GERMANY

GENERAL ECONOMIC SITUATION IN GERMANY IN 2007

The German economy again grew strongly in 2007. Real gross domestic product was up 2.6 percent after growth of 2.9 percent in 2006. The strong dynamic push was driven by both external and internal demand.

Domestically, it was above all the strong expansion in plant and equipment spending that kept the upswing on track. The altogether buoyant world economic situation gave exports a further boost. Thanks to the sound competitiveness of German companies, German goods were in particularly high demand on world markets. Exports grew 8 percent. Consumer spending was hit by the rise in value-added tax by 3 percentage points to 19 percent, so that it was merely able to reach the previous year's level.

The dynamic expansion is also increasingly benefiting the German labour market. Total employment rose continuously and significantly in the course of the year.

All in all, 2007 went better than expected. Both the German economy and the world economy showed considerable resilience, especially in the face of a soaring oil price.

PERFORMANCE OF THE PULP AND PAPER INDUSTRIES IN 2007

Germany's paper-grade pulp production expanded by 5 percent to over 1.5 million tonnes in 2007, with 860 000 tonnes going into exports. Most of the pulp used in German paper mills came from abroad. Some 4.2 million tonnes of paper-grade pulp was imported.

The German pulp and paper industry fared well, keeping pace with the overall economy in 2007. In quantitative terms, it was a successful year. For the manufacturers of paper and board in Germany, 2007 brought another production record. Total output was up by more than 2 percent to 23.2 million tonnes, after growing by as much as 5 percent in 2006.

Since Germany's total capacities did not increase in 2007, the expansion in production led to higher utilization of the paper machines. Capacity utilization was up on average from 95 to 97 percent.

A look at the long-term trend confirms that the pulp and paper industry goes on being a growth sector. The rise in output in Germany averaged 3.5 percent annually in the last seven years – far more than was still being predicted at the end of the 1990s.

With the 2007 record result, the German pulp and paper industry remains no. 4 worldwide, after the US, China and Japan, and is no. 1 in Europe. The engine of these positive developments was once again exports. The high 5 percent increase to 13.9 million tonnes is due in the main to high growth rates in Eastern Europe. Apparent consumption rose 2 percent to 21.1 million tonnes. Since imports, up 5 percent to 11.8 million tonnes, were growing even more strongly than consumption in Germany, the import rate climbed to 56 percent.

Despite good sales developments, the earnings situation in the German pulp and paper industry is still unsatisfactory. True, the erosion of paper prices has come to a halt and, in the case of some paper grades, prices are up again, but the difficult competitive situation and, in places, the much higher costs for raw materials, transport and above all energy, again brought the German pulp and paper industry a low cash flow of 6.5 percent and a pre-tax profit of 0.5 percent in 2007. In 2001, cash flow had still been 18 percent, and profit had stood at 11 percent. For the capital-intensive pulp and paper industry, the 2007 income figures were far from adequate.

SPECIAL ISSUES

Emission Trade

The German and European pulp and paper industry is concerned about plans of the EU commission to introduce large scale emission credits auctioning by 2013. If introduced without exemptions for energy intensive branches, it would cost the German pulp- and paper industry more than its annual earnings. In fact this would be the first direct EU tax by which the climate policy will collect funds that will be used partly to finance competitors to EU industries in developing economies and again present an un-level playing field in Europe which will ultimately harm the competitiveness of Europe.

The EU ETS will generate up to 75 billion Euros (estimated) per year in 2020. This will see the largest amount of money being taken out of the EU economy ever, unprecedented in scale and impact. Full auctioning is not needed to ensure a properly functioning carbon market or carbon price and will not help industry to meet the required targets but it will unnecessarily damage European industry. ETS sectors need to reduce by 21 percent compared to 2005, not by 100 percent.

Bio energy

The German and European pulp and paper industry is concerned about plans of the EU Commission to increase the use of solid biomass for power generation substantially until 2020. To the industry “solid biomass2 means wood. Due to reliable surveys, the realisation of the EU plans would create a gap in the supply of wood of at least 260 Mio. solid cubic meters per year and endanger the forest based industries. The pulp and paper industry therefore proposes to increase the mobilisation of wood resources and the plantation of energy wood. It also proposes to increase the research in bio fuels of the 2nd generation. A primacy of the use of wood for the production of materials should be codified.

Code of Conduct

After the European pulp and paper industry Federation had adopted its code of conduct against illegal logging, national paper industry associations have started to monitor the pulp and wood supply of its national industry. The recent VDP-survey gave evidence to the fact, that for 100 percent of wood supply and 75 percent of pulp supply there are proofs of origin, which document the provenance of the material from sustainable managed forests.

Germany
Fibres for the Production of Paper and Board (tons)

	2007	2007:2006(e)	in %
Chemical Pulp for Paper Production	1.470	1.545	5,1
- Exports	860	863	0,3
+ Imports	4.058	4.159	2,5
......= App. Consumption	4.668	4.841	3,7
Mechanical Pulp for Paper Production	1.468	1.456	-0,8
......- Exports	101	129	27,7
+ Imports	260	261	0,4
= App. Consumption	1.627	1.588	-2,4
Recovered Paper Collection	15.479	15.362	-0,8
- Exports	3.339	3.004	-10,0
+ Imports	3.114	3.464	11,2
......= App. Consumption	15.254	15.822	3,7
Fibres in total App. Consumption	21.549	22.251	3,3

(e) = estimated

Germany
Paper and Board
(1.0 tons)

	2006	2007 (e)	2007:2006 in %
Production	22.656	23.172	2,3
Exports	13.263	13.908	4,9
Imports	11.220	11.816	5,3
App. Consumption	20.613	21.080	2,3
Export Quota	58,5	60,0	
Import Quota	54,4	56,1	

(e) = estimated