

UN/ECE TIMBER COMMITTEE AND FAO EUROPEAN FORESTRY COMMISSION STATEMENT ON FOREST PRODUCTS MARKETS IN 2004 AND PROSPECTS FOR 2005

Abridged version - the entire official text of the Market Statement was adopted by
the UN/ECE Timber Committee based on the Forest Products Annual Review 2003-2004
at its sixty-second session in Geneva, Switzerland, 8 October 2004
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Overview of Forest Products Markets in 2003 and 2004

The UNECE Timber Committee and the FAO European Forestry Commission discussed the links, interactions and the impacts that forest policy and market policy have on each other. As the forest sector in the UNECE region strives to enhance the economic viability of sustainable forest management, success in the market for producers who do not practice sustainable forest management poses a threat to the ability of forests to supply multiple benefits. Healthy forests need healthy markets (and vice versa). In this climate the influence and impact of policies made outside the sector must also be carefully addressed.

Global forest products markets are becoming ever more competitive: new sources of low-cost wood supplies are emerging, forest product companies are becoming increasingly international in scope, and trade flows are changing rapidly. Low-cost producers in every market sector are putting severe price pressure on their competitors worldwide. If they are to survive, companies have to maintain and improve their competitiveness, making radical strategic changes as necessary, and taking full account of trends in global markets.

Spectacular developments are taking place in China's forest products sector, which is importing and processing roundwood and sawnwood from many sources, including from the UNECE region and particularly Russia. Products are either for the rapidly expanding Chinese domestic market or for export as further processed products, including furniture, mouldings, doors, etc. Low-cost raw material, transport and labour with 17 million additional workers per year, combined with favourable government policies to promote foreign investments in large modern mills, have already enabled Chinese exporters of value-added forest products to gain large market shares in North America, forcing domestic companies to close or take radical measures to improve their competitiveness. In some cases this has had negative consequences for local communities, as well as for the economic viability of forest

management in affected areas. Concerns were expressed about similar impacts on European markets in the future.

Russia's economy continues to expand strongly and government policies have facilitated foreign direct investment in many sectors, including the forest sector. As a consequence, production and exports of forest products have recovered for some sub-sectors beyond pre-transition period levels, although domestic consumption of sawnwood and paper products remains weak. A new Forest Code is under consideration by the Duma, which seeks a balance between the economic, environmental and social aspects of forest management. The new code may provide opportunities for private ownership of forestland in the future.

Certified forest products

Considerable discussion revolved around the evolution of certification as its policies and issues affect both forests and markets. Worldwide certified forest area is nearing 200 million hectares, approximately 5% of the total forest area. 95% of the certified forests are in the UNECE region with the greatest most recent gains being in Canada, where there has been a tripling of certified area in the past two years. In Russia, which accounts for over 20% of the world's forests, first steps are being taken by the industry, certification systems and the government to develop and apply certification. To date, certification has not made a significant contribution to halting tropical deforestation.

Demand for certified forest products is coming from within the wood chain, business-to-business markets (wholesalers and retailers), but not yet from final consumers. Despite recent moves towards more cooperation between certification schemes, the lack of mutual recognition between schemes may confuse consumers. Chain of custody (CoC) certification to trace forest products back to their source is expanding. Several initiatives are under way to assess certification schemes and increase transparency.

National and local government procurement policies in some countries increasingly influence wood consumption and require that wood products come from sustainably managed forests. Similar policies are being developed in other countries. If these procurement policies are too rigidly specified, or favour one certification scheme, they could limit the use of wood by public authorities, in favour of other, non-renewable, materials.

Forests contribute to mitigating climate change by sequestering carbon in growing trees and in forest products, by consuming relatively little energy in processing and by substituting for non-renewable products and fossil fuels. These advantages of forests and wood should be emphasized in formulation of policies for climate change.

Forest law enforcement, governance and the implications for trade are key issues affecting the entire wood sector, from forest to markets. Illegal forest activities are occurring worldwide, including within the UNECE region, and government policies and intergovernmental measures are being put in place to deal with domestic situations and also the trade of illegally derived wood. The EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan provides for border controls, licensing schemes and partnership agreements between importers and exporters.

The Committee and the Commission reviewed the outcomes of the UNECE/FAO workshop held on 16-17 September 2004 in Geneva on "Illegal Logging and Trade of Illegally Derived Forest Products in the UNECE Region". The workshop focussed on the causes, extent and consequences of illegal forest activities and trade, and was based on reports and interventions by 37 countries within the region. The workshop concluded that illegal logging and trade of illegally derived forest products exists in all countries within the UNECE region, although the prevalence and significance vary widely (from less than 1% in most countries in the region to over 35% of legal harvests in a few). The Committee and the Commission decided that UNECE/FAO should contribute to the regional efforts to improve forest law compliance.

Overall economic outlook

The global recovery is well established but its momentum has weakened. Higher oil prices are dampening economic growth, and there remain important downside risks. The recovery in the US

is expected to continue but to weaken, while in the euro area, recovery is fragile, uneven and strongly dependent on export growth. However growth in Eastern Europe will be robust and the boom in the CIS will continue. Growth rates in 2004 will range from 1.8% in the euro area to 7.6% in the CIS, with growth in North America being up to 4.2%. For 2005, growth rates around 2.0% are foreseen for the euro area, 3.5% for North America and 6.0% for the CIS.

Market Sector Developments

Sawn softwood

Consumption of sawn softwood in the UNECE region reached record highs in 2003 and was forecast to rise strongly in 2004, by 1.4%, to reach 221 million m³, and then make slower gains in 2005. The region's exports were forecast to rise in 2004 by nearly 4%, but to fall back in 2005 by 1.5%. Russian exports are forecast to rise by 7% in 2004 and again in 2005, reaching 11.6 million m³, full recovery from pre-1990 levels. Russia's consumption is forecast to increase in 2005, following a steep decline during the last decade. In North America, the 2 million -strong housing market in 2003 drove demand for sawnwood, and other primary and value-added wood products, and sawnwood prices are at near record highs. The softwood lumber dispute between the US and Canada continues to affect trade. Canadian exports to the US are subject to 27.2% duties. Recent NAFTA and WTO rulings generally favour Canada. A mountain pine beetle outbreak has been ravaging parts of British Columbia (Canada). The provincial government has increased its annual allowable cut in the affected area by 27% (an increase of 4.9 million m³ for the province as a whole) to control the epidemic and salvage the wood before it stains, rots or becomes a fire hazard.

Sawn hardwood

Sawn hardwood markets are forecast to grow in Europe, confirming signs of recovery in 2003, with consumption rising by 2.4% in 2004 and again in 2005 by 1.6%. Trade in Europe is forecast to be active, with a 2.1% rise in European imports in 2004, and another 1% in 2005. Among major European producers, particularly fast growth is expected in Romania. US exports are forecast to approach 3 million m³ in 2005. Markets for certified hardwood are strong in some western European countries with significant demand by architects, especially those working on publicly-funded projects.

Wood-based panels

The panel industry in 2003 showed higher output and consumption levels, following two years of depressed markets and low prices. The forecasts for 2004 and 2005 confirm this trend. However, countries remain cautious and apparent consumption in Europe will probably increase marginally in 2004 and by 1% in 2005 to 57.8 million m³. The same is true in North America and in 2005 consumption will reach 63.8 million m³. Supply/demand imbalances pushed Oriented Strand Board (OSB) prices in 2004 to record highs in North America. However, the Russian Federation forecasts consumption to grow by 6% in 2004 and by a further 5.2% in 2005, to reach 6.4 million m³. Major increases are expected in the plywood, particleboard and Medium Density Fibreboard (MDF) industries in Russia.

Pulp, paper and paperboard

In Europe and the CIS, paper and paperboard consumption will rise at about the same rate as the economy as a whole (2.2% in Europe and 7.7% in Russia in 2004), but in North America consumption and production are expected to increase only marginally in 2004 and stagnate in

2005. Exports from central and eastern Europe are increasing, due in part to increased investment in the subregion. Pulp production and consumption in Europe are expected to grow steadily in 2004, and slightly more slowly in 2005. Growth rates are higher for Russia, especially for domestic pulp consumption, which is now growing considerably faster than exports. However, in value terms, Russia is a net importer of paper, as imports of high-value assortments have outstripped exports of commodity grades. In North America however, pulp production will stagnate and consumption fall slightly, because of weak paper demand and ample supplies of recovered paper.

Wood raw material, including wood energy

In the UNECE region, roundwood removals are expected to grow marginally in 2004 and 2005, in line with product demand. Consumption of wood for energy is rising rapidly driven by government policies and market demand. The steep rise in oil prices also stimulates the use of wood for energy. There is competition for low-quality wood between energy, pulp and panels. An urgent need exists to improve data and understanding of trends for wood energy to formulate satisfactory policies.