PORTUGAL

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1 – General Economic Situation

Throughout 2008 the effects of the turbulence in the world economy – namely the overall sharp increase in commodities prices - spread on to Portugal and by year-end it was officially recognised that Portugal had also joined the recession process that was hitting some of the major economies across the world.

The Portuguese GDP stagnated (0%) in 2008, and for 2009 the EU latest projections point to a drop of 1.6%, with exports retreating by 3.8% and imports contracting by 2.8%.

Inflation stood between 2.6% and 2.7% in 2008 and is expected to come down to 1.0% in 2009.

Unemployment is thought to have reached close to 7.8% of the working population, and is set to further deteriorate in 2009 – to 8.8%, according to the latest EU forecast.

2 - Emerging issues

The country has been governed since 2005 by an absolute majority of the Socialist Party, which showed a reformist drive towards certain sectors of the economy and society during the first half of its mandate.

This impetus dwindled as from the end of 2007 and the first signs of the international crisis, in 2008, impacted a country that already showed indications of serious weaknesses on the domestic front.

Three electoral acts will take place in Portugal in the second half of 2009: elections for the European Parliament, local elections, and parliamentary elections (which will shape a new Government).

In the areas directly related to the Forestry Industry, the Government has transposed into national law a series of directives and regulations, namely on water (creating a tax on water resources), the energy market (making a strong bet on renewable energies in general, with a certain emphasis on biomass) and social responsibility.

The Government has remained quite inactive on the issue of certification of sustained forest management – seen as a market instrument of exclusive interest to the economic agents – having proceeded to a third organisational reshuffling of the Forest Services Department in four years, significantly reducing its dedicated human and material resources.

Hence the possible tertiarization of many of the activities currently under the State's responsibility, such as the management of public uncultivated woods ("baldios") held by the State or the local communities, being today a matter of public debate in the Portuguese society.

The economic agents have attentively followed the project (and the consequent amendments by the European Parliament) of a draft European Union Regulation on illegal logging, while the national official authorities failed to engage on any type of dialogue with them on this matter.

The position taken by the private sector is that illegal logging must be fought with effective instruments and policies, ensuring at all times that the new EU rules enforce a number of basic principles, namely viewing:

- a non bureaucratic process aimed at reducing the risk of illegal timber entering the economic circuits;
- the existence of a National Authority with the capacity to supervise this process in each Member State;

- acceptance of the principle that in the EU Member States it is always and primarily the responsibility of the respective national authorities to make sure that raw materials and forest products are legal;
- a process that does not erode the competitiveness of the European industries of forest products.

3 - Business developments

Except for forest resources, Portugal lacks other autonomous or abundant natural economic resources and has therefore developed an open economy based on services and tourism, very dependent on the European economy. Consequently, its situation was not particularly healthy even before the current economic crisis, as there was in recent years a decline of industrial sectors whose competitiveness relied on low wages and poorly qualified labour (such as the textile industry) as well as the closure of industries with an uncompetitive dimension or suffering from prior economic difficulties.

The global crisis at the end of 2008 further aggravated this situation, and even in strong and traditional sectors such as cork there have been closures of plants and significant layoffs.

The pulp and paper industry has stood as an exception to this panorama in so far as the two largest groups operating in Portugal – both national – are pursuing important investment and industrial expansion plans.

While the ALTRI group (the second largest) is increasing the capacity of its bleached eucalyptus kraft pulp (BEKP) mills from little over 350 thousand tonnes to more than 700 thousand tonnes, the Portucel Soporcel group (the largest in the country and in Iberia) will soon (August 2009) conclude the installation in its Setúbal complex of the world's largest Paper Machine with a capacity of 500 thousand tons of uncoated fine papers.

All in all, these represent a total investment of around EUR 1.4 billion, whose only theoretical weakness lies in the low productivity and lack of dynamics of the Portuguese eucalyptus forest.

On the positive side, we would mention the low occurrence of forest fires in 2004 and from 2006 onwards: in fact, a fortunate combination of factors, namely, improvements in the national fire fighting and prevention system and excellent weather conditions, have spared the Portuguese forest from the devastating fires that ravaged it in 2003.

As regards the Pine Nematode, which was detected in April 2008 in the centre and north of Portugal (spreading from the southwest, where it emerged in 1998), there is evidence that it is already present in Spain, along the border with Portugal.

Since April 2008 EU regulations require all pine products to be treated in Portugal, even domestic shipments.

At European level it has been discussed whether all European pinewood should also be treated.

4 – Socio-economic contributions of the forest industry

Despite some ongoing initiatives and surveys aimed at assessing the social and economic contribution of the forest industry to the national economy, the truth is that the last global estimates already date from some years back, pointing to 113 thousand direct jobs (2% of the working population), 10% of total exports and 3% of the gross added value (the forest industry's labour data were included in the 2008 meeting report).

With regard to the forest cluster, more recent surveys estimate a total employment figure of 228 000 people, i.e., 5.13% of the country's total employed population, broken down as follows

- Forestry, logging, hunting and related services – 34 300 people
- Forest industries - 69 300 people
- Other forest related industries - 80 900 people
- Other forest related services - 43 300 people

The economic relevance of the pulp and paper sector in the context of the Portuguese industry, is very high, as shown in the following chart from a recent survey.

NAV (National Added Value) (1)	
Non metallic minerals	0.549
Wood and cork	0.548
Metallurgic	0.532
Pulp and paper	0.482
Textiles	0.465
Metal products	0.437
Clothing	0.429
Rubber and plastic	0.409
Food and beverages	0.404
Electric machinery and appliances	0.403
Chemical products	0.386
Leather and footwear	0.384
Machinery and equipment	0.329
Radio, TV and Communications equipment	0.285
Cars	0.266

(1) Increase in the value added to the country resulting from an increase of 1 unit in the production value

This survey also determined the following indicators regarding the environment friendly nature of main sectors of economic activity:

CO $_2$ **emissions per GAV unit** (Grooss Added Value)	
Cement	43.943
Glass and Ceramics	22.717
Base metallurgics	15.146
Pulp and paper	14.364 (1)
Chemicals, Rubber and Plastics	9.644

(1) (note that the bulk of the energy consumed is produced by the sector from biomass, i.e., a non fossil carbon source)

This survey also concluded that the Pulp and Paper sector is not only of huge importance to the Portuguese foreign trade (accounting for nearly 4% of the national exports), but also one of the few industrial sectors with a positive contribution to the balance of trade, and one that, as described, shows a high national added value coefficient per unit produced.

March 2009