

UN/ECE TIMBER COMMITTEE MARKET STATEMENT ON FOREST PRODUCTS MARKETS IN 2003 AND 2004

Abridged version - the entire official text of the Market Statement was adopted by the UN/ECE Timber Committee at its sixty-first session in Geneva, Switzerland, 10 October 2003 (www.unece.org/press/pr2003/03tim_n02e.htm)

Overview of Forest Products Markets in 2003 and 2004

Forest products markets in the UNECE region were forecast to remain at high volumes in 2003, although oversupply appeared in several sectors. However the outlook for 2004 is for little change, with the exception of Russia and the central and eastern European countries (CEECs), interpreted as uncertainty about economic conditions. Certain subregions, for example CEECs and the Commonwealth of Independent States (CIS), principally Russia, are benefiting from high GDP growth, availability of wood raw materials, low labour costs and favourable government policies creating a climate for international investment. In North America, wood products market demand is at a high level due to the strong US housing construction, where more than 95% of houses are built from wood products. Western Europe is currently experiencing weakness in housing construction and associated demand for wooden furnishings and millwork, although some optimism was expressed for 2004.

The Timber Committee examined illegal logging, an issue affecting forest products markets. Forest law enforcement, governance and trade (FLEGT) is at present the main issue in the forest sector and the Committee's annual Market Discussions provided a forum for a multi-stakeholder discussion. Illegal logging denies revenues to governments, industries and forest owners, puts downward pressure on forest products prices, negatively affects workers and compromises sustainable forest management. The Committee wants to work together with other organizations to determine the extent and causes of illegal logging and trade.

Certification of sustainable forest management was discussed as a means of ensuring the source of wood products, however currently a lack of chain-of-custody documentation is an obstacle to bringing the growing volume of certified forest products to market with an identifying label. The area of certified forestland has grown to approximately 160 million hectares worldwide,

under specific forest certification schemes, of which most is in the UNECE region. In environmentally-conscious markets, certified forest products are gaining recognition, but mainly at the business-to-business level. Public procurement policies, in favour of wood products originating from sustainably managed forests may become important drivers, e.g. in Germany, Denmark, Netherlands and the United Kingdom. The lack of a price premium for certified forest products and of comprehensive mutual recognition of certification schemes remain outstanding concerns.

Wood-based energy has been and is being promoted by governments and forest owners throughout Europe as a means to improve forest viability, provide rural employment, promote renewable resources and reduce CO₂ emissions from fossil fuels, and thereby mitigate climate change. In treating this topical issue, the Committee felt wood energy should be promoted by governments, noting an excess of growth over removals in the region's forests, while acknowledging the concern of some industry sectors for raw material competition.

The Committee discussed markets for certified forest products, value-added forest products, sawn softwood, sawn hardwood, panels, pulp and paper and wood raw materials. The theme of this year's discussions was the market effects of wood energy policies. Developments in 2003 and forecasts for 2004 in these sectors are detailed below.

Economic Situation

Global activity picked up in 2003 after a pronounced cyclical downturn. North America remains the main engine of growth, although there are persistent concerns about the ability of the United States to increase growth, in view of developments regarding interest rates, unemployment, trade and budget deficits, and exchange rates. Most western European countries show continued stagnation while eastern Europe and the CIS have demonstrated strong resilience

to the weakening of the growth forces in western Europe. The US housing market remains strong although long-term interest rates have edged up. The euro has appreciated against both the dollar and the yen. GDP growth in North America in 2003 will be about 2.6%, compared to 1.0% for western Europe. Stronger growth is expected for 2004: 3.8% for North America and 2.1% for western Europe. GDP in eastern Europe is expected to grow by 3.6% in 2003 and 4.4% in 2004, while in the CIS, the corresponding growth rates are 6.2 and 5.1%. There remain however downside risks, related to the robustness of US consumer spending, the consequences of the stronger euro, persistently high oil prices and the impact of the United States' large current account deficit.

Sawn Softwood

Sawn softwood markets are forecast to remain steady at high volumes in both Europe and North America in 2003 and 2004. Sawn softwood demand from the extraordinarily strong US housing market, at 1.7 million houses annually, continued to drive not only imports from the traditional supplier, Canada, but also from other countries. Globalization is transforming sawnwood trade. The US is increasing imports of sawnwood, and further-processed sawnwood products, both from within the UNECE region, but also from outside, for example plantation-grown softwood from the southern hemisphere.

US imports from Canada continue to be subject to the 27% duty imposed following the end of the Softwood Lumber Agreement. It was noted that trade disturbances such as the U.S. anti-dumping and countervailing duties on Canadian sawn softwood have underlying impacts such as the transfer of trade to other countries. Such formal trade actions can lead to fundamental changes such as increases in manufacturing efficiency. Canada forecast a 4% increase in exports in 2004 to reach 36 million m³, overcoming a forecast dip in 2003. Most of these increases will be to offshore markets, particularly in Asia.

Despite the weak US dollar in 2003, offshore exporters were able to expand their share of the US market. As was the case for Europe in 1993, North America's increasing imports could turn the subregion into a net importer in the near future. Sawnwood prices in North America have been weak in an oversupply situation, but some strengthening in prices is evident in Europe.

Russian sawnwood prices remain below western prices, but sawmills in Russia are economically viable because of low labour costs.

The Timber Committee discussion included policies promoting the sawn softwood sector. The Russian sawmilling sector development is benefiting from favourable government policies which have also created the conditions for increasing international investment that will add another 1 million m³ in production capacity. Russian sawn softwood exports are forecast to grow by 5% in 2003 and again by 6% in 2004 confirming recovery of the sector's exports to levels greater than the former USSR. Growth has been strongest for exports to non-UNECE region countries, especially China, which doubled its sawnwood imports from Russia between 2000 and 2002, and to other CIS countries, which have now regained levels of the former USSR, and become, as a group, Russia's most important export destination. Policies are being developed to promote increased domestic consumption of sawnwood in housing and industrial construction. Some Russian sawmills envisage their residues will be increasingly used for energy production, both within the country and also in western Europe due to government policies promoting renewable energies.

Sawn Hardwood

Sawn hardwood markets in the UNECE region are forecast to remain steady overall in 2003 and 2004. In Europe a furniture crisis occurred in 2002: growth in furniture demand stopped, leading to a drop in sawn hardwood demand. Throughout the UNECE region, increasing imports of furniture from outside the region are displacing domestic production, negatively affecting both sawnwood and panels demand. For example, China has quickly risen to become the second largest furniture exporter in the world behind Italy. The acceleration of trade in hardwood dimension (cut-to-size and defect-free parts) is displacing some sawnwood trade, which is a positive development when it maintains hardwood demand.

Romanian production and exports of sawn hardwood were forecast to accelerate in 2003 and 2004 in contrast to more subdued forecasts for other countries. Exports of sawn hardwood are forecast to expand by 23% in 2004, confirming Romania as Europe's largest sawn hardwood exporter. Government policies have opened

Romania to foreign investment. In addition, policies now promote exports, especially of sawnwood, panels and value-added products such as furniture.

Oak is once again becoming fashionable in Europe, along with other “dark” species, such as cherry. In discussion, the Committee felt the renewed interest in oak was in part due to successful promotional campaigns, such as “J’ai choisi le chêne” (I chose oak) in France.

In Europe, despite the lack of public awareness, the business-to-business demand for sawn hardwood that is certified as coming from sustainably managed forests is growing, however the availability of supply is not keeping abreast of demand. Reasons include: chain-of-custody problems, lack of a price premium, issues related to indigenous rights, etc. Tropical hardwoods have difficulty achieving certification in part due to small-sized holdings. Tropical forests are often seen as sources of illegal logging, but some of the allegations made appear to arise because of inadequate national accounting of production and exports.

Wood-based Panels

Consumption of wood-based panels (plywood, particle board, OSB and fibreboard) in Europe in 2002 attained a new record level of 54.1 million m³, slightly higher than in 2001. This result was due to the positive development of the sector in the central and eastern European countries, where consumption increased by 17.4%, while it fell by 2.3% in western Europe. The Committee forecast for 2003 a drop in consumption of 1.9% in Europe as a whole. A slight recovery is expected in 2004. In the Russian Federation consumption in 2002 increased by 10.7% to a record 4.7 million m³. This trend is forecast to continue in 2003 by 13.2% and in 2004 by 7.8%. In North America thanks to the continued strong construction sector, consumption went up by 4.7% in 2002 but is expected to fall slightly in 2003, by 0.8% to 60 million m³ and remain at this level in 2004.

Panel production in general remains at high levels but the industry is facing short-term overcapacity and low prices. Rationalisation has been taking place in the less competitive plants while capacity expansions at the scale of the last decade seem to be over. There are still prospects for technology improvements, better product quality, higher value added products and enhanced service.

For all panel types, European manufacturers are worried about the increase in raw material costs. In particular, they feel that the availability of supplies of raw material for panels is coming under increased pressure because of the policy in many countries to promote the use of wood for energy. It was pointed out that the panels industry performed a valuable ecological function in utilizing low-quality wood, recycled wood and wood residues.

Paper, Paperboard and Wood Pulp

European consumption of paper and paperboard is expected to expand by 1.9% to 92 million metric tonnes (m.t.) in 2003 and a further 1.1% to 93 million m.t. in 2004, both record levels, with similar rates of growth for production and rather faster growth for trade. Russian consumption will grow faster, by nearly 9% in 2003 and 7% in 2004, as per caput consumption levels converge on those of Europe and North America. In North America however, consumption of paper and paperboard, at just over 98 million m.t. in 2002 was well below the records attained in 1999 and 2000, and is not expected to expand significantly in the medium term. This reflects some structural changes in the economy, such as the shift from manufacturing to services and weakness of advertising in paper-based media, as well as overcapacity in the sector.

Despite rising production of paper and paperboard, consumption of wood pulp is expected to stagnate or decline in Europe and North America. In Europe, wood pulp now accounts for less than half the raw material used for paper and paperboard production, as the use of recovered paper expands rapidly. This trend is expected to continue, as it is in line with policy objectives and the commitments of the industry to develop recycling. It was pointed out that the pulp and paper sector is the largest producer and user of wood energy.

In Russia, production and exports of wood pulp will expand in 2003 and 2004. Exports will grow by over 3% in 2003 and a further 2.6% in 2004, to reach 2 million m.t., out of total production of nearly 6.8 million m.t.

Wood Raw Materials Including Wood Energy

In the UNECE region, roundwood removals are expected to grow in the period from 2002 to 2004. The highest growth, of 2.0%, is forecast for the

CIS subregion. For the first time in 2004 consumption is expected to increase faster than production, by 4.1% annually. Roundwood exports are expected to stop growing, after continuous growth since 1996. While the majority of these exports are legal, some come partly from illegal logging. There is an increasing concern that illegal logging is affecting global forest products markets. The lack of verifiable information makes it difficult to provide more robust analysis of the situation. There is a need for much better information on the extent of illegal logging.

Removals in western Europe are growing by 1.5% per year. This rather high growth is likely to be related to recovery to normal levels, after extraordinary removals in 2000, caused by the storm damage, followed by reduced fellings during 2001 and 2002. The growth of removals in central and eastern Europe is low at 0.2% per year. The only downward trend is forecast for North America, the biggest producer and consumer of roundwood, with an annual decrease of 0.5% in 2002 to 2004. Timber harvests from US national forests continued to decline, but at a lower rate than in earlier years. Russia remains the biggest exporter of roundwood, while western Europe is expected to remain the biggest importer in the UNECE region. The trade surplus for roundwood in North America declined for the fifth consecutive year.

Raw material costs for sawmills and pulp mills have been falling in many subregions. There are two main reasons for this: oversupply of roundwood and wood chips, and lower market prices for manufactured forest products. However, an opposite trend exists in some cases in central and eastern Europe. Roundwood exports from Russia to western Europe as well as to Asian markets are expected to remain at current high levels or even to increase further through 2004, although there is a policy intention to develop wood processing and increase export of processed products.

Wood represented about 6% of the total EU primary energy production in 2000, and almost 15% of the total roundwood removals in the UNECE were used as fuelwood in 2002, mostly in CIS. The Committee noted that further analysis of the use of wood for energy purposes requires more robust data and information. In some countries, weak demand has led to accumulation of growing stock in over mature stands, some of which are showing signs of instability. Stimulation of new demand, for instance for fuelwood, would help to resolve this situation.

The hot, dry summer of 2003 influenced roundwood markets: several countries reported forest damage, notably insect infestations and fires, due to the weather conditions. Market stabilisation measures are being undertaken in a few areas.