PORTUGAL

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Overall economic situation

The performance of the Portuguese economy in 2007 was conditioned by the well know events that affected the world economy during the year, and also by the Government's priority concern of consolidating the public accounts in order to contain the external deficit below 3 percent. For this it was quite evident the continuing rise of taxation and the decline of public investment.

Data from the national statistics authority point to GDP growth of 1.9 percent in 2007, an increase of 0.6 of a percentage point over 2006 but still significantly below the average in the Euro Area, where GDP growth reached 2.6 percent. For 2008 the Government expects GDP to growth by 2.4 percent, thus surpassing a recent forecast for the Euro Area.

In 2007 the combined current and capital account deficit was EUR 13 869.4 million, with exports and imports rising year-on-year by respectively 8.4 percent and 6.9 percent.

The budget dropped well below 3 percent in 2007 (2.6 percent), which means that its reduction was pursued (from 3.9 percent in 2006) and confirms Portugal's realignment to the criteria of the Euro Area's Stability and Growth Pact. For 2008 the government target for the budget deficit is 2.2 percent.

At 2.7 percent, the inflation rate in 2007 rose significantly above the average of 2.1 percent in the Euro Area, which the Government had set as a target at the beginning of the year. For 2008, inflation is expected to remain at 2.7 percent, which falls within the projected interval for the Euro Area.

The average unemployment rate in Portugal was 8 percent in 2007 (7.7 percent in 2006), which is still higher than the average in the 27 countries of the European Union (6.8 percent) and in the 15 countries of the Euro Area (7.1 percent) at the beginning of 2008.

Emerging issues

- Legislation
- Revision of the Emission Trading Directive (ETS)

The revision proposed by the European Commission foresees a fundamental change in the attribution model of emission allowances, from a system of free (though scarce) allowances

to a system of attribution by auction. This new model will have deep consequences on the structure of costs of the affected companies, which will have to pay for all the carbon emitted instead of, as happened until now, for the surplus over the allowances attributed.

This form of attribution will therefore have important direct consequences, but also indirect consequences of the same or even greater magnitude, namely, an increase in the price of electricity (which will also reflect the cost of CO_2), and an increase in the price of wood (through a foreseeable significant increase in demand for alternative fuels, and in particular for biomass).

This proposal was submitted to the co-decision process and is currently under analysis by the European Council and the European Parliament, the various parties in the decision process having declared their intent of reaching a decision before the end of 2008.

- Industrial Emissions Directive

This new directive proposal of the European Commission actually entails a process that will result in the revision, consolidation and merger of six environmental directives, of which the most relevant for the sector are the Directive on Integrated Pollution Prevention and Control (IPPC directive) and the Large Combustion Plants Directive (LCP directive). If this proposal goes ahead, the environmental limits imposed to the industry will be particularly tightened, and BREFs will gain a much more determining nature. While before BREFs allowed greater scope for adaptation to the specific conditions of the location and company to be licensed, under the present proposal they essentially determine the emission limits to be applied.

- *Directive on Environmental Liability*

Directive 2004/35/EC on environmental liability has come into force, holding economic agents accountable for damage to the environment, regardless of whether or not they were responsible for wrongdoing.

- *National tax on the use of water resources*

A tax has been established on the volume of water collected and main pollutants emitted to the aquatic environment.

Forest certification

The FSC-Portugal has been officially set up and a Portuguese FSC standard is currently being drawn up.

Approximately 180 thousand hectares of land in Portugal have their management certified by the FSC (of which 98 percent are managed by pulp and paper companies), and 24 chain of custody (CoC) certificates have been issued.

The PEFC-Portugal, which in the past had already certified roughly 50 thousand hectares, has issued 8 CoC certificates, and various public and private forest certification initiatives are currently under way.

Towards the end of the year, the PEFC-Portugal initiated the revision process of the Portuguese forest certification system, which has been in force since December 2004.

Wood availability

Pulpwood market

After an apparent and abnormal abundance of wood (maritime pine and eucalyptus) following the great forest fires of 2003 and 2005, 2007 saw the first signs of a scarcity of wood supply to the market.

Adding to this, growing demand in Portugal for eucalyptus wood intended for the Spanish industry led to a clear increase in average prices (roughly 25 percent) between 2006 and 2007.

FOREIGN TRADE IN EUCALYPTUS

	(tonnes)	Imports	Exports
SPAIN	2005	10 906	1 327 313
	2006	1 737	1 255 900
	2007	86 607	1 400 066
TOTAL	2005	10 935	1 356 027
	2006	1 737	1 415 361
	2007	121 232	1 571 602

Exports of eucalyptus wood to Spain increased by roughly 600 thousand tonnes between 2002 and 2007, corresponding to an increase of nearly 10 percent per year.

Forest biomass for energy

Against this backdrop of scarcity, it is important to anticipate the behaviour of the market of forest biomass for energy:

Demand for forest biomass for energy purposes appears to be rising sharply in Portugal: to feed the recently tendered biomass power plants (150 MW) alone, an additional 2.5 million tonnes will be required; moreover, the existing coal based thermal power plants plan to replace 10 percent of the coal currently consumed, generating new demand of another 1.5 million tonnes; and on top of all this the new pellet plants and the co-firing process of the ceramics and cement industries are estimated to absorb another 1.5 million tonnes.

This situation is all the more concerning as supply of pine and eucalyptus currently faces a fragile balance against industrial consumptions, while available forest waste surpluses are estimated at 2.2 million tonnes only.

In other words, demand is very soon expected to double the theoretical available supply.

Performance of the forest products cluster

Forest fires

A very damp and rainy summer decisively contributed to reduce the seriousness of forest fires in 2007.

The chart below gives an idea of the phenomenon in the last few years, the worrying years of 2003 and 2005 clearly standing out, with nearly 500 thousand hectares of forest plantations burnt in the two years.

	No. of fires	Burnt plantations (ha)	Total burnt (ha)
Average 2001/2005	27 357	133 231	225 955
2006	19 921	36 320	75 509
2007	18 722	9 636	31 449

Paper and wood industry

The chart below shows the production, imports and exports of sawn softwood and particle and fibre board in 2006 and 2007 (estimate):

		Production thousand m^3	**Imports thousand m^3**	**Exports thousand m^3**
Sawn softwood	2006	909	110	344
	2007 (*)	917	100	350
Particle board	2006	850	60	502
	2007 (*)	858	62	511
Fibre board	2006	405 (1)	141	364 (2)
	2007 (*)	406 (1)	139	366 (2)

(1) 80% is MDF (2) 75% is MDF (*) preliminary information

The paper and pulp industries have undergone changes at ownership level, there existing today only two groups that produce woodpulp, both controlled by Portuguese capital, and one of them also producing paper (uncoated woodfree). (There is also one mill producing kraft paper).

The largest national group (Portucel Soporcel) has started the construction of a new uncoated woodfree paper mill, with the capacity to produce 500 thousand tonnes, corresponding to an investment of EUR 550 million. This project should be concluded in August 2009.

The second largest national group (Altri) is currently increasing the capacity (+250 thousand tonnes) of one of its sulphate bleached eucalyptus pulp mills.

In 2007 the capacity utilisation rate was around 97.6 percent in the pulp industry, (slightly lower than in 2006) and 94.8 percent in the paper industry (lower than in 2006).

The chart below shows the production, imports and exports of woodpulp, paper and linerboard from 2005 to 2007.

Thousand tonnes	**Year**	**Production**	**Imports**	**Exports**
	2005	1 990	47	735
Woodpulp	2006	2 064	53	1 019
	2007 (*)	2 075	66	1 010
	2005	1 577	830	1 234
Paper and board	2006	1 643	970	1 299
	2007 (*)	1 611	1 040	1 400

(*) Preliminary information

Business developments

Employment in the paper and wood products industries

No surveys have been published lately on the cluster of forest products in Portugal, but the most recent credible publication on this issue (1998) referred the following values:

Employment in mainland Portugal's forestry industry - 1993/95 Subsectors Employment

Subsectors	Employment
Wood logging and commercialisation Cork extraction Resin tapping	10 000 4 000 2 000
Rentals and contractors	3 750
Transport of forest products (from the forest to the mill)	2 300
Forest nurseries (private and Forest Institute)	1 000
Game reserves and keepers	8 000
Wood and furniture industries	111 492
Wood imports and exports	770
Manufacturing of wood-cutting and processing machinery	2 349
Furniture wholesale and retail	35 526
Resin products industry	2 000
Cork industry	18 400
Manufacturing of machinery for the cork industry	158
Paper industries	15 561
Printing and publishing	35 523
Construction and repairs of wooden vessels	300
Match manufacturing	513
Support services (public services, education, research, technology centres, associations of producers and forestry industries, forest fire-fighters)	5 288
TOTAL FORESTRY SECTOR EMPLOYMENT	**258 930**
TOTAL EMPLOYED POPULATION	**4 255 000**

Corporate Social Responsibility

The Business Council for Sustainable Development (BCSD – Portugal) was set up in 2001, at the initiative of the three companies that at the time were members of the WBCSD - World Business Council for Sustainable Development (of which two were linked to the forestry industry). The aim of BCSD – Portugal is to turn business leadership into a catalyst of change towards Sustainable Development and to promote ecoefficiency, innovation and social responsibilities within companies.

Today, with more than 100 members from among the largest national companies, BCSD – Portugal brings together some of the most important companies in the woodpulp, paper, cork and woodboard industries. For the rest, and with a few exceptions, forest based companies, mostly small and medium enterprises, do not seem very concerned yet about corporate responsibility issues. The traditional activity of importing tropical woods represents a very specific exception, and in this area there have been growing concerns about combating illegal logging.

One of the visible outcomes of corporate social responsibility policies is the adhesion of some of the largest Portuguese forest based industries to the Business & Biodiversity initiative promoted by the European Union and the International Union for the Conservation of Nature (IUCN), with a Group in the paper industry having even subscribed to the Countdown 2010 initiative to halt biodiversity loss until 2010.