

STATEMENT

submitted by the Delegation of **Germany**
to the **fifty-ninth session of the ECE Timber Committee**
Geneva, 2 to 5 October 2001

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A. General information

1. Initial situation

There has been a considerable cyclical deceleration in Germany. Economic growth has last reached a standstill in the second quarter of 2001.

The halt in growth can essentially be attributed to external factors, among them the increase in energy prices in the course of last year, which put a considerable strain on the real purchasing power of private households and their consumption expenditure. Since the beginning of this year, the losses in real income have been exacerbated by food price increases caused by animal diseases and by rises in administered prices. The growth-dampening effects of consumer price increases have up to now concealed the positive effects of the tax reform. Yet tax relief has a stabilising effect on the economic activity, since it prevents an even stronger deceleration.

The global cyclical deceleration, too, contributes to a slowdown in economic activity. The remarkably dynamic trend in German exports has been slowed down noticeably at the end of last year. Currently there is a marked weakening of growth in the major industrialised countries (the U.S.A., Japan, Europe). Because of its high export ratio Germany is affected more severely than the other major Euro zone countries.

2. Outlook 2001

Like most national and international institutions, the Federal Government assumed a real gross domestic product increase of some 2 % for the year **2001**. Meanwhile the risks to the economic trend have become significantly more important. This is also reflected in current forecasts which base their assumptions on considerably lower growth expectations. The projections published by the major

economic research institutes forecast expected real growth rates of the gross domestic product ranging between 1.0 and 1.5 %. The Federal Government regularly updates its forecasts in October.

This year the repercussions of the growth-dampening effects of consumer price increases can still be felt. In addition, the tightening of monetary conditions which started in November 1999 will dampen the economic development this year because of the usual time lags. Only later this year, when the inflation pressure recedes, will the expansive forces of the economy be gradually reinforced. Last but not least the tax reform may contribute to this, unfolding its full impact on growth and employment only with a time lag. Thus the adjustment of the private households' spending patterns to changes in their available income generally requires more time. In addition, there are assumptions that during the course of the year external economic impeti will return in case the global economy recovers. This recovery is generally expected to start in the U.S.A. Yet there are considerable uncertainties concerning the pace and extent of the global economic recovery.

The **increase in consumer prices** will probably continue to decelerate in the course of the year because the impacts of the rise in the cost of energy are gradually wearing off. The domestic determinants of the price trend limit the upsurge of prices: There is no increase in unit labour costs, and the shifting potential of companies is tightly limited because of the slackening demand.

The cyclical deceleration can also be acutely felt on the **labour market**. Since the beginning of this year the number of unemployed persons has increased and the number of gainfully employed persons declined, if the calculation is seasonally adjusted. For 2001, the spring projection of the Federal Government expected an increase in employment of approximately 1% and a decline in unemployment by 180,000 persons, corresponding to some 3.7 million jobless. The expectations concerning the trend on the labour market will be updated in the next forecasting round in October in accordance with the modified basic data.

2. Outlook 2002

In its spring projection, the Federal Government expected a real gross domestic product increase of approximately 2 ¼ % in real terms for the year **2002**. The majority of the more recent forecasts by national and international institutions lie roughly in the same range, too.

The Federal Government and most observers are proceeding on the assumption of a noticeable recovery of the economic activity in Germany, which is expected to be free from inflationary tension. It is supported by favourable underlying conditions of the domestic economy like only slightly increasing unit labour costs, stable prices and low long-term interest rates. The generally expected improvement of the global economic environment will have a particularly favourable effect on the economic upswing.

The monetary policy could make an essential contribution to revitalising the economy if the monetary constraints were eased soon and significantly as early as this year. This would be an important prerequisite for putting the upward economic trend on a broader basis.

The **labour market**, too, is expected to benefit from the reinvigorated expansive forces. For 2002, the spring projection of the federal government expected an increase in the number of gainfully employed persons of roughly 1 % and a decline in the number of unemployed persons to some 3 ½ million. These projections, too, will be revised on the occasion of the next forecasting round.

2. Situation and short-term trends in major end-use sectors for forest products

- Primary and secondary wood processing

The year 2000 was the year with the highest growth rate since the German economy was reunited. National economic production increased by 3 % in real terms, with strong economic momentum emanating particularly from export. The German wood and furniture industry, which was successful in increasing its total sales despite restrained domestic demand, was not the only beneficiary. The German paper industry, which exports some 50 % of its products, achieved record production and sales numbers last year.

The **total turnover** of the German timber and paper industries rose by more than 3 % in the year 2000 and reached some DM 176.6 billion (including the business lines of paper, furniture and woodcraft with two-digit growth rates). The timber trade had to accept a slightly lower result. The main reason for this was the decline in the construction industry. With just under 60,500, the **total number of businesses** in the wood and paper industry was almost stable last year. The **total number of persons employed** in this economic sector fell by 1.4 % and is now roughly 640,000.

- Construction

For wood sales, the construction industry still assumes a central role. Within the different sectors, the construction of detached and semi-detached houses and the redevelopment/renovation of buildings are of decisive importance.

In 2000, the construction industry continued to lose further percentage points in gross domestic product on the whole. Residential building, the most important branch of the construction industry, also suffered some losses. In the year 2000 the share of residential construction investment in the GDP reached a mere 6.8 % compared to 7 % in the preceding year (in 1994 even 8 % were reached).

In the year 2000 some 423,000 dwellings were built in Germany, that is 10.5 % less than in the preceding year. 87 % of all dwellings were new constructions, the rest was built in existing houses. The decline was particularly strong in the case of apartment houses (- 18 %) and semi-detached houses (- 10 %), whilst the construction of detached houses was almost stable.

Once again the decline in the new Länder was stronger than in the rest of Germany.

From 2002 to 2004, the federal government will earmark DM 300 million every year for urban redevelopment in the new Länder. The programme objective is the revaluation of urban neighbourhoods, the improvement of the quality of life and the revaluation of the existing residential buildings.

- Prospects

First, the growth prospects have deteriorated for the entire year 2001 under the impact of the global economic deceleration and the loss of domestic purchasing power. The wood and paper industry are also affected by this. The crisis in the building industry also has immediate negative effects on important marketing areas of the wood industry (e.g. sawnwood, construction elements, furniture). Unlike in comparable situations of previous years, this time there is no indication that the losses in the construction of new houses could be compensated by increased redevelopment, modernisation and renovation. Meanwhile there is, however, a slight ray of hope. Despite the downward trend in the main construction trade the building demand has increased remarkably in recent times, yet at a low level (construction orders in the 2nd quarter 2001: + 5.8 %). In addition, a slight pick-up of consumer demand started in the 1st half year of 2001. Private consumption expenditure made an above-average contribution to real GDP compared to the preceding year. For the wood and paper industry export remains an important sales outlet.

Experts assume that the percentage of the population groups with a strong purchasing power (age group 40 years plus) will increase by 20 % in the next 10 years. Mainly the consumer and capital goods industry hopes for additional medium-term impetus based on this shift of the main focus towards high-income age groups. In addition there is the expectation that at consumer level the issue “energy saving in and around the house“ will become much more important and that timber sales will also benefit from this trend.

The German forestry and wood-based industry hopes that as a result of the multi-annual marketing campaign of the German Timber Sales Fund which is to be launched in the print media in September 2001 the demand for wood products will pick up.

The construction of a kraft pulp mill with a production capacity of 520,000 tpa in Mecklenburg-Western Pomerania (construction scheduled to begin in 2001) is expected to be linked with a tangible pick-up in demand for smaller wood categories and industrial wood residues.

B. Forest Products Markets

1. Roundwood markets (including storm damages of December 1999)

The forestry year 2000 was primarily marked by the consequences of the „Lothar“ storm (December 1999). A total of some 34 million cubic metres of windfall timber was accumulated. The Länder of Bavaria and Baden-Württemberg were hardest hit with 4.5 million cubic metres and 29 million cubic metres. The Länder of Hesse, Rhineland-Palatinate and Saarland also suffered damages caused by storm, yet the quantities were significantly lower. Regular felling in Germany was limited by the adoption of an ordinance implementing the Compensation for Forest Damage Act in the forestry year 2000 and - with more moderate restrictions – in the forestry year 2001.

The felling result of the forestry year 2000 significantly increased by 31 % to 49.1 million cubic metres because of the swift salvaging of windfall timber in Southern Germany and because of the cuts already effected in all federal Länder before the damaging event. The Länder of Bavaria and Baden-Württemberg contributed about 30.4 million cubic metres, that is roughly two thirds.

33,9 Million cubic metres of the cuts or 69 % were sold in the forestry year 2000. Bavaria and Baden-Württemberg sold roughly 17.5 million cubic metres. This represented a concentrated accumulation of timber in two federal Länder and required a mobilisation of all means of transport (rail, boat and lorry) and transport capacities in order to achieve a balance among the regions. In addition, in Baden-Württemberg some 4.5 million cubic metres of coniferous logs were preserved for a longer term in wet timber preservation yards. Some 100,000 cubic metres of windfall timber were withdrawn from the market by dry storage and storage on plastic for the short and medium term. By mid-2001 some 160,000 cubic metres of beetle-killed timber had been salvaged (for 2001 a total of some 1 million cubic metres of beetle-killed timber is expected).

It was possible to almost conclude the salvaging of windfall timber in Bavaria in the forestry year 2000. In Baden-Württemberg the clearing work lasted until mid-2001. 95 % of the wood from the wet timber

preservation yards is meanwhile under contract. The wet timber preservation yards are to be cleared by 2003.

When tackling the storm damage, timber transport played an important role (rail, road, waterway). It must be pointed out that in Germany the share of road haulage in timber transport has been on the increase for years and has meanwhile exceeded 90 % (rail transport approx. 5 %; inland waterways transport approx. 1 %). There are strong efforts to once again increase the share of environmentally friendly transport modes (mainly rail). This also includes maintaining a sufficiently large network of rail loading stations for timber transport.

2. Softwoods

- Sawn softwood

With 15 million cubic metres the production of sawn softwood was still above the preceding year (+3 %), yet lost some momentum in the course of the year because of the weak construction activity. The storm damage events in Southern Germany have also resulted in a production gap between Northern and Southern Germany. It was not possible to attenuate the pressure on the domestic market by foreign trade. The imports of sawn softwood amounted to 5 million cubic metres and the exports amounted to approx. 3 million cubic metres.

Based on the modest prospects for the building activity a slight reduction is expected for 2001 and a renewed increase to the 2000 level for the year 2002.

In the course of the year 2000 the producer price index dropped continuously and fell from 96.5 to 92.9 points.

- Coniferous logs

In 2000 the felling of coniferous logs amounted to 29 million cubic metres because of the storm damage and was hence 53 % up from the previous year.

At the end of the forestry year 2000 (September 2000) the producer price index for spruce and pine logs was 80.3 and 78.8 and hence 24.2 % and 10.7 % below the index of September 1999.

3. Hardwoods

- Non coniferous sawnwood

In 2000, the production of non-coniferous sawnwood amounted to 1.7 million cubic metres.

In foreign trade, considerable market shares were gained: Whilst the imports fell to 798,000 cubic metres, exports rose remarkably to 732,000 cubic metres.

For the year 2001 we expect a slight decrease and for the following year we expect stagnation.

- Non-coniferous logs

In 2000, the felling of non-coniferous logs was 4.7 % up from the previous year and reached 4.8 million cubic metres. The producer price index for oak and beech logs was 85 and 96.9 at the end of the forestry year 2000 and was thus 0.5 % and 9.9 % down from the index of the same month of the preceding year.

4. Wood-based panels

- Plywood

The output of plywood continued to decline in 2000. For 2000, the official statistics indicate a production of some 355,000 cubic metres. That is 2.5 % down from the preceding year. We expect a continuing decline for the projection area covered here.

- Particleboard

With some 10.3 million cubic metres, the production of particleboard was significantly higher than in the previous year (+ 9 %). The rise in consumption was only attributed to the rise in domestic demand to a lesser extent, but was mainly due to exports. For the years 2001 and 2002, we expect a continuation of this trend.

- Fibreboard

For fibreboard the professional association projects a similar trend as for particleboard, that is higher production, shrinking or stagnating imports and an increase in exports.

5. Pulp and Paper

In 2000 the production of paper, cardboard and paper board increased by 9 % compared to 1999, reaching 18.2 million tonnes. Thus Germany remained by far the most important producer in Europe. By global comparison rank 5 was maintained. The annual sales of DM 25.1 billion (+ 22 % compared to the preceding year) represent a record result. In Germany the annual per-capita consumption of paper products rose from 216 kg in 1999 to 233 kg in 2000.

In 2000 the German production of paper pulp was some 873,000 tonnes (+24 % up from the preceding year). This leap can mainly be attributed to an expansion of capacities by retrofitting the pulp mill of Blankenstein (Thuringia), replacing the sulphite method with the sulphate method.

In 2000 the export of paper products rose to some 8.7 million tonnes (+ 9 % compared to 1999) (export share in production just under 48 %). During the same reference period imports rose by 6.7 % to 9.6 million tonnes (import quota around 50 %).

In 2000 the German paper industry consumed some 11 million tonnes of waste paper (+ 7 % compared to 1999) so that the recovered paper utilisation rate reaches 60 %.

D. Certification

Compared to the preceding year the **Forest Stewardship Council (FSC)** and the **Pan-European Sustainability Certificate (PEFC)** both expanded their area percentages considerably in Germany. All in all, almost half of the German forest area has meanwhile been certified. Yet certification has still no effect on the timber market itself. There only is a marginal offer of certified finished products. In addition, making the certificates and their main objectives known at consumer level has not yet been successful.

Certified forest areas in Germany

| Certification system | Certified areas (ha) | percentage of total forest area (%) |
|----------------------|----------------------|-------------------------------------|
| FSC | 259,290 | 2.4 |
| PEFC | 4,668,802 | 43.6 |

FSC is the only certificate with a global orientation and the objective of improving the condition of forests as a whole. The main concern in this process is the struggle against overexploitation in tropical forests and

other regions at risk. Against this backdrop the Federal Ministry of Consumer Protection, Food and Agriculture supports FSC. In addition, there are some 50 certification systems which concentrate to varying extents on specific regions. Just like every other ambitious certificate, FSC also makes a domestic contribution to making forest management more environmentally sound. Therefore the Ministry of Consumer Protection, Food and Agriculture promotes the dialogue between the leading certification systems in Germany with the goal of maintaining the discussion of the competitors at an objective level. This is important in order to avoid shaking consumer confidence.

Please find further information on the following topics at the internet sites listed below:

- **timber industry in general**

<http://www.bmvel.de>

<http://www.dainet.de/forstforum>

<http://www.holz.de/>

- **certification**

<http://www.fsc-Germany.de/>

<http://www.dfzr.de/>

Enterprises, workers and turnover in the German timber and paper industry^{*)}

| Economic sector | Notes | Enterprises | | Workers | | Turnover - DM million - | |
|--|---|----------------------------|----------------------------|----------------|----------------|----------------------------|----------------|
| | | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| Primary wood processing ^{1) 9)} | | 2 585 | 2 512 | 49 755 | 49 469 | 16 566 | 17 054 |
| -sawmills ²⁾ | | 2 301 | 2 236 | 28 717 | 28 098 | 8 997 | 8 960 |
| -wood-based panel production | | 284 | 276 | 21 038 | 21 371 | 7569 | 8 093 |
| Secondary wood processing ^{3) 9)} | excluding wood and upholstered furniture manufacturing | 1 074 | 1 034 | 71 016 | 70 183 | 16 988 | 17 155 |
| Furniture industry ^{3) 5) 9)} | also from materials other than wood | 1 405 | 1 358 | 159 944 | 156 264 | 42 125 | 42 819 |
| Woodcraft industry ^{4) 7)} | excluding furniture-manufacturing, excluding timber-related building crafts | 14 424 ⁸⁾ | 14 385 ⁸⁾ | 60 905 | 62 628 | 8 025 | 8 969 |
| Furniture manufacturing crafts ^{4) 5) 7)} | also from materials other than wood | 7 618 ⁸⁾ | 7 593 ⁸⁾ | 34 909 | 35 876 | 4 420 | 5 081 |
| Timber-related building crafts ^{1) 7)} | | 28 928 ⁸⁾ | 28 915 ⁸⁾ | 172 273 | 164 282 | 23 343 | 22 725 |
| Timber wholesale trade ^{6) 7)} | | 4 431 ^{a)} | 4 431 ^{a)} | 52 164 | 52 282 | 35 108 | 33 489 |
| Pulp and paper production ^{1) 9)} | | 249 | 256 | 46 893 | 47 875 | 24 251 | 29 381 |
| Total forest industries ⁷⁾ | | 60 714⁸⁾ | 60 484⁸⁾ | 647 859 | 638 859 | 170 826 | 176 673 |

- 1) businesses with one or more workers
 2) sawmills with 5,000 cubic metres of roundwood (solid measure) or more annual removals
 3) businesses with 20 or more workers, including craft businesses

- 4) businesses with 1 to 19 workers
 5) excluding mattress production

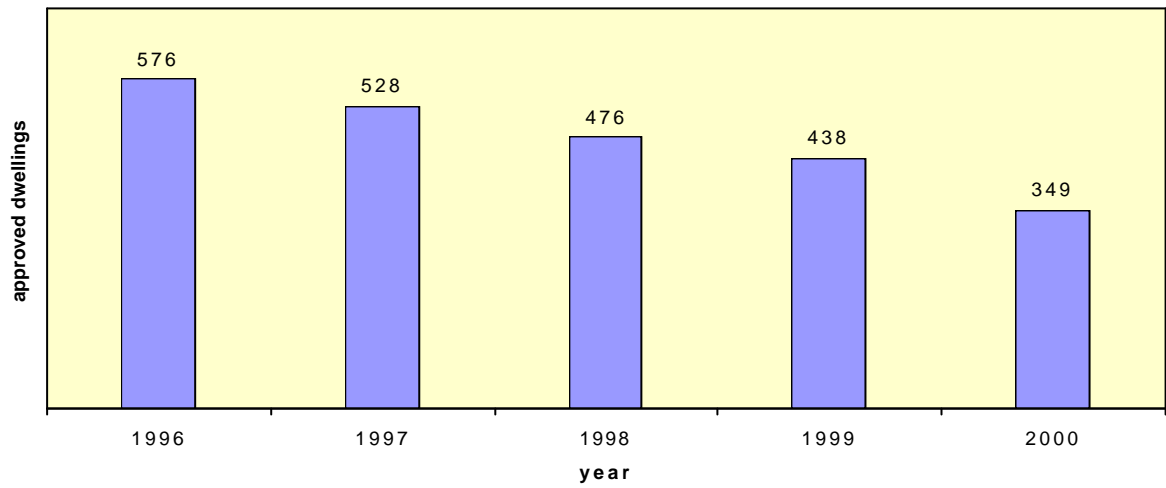
- 6) businesses with a minimum turnover of DM 25,000

- a) 1 626 of which are accounted for by the trademark number 51.53.1

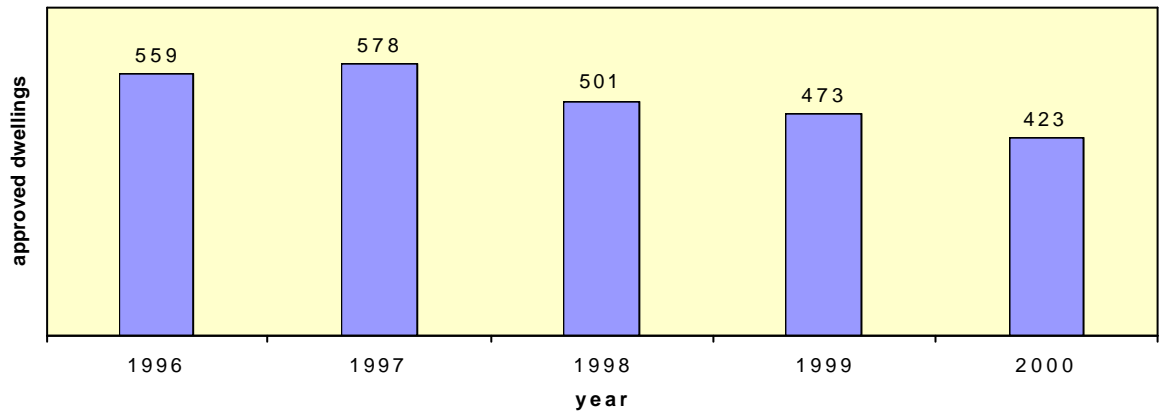
- 7) partly estimated
 8) craft undertakings in 1994 in accordance with the 1995 craft census
 9) monthly report as of 1997 refers to the reported group which was expanded by units of the 1995 craft census

***) divergences from earlier results can be explained by the corrections applied meanwhile due to actual surveys**

approved dwellings in Germany
1, 000



completed dwellings in Germany
1, 000



Selected economic indicators¹⁾

Country: Federal Republic of Germany

| | 1999 ²⁾ (actual) | 2000 ²⁾ (actual) | 2001 ²⁾ (estimate) | 2002 ²⁾ (estimate) |
|--|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| (%age change on previous year) | | | | |
| Gross Domestic Product ²⁾ | + 1,6 | + 3,0 | + ca. 2 | + ca. 2 1/4 |
| Industrial production ^{2) 3)} | + 0,2 | + 5,0 | 0 | + ca. 2 1/2 |
| Construction investment ²⁾ | + 0,5 | - 2,5 | - ca. 2 | + ca. 1/2 |
| of which: | | | | |
| - new dwellings (completions) | - 0,2 | - 2,9 | - ca. 3 | + ca. 0 |
| - new non-dwelling construction | + 1,4 | - 2,0 | - ca. 1/2 | + ca. 1 |

^{1/}The indicators shown are for guidance only. Countries should select those which are readily available and appropriate for their economies.

^{2/}Constant prices of 1995

^{3/}Industry excluding construction