

ECONOMIC COMMISSION FOR EUROPE

Timber Committee

FINLAND

September 2010

MARKET STATEMENT

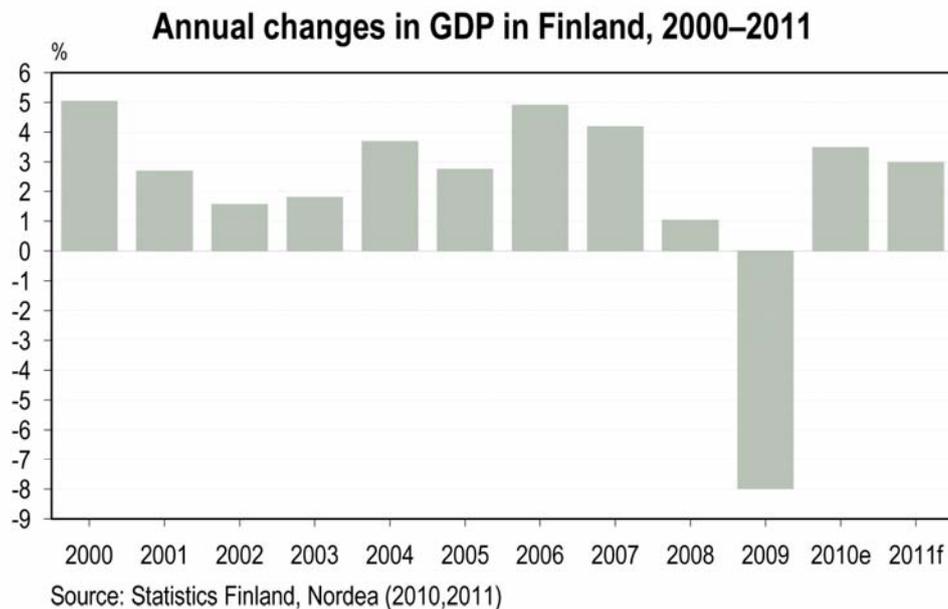
1 GENERAL ECONOMIC TRENDS

Along with the global economic slowdown, Finnish GDP decreased 8 percent in 2009. Mainly this was due to the sharp decline in exports which decreased over 20 percent with respect to 2008. Also, even though private consumption decreased only slightly, investments decreased almost 15 percent.

The beginning of this year has shown positive signals of economic recovery in Finland. During the second quarter of the year, the total industrial output increased 4 percent in year-to-year terms. Also, the exports volumes have shown essential upswing, and it is expected that exports will increase 10 percent in 2010. According to the recent Finnish business tendency survey the confidence for the economic performance for the rest of the year remains strong as well. The recent consumer confidence survey implicates increasing consumer confidence, which is supported by low interest rates, increasing real disposable income and much lower unemployment rate than that of expected. Private consumption is expected to increase 2.4 percent whereas the growth of the total investment activity remain low, that is, 0.7 percent. However, together with positive signals of economic growth, domestic housing construction activity is estimated to accelerate to about 25 percent in year-to-year terms. Due to the expansive finance policy during the depression years, public debt has increased considerably and the growth of government spending will be only 0.5 percent in this year. In 2010, Finnish GDP is expected to increase 3.5 percent.

In 2011, along with the estimated decelerating final demand in main Finnish export areas - euro area, Sweden and Russia - the growth of exports is assumed to slow down to about 6–7 percent. Because unemployment is slowly decreasing and households' confidence seems to remain strong, private consumption is expected to increase 2.6 percent. Also, the growth of investment activity is recovering to about 4–5 percent. Financial policy remains contracting in order to control the increasing public debt. Totally, Finnish GDP in 2011 is expected to grow 3 percent.

Because the development of Finnish economy is highly depending on exports, risks which can threaten the positive signs of recovery of Finnish economy are devoted to slowing international demand and trade. Also, whatever negative impacts and shocks in international financial markets are quickly affecting Finnish economy.



2 RECENT POLICY MEASURES

The general goals of the Finnish forest policy are stated in the National Forest Programme (NFP 2015) that was updated in the autumn 2010. The three main goals are related to 1) the strengthening of forest based entrepreneurship and growth of production value, 2) improvement of the profitability of forestry and 3) the strengthening of forest biodiversity, environmental benefits and wellbeing from forests. The goals especially related to the forest biodiversity protection are stated in the Forest Biodiversity Programme for Southern Finland, METSO 2008–2016. In METSO programme, biodiversity conservation is based on voluntariness and compensation payments for landowners that give their lands for protection.

In addition to the updating of the NFP 2015, a large amount of new policy measures and revisions of the forest law have been under planning in 2010. When implemented, these measures will have significant effects on the Finnish forest sector. The organization of the Finnish forestry centers will be revised in 2012. Also the law on the forest owners associations is under revision. Discussions on the possibility to change the present forest management practises and allow more alternatives for forest owners, including uneven-aged silviculture, are under way.

In spring 2010 the Finnish Government decided upon the large support package for the renewable energy. In the case of forest energy, the target is to increase the use of energy

wood from the present 5 million m³ to 13.5 million m³ by 2020. The decision means that also the government subsidies for energy wood procurement will be revised accordingly.

One of the current practical problems in the forest sector is the unstable availability of roundwood in the markets. Already in early 2008 the Finnish government decided on a rather extensive investment program for improvement of transport routes important for the forest industries' wood procurement. To improve the supply of roundwood the Finnish government decided on 50 per cent tax reductions for roundwood sales in 2008 and 2009 and on 25 per cent reduction for the year 2010. In addition, sales related to first thinnings were exempted from taxes during April-August 2008. These measures resulted in high peaks in sales at the turn of August-September 2008 and again in late 2009. In 2010, roundwood markets have functioned more evenly.

Russia's policy aiming at reductions in roundwood exports is having a great impact in Finland. In 2006 to 2008, the export duties levied on the Russian coniferous roundwood were risen several times. Now the duties are EUR 15 per cum and include also birch logs. The increment of duties together with the economic recession dropped roundwood imports from Russia to Finland 50 per cent in 2009. The killer rise to EUR 50 per cum will be due to January 1, 2011, but its implementation is still under negotiations.

3 MARKET DRIVERS

Due to positive signs in the economy of the main European export markets demand for Finnish paper and sawnwood has been recovering in the first half of 2010. The quantity growth of exports has been high especially in paper industry in 2010. The growth rate is, however, expected to be slower in the second half of the year. The estimates of final demand for 2011 show decelerating development in main Finnish export areas. This indicates slower growth of demand and exports for Finnish forest products in 2011.

The export price development in the European sawnwood markets has been positive for producers and the export prices of Finnish sawnwood have risen about 20 % in the first half of the 2010. Also paper and paperboard prices in euros have risen, but no major improvements in paper price development are expected until consumption clearly goes up. Overcapacity is still a problem in the European sawnwood and paper export markets.

4 DEVELOPMENTS IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2009, the use of industrial roundwood decreased by 22 per cent (to 45 mill. m³ u.b.) from the previous year. The roundwood procurement decreased more (-30%) as the industry used roundwood from stocks accumulated due to big amounts of roundwood imports in 2008. In 2009, imports of roundwood and sawmill chips were 7 million m³ u.b. (17 million m³ in 2008). The reason for the big drop in roundwood imports was the announced sharp rises of the Russian export duties (due to January 1, 2009), which finally

were not implemented, however. The domestic roundwood procurement reached 37 million m³ u.b.

Compared to the year 2009 Finnish roundwood markets are very much picking up due to the increased production in forest industries: +27 per cent in sawmilling and +17 per cent in paper and paperboard industry during the first half of 2010. Consequently, softwood log prices in January-August are up by 22 per cent from the previous year. Pine and birch pulpwood prices have increased 6–10 per cent but spruce pulpwood prices are still decreasing. The traded volumes have risen to normal level after the exceptionally low volumes in 2009.

In order to foster roundwood trade already in 2008 the Finnish government decided upon related tax exemptions which extends also for the years 2009 and 2010. 50 per cent tax reductions were to be applied to roundwood sales in 2008 and 2009 and 25 per cent reduction to roundwood sales in 2010. These measures stimulated markets to some extent during the second half of the year 2008 and the last quarter of the year 2009. Again in 2010, the tax reduction might be having an effect.

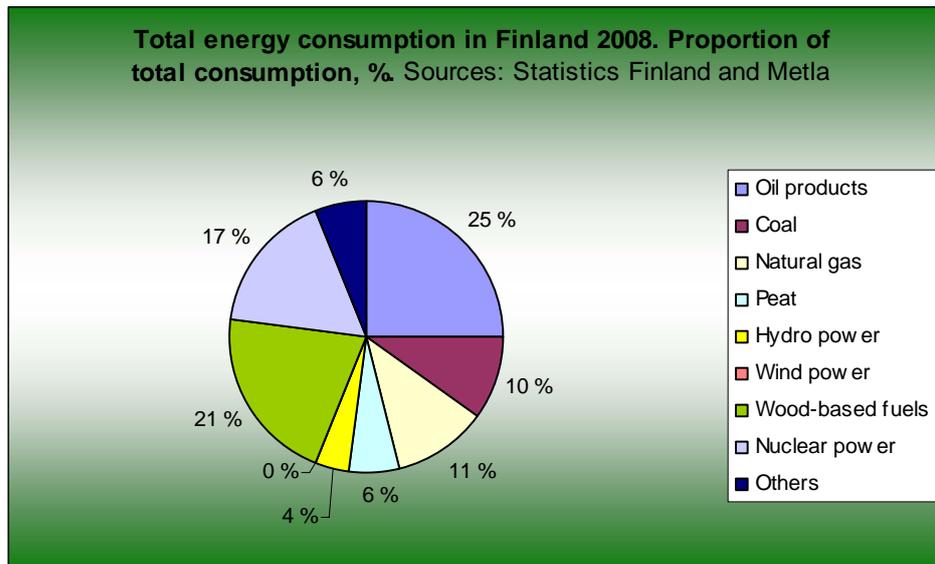
The statistics for the domestic roundwood harvests in January-July 2010 show a 25 per cent increase from the previous year. During the first half of the year, wood imports run at 20 per cent higher level than in 2009. Birch pulpwood and wood chips are favourite items.

Overall, the industrial roundwood consumption in Finland increases in 2010 by 18 per cent as compared to last year, totalling about 53 mill. m³ u.b. Domestic roundwood removals will account close to 43 million m³ in 2010. It is forecast that imports of roundwood and wood chips will be 9 million m³ u.b. which is two million m³ more than the last year's volume.

Roundwood removals in 2011 are expected to be somewhat higher (45 mill. m³) than are estimated for the current year. Removals of coniferous sawlogs and pulpwood will be about 19 million m³ u.b., in both assortments. Imported wood included, the volumes are 20 million m³ u.b., for both. Roundwood imports are expected to keep up the same level than in 2010, assuming the announced big rises in Russian export duties won't be implemented in 2011, either.

B. Wood energy

Wood-based energy accounts for 20% of all energy consumed in Finland and 60% of the Finnish forest industry's energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.).



Along with industrial roundwood, fuelwood to be used in industrial power plants and district heating plants has become a new type of raw wood. In 2009, 5.4 million m³s of felling residues, small-sized trees and stumps were used for energy purposes in Finland. This type of fuelwood is mainly logged in spruce-dominated clear-felling areas in coordination with industrial roundwood logging. The logged volumes have been growing but the price fluctuations in GHG emissions trading and the supply of peat fuel have their impact. Small stumpage is nowadays paid for forest owners for this type of fuelwood. In addition, household firewood, a part of which consists of felling residues, has maintained its volume (6 mill. m³s o.b./yr). The Finnish pellet production is annually about 350 000 tonnes, most of which is exported to Sweden and Denmark.

C. Certified forest products

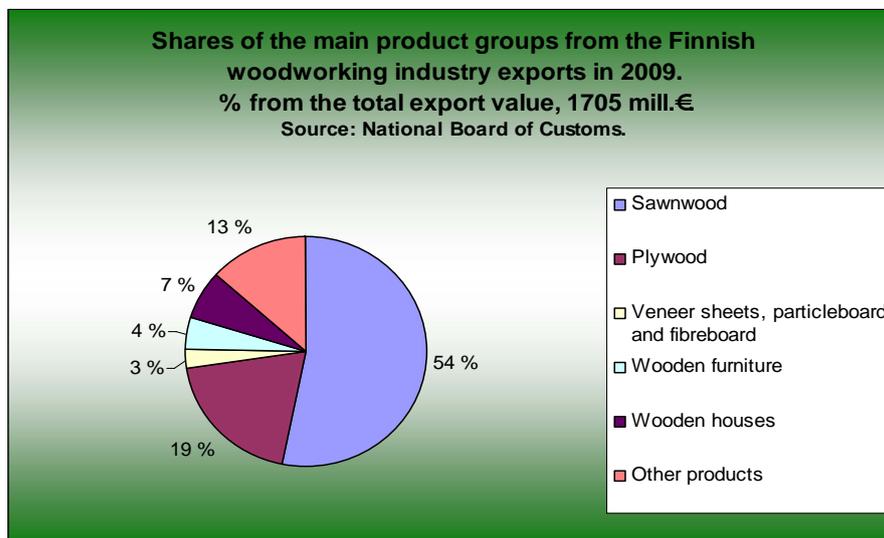
About 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation. Discussions on application of the FCS certification system are currently ongoing between the Finnish stakeholders.

Demand for ECO-labelled products is growing. Forest industry companies have acquired certified chain-of-custody systems in order to obtain PEFC-logo usage right. According to the Finnish Forest Certification Council, there are today 129 PEFC logo licence holders among Finnish forest industry firms, trade and distributors. These licenses cover the major share of wood procurement, sawnwood and panels production as well as paper and

paperboard production. In addition, 23 logo licences are held by other actors such as national governing bodies, forest owners and managers.

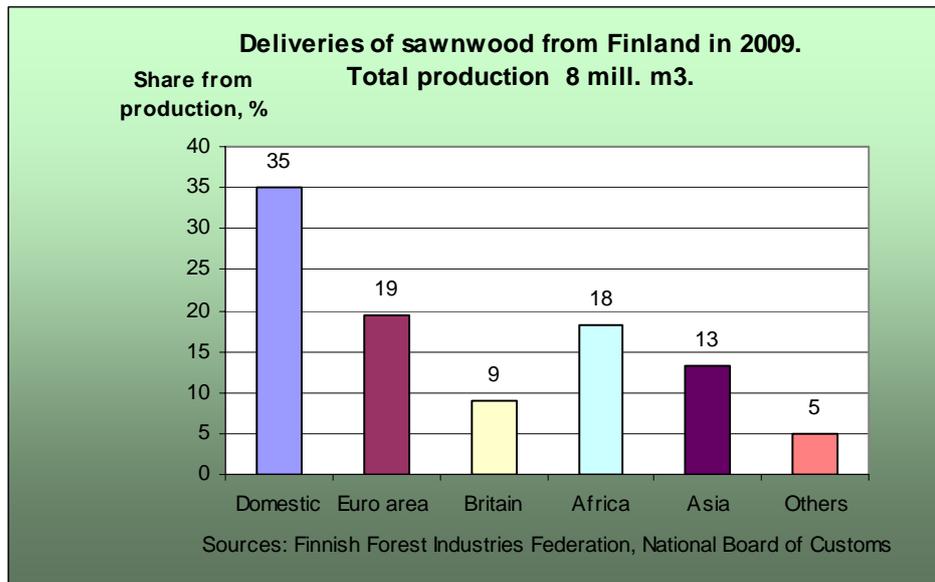
D. Value-added wood products

The largest product groups of the Finnish woodworking industry are sawnwood and plywood, which account for the main part of the production and exports. In 2009 plywood production accounted for 19 % of the woodworking industry's total export value, while the share of sawnwood was 54 %. The rest 27 % are shared by particle board, wooden furniture, fibreboard, wooden prefabricated houses, etc. Sawmills integrated with the pulp and paper industry produce about half of all sawnwood. Most part of the plywood is produced by two large forest industry integrators.



E. Sawn softwood

Coniferous sawnwood forms the largest part of the Finnish woodworking industry. Domestic market is an important destination for Finnish sawnwood production, of which about 35-40 % is consumed domestically. During the last 15 years, the growth in housing construction and repair has boosted domestic sawnwood consumption and per capita figure has increased to the level of 1 m³. However, the recent economical recession reduced consumption considerably in 2009.



The main export markets for Finnish sawnwood are in the European Union that accounts for about a half of the exports. Due to increasing competition and overcapacity in Europe Finnish exporters have directed export supply to markets outside Europe, especially to Africa and Asia. The share of Africa from Finnish sawnwood exports was 28 % and the share of Japan 11 % in 2009.

Outlook for years 2010 and 2011

According to the forecasts of the Euroconstruct Conference in June 2010, the total value of new housing construction in the Finnish main sawnwood markets in Western Europe is still below the 2009 level. There are, however, differences in the construction trend from one country to another. In Germany and the United Kingdom construction value is forecast to rise above the previous years' level. However, a clear consumption growth is not anticipated to have started yet. The main reason for the recovery of demand in the beginning of 2010 have been that Western European sawnwood buyers have started to fill their sawnwood inventories after last years' recession. Finnish exporters have also benefitted from the weakened euro in 2010 and competition ability, for example, in relation to Sweden has increased in the export markets. In 2010 Finnish exports is expected to end up to 5–6 million m³.

In Finland, the brightening economic development and low level of interest rate have increased residential construction that is forecasted to rise 25 % in 2010 after a deep drop in 2009. The figures of Statistic Finland show that in January-May 2010 the volume of new housing starts was about 40% higher than the figure for the same period last year. In the starts of single family houses the rise has been even higher. The rising construction activity especially in the sector of single family houses will increase domestic sawnwood consumption this year by a considerable amount.

Last years' large production curtailments resulting from permanent and temporary capacity closings in the Scandinavia and Western Europe caused a drop in the supply of sawnwood. This is why an increase in demand, after a considerable decrease in 2009, caused relatively high price rises in the Western European markets in the beginning of 2010. Due to the improved profitability of production and increased demand in export and home markets Finland's production has been 27 higher in the first half of 2010 than in the first half of the last year. Favourable market demand is assumed to continue also in the second half of 2010, but the growth rate will be slower. In 2010 Finnish production is expected to end up to the level of 9 million m³.

For 2011 Euroconstruct forecasts increasing construction activity in Western Europe, which starts to improve consumption figures for sawnwood. For Finnish construction the forecasts show slower growth than in 2010. After the high growth percentages of the current year Finnish exports and production are expected to increase also in 2011, but at a slower rate. There are several uncertainties related to the economic development of the export markets that affect the realization of the estimates. A thread of strike concerning the woodworking industry creates uncertainties for the production and exports during the autumn 2010.

At a longer run large Finnish firms have closed sawnwood production capacity in Finland about one mill. m³ from the year 2004. If the plans to close the sawmill of Metsäliitto in Kemi and the sawmill of Stora Enso in Varkaus are realized the additional capacity reduction will be about 0,4 mill. m³. With no investment plans to new capacity, production levels cannot return to the levels that prevailed before the economic recession.

F. Sawn hardwood

Sawn hardwood is a marginal product in Finnish sawnwood industry with a share of less than 1% of the total sawnwood production.

G. Wood-based panels

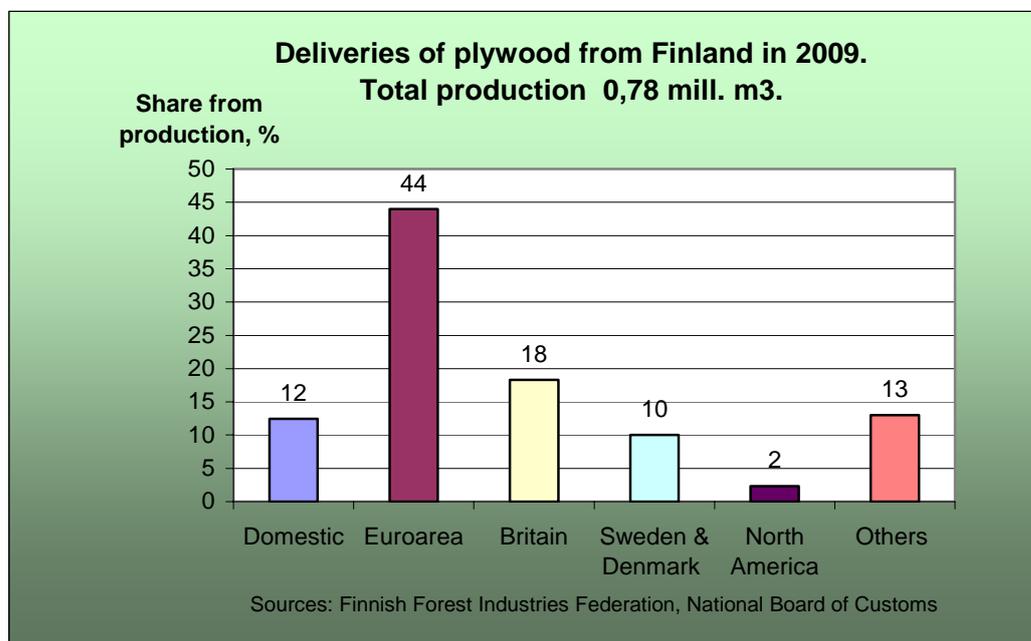
Plywood is the largest product group in Finnish wood-based panels industry accounting for 76 % of panel production in 2009. The rest are shared by particleboard and fibreboard. During the past decade, plywood industry has invested for new softwood capacity and the share of birch plywood has been decreasing. Difficulties to get rawmaterial for birch plywood production have been one reason to reduce production capacity for example, in Heinola and Lappeenranta. During 2008–2009 the share of birch-faced plywood went down from 40 % to 30 % from total plywood production. Birch plywood production have been largely dependent on birch logs imported from Russia. In future it would be important to increase the procurement of logs from other sources. In the first half of 2010 the price of imported birch logs in the Finnish border was about 33 % higher than at the same time last year. This have led to 44 % decrease of imported birch logs.

Plywood is an export product for Finland and only about 10–15% of the production is domestically consumed. In the European Union, Finland is the main producer with about a 30 % share of the total. Contrary to sawnwood, Europe is a net importer of plywood and in the European markets there have not been as difficult oversupply situation as in the sawnwood markets. In general, this is has been favourable situation for plywood exporters.

Outlook for years 2010 and 2011

European economic recession and decreasing construction activity have lowered also plywood consumption in most Western European construction related end-uses. This caused a deep drop also in Finnish exports. The recovery in exports in the first half of 2010 has been quick and the export quantities went up 38 % compared to the first half of 2009. However, the quantities have not returned to the levels that prevailed before the recession. In addition, especially birch-faced plywood has suffered from weak price development.

Euro area forms the most important export markets for Finnish plywood production. Growth in construction related demand in the Euro area and Scandinavia are assumed to increase Finnish plywood exports and production during 2010–2011. Production quantities are expected to rise to the level of 1 mill. m³.



Particle board and fibreboard production and exports from Finland have also been strongly affected by the economic recession. The already small production of particle

board went down by almost 37 % totalling 170 000 m³ in 2009 and the drop in exports were even larger. Fibreboard production decreased 27% totalling 80 000 m³ .

In 2010–2011 improving economic situation in the export markets shall increase consumption of wood based panels. In the first half of 2010 particle board export quantities recovered, but export unit values were still about 15 % below the price levels of the first half of 2009. The quantities of exports and production of particleboard and fibreboard have been rather stable before the recent economic recession. It is probable that the quantities return close to their normal levels during the 2011.

H. Pulp and paper

In 2009, economic recession worldwide had a great impact to the Finnish pulp and paper industry. The production reductions in pulp, paper and paperboard were -25, -21 and -13 per cent, respectively. The respective figures for the exports were -35, -23 and -14 per cent. The export price for chemical pulp fell 19 per cent but the export prices of paper and paperboard were slightly on increase due to the successful cuts of overcapacity in many paper grades. Production of paper and paperboard amounted to 10.6 million tonnes, roughly 90 per cent of which were exported. The pulp production amounted to 8.7 million tonnes.

Outlook for years 2010 and 2011

The market outlook for the year 2010 is much better and for 2011 a slight production growth still is forecast. The estimated paper and paperboard production is 12.1 million tonnes (+14%) in 2010. The export prices are slightly on increase but the profitability of the industry remains low. The pulp production increases to 10.5 million tonnes (+20%) in 2010. The export price for chemical pulp is estimated to rise sharply (+45%) in 2010.

In 2011, the paper and paperboard production is forecast to amount to 12.8 million tonnes and the exports to 11.5 million tonnes, both being 6 per cent more than in 2010.

I. Carbon markets

A. Economic indicators

Key economic indicators	2009	2010e	2011f
Gross domestic product growth, %	-8.0	3.5	3.0
Consumer price index change, %	0.0	0.8	2.0
Wage and salary earnings change, %	3.9	2.7	2.3
Unemployment rate, %	8.2	8.5	8.1
Current account surplus/GDP, %	1.3	1.6	2.0
Industrial output change, %	-17.8	10.0	5.0
Three month EURIBOR, %*	1.2	0.8	1.6

Source: Nordea, Economic Outlook 30.8.2010

* The Research Institute of the Finnish Economy, March 2010

B. Production and Trade

1. Forest industry production in Finland

Product	Unit	2009	2010e	2011f
	1000			
Sawn softwood	cum	8 000	9 000	9 000
Plywood	cum	780	1 000	1 000
Particle board	cum	170	250	250
Fibreboard	cum	80	100	100
Mechanical pulp	tonnes	3 214	3 600	3 700
Chemical pulp	tonnes	5 518	6 900	7 100
Pulp, total	tonnes	8 732	10 500	10 800
Paper, total	tonnes	8 096	9 100	9 600
Paperboard	tonnes	2 506	3 000	3 200
Paper & Paperboard total	tonnes	10 602	12 100	12 800

Sources: Finnish Forest Industries Federation (2009; wood products 2010, 2011),
Finnish Forest Research Institute (pulp and paper 2010, 2011)

2. Exports of Finnish Forest Industry Products

Product	Unit 1000	2009	2010e	2011f
Sawn softwood	cum	5 114	5 500	5 500
Plywood	cum	683	800	800
Particle board	cum	49	60	60
Fibreboard	cum	43	40	40
Mechanical pulp	tonnes	87	100	100
Chemical pulp	tonnes	1 368	2 100	2 200
Pulp, total	tonnes	1 455	2 200	2 300
Paper, total	tonnes	7 053	8 200	8 700
Paperboard	tonnes	2 241	2 600	2 800
Paper & Paperboard, total	tonnes	9 294	10 800	11 500

Sources: National Board of Customs (2009),
Finnish Forest Industries Federation (wood products 2010, 2011),
Finnish Forest Research Institute (pulp and paper 2010, 2011).

3. Imports of Forest Industry Products

Product	Unit 1000	2009	2010e	2011f
Sawn softwood	cum	496	500	500
Plywood	cum	91	100	100
Particle board	cum	61	50	50
Fibreboard	cum	160	160	160
Pulp, total	tonnes	351	400	400
Paper, total	tonnes	170	200	200
Paperboard	tonnes	238	250	250
Paper & Paperboard, total	tonnes	408	450	450

Sources: National Board of Customs (2009),
Finnish Forest Industries Federation (wood products 2010, 2011),
Finnish Forest Research Institute (pulp and paper 2010, 2011).