundwood decreased significantly, namely by 20 % year-on-year in 2008. The import of roundwood into the Czech Republic dropped too. As compared to 2007, it dropped by the total of 13.1 %, so only 751 thousand m³ were imported. The significant drop in the biggest export commodity in terms of volume and quite substantial decrease of its domestic consumption caused several problems to forestry and processing enterprises within the wood industry. Many companies went bankrupted, many had to reduce their production and staff significantly.

There was also a significant decrease in the supplies and processing of *pulp wood* in 2008 as compared to 2007. The sales and therefore the production of wood-based panels, paper, cardboard and paperboard and other paper products were heavily slowed down due to the crisis in sales and consumption. In 2008, the supplies of pulp wood dropped by 12.3 % year-on-year. The export of these products decreased substantial by the total of 31.7 % year-on-year. The import had to be reduced by 25 % year-on-year.

Only the *firewood* did not record any significant changes in 2008 as compared to 2007. The supplies of the firewood amounted to 1,734 thousand m³ in 2008 as compared to 1,770 thousand m³ in 2007. The reason for the similar trend lies in the growing energy and transport prices, which were reflected in higher consumption of firewood for heating.

b) Wood energy, with a focus on government policies promoting wood energy. In the Czech Republic, the National Forest Programme, which gives the direction for the forestry politics in the future, tackles basically also issues of how to contribute with delivery of wood of lower quality in order to increase the production of energy out of wood. These issues are further specified through relevant measures and decrees adopted by the sectors of the Ministry of Agriculture of the Czech Republic, Ministry of Trade and Industry and by the Ministry of Environment. These measures are taken in order to use the harvest residues in forests, the so called biomass, in an economic, effective and purposeful way when actually managing the forests. This does not mean a brand new approach or solution. The definition of species, ways of use and parameters of the biomass when subsidising the production of e.g. electricity out of biomass is stipulated by the Decree of the Ministry of Environment No. 428/2005 Coll., as amended by the update No. 5/2007 Coll. Using biomass for production of electricity should significantly contribute to the increase of the proportion of renewable

energy within the total energy production. This procedure follows the principle of environment friendly approach to forest. Czech Republic has to increase the use of renewable energy resources (wood mass for energy production) to 8 % by 2010 and to 15 – 16 % by 2030. Therefore, in 2008, the use of wood mass for energy purpose was specified in more details in the National Forestry Programme II and in the Action Plan for Biomass for which the results and experience from 2007 were used. Both documents assume a fast development of the use of wood mass for energy purposes, namely harvest residues, saw mill residues, but also fast-growing tree species grown especially for this purpose. The development of the fast growing tree species has very good conditions in the Czech Republic, as there are certain areas where large space is available after the coal mining and which are gradually recultivated and can be used for growing fast-growing tree species. Still the energy production out of wood is low in the Czech Republic, although the government is taking active measures to increase it. Only approx. 1.5 % of the total energy production in the Czech Republic comes from wood. In 2008, the portion of the renewable resources on the energy production grew slightly and the use of biomass amounted to 79 % of this increase. Generally, approx. 6 million tons of wood residues, chips, sawdust, firewood, plant material, cellulose extracts, briquettes and pellets are used for energy purpose in the Czech Republic.

c) Certified forest products. Certification system were introduced in the Czech Republic in order to provide for promotion of principles of sustainable management in the forests, promotion of consumption of wood acquired in accordance with these principles and in order to prevent exploitation of forests. The owners declare through the certificate their commitment to manage the forest pursuant to pre-defined criteria. Forest owners, or persons processing wood, are entitled to use the logo with the wood and wooden product, which guarantees that both the wood and the wooden products originate from forests managed in a sustainable way. The client is given the choice to select a product with the logo on the market, which guarantees such origin. Present criteria of forest use do not apply only to harvesting timber but also to a broad complex of social, ecological and economy forest functions related to sustainable use of natural resources in the Czech Republic. This trend accompanied by the effort to inform consumers on ecological quality of the timber as the raw material is one of the reasons for the introduction of the certification not only in the Czech Republic but also worldwide.

There are two certification systems used in the Czech Republic: PEFC system and FSC system. The majority of forests certified is certified by the PEFC system in the Czech Republic. 71.6 % of the total forest area of the Czech Republic (2 653 033 ha) were certified as of December 31, 2008. 70.88% of the forests were certified by the PEFC system and 0.74 % by the FSC system.

As for the consumer chains, the certificates are awarded to wood processing entities, business companies trading mainly timber, to saw mills, paper industry and building industry. In the Czech Republic, salesmen require more and more information whether or not the product was made out of certified wood every year.

d) Value-added wood products. In the Czech Republic, the wood based products are made mainly by entities processing wood. It is the branch of the timber production, the *timber industry*. This industry comprises entities processing roundwood (saw mills), producing wood-based panel products (particle board, fibreboard, OSB, plywood), producing construction-carpentry products (constructions, windows, door, etc.), producing also wood packing and palettes and other wooden products. Apart from the timber industry, it is the paper, paperboard and pulp industry, furniture industry incl. related fields and some parts of the polygraphic industry that is processing wood. These industry branches process wood or are making wooden products and together with the timber industry they are the wood processing industry.

As far as the timber industry is concerned, it is one of the average branches of manufacturing industry in the Czech Republic. However, it cannot be compared with branches such as engineering,

automotive or electrical industry. In the crisis-free period, the timber industry amounted to 3 % of the sales, 3.2 % of the value added 5.5 % of the number of employees within the manufacturing industry of the Czech Republic.

The development of the index of sales of own products from 2000 to 2008 showed a fast growth of sales from 2000 to 2005 by steady approx. 8 % per year. In 2006, the sales dropped to the level of 2002, in 2007 they reached the level of 2003, and in 2008 they dropped again to the level of 2001. The development of value added (b.c.) was even more dramatic in the given period. The rate of growth was increasing - similarly to the sales - till 2005, on average by less than 14 % yearly. In 2006, the curve of the growth dropped to the level reached from 2000 and 2001 and the values dropped by 55 %. In 2007, it reached the level of 2001 and in 2008 it dropped to the level of 2000. The year-on-year growth of the accounting added value amounted to 9.9 % from 2006 to 2007 and in 2008 it recorded a decrease by 18.8 % as compared to 2007. The number of the employees for the given period did not change basically from 2000 to 2005. The significant drop in the employment, namely by 60 %, was recorded in 2006 as compared to 2005. In 2007, there was a moderate increase by 1.5 % as compared to 2006, and in 2008 there was a decrease by 5 % year-on-year. The significant decrease of employment in 2006 had a positive impact on the labour productivity from the value added, which grew by less than 90 % from 2005 to 2006. This system of the development of the branch cannot be applied in long term. In 2007, it grew by further 16 % and in 2008 it dropped by 40 % year-on-year.

The examples of some selected indices of the timber industry show how serious the situation of this industry is and point out the need for solutions to the problems of processing and use of wood and wood products.

e) Sawnwood coniferous. In 2008, the production of *coniferous sawnwood* reflected gradual decrease of the supplies of the raw material to the saw mills, i.e. raw timber and roundwood, which was caused by the sales of the products of saw mills and subsequent reduction of the break down of roundwood. This is the well-known influence of the world crisis on the production caused mainly by the mortgage crisis in America. A certain role was played also by the growing exchange rate of Czech koruna towards euro and dollar. Due to the crisis the saw mills had to reduce their production during 2008 and many of them – mainly the smaller wood processing entities – had to terminate their production. Therefore, in 2008 saw mills in the Czech Republic produced only 4,409 thousand m³ of coniferous sawnwood. As compared to 2007, there was a decrease by 778 thousand m³ of this product, i.e. 15 %. Exports decreased by 365 thousand m³ year-on-year, i.e. by 16.1 %. The import of the sawnwood did not record any significant changes as compared to 2007 and dropped only by 0.5 %. Chain stores are probably more interested in imported goods such as sawnwood, as the imported goods incl. the packing are processed in a more aesthetic way.

f) Sawnwood non-coniferous. In the Czech Republic, the production of non-coniferous sawnwood was seriously influenced by the world crises, too. In 2008, the production dropped – similarly to the coniferous sawnwood – by 15 % as compared to 2007. In 2008, the total production amounted only to 227 thousand m³ of this product. Due to the ongoing crisis in 2009, the production of the non-coniferous sawnwood is expected to drop further in the Czech Republic, namely by 10 to 11 %. In 2008, the export of the non-coniferous sawnwood dropped by significant 37 % year-on-year. The decrease of import was not so substantial and amounted to the same level as the decrease of the import of coniferous sawnwood, i.e. 0.6 % year-on-year. It is important to point out that no significant processing facilities in the timber industry have been put into operation in 2008 – both for processing coniferous and non-coniferous sawnwood. The decrease of the exports of the sawnwood, mainly of non-coniferous, was caused by the termination of the exports to the USA. Substitutive markets such as Japan, China or Australia have not been able to cover for the decrease of the exports to the USA.

g) Wood-based panels: particle board, fibreboard, OSB, plywood. In 2008, the *production of particle boards* was not significantly influenced by the world crisis. This was the result of persistent or even slightly increasing demand for the production from abroad. In 2008, the production grew only by 0.6 % year-on-year, nevertheless the growth meant maintaining the employment in this field and keeping the enterprises running. In 2008, the total production of this article amounted to 1,436 thousand m³. As already mentioned, the exports increased by 1.2 % in 2008. Imports dropped by 1.7 % year-on-year, mainly due to the lower domestic consumption and therefore also sales of this article. It is not expected that the results achieved in 2008 could be achieved also in 2009.

The production of fibreboards is historically low in the Czech Republic. In the crisis-free period, the annual production amounted to 90 to 94 thousand m³. In 2008, it amounted only to 80 thousand m³. Therefore, the import of this material is at least the triple of the domestic production. Albeit the crisis influenced the Czech economy, the imports of particle boards decreased by 7.4 % as compared to 2007, however when compared to the production, they were higher than in 2007. The exports amounted to 78 thousand m³, i.e. decrease by 12.4 % year-on-year. As for this product, it is not expected that the results achieved in 2008 could be achieved also in 2009.

OSB desks are presently the most used material, mainly in civil engineering. The domestic consumption has been growing in the recent years. The biggest and the most important producers of OSB in the Czech Republic are KRONOSPAN CR, s.r.o. in Jihlava and Dřevozpracující družstvo Lukavec (Wood-processing Association Lukavec) in Lukavec. As there are only two producers, the economy indices may not be published without their consent, as their competitiveness could be influenced. It can be published that their production (maybe similarly also export and import) showed even better development tendencies as recorded in case of fibreboards in 2008.

Plywood, an important product also for building purposes, was on the increase till 2007 in the Czech Republic. The export showed similar tendencies. The year 2008 was a break point for this product, mainly for its exports. In 2007, the production of plywood amounted to 175 thousand m³, in 2008 only to 149 thousand m³, i.e. a decrease by 15 % year-on-year. However, a significant drop was recorded in the export of plywood. In 2007, 105 thousand m³ of plywood were exported, whereas in 2008 only 45 thousand m³. This is the result of sales abroad, mainly in the neighbouring countries. As the import decreased only by 9.2 % year-on-year, the domestic consumption of plywood grew.

h) Wood pulp, Paper and paperboard. In 2008, the paper, paperboard and pulp industry produced the total of 537 thousand tons of *pulp*, thereof 532 thousand tons of wood pulp. As compared to 2007, the production of pulp dropped by 243 thousand tons in 2008, which represents a significant decrease in this article, i.e. by 31.2 %. No improvement is expected in the next year. A significant drop was recorded also within exports, as they dropped by 32.5 % year-on-year in 2008. Imports decreased by 37.8 % year-on-year. The domestic consumption dropped by 32.2 % year-on-year in 2008.

The production of *paper, cardboard and paperboard*, according to CEPI classification, used in the paper, paperboard and pulp industry dropped by 9.7 % in 2008 as compared to 2007, i.e. the total of 924 thousand tons. The drop in the production was caused by the termination of the newsprint production at the end of May and of paper board in the autumn. Due to the drop in the production, the exports of these products decreased by 9.2 % year-on-year and the imports increased by 3.8 %. 74 % of the total production were wrapping paper, package and paperboard, 24 % were graphic paper and 2 % hygienic paper. This shows that the structure of the production of paper, paperboard and pulp industry does correspond with the domestic demand. We export goods with lower and low added value and we import goods with high value added.

i) Carbon trading in the forestry sector. This issue is not dealt with at the Ministry of Agriculture presently, as it lies within the competence of the Ministry of Environment.

Selected economic indicators

Country: Czech Republic

| Indicator | Percentage change compared to previous year | | | |
|--|---|------|-------|----------|
| | Actual | | | Estimate |
| | 2006 | 2007 | 2008 | 2009 |
| Gross domestic product (1995 constant prices) | 7,0 | 6,1 | 3,1 | -4,5 |
| Industrial production (2000 constant prices) of which: | 11,2 | 9,0 | 0,4 | -18,0 |
| - woodworking industry | 13,3 | 8,4 | -12,1 | -11,2 |
| - pulp, paper and printing industry | -0,1 | 6,2 | -9,7 | -8,0 |
| Construction (2000 constant prices) | 6,6 | 6,7 | 0,6 | -4,6 |
| External trade (FOB/CIF, current prices) of which: | | | | |
| - Imports | 14,8 | 15,6 | -0,4 | -19,0 |
| - Exports | 15,0 | 13,6 | 0,4 | -21,3 |