

**International Softwood Conference
Geneva, 8-9 October 2007**

Market report by the ITALIAN Users delegation

A. National Economy :

Selected economic indicators (% unless otherwise indicated)

		2006	2007	2008 forecast
GDP growth	%	1.9	1.7/1.8	1.3/1.4
Interest Rate / mortgage	%	4.40	5.60	5.60
Consumer price index	%	2.1	1.7/1.8	1.9/2.0
Unemployment	%	7.0	6.5	6
Industrial production	%	2.4	0.9/1	1
Private housebuilding starts (thousands)		n.a	n.a.	n.a.

B. Outlet for Timber :

Building

Despite the expectation of a reversal in the trend in the construction sector, the latter has continued (even showing signs of slowing down) in positively affecting the timber sector in 2006.

In 2006, the sector for building wood products showed a +3% trend in turnover, +18.5% in exportation and a +10.1% positive trade balance.

Trends in the area of building restoration were particularly positive, registering +30% in the number of notifications for work start-ups in the first semester of 2007.

There was also growth in the “wood houses” sector (still a niche market in Italy), showing good future growth potential.

There were negative signs in 2007 in the public works and new construction sectors. While in the early months of the year consumption remained at a decent level due to a mild winter that allowed work to continue uninterrupted on site, in spring we saw a marked slowdown.

Industry

In the last years the Italian wood and furniture system had to match a continuous erosion of its own shares on the world market mainly due to the strong competition of the Far East.

This is well showed by the increase of 13,3% in 2006 of the imports' value of the wood and furniture sector.

This notwithstanding in 2006 the wood products sector for buildings did show positive results, value of sales +3%, export +18,5%, with a positive balance of trade +10,1%.

The industrial production index in the wood and wood products sector in the last year showed a +0.5% trend, while in furniture +1.6%.

In 2007, while trends in furniture were positive (an industrial production index in furniture of +4% in the first seven months 2007), the industrial production index in the sector of wood and wood products continued to decline, showing -2% in the same period 2007.

C. Market Components :

☞ Transactions: Softwood imports from the 10 most important supplying countries

	Actual 2005	Actual 2006	% change 05/06	Jan.-June 2006	Jan.-June 2007	% change 06/07
Austria	3,583	3,693	3.07	1,695	1,835	8.27
Germany	678	843	24.49	382	396	3.53
Czech Rep.	240	259	7.91	118	138	16.47
Russia	257	287	11.51	116	127	9.02
Finland	254	254	-0.03	145	121	-16.79
Sweden	208	223	6.77	124	106	-14.23
Slovakia	147	180	22.39	83	73	-11.56
Ukraine	152	154	1.37	74	85	15.11
Switzerland	87	102	17.49	53	40	-24.26
France	45	89	97.18	41	53	28.37
All Others	283	325	14.80	157	206	31.84
TOTAL	5,934	6,409	8	2,988	3,180	6.43

☞ Stocks

Steady at the end of 2006. The slowdown in the sector in spring 2007 has resulted in a warehouse surplus of unsold material that will have to be disposed of.

☞ Prices

After a sudden increase in 2006 (around 15%) caused by the scarcity in raw material availability, the availability of logs generated by Kiril, together with the slowing down in consumption has resulted in an expectation of a general price decrease, and a consequent reduction in the purchasing of low-medium quality products.

Instead, in the market we see a quite different situation for higher quality products, that are scarce and consequently have increased in price (5% average).

☞ Consumption

Analyzing the consumption of the Italian market, we should point out that “technological”, glued, laminated, jointed (F.J.), and planed products have held a slow but steady, irreversible growth in the Italian importation of wood.

The objective for the pro-capita consumption of softwood lumber for 2010 is 0.18 m³, the present consumption being about 0.13 m³.

E. CE-marking

With the 14/09/05 decree, “Building Technical Rules”, the Ministry for Infrastructure has established that companies wishing to operate in Italy, and producing or trading in and transforming the character of wood, must have a “Technical Production Manager”, qualified through the appropriate course, with the exception of those already with a CE marking system.

F. Wood Energy :

This issue is quite important. In Italy in 2006, competition in the market for the supply of raw materials between the energy sector – in 2006 in Italy pellets experimented a real boom - and the panel industry prompted a marked increase in prices, related to the scarce availability of materials.

In 2007, also due to a particularly mild winter, the demand for pellets has notably dropped, resulting in a reduction in their price.

G. Promotion :

The promotional activity of Promo_legno has continued with success.

To promote the building wood sector, in February 2008, the Milan Fair will host a new international exhibition, MADEexpo (*Milano, Architettura, Design, Edilizia*).

H. Ecology :

Weak signs in setting up the chain of custody linked to the request from large distribution chains.

In Italy, two bills of law have been presented in the two houses of parliament providing for setting up a clear and rewarding system to guarantee the importation and consumption of wood from legal and sustainable origins.

H. Forecast :

It is difficult to make forecasts.

Italy remains penalized by a productivity that has not grown and needs a structural renewal.

Over the last years, the domestic market has seen an increase in consumption, particularly in real estate buying that has given a marked push to the market, despite a significant increase in taxation pressure.

We can already see signs of a reversal in real estate trends:

- Longer periods in the sale of new houses
- Marked slowing down over the last months in the increase of requests for home purchases' loans.

Specifically, as far as the wood market is concerned, we hope that the restoration sector will continue on its positive trend – encouraged by the recent national legislation on energy saving

which promotes wood as the material with ideal features to meet this – compensating for the slowdown in the new construction sector which strongly felt from the beginning of the 2nd quarter of 2007.