

CBI MARKET SURVEY

THE TIMBER AND TIMBER PRODUCTS MARKET IN
THE CZECH REPUBLIC

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments in the timber and timber products market in The Czech Republic. The information is complementary to the information provided in the CBI market survey 'The timber and timber products market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from <http://www.cbi.eu/marketinfo>.

1 Market description: industrial demand and production

In this survey, we will mainly focus on Forest Stewardship Council (FSC) certified timber and timber products. Please be aware that data discussed throughout the report does not differentiate between FSC certified or non-certified timber. However, when information is available on certified timber and timber products, this is specifically mentioned. The International Tropical Timber Organization's (ITTO)¹ is normally the most relevant source when discussing the EU market for timber as the organization is, on a global scale, the most detailed and reliable in its data recording. Unfortunately, ITTO only records data of the EU15², in stead of the EU27.

- While the Czech Republic is an important producer of timber and timber products, so that consequently production data are rather well recorded, this does not apply to consumption. There is no national wood-working industry association to rely on for consumption data. Furthermore, ForesSTAT and UNECE do not cover Czech industrial demand for timber. In 2002, 14.5 million m³ timber was felled, but this volume has definitely increased since then. 13 million m³ comprised coniferous timber, the remaining being broadleaved timber. Domestic consumption of sawn wood was estimated at 2.7 million m³ in 2002 (FAO, 2004).
- Per capita consumption of timber is low in the Czech Republic. According to Wood for Life, the Czech wood promotions association, the yearly usage of wood per inhabitant of the Czech Republic is 0.23 cubic meters. In comparison, Finland uses 1.00 cubic meter per citizen (Wood for Life Foundation). The Associations long-term vision is to increase the annual usage of wood per person from the current state to the level equivalent to that of the United States and Japan, that is, 0.5 cubic meter per citizen. Also, the total usage of wood in the building industry in the Czech Republic is small compared to other EU countries. In the Czech Republic this is less than 3%, compared to 10% in Austria and 70% in Sweden.
- FAO (2004) mentions a decrease in the demand for round wood and an increase in the demand for sawn wood in the Czech Republic. The country hardly consumes any tropical timber, as is mirrored in the low imports market share of developing countries. Most of the country's timber demand is covered by imports from Intra-EU sources, most notably its neighbouring countries, and a large share is covered by domestic production.

¹ For information on ITTO and the main producing and consuming countries, refer to the CBI Market survey covering the EU market for timber and timber products.

² EU15 refers to the 15 countries in the European Union before the expansion on 1 May 2004. EU25 refers to the composition of the EU as it was until January 2007 (without Bulgaria and Romania).

Production

The European Commission on Forest-Based Industries (F-BI) recognises the following sectors of forest-based industries: forestry, woodworking, pulp and paper manufacturing and related activities (paper and board converting, printing).

Forestry

- Among other European countries, the Czech Republic is the 12th most forested country, with forest covering 33% of the territory, totalling 2648 thousand hectares. The country has the fourth highest stocks of wood per hectare (246 m³/ha).
- The total annual increase in wood stocks in Czech forests is estimated at around 18 million m³. About 14-15 millions m³ are felled annually, meaning that the wood reserves increase each year by at least 3 million m³. In 2003, the reserves of wood were estimated at about 650 million m³ (as opposed to the situation in 1930, when this figure was 307 million m³). Since the total area covered by forests also increases, the reserves of wood grow dynamically and with increasing speed (Wood for Life Foundation).
- About 90% of the 14-15 million m³ timber being harvested is softwood.
- The most influential certification system in the Czech Republic is PEFC. In 2007, the total area of forests certified by this system reached almost 2 million hectares (over 2/3 of total forest land area). The PEFC system is based on the principle of regional certification. Other certification systems are poorly represented in the Czech Republic. Consequently, the area of FSC-certified forest in the Czech Republic is relatively small. In 2006, the Czech Republic had 25 thousand hectares of FSC-certified forests. Two forest enterprises – Kinský dal Borgo and Městské Lesy Volary – were awarded the FSC certificate in 2005. Hence the total area of FSC-certified forests doubled between 2004 and 2005, to reach the current volume.
- Under the communist era, forests were state-owned. After 1989, the processes of compensation, restitution and privatization created very large numbers of private forest owners, many with small holdings and limited background in forest management. The rapid changes in the nature of forest planning and ownership, combined with effects of pollution and poor management, have led to forested lands and their soils being degraded. Nowadays, sustainable forest management stands high on the agenda of the Czech Government.

Wood-working industries

- Forestry does not play an important role in the national economy, although there is discussion as to what activities (direct and in-direct) should be included in this measurement. Nevertheless, the share of forestry on the GDP in basic prices is estimated around 1%.
- At present, the wood-processing industry in the Czech Republic employs more than 207 thousand people, which accounts for 16% of all employees of the whole finishing industry. The number of those employed in the forest management is around 24 thousand (Wood for Life Foundation).
- More than 90% of the annual timber harvesting is processed by the Czech industry, either as logs in the wood-processing industry, or as pulpwood, mainly in the cellulose-paper industry. With regard to sufficient supplies of raw wood for the wood-working industry and the general good condition of the branch, with further prospects of growing demand for wood products, the forest-based industry can be evaluated, even in a long-term perspective, as promising.
- The Czech construction market has enjoyed relatively stable growth over much of the past years. Despite a slight decline during 1997-99, the industry retains a prominent place in the economy. In 2006, the construction industry grew 6.6% as opposed to the previous year and the volume of work reached € 18 billion. Massive growth in the residential sector, boosted the construction industry. The Czech Republic is undergoing the greatest boom in the construction of flats and housing since 1989, with Prague and the bigger cities leading the way. The most significant factors supporting this are increases in living standards

connected with steady economic growth

(<http://www.building.co.uk/story.asp?storycode=3089081>).

- The usage of wood in the building industry in the Czech Republic is small compared to other EU countries, as people prefer concrete in stead of timber built houses. Therefore, wood is promoted by the Czech government in civil engineering projects, evidenced by the announcement of an architectonic-constructional contest called "Frame House". These are low-cost family or residential housing projects, with substantial use of technology based on timber products.
- The cellulose-paper industry is among the most competitive and perspective branches of the Czech processing industry. It is based on recoverable raw materials predominantly of domestic origin (timber and waste paper). Since 1992, paper recycling increased three fold, and achieved almost 45,000 metric tons in 2004.
- The furniture industry is not a major branch of the Czech processing industry. It accounts for approximately 2.5% of the annual performance, revenues, and value added in the whole processing industry, and for a little over 3% of the total number of employees (<http://www.doingbusiness.cz/r/article.asp?id=262>).
- The Czech furniture industry changed significantly after the communist era. Large companies efficiently reduced their number of employees; the technical level of Czech companies was approximated and compared with the level of European furniture production. The highest shares of export on the production are achieved by the following producers: TON a.s. Bystrice pod Hostynem and Tusculum a.s. Rousínov.

Product groups

- As shown in Table 1.1 ,the Czech Republic is growing in importance as a producer of timber and timber products. All product groups experienced growth in output, which can not be said for the forest-based industries in most other EU countries. In particular, the growth in wood-based panels production was strong, with an average annual increase of 9% in the period reviewed.
- The Czech Republic accounts for 4% of total EU production of round wood, sawn wood and plywood.
- In addition to the information provided in Table 1.2, production of fuel wood increased in 2003 by 17.1% as opposed to the previous year, totalling 1,180 thousand m³. Hardwood accounted for 1,480 thousand m³ of total round wood production in 2003, which is less than 10% of total round wood production.

Table 1.1 Production of selected timber and timber products in the Czech Republic, 2001-2005, in 1,000 m³

	2001	2003	2005	Annual change	Share in EU27 production (2005)
Round wood	14,374	15,140	15,510	2%	4%
Sawn wood	3,889	3,805	4,003	1%	4%
Wood based panels	1,060	1,345	1,492	9%	2%
Fiberboard	75	88	90	5%	1%
Particle board	820	1,113	1,218	10%	3%
Plywood	150	127	165	2%	4%
Veneer sheets	15	17	19	6%	1%
Paper and paperboard	864	920	969	3%	1%

Source: Foresstat (2007)

Trends

- The Czech furniture industry has at its disposal an industrial capacity exceeding the consumption by the Czech Republic.
- The cellulose-paper industry has been constantly contributing to the reduction of negative environmental effects. All crucial manufacturers have set up environmental management systems.
- Despite the dynamic increase of paper and cardboard consumption, the Czech Republic still has not achieved the level of advanced EU countries. However, further growth is expected,

up to the volume of 200 kilograms of the annual consumption per inhabitant. This would correspond with the total consumption in the volume of approximately 2 million metric tons per year. (<http://www.czech.cz/en/economy-business-science/general-information/economy-development-and-potential/industry/consumer-industry/>).

- Sustainable forest management and certification is receiving increased attention.

Opportunities and threats

It will be a challenge for developing countries to enter the Czech market, because of several reasons:

- The Czech Republic has a very well developed, competitive and expanding wood-based industry. Also, the country is to a large extent self-sufficient regarding timber and various timber products.
- Tropical timber consumption is small.
- FSC does not play a major role in certification in the Czech Republic, as the country is dedicated to PEFC classification. Consequently, consumer awareness of FSC is low.

Please refer to chapter 7 of the CBI market survey covering the EU market for more information on opportunities and threats.

2 Trade channels for market entry

- The most important trade channels for exporters in developing countries to enter the Czech market are through sales agents, importers/traders and importers/processors.
- The distribution of timber from developing countries to Czech consumers is somewhat different from other EU countries, because the Czech Republic is a land-locked country. Since it does not possess a port, the country mainly relies on re-exports from Germany for its supply of tropical timber. Consequently, tropical timber imports from developing countries are "hidden" in the international trade statistics and developing countries account for a small share of imports (see section 3).
- The forest-based industry is divided between large scale state –run companies, originating from the communist past, and very small-scale companies with little knowledge of forest management, as a result of the land partitioning after the communist era. For instance state-run company Lesy České republiky, manages roughly 50% of the forests in the country, with output around 9.7 million m³.
- Companies importing FSC products and which could be interesting for developing country suppliers are, amongst others:
 - Drevotzar Druzstvo, an important FSC furniture producer. However, production is largely based on Czech timber, beech and birch: <http://www.drevotvar.cz>
 - Other companies are found at http://www.czechfsc.cz/cz/index.php?p=certifikaty_v_CR. However, keep in mind that production of these companies is mostly based on domestic forestry production.
- FSC-certified products in the Czech Republic are marketed mostly in DIY stores, but also in the paper sector. Please note that DIY chains usually source through wholesalers or buying agents. As the market is not very transparent, information about the suppliers they are dealing with can be obtained through contacting these chains. The most important retail/DIY channels for timber and timber products are:
 - Zbirovia a.s.: <http://www.zbirovia.cz>
 - Narex Cecka Lipa A.S.: <http://www.narex-makita.cz>
- It is very difficult to present an overview of the different margins which apply throughout the various trade channels, as margins depend on species, quantity, quality and stage of processing. Also, the transport costs vary, depending on the country of origin and destination, the proximity of the forest plantation and the saw mill to a port, the volume of the shipment, fuel prices etc. Prices found at DIY chains can be indicative for prices wholesalers are willing to pay. As a rule of thumb you should be able to offer products for not more than 40% of retail prices. Please refer to the CBI market survey covering the EU market for more specific information on margins.

There is a growing trend in the timber trade to use the Internet for sourcing timber and timber products (E-commerce). The use of Internet reduces the trade chain by several links, cuts transaction costs and improves efficiency.

- *On-line company database* for finding companies working in the timber and timber products market are:
 - Europages, an online business directory, with full EU coverage. Wood and furniture are a separate product group and it is possible to include the Czech Republic in the search options: <http://www.europages.com>
 - Catalogue of important Czech timber companies: <http://catalog.czechtrade.us/chemicals-plastics-and-raw-materials/timber/>
- Also refer to the CBI market survey covering the EU market for more information on on-line company databases.

3 Trade: imports and exports

Imports

- The Czech Republic was the fifteenth largest importer of timber and timber products in the EU, accounting for little more than 1% of total EU imports in 2005. Between 2001 and 2005, imports increased on average by 10% annually in terms of value, totalling € 421 million / 1.6 million tonnes in the latter year.
- Compared to other EU timber importers, the Czech Republic imports more high-value timber products. For instance, the Czech Republic imports a great amount of builder's joinery, accounting for 2% of EU imports. More than half of Czech Republic's demand for builder's joinery was supplied by Germany, Poland and Austria.
- Developing countries only accounted for 5% of Czech Republic's timber imports, which is far below the EU average of 19%.
- Imports from developing countries increased on average by 2% annually between 2001 and 2005. The main developing country supplier was the Ukraine accounting for 2% of imports.
- 88% of total timber imports comes from intra-EU sources. Neighbouring countries, such as Germany and Austria, were the main suppliers.

Exports

- The Czech Republic is a large net exporter. The country is the tenth largest exporter of timber and timber products in the EU. Exports increased on average by 8% annually between 2001 and 2005, totalling € 855 million / 4.4 million tonnes in 2005.
- The Czech Republic was the fourth largest exporter of round wood in the EU in 2005, totalling € 150 million / 2 million tonnes. The two main destinations for the Czech Republic's round wood were Austria and Germany.
- Between 2001 and 2005, the Czech Republic was a growing exporter of densified wood, with an annual increase of 37%. Substantial amounts were exported to Germany.

Opportunities and threats

- + The Czech Republic could become an interesting market for developing country producers, since imports and exports, as well as consumption and production, have steadily increased between 2001 and 2005.
- Developing countries account for a small import market share, because the country does not possess a port, so that tropical timber is re-exported from Italy and Germany, and because the Czech wood-working industries mainly uses their domestic trees.

Please refer to chapter 7 of the CBI market survey covering the EU market for more information on opportunities and threats.

Useful sources

- EU Expanding Exports Helpdesk - <http://export-help.cec.eu.int/>
- Eurostat – official statistical office of the EU - <http://epp.eurostat.cec.eu.int>

4 Price developments

Czech (tropical) timber market prices do not differ from general EU prices. Therefore, no country-specific websites exist for up-to-date prices and price information. Please refer to chapter 5 of the CBI market survey covering the EU market for information on price developments and useful sources.

5 Market access requirements

As a manufacturer in a developing country preparing to access the Czech Republic, you should be aware of the market access requirements of your trading partners and the Czech government.

For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select timber and Czech Republic in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: <http://www.intracen.org/ep/packaging/packit.htm>

Information on tariffs and quota can be found at <http://export-help.cec.eu.int/>

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from <http://www.cbi.eu/marketinfo> - go to search publications. For more information on doing business in The Czech Republic, visit the following websites:

Trade associations

- Czech Trade is a state agency supporting business, established by the Ministry of Industry and Trade: <http://www.czechtrade.cz>
- The Economic Chamber of the Czech Republic (HK CR): <http://www.komora.cz>
- International Chamber of Commerce of the Czech Republic: <http://www.icc-cr.cz/eng.html>
- Wood for Life Foundation: <http://www.drevoprozivot.cz/index.php?jazyk=2>
- FSC Czech Republic: also for company listings look at <http://www.czechfsc.cz/cz> (Website in Czech only).
- Association of Czech Furniture Manufacturers: <http://www.czechfurniture.com/startEng.htm>
- The Association of Owners of Municipal and Private Forests in the Czech Republic (SVOL): <http://www.svol.cz/index.php?lang=en&strana=00>

Trade fairs

- Wood Tech is an international fair for machinery, equipment and materials for the woodworking industry. The next one will be held in September 2007: <http://www.bvv.cz/wood-tec-gb>

Trade press

- Woodnet.cz gives general information on the wood industry in the Czech Republic: <http://www.woodnet.cz/index.php?lg=en>

- Dobré dřevo, magazine of FSC Czech Republic:
<http://www.czechfsc.cz/cz/index.php?cat=03&art=03>
- The official website of the Czech Republic: <http://www.czech.cz/en/>

This survey was compiled for CBI by ProFound - Advisers in Development
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