

Appendix 6

UN/ECE Timber Committee Market Statement on Forest Products Markets in 2002 and 2003

UN/ECE TIMBER COMMITTEE MARKET STATEMENT ON FOREST PRODUCTS MARKETS IN 2002 AND 2003

The entire official text of the Market Statement was adopted by the UN/ECE Committee
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PROMOTION OF SOUND USE OF WOOD IS KEY TO SUSTAINABLE FOREST PRODUCTS MARKETS

Overview

A downturn in forest products markets occurred in 2001, following record levels in 2000, in the UNECE region of Europe, North America and the Commonwealth of Independent States (CIS). Weak economic conditions in North America and Europe persist in 2002, and only a few forest product sectors show signs of an upturn. In contrast, central and eastern European countries and the CIS generally forecast rising consumption, production and trade. A slight improvement for the entire region is forecast for 2003, although recent economic indicators add uncertainty to the forecasts.

The Timber Committee examined the positive market effects of wood promotion. The Committee encouraged countries to work together to achieve the maximum benefits of their promotional efforts. Multi-country promotion of the sound use of wood is important to maintain and increase wood's market share. Many effective communication strategies can be shared through collaboration between countries, trade associations and promotional groups. These international approaches to wood promotion are important to ensure sustainable markets which are a vital component of sustainable forest management.

There are now significant European markets and trade flows for wood biofuel which in part are driven by policy. This is stimulating competition for wood raw material. In this area, energy and environment policies interact with forest industry policy. The Committee proposes a cross-sectoral approach to this issue.

The Committee discussed markets for certified forest products, value-added forest products, sawn softwood, sawn hardwood, panels, pulp, paper and paperboard and wood raw materials, including wood fuel. Developments in 2002 and forecasts for 2003 in these sectors are detailed below.

Economic Background

In the third quarter of 2002, the already moderate economic performance in North America and western Europe weakened further. Recent weeks have seen increased uncertainty and downward revisions of most economic forecasts. The steep decline in stock prices since 2000 and the recent rise in oil prices have been only partly counterbalanced by relative strength in North American housing markets. However in the euro area, housing investment fell by 3% in 2001 and continued to fall in the first quarter of 2002. United States GDP is now expected to grow by 2.4% in 2002 and 3% in 2003; western Europe GDP is expected to grow by only 1.2% in 2002 and 2.5% in 2003.

Higher growth rates are expected for the transition economies. In central and eastern European countries (CEECs), GDP growth of 2.6% is expected for 2002, but nearly 5% for the Baltic countries and the CIS. In 2003 growth for the transition countries as a whole could be over 4%.

Certified Forest Products

Forest area certified for sustainable forest management is growing rapidly in the UNECE region, reaching 124 million hectares in mid-2002, a 25% increase since 2001. The vast majority, 90%, of the world's certified forests are in Europe and North America. Markets for certified forest products (CFPs) have grown too, but remain at low levels. Many producing countries target the environmentally-conscious markets.

Chain-of-custody is a bottleneck in today's certification markets, resulting in products produced from certified forests being sold without a label documenting their source. This shortcoming in the distribution channel deprives producers and consumers of some of the potential benefits of trading recognizable CFPs.

The Committee noted other problems including lack of mutual recognition between schemes, lack of price premiums for CFPs and lack of demand (in part due to lack of consumer awareness). On the other hand, some markets claim lack of supply constrains the offer.

Supply drivers include access to markets, primarily for exports when the domestic market is small or nonexistent. Demand drivers include corporate image enhancement, competitive advantage, market channel options, risk aversion and social responsibility. Forest owners are increasingly considering their environmental image. Some governments, both local and national, have facilitated certification of forests and are spurring demand through public procurement policies.

Without statistics or forecasts, predicting the CFP market future is speculative. Moderate growth was expected for retailers in the next year, with higher growth in some products, e.g. flooring.

Sawn Softwood

In 2002 sawn softwood markets in western Europe and North America are generally weak, while in central and eastern Europe and the CIS, consumption and exports are expanding.

Russian sawn softwood consumption is growing steadily as the forest sector continues to recover from the transition recession of the past decade, and should reach 11.45 million m³ in 2003, with production at over 22 million m³. Russia forecasts strong growth in exports, increasing by 7.1% in 2002 and by 12.5% in 2003 to reach 8.5 million m³. In Northwest Russia, a leading producing and exporting region, these positive developments are linked to current economic and social stability, availability of forest resources and favourable currency exchange rates. Nevertheless, obsolete equipment, lack of investment, and an inadequate legal system will continue to slow growth.

Many CEECs and Russia forecast similar optimism for sawn softwood consumption increases, in line with their economic forecasts and higher value-added production. For example, in the Baltic countries production increases were forecast by Estonia of 3% in 2002 and 2003, and by Lithuania of 11% in 2002 and 5% in 2003. CEECs generally forecast increased trade, with greater volumes flowing outside Europe.

The high levels of supply of construction-grade sawnwood to the US market, coupled with a softening in housing demand, has resulted in falling prices. Canada's exports of sawn softwood are forecast to fall in 2002, by over 7% or 2.5 million m³, mainly due to the continued trade dispute with the United States. In May 2002, the United States imposed an 18.8% countervailing duty plus an 8.4% anti-dumping duty on imports of sawn softwood from Canada. These are being strongly contested by Canada through existing trade dispute resolution mechanisms, including the World Trade Organization and the North American Free Trade Agreement. North American sawn softwood consumption is forecast to decline by 2% in 2003 as the housing market softens in the United States to 1.57 million houses.

Although total US imports of sawn softwood are expected to fall, imports of value-added sawnwood are rising, both from Canada and increasingly from plantation-sourced, southern hemisphere countries, such as Chile and New Zealand. The strong US dollar stimulated its imports throughout 2001, but the dollar's weakening in 2002 is part of the reason for a decrease of 3.1% expected in sawn softwood imports for 2002 and a further decrease of imports in 2003 of almost 6%. As North America imports more softwood value-added products from outside the region, and exports less sawnwood overseas, the subregion could become a net importer of sawn softwood. Nevertheless, the Canada-US flow remains much larger than all others put together and the balance between the Canadian and US dollars has remained relatively stable.

In western Europe, consumption is expected to fall in 2002, essentially because of a decline of 1 million m³ in Germany, under the influence of the construction crisis evident in some European countries over the past year. A moderate recovery, in Germany and elsewhere is forecast for 2003. Production is forecast to show a moderate increase in 2002 and a stronger one in 2003. A 3% increase in production is forecast by 3 of the 4 countries producing over 10 million m³ per year, i.e. Austria, Finland and Germany. The fourth country, Sweden, forecast a 3% increase in 2002, but only a 1% rise in 2003 production. Between them these four countries accounted in 2001 for 58% of European sawn softwood production, and 70% of exports. The export of sawnwood from Europe to non-European markets is expected to grow.

Sawn Hardwood

Sawn hardwood markets peaked in 2000 in the UNECE region as a whole. As in other sectors, the hardwood markets in central and eastern Europe generally offer more optimistic forecasts for 2002 and 2003, albeit on smaller volumes. Early 2002 wind and snow storms felled 3.6 million m³ in Turkey. The resulting increased sawn hardwood production is expected to make Turkey the leading sawn hardwood producer in Europe in 2002 and 2003 at 2.6 million m³. Several countries of central and eastern Europe and the Baltic region are not only exporting sawnwood, but also other value-added hardwood products including furniture.

Overall in Europe the consumption of sawn hardwood is forecast to decline in 2002 by 2.6%. Only exports showed positive movement, forecast to rise 2.8% in 2002. Predictions for 2003 were near 2002 levels for consumption, production and trade.

North American consumption of sawn hardwoods fell sharply in 2001 and is forecast to remain near the same level in 2002, although trade is predicted to accelerate. United States exports in 2002 are forecast to leap 21.9%, to a record 3.2 million m³. Part of the export rise is attributable to the weakened dollar in 2002. The record could be short-lived as a decline of 3.3% is forecast for 2003. At the same time, the United States is forecasting a jump in imports, by 33.4%, to reach an all time high of 1.9 million m³.

Trade of value-added hardwood products is advancing, which is not reflected in the sawnwood statistics. Semi- and fully-machined hardwood components, millwork, joinery and furniture are imported by UNECE region countries, both from tropical and temperate sources, and increasingly from developing countries. China's dynamic markets are directly affecting UNECE exporters and importers. The US is the largest importer of value-added wood products of almost all categories of products. The largest hardwood export market for the US is now China, and some of those exports are re-imported later in the form of furniture. A structural change is occurring as US furniture production is shifted to more cost competitive developing countries.

Tropical sawn hardwood exporters appear at first glance to have lost market share in Europe in 2002, as imports and consumption are forecast to decline in 2002 and 2003. In contrast, the United States forecasts greater consumption of tropical

sawnwood in 2002, but on a level that is only 10% of Europe's. However, as with temperate hardwoods, value-added products, such as furniture, joinery and profiled wood are making significant inroads.

Russian production of sawn hardwood is forecast to rise in 2002 by 8.0%, and in 2003 by 11%, to reach 3 million m³. Consumption is predicted to rise simultaneously as well as exports. The latter could reach 750,000 m³ in 2003.

Wood-based Panels

Following the record levels reached in 2000 and a downturn in 2001, consumption of wood-based panels in Europe is expected to drop marginally in 2002 to 53 million m³. Market uncertainty, sluggish demand, low prices and poor profitability have led the industry to restructure, closing less efficient plants, increasing concentration and turning to multi-product manufacturing centres. In spite of the difficult market situation, MDF continues to gain market share, maintaining high operating rates and gaining new uses. The rapid expansion of OSB capacity may lead to an oversupply situation as the recently installed mills reach operational capacity. MDF and OSB are substituting solid wood in several applications. China has become a significant exporter of tropical plywood to Europe, based on imported logs.

In Europe there are prospects for the development of engineered wood products (EWPs), notably wooden I-beams and laminated veneered lumber. EWPs make efficient use of wood in manufacturing, they have predictable performance and reduce on-site construction time and construction waste. The number of EWP plants has doubled over the last decade in North America and their output is now equivalent to 5% of the sawnwood supply.

The discussion showed that there is a need to promote the environmental benefits of wood-based panels relative to competing non-wood materials. The European wood-based panels sector is seeking to understand customer needs better and further improve product quality. The European Panel Federation has launched a campaign under the theme "For environmental reasons, use more wood" promoting the advantages of panels and other wood products.

North American consumption of wood-based panels is also forecast to fall slightly in 2002 and 2003 to 56 million m³, but remain close to record

levels, notwithstanding the current low prices. The strength of the housing sector has sustained demand for OSB, which is expected to continue to substitute softwood plywood in structural applications. Particleboard and MDF production and consumption are expected to decline somewhat as a result of sluggish demand from the furniture and cabinet sector as well as from industrial applications.

In the CIS and central and eastern European countries, production capacity of the wood-based panels industries is expanding partly linked to the development of the furniture industry and foreign investment. Domestic consumption and exports of products from CEEC to western Europe are increasing. The Timber Committee forecasts a 5% increase in panel consumption in the Russian Federation in both 2002 and 2003 to 5 million m³. Exports are expected to increase at higher rates during the same period.

Paper, paperboard and woodpulp

World pulp and paper markets are starting to recover from the downturn that began in the second half of 2000, which saw a collapse in the world pulp price, attributed to weak demand and excess capacity. In the first half of 2002 the markets were driven by rising demand for both pulp and paper products. Profits have recovered slightly after a steep fall in 2001.

North American consumption of paper and paperboard fell sharply, and is expected to continue to fall in 2002 and 2003, declining to the levels of the mid 1990s. This decline in consumption is raising concern about a change in the long-term correlation between economic growth and paper consumption. Paper consumption is determined, among other factors, by the changes in industrial production, a sector of the economy which accounts for a reducing share of GDP. The steep decline in advertising expenditure has had a negative effect on paper consumption. North American production is also expected to fall in 2002 and 2003. In Europe, however, production and consumption of paper and paperboard are expected to recover in 2002 and 2003 from the relatively minor fall experienced in 2001. Per caput consumption in North America is still about 50% higher than in western Europe.

Russian consumption of paper and paperboard continues to recover rapidly from the low point it reached in the mid 1990s. Between 1998 and 2003, it nearly doubled. Production and exports of

paper and paperboard are also rising fast. Russian pulp exports are also expected to rise further.

Wood raw materials

Roundwood removals as well as consumption in the UNECE region increased strongly between 1996 and 2000 but dropped in 2001 by 3.8% and 4.2% respectively. The forecast for 2002 and 2003 shows stabilisation at the current level.

North America is the largest roundwood producing subregion of the UNECE region at 560 million m³. Its roundwood production fell significantly between 1999 and 2001, whereas its net trade remained negligible. Apparent consumption in 2001 declined by 15% and removals by 10%. Among driving factors were the downturn of the economy and a reduction of harvest levels in United States national forests as a result of environmental pressures. A return to slow growth in roundwood production is expected for this subregion.

Developments in the EU/EFTA subregion are influenced by the storms of December 1999, which affected mainly France, Germany, Switzerland and Denmark, and subsequent removals due to insect damage. After a strong increase of supply in 2000, prices weakened. As a consequence, state forest services reduced their supply in order to support consolidation of the markets. This caused a decrease in removals in 2001 of roughly 10%. In most countries the processing industry has now used up the stocks, which were built up following the storms. For 2002, a decrease is expected due to low economic growth as well as lingering effects of the storm. In 2003 removals are forecast to increase in line with their normal, rising trend.

Removals as well as consumption from CEECs have grown steadily over recent years. Removals were 100 million m³ in 2001. They dropped slightly for the first time in 2001, while for consumption a further increase was reported. For 2002 and 2003 a further, but more modest growth is expected, which could be a sign for a long-term stabilisation of growth at a rate comparable to those of western countries.

Removals in the CIS passed through a phase of deep depression after the collapse of planned economies. However, the subregion has shown remarkable growth of removals and more modest increase of consumption since the devaluation of the rouble in 1998. Exports of roundwood have grown sharply during the 1990s. In recent years

exports from CIS have continued to grow, delivered to western Europe and CEECs, and also to Japan and China. Further growth is forecast for removals and consumption of roundwood in 2002 and 2003 along with a decrease of net exports.

There have been significant changes in trade flows of roundwood¹. The trade flow from CIS to EU/EFTA subregion, which represents 12% of global roundwood trade, increased by nearly 80% between 1996 and 1999 although it slowed down in 2000. Also exports from CIS (mainly Russia) to non-UNECE region countries (Japan and China) doubled between 1998 and 2000.

Although the share of wood in energy supply is still negligible in most UNECE region countries,

trade in biofuel, including wood pellets, briquettes, sawdust and chips, has increased rapidly over the past ten years. The use of wood for energy generation is in large part spurred by energy policy choices and technological developments. Realizing the objectives of the Kyoto Protocol, policy options encouraging bioenergy production include: opting out of nuclear energy, reducing carbon emission from fossil fuels, an environmentally friendly use of roundwood potentials, possible shifts towards changes in land use, conservation of natural resources, and others. Present of potential competition for the same raw materials suitable also for wood products is causing concern among some stakeholders about policies promoting the use of wood for energy.

¹ Direction of trade data is only available to 2000.