

GERMANY

General economic situation in Germany in 2008

The German economy was affected by the international financial crisis in the second half of 2008. The real gross domestic product was up only 1.3% after growth of 2.5% in 2007. The decline was driven by a drop in both external and internal demand.

In the first half of 2008 the German economy was still benefiting from its competitiveness on the world markets and exports of industrial products. But demand declined rapidly in the second half of the year. Nevertheless over the year exports still grew by 3.9%. Consumer spending remained at the same level on average.

The increasing recession has not so far had a dramatic effect on the labor market, as many industrial companies try to keep their staff on a short time work basis. But in January 2009 alone about 380,000 jobs were lost. However the unemployment rate that month was still lower than in the same month of the previous year.

The Federal Government expects a decline in economic growth of 2.2% in 2009. Nevertheless it has introduced a large-scale economic stimulus package and the economy – thanks to structural reforms in the recent years – seems to be better prepared than in the last economic cycle.

Performance of the pulp and paper industries in 2008

Germany's paper-grade pulp production declined by 3% to 2.9 million tons in 2008, with 1 Mio tons being exported. Most of the pulp used in German paper mills came from other countries. Some 5.1 million tons of paper-grade pulp were imported.

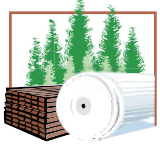
The German pulp and paper industry developed similarly to the economy as a whole in 2008. So even in quantitative terms, it was not a successful year. For the manufacturers of paper and board in Germany, 2008 brought a 2% decrease in production to 22.8 million tons, after it had increased by as much as 2.3% in 2007.

Germany's total capacities did not increase in 2008 on average, the decline in production leading to lower utilization of paper machines. Capacity utilization was down on average from 97 to 95%.

The backlash caused by the current crisis has led to several company insolvencies and the closing of isolated operations. This could present possibilities for consolidation and reduction of overcapacities. Nevertheless with the 2008 record result, the German pulp and paper industry remains no. 4 worldwide, after the US, China and Japan, and no. 1 in Europe.

Apparent paper consumption declined by 1.7 % to 20.5 million tons. Since imports dropped down by 1% to 11,7 million tons, the import rate rose to 56,9%.

The earnings situation in the German pulp and paper industry has become even more unsatisfactory. Although the erosion of paper prices has come to a halt and, in the case of some paper grades, prices are up again, 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 5% and a pre-tax profit of 0% in 2008. In 2001, cash flow was 18%, and profit stood at 11%. For the capital-intensive pulp and paper industry, the 2008 earnings figures were again far from adequate.

Special issues

EMISSION TRADE

The recent decision of the EU Commission to gradually impose full-scale emission trading by 2013 still does not make it clear whether the paper industry will be able to fulfill carbon leakage criteria. Installations in sectors or subsectors exposed to a significant risk of carbon leakage will be allocated 100% of allowances free of charge at the level of the benchmark of the best technology available. The final decision will be made in 2010 and will be based on the criteria of intensity of trade and the expected increase in production costs with full-scale emission trading.

If introduced without carbon leakage exemptions, full-scale emission trading would cost the German pulp and paper industry more than five times 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. The unlevel playing field that this would again produce in Europe will ultimately harm European competitiveness. 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% compared to 2005, not by 100%.

BIOENERGY

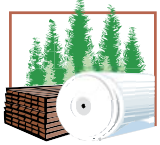
The recent adoption by European governments of the climate package, including the proposal for the EU Renewable Energy Directive, sets the target of increasing the share of renewable energies in total energy consumption up to 20% in 2020. To this end, each member state has to prepare a national renewable action plan by 2010 showing all measurements for reaching the national targets.

In 2007 the share of renewable energies in total energy consumption in Germany was 8.6% (biomass: 5.6%). It is not certain whether increasing the amount of solid biomass in energy consumption will be possible in view of the alternative of using wood as a raw material.

Reliable surveys predict that the demand for wood in Germany will increase by up to 142 million solid cubic meters in 2010 (an increase of 15% compared with 2007). In Europe the wood supply and demand situation will be similar in the future.

The German and European pulp and paper industry is concerned about a possible shortfall in European wood supply of at least 260 million solid cubic meters per year in 2020, which would endanger forest-based industries. The pulp and paper industry therefore proposes to increase the mobilization of wood resources and the planting of wood for energy. Furthermore the use of wood as a raw material first and then for energy production is essential if competition between the two sectors is to be reduced.

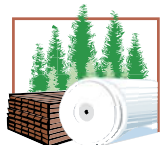
With regard to the EU biomass action plan, which was presented in December 2005, the German government is currently developing national action plans for the use of biomass for sustainable energy supply and as a raw material. Both drafts are currently being considered by national stakeholders.



CODE OF CONDUCT

After the European Pulp and Paper Industry Federation adopted its code of conduct against illegal logging, national paper industry associations started to monitor the origin of pulp and wood imports to their member companies. A recent VDP survey (wood and pulp supply of German pulp and paper mills in 2007) revealed that proofs of origin were available to document that 100% of wood and 84% of pulp came from legal sources.

February 2009



GERMANY FIBRES FOR THE PRODUCTION OF PAPER AND BOARD (1.000 tons)

	2007	2008 (e)	2008 : 2007 in %
CHEMICAL Pulp for			
Paper Production	1.545	1.520	-1,6
- Exports	842	905	7,5
+ Imports	4.708	4.819	2,4
= App. Consumption	5.411	5.434	0,4
MECHANICAL Pulp for			
Paper Production	1.456	1.383	-5,0
- Exports	135	96	-28,9
+ Imports	263	285	8,4
= App. Consumption	1.584	1.572	-0,8
Recovered Paper			
Collection	15.907	14.884	-6,4
- Exports	3.546	4.255	20,0
+ Imports	3.631	3.717	2,4
= App. Consumption	15.822	15.422	-2,5
FIBRES in total			
App. Consumption	22.817	22.428	-1,7

(e) = estimated

GERMANY PAPER AND BOARD(1.000 tons)

	2007	2008 (e)	2008 : 2007 in %
Production	23.319	22.848	-2,0
Exports	14.241	14.014	-1,6
Imports	11.795	11.685	-0,9
App. Consumption	20.873	20.519	-1,7
Export Quota	61,1	61,3	
Import Quota	56,5	56,9	

(e) = estimated