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Austrian Market Report 2003

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1. General economic situation

The Austrian economy is suffering from persistently weak overall demand. Thus, GDP will expand by only 0.7 % this year; a tentative projection for 2004 suggests a growth rate of 1.2 %. Merchandise export growth is currently losing momentum, because of sluggish activity in key trading partner countries and the (mostly indirect) effects of the depreciation of the dollar vis-à-vis the Euro. For 2004, the international economic environment does not look significantly more favourable for a cyclical upturn to take hold. Low capacity utilisation and subdued sales expectations weigh on corporate investment plans. The investment-to-GDP ratio has fallen markedly since 2000, and manufacturing output may still not pick up this year. Private consumption is rising but slowly, as disposable incomes post only modest gains and the saving ratio is seen heading up. Only the construction sector shows clear signs of recovery after several years of adverse development. The extended period of slow growth, accompanied by a strong increase in labour supply, is leading to a further rise in unemployment. In 2004, the jobless rate will rise to 7.1 % of the dependent labour force or 4.4 % according to EUROSTAT definitions. Negative cyclical effects will also show up in government households, with the general government deficit edging up to 1.2 % of GDP. The strong Euro exchange rate is dampening inflation; the projected headline inflation of 1.3 % confirms that a high degree of price stability will be maintained.

Current economic indicators do not yet signal an economic upswing. According to the results of WIFO's third-quarter Business Survey, the mood in goods production has been deteriorating further since the end of 2002. Enterprises are expecting only slight production increases in the coming months. Enterprises of the commodities sector and the processing industry are clearly more pessimistic than in the recent past. They are reporting a substantial downturn of export orders and declining prices. The only sector to voice some optimism is the automotive industry.

This general picture is being corroborated by the low level of capacity utilisation, which stood at 80.5 % in the third quarter, i.e., unchanged from the four quarters before. Together with moderate sales expectations, this is likely to dampen investment activities. WIFO's investment survey of the early summer of 2003 shows that industrial enterprises tend to keep their investment plans on the back burner (+1.8 % compared with the year before).

The construction industry is on the upswing. The results of the WIFO Business Survey confirm the continuous improvement of production output in civil engineering since the summer of 2002, mainly as a result of more orders being placed in the rail and road sectors. An end to the multi-annual slump in new housing construction appears to be in sight: the number of building permits is increasing and building construction enterprises are much more optimistic than in the past.

2. Policy measures

Government programme

Since 28 February 2003 the Federal Government in office, Mr. Schüssel's second Cabinet, has been working on the basis of the government programme agreed upon between the Austrian People's Party and Austria's Freedom Party. This programme is among other things aiming at a more ecological orientation ("greening") of the tax system, the promotion of renewable sources of energy, and higher energy efficiency. In order to meet these goals the taxation of fossil fuels as well as transport-related taxes and charges are to be further developed. Renewable sources of energy are to be enhanced and measures to get closer to the Kyoto target are to be supported in all fields. In concrete terms, the use of biomass is to be raised by 75 % until 2010, the share of renewable sources of energy in the total energy consumption by 1 % annually. The share of eco-electricity is to be raised to 78.1% by 2008.

Legal measures

On 1 June 2002 an amendment to the Austrian Forest Act entered into force. In addition to including the concept of sustainable forest management according to the international definitions, the amendment, among other things, also provides for administrative simplifications. Above all, the simplification of the appointment obligation for forest staff is leading to cost reductions for forest enterprises.

The Tariff Ordinance ("Tarifverordnung") to the Eco-Electricity Act, which entered into force on 1 January 2003, provides for attractive and nationally uniform feed-in tariffs for electricity from new eco-electricity plants (from wind, sun, biomass, small-size hydraulic power units, geothermal plants) approved until 2004. This measure also contributed to increasing the competitive capacity of wood as a provider of energy and has given important stimulatory impulses for investments in new biomass plants. The paper and board industry does not rule out negative impacts on the raw materials supply (rising prices of sawmill by-products).

As of 1 January 2004 a road pricing system will be introduced on Austria's highways. This will lead to additional costs for the transport-intensive forest and timber sectors.

Other

In spring 2003 the Federal Minister for Agriculture, Forestry, Environment and Water Management launched the Austrian Forest Dialogue with the objective of working out a National Forest Programme. All public authorities and institutions, public and private representations of interest, and all forest stakeholders are called upon to contribute actively to the dialogue, and to co-operate, in order that the careful management of forests be further developed and solutions be found to reconcile the many different interests in the utilisation of forests.

3. Developments in forest-products markets sectors

A. Wood energy

Energy production from wood plays a key role in the Austrian Climate Strategy and with respect to higher supply security in the field of energy. Therefore also the government programme provides for a 75 % increase in the use of biomass by 2010. Due to the new framework conditions (Eco-Electricity Act – Ordinance on a Feed-in Tariff for Electricity) the targeted supply of existing biomass heating plants and new large-sized plants through forestry will gain significance. Austrian forests clearly have the capacity required therefor. The essential thing is now to accept the logistic challenges and to intensify forest tending measures.

B. Wood raw materials

Although trends in prices were not particularly favourable the volume felled by forest owners in 2002 exceeded that of 2001 (+10.2 %). With 14.8 million cubic metres the volume cut was slightly above the longer term trend. Violent storms between October 2002 and January 2003 produced over 5 million m³ of windfall wood and broken wood. As salvage-logging will for the greater part be carried out only in 2003, the disastrous windfall will cast a shadow only on the 2003 felling statistics. In 2002 roundwood prices averaged a little more than 1 % above previous year’s prices, but have declined significantly since the autumn windfalls.

For high-quality merchandise the current orders position of the sawnwood industry is satisfactory. However, especially on the Levant market extra quantities of low-quality sawnwood are currently extremely hard to sell. As a consequence, the market for low-quality roundwood has presently only modest absorptive capacity, a situation which, for now, cannot even be improved by means of strong reductions in prices.

The extremely dry and hot summer of 2003 affected the health status of trees and favoured the propagation of bark beetles, which adds to the volume of calamity wood. However, from the present point of view it will probably be possible to work up the bark beetle-infested wood of the months to come, about one million cubic metres, as well as the remaining windfall wood, in the course of the next few months. Attacks by blue stain fungi due to the extreme weather conditions in the summer of 2003 represent a risk to the sawmill industry. There is high demand for newly cut wood of higher quality; for these product lines the market is expected to be stable.

Prices for pulpwood are stable. Both the paper and the board industry have absorptive capacity.

Joint marketing of timber

Marketing communities have so far proved successful. Presently next to 50,000 forest owners are organised in forest associations in Austria. This corresponds to 30 % of all forest owners covered by statistics, holding a total forest area of 781,000 hectares. The volume of timber marketed by forest associations amounted to approximately 1.8 million cubic metres in 2002, that is an 18 % increase compared to 2001. Apart from timber marketing, forest associations offer also forest-related services, for instance reafforestation or forest tending. The co-ordination of modern harvesting technology is playing a major role in this context; for example, harvesters and other modern machines are now used more frequently also in small forests.

C. Implications of forest law enforcement, governance and trade (FLEGT) on markets

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D. 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 cost-efficient participation in the system. At present, already about 250 timber-processing enterprises and timber traders are certified.

At the moment PEFC is working to place the logo on the market.

Forest Stewardship Council (FSC)

FSC has not played a major role in the practical implementation of certification in Austria. Timber for FSC-certified products marketed in Austria (e.g. garden furniture made of teak) is mostly imported.

E. Value-added wood products

Apart from the sawmilling and board industries, the construction sector, the furniture and ski industries represent important lines of business of the timber industry.

The production marketed in the construction sector amounted to 1.5 billion Euro in 2002, of which 341 million Euro were attributable to the production of windows, 333 million Euro to prefabricated houses made of wood, 232 million Euro to doors, 134 million Euro to wood floors, and 159 million Euro to glued wood building components.

The Austrian furniture industry produced furniture worth 1.33 billion Euro in 2002.

Austria's ski industry is producing more than 60 % of the global production of Alpine skis, about 3 million pairs. In 2002, over 2.4 million pairs of alpine skis, worth 189 million Euro, were exported. If we add cross-country skis and snowboards, the export value amounted to 275 million Euro.

This year, proHolz Austria continued its campaign “Wood is ingenious.” (“Holz ist genial.”) by means of television, radio spots and printed announcements. The campaign is intended to position wood as an innovative, efficient material from sustainable production. proHolz is a working association of the Austrian forestry and forest industry pursuing the goal of effective timber marketing in Austria and abroad. Marketing, publicity and information on wood are the instruments applied to achieve this objective.

F. Sawn softwood

The production of the Austrian sawmilling industry in 2002 amounted to 1.84 billion Euro. This corresponds to an increase by just under 3% as compared to year 2001. The production of sawnwood increased to 10.4 million m³, of which 10.2 million m³ were coniferous sawnwood. Exports of coniferous sawnwood reached a record volume of about 6.3 million m³, that is a 6% increase compared to 2001. In terms of value, this means exports of more than one billion Euro (2001: 1 billion Euro). Approximately 2/3s of all exports go to Italy.

The economic outlook of the first half of 2003 were characterised by continuous downward revisions with respect to economic growth. Moreover, exporters highly dependent on foreign trade suffered severe disadvantages from the strong euro. In addition to this unfavourable relation between the euro and the dollar the global economic development, which we cannot influence, caused difficulties on the export markets. With the exception of Italy all important foreign markets reported difficulties. As smaller quantities were sold to the U.S.A., to Japan and the Levant as well as to the declining FRG market, some quantitative pressure was placed on more favourable markets. For this reason productions were in the summer months adjusted to suit demand so as not to put pressure on markets due to considerable oversupply.

Over the past few weeks the economic outlook has partly improved. Again, the U.S. market serves as a driving force. 2003 will see an economic growth of over 3 %. Increases are also observed in consumption patterns; the strongly negative balance of payments casts a chill on these results. Also the other two big economic areas are showing positive signs.

With a rate of just under 1.2 the Euro-Dollar relationship has put pressure on the timber industry. After a movement to the opposite direction the Euro is now again at a level creating difficulties for the export sector. Price increases of up to 20 % compared to the autumn of 2002 are not accepted on the market. The Euro-Yen relationship is another unsatisfactory factor in this development.

The sawnwood market at the beginning of the 2003 autumn season

Due to this year’s heat wave in Central Europe a high share of bark beetle-infested wood, coupled with modest supply of wood from newly felled trees, is expected for the autumn season. The extra amounts of calamity wood are presently hard to sell on the roundwood market.

Forecasts for the development of the sawnwood markets over the months to come are a difficult problem. High qualities such as planed wood, glued laminated timber products and solid construction timber, will be available in smaller quantities only. On the other hand, there will be an oversupply of low-quality merchandise.

The situation on the domestic market is presently satisfactory. The average price of sawnwood declined but slightly. Production plants show a high extent of utilisation in most cases.

The volume of orders for sawnwood is handsome also abroad. Although Austria's main export market, Italy, is suffering an economic slump, the timber sector is the only sector of the industry which has been persistently growing in recent times. The Italian timber market has therefore provided a stabilising influence. In Germany, improvements with respect to additional deliveries cannot realistically be expected in the near future. In Japan the building sector is stagnating. Austria is also increasingly confronted with pressure from its Scandinavian co-competitors and due to the currency relation also the United States and Canada are again stronger players on the market. Deliveries to the U.S. market are possible again, but significant fluctuations in prices make projections nearly impossible. As a consequence of the Gulf War, political instability and the weak dollar, Arabian countries are seeing dramatic drops in prices. Despite price cuts it is not possible to sell extra quantities.

G. Sawn hardwood

The production of non-coniferous sawnwood increased to 224,000 m^3 in 2002. Exports of sawn hardwood dropped. In all, 133,000 m^3 were exported in 2002. This is a decrease of 12.5% as compared to 2001. Imports of sawn hardwood rose by 9 %, thus reaching 213,000 m^3.

H. Wood-based panels

The year 2002 proved to be a mixed one for the Austrian particle, MDF and fibreboard producers. They had to strive very hard to sell their production in an extremely difficult economic environment. The growth rates in all areas were the result of the investment activities of the past years. In 2002, the value of the particle and fibreboard produced amounted to 668 million Euro (2001: 595 million Euro) while the production of MDF board amounted to 106 million Euro. In total, turnover amounted to 774 million Euro. This almost 15 % increase was due to the enormous investment activity of the Austrian producers of wood-based panels. These investments, amounting to some 440 million Euro, were not only made in the particle board sector but also in 2 new MDF plants and in the fibreboard industry.

The highest share of production came from particle board production: 608 million Euro as compared to 550 million Euro in 2001, an increase of 10.5 %. The value of fibreboard produced amounted to approximately 60 million Euro. Production of MDF board amounted to 106 million Euro (2001: 84 million Euro), an astonishing 25 % increase in output! Both plants started producing about three years ago. In quantitative terms overall production of particle board rose from 2.17 million m^3 to 2.38 million m^3. This is an increase of 10 %. Overall production of MDF board amounted to 480,000 m^3 (2001: 383,000 m^3).

In 2002, the <u>foreign trade</u> surplus was further increased. While exports amounted to 559.4 million Euro in 2001, they rose to 638.7 million Euro in 2002. Thus domestic producers increased their exports by 15 %. During the same period, imports fell from 115.3 million Euro to

94.3 million Euro. As a consequence, the balance of trade showed a considerable surplus of 544.4 million Euro in 2002.

The Austrian particle, MDF and fibreboard producers, which are mainly privately owned, have created for themselves a truly exceptional role given the situation in Austria: They produce at 40 locations in Europe.

The Austrian board industry suspects limitations in its competitive capacity from 2003, respectively 2004, onwards, which would be due to new legal provisions related to road pricing and eco-electricity. It is feared, for instance, that the implementation of the Austrian Eco-Electricity Act by way of established feed-in tariffs for solid biomass might negatively affect the raw material supply of the sector, because if the higher demand for energy wood is not satisfied in the form of “Waldhackgut” (wood from domestic forests which, after felling, is chopped without any additional processing), the prices of by-products from the sawmilling industry, which are of huge importance to the board industry, must realistically be expected to rise.

I. Pulp and paper

The paper industry has made 2002 the best of weak framework conditions. But while production and deliveries have risen, turnover has not. At the same time, the industry has made substantial investments in sustainability.

In 2002, Austria produced 4,420,000 tonnes of paper, 4.0 % more than in the previous year. Deliveries also rose, but only in the export sector. Average revenues fell by 3.9 %, with the result that annual turnover stagnated at 3.5 billion Euro. The average price of pulp also fell over the course of the year, in contrast to recovered paper, which underwent a price explosion in the second quarter. In 2002, 1.5 million tonnes of chemical pulp, 0.4 million tonnes of mechanical pulp and 1.9 million tonnes of recovered paper were used in production. In addition, 1.0 million tonnes of mineral additives (fillers, coaters, glues, and pigments) were used. Industry employment rose slightly to 9,560. The collective bargaining negotiations in November were extremely difficult as a result of the varying development within the individual product groups.

The biggest project of 2002 was the installation of a new machine for magazine-paper production at SCA in Laakirchen. Larger renovation projects and investments were carried out by Steyrermühl, Hamburger, Lenzing, and Mayr-Melnhof.

The most important topic in environmental discussions was climate protection and implementation of the Kyoto Agreement. Even though the legal framework has not yet been established, there was intensive work on regulations regarding emissions trading and the initial issue of CO2 certificates. There is no question for the Austrian paper industry that improper implementation could endanger its ability to compete.

In the year under report, it was possible to further lower the specific energy input per product unit. Here once again, the Austrian paper industry proved impressively that it is an energy-intensive but also a highly energy-efficient industry. Given the growing site-related competition to which global companies are increasingly subjected, the paper industry suspects that the new eco-electricity law will result in disadvantages to companies located in Austria by affecting energy costs as well as the raw-materials market for wood in a negative way.

As a result of stagnating demand due to general economic weakness, which is not expected to improve soon, Austria's paper industry is expecting in 2003 a stagnation of production; only a new paper-making machine put into operation in 2002 will cause a slight increase in total production. Due to declining paper prices last year's turnover will not be reached. Further, rising costs are expected for 2003 and 2004 as a result of government regulations, for example in the case of energy (tax on energy, Eco-Electricity Act), transport (road pricing) and environmental protection.

The prospects for 2004 depend mainly on the international economic development.

Tables

Economic indicators

	Percentage changes compared to the previous year				
	2000	2001	2002	2003	2004
GDP volume	+ 3.5	+ 0.7	+ 1.0	+ 0.7	+ 1.2
GDP value	+ 5.0	+ 2.3	+ 2.2	+ 2.3	+ 2.7
Export volume	+ 13.1	+ 7.5	+ 4.3	+ 2.5	+ 3.3
Export value	+ 15.6	+ 6.5	+ 4.1	+ 2.0	+ 2.8
Import volume	+ 10.9	+ 5.7	- 1.6	+ 1.7	+ 3.5
Import value	+ 14.7	+ 5.0	- 2.2	+ 0.9	+ 2,7
Consumer prices	+ 2.3	+ 2.7	+ 1.8	+ 1.3	+ 1.3
Employment	+ 1.0	+ 0.4	- 0.5	+ 0.1	+ 0.3

Roundwood

Product	Year	Production	Imports	Exports
		1,000 m³		
Industrial Roundwood	2001	10,562	7,493	933
	2002	11,810	7,289	864
	2003	12,370	7,500	820
	2004	12,025	7,820	715
Wood residues, chips, particles	2001	5,933	801	889
	2002	6,139	802	826
	2003	6,265	900	730
	2004	6,270	1,000	650
Fuelwood	2001	2,905	173	25
	2002	3,036	163	29
	2003	3,200		
	2004	3,150		

Sawnwood

Product	Year	Production	Imports	Exports
		1,000 m³		
Coniferous sawnwood	2001	10,011	1,125	5,932
	2002	10,191	1,138	6,289
	2003	10,400	1,170	6,500
	2004	10,400	1,200	6,500
Non-coniferous sawnwood	2001	216	195	152
	2002	224	213	133
	2003	230	215	140
	2004	240	220	150