International Softwood Markets 2005 - 2007

Overview of market trends through 2005
Forecasts for 2006 and 2007

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International Softwood Conference
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Topics

I. Softwood forest resources

II. Framework for market developments

III. Sawn softwood market developments

IV. Softwood sawlog markets

V. Recap of UNECE Timber Committee findings and issues from 3-4 October 2006

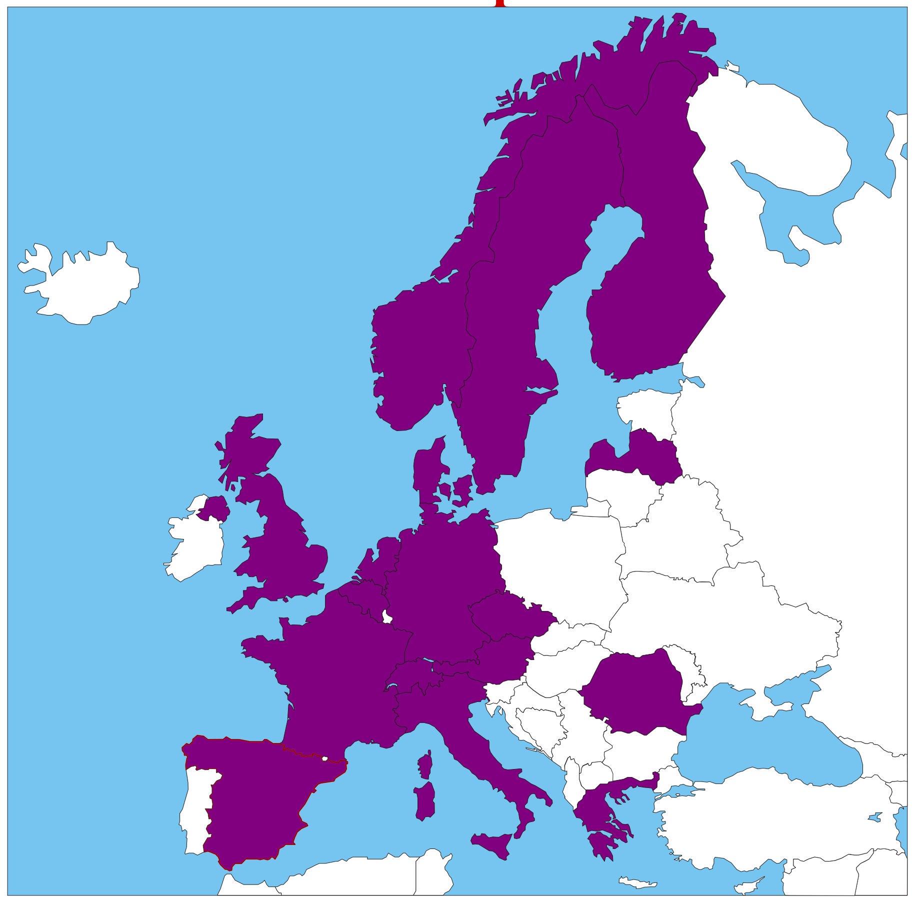
VI. Recap of UNECE/FAO *Forest Products Annual Market Review, 2005-2006* findings

VII. Conclusion

Info sources

- EOS, UCBR and Timber Committee forecasts
- UNECE/FAO TIMBER Database
- UNECE/FAO *Forest Products Annual Market Review, 2005-2006*
- UNECE Timber Committee Market Discussions
  - Expert presentations
  - Official market statement

UNECE vs. ISC
"Europe"



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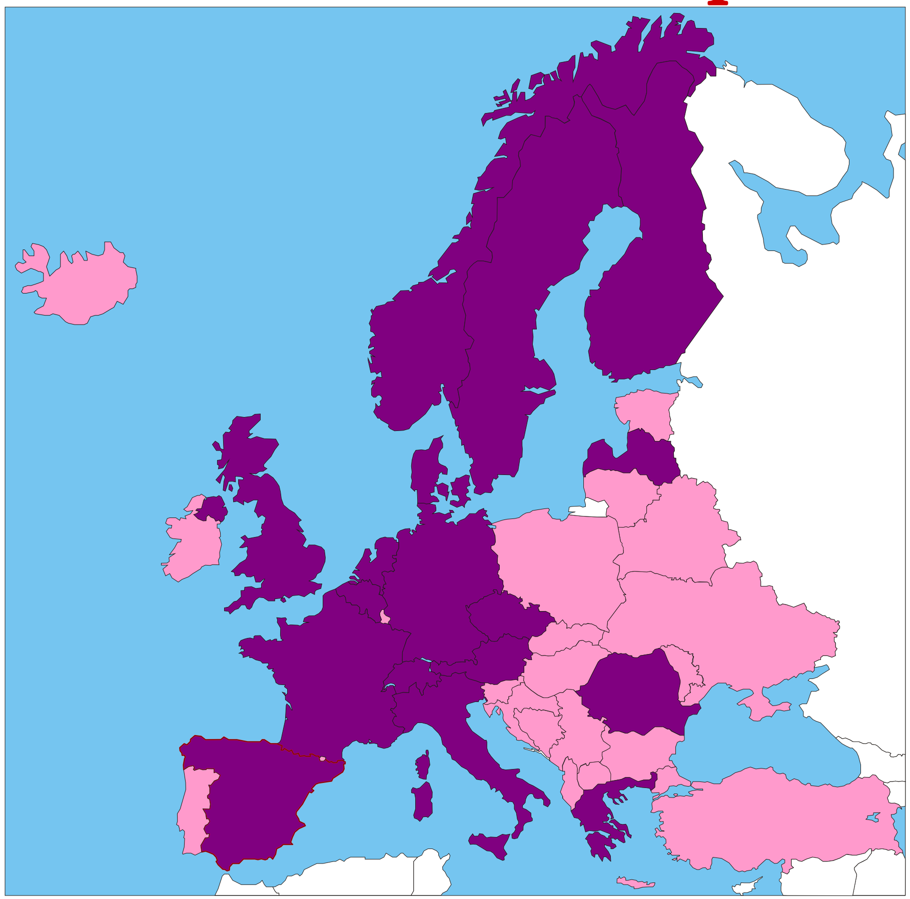
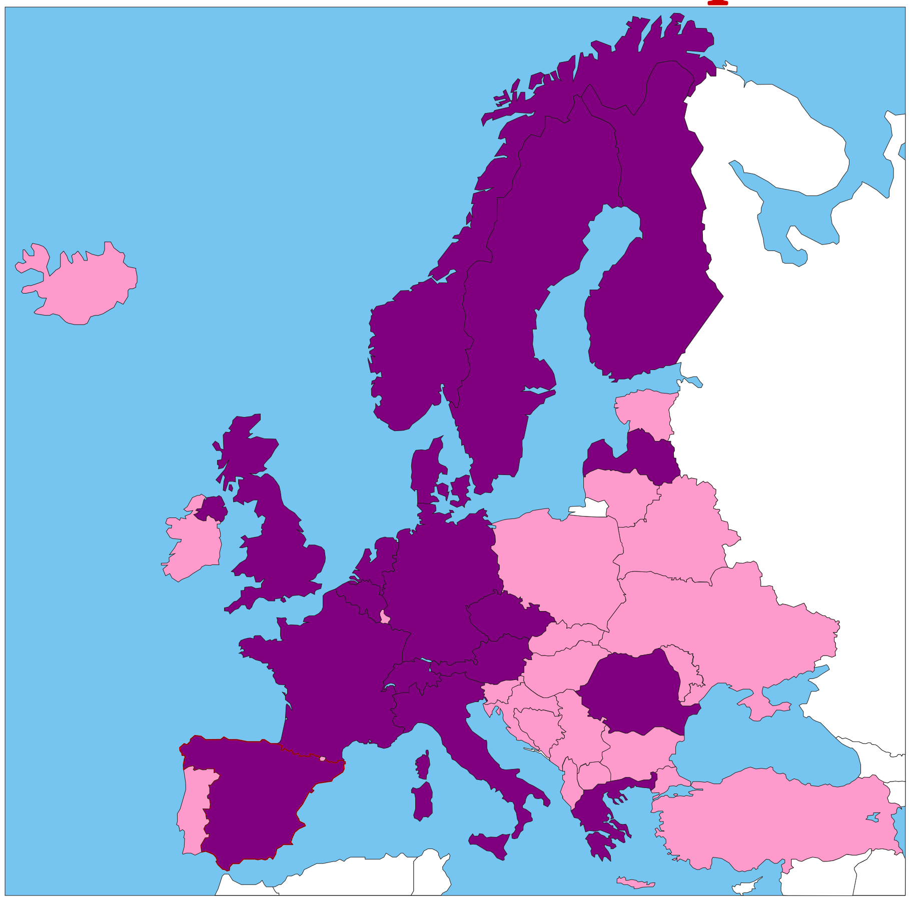
UNECE vs. ISC "Europe"



Additional "non-ISC" UNECE region production in million m^3:

Turkey 4.0
Poland 3.5
Slovakia 1.5
Estonia 2.2
Lithuania 1.0
Ireland 0.9
Bulgaria 0.8
Others 1.8
Total: **+15.7**

UNECE vs. ISC "Europe"



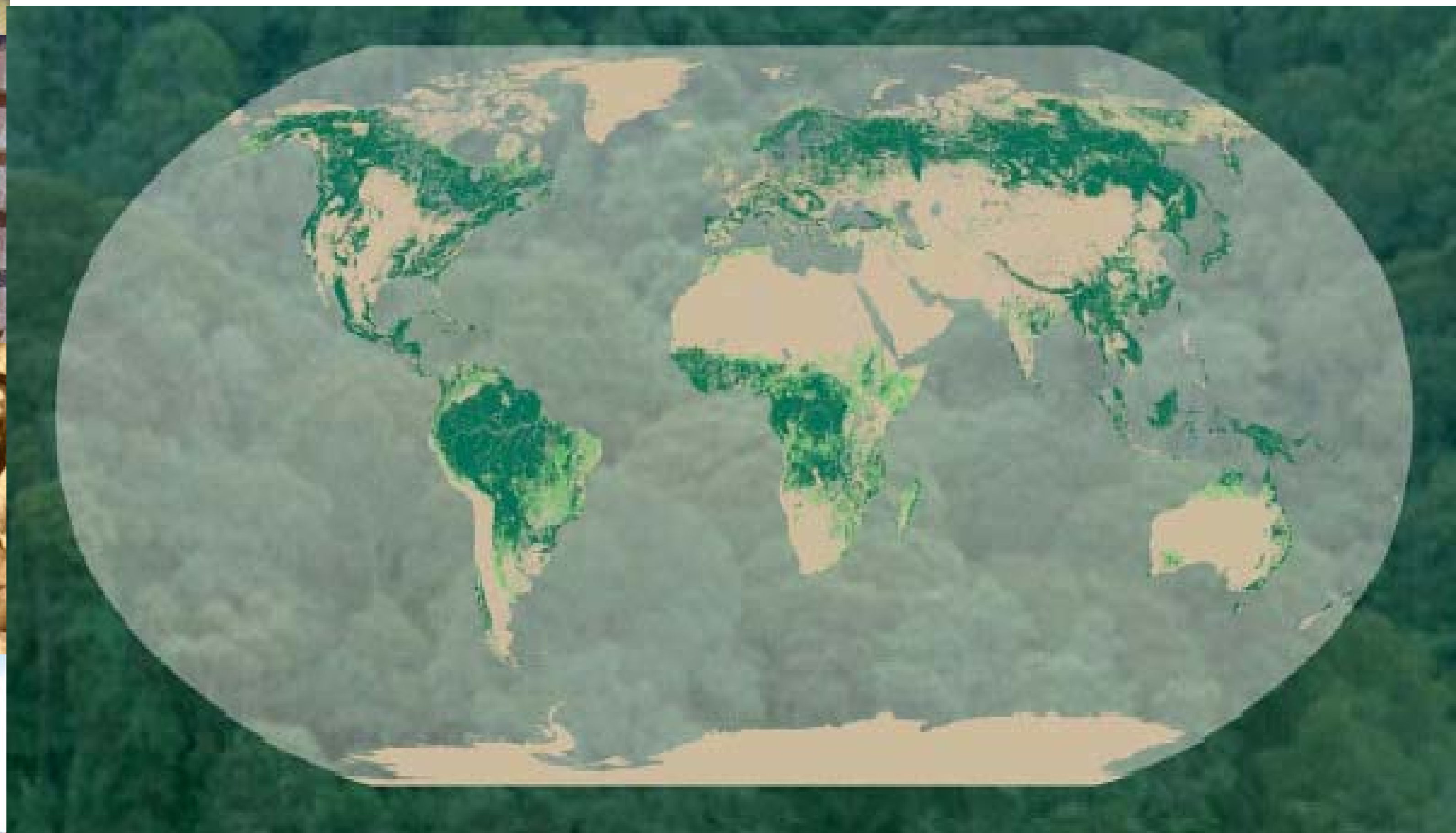
"Non-ISC" forecast additional million m^3 in 2007:

Consumption 16.0

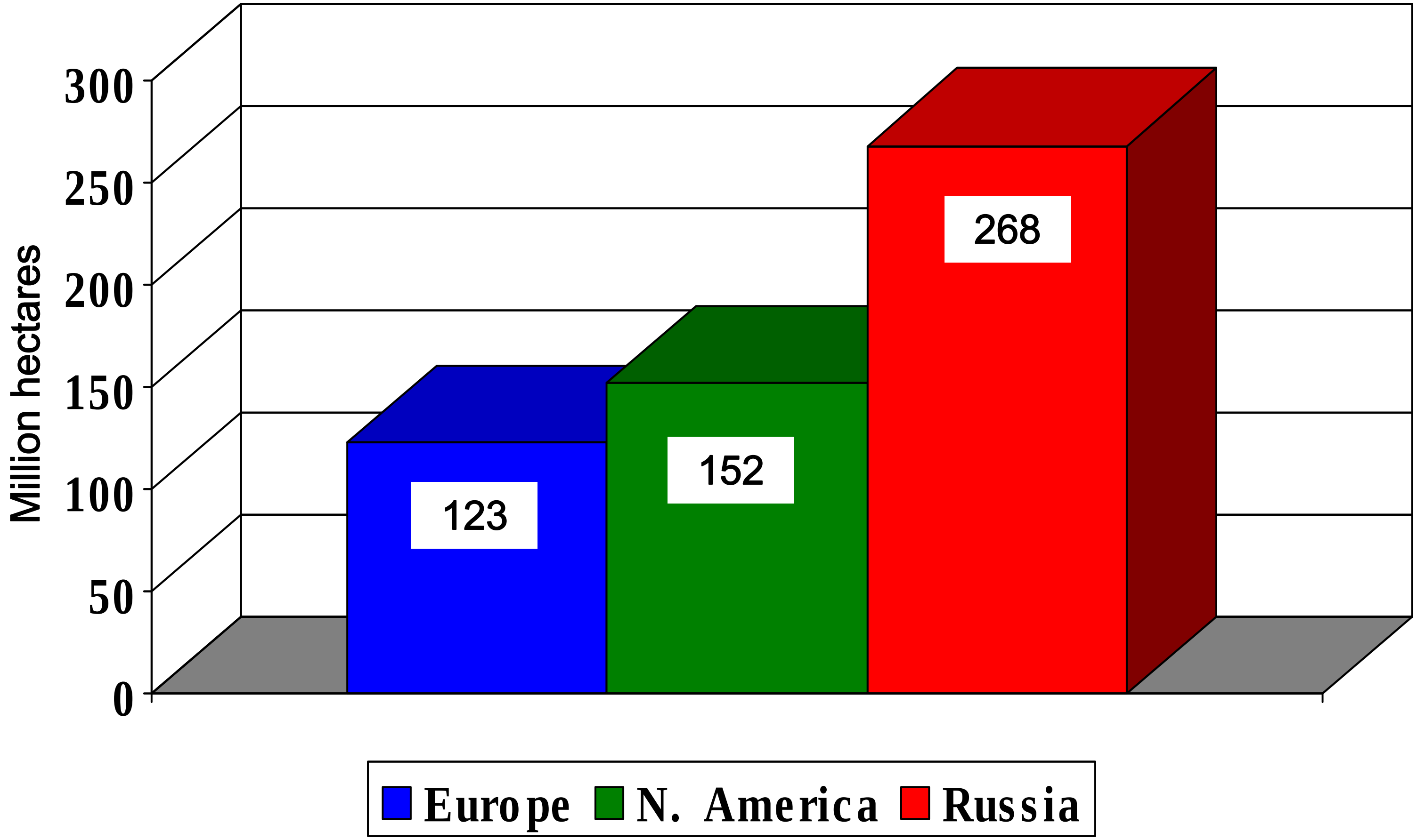
Imports 4.6

Exports 4.2

I. Forest resources

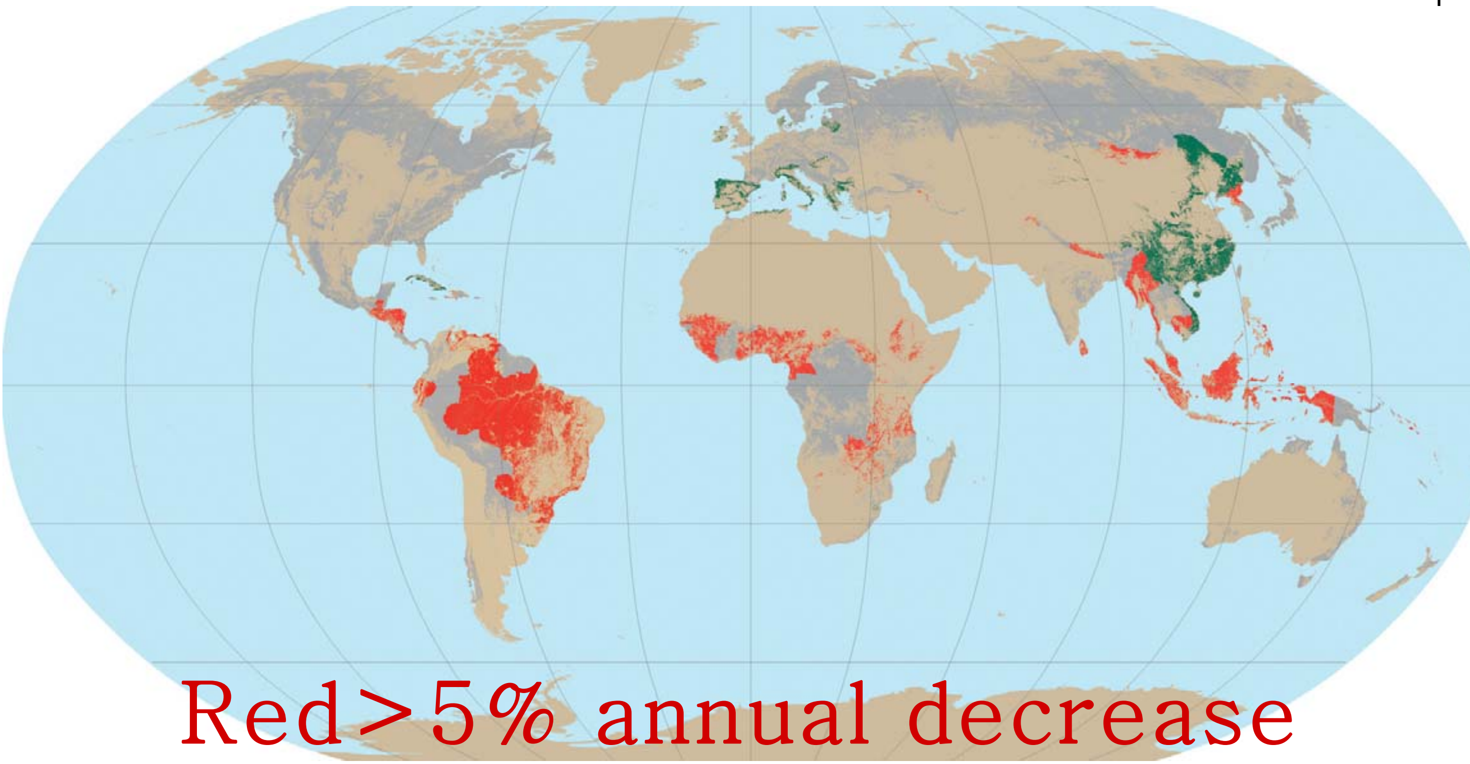


Softwood commercial



Source: UNECE/FAO Forest Resources Assessment

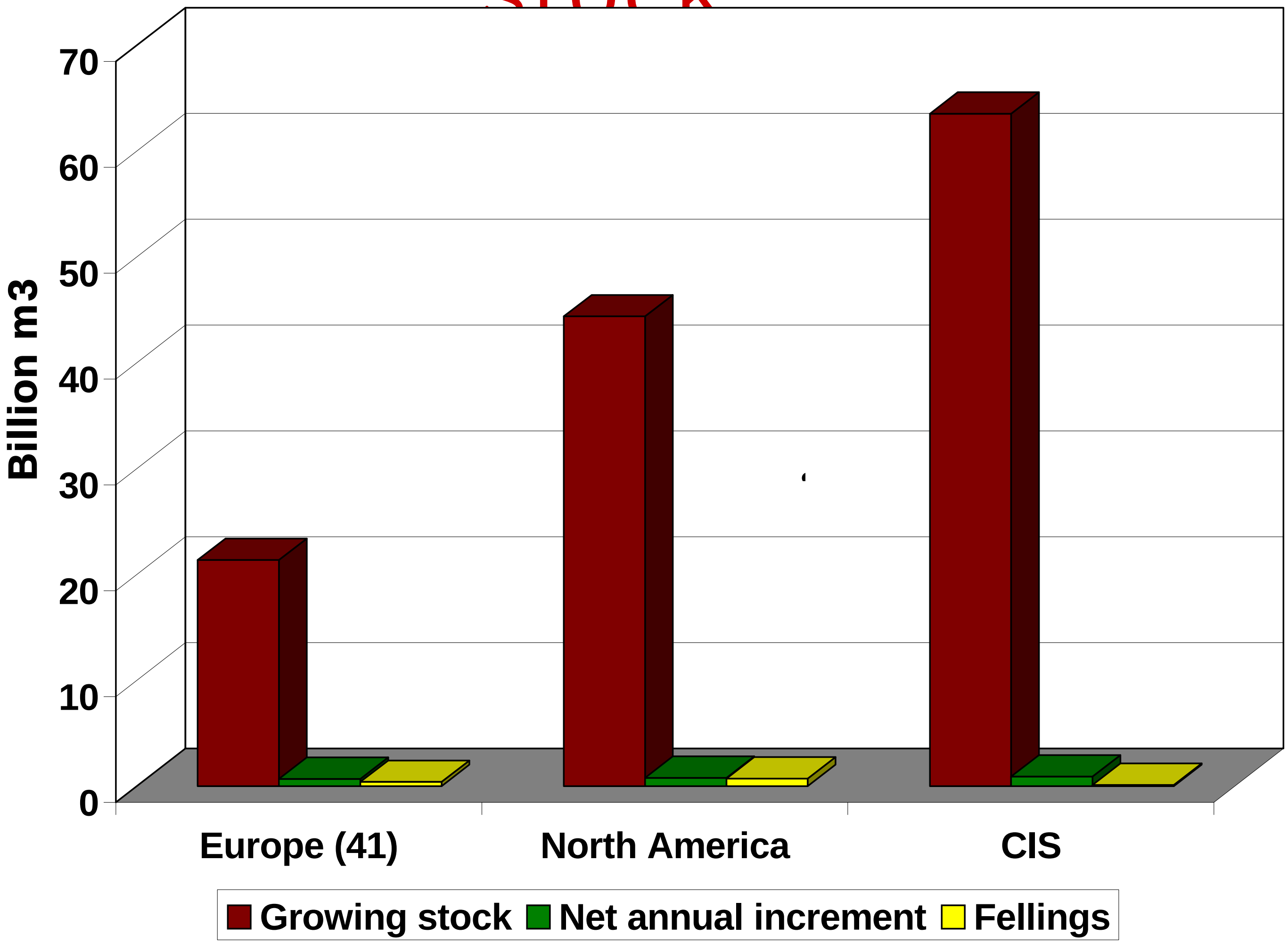
Forest area, net change



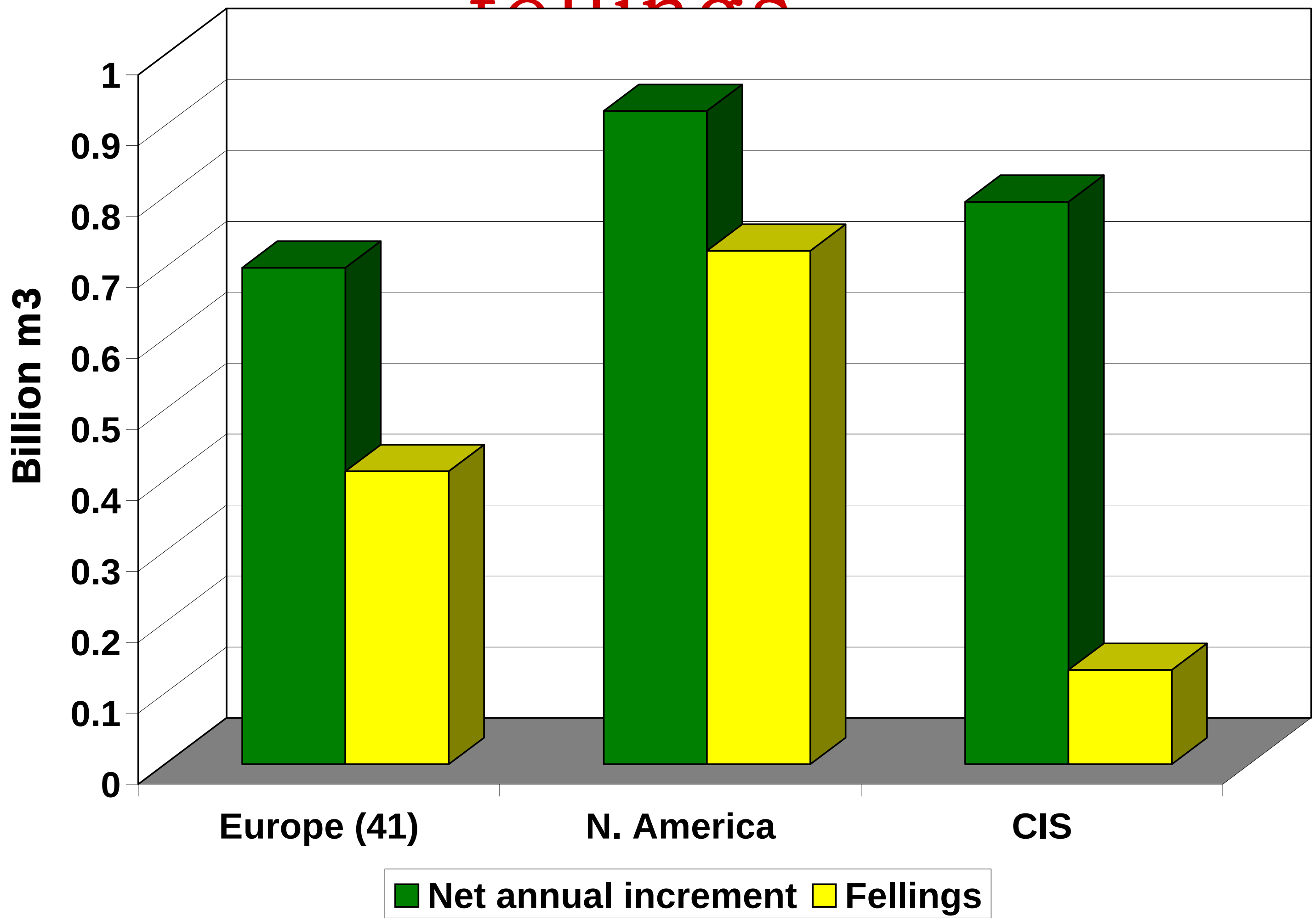
Red>5% annual decrease

Green>5% annual increase

Forests' growing stock



Net annual growth vs. fellings



Forests' net annual increment vs. fellings

	Fellings as % of NAI
North America	80%
Europe-42	60%
Western Europe	64%
Nordic countries	72%
Baltic countries	50%
Central & eastern Europe	56%
Russia	16%




Resources summary

- Removals considerably below growth
- Growing stock increasing in Europe
- Shortages of sawlogs in some countries
- Southern hemisphere plantations expanding
- Increasing alternative demands on forests
- Oversupply compared to demand

II. Framework for market developments

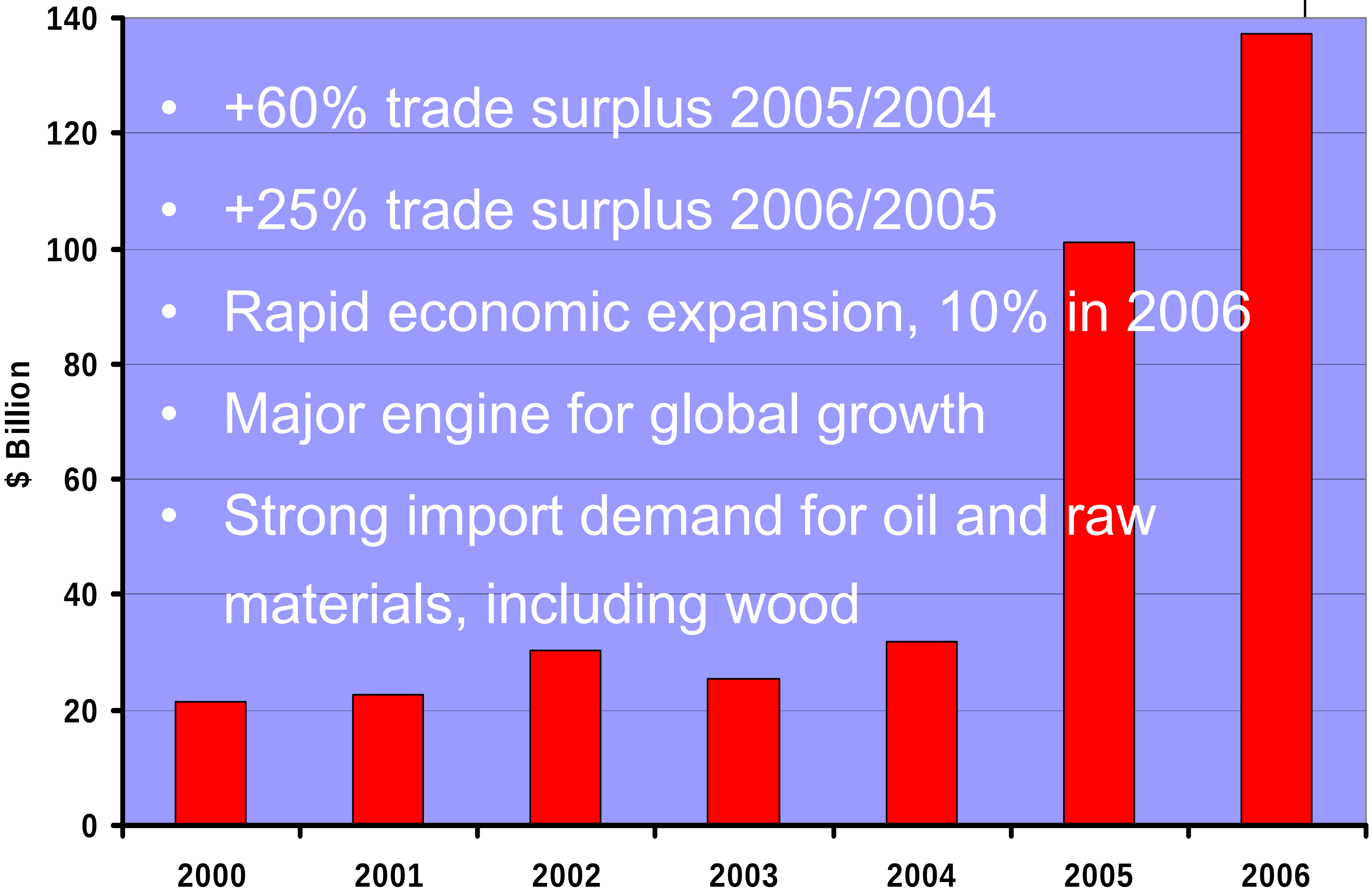
- Global economic growth strong in 2006 and 2007, forecast at 5% each year
- Developing countries’ economies growing fastest – dynamic expansion in E. Europe
- Inflation low, despite rising energy prices
- Housing prices rising for 5 years – bubble to burst?

Economic framework – US

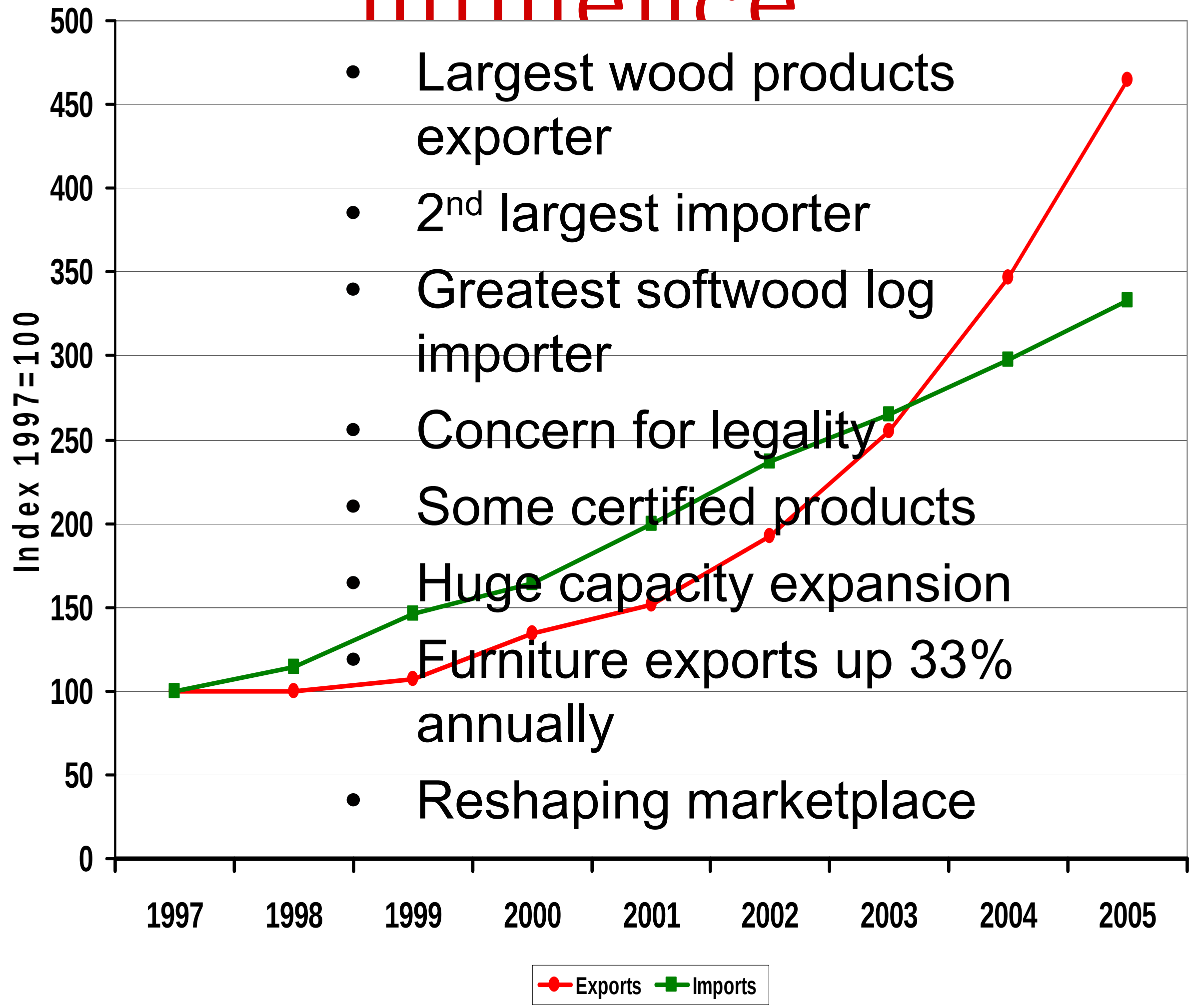
- US housing peaked in 2005
  - 2.2 million housing starts
  - “Only” 1.8 million starts in 2006
- Huge volume of unsold houses in US
- Record high trade deficit
- High national deficit
- US economy decelerating – risk of recession

China's economic boom

- +60% trade surplus 2005/2004
- +25% trade surplus 2006/2005
- Rapid economic expansion, 10% in 2006
- Major engine for global growth
- Strong import demand for oil and raw materials, including wood



China's wood market influence



- Largest wood products exporter
- 2nd largest importer
- Greatest softwood log importer
- Concern for legality
- Some certified products
- Huge capacity expansion
- Furniture exports up 33% annually
- Reshaping marketplace

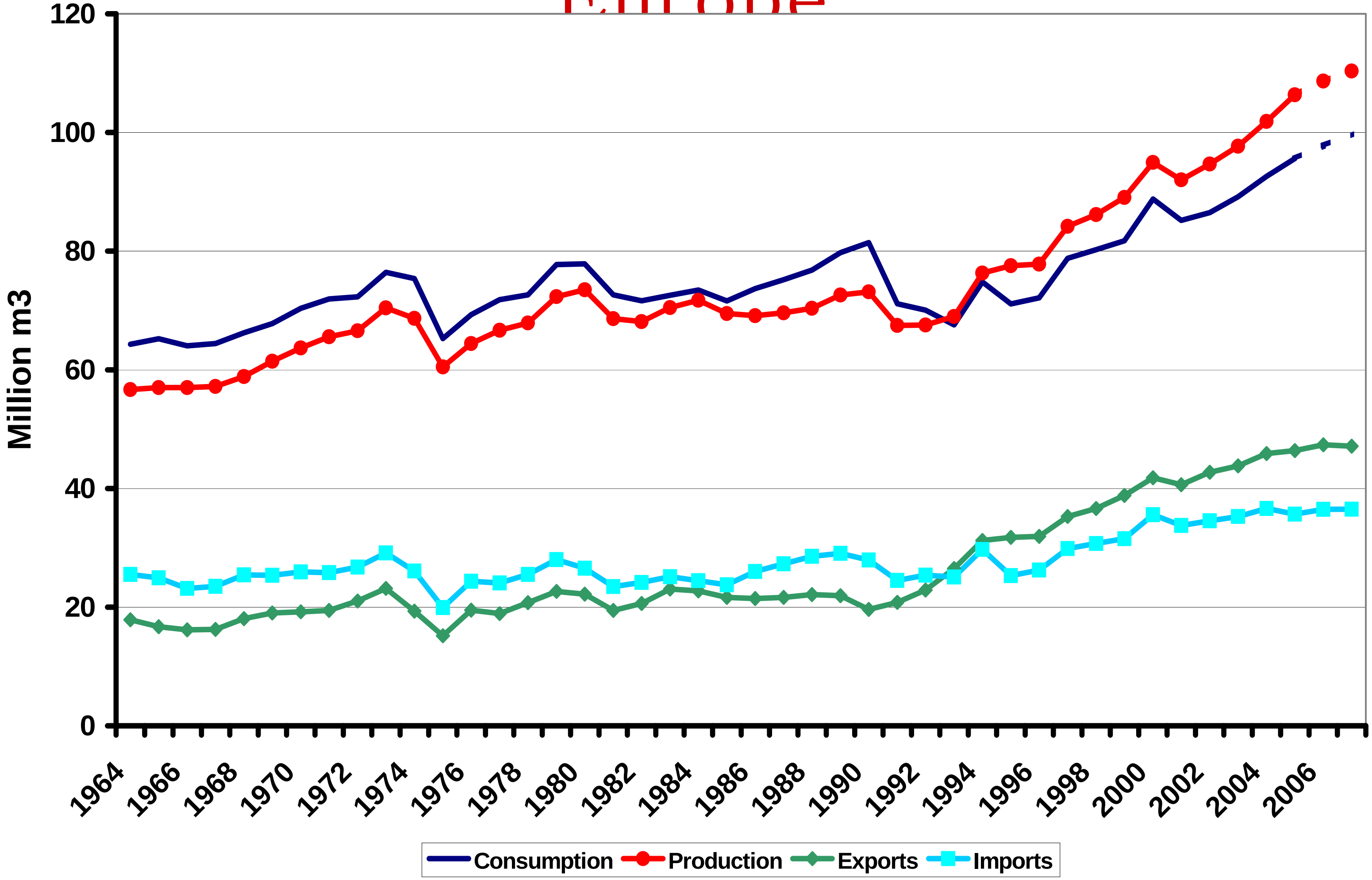
Economic framework – European housing

- Residential construction rising since 2004
- Rising interest rates
- Strongest construction developments in central and eastern Europe
  - Residential +4% 2006, +7% 2007
  - Source: Euroconstruct, 2005

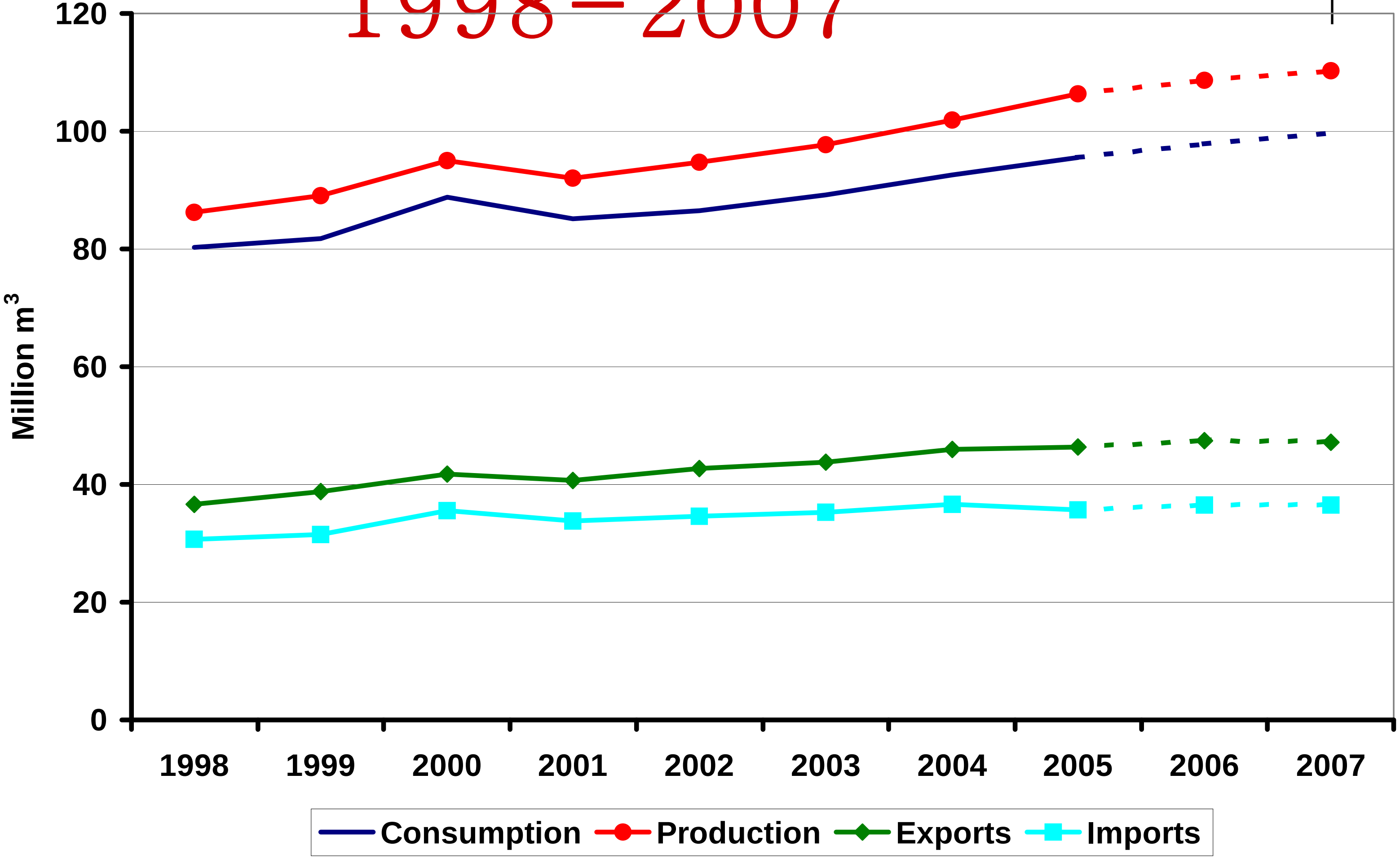
Market drivers

- Public procurement policies
- Expanding wood energy
- Certified forest products
- Corporate social responsibility
- China’s surging trade
- Rebound of eastern Europe & Russia
- Illegal logging & trade
- Storms in 2005: Sweden and US

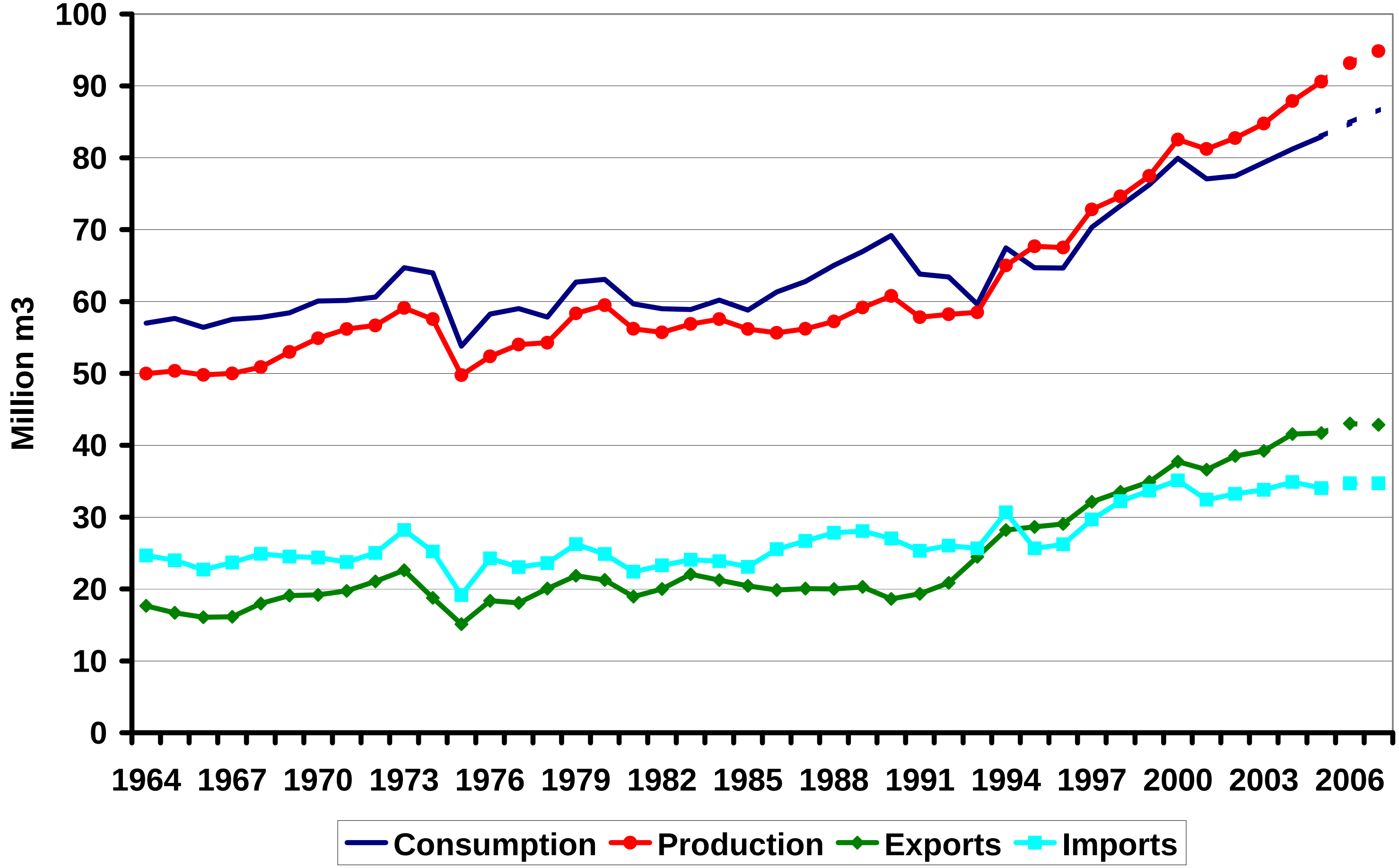
III. Sawn softwood – UNECE' s Europe



Sawn softwood – UNECE's Europe, 1998-2007



Sawn softwood - ISC's Europe



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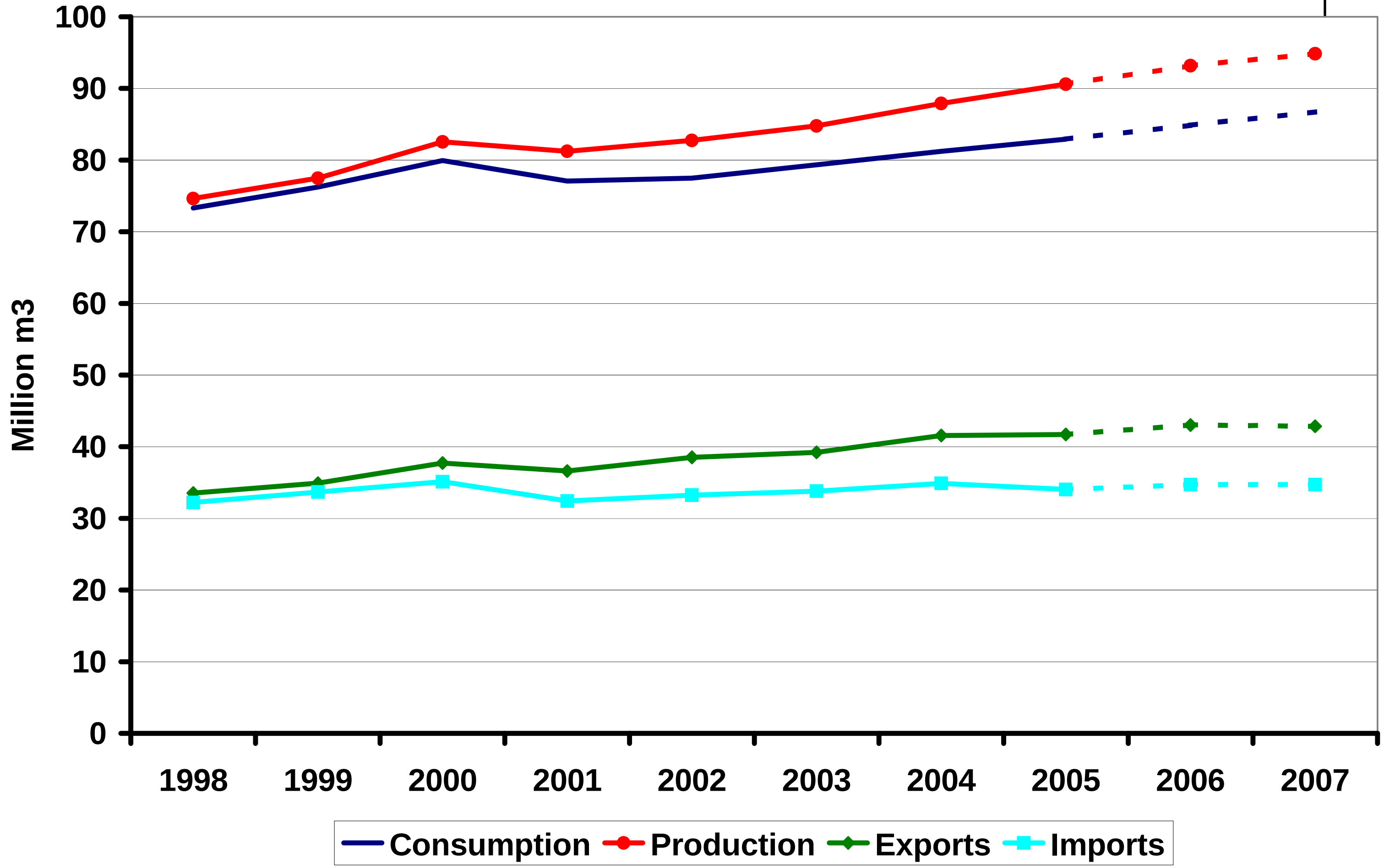
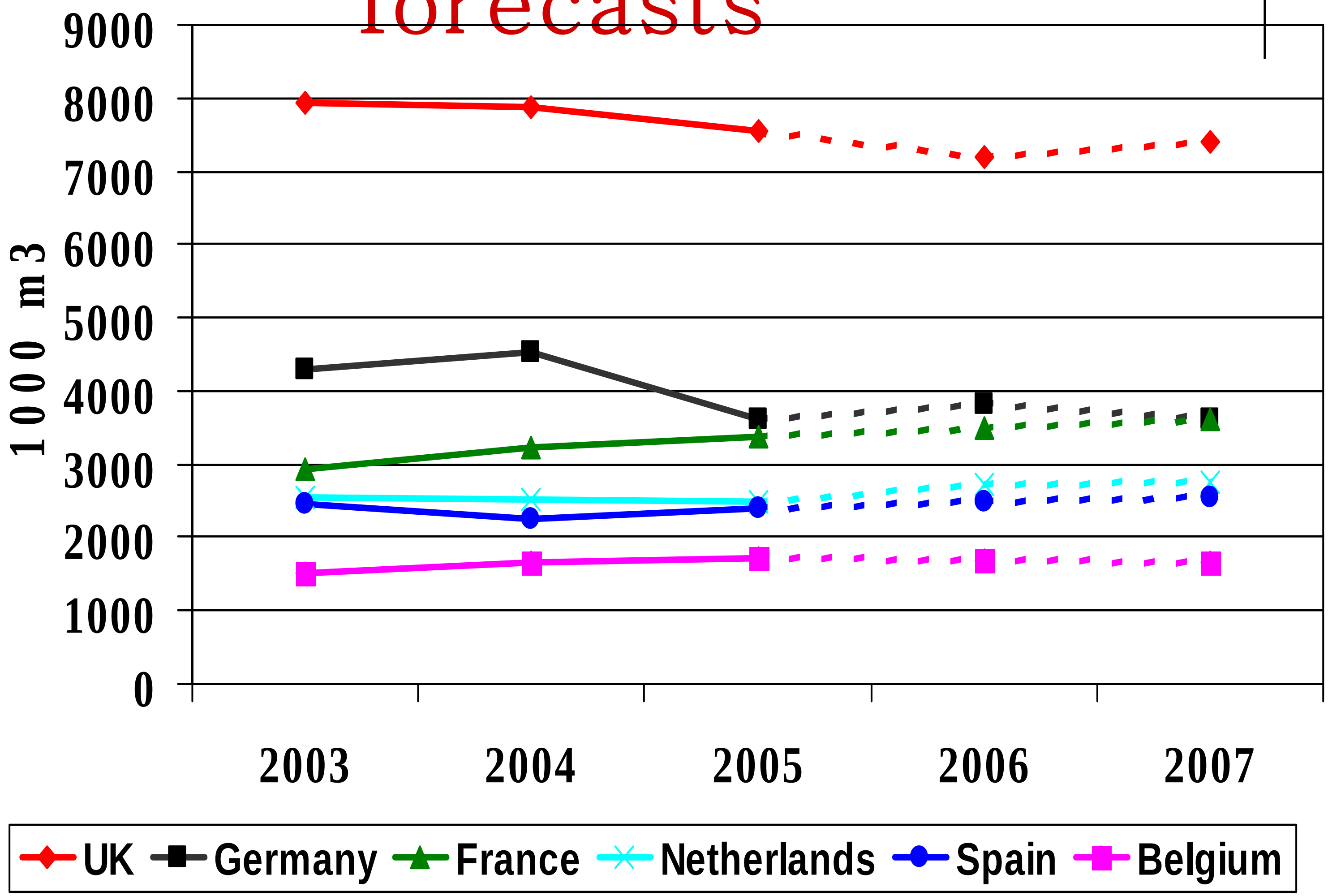
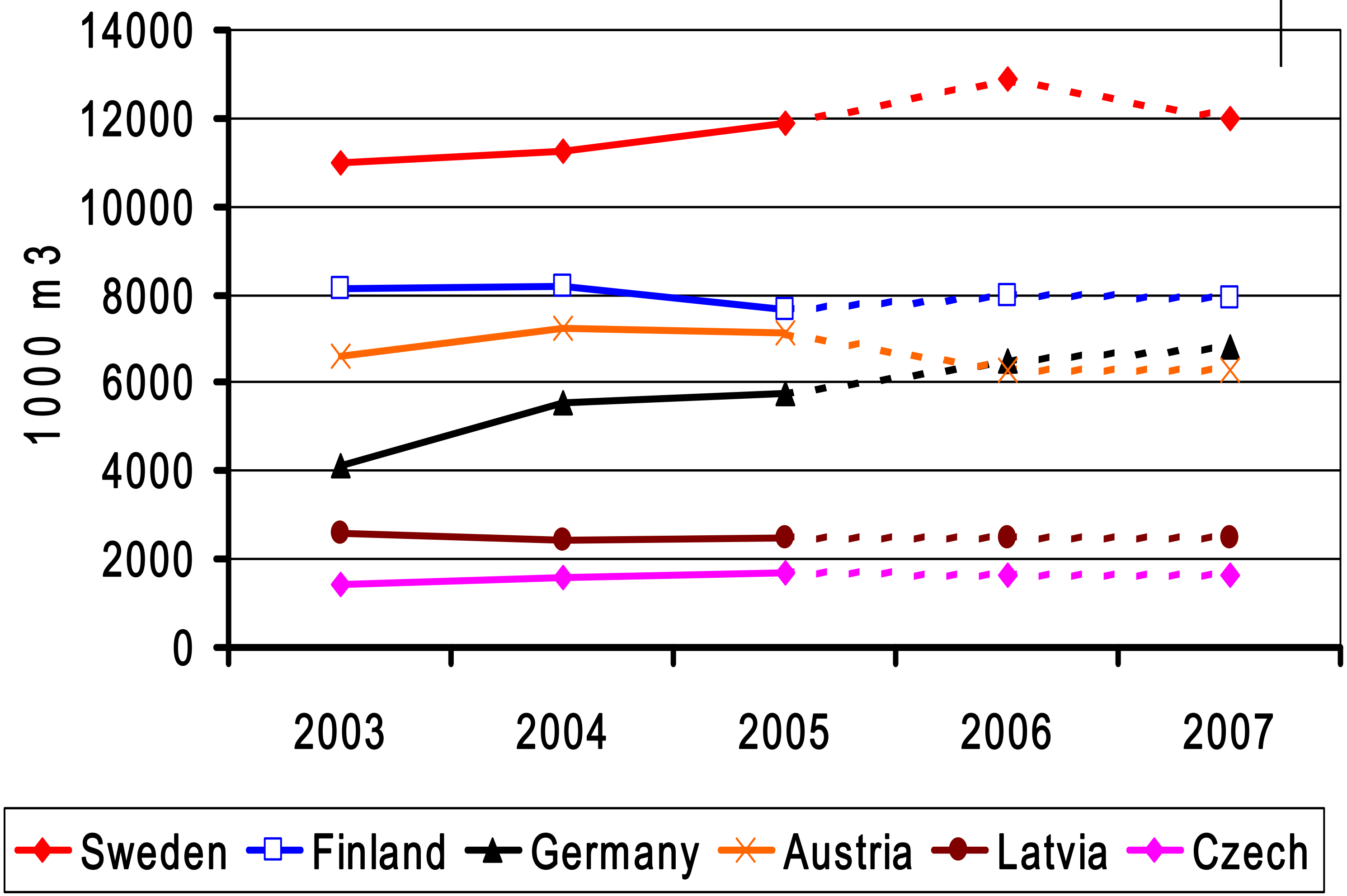
Sawn softwood – ISC's Europe, 1998–2007



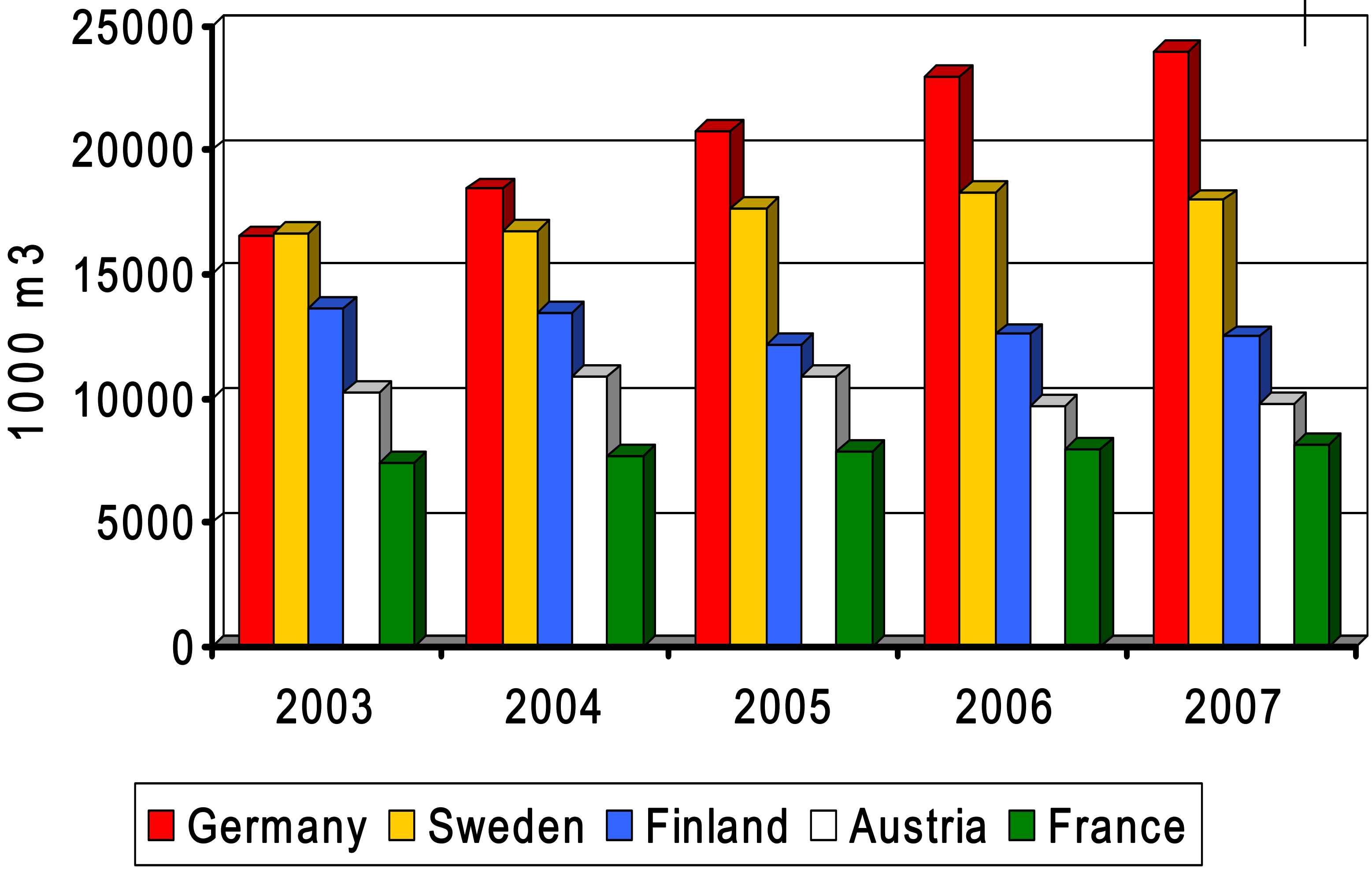
Selected importers' forecasts



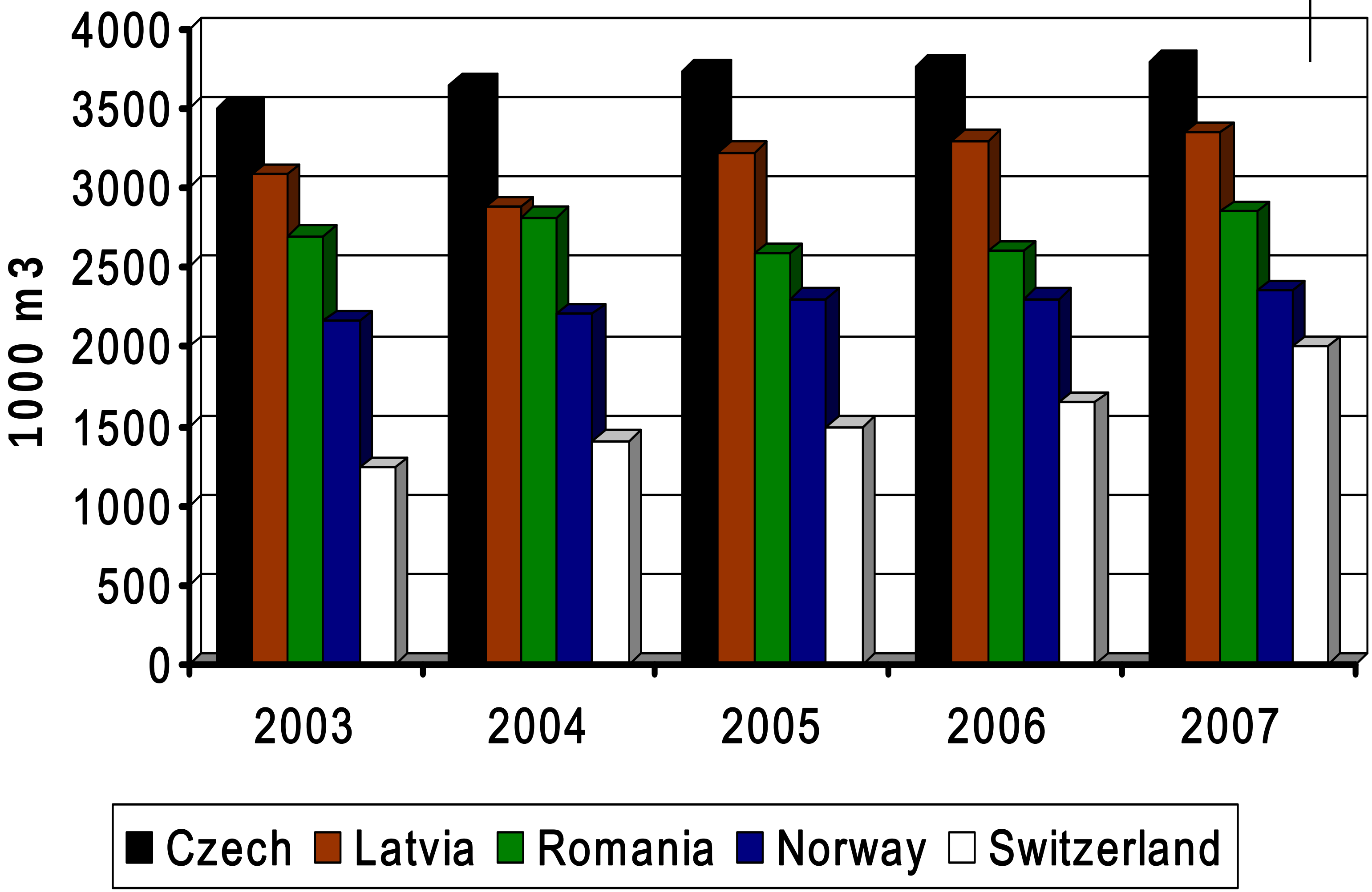
Selected exporters



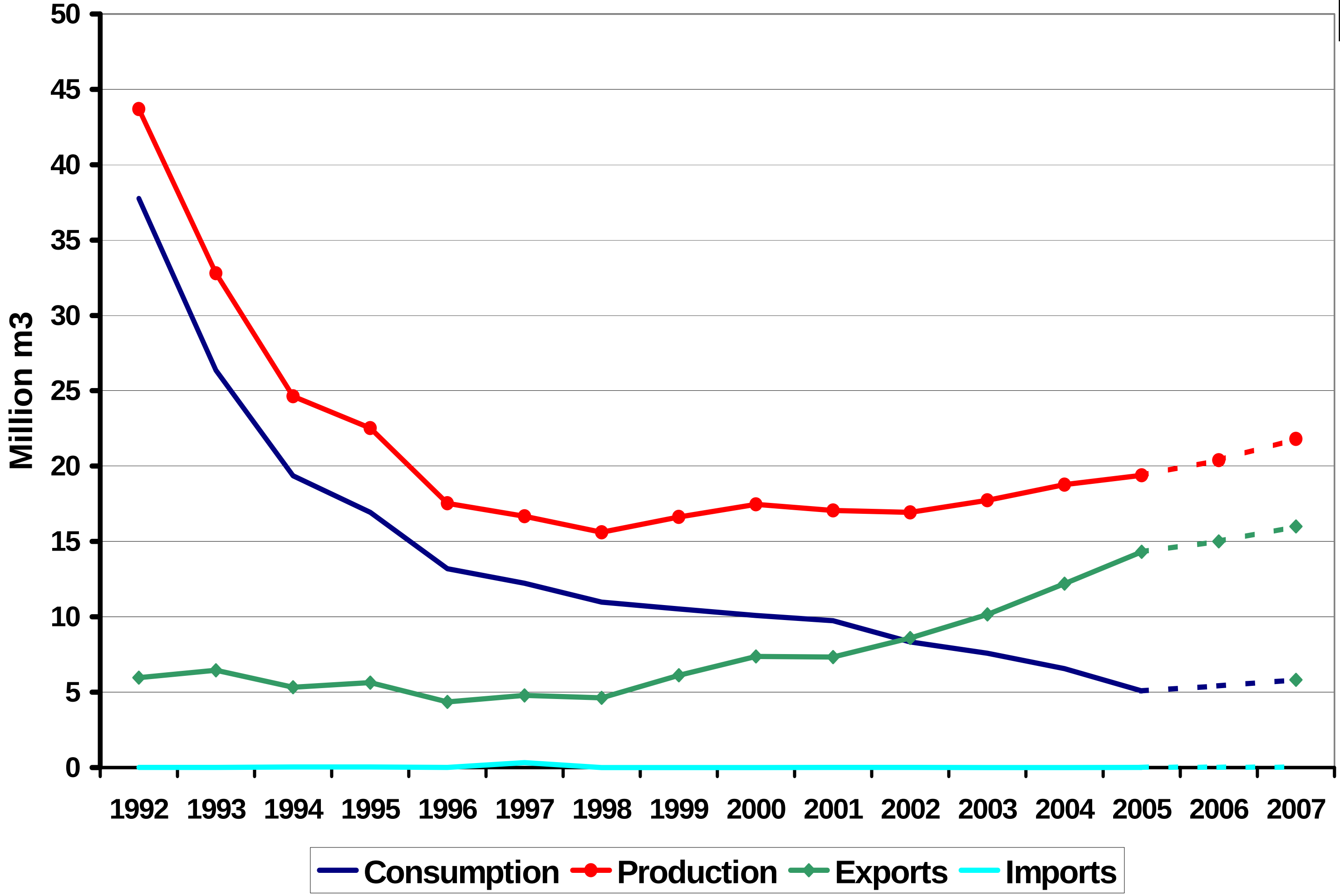
Selected producers



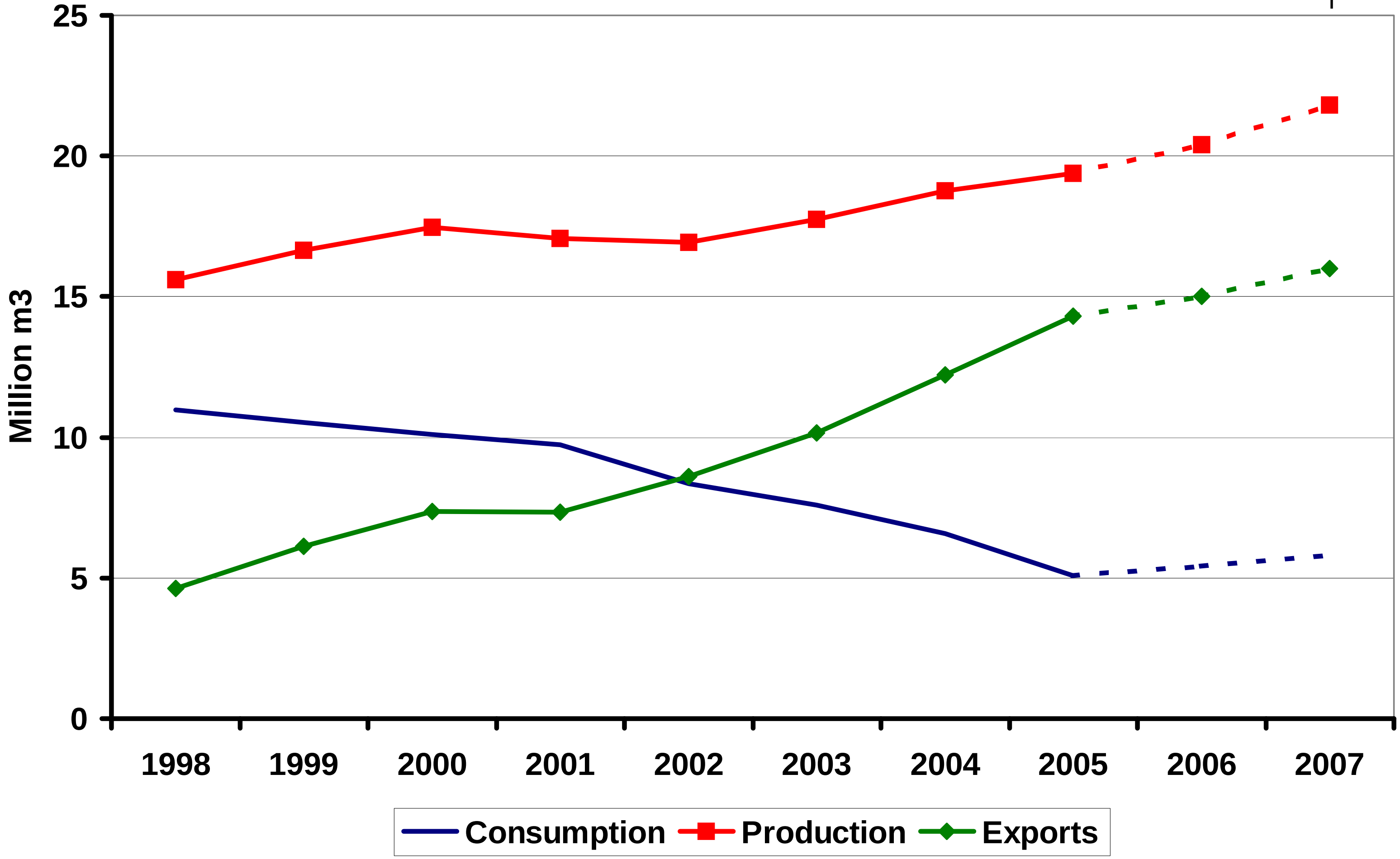
Selected producers



Sawn softwood – Russia



Sawn softwood - Russia, 1998-2007



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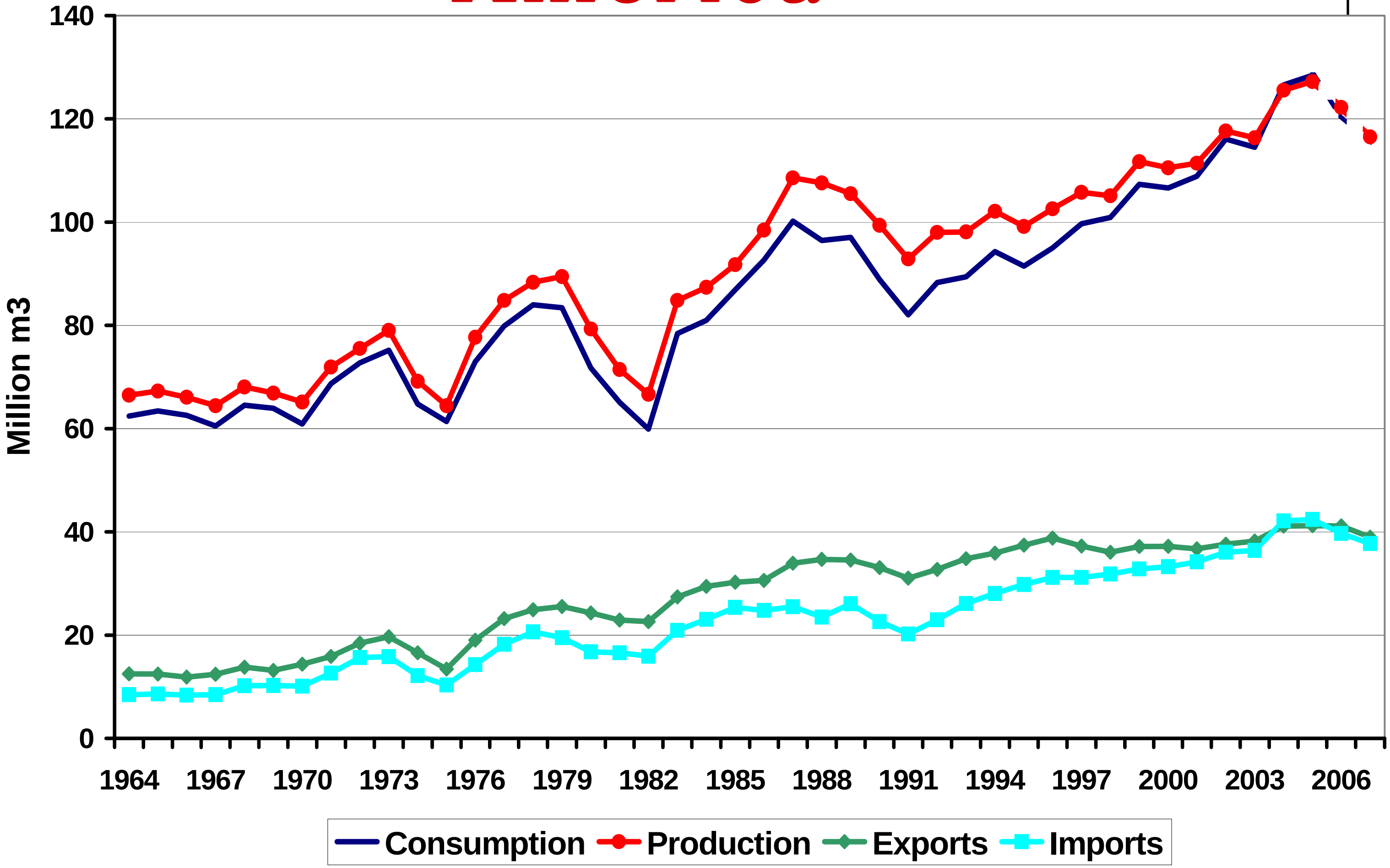
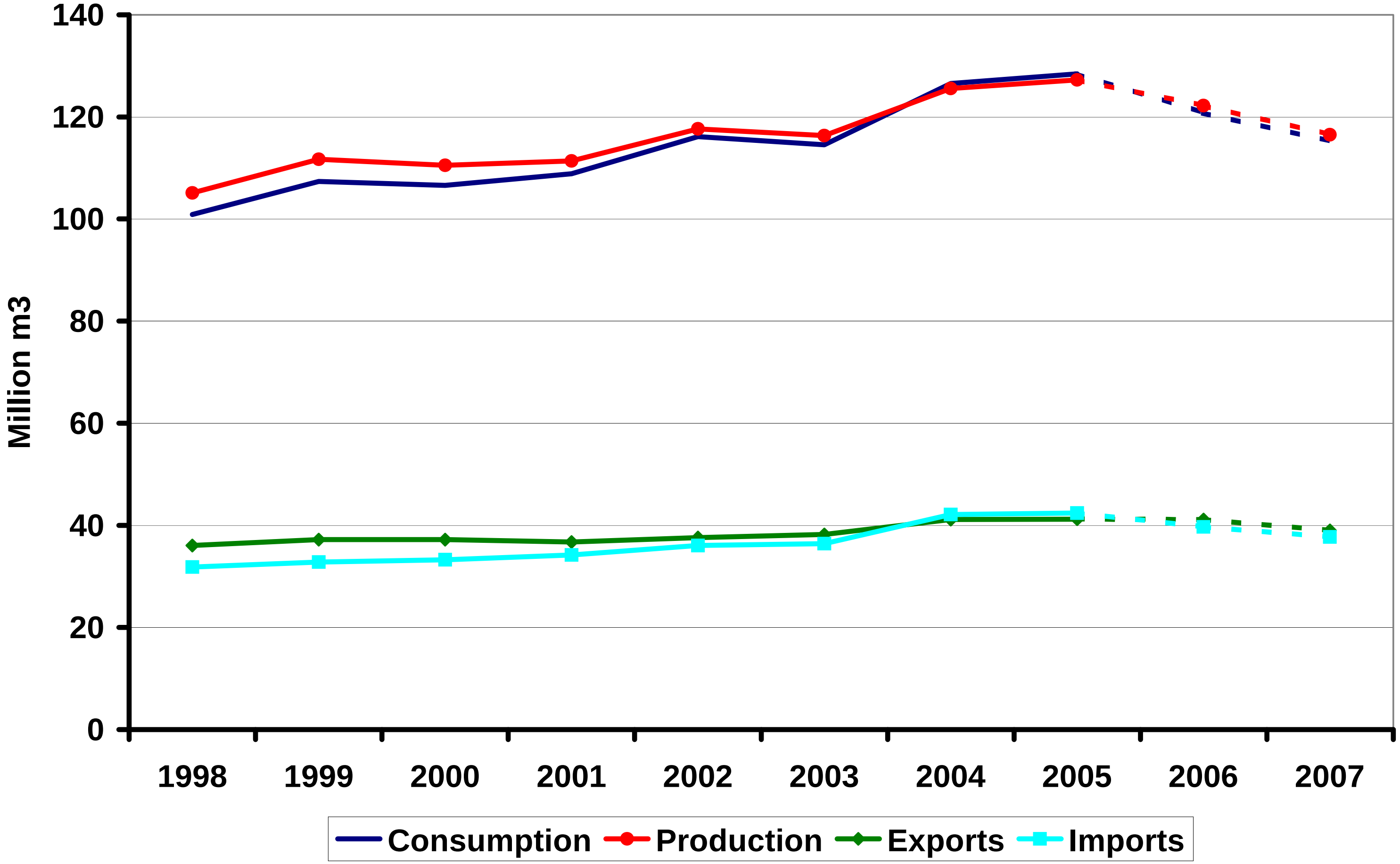
Sawn softwood - N. America

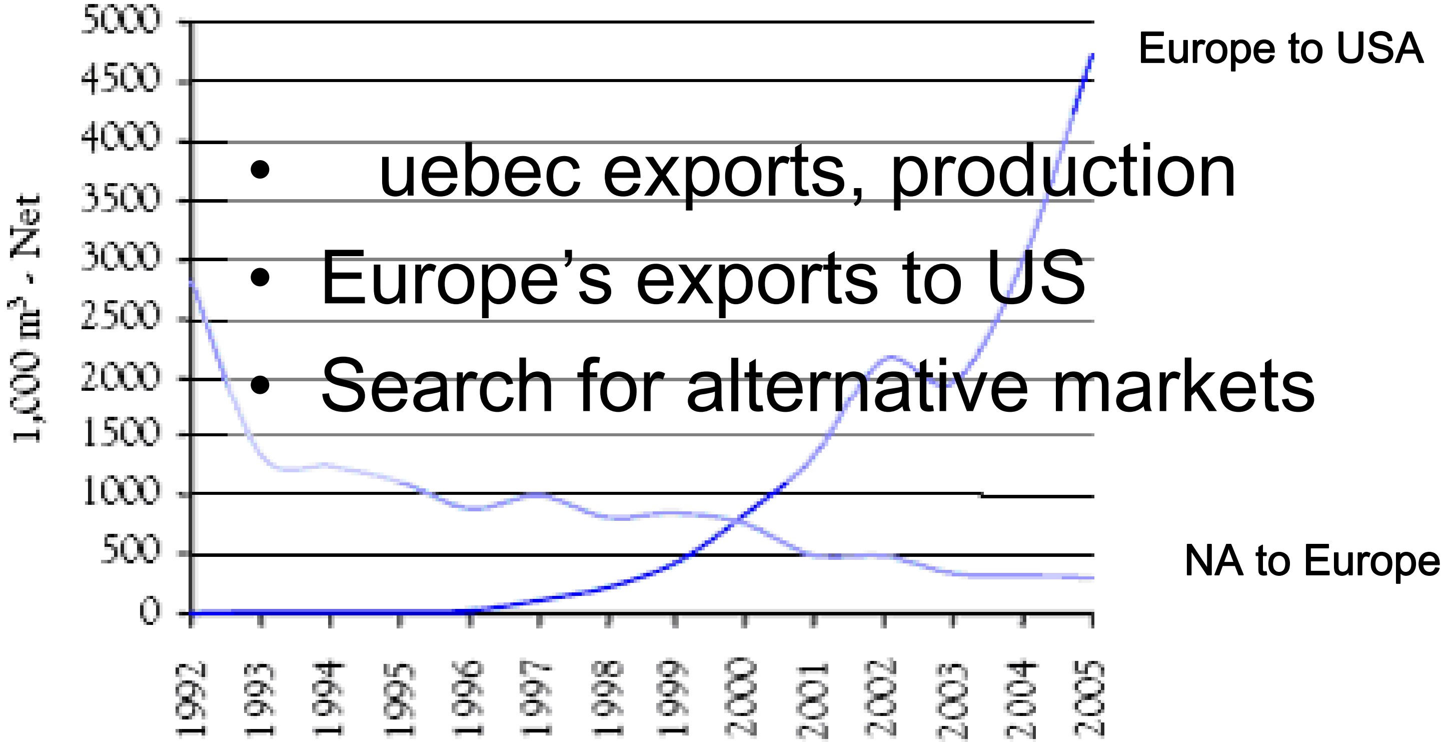


Sawn softwood – North America, 1998–2007



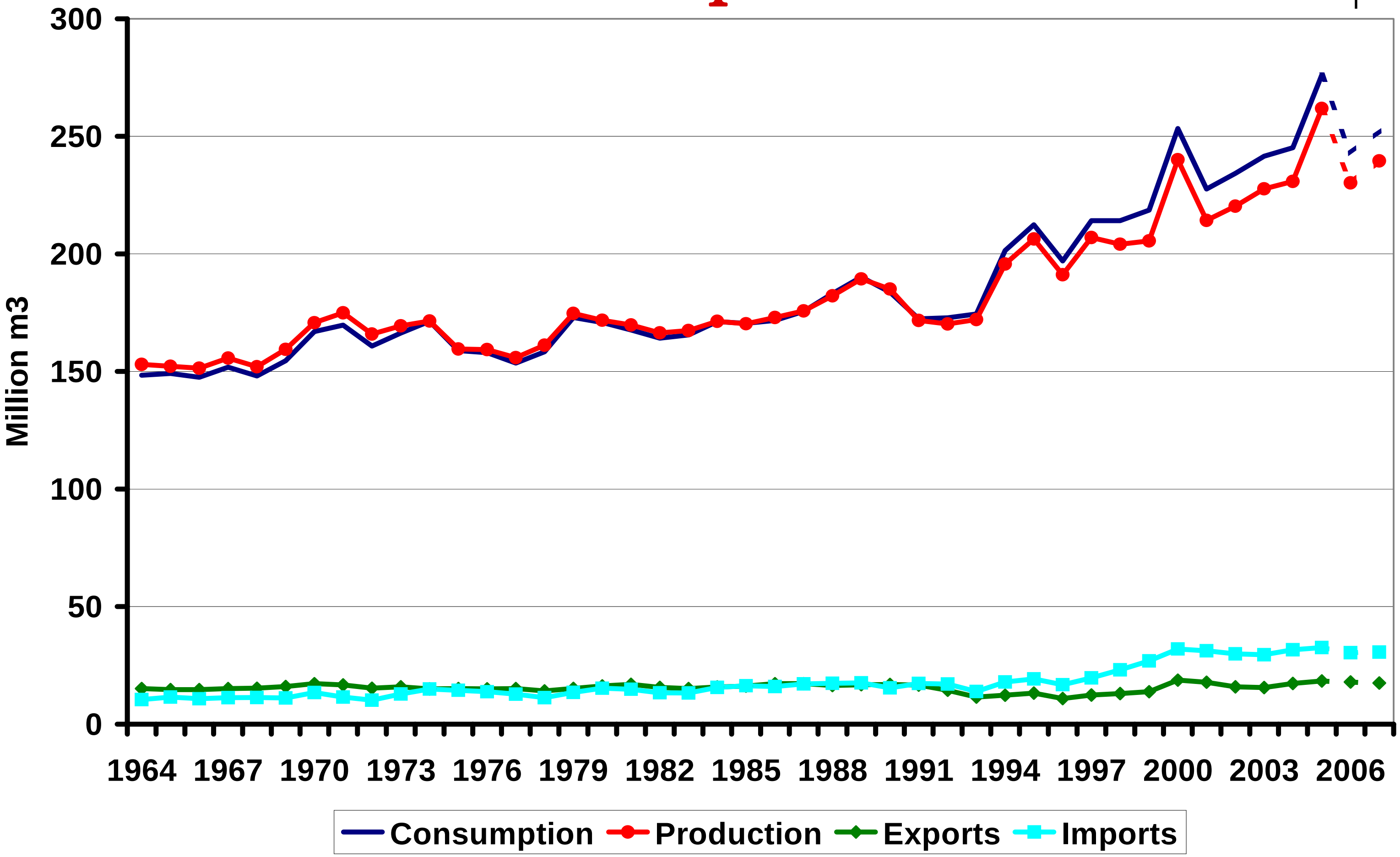
Effects of US downturn

- uebec exports, production
- Europe's exports to US
- Search for alternative markets

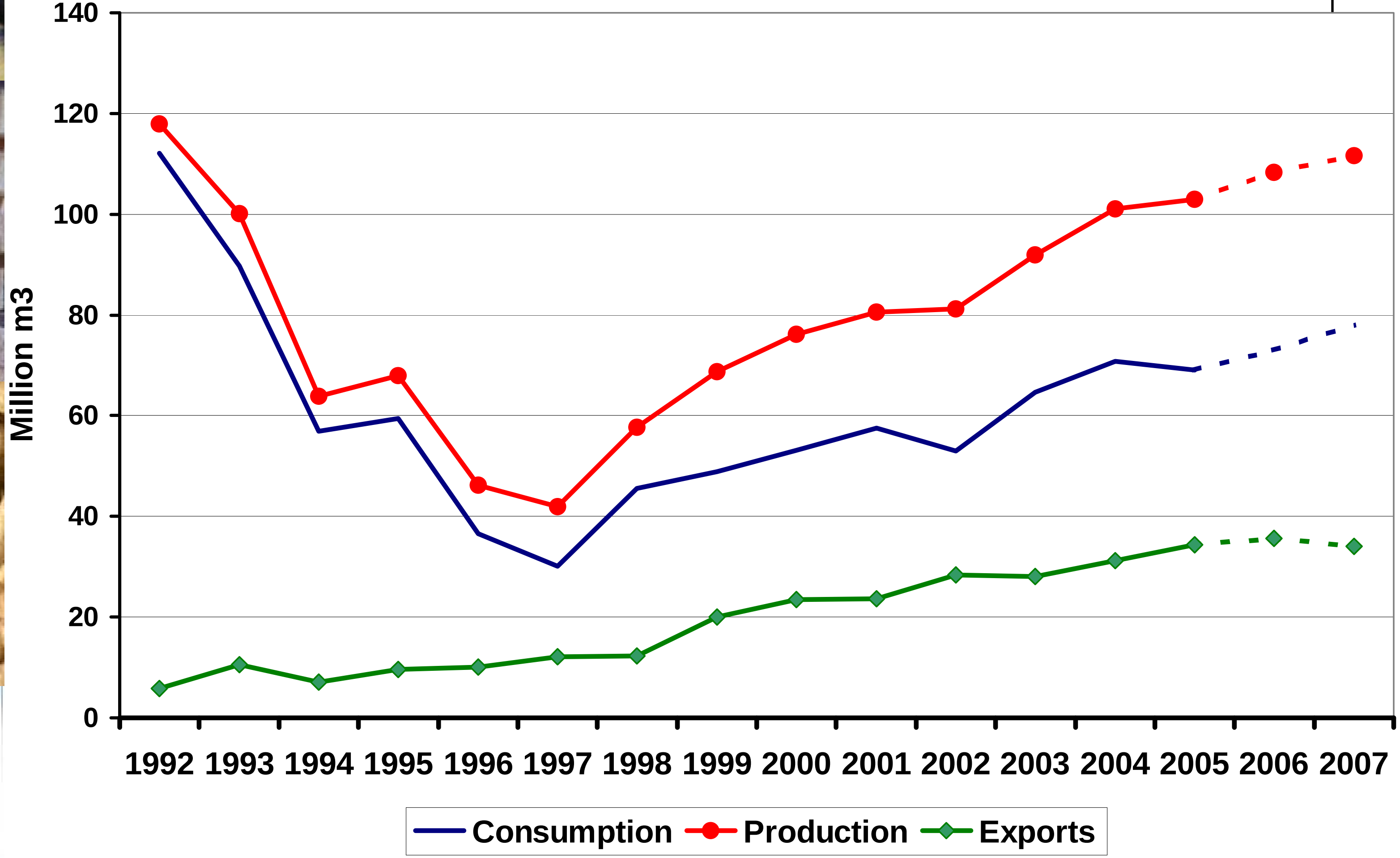


Source: WOOD Markets Monthly, 2006

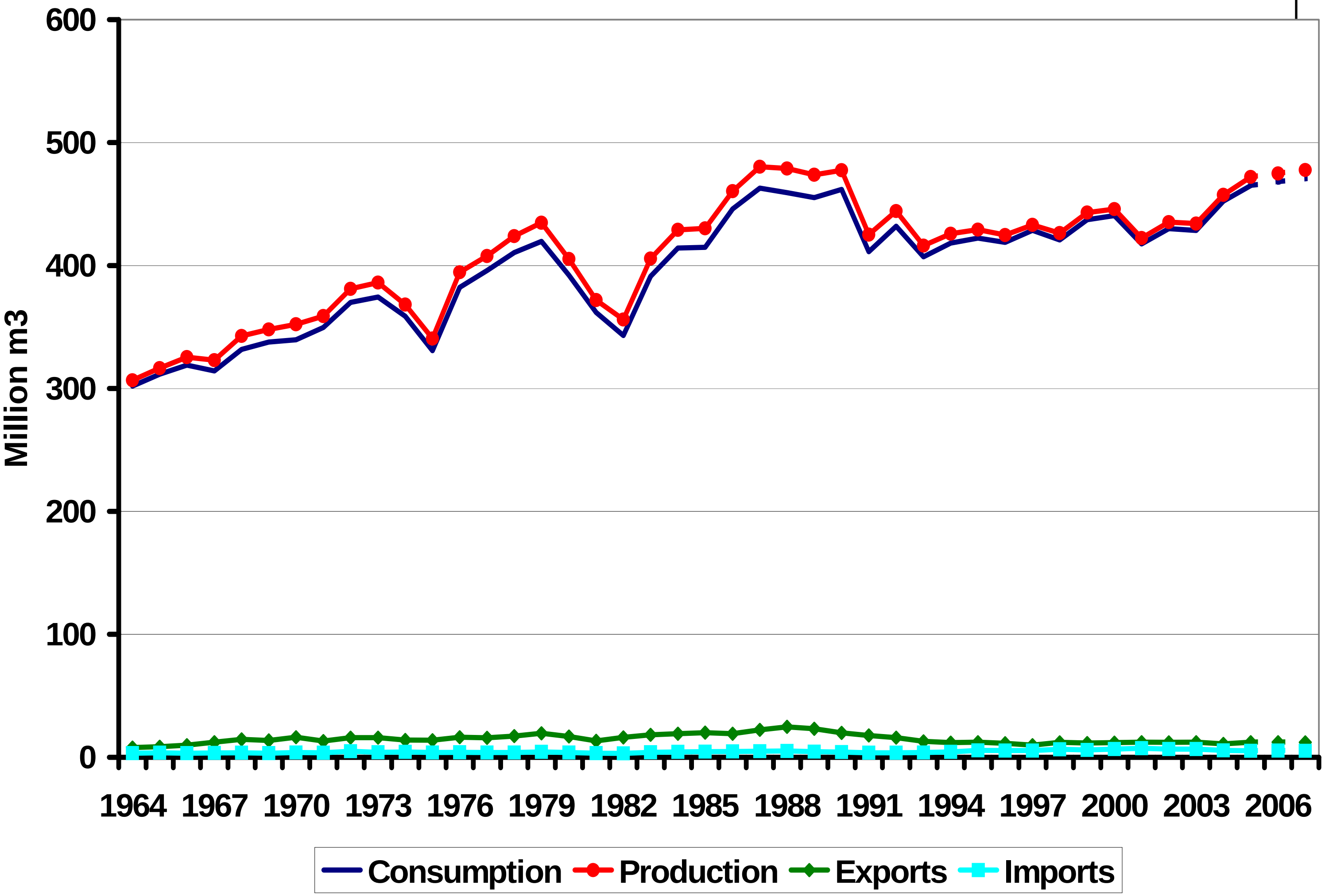
III. Softwood sawlogs – Europe



Softwood sawlogs – Russia



Sawlogs - N. America



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Sawlogs - N. America

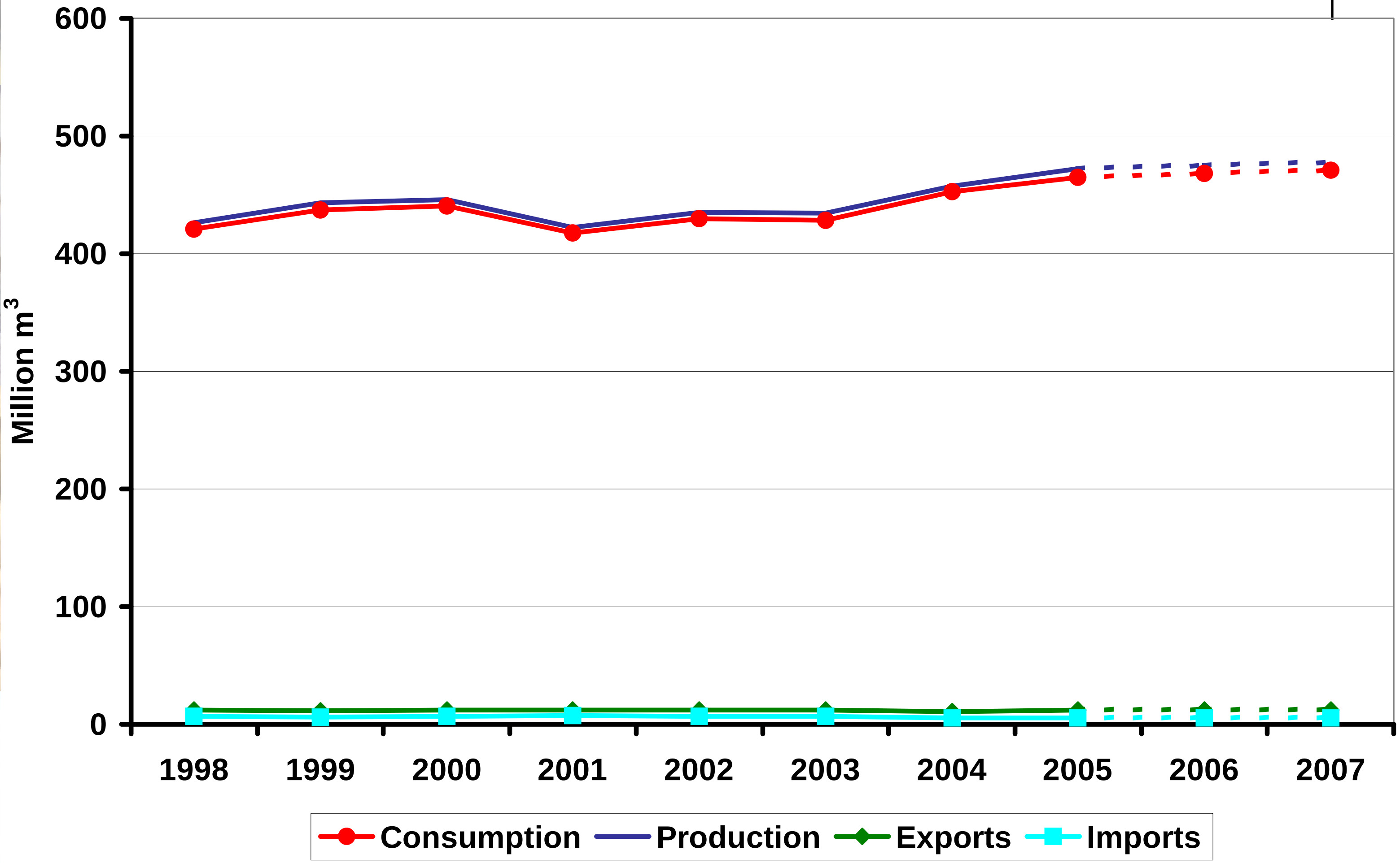
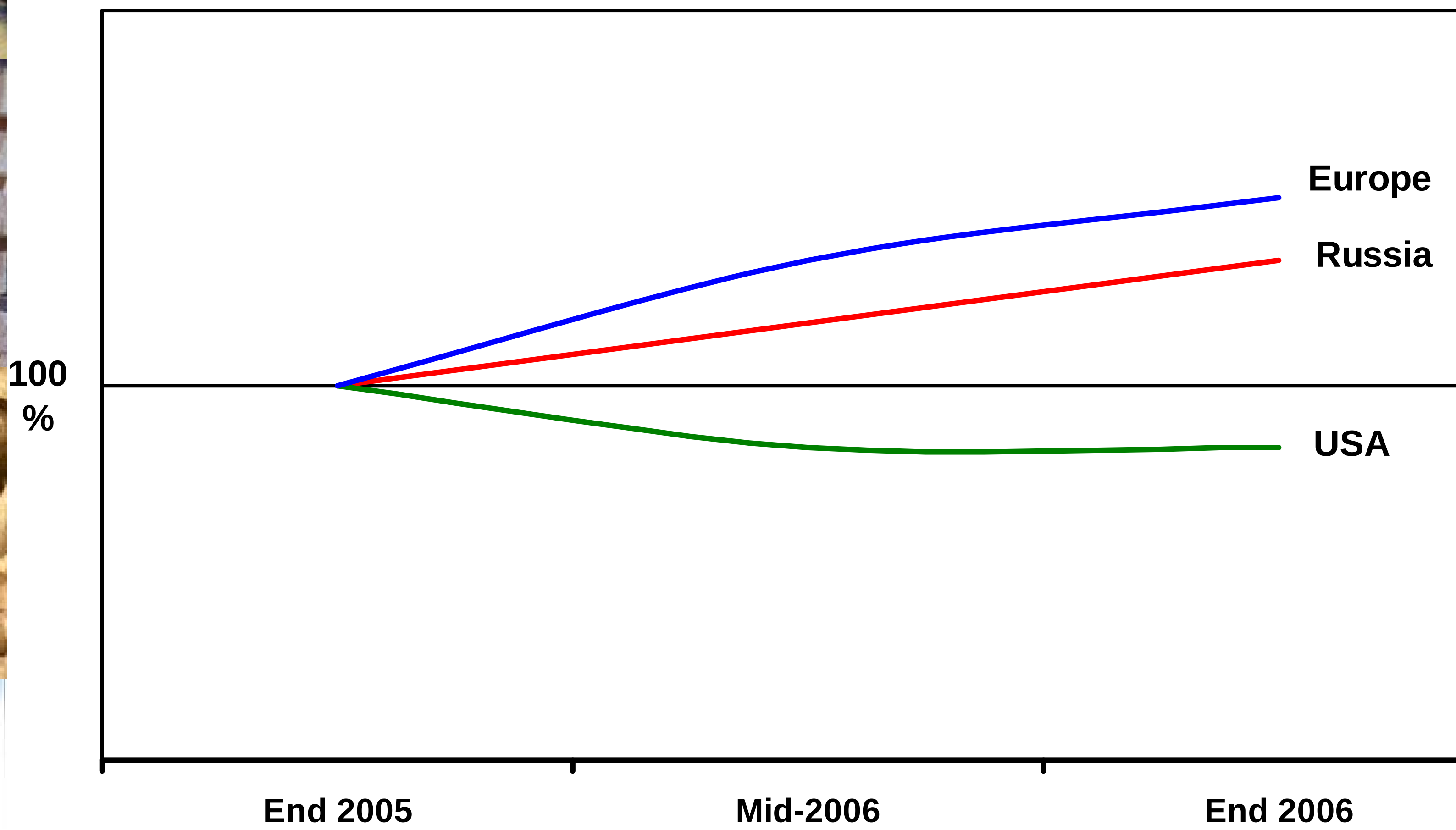


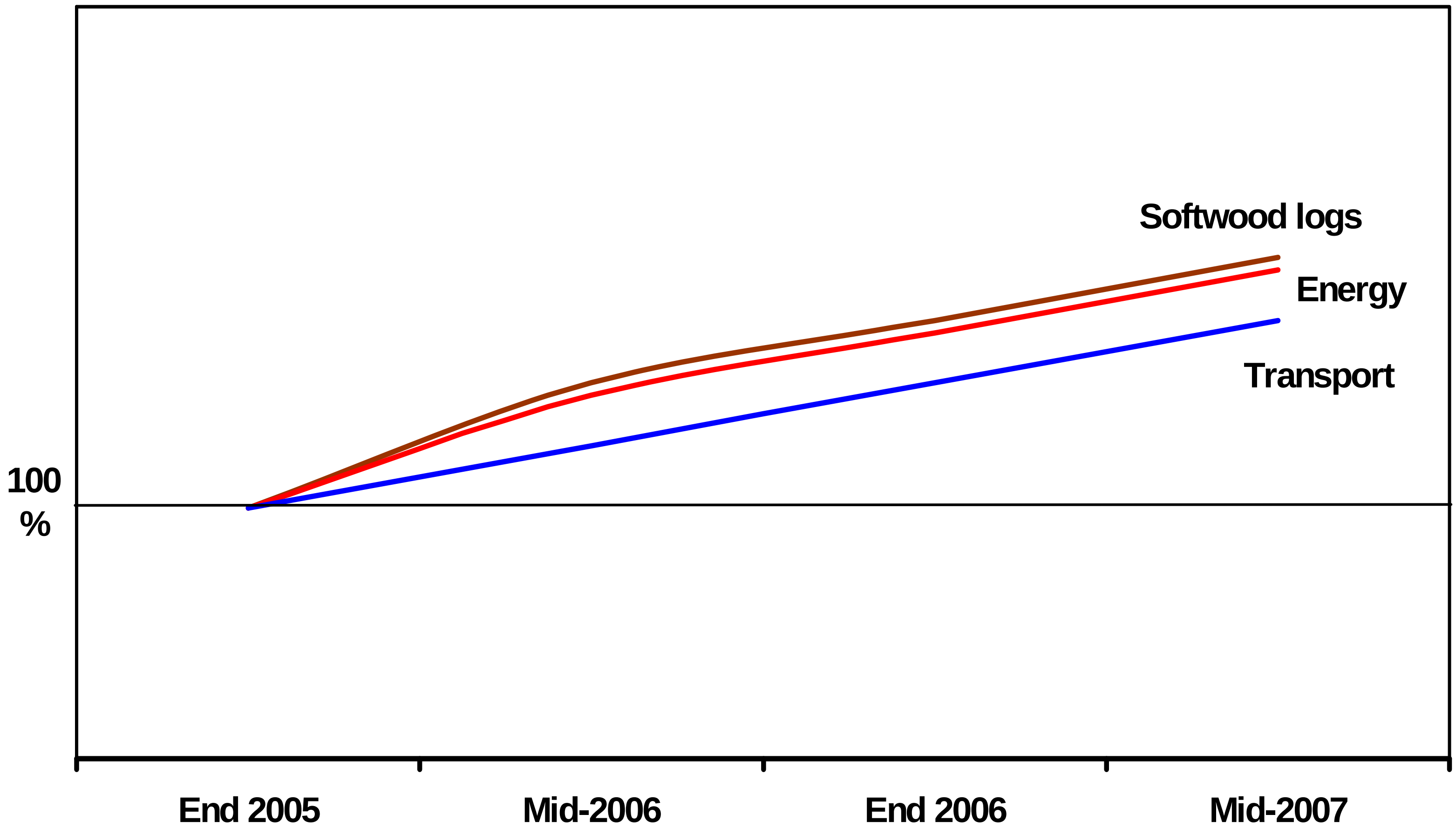

Photo: NTC

IV. E.O.S. questionnaire results on prices, costs and sawlog availability

Sawnwood prices



Log, energy, transport costs - Europe



Log, energy, transport costs - USA

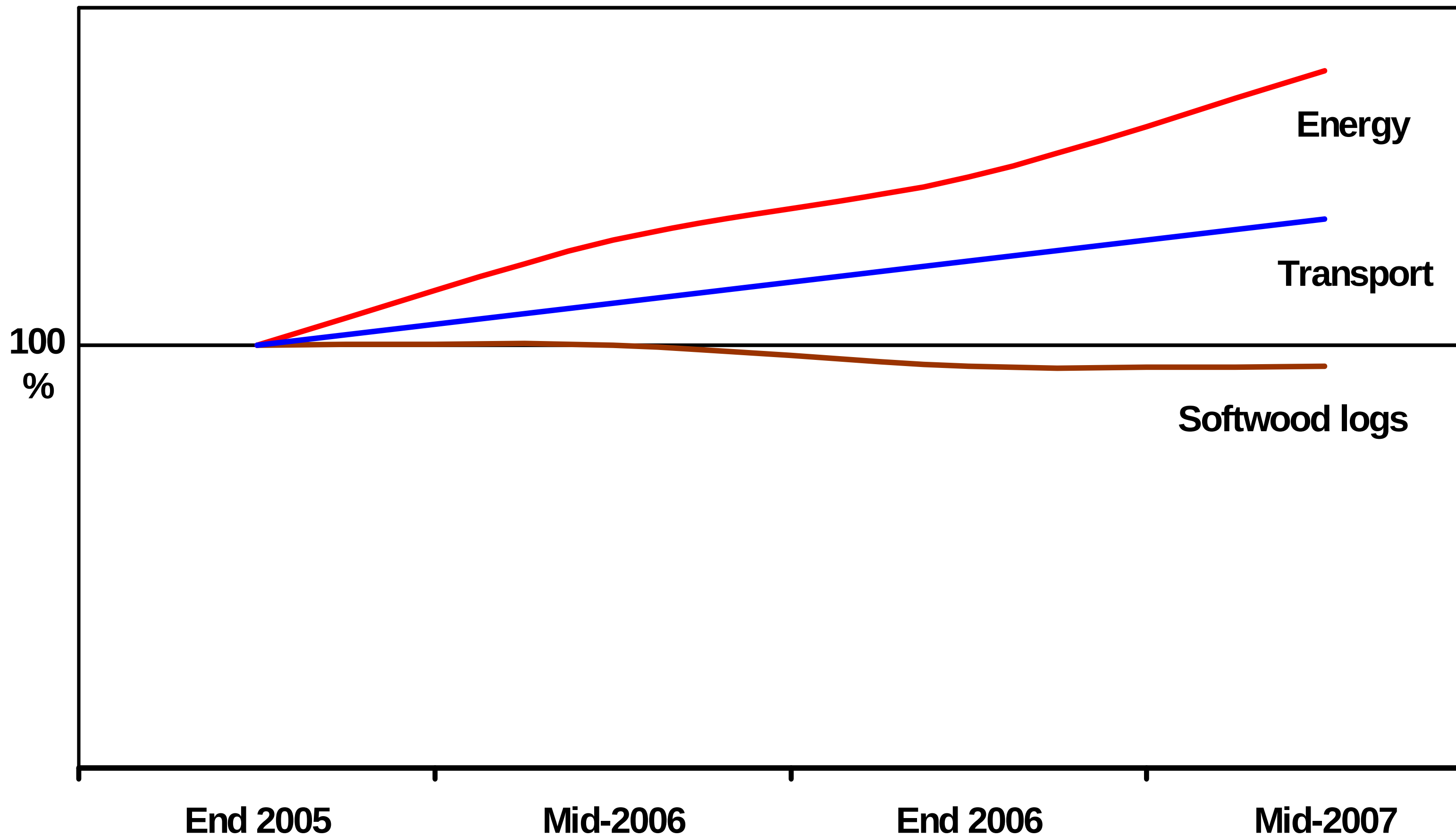
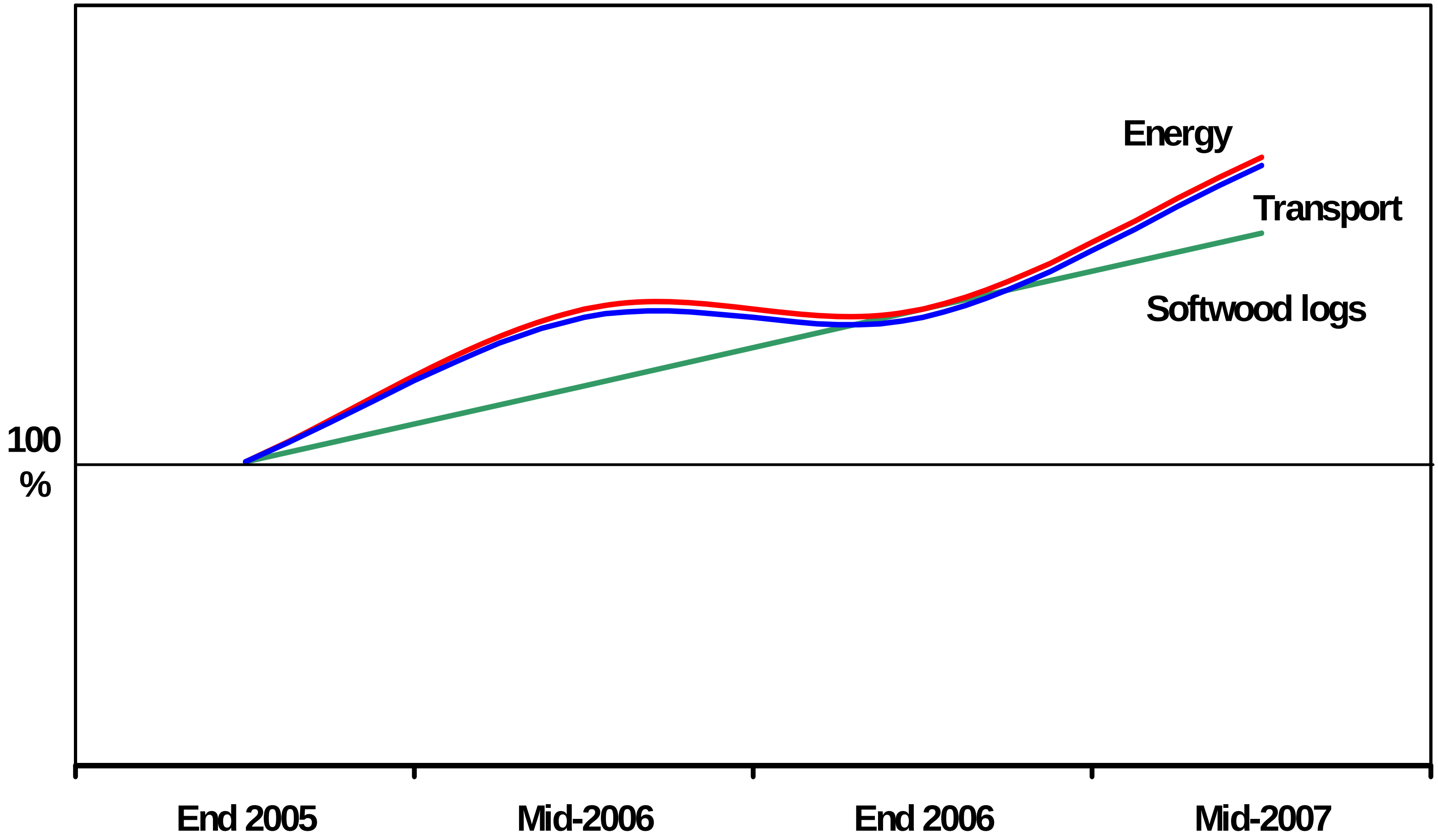
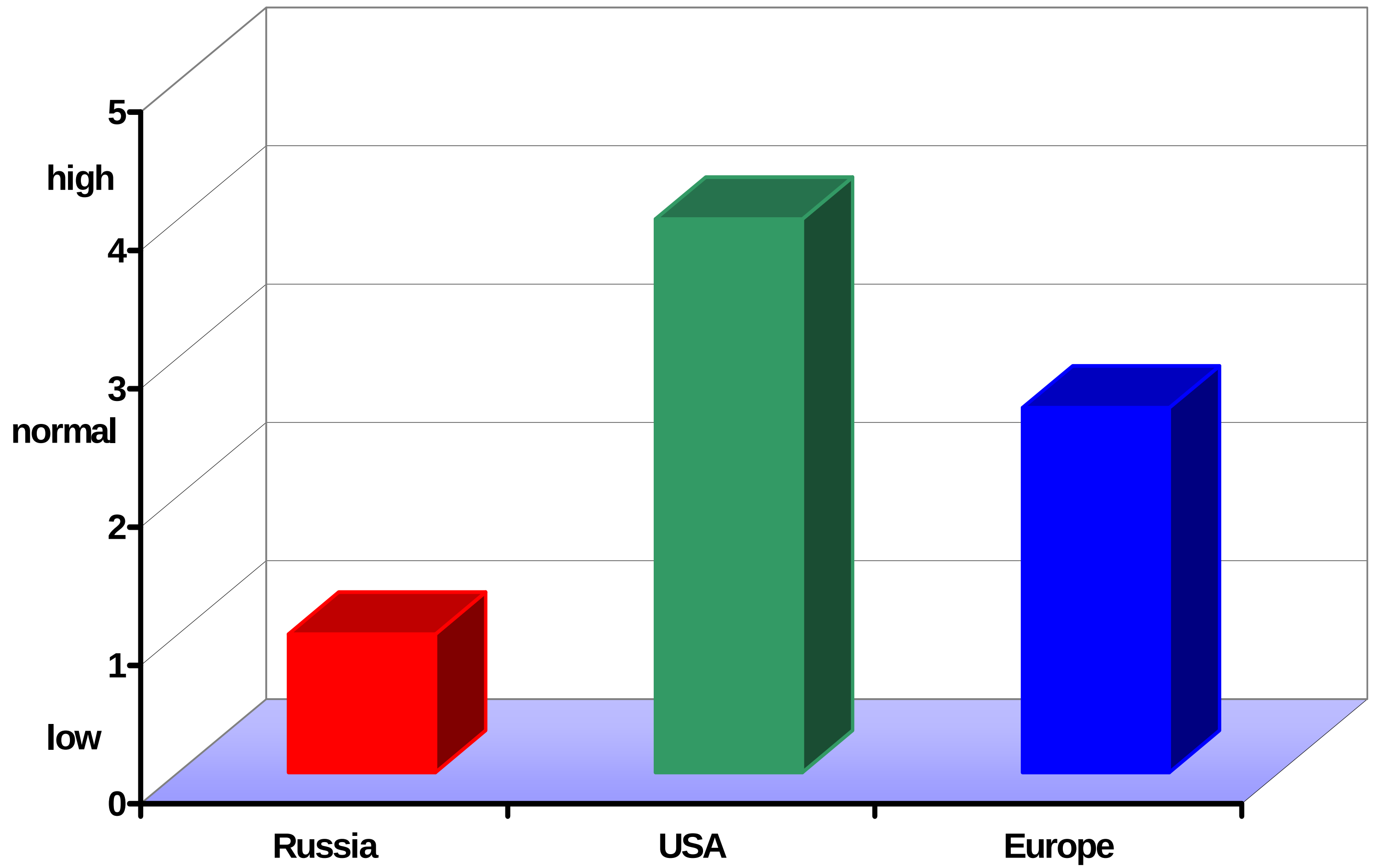


Photo: NTC

Log, energy, transport costs - Russia



Sawlog availability



V. Timber Committee Market Discussions – main findings

- European markets forecast at record levels in 2006 and 2007
- Chinese forest industry rapidly reshaping marketplace
- Continuing concern about illegal logging, climate change
- Record high energy prices and energy policies driving wood energy markets
- Despite forest growth outstripping removals, increased competition for timber

Timber Committee sawn softwood findings

- Volatile sawnwood prices in North America falling, but rising in Europe
- Beetles ravaging forest in BC, Canada – up to 1 billion m3 timber – glut of roundwood, sawnwood
- US/Canada softwood lumber dispute resolved with 7-year agreement: 4 billion duties returned to Canada

Timber Committee sawn softwood findings

- European consumption at record level, to increase 2% in 2006 and again in 2007
- Shortages of sawlogs in parts of Europe where prices low, demand high and sawmilling capacity increased
- Russian sawnwood production to rise 5% in 2006 and 7% in 2007 increases to exports

Timber Committee softwood sawlog findings

- Roundwood removals at record highs meeting strong demands
- 2006 storm damage in Sweden resolved, with some roundwood stocked in forests
- Roundwood prices rising in Europe, private forest owners selling

VI. *Forest Products Annual Market Review* findings

- 2005 was a stellar year for sawn softwood
- But may be the high-water mark
- Opposing developments in Europe, both growth and contraction, in 2005
- Western Europe remains a net exporter,strong export markets 2005

Forest Products Annual Market Review findings

- Expanding EU: log market prices converge uickly with European prices, reducing profitability for eastern sawnwood producers
- Russia continues expanding sawnwood output up 5.3% and exports up 19.5% in 2005, gaining market share in many export markets

Forest Products Annual Market Review findings

- Russian Forest Code not yet adopted
- Russia raises log export taxes -- catalyst for expanding sawnwood?
- Record US demand and prices for sawnwood in 2005 as a result of low interest rates and a soaring housing market
- US housing peaked late in 2005, new housing forecast to decline by a total of 13% through 2007

Photo: NTC

Forest Products Annual Market Review findings

- Swedish windstorm in early 2005 ramped up log availability, sawnwood exports
- Government-imposed harvest reductions in Ontario and uebec affect sawmills' raw material availability

VII. Growing the market

Growing too much wood?

Not enough wood products demand?

What are the solutions?

Grow the wood markets !

- Guarantee that today's wood products meet consumers' needs
- Develop new products to meet evolving needs
- Develop new markets for wood products: substitute for non-renewable materials
- Promote wood culture outside N. America and Nordic Countries

How can we grow the wood markets?

- Build coordinated, international promotion programs
- Enlarge existing networks and coalitions
- Create favorable policy environments
- Promote public awareness of key issues and messages

Discussion

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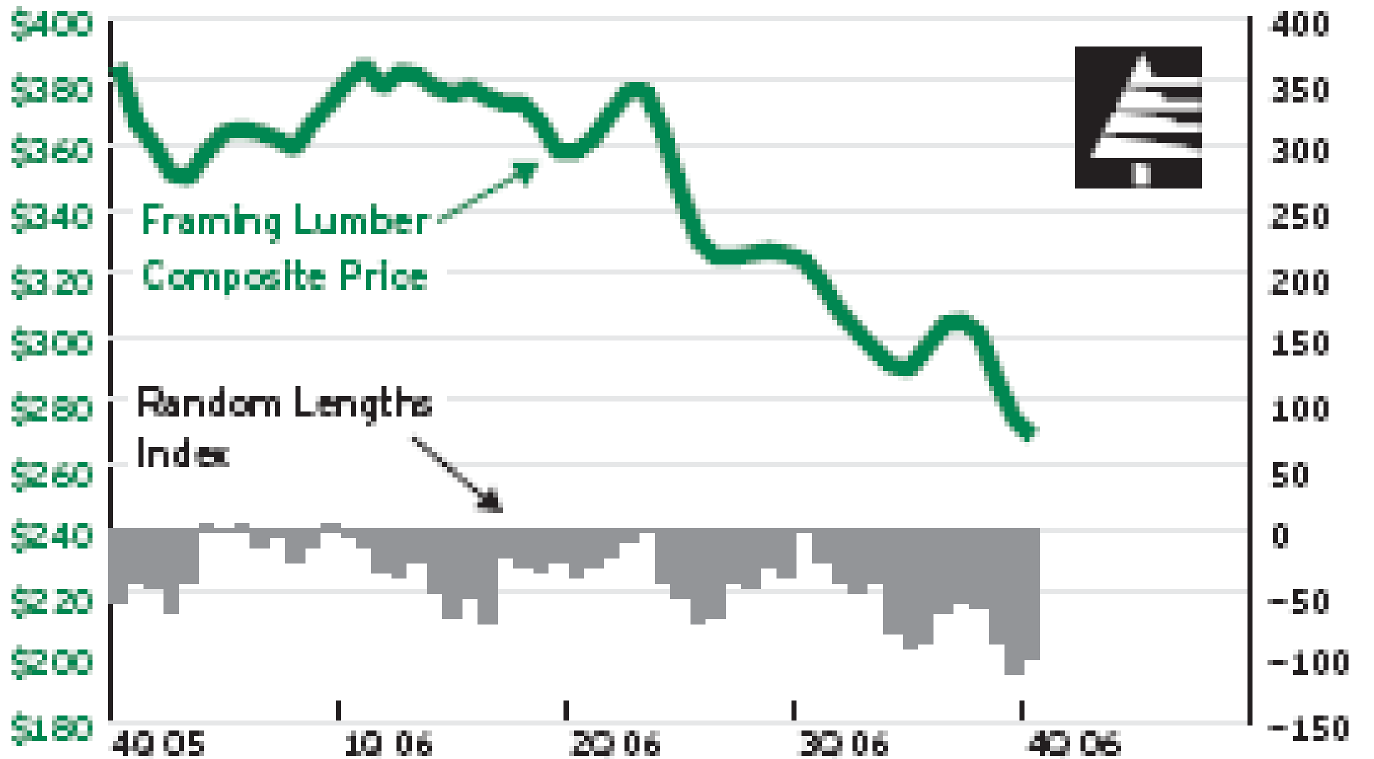
N. American sawn softwood price trends



Source: Random Lengths, 6 October 2006

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