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Report Highlights:

The strengthening of the German economy in 2007 is reflected in increased demand for wood products. In addition, the furniture and flooring industries are of greatest interest to U.S. exporters in the German wood working industry. Both business sectors report improved business. The furniture industry is, however, primarily driven by increased exports to European and Asian markets, rather than growth on the domestic German market. U.S. temperate hardwood shipments to Germany, including logs, lumber and veneers, increased by 28 percent during the first nine months of 2007 totaling \$ 180 million. American wood species of main interest for German customers are white oak, hard maple, red alder, cherry and black walnut.

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Executive Summary

The current strength of the Euro offers improved sales opportunities for U.S. lumber exporters to Germany. Trade data for the first nine months of 2007 indicate an increase in U.S. solid wood shipments to Germany of about 28 percent totaling US\$180 million. Main export items are temperate hardwood logs, lumber and veneers. The main focus of German customers is on the following wood species: hard maple, red alder, white oak, cherry, black walnut. Specialty items such as hickory are also in demand. Wood pulp shipments also increased by ten percent to US\$204 million.

Due to robust demand for wood residues for energy pellet production and for firewood, timber prices for industrial wood in Germany have increased drastically during the past year. Price increases for construction and decorative lumber have risen moderately mainly due to a devastating storm in January 2007 when roughly 45 million CUM of timber were damaged.

The German wood processing industry has improved efficiency and became more cost competitive in recent years, which has resulted in increase sales to export markets. The main German export item to the U.S. is softwood lumber for the housing market. However, as result of the current problems of the U.S. housing market and the strength of the Euro German construction lumber exports to the U.S. have dropped by 40 percent in 2007. Nonetheless, in 2007, German wood products sales to the U.S. are still about twice as high as imports from the U S.

A private A.T. Kearney study warns that the increased harvest of woods in European forests resulting from the political goals to increase the use of wood may endanger existing supplies. In particular the EU goal to raise the production of renewable energies to 20 percent of total energy production by 2020 may exceed the availability of wood in European forests.

Note: In recent years the U.S.\$/EURO exchange rate has been as follows:

1999: \$1 = Euro 0.9383	2000: \$1 = Euro 1.0827
2001: \$1 = Euro 1.1166	2002: \$1 = Euro 1.0575
2003: \$1 = Euro 0.8840	2004: \$1 = Euro 0.8039
2005: \$1 = Euro 0.8038	2006: \$1 = Euro 0.7763
Oct 2007: \$1 = Euro 0.7029	

General Economic Situation

The overall economic situation significantly improved in Germany in 2006 and 2007. GDP growth for 2007 is estimated at 2.4 percent compared to 2.9 percent in 2006. The slight reduction of economic growth in 2007 is attributed mainly to high energy prices and the strength of the Euro. The driving forces for the German economy are the export markets, namely the engineering sector, the automobile industry and the chemical industry. Increased economic growth is also reflected in a significantly lower unemployment rate of about 9.5 percent in 2007 compared to 10.8 percent in 2006. Industry leaders complain that the lack of qualified labor has become an important hindrance for further economic growth. Domestic demand in 2007 has slowed down in 2007 as a result of the increases of the value-added tax (VAT) from 16 percent to 19 percent effective January 1, 2007. The outlook for 2008 is mixed because of the negative impact of the strength of Euro, which may slow down export sales.

As a result of the strong economy, Federal and State taxes revenues are significantly higher. However, German Government expenditures continue to grow at a faster rate than revenue, which add to its mounting debt. For the foreseeable future, government spending is not expected to noticeably contribute to Germany's economic growth

Since the second half of the 1990s, the domestic construction industry has experienced a difficult consolidating process because support programs for the construction industry, primarily for the eastern part of Germany, were phased out. Currently, private housing markets are saturated in most parts of the country, although investment in commercial buildings increased in 2007.

Timber Production

According to official statistics, German timber harvest in 2006 reached a total of 62.3 million cubic meters (CUM), which is 5-7 million CUM more than in the two preceding years. Total timber harvest in 2007 is estimated at about 75 million CUM. The significant increase is a result of the devastation caused by Hurricane Kyrill in mid-January 2007. German forest experts forecast that the timber harvest in 2008 will fall back to a more normal volume of 60 to 65 million CUM. The total damage volume of Kyrill is estimated at 40 to 45 million CUM of predominantly softwood logs. Kyrill also hit other neighboring European countries. In order to prevent a timber price collapse as result of Hurricane Kyrill, public forest land owners as well as owners of large private forests were asked to cut back their harvesting of fresh wood while the forests were cleaned up from the damage wood by late 2007. Industry reports indicate that the majority of the Kyrill timber has been pulled out of the forests.

Table 1: German Timber Harvest in 1000 CUM

	Logs	Industrial Wood	Energy Wood	other	Total
Oak, Red Oak					
2006	943	467	851	223	2,484
2007*					2,600
Beech, oth Hardwoods					
2006	2,887	3,216	3,166	1,051	10,320
2007*					11,400
Spruce, Fir, Douglas Fir					
2006	27,362	5,261	3,415	1,169	37,207
2007*					46,000
Pine, White Pine					
2006	7,089	3,944	857	388	12,278
2007*					15,000
All Species					
2006	38,281	12,888	8,289	2,831	62,289
2007*					75,000

* FAS Bonn Forecast

Source: Federal Ministry of Agriculture

Growing global demand for forest products in conventional uses such as construction, housing and furniture manufacturing, has also prompted more intense wood harvesting in German forests in recent years. In addition the energy market has become an important competitor for raw materials particularly for the wood chip panel and the industrial timber market.

Until two years ago, German forest experts claimed and complained that German forests were significantly underharvested. Now the attitude is changing and warning voices are being raised that the increased global demand for wood products may endanger the sustainability of German forests. However, leading German forest experts are still confident that an annual harvest volume of around 60 million CUM represents a sustainable level of commercial wood production in Germany. Well-managed public forests and large private forests already harvest near the optimum amount of wood. Private mid-size and small forests, representing about 25 percent of German forestland, are likely under-harvested. Increasing the harvest volume in privately-owned forests is difficult because of the complexity of the ownership structure. However, increased timber prices may have the potential to increase timber harvest also from these forests.

A German government study conducted in 2004 regarding the national forest inventory (see www.bundeswaldinventur.de) revealed that the annual re-growth rate of wood in German forests is calculated at an average of 55 CUM/hectare. This adds up to a total annual wood regrowth of about 95 Million CUM. Actual harvest data can be misleading because the official harvest numbers do not fully represent all the wood taken out of the forest during one year. In addition, not all of the re-growth is commercially viable. The inventory report also shows that German forests are the largest in the EU with a total wood inventory of 3.38 billion CUM, followed by Sweden (2.93 Billion CUM), and France (2.89 Billion CUM). The next national forest inventory is scheduled for 2011/12, but results will not be available until 2013/14.

Table 2: German Wood Inventory 2005

	Spruce	Pine	Beech	Oak
Area – in million hectares	2,978	2,467	1,565	1,010
Change of area by species over 15 years	-8.1%	-9.9%	12.4%	7.9%
Percent of total forest land	28.2%	23.3%	14.8%	9.6%
Percent of total wood inventory	36.8%	20.8%	17.3%	8.9%
Percent of total harvested timber	58.5%	11.5%	15.1%	4.0%
Timber supply in CUM per hectare	404	282	352	286
Growth rate in CUM per year and hectare	16.4	9.1	11.7	8.2
Timber harvest in CUM per year and hectare	12.9	5.8	6.7	3.4
Change of timber stock	9.0%	11.9%	25.8%	29.1%
Average age	65	70	98.0	98

Source: Federal Research Institute for Forestry and Wood Industries, Hamburg

In examining the data of the German wood inventory by type of forest ownership, it is evident that private forest owners, who own approximately 44 percent of all German forests, have had lower extraction rates compared to commercial or industrial forests. Wood supplies in private forests are about 6 percent higher than the overall average. When examining age classes it is evident that the most common age class was planted shortly after World-War II (21 percent). Private forests hold the largest share of softwood trees; mainly spruce (63 percent).

Strong export demand for German timber, consolidation of the German saw milling industry, an improving domestic economy and an immense rising demand for firewood and wood energy pellets have resulted in higher wood prices during 2007. Price increases for industrial timber in particular reflect the growing demand for wood for energy and heat producing purposes.

Table 3: German Timber Price Index - 2000 = 100%

	2000	2001	2002	2003	2004	2005	2006	2007*
Total Roundwood	100	98.9	98.8	97.4	90.2	92.8	100.7	120
Total Logs	100	98.8	98.1	95.6	88.7	91.6	96.2	108
- Oak	100	99.1	98	94.5	95.5	107.6	111.8	125
- Beech	100	101	94.6	87.2	77.9	74.3	70.1	75
- Spruce	100	99.2	101	100	92.4	96.7	105.9	122
- Pine	100	94.2	93.1	96.5	95	94.5	91.1	103
Total Indust Wood	100	99.3	102.1	106.2	98.1	98.9	123.3	175
- Oak	100	102.5	105.4	141	118.2	114.4	132.2	188
- Beech	100	101.7	105.7	107	116	113.9	127.6	195
- Spruce	100	97.7	103.5	112.6	106.2	112.2	116.4	160
- Pine	100	97.5	96.4	96	n.a.	n.a.	123.6	175

* prelim.

Source: FedMinAgr.

German Charta for Wood

In late 2004, the German government implemented a promotion program to increase wood utilization as part of the general strategy to support renewable and energy resources. The goal of the program, called "Charta for Wood," was to increase wood consumption by 20 percent within the next ten years. The increased use of wood is expected to come from sustainable forests. As result of Charta, several regional cluster studies for the German forest and wood industries have been prepared. These provide the multi-faceted wood working industries with information to stimulate investment and cooperation between the different sectors.

Public Procurement Regulations

In January 2007, the German government finalized a public purchasing ordinance, which requires that all wood product purchases on the federal government level have to fulfill certain requirements – the Beschaffungsrichtlinie. This regulation requires that all purchased wood has to originate from legally harvested trees out of sustainably managed forests. The regulation refers to PEFC, FSC or equivalent certification programs. Another option to fulfill the sustainability requirement is a confirmation document from the country or region of origin. Importing companies will be requested to maintain these documents for a minimum of five years. See also

http://www.bmelv.de/cln_044/nn_827702/SharedDocs/Gesetzestexte/H/HolzbeschaffungErla.html_nnn=true.

A number of municipalities and state (Laender) governments still exclusively require FSC certification for their purchase programs. However, it is likely that many municipalities and states will slowly adapt to the federal purchasing rules.

Hamburg is the first German Land (state) to accept MTCC (Malaysian Timber Certification Council) certificates to allow the use of Malaysian tropical timber in official buildings and constructions.

Forest Certification

In Germany, 7.3 million hectares (66 percent) of forest land are PEFC (Platform for the Endorsement of Certification Schemes) certified. About 7 percent, primarily municipal

forests, is FSC (Forest Stewardship Council) certified. A number of community and smaller state forests are certified by both systems. Many of the small private forests are not certified at all. The vast majority of wood sawmills are chain of custody certified. PEFC reports that 640 chain of custody certificates have been issued in Germany. This, however, does not imply that all of their output originates from certified forests.

The German media frequently reports about FSC certification as a proof of proper sustainable forest management or verification that the wood was legally harvested. A number of do-it-yourself retail chains advertise their wood products as being FSC certified. Private customer awareness of forest certification is slowly increasing. Customers interested in products made from tropical wood species, in particular, are increasingly asking for the origin and legality of the products.

Consumption

According to official CY 2006 statistics, total annual wood use, excluding wood pellets for heat and energy, by the German wood working industry was about at 60 million CUM. Due to the Hurricane Kyrill storm damage in January 2007, German wood processing, mainly sawmilling, is expected to increase by about ten percent in 2007. Growth took place in all the four major fields of wood use: saw mills, fiber and chip board industry and pulp and paper industry. The number above does not include the demand by the wood pellet industry for energy and heat production.

The main user of forest timber is the sawmilling industry, which processes almost 47 percent of all harvested and imported roundwood. Other main users are the particleboard and fiberboard and the paper and pulp industries. All these industry groups experienced significant growth over the past five years. The raw material has been relatively inexpensive and a consolidation process in the industry yielded new marketing strategies. Export markets gained significant importance.

Table 4: Timber Use in Wood-Using Industry in 1000 CUM

	2001	2002	2003	2004	2005	2006
Sawmills						
Softwood	18,349	20,286	21,547	24,311	26,074	28,665
Hardwood	1,549	1,339	1,123	1,120	1,120	1,000
All	21,482	21,625	22,670	25,431	27,194	29,665
Veneer Mills *)						
Softwood	56	61	41	38	34	32
Hardwood	185	156	169	159	154	152
All	291	217	210	197	188	184
Plywood						
Softwood	151	103	99	65	61	70
Hardwood	62	51	50	49	43	58
All	213	154	149	114	104	128
Fiberboard						
Industrial Wood	2,315	2,292	2,953	2,870	3,063	3,375
Cut-offs Slabs + Residues	2,166	3,536	3,869	4,104	4,153	4,091
All	4,481	5,828	6,822	6,974	7,216	7,466
Particleboard						
Round Timber	2,960	2,594	3,042	3,426	3,356	3,167
Cut-offs Slabs + Residues	5,838	8,181	7,879	9,073	9,619	8,443
All	8,798	10,775	10,928	12,506	12,982	11,610
Cellulose & Paper Ind						
Softwood	2,982	2,886	3,315	4,029	5,469	5,860
Hardwood	1,019	1,062	1,116	1,174	1,116	1,010
Cut-offs Slabs + Residues	2,920	2,994	2,942	3,285	3,737	3,756
All	6,921	6,942	7,373	8,488	10,322	10,626
Grand Total	42,186	45,541	48,152	53,710	58,006	59,679

*) Decorative veneers only

Source: Federal Ministry of Agriculture

German Sawmilling Industry

In early 2006, Professor Mantau and Dr. Soergel of the Hamburg University presented a detailed study about the structure of the German sawmilling industry. The study was based on 2004 statistical data comparing them with census data from 2001. It showed that the German sawmilling industry was undergoing a drastic consolidation process. From 2001 through 2005, the number of operating mills dropped by 659 to 2465 mills while at the same time the processing volume went up two percent. It should be noted that during these four years, output by small mills and the very large mills increased, while middle-sized mills lost customers and business. The milling capacity of the defunct mills amounted to 2.8 million CUM. The loss in capacity was absorbed by large milling operations.

The vast majority of mills are softwood mills (70.3%) processing 89.4 percent of the timber. 9.3 percent of the mills are pure hardwood mills sawing six percent of the timber. The rest

are mixed operations sawing softwood and hardwood. In the softwood industry 2.6 percent of the mills were cutting 68 percent of the logs. These mills are increasingly operating for the export markets, including the United States.

Table 5: Structure of German Sawmilling Industry

	Number	%	Processing Volume 1000 CUM	%
Softwood Mills	1,800	73.0	29,816	89.4
Hardwoods Mills	230	9.3	2,017	6.0
Mixed Mills	435	17.6	1,536	4.6
Total	2,465		33,369	

Softwood Mills by Processing Capacity

	Number	%	Processing Volume 1000 CUM	%
less than 1,000 CUM	744	32.7	317	1.1
1,000 till 4,999 CUM	584	25.7	1,430	4.6
5,000 till 9,999 CUM	192	8.4	1,371	4.5
10,000 till 49,999 CUM	195	8.6	3,835	12.5
50,000 till 99,999 CUM	26	1.1	1,877	6.1
100,000 till 499,999 CUM	50	2.2	11,034	35.9
more than 500,000 CUM	9	0.4	9,901	32.2
Mixed mills	474	20.8	962	3.2
	2,274		30,727	

Hardwood Mills by Processing Capacity

	Number	%	Processing Volume 1000 CUM	%
less than 200 CUM	21	1.9	2	0.1
200 till 999 CUM	29	2.7	16	0.6
1,000 till 4,999 CUM	76	7.0	216	8.2
5,000 till 9,999 CUM	57	5.3	435	16.5
10,000 till 49,999 CUM	43	3.9	758	28.7
more than 50,000 CUM	4	0.4	572	21.6
Mixed mills	855	78.8	645	24.4
	1,085		2,644	

Source: Study Mantau Soergel, Hamburg University 2006

The larger mills are increasingly concentrating on production for export markets within Europe and overseas, including the United States. About 20 to 25 percent of German softwood lumber is already sold outside of Germany. Intense investments in modern large scale sawmilling equipment are making German companies very competitive in international markets. Loss of export markets on the American east coast in 2007 were offset by increased sales to customers in most western European countries.

The temperate hardwood market is much smaller than the softwood market. Germany produces 1.18 million CUM of predominantly beech and oak lumber in 2006. Almost two thirds of domestic hardwood lumber production is destined for export markets. The leading two markets for German beech lumber are China and the U.S. India is also emerging as a new customer for German beech lumber. New large-scale hardwood mills are planned for the beech and oak growing regions in Southern Germany to produce for the export markets including North America and the Far East.

Energy Wood

Rough estimates indicate that about 20 million CUM of wood is used for heating purposes annually in Germany, thereof 14 million CUM specifically harvested for this purpose. The rest is wood residues from the sawmilling industry.

The German wood pellet industry reports that approximately 70,000 household installed wood pellet heating equipments during recent years. The wood pellets industry association calculates that these facilities require about 350,000 tons of pellets per year. The annual production of wood pellets in Germany is estimated at roughly 1.3 million tons produced in 44 plants. The major portion of the German wood pellet production is sold to power plants in Germany and neighboring EU countries, namely the Netherlands, Belgium, France and Sweden. The main sources for the raw material are saw dust, wood chips and other wood residues. For further information on this market see: Deutscher Energie Pellets Verband, www.depv.de

Steep price increases for wood pellets in the winter of 2006/07 prevented many potential investors to switch from oil or gas heating to wood pellets. Prices have recently come down to more normal levels of about Euro 185-190 per ton partially as result of expanded pellet production and availability in 2007.

Paper Industry

The German paper industry forecasts a total production of 23.3 million MT in CY 2007, a three-percent increase over the previous year. Less than half of the production is graphic papers. The increase in output is primarily for the domestic market, which has increased by 4.8 percent while the export demand has stagnated. Of strong interest to the German paper industry is the Chinese market where per capita paper consumption is estimated at 29 kilograms versus 225 kilograms in Germany. The use of recycled paper in Germany amounted to 68 percent of total input in 2006. With regard to rising timber prices the industry is interested in increasing the use of recycled paper as much as technically feasible, which increased by 3.2 percent in 2006.

Construction

Since its peak in 1994, the German construction sector has gone through a difficult consolidation process. The number of housing permits issued in 2007 is estimated at only 160,000 private home units and 25,000 commercial building units. This is only a quarter of the construction activity compared to 1994. This development is contributed in part to the abolishment of government support programs for private housing in 2004 and an increase of the value-added tax from 16 to 19 percent effective January 2007. Additionally, shrinking population numbers and an aging society may also contribute to the decrease in development activities in the construction industry. For 2008, a marginal increase in housing permits is foreseen since no further tax increases are in expected.

As the construction of new homes has decreased more attention has been paid by the forest industries to the renovation market. Many houses that were built in the 1950s and 60s are in urgent need for renovation and remodeling. Rough estimates are that this market is already bigger than the new home market in Germany. Demand is growing for flooring and staircases providing a growing opportunity for hardwood sales to Germany.

Table 6: Housing Permits and Housing Starts in Germany

	Permits			Housing Starts			
	Private Homes	Commercial Buildings	Total	Single +Duplexes	Multiple Units	All Private	Commercial Buildings
1991	340,639	59,968	400,607	133,800	130,341	268,931	45,577
1994	624,839	87,797	712,636	212,354	284,309	501,728	71,155
1997	453,727	74,369	528,096	211,056	285,586	501,120	77,059
2000	304,614	43,894	348,508	229,727	138,814	368,541	54,500
2001	257,677	33,407	291,084	185,400	100,600	286,000	40,200
2002	243,228	30,892	274,120	172,874	80,826	253,700	32,687
2003	263,317	33,506	296,823	165,162	70,354	236,088	28,855
2004	236,378	32,301	268,679	177,204	69,386	247,795	28,029
2005	211,706	28,865	240,571	151,456	61,518	213,766	25,827
2006	216,580	31,213	247,793	150,069	69,616	220,637	26,799
2007*	160,000	25,000	185,000	140,000	55,000	195,000	25,000
2008**	164,000	26,000	190,000	120,000	50,000	170,000	20,000

*Estimate FAS Bonn

**Forecast FAS Bonn

Source: Federal Statistics Office + FASBonn - www.destatis.de

German housing is predominantly built with masonry. However, wooden houses have gained popularity in recent years mainly because of their superior energy efficiency. The share of wooden private homes was estimated at 14.2 percent in 2006. As a result of rising energy prices the interest in wooden home is likely to increase. The German government is working on a program to require higher energy efficiency standards for multi-unit homes. This policy may also indirectly increase the demand for more energy efficient wooden homes. Another reason home owners are building wooden houses is to distinguish themselves from the normal housing market. In commercial production 16.2 percent of the buildings are built with wood. In Germany, wooden homes are not necessarily cheaper than masonry building because of their often superior interior structure and design. About one third of the wooden prefab houses are sold as partly finished projects, which require considerable labor input by the customer.

In 2007, real estate experts report that the number of empty homes and office space is gradually shrinking resulting in slightly improved profitability in housing investment. The German home renovation market is likely to experience growing demand in the coming years since recently implemented legislation requires all rental apartment owners to obtain an energy-efficiency certificate. Owners of older apartment buildings will have to invest into improved insulation, including windows, doors and roofs.

Flooring

Parquet consumption in 2006 amounted to 18.4 million sqm. In 2007, German parquet consumption is expected to improve somewhat because of increased activity in the renovation sector. The dominant parquet type is multi-layer parquet accounting for 85 percent of the parquet market. The European Parquet Industry Association reports that the interest in oak flooring is rising again in Europe. The industry reports that nearly 50% of parquet flooring in Europe is made from oak followed by beech, hard maple, cherry and ash. The increase usage of oak is coming at the expense of beech. There is also a general trend towards darker and red woods in flooring. Consumers are increasingly interested in mixed colored floorings. Also tropical wood species are regaining market shares.

The lower price alternative for solid wood flooring is high-pressure laminate (HPL) flooring, which is predominantly installed in multi-unit homes or also often self-installed by tenants. HPL sales in CY 2006 were estimated at about 98 million square meters, an increase of ten percent over 2005.

Table 7: German Parquet Flooring Market, in 1,000 sqm

	Production	Import	Export	Consumption
1993	8,781	11,406	2,174	18,013
1994	9,955	13,648	2,612	20,991
1995	10,228	14,949	3,312	21,865
1996	9,850	15,000	3,684	21,166
1997	9,962	12,771	4,215	18,518
1998	10,568	17,555	7,208	20,915
1999	10,115	16,701	5,033	21,783
2000	11,475	19,163	5,404	25,234
2001	10,240	17,161	5,521	21,880
2002	9,931	15,928	6,326	19,533
2003	10,337	14,787	5,695	19,429
2004	10,500	14,400	5,900	19,000
2005	11,422	13,636	5,500	19,558
2006	12,646	11,807	6,078	18,375
2007*	13,200			

* FAS Berlin Estimate

Source: Federal Statistics Office

Windows

After a long period of declining sales, the demand for wooden window frames seems to have marginally recovered in 2007. Wooden frames have been replaced by plastic frames since these require less maintenance and can possess better insulation properties. However, wooden windows are not expected to significantly regain market shares in the foreseeable future. The predominant wood species for windows are dark red meranti followed by European pine. Oregon pine and hemlock have only a relatively small market share of less than 10 percent.

Table 8: Production Developments on the German Window Market (mill. units)

	2000	2001	2002	2003	2004	2005	2006	2007*	2008**
Wood Windows	4.6	3.6	3.1	2.6	2.4	2.3	2.5	2.5	
Plastic	10.7	8.6	7.1	6.5	6.2	6.4	7.2	7.2	
Aluminum	3.4	3.1	2.9	2.5	2.4	2.2	2.3	2.5	
Alu + Wood	0.7	0.7	0.8	0.7	0.7	0.5	0.6	0.7	
All Types	19.5	16.0	13.9	12.3	11.7	11.4	12.6	12.9	13.3

* Estimate

** Forecast

Source: German Windows Manufacturers Ass'n

Furniture

For 2007, the German furniture industry is reporting improved business. For the first half of 2007, the furniture industry forecast production growth at ten percent. However, production

activity slowed down considerably later in the year, with total turnover volume growth for CY 2007 now estimated at five percent. [The main driver of the German furniture industry is the export market; almost 40 percent of total production is sold outside Germany, compared to only 15 percent in the mid-1990s]. The main segment of increase is the office furniture industry growing by a rate of 16 percent. Aside from the neighboring countries of Netherlands, France, Switzerland and Austria exports to Central and Eastern European countries are rising faster than the average rate. In addition to the European markets German furniture manufacturers are reaching out to the Near East. On the European level the European association of furniture manufacturers (EFIC) is considering the development of a voluntary label for European-made furniture to distinguish it from low-price imports from East Asian competitors.

The German furniture industry consists of small-to-mid-sized industrial businesses. The number of furniture manufacturing companies decreased by 3.7 percent to 1,088 in 2006, which is about the same rate of consolidation during the past several years. This consolidation is partly due to the sluggish economic situation of recent years and the relocation of manufacturing plants to lower production cost countries in Eastern Europe. According to press articles, the leading German furniture manufacturing conglomerate Schieder encountered financial difficulties in 2007; however furniture production is likely to continue in most of Schieder's manufacturing plants.

The furniture industry association reports that there has been a gradual change in the use of furniture in German homes. People seem to be looking for high quality furniture instead of simply filling their apartment with masses of furniture. Main target groups for the industry are singles and senior citizens of 50 years of age and older, known as best-agers in Germany. The number of single parent households continues to grow in particular in metropolitan areas.

The preference scale for wood species by the German furniture industry shows that white oak continues to experience a revival after many years of reductions. The leading two species are oak and beech, with the latter losing ground. In general, consumers continue to favor light and light red color wood species. According to the Furniture Industry Association, the top six European wood species are beech, white oak, cherry, alder, and birch and walnut. The demand for dark woods is increasing gradually. Tropical woods and olive tree wood are also gaining consumers interest.

Veneers

The German veneer industry reports an annual production of about 200,000 CUM, which has been the average output for the past five years. In 2006, about 54 percent of the imported veneers were European species, namely beech (28%, 2005: 31.1%), oak (19%, 2005: 16.2%) and maple (15%, 2005: 14.5%). Minor species were birch (10%), cherry (6%) and ash (6%). The share of North American wood species is 30%, which is dominated by hard maple and black cherry. Demand for white oak is rising again after years of lesser interest. Demand for tropical timber veneers is calculated at 10 %.

Panels Industry

In 2006, the German particleboard industry increased its production by about one percent to 11.0 million CUM. The industry reports price increases of about 11 percent in 2007. About one quarter of domestic production is destined for export markets. The main markets are Denmark, United Kingdom, and Poland. Almost 90 percent of all exports are for European countries.

Particleboard faces increased competition from medium density fiberboard (MDF) in furniture production because of its more flexible uses. New investments in wooden panel production

will be therefore primarily in MDF. MDF production in Germany is estimated at 5.8 million CUM in 2006 compared to 5.5 million CUM in 2005. MDF is the primary base material for high-pressure density laminates (HDL) flooring. During the first nine months of 2007, approximately 1.0 million tons have been exported, which is 25 percent less than in 2006. Imports are estimated lower at 300,000 tons in 2007. The two major suppliers are Switzerland and Austria. The top markets for German MDF are EU countries. Exports to the U.S. are up by about 75 percent in 2007, of approximately 11,000 tons.

Also oriented strandboard (OSB) is increasingly replacing particleboard and softwood plywood. Production of OSB in 2007 is estimated at a little more than one million CUM. Germany is a net exporter of OSB, exporting approximately 550,000 CUM in 2007. OSB-sales to the United States dropped to zero in 2007, compared to 74,000 CUM in 2006 and 305,000 CUM in 2005.

Germany does not produce any softwood plywood. Major suppliers are Brazil, Finland, and Russia.

Trade

The value of German imports of wood and wood products during the first nine months of CY 2007 increased by 45 percent to US\$ 5.3 billion (tariff codes 4401-4421). The appreciation of the Euro is contributing to this development. CY 2006 imports totaled US\$ 5.6 billion of which 14 percent was softwood lumber of European origin. The U.S. share of the German wood products market has remained stable during the past three years hovering at almost four percent. The main U.S. export item to Germany is temperate hardwood, logs, lumber and veneers, which account for almost 90 percent of all U.S. wood shipments to Germany. While U.S. veneer shipments to Germany stagnated in 2007 sales of hardwood logs and lumber increased considerably by 25 percent and 40 percent respectively. This positive development reflects the improved economic situation in the German furniture industry and growing demand from the house renovations. Preferred wood species are black cherry, walnut, hard maple and white oak. Red oak still needs promotion activities on the German market in order to gain a noticeable market share.

The U.S. is the by far leading supplier of hardwood logs other than oak and beech to Germany, supplying more than 60 percent of this market segment. Also with regard to temperate hardwood lumber the U.S. is the leading supplier with almost 25 percent of the import market. One third of temperate hardwood veneers also originate from the United States. Main competitors in these market segments are neighboring western European countries.

The main suppliers of softwood lumber to the German market are Russia, Sweden, Austria, and Finland. Lumber purchases from Sweden went up by about 50 percent in 2006 and increased further in 2007 by almost 30 percent. At the same time spruce log imports from Sweden also increased noticeably. Scandinavian logs are cut to lumber at full-sized sawmills in the German state of Mecklenburg-Vorpommern and large numbers are re-exported as construction lumber to western European markets and the United States. Russian softwood log shipments to Germany have decreased by almost 40 percent in 2007. In general, the softwood log import market is extremely price sensitive and fluctuates intensively.

The improved economic situation of the local furniture industry is reflected by higher imports of hardwood logs, mainly oak logs. Oak and beech log imports have steadily decreased for the past five years. Veneer mills and furniture manufacturers have relocated into lower cost regions of Central and East European (CEE) countries.

Rising imports of tropical timber and veneers indicate a growing interest among German consumers for more colorful flooring.

Table 9: German Import Trade

IMPORT	2005	2006	Jan/Sep06	Jan/Sep07
PRODUCT	1000-\$	1000-\$	1000-\$	1000-\$

From the U.S.A.

All Roundwood	45872	44301	37601	48049
Oak Logs	4236	4340	3950	3213
other Temp Hardwood Logs	41617	39960	33651	43912
Softwood logs	17	1	1	923
Oak Wood in the Rough	3139	3212	3045	2331
All Lumber	41889	49156	36886	53614
All Softwood Lumber	5435	5690	4165	4347
All Tropical Lumber	38	6	6	83
All Temp Hardwood Lumber	36416	43460	32715	49184
Oak Lumber	13408	17905	13294	19671
Beech Lumber	6	-	-	3
All Veneers	67611	73590	57590	63496
Softwood Veneers	576	394	336	439
Tropical Veneers	534	126	83	159
Temp Hardw Veneers	66502	73069	57172	62898
All Plywood	311	327	144	201
Trop Plywood	4	-	-	-
Hardwood Plywood	68	-	-	32
Softwood Plywood	114	129	40	31
OSB	21	-	-	12
Particleboard	743	1064	711	1150
MDF	-	35	27	23
Oth Fiberboard	308	538	493	660
Wood Chips Pells Dust	203	169	108	251
Windows	59	26	20	-
Doors	22	36	29	5
Parquet Flooring	256	69	65	243
Gluelam	1030	1364	1168	1338
All Wood Products	170344	181168	143047	180507
Wood Pulp	187985	244071	185689	204640

From the World

All Roundwood	311452	373676	262708	429826
Oak Logs	12841	13006	12289	14675
other Temp Hardwood Logs	70011	70004	55176	71083
Softwood logs	172301	224821	145270	273158
Oak Wood in the Rough	8673	7480	8061	9223
Beech Wood in the Rough	2420	3905	1756	4540
All Lumber	1158567	1399042	875246	1274844
All Softwood Lumber	862769	1075847	640488	954602
All Tropical Lumber	82361	94037	71502	95282

All Temp Hardwood Lumber	213436	229157	163256	223232
Oak Lumber	54413	69106	47300	73216
Beech Lumber	25484	27855	19972	21330
All Veneers	285181	298128	208711	257467
Softwood Veneers	19894	24639	16202	17811
Tropical Veneers	36846	31315	22911	31350
Temp Hardw Veneers	227772	241702	169316	208306
All Plywood	643615	732693	515842	725844
Trop Plywood	83693	90460	70096	95980
Hardwood Plywood	282772	338349	238847	386198
Softwood Plywood	146127	173576	124676	162077
OSB	62233	92927	58172	75305
Particleboard	376477	449103	301075	410232
MDF	164937	223217	133876	194866
Oth Fiberboard	103628	119384	78467	146079
Wood Chips Pells Dust	58552	99049	52125	121001
Windows	76975	87653	58363	72365
Doors	147501	152891	105389	126417
Parquet Flooring	237796	241139	164107	233070
Gluelam	307356	338211	215012	302821
All Wood Products	4793889	5589718	3672804	5328306
Wood Pulp	2756670	3085561	2243668	2955151

From the Intra-EU-27

All Roundwood	164912	193293	120049	257641
Oak Logs	7248	7475	7264	9598
other Temp Hardwood Logs	17581	16012	11225	14353
Softwood logs	133283	162370	97492	228146
Oak Wood in the Rough	4953	3692	4539	5402
Beech Wood in the Rough	1935	3254	1148	1575
All Lumber	737041	910267	512565	739575
All Softwood Lumber	626640	791586	432659	639929
All Tropical Lumber	13964	15421	10887	11378
All Temp Hardwood Lumber	96437	103260	69019	88225
Oak Lumber	25867	37585	23685	35712
Beech Lumber	17837	21504	15173	14971
All Veneers	155569	159890	101546	134732
Softwood Veneers	14509	18780	12180	11963
Tropical Veneers	8737	9406	5830	9588
Temp Hardw Veneers	131920	131685	83522	113181
All Plywood	443180	478167	322951	416378
Trop Plywood	45776	55159	42933	68807
Hardwood Plywood	192798	207761	145171	199096
Softwood Plywood	84062	96296	59758	78153
OSB	60649	92292	57702	73777
Particleboard	293662	356907	234237	295973
MDF	114838	166124	92170	147086
Oth Fiberboard	73295	77076	48431	98275
Wood Chips Pells Dust	56175	94639	49493	111145
Windows	74932	85773	56674	71635

Doors	144084	149016	102209	123370
Parquet Flooring	172782	183237	121123	157574
Gluelam	234422	243703	150017	193845
All Wood Products	3263054	3814716	2347732	3420584
Wood Pulp	1703519	1898898	1373078	1859115

Source: German Statistics Office

Until CY 2000, the United States was a net exporter of wood products to Germany. Since then the situation has completely changed. In CY 2006, German wood product exporters shipped almost four times as many wood products to the U.S. The consolidation of the German sawmilling and wood panel producing industries and the resulting bigger processing units led to a more intense export orientation of the German wood processing industries. However, the strength of the Euro and the weaker U.S. building sector resulted in an almost 55 percent reduction of softwood lumber sales to the U.S. market, which represents a reduction of 40 percent in product volume in 2007.

Despite the current strength of the Euro, Germany sold US\$219 million worth of softwood lumber to the U.S. during the first nine months of 2007. Temperate hardwood lumber exports during the same period were valued at US\$ 25 million.

Total German export sales of wood products (excluding pulp) amounted to US\$ 7.8 billion in CY 2006, an increase of 13 percent over 2005. Total wood product sales in 2007 grew by another impressive 17 percent to US\$6.2 billion during the first three quarters of 2007. Sales to EU member countries grew by 26 percent during the same period. More than two thirds of German exports are going into EU countries. However, markets outside the EU, such as the Far East and China, are also gaining importance. Beech logs sold to China in the Jan/Aug 2007 period totaled 299,000 CUM compared to 209,000 CUM in 2006.

Austria and Sweden are also important beech log export markets, which are primarily re-exported to the Far East and North America. As the furniture industry in Poland has grown, Germany has become a noticeable beech and oak log supplier for the Polish wood industry. Indonesia has also become an important market for German oak lumber and India is increasingly interested in German beech lumber.

Table 10: German Export Trade

EXPORT	2005	2006	Jan/Sep06	Jan/Sep07
PRODUCT	1000-\$	1000-\$	1000-\$	1000-\$

To the U.S.A.

All Roundwood	506	570	384	1176
other Temp Hardwood Logs	293	488	308	252
Softwood logs	6	50	44	518
All Lumber	459611	496018	409781	245935
All Softwood Lumber	435494	460306	382321	219182
All Tropical Lumber	2181	4030	2651	1536
All Temp Hardwood Lumber	21936	31682	24808	24940
Oak Lumber	191	188	191	274
Beech Lumber	19773	29259	23015	21652
All Veneers	29490	29090	19953	18302
Softwood Veneers	85	60	52	79
Tropical Veneers	7429	6791	4652	4138

Temp Hardw Veneers	21976	22240	15248	14085
All Plywood	4330	7559	5633	3061
Trop Plywood	472	683	429	369
Hardwood Plywood	1177	937	835	317
Softwood Plywood	2048	4383	2905	2199
OSB	89619	22023	21513	-
Particleboard	3035	2696	1891	1387
MDF	62210	42842	35571	10874
Oth Fiberboard	82040	63962	50664	48416
Wood Chips Pells Dust	5	86	59	120
Windows	15702	19448	13609	16082
Doors	1055	1100	726	1267
Parquet Flooring	7145	11134	8490	5202
Gluelam	4052	6337	4646	3547
All Wood Products	769722	717146	582317	369045
Wood Pulp	4796	878	768	1119

To the World

All Roundwood	504773	607272	387675	476013
Oak Logs	58191	54780	39187	32015
other Temp Hardwood Logs	16853	25101	16764	13481
Softwood logs	335967	419134	251227	336744
Oak Wood in the Rough	46618	45949	32868	24938
Beech Wood in the Rough	67082	82743	62347	69509
All Lumber	1655068	2055168	1351457	1690905
All Softwood Lumber	1296876	1655353	1080001	1397520
All Tropical Lumber	61316	71124	43257	59490
AllTemp Hardwood Lumber	296877	328691	228199	231774
Oak Lumber	97601	101828	69552	65155
Beech Lumber	152116	171010	122363	125964
All Veneers	371308	376622	254751	266861
Softwood Veneers	3000	3248	2353	2087
Tropical Veneers	55129	52840	36608	38779
Temp Hardw Veneers	313180	320527	215790	225995
All Plywood	244567	271490	190818	213928
Trop Plywood	50573	49134	39755	37727
Hardwood Plywood	57081	60115	41090	58932
Softwood Plywood	48082	52731	36175	42271
OSB	207273	174558	125140	137831
Particleboard	683084	783265	567379	577248
MDF	779033	820069	594210	488824
Oth Fiberboard	875930	788749	580396	811590
Wood Chips Pells Dust	118740	184667	110874	185989
Windows	68597	76631	44501	61713
Doors	145004	175825	105432	133376
Parquet Flooring	188734	201858	118369	154862
Gluelam	417754	520125	357648	392571
All Wood Products	6918321	7822506	5297230	6193903
Wood Pulp	455595	606600	437470	478653

To the Intra-EU-27

All Roundwood	428760	505606	310093	353523
Oak Logs	33781	31210	21014	16514
other temp hardwood log	10183	13574	8782	6130
Softwood logs	326096	403807	241446	288824
Oak Wood in the Rough	30957	28437	19476	14593
Beech Wood in the Rough	39106	39127	26894	23376
All Lumber	1015754	1343438	789038	1251636
All Softwood Lumber	778414	1086851	621636	1067223
All Tropical Lumber	46254	53284	30935	45873
AllTemp Hardwood Lumber	191086	203302	136467	136783
Oak Lumber	69660	73680	48858	44318
Beech Lumber	88767	90599	63089	64614
All Veneers	260714	267837	177659	192198
Softwood Veneers	2071	2029	1331	1528
Tropical Veneers	29928	27285	19384	19907
Temp Hardw Veneers	228715	238515	156945	170762
All Plywood	186318	197972	138242	162952
Trop Plywood	47697	44957	36567	34699
Hardwood Plywood	47915	50456	34006	50463
Softwood Plywood	37126	37366	24970	30588
OSB	76082	86876	60346	99826
Particleboard	603766	673387	496899	503723
MDF	557606	610314	440233	370319
Oth Fiberboard	529771	463863	342436	505319
Wood Chips Pells Dust	102582	162277	95372	161483
Windows	39346	41007	20289	34282
Doors	82291	105815	57367	76789
Parquet Flooring	107763	107698	51961	84029
Gluelam	326578	403951	275509	310606
All Wood Products	4785075	5534694	3603861	4530835
Wood Pulp	331724	469959	344606	382992

Source: German Statistics Office

Marketing

Germany remains an important market for certain high value wood species such as white oak, hard maple, red alder, black cherry, and walnut. Other species, not as highly sought after, face strong competition from suppliers in Central and Eastern Europe. AHEC has intensified its efforts to make red oak better known to German architects and interior designers. Rising prices for domestic and other European white oak may provide an additional incentive to interest German customers in this valuable species. Increased demand for softwood garden wood and garden furniture may also open a window for U.S. sales to this market. However, European and Asian competition is extremely strong in this market segment. Germany hosts several international trade fairs for lumber, veneer, furniture parts and construction timber-like products, which are worthwhile to visit or attend.

The most important fair is Interzum - Furniture Production and Wood Interiors held in Koeln (Cologne) every other year. The next Interzum will take place in May 13 - 16, 2009. The U.S. wood industry has for many years participated at Interzum. About 1,360 exhibitors from more than 61 countries participated at Interzum in 2007. For the upcoming show in

2009, the fair organizer reports growing interest reflecting the improved economic environment in Germany

Interzum - Furniture Production and Wood Interiors
KoelnMesse GmbH
Messeplatz 1
50679 Koeln, Germany
Tel.: +49 221 821 0
Fax: +49 221 821 2574
www.interzum.de
www.koelnmesse.de
info@koelnmesse.de
iz@koelnmesse.de

The most important furniture fair for Germany is the International Furniture Fair in Koeln held every year in January. About 1,300 companies and organizations from more than 60 countries regularly exhibit in Koeln. U.S. participation had been rather limited during recent years. In January 2007, KoelnMesse reported about 106,000 visitors from about 100 countries.

Internationale Moebelmesse - International Furniture Fair
KoelnMesse GmbH
Messeplatz 1
50679 Koeln, Germany
Tel.: +49 221 821 2280
Fax: +49 221 821 3411
www.koelnmesse.de
www.imm-cologne.de
info@koelnmesse.de
imm@koelnmesse.de

An international fair for window and facade technologies is held every other year in Nuernberg. This next fair will be in April 2-5, 2008. Normally about 1,200 exhibitors from up to 30 countries participate in fensterbau/frontale. In 2006, the fair organizer reported a growing interest among international visitors. The total number of visitors was reported at 100,760.

fensterbau/frontale
International Trade Fair Window and Facade –
Technologies/Components/Prefabricated Units
Fensterbau Informations- und Ausstellungs-GmbH
NuernbergMesse GmbH
Messezentrum
90471 Nuernberg, Germany
Tel.: +49 911 8606 0
Fax: +49 911 8606 8228
www.frontale.de
frontale@nuernbergmesse.de

Hannover hosts an international fair for the forest and wood industries (LIGNAplus), which focuses on processing machinery. However, LIGNA visitors regard this show as a full-scale competitor to InterZum for timber suppliers. This show has a small section, which covers trade in forest products. The LIGNAplus, May 18-22, 2009, usually follows the Interzum

show held in Koeln. Interested visitors have the opportunity to attend Interzum and LIGNAplus in one trip.

LIGNAplus HANNOVER - Weltmesse fuer die Holz- und Forstwirtschaft
World Fair for the Forestry and Wood Industries
Deutsche Messe AG
Messegelaende
30521 Hannover, Germany
Tel.: +49 511 89 32126
Fax: +49 511 89 31263
www.ligna.de
ligna@messe.de

Leading international manufacturers and importers regard Hannover as the ideal place for showcasing the entire spectrum of the flooring trade. DOMOTEX is a meeting-place for some 1,250 exhibitors from over 55 countries. In 2006, the response of the trade was extremely positive. A total of 50,000 visitors came from more than 100 different countries. More than 75 percent of the exhibitors came from outside Germany. About 15 to 20 percent of the visitors were wood flooring experts. The fair is held every year in January.

DOMOTEX – World Trade Fair for Carpets and Floor Coverings

Deutsche Messe AG
Messegelaende
30521 Hannover, Germany
Tel.: +49 511 89 32126
Fax: +49 511 89 31263
www.domotex.de

Another smaller exhibit, with particular focus on the German market is the Branchentag Holz, was held every other year in Wiesbaden. The organizer is the German Timber Trade Association. Next Branchentag is scheduled for November 2009 in Cologne. An exact date has not yet been determined.

Gesamtverband Deutscher Holzhandel e.V.
PO Box 1867
65008 Wiesbaden, Germany
Tel.: +49 611 5069-0
Fax: +49 611 5069-69
www.holzhandel.de
www.branchentag.de

The German wood products industry is increasingly focusing on export markets since the domestic market does not seem to provide opportunities for growth. To a limited extent, growth is seen in CEE countries and Russia, but the focus is mainly on Asian, Middle East, and African markets. A helpful tool used by the industry to develop these markets is the export promotion homepage of the sawmilling industry (www.germantimber.com), which is available in different languages, such as Chinese, French, Italian, Spanish, Japanese, and Arabic. Organization representatives are located in the U.S., Japan and China.

For the construction market, Leipzig hosts the Construction Trade Fair Baufach - Bau-Fachmesse Leipzig, held every other year. The next fair will be on October 2009. Baufach

covers the complete construction industry with wooden materials being one section of the fair. About 730 exhibitors from 13 different countries took part in Baufach 2007. An interesting focus of this fair is its orientation to the central European markets.

Baufach - Bau-Fachmesse Leipzig
 Construction Trade Fair Leipzig
 Leipziger Messe GmbH
 Messe-Allee 1
 04356 Leipzig, Germany
 Tel.: +49 341 678 8641
 Fax: +49 341 678 8212
www.baufach.de
baufach@leipziger-messe.de

An international fair for building materials and systems is held in Muenchen (Munich) every other January with about 2,050 exhibitors from 44 countries. The next fair will take place January 12-17, 2009. The Messe Muenchen Company reports that exhibitors of the 2007 exhibit were increasingly focusing on the renovation market and energy conservation solutions. An increasing number of visitors came from eastern European and Asian countries.

BAU - Internationale Fachmesse fuer Baustoffe, Bausysteme,
 Bauerneuerung
 International Trade Fair for Building Materials, Building Systems, Building
 Renovation
 Messe Muenchen GmbH
 Messegelaende
 81823 Muenchen, Germany
 Tel.: +49 89 949 20110
 Fax: +49 89 949 20119
www.bau-muenchen.de
siebert@messe-muenchen.de

Previous GAIN Reports		
GM7022	Modified Wood	6/8/2007
GM6048	Solid Wood Annual 2006	12/14/2006