

**STATEMENT**

submitted by the Delegation of **Germany**  
to the **fifty-seventh session of the ECE Timber Committee**  
Geneva, 27 to 30 September 1999

**A. General information**

1. Trends and short-term outlooks

1. After a slowdown in economic growth in the second half of 1998, the Federal Government expects in all probability a marked acceleration of economic activities in the course of this year. Most national and international observers share this evaluation.

The current indicators of economic activity as well as the domestic product calculations of the Federal Statistical Office for the first quarter support the expected accelerated continuation of the upswing. After a slight decline in the general business activity in the fourth quarter of 1998 (-0.1 %), a marked price- and seasonally adjusted growth (+0.4 %) was again recorded in the first three months of 1999. The current indicators of economic activity show that the upward trend – even though weaker - in the second quarter probably continued all in all. A more pronounced upswing is expected for the second half of the year, which is also required to reach the growth rate calculated by the spring projection for the entire year.

According to this, the real GDP growth of approx. 1 ½ % is relatively moderate on an annual average in 1999. If the economic recovery continues, a real GDP growth of around 2½ % could be reached next year, without price stability being at risk in the entire projection period.

2. Economic growth will probably be driven particularly by domestic demand, whose development is still positive, primarily that of private consumption. Thus, the prospects for a greater willingness to invest are also favourable. Investment activity is supported by the improved domestic sales prospects and by the nominal interest level, which will probably stay low, as well as by the positive earnings performance of the past few years.

In all probability the stronger global economic expansion, first signs of which have already emerged since the beginning of this year, will also give positive impulses to the German economy.

Meanwhile there are increasing signs for a gradual brightening again of the world economic environment. Foreign trade is therefore likely to buttress again the overall economic dynamic in the further course of this year.

3. The positive trend on the labour market temporarily slackened as a result of the slowdown in growth of the gross domestic product in the last winter half of the year. The latest seasonally-adjusted growth of the unemployment rate, however, is rather due to the decline in the relief effect exerted by the labour market policy. Marked growth in employment can only be expected in the course of next year.

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

### Primary and secondary wood processing

In 1998, the German timber industry benefited from a growth in private consumption and slightly surpassed the **turnover** of the previous year with 86 billion (1.7%). However, the development of turnover varied widely according to the different branches: while there have been marked increases in turnover in wood working, the furniture industry as well as the pulp and paper industries, sales declined in the craft trades and the other fields of the wood processing sector. With around 61,000 the number of **enterprises** as well was slightly higher than in the previous year. The slight economic recovery did not yield any impulses on the labour market though. The **number of persons employed** declined in 1998, falling short of the previous year's level by 2.3 %. There have been manpower cuts in all of the other branches examined here with the exception of timber wholesale trade.

In the first half of 1999 turnover as well as employment have been decreasing. The wood-based panel industry as well as the manufacturers of construction elements recorded particularly sharp falls. Overall turnover in the timber and furniture industries decreased by 2.5% as against the same period in the previous year. The number of enterprises fell too. Foreign trade, which clearly increased in 1998 as well, is expected to give stimulating impulses. A slight improvement is forecast for the course of the year, which according to the trade associations will suffice at best to compensate for the negative result of the first half, however.

### Construction

The share of the construction industry in the overall economic real output has been decreasing for the past decades. The construction industry forfeited its role as the engine of overall economic development increasingly losing shares in the gross domestic product.

Real investment in construction again declined in 1998. The decline was higher than in the previous year and far more pronounced in the new *Laender* than in the old *Laender*. Within the three main branches of building industries (housing construction, commercial buildings and public buildings) housing construction fared best. In the process, it must be considered that housing construction representing the main branch for the growing use of timber has the highest share in production volume among these branches.

The construction of one- and two-family homes increased considerably. Low mortgage interest rates as well as the price decline in construction services contributed to this. Construction services for maintenance and repair of dwellings claim a further increasing share, accounting for almost 50% now of the housing construction volume, and also playing a key role for the use of timber. Apart from the general construction activity, in 1998 the number of approved dwellings was also lower than in the previous year. The decrease in permits in the construction of multiple dwelling units was particularly dramatic, whereas the approvals in one- and two-family home construction increased substantially here, too.

The construction of timber houses showed a marked increase again. According to a study, in 1998 around 30, 000 houses were built with timber as a building material. This represents an increase of almost 30% compared with 1997. The increase in the timber house construction of the carpentry trade was particularly pronounced. Here the market volume of 500 units in 1990 rose to around 14, 000 in 1998.

Regarding the further prospects, the industry expects for 1999 an end to the downturn at least in the old *Laender* and an increase again in the average construction activity of the three branches.

The following indicators are mentioned in this context:

- Financing costs for long-term building investments are at the lowest level for decades.
- Prices for building sites have decreased in many cases given the sustained low general construction costs.
- The mood of the building industry enterprises is cautiously optimistic.

- The construction of one- or two-family homes is also expected to exert a stabilizing effect, especially as there has been a substantial increase in the funding for the scheme to promote owner-occupied housing of young families

Apart from the construction activity the number of building approvals, too, was lower than in the previous year. While the decrease in approvals was particularly dramatic in multiple-dwelling unit construction, the permits for the construction of one-family homes increased considerably even.

### **Promotion of wood utilization and prospects**

The new **Wood Sales Fund Act** is designed to strengthen the renewable and environmentally friendly resource and material timber in the competition with other materials and to improve the economic situation of small- and medium-sized enterprises of the forestry and wood-based industries. The new Act has been in force since 1 January 1999. Through strengthening of the financial base of the Wood Sales Fund (former Forestry Sales Fund) by including sawmills, veneer mills and plywood mills in the financing as well as by improving its organization, the above-mentioned aims should be pursued more effectively.

One of the measures of the Wood Sales Fund is to illustrate the compatibility of sustainable timber use with the requirements of the protection and recreational functions of forests by explaining the management of the German forest industry, inter alia. By presenting the ecological benefits of timber convincingly, its position is to be strengthened in the competition with other materials than wood.

With the new „**Investment Program for Renewable Energy Sources 1999 – 2003**“, the Federal Government is stepping up the promotion of energy use of wood, inter alia. For 1999 up to 35 million have been earmarked for „biomass“ within the framework of the program (all renewables together up to 100 million ).

A new **Ordinance on Energy Savings** is under way to tighten the requirements regarding thermal insulation in buildings. The low-energy housing standard thus called for is compatible with timber construction and will probably further improve the competitive situation of timber as a construction material.

There is no telling now what effects the measures taken by the Federal Government will have on the whole sector, in particular in the field of energy savings. It can be assumed however, that

manufacturers of wooden construction elements and the interior finishing industry will benefit particularly from the implementation of this ordinance.

The Federal Building Ministry expects in the construction industry a weakened continuation of the downswing of the housing construction activity, with the field of single-family home construction, which is important for the use of timber, still being the most stable one. In total, around 440, 000-460, 000 dwellings will come on the market in 1999. The overall housing construction activity remains therefore divided:

- The relaxation trends on the rental housing market resulted in a further decrease of approvals and completions there.
- By contrast, the owner-occupied housing field turned out to be stable due to the promotion (owner-occupied home allowance) and the favourable financing conditions.

Negative voices prevail in evaluating the business climate within the framework of the ifo-test (institute for economic research) about economic activity in the first half of 1999.

## **B. Forest Products Markets**

### **1. Pulp and paper**

In 1998, pulp production continued to stagnate under 800,000 t. A marked increase can be expected in this year still after a new sulphate mill has been opened in eastern Germany (a production capacity of 280,000 tonnes annually).

Last year went well for the paper industry all in all, even if the positive development of the first half levelled off in the further course of business. Production of paper and cardboard rose to 16.3 million t (+2%) and annual turnover to around 10 billion (+4%). Whereas domestic sales increased by 2%, exports (primarily due to the economic crises in South-East Asia, South America and Russia) declined by 3%. The domestic consumption, accounting for around 17 million t, corresponds to a 23% share in European paper consumption and thus ranks first. The recycling rate reached a new height with 61%. Expectations for 1999 tend to be guarded. Yet, the industry banks on a recovery of demand with respect to publications on the topic „turn of the millenium“.

### **2. Roundwood markets (removals, forest sales)**

With 39 million m<sup>3</sup>, removals in the 1998 forestry year exceeded the previous year's level (+ 2.2%). Substantial increases were recorded in the timber species groups of oak and beech.

The timber market situation was marked by the following factors:

- forest cuts increasingly take place in the summer now due to the steady demand during the whole year (not only winter period).
- there is an increasing differentiation in demand (specific requirements regarding the timber-shaping, specific uses in the field of packaging etc.).
- Supply and demand were balanced towards the end of the year.

### **3. Softwoods**

#### - Sawn softwood

In 1998 production of sawn softwood increased by around 1 % to 13. 8 million m<sup>3</sup>. Imports and exports of sawn softwood declined noticeably. In the first six months of 1999, imports were on the same level as in the previous year, whereas exports again declined markedly. Efforts to acquire export shares were thus unsuccessful despite increased capacities in the sawmilling industry (mainly due to new large enterprises). An expansion of the foreign trade volume is expected for the year 2000.

The producer price index for sawn softwood stagnated in the first half of 1999 at a level slightly below that of the previous year.

- Coniferous logs

There was brisk demand for spruce coniferous logs, which did not result in a further price increase however. Prices for coniferous logs have been stable for over 1<sup>1</sup>/<sub>2</sub> years at a relatively high level. A recovery in demand was also observed in the case of pine coniferous logs.

### **4. Hardwoods**

#### - Non-coniferous sawnwood

In 1998 the production of non-coniferous sawnwood amounted 1.2 million m<sup>3</sup> and thus exceeded the previous year's level by around 11 %. Only the better beech qualities benefited from the upturn

in the non-coniferous wood market. The market for minor beech qualities is still under a strong import pressure, especially from Eastern Europe.

Whereas imports almost remained at the same level, exports rose by 12 % to 375, 000 m<sup>3</sup>.

The producer price index for non-coniferous sawnwood was in mid-1999 slightly higher than in the previous year.

- Non-coniferous logs

The felling period of light non-coniferous wood (e.g.ash) now starts earlier since the sawmilling industry's demand now comes up already in September.

Very early on, the optimistic prospects for the beech logs market led to high purchase of roundwood. The interest in beech roundwood from the neighbouring countries and the Far East resulted in a further recovery of demand. This demand could be met by increased fellings.

## **5. Wood-based panels**

There have been no bottlenecks in terms of quantity in the overall timber supply of particleboard and fibreboard plants. Apart from that, the development varied in the different fields of the wood-based panels industry.

- Plywood

Plywood production sustained production losses, in particular in the field of laminated veneer lumber, in spite of slightly higher exports.

In the first half of 1999, the producer price index declined. The business climate for the coming months is assessed mainly negatively for plywood and blockboards.

- Particleboard

The production of particle boards reached a new high with 9.5 million m<sup>3</sup>. In 1998 exports were higher than in the previous year and slightly exceeded imports. Nevertheless, the market situation is tense, especially since the usual recovery in autumn has held off. In spite of higher exports, overcapacities and full production led to high stocks. In the course of the first half of 1999, the

producer price index for particle boards declined substantially. In view of this, most enterprises involved in the ifo-test of economic activity assess the further development negatively.

- Fibreboard

The development of fibreboard was similar to that of particle board. Imports as well as exports increased in the case of medium-density fibreboard and compressed hardwood. Marked export surpluses could be achieved in both fields.

### **Certification**

The **Forest Stewardship Council (FSC)** and the **Pan-European Forest Certificate (PEFC)** have become the two major certification systems in Germany and the focus of discussion:

On 1 October 1997 the German working group of **FSC** was founded aiming at adapting the ten universally valid principles and criteria for sustainable forest management to the specific conditions prevailing in Germany. The FSC General Assembly unanimously adopted the 76 standards on 13 April 1999. They are now at the disposal of the FSC for international recognition.

The FSC is given support in the forestry sector by some representatives of the state, communal and private forests as well as the „Working Group for close-to-nature Forest Management“ (ANW). It is retailers, mail-order houses, publishing houses and other enterprises from different fields particularly which have opted for FSC. The business circles concerned are united in a so-called „buyer group“ with the professed aim of increasingly including FSC-certified products in their range.

**PEFC** is an initiative of European forest owners aiming at the establishment of a Pan-European framework for the mutual recognition of national forestry certification systems. PEFC is endorsed by German forestry for the most part and by associations of the forest and paper industries.

PEFC sets minimum standards for the Pan-European, national and regional levels. The standards are based on criteria decided within the framework of the Ministerial Conferences on the Protection of Forests in Europe (Helsinki 1993 and Lisbon 1998) by the competent Ministers.

PEFC is based on regional certification in Germany at *Laender* level. The so-called „Dessau Declaration“ of June 1998 gave the go-ahead for the setting-up of the certification initiative. The



PEFC „National Certification Council“ was founded on 21 July 1999. A draft self-commitment declaration is currently available. Furthermore, a list of indicators to assess a region has been elaborated. Further details of the certification procedure are being tested as part of a pilot project in three German regions. Moreover, guidelines for the „chain of custody“ are currently being worked out. They should be available until the end of the year and constitute a prerequisite for the labelling of timber products.

The **Federal Government** welcomes certification:

- It opens up sales on environmentally-sensitive markets for tropical timber from sustainable forest management thus enhancing the appreciation of tropical forests.
- In Germany itself certification contributes to informing the public about the services of forestry thus raising the acceptance of sustainable forest management and the use of wood products in society.

In a technical talk with representatives of FSC and PEFC, the Federal Ministry of Food, Agriculture and Forestry worked out common ground and differences with the result that

- both initiatives go beyond the legally required standards (Federal Forest Act, *Laender* forest legislation) and
- fundamental differences regarding the requirements for forest management cannot be ascertained. Both initiatives stress the socio-economic and ecological functions of forests.

FSC and PEFC are currently being introduced into the market, initially intensifying competition.

Yet, a polarization between the competitors must be avoided because it would lead to a confusion of the consumers. It is most important to focus on the common aims in order to raise the public acceptance for forestry and the use of wood products.

The issue of „chain of custody“ has not been resolved yet. Furthermore, both systems must still prove their credibility in practical use.

**Further information on the following topics is available under the internet addresses listed below:**

- **Certification**

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

<http://fscoax.org/>

<http://www.pefc.org/content.htm>

• **Forestry and wood based industry**

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

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

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

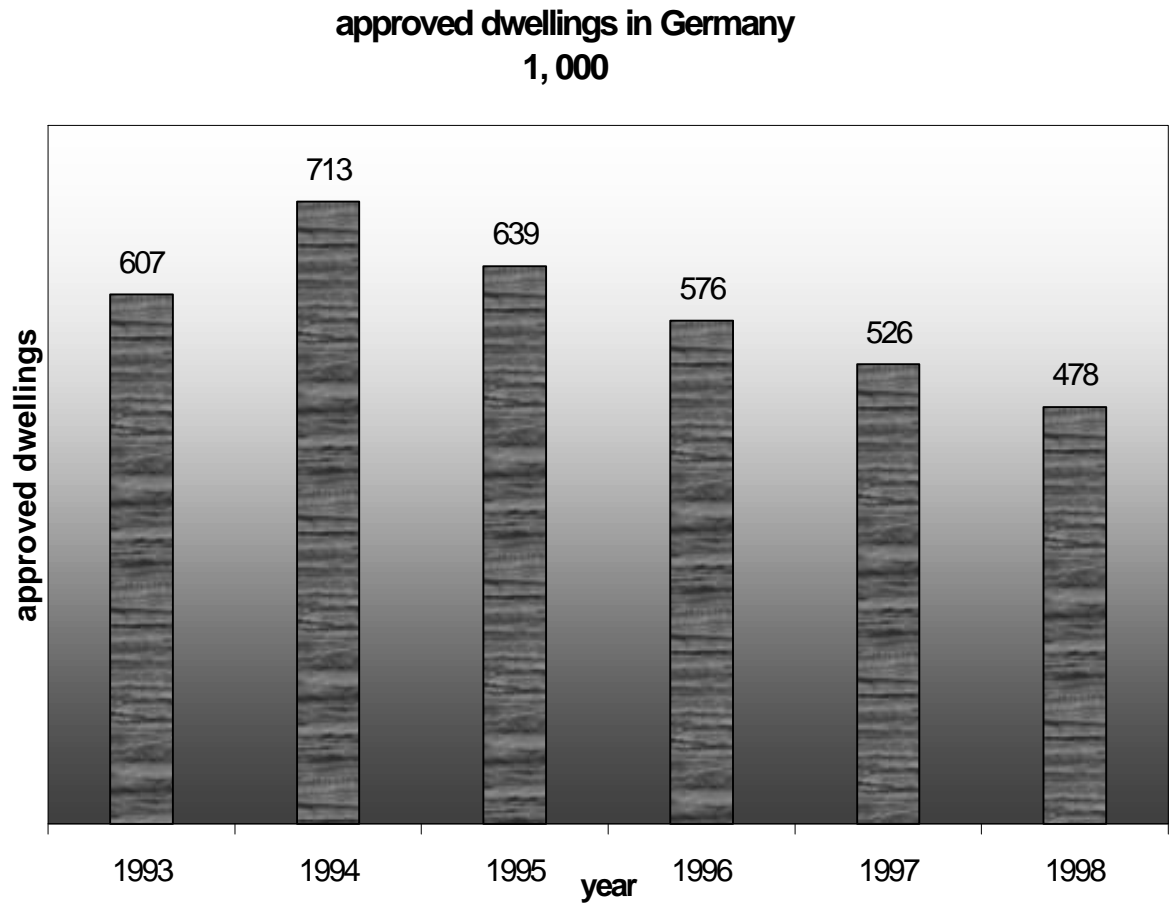
### Enterprises, labour force, turnover

Sector	Remarks	Enterprises		Labour force		Turnover -million -	
		1997	1998	1997	1998	1997	1998
<b>Primary wood processing sector</b> <sup>1)9)</sup>		<b>2, 717</b>	<b>2, 655</b>	<b>52, 179</b>	<b>51, 636</b>	<b>8, 035</b>	<b>8, 349</b>
- saw mills <sup>2)</sup>		2, 399	2, 345	30, 418	29, 918	4, 397	4, 480
- production of wood based panels		318	310	21, 761	21, 718	3, 638	3, 869
<b>Secondary wood processing sector</b> <sup>3)9)</sup>	without wood and upholstery manufacturing	<b>1, 143</b>	<b>1, 114</b>	<b>74, 102</b>	<b>71, 543</b>	<b>8, 498</b>	<b>8, 397</b>
<b>Furniture industry</b> <sup>3)5)9)</sup>	including other materials than wood	<b>1, 535</b>	<b>1, 450</b>	<b>166, 289</b>	<b>163, 789</b>	<b>20, 293</b>	<b>21, 091</b>
<b>Wood craft industry</b> <sup>4)7)</sup>	without furniture manufacturing, without timber-related building crafts	<b>14, 279<sup>8)</sup></b>	<b>14, 379<sup>8)</sup></b>	<b>68, 967<sup>10)</sup></b>	<b>65, 112<sup>10)</sup></b>	<b>4, 398<sup>10)</sup></b>	<b>4, 138<sup>10)</sup></b>
<b>Furniture-manufacturing crafts</b> <sup>4)5)7)</sup>	including other materials than wood	<b>7, 599<sup>8)</sup></b>	<b>7, 638<sup>8)</sup></b>	<b>35, 835<sup>10)</sup></b>	<b>35, 572<sup>10)</sup></b>	<b>2, 143<sup>10)</sup></b>	<b>2, 201<sup>10)</sup></b>
<b>Timber-related building crafts</b> <sup>1)7)</sup>		<b>28, 544<sup>8)</sup></b>	<b>28, 839<sup>8)</sup></b>	<b>183, 022<sup>10)</sup></b>	<b>175, 736<sup>10)</sup></b>	<b>12, 123<sup>10)</sup></b>	<b>11, 686<sup>10)</sup></b>
<b>Wholesale timber trade</b> <sup>6)7)</sup>		<b>4, 431</b>	<b>4, 431</b>	<b>53, 979</b>	<b>55, 038</b>	<b>18, 203</b>	<b>18, 544</b>
<b>Pulp and paper production</b> <sup>1)9)</sup>		<b>245</b>	<b>253</b>	<b>46 501</b>	<b>46 641</b>	<b>11 062</b>	<b>11 852</b>
<b>Total wood and paper industries</b> <sup>7)</sup>		<b>60, 493<sup>8)</sup></b>	<b>60, 759<sup>8)</sup></b>	<b>680, 874<sup>10)</sup></b>	<b>665, 067<sup>10)</sup></b>	<b>84, 755<sup>10)</sup></b>	<b>86, 258<sup>10)</sup></b>

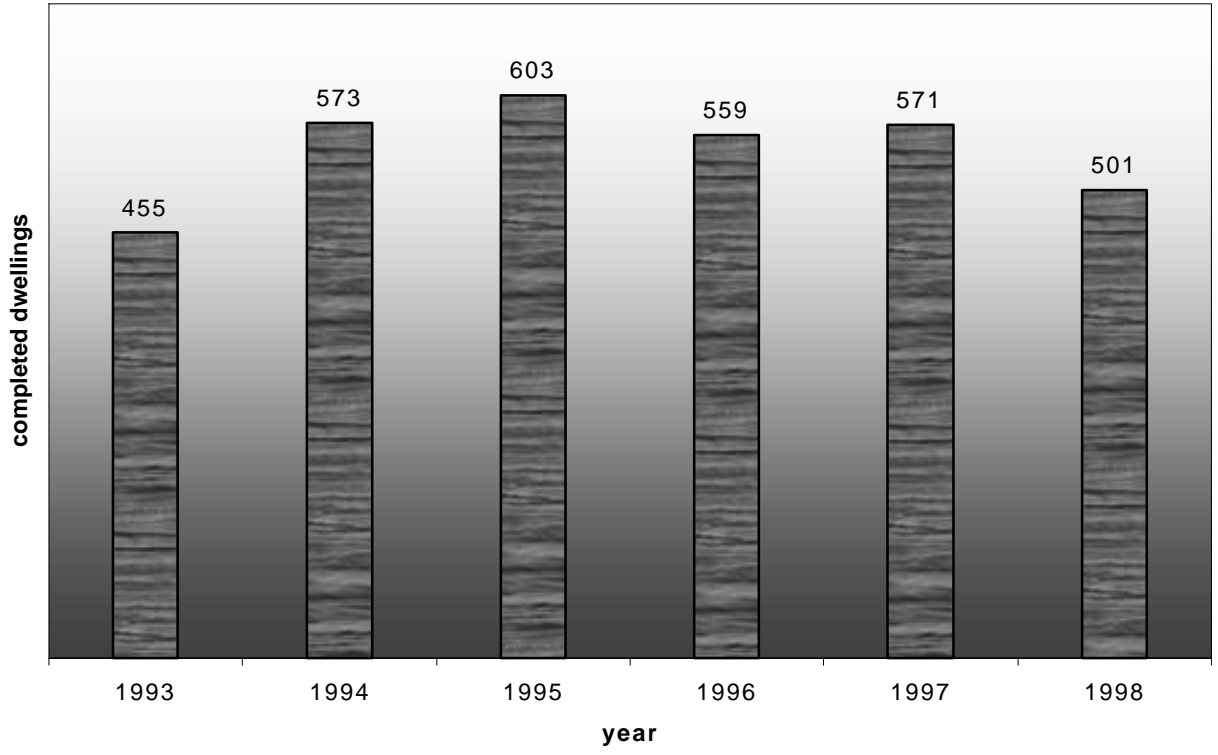
**Notice:** Changes against previous publications are due to newly collected data.

- 1) Enterprises with 1 or more employees.
- 2) Sawmills with 5 000 m<sup>3</sup> of raw wood (solid measure) or more of annual sawing.
- 3) Companies with 20 or more employees, including crafts.
- 4) Enterprises with 1-19 employees
- 5) Without production of mattresses
- 6) Enterprises with a turnover of 12 500 or more
- 7) Partly estimated
- 8) Manufacturing crafts 1994 according to craft census (Handwerkszählung) 1995
- 9) up to 1997 extended since some units from the register of craftsmen (Handwerksrolle) are included.
- 10) changes due to another base for the craft reporting (Handwerksberichterstattung).

Sources: Federal Statistical Office, Federal Ministry of Food, Agriculture and Forestry (532).



completed dwellings in Germany  
1,000



### Selected economic indicators<sup>1)</sup>

#### Country: Federal Republic of Germany

	1997 <sup>2)</sup> (actual)	1998 <sup>2)</sup> (actual)	1999 <sup>2)</sup> (estimate)	2000 <sup>2)</sup> (estimate)
<b>(Percentage change on previous year)</b>				
Gross Domestic Product <sup>2)</sup>	+ 1.8	+ 2.3	ca. + 1 <sup>1</sup> / <sub>2</sub>	ca. + 2 <sup>1</sup> / <sub>2</sub>
Industrial production <sup>2) 3)</sup>	+3.3	+ 5.2	ca. + 0	ca. + 2 <sup>1</sup> / <sub>2</sub>
Construction investment <sup>2)</sup>	- 1.7	- 3.8	ca. +1 <sup>1</sup> / <sub>2</sub>	ca. + 1 <sup>1</sup> / <sub>2</sub>
of which:				
- new dwellings (completions)	0.0	- 3.6	ca. + 0	ca. + 1 <sup>1</sup> / <sub>2</sub>
- new non-dwelling construction	-4.0	-4.1	ca. +1 <sup>1</sup> / <sub>2</sub>	ca. +2
- repairs, maintenance and modernization				
Activity in wood-using industries				
- Building joinery (doors, etc.) <sup>4)</sup>	+ 3.6	+ 3.5		
- Furniture <sup>4)</sup>	- 0.9	+4.8		
- Packaging <sup>4)</sup>	+6.4	+ 6.8		
- Pulp and paper <sup>4)</sup>	- 0.2	+ 2.9		

<sup>1/</sup>The indicators shown are for guidance only. Countries should select those which are readily available and appropriate for their economies.

<sup>2/</sup>Constant prices of 1995

<sup>3/</sup>Industry without construction

<sup>4)</sup>Source: Statistisches Bundesamt Wiesbaden,  
 Fachserie 4 (Produzierendes Gewerbe),  
 Reihe 3.1 (Produktion)  
 Current prices