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Austrian Market Report 2002

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1. General economic situation

In its June forecast, the Austrian Federal Institute for Economic Research (WIFO, (Österreichisches Institut für Wirtschaftsforschung) suggested an economic growth of 1.25 % for this year and of 2.75 % for the next year in Austria. Over the past few months, international framework conditions have however deteriorated markedly. The dullness of the stock market and the falsification of balance sheets in the U.S.A. have shaken the confidence of consumers and investors alike. In Europe, the economy is recovering but hesitantly; a true business revival cannot realistically be expected before the end of the year, a self-sustaining investment recovery only for the next year. For this reason it must be assumed that WIFO will still revise its positive business forecast to lower figures in September. Moreover, the disastrous impacts of the flood will first cause losses in the production and tourism sectors and, after that, give certain impulses as a result of the reconstruction process.

During the first six months of the year 2002 economy in Europe stayed behind the expectations (also behind those of the European Commission). The economic recovery has been delayed. The economic growth in the EU will probably amount only to approximately 1%; for 2003, an acceleration of growth to approximately 2% to 2.5 % is expected. However, the precondition for such a positive development is a global economic recovery, which is all but certain. Germany will remain an economic latecomer within the EU, mainly because of the tremendous costs of the re-unification and the pronounced weakness of the construction industry. Although Germany takes part in the international economic recovery its domestic demand lags behind. In 2002, the German economy will probably expand by only 0.5 %, in 2003 by only about 2 % – less than the WIFO prognosis of June suggested. In Italy, which represents a particularly important market for the Austrian timber industry, the economic development keeps more or less pace with the EU average. However, similar to Germany also Italy faces budget headache, a situation which could make belt-tightening measures necessary. Similar to the EU average the Italian economy will grow by approximately 2% to 2.5% in 2003. Domestic economic activity is recovering only gradually from its low. In the first and second quarters, WIFO business surveys showed a clear upward trend in the industry, but the third quarter brought another setback – evidently due to the insecure international framework conditions.

Moreover, the upward revaluation of the EURO curbs export opportunities on overseas markets; the major part of Austrian exports are however still within the area of the European Union. In the construction industry, the business scenario is still considered unfavourable, although forecasts show a more positive trend, especially for civil engineering. Repairing the immense damage caused by the disastrous flood will provide further stimulatory impulses for the construction industry during the quarters to come. For the next year, a slight rise by about 1 % is expected for the production in the building and construction sectors; residential buildings will continue to lag behind in this development. The unfavourable economic situation and the consequences of the flood will make the budget deficit rise to 1% to 1.5% this year. Considering this starting position, economic researchers do not see much scope for a tax reform next year without the goal of a zero deficit being set aside over the medium term. As a result of the current political situation, new elections will be held at the end of November 2002. Whether, and to which degree, the economy will receive fresh impetus from a new government cannot be judged at the moment.

2. Development in forest-product market sectors

Certified forest products

Pan-European Forest Certification (PEFC)

Since the Austrian certification system was officially recognised by the PEFC Council in September 2000 it has been applied in practice. Both forest certification by means of the regional model and the "Chain of Custody" (CoC) monitoring by group schemes for small- and medium-sized enterprises are tailor-made for Austrian conditions.

The first region was certified in December 2000. Since February 2002 all forest regions in Austria, totally 3.9 million hectares, have been certified according to PEFC.

Certification in the timber-processing chain and in the timber trade is well under way. The certification of individual enterprises in the paper and pulp, the fibreboard and chipboard industries as well as of the big sawmills has for the most part already been completed. For small and medium-sized sawmills as well as for the timber trade an efficient group scheme has been developed which allows a cost-efficient participation in the system. At present, already more than 100 timber-processing enterprises and timber traders are certified. It is expected that, at the turn of the year 2002/2003, 200 enterprises will be PEFC-certified.

Forest Stewardship Council (FSC)

FSC has not played a major role in the practical implementation of certification in Austria.

Sawnwood

The production of the Austrian sawmilling industry in 2001 amounted to 1.8 billion Euros. This corresponds to a decrease by approx. 2% as compared to the record production year 2000 which was characterised by the windthrow of the century in December 1999. The production of sawnwood dropped slightly to 10.2 million cubic metres (10 million cubic metres of coniferous sawnwood and 0.2 million cubic metres of non-coniferous sawnwood). Throughout the first half year of 2002 the trend was positive.

Export boom continued in 2001

In 2001, coniferous sawnwood exports reached about 6 million cubic metres. The high export volume of the preceding year, amounting to 6.02 million cubic metres, was thus maintained. In terms of value, this means exports of more than one billion Euros (2000: 1.04 billion Euros).

The sawnwood market at the beginning of the 2002 autumn season

Current market surveys on the situation of the Austrian sawmilling industry show a slight stabilisation in the prices of sawnwood.

Although economic recovery is delayed in many sectors of the economy, the demand for the sawmilling industry has been good since this year's summer. Austria's domestic market is working smoothly; the construction market in Italy is favourable; the demand has been good since the beginning of summer; prices continue to be stable. Also on the distant export markets like Japan, the Far East, or the U.S.A., the demand at stable sawnwood prices is strong. It is favourable also in the Levant, which is an important market for Austrian goods; prices show a positive trend.

The quantities of sawnwood stocked in the Austrian sawmilling industry have therefore been reduced. The orders position for the next few months appears sufficient so that the operating performance will probably be satisfactory in autumn.

Roundwood supply is sufficient in Austria. However, average costs for Austrian processors have increased because cheap roundwood from the European areas that were affected by windthrow is now running low; this means also that the compensatory pricing with cheap windthrow timber comes to an end. From now on, processors will almost exclusively use fresh wood from normal utilisation for their production.

Wood-based panels

The board industry can boast continued export success; the export share of 80%, high already, could be raised once again. After investments made over the past few years on the economic side of Austria, also the sales of the domestic chipboard, MDF and fibreboard producers increased again; they amounted to € 693 million in 2001. Chipboard is the most important product. The volume of timber used for the production of boards amounts to approximately 3.5 million solid cubic metres in Austria. Sawnwood residues, industrial wood from forestry, as well as used timber are utilised for this purpose.

Austrian chipboard and fibreboard manufacturers are producing at 40 sites in Europe – in Germany, Italy, Great Britain and Luxembourg, in Switzerland, Poland, the Czech Republic, Romania, Bulgaria, and Hungary. With a total annual production volume of approx. 15 million cubic metres they are the most important producers of wood material in Europe. This corresponds to almost one third of the total European production volume, which amounts to over 50 million cubic metres.

Pulp and paper

The development of the Austrian paper industry resembled that of most other national paper industries in 2001. Production fell to 4.2 million tonnes, which was 3.1 per cent less than in 2000. To comply with the market situation many machines had to take downtime, especially in the graphic paper and the board sector. However, other cycle-resistant grades were able to flourish. The growing intensity of international trade, a long-lasting trend, again caused domestic deliveries to decrease and exports to gain. Austria's major export markets continued to be Germany, Italy and France. Deliveries to Austria's eastern neighbours developed well. The boost in imports of 14 per cent was not only caused by increasing international trade, but also by the so-called "Rotterdam Effect". This effect describes a situation where customs register all imports across Austria's eastern borders, but carriers often handle further transit into other internal EU markets.

The consumption of pulp fell in 2001. The pre-eminent factor was the shrunk paper production, but it was also the result of a growing substitution of pulp by recovered paper. The outcome is an increasing utilisation rate. Statistics also show an increased collection of recovered paper in Austria and therefore a higher recycling rate.

The largest source of fibre for the Austrian paper industry was recovered paper with a consumption of 1.9 million tonnes, followed by wood as the second most important raw material. 6.9 million solid cubic metres were converted into pulp. The import quota of wood processed was the lowest in 30 years.

Downtime in many pulp and paper mills fended off an excessive disequilibrium of supply and demand. As a result, the fall of international pulp prices was parried at around US \$ 450 per tonne. In Austria, the average paper price only lost about 40 Euros since its peak in December

2000. Nevertheless, the annual average price in 2001 was above that of the previous year and this rise, in combination with increased deliveries, brought about a record turnover for the Austrian paper industry: 3.66 billion Euros.

There were two outstanding investment projects in the Austrian paper industry in 2001: One was the completion of the sewage plant; the other the construction of a new plant for magazine paper which will be completed in 2002.

The year 2002 began as the year before ended, meaning low-level, but stable prices for pulp and paper. The paper industry does not expect to return to production at full capacity level in the near future, though this might not be true for specific grades. Business cycle experts expect another dull year.

The prospects for 2003 depend mainly on the international economic development.

Roundwood

After the considerable drop in roundwood prices during the first half year of 2000, prices were observed to be relatively stable in 2001. Also during the first six months of 2002 prices remained in most cases stable, the prices of some product-assortments of coniferous roundwood rose slightly, pulpwood prices declined a little. Removal in 2001 was by 1.4% higher than it had been the year before.

Sawn roundwood

The Austrian sawmilling industry is presently sufficiently supplied with roundwood, with the demand corresponding to the usual seasonal levels. Prices are currently stable; slight price improvements are expected for autumn. In general, stronger dimensions of high quality can again be marketed without price reductions. The volume of roundwood imports has decreased; their qualities do partly not meet the requirements on the sawnwood markets. The quantities of calamity timber in the areas affected by windthrow due to the severe storm "Lothar" have remained considerably lower than we had feared. It is also for this reason that the Austrian sawmilling industry is signalling a higher demand of fresh wood for autumn.

A few Austrian sawmills also suffered damage from the floods of mid-August. However, this will probably not have a negative effect on the market as such. The same is true for forestry, where forest roads in areas affected by the floods must partly be rebuilt.

Industrial wood

For a few types of paper, sales dropped seriously as a result of the continued business slump; prices for pulp are low. The production of the pulpwood-processing industry has been curbed. Presently the ensuing lower wood consumption level causes sagging sales and stringent quota-setting. The lower wood consumption has meanwhile also led to markedly deteriorated framework conditions for fibrewood. Supply cutoffs are leading to delayed sales.

3. Tables

Economic indicators

	Percentage changes compared to the previous year				
	1999	2000	2001	2002	2003
GDP value	+ 2.8	+ 3.0	+ 1.0	+ 1.2	+ 2.8
Export value	+ 7.7	+ 13.1	+ 5.1	+ 4.0	+ 8.5
Import value	+ 6.9	+ 10.9	+ 3.0	+ 2.0	+ 7.6
Consumer prices	+ 0.6	+ 2.3	+ 2.7	+ 1.7	+ 1.4
Employment	+ 1.2	+ 1.0	+ 0.4	- 0.2	+ 0.8

Roundwood

Product	Year	Production	Imports	Exports
		1,000 m ³		
Industrial Roundwood	2000	10,416	8,378	876
	2001	10,562	7,493	932
	2002	10,700	6,840	820
	2003	10,760	7,260	820
Wood residues, chips, particles	2000	6,085	685	814
	2001	5,933	775	870
	2002	6,000	850	800
	2003	6,180	880	800
Fuelwood	2000	2,860	139	14
	2001	2,905	173	25
	2002	2,920		
	2003	2,920		

Sawnwood

Product	Year	Production	Imports	Exports
		1,000 m ³		
Coniferous sawnwood	2000	10,157	1,175	6,016
	2001	10,011	1,125	5,932
	2002	10,100	1,100	6,000
	2003	10,400	1,000	6,100
Non-coniferous sawnwood	2000	210	221	143
	2001	216	191	149
	2002	240	200	180
	2003	260	200	200