

TIMBER COMMITTEE MARKET STATEMENT

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FOREST PRODUCTS MARKETS IN THE NEW MILLENNIUM

Overview

The Joint Session of the ECE Timber Committee and the FAO European Forestry Commission stressed that forest products markets are an essential part of sustainable management of the forest sector as a whole. Wood and forest products continue to make important contributions to the economy and societies of the ECE region. Markets for products which are of high quality and competitively priced, derived from a sustainably managed resource give value to forests and generate employment as well as revenue to pay for sustainable forest management.

Demand for most forest products in 2000 was strong in both Europe and North America, thanks to strong economies and lively housing markets. Markets in the CIS started to recover, but from rather low levels. However, prices of some products fell. Continental European roundwood markets were perturbed by the windthrow which affected France and a number of other countries in December 1999. In the affected areas, public and private forest owners suffered severe losses, although effects on product markets were not as significant as after the 1990 storm. Measures were taken to mitigate the consequences.

Economic background

In 2000, the economies of Western Europe and North America are experiencing steady growth, of between 3.5 and 4% a year. The short-term economic prospects are good, for continued export-led growth at over 3% for Europe and for a "soft landing" in the United States, although the downside risks associated with the current account deficit, inflated share prices and the rise in oil prices cannot be ignored. The depreciation of the euro has increased the price competitiveness of euro zone exporters. The transition economies of Europe and the CIS are also experiencing vigorous growth, with growth rates higher than in the market economies; nevertheless there is inflation and continued growth in unemployment.

United States housing starts remain solid at over 1.5 million units (seasonally adjusted annual rate) in August 2000. There are however signs of a slowdown associated with a rise in mortgage rates. In Western Europe, the construction market is also strong: new residential construction is expected to rise 2.5% in 2000 and renovation and maintenance by 3.1%. Slower growth is expected for 2001. Growth rates around 10% are expected for new residential investment in the Czech Republic, Hungary, Poland and Slovakia.

Sawn softwood

In Europe, consumption and production of and trade in sawn softwood were forecast to rise sharply in 2000. Forecasts for 2001 are also positive, but the rate of growth is slower, due to signs of slowing construction-related demand. North American consumption was forecast to slow slightly in 2000 and 2001. Russian forecasts signal the end of a steep downward trend with strong increases in 2000 for consumption, production and trade.

With strong markets in 2000, European apparent consumption was forecast to rise by 4.4% to reach a record 91.7 million m³ in 2000. A significant additional increase is not predicted for 2001 as some softening of demand is foreseen. European sawnwood prices ceased to rise in 2000 with the increased supply on the market, due to increased sawmilling capacity.

European production is expected to climb by 5.5%, to a record 96.1 million m³, with the possibility of an additional 1% growth in 2001. In Germany, increased capacity resulted in an increase in production in 2000 of almost 10%. In 1999 Germany became the largest European producer, although it has long been the leading European consumer.

The strong demand for sawn softwood in 2000, both within Europe and overseas, made it possible to absorb additional volumes arising from the European windthrown timber. Exports are forecast to rise by 4.8% in 2000, to 40.5 million m³, and imports are only forecast to rise by 1.8%, so the volume of sawnwood exported outside Europe will increase.

The European share of the Japanese sawn softwood imports could reach 20% in 2000, aided partly by a continuing decline in domestic Japanese production and also partly by the weak euro. European sawnwood has entered the exceptionally strong United States market, and although it currently holds only a 2% share, this market is increasingly important for some countries in central and Eastern Europe, for example Lithuania.

In North America there is a contrast between the outlook for Canada and the United States. United States consumption is forecast to gain 1.3% in 2000 to reach yet another record of 130.1 million m³, propelled by strong residential, non-residential and repair and remodelling demand. An increase of 1% in 2001 is forecast due to softer demand. Demand will be met from higher production (forecast to increase by 1.3% in 2000 to 88.0 million m³, levelling off in 2001) and expanding imports (forecast to increase by 1.8% in 2000 to 45.6 million m³ and by 2.8% in 2001 to a record 46.9 million m³). United States exports are also forecast to rise in 2000 and 2001, by 7.3 and 16.0% respectively, to reach 4.0 million m³ in 2001. Despite this strong softwood market, a combination of extra supply with some substitution by engineered wood products (discussed later) and non-wood products, has driven sawnwood prices to the lowest levels in recent years.

Following gains made in 1999, Canada forecast a downturn in domestic demand for sawn softwood by 12.1% in 2000 to a level of 18.1 million m³ (a 0.8% increase in 2001 was forecast). Exports are forecast to decrease marginally in 2000 and by 3.5% in 2001 to 46.5 million m³. Canada's view emphasizes the uncertainty in the United States economy in 2001. As a consequence, Canadian production is expected to fall in 2000 by 4.0% to 65.5 million m³ and by 2.3% to 64.0 million m³ in 2001.

The forecast for Russian sawnwood markets was more optimistic with exports forecast to jump by 11.7% in 2000 to a level of 6.9 million m³ (still considerably below the levels of 10 years ago). A similar rise in exports was forecast for 2001, to 7.6 million. These forecasts indicate a halt to the downward trend in the Russian sawnwood sector. Russian sawnwood is going to traditional markets in Europe, Japan and Egypt, with small volumes going to the United States.

Russian production decreased again in 1999 to 15.1 million m³. Despite this drop in 1999, export volumes rose dramatically, by 32%, arising from sharply reduced domestic consumption. Russian production is forecast to increase by 10.4%, to 16.7 million m³, in 2000. In 2001 sawnwood production is forecast to rise by 4.8%, and as consumption was forecast to remain steady, these sawnwood volumes will be exported.

The need to improve sawnwood consumption was seen as necessary to build markets for the increasing production volumes in the ECE region. Producers' attention to quality and consumer requirements is essential to maintaining or increasing market share. In some European markets, there is growing interest in timber-frame housing. It is important to stress from the outset the importance of maintaining the quality of wood-frame housing, in order to protect this market.

Sawn hardwood

Demand for sawn hardwood was forecast by the Joint Session to advance to new record levels in the ECE region in 2000 and 2001. This strong market situation is especially important in Europe where millions of cubic metres of high-quality sawlogs were subject to windthrow in the December 1999 storms. In North America, the high level of residential construction and remodelling has created demand for sawnwood for flooring, millwork and mouldings. A halt to the decline in hardwood consumption in Russia is forecast to occur in 2000 and 2001.

In Europe the need to mobilise the storm-felled quality hardwoods before the onset of stain, decay and attack by insects was facilitated by strong end-use markets within Europe, for example for furniture and flooring, as well as strong overseas markets, for example for white oak wine barrels. Despite the firm demand for sawnwood, the heavy supply on the market resulted in weaker prices for beech sawnwood, while oak sawnwood prices remained firm. The traditional problem of profitable outlets for lower quality sawnwood has continued.

Consumption in Europe of sawn hardwood was forecast to rise strongly in 2000, by 4.5% over the previous year, to 18.9 million m³, with a slight increase forecast for 2001 of 0.6%. Production is expected to rise sharply in 2000, by 8.4%, to a record of 15.6 million m³, partly under pressure to process the windthrown sawlogs before they deteriorate. Another production rise of 1.8 million m³ is forecast for 2001, to nearly 15.9 million m³.

Sawn hardwood trade in Europe was active, both within the region, as well as imports from North America. Considerable volumes of sawnwood were exported to Asia, especially China and Japan. The session forecast that 5.5 million m³ would be exported in 2000, a rise of 12.7%. This level could be surpassed in 2001 with an increase of 3.4% to reach 5.7 million m³. The Chinese beech market was said to be temporarily oversupplied and prices there were falling. This unfavourable situation, in what has become an important export market for ECE exporters, is expected to be resolved through increased Chinese demand, partly as a result of increased residential construction due to new government policies. Nevertheless the level of future exports of sawnwood to China was questioned as its domestic sawmilling capacity expands.

France and Germany, Europe's leading sawn hardwood exporters, forecast 44.7 and 21.3% increases in exports in 2000, mainly due to the necessity of converting storm-felled timber. With further increases in 2001 forecast, France would export 0.9 million m³ and Germany 0.6 million m³. Concern was expressed for the future supply of high-quality sawnwood to support the European sawmilling industry following the clean-up of the storms and destocking of stored logs. Central and eastern European countries forecast active hardwood exports in 2000; for example Romania up 23.6% to 0.5 million m³, Latvia up 18.3% to 0.4 million m³ and Poland up 23.4% to 0.4 million m³.

In North America the strong upward trend in consumption and production is forecast to continue, especially in the United States. The consumption of sawn hardwood in the United States is forecast to increase in both 2000 and 2001, by 0.7% and 1.6% respectively, to new record levels of 31.7 and 32.2 million m³. Production is increasing in parallel.

Of significance is the increase in the United States sawn hardwood exports by 3.3% in 2000 and by 3.9% in 2001 to a record level of nearly 3 million m³. Canada expects a 9.0% increase in exports in 2000, to 1.5 million m³, but a decrease in 2001 to 1.4 million m³. Nonetheless, the markets in Europe and Asia were forecast to be stronger in 2000, but possibly not strong enough, perhaps due to competition from supplies of storm-related sawnwood, to maintain firm prices. The strong dollar is putting some North American offshore exports under pressure.

Tropical sawn hardwood markets were discussed at the session. The ECE region, primarily Europe, is important for the tropical sawnwood trade. Imports were forecast to rise slightly in 2000, to 2.1 million m³, but to fall back to 1999 levels in 2001. Since 1996 the decline in tropical sawnwood imports ended, but they have not regained previous levels. Nevertheless the imports of tropical wood into Europe are increasing, more and more in the form of secondary processed wood products, for example, for outdoor furniture.

Wood-based panels

Consumption of wood-based panels (particle board, plywood and fibreboard) in Europe is expected to continue to expand by 2.6% in 2000 and a further 1.7% in 2001 to a new record level of 53.8 million m³. Significant production increases are forecast for the same period as a consequence of new installed capacity of medium density fibreboard (MDF), particle board and oriented strand board (OSB).

The strong growth in North American wood-based panels markets is expected to continue in 2000 and 2001, but at a much slower pace than in previous years. Consumption is forecast to rise marginally to a new record level of 56.3 million m³.

The recovery of economic activity in the Russian Federation is reflected in the wood-based panels sector. Consumption is forecast to rise by 15.2% in 2000 to 3.4 million m³, and a further 1.9% increase is expected in 2001. Wood-based panels exports are also forecast to rise by 9.7% in 2000 and 5.7% in 2001. Plywood, mostly birch, continues to be the main panel exported by Russia, the major markets being the United States, the United Kingdom and Germany.

Particle board production in Europe is foreseen to increase by 4.1% in 2000 and 1.9% in 2001 to 38.5 million m³. Among the major producing countries Germany, France, United Kingdom and Poland expect significant increases. No major production cutbacks are announced. The rapid expansion of OSB production is expected to continue as newly installed mills come on stream. OSB is facing the competition of cheaper imports of coniferous plywood from Brazil in certain producing countries, such as Ireland and the United Kingdom, and their export markets.

Overall fibreboard consumption in Europe is forecast to increase by 5.8% in 2000 and 3.3% in 2001 to 11.7 million m³. Most of these developments concern MDF, as hardboard consumption is expected to remain around 1999 levels and a marginal increase is expected for insulating board. MDF markets which were already very competitive will have to adapt to increased production levels as new capacity comes on stream. Germany expects to increase production by 38%, while France, United Kingdom, Portugal and Romania also expect increased production levels.

European plywood production is forecast to rise by 3.6% in 2000 and a further 2.7% in 2001 to 4.3 million m³, as a result of increased capacity in Finland, mainly of spruce plywood. Finnish production is expected to rise by 30% to 1.3 million m³, most of this increase being exported.

In North America, plywood production is expected to drop by 0.9 % both in 2000 and 2001 to 17.5 million m³. This is due to lower production in Canada. In the United States production is expected to stabilize at 15.7 million m³ during the same period.

In the structural panel sector in North America, OSB now represents 52% of the total. OSB is expected to continue to gain market share on softwood plywood. Canadian and United States production combined is forecast to increase by 5.1% in the period to 2001, to reach 18.9 million m³. In the second half of 2000 increased capacity contributed to a decline in OSB prices.

Particle board production in North America is expected to rise by 4.9% in 2000 and then drop by 2.2% in 2001. In Canada, the industry is running at nearly full capacity.

North American MDF production is expected to increase by 6.1% in the period to 2001 to 3.7 million m³. As in Europe, changes in the North American fibreboard industry are due solely to MDF. Production of hardboard and insulating board are forecast to maintain the 1999 levels.

The discussion showed the dramatic growth and prospects for the future of engineered wood products (I-beams and panels) in North America and Europe. Glulam, I-beams and LVL are substitutes for sawnwood and non-wood building materials. Among the advantages of EWPs is that some of them use smaller diameter timber and alternative species as raw material to achieve acceptable strength characteristics.

The manufacture and use of engineered wood products (EWPs) are expanding globally. Trade in EWPs is small compared with that of other wood products, but as a percentage of their production, the volume of trade is significant. Glulam timbers are being employed worldwide, while structural wood I-beams are primarily a North American product. However, LVL is rapidly gaining popularity in Asian markets. Two key forces driving North American demand are the prevalence of wood-frame construction and the changing nature of softwood fibre supply. EWPs in North America, Japan, and the Nordic countries are consumed primarily in structural applications in residential markets but also in non-structural applications in continental Europe. In Japan these products are being increasingly adopted in the traditional post and beam housing sector.

Wood raw material and pulp

In conditions of strong demand for products, the continental European roundwood markets were severely disturbed by the effects of the storms in France, Germany, Switzerland, and neighbouring countries in December 1999, which felled over 190 million m³ of wood, of which nearly 140 million m³ was in France alone. Measures were taken by forestry, forest industry and public authorities. The aim is to minimize the consequences, notably by reducing fellings in undamaged forests, providing subsidies and by low-interest loans to support forest owners affected by the storms. They are facing high costs of harvesting and transporting damaged wood and, where possible, try to spread the market impact over time by storing logs for a certain period of time. New export markets have been found, or established ones expanded, for instance to China, and wood energy markets are being developed. Nevertheless, in some cases prices of roundwood fell sharply in affected regions. However, the forecasts for the Joint Session show only a small increase in European removals (of 18.3 million m³, or 4.6%) between 1999 and 2000, and a small fall in 2001, as harvesting in unaffected areas is delayed to allow the marketing of the windthrown material. A certain amount of the windthrown wood will probably remain in the forest. The United States forecast an increase of removals of 5 million m³ in 2000 to just over 510 million m³, while Russia forecast an increase of about 7 million m³ to 118 million m³.

Softwood logs

Softwood log markets in continental Europe reflect the effects of the December 1999 storms. Production of sawlogs and veneer logs is forecast to increase by 5.9%, to 160.2 million m³ in 2000, and to remain high in 2001. Considerable volumes have been stored to control their release to the market in order to reduce future price decreases. In affected areas, prices of softwood sawlogs fell by 30 to 50% from 1999. Some of the storm-damaged timber will be left in European forests, especially where it is uneconomical to remove, for example because of inaccessibility.

The log trade has been active in Europe in 2000 as much of the windthrown timber was exported from countries hardest hit by the storms, specifically France, Germany and

Switzerland. European exports were forecast to increase by 17.4% in 2000, to 10.2 million m³, falling back by the same amount in 2001 as markets regain equilibrium. Imports were forecast higher too in 2000, rising 7.7%, to 10.9 million m³, as considerable trade occurred within Europe. Imports were forecast to rise further by 5.0% in 2001, presumably as more storm-felled logs are harvested.

In North America log production is forecast to remain almost steady in 2000 and 2001 at approximately 312 million m³. Russian log exports, mainly to Finland, the Baltic States, Japan and China are greater, at 12.6 million m³, than the other subregions of the ECE. A slight increase was forecast for 2000 and no change for 2001.

Hardwood logs

European supply of hardwood logs is expected to rise under the influence of the storm damage by 2.4 million m³ (7.1%) in 2000, to 36.9 million m³, and then to fall back slightly. For some species, notably beech, it has been important to cut and process the logs quickly to avoid staining and loss of value of the logs. Another feature of the situation has been the export of logs, notably beech, to new destinations, including China, which has become the main importer of logs in the world. The price of oak logs was less affected than that of beech. Demand for oak from user sectors, including barrel stave makers (a growing market) continued strong. By far the largest producer of temperate logs is the United States, whose removals are expected to increase from 73.9 million m³ to 75.0 million m³ in 2000, an increase of 1.5%.

Most of Europe's tropical log imports originate from Africa, where a number of countries have been imposing log export bans. Several tropical log producers have been working together with international agencies to reduce the incidence of illegal logging, which is especially prevalent and difficult to suppress in zones of conflict. Several tropical log producers are endeavouring to export value-added (secondary processed) goods, rather than logs or sawnwood.

Pulp

Pulp production, the main determinant of pulpwood demand, remained roughly stable in 1999 and 2000 in volume terms, although the price of market pulp rose strongly from early 1999 to summer 2000. This increased profitability was a result of pulp capacity reduction bringing supply back into more balance with demand.

Pulpwood

Apparent consumption of pulpwood in Europe is forecast to rise by 4.9% to 188.6 million m³, with growth rates of 5.8% for Sweden and 2.5% for Finland. France forecast a rise of over 7% in pulpwood consumption, to 21.7 million m³. By assortment the rise was rather faster for coniferous round pulpwood than for the other two pulpwood assortments.

Russia forecast an increase of pulpwood consumption of 2 million m³ in 2000 and a further 2 million m³ in 2001. United States pulpwood production is forecast to increase marginally in 2000 and 2001 (about 0.3% each year).

European pulpwood imports are expected to rise by over 4%, to 34.8 million m³, with strong rises in Finland and Sweden, who, between them account for about half of European pulpwood consumption. Most countries expect their exports to be stable, except France which foresees an increase of 40%, because of the necessity to dispose of some of the storm damaged timber, some of which will be exported.

There has been increased policy interest in the use of wood energy, because of the need to contribute to mitigating climate change, gain new market opportunities for forest owners and to react to high oil prices. This policy interest may also create additional chances to utilize windthrown timber that is not suitable for other uses. However, as yet, there are no data to record changes in real consumption patterns.

Certified forest products

The Commission's interest in developments in certification of sustainable forest management and the Committee's interest in the markets for certified forest products (CFPs) were combined in a discussion on their status. CFPs come from forests meeting recognised standards for sustainable management.

The area of forests certified continues to expand rapidly, and there is increasing acceptance of the process of certification. As a result the potential supply of CFPs seems to be growing faster than market demand, but it was noted that this demand continued to be largely from retailers - not final consumers.

Over 90% of the world's certified forests are in the ECE region and little is in the developing countries where the problem of forest management is greatest. The main market for certified products continued to be in parts of Western Europe.

In the ECE region the progress being made by the new Pan-European Forest Certification system was noted: the first products labelled under this scheme are expected on the market in 2000. It was indicated that this will double the forest area certified in Europe within 2 years. This was seen as a basis for further progress in the moves towards some form of mutual recognition between certification schemes, a subject that is receiving increased attention.

The lack of clear information on the market situation for certified products was stressed. It was indicated that a number of questions remain, particularly regarding the extent of present and future market demand, and price premiums. Concern over certification's potential to act as a barrier to trade was also mentioned. Certification should remain as a voluntary market-based instrument to promote sustainable forest management. Delegates indicated the usefulness of the information provided by the Timber Committee on CFPs and requested that this work be continued.

Secondary processed wood products

For the first time, the session reviewed trends in markets for secondary processed wood including furniture, joinery (doors, windows etc.), mouldings etc. The trade in these products is growing faster than that of primary products in both temperate and tropical species. Most of this trade either has its origin or its destination, or both, in the ECE region. The region is the world's major producer, importer and exporter of SPWPs, although a number of Asian countries are significant importers and exporters. Furniture is the most traded SPWP in the ECE region. Overall the region is a net importer of furniture although Italy is the world's largest exporter.