Market Statement 2013 SWEDEN

UNECE Timber Committee Market Discussion 10 December 2013

1 General Economic Trends

Swedish GDP growth will pick up towards the end of 2013 as economic recovery is expected to begin. Both consumer and business confidence is improving in most OECD countries. More relaxed fiscal policy in the euro area and the US will also contribute to stronger growth. However, resource utilisation is weak, and the Swedish labour market will not return to cyclical balance until 2017. Inflation is low, but the Riksbank will not cut the repo rate because it is also taking account of household debt in its monetary policy deliberations. On the other hand, interest rates is expected to remain low until 2015. The government is expected to propose unfunded measures of SEK 25 billion in the budget bill for 2014, making fiscal policy neutral. General government net lending is negative. Hence fiscal policy is likely to be tightened in 2015–2017 in order to meet the surplus target for general government net lending.

Macroeconomic Development and Economic Policy 2013–2017

GDP is likely to be weak in the third quarter this year, but the economy is expected pick up at the end of 2013. Resource utilisation in the economy will not, however, return to balance until the beginning of 2017. The protracted recovery in the OECD area means that domestic demand will be more important than usual for Swedish growth. Fiscal policy is likely to have an expansionary effect in 2013, and the NIER expects it to be neutral next year. As cyclically-adjusted net lending is forecast to be negative again in 2014, fiscal tightening is expected to be required in 2015–2017 if the surplus target is to be achieved. Low resource utilisation, low inflation and low interest rates abroad indicate that the Riksbank is not expected to increase the repo rate next year. The repo rate is anticipated to be raised at the beginning of 2015.

Sluggish global growth means that Swedish exports is forecasted to fall by 2.0 percent this year. Exports is expected to pick up again next year as external demand firms up, and then accelerate slightly in 2015–2017 as the global economic upswing gains momentum

Trend growth in net exports has been affected by the fact that, for demographic reasons, Sweden has for several years had a decreasing need for net lending. The reason for this is the growing proportion of the population not of working age. As a whole, this group’s saving is relatively low. At the same time, many fiscally frail countries, primarily in the euro area, have a major need to increase their net lending. A country’s net lending is, by definition, closely linked to the size of its net exports. The higher a country’s net lending, the higher its net exports. Swedish net exports are therefore expected to continue to trend downwards as a proportion of GDP. A development of this kind will often go hand in hand with changes in the real exchange rate. The forecast therefore assumes a slight, from a historically already high level, strengthening of the real effective krona exchange rate. From the beginning of the year to August the krona has strengthened by just over 1 percent. Smaller trade surplus are expected to coincide with a strengthening of the real exchange rate against several trading partner currencies. The strong Swedish krona has and is anticipated in the near future to put pressure on sawmills. In the first half of 2013 export value of sawn softwood has decreased by

8 percent, mainly due to the strong Swedish krona but also weak demand on the main export markets. For pulp and paper exports declined by 3 percent for the same period. The forecast therefore assumes a slight strengthening of the real effective krona exchange rate against Sweden's key trading partners in the period 2013–2017.

2 Economic stimulus policies and forest products markets

Green economy (priorities a wide range of drivers in the forest sector in energy, climate change, industry, innovation and governance)

A roadmap for a green transition in Sweden is something much wider than just sector policies and R&D support. It includes an active policy to speed up the international community's commitment, continuous and strong usage of economic domestic tools like green taxation long-term stimulus to green entrepreneurship, and a socially inclusive policy to protect those who lose out from the green transformation.

Sweden has made further progress towards its long-term goal of an economy based on sustainable energy, and today is among the leading countries in terms of low-carbon intensity and high share of renewable energy in total energy supply, with strong growth coming from solid biofuels and biomass. This is the result of continuous political efforts: a stringent carbon dioxide and energy taxation, emissions trading and the promotion of renewable energies under the electricity taxation, emissions trading and the promotion of renewable energies under the electricity certificate system.

In 2009, ambitious new targets were adopted under the "integrated climate and energy policy" framework. They support and even go beyond European Union and international obligations and require by 2020: i) the reduction of energy intensity by 20%; ii) a share of at least 50% renewable energy in gross final consumption and 10% in transport, and iii) a reduction of GHG emissions by 40%, two-thirds of which are to be implemented by domestic measures outside the EU Emissions Trading Scheme and the remainder by EU and international efforts.

For the longer term, Sweden put forward two ambitious priorities: i) a fossil fuel-independent vehicle fleet by 2030, and ii) zero net greenhouse gas (GHG) emissions by 2050.

Policy measures affecting the use of energy by industry
The most important policy measures affecting the industrial sector are energy and carbon taxes, together with the EU Emissions Trading System for trading emission rights. Other policy measures that affect industry include the Programme for Electrically Intensive Industry (PFE), the electricity certificate system, the environment framework code and energy audit checks.

Increased production and lower emissions
Over the last 20 years, the production of pulp and paper has increased while emissions into the air and the water have decreased significantly. This 'decoupling' of growth from environmental impact is the result of major investments in process changes and purification equipment. The need for electrical energy has however increased, mainly because the mills

are making more and more refined products. The production of renewable electrical energy is increasing in the manufacturing units.

Government stimulus: ROT

The tax deduction on labour work repair, renovation, extension and maintenance on houses (ROT) excluding material passed by Parliament on (May 13, 2009) is still applying. The ROT deduction also serves to reduce energy use through covering a number of measures for saving energy. The measures mitigate the effects of the economic crisis and improve the conditions for a gradual recovery of construction sector. The ROT deduction measure is also a part of the government's efforts to enhance labour market policies, reduce illegal employment and improving demand in the construction sector. Swedish Tax Agency office paid SEK 14.6 billion in 2012 for tax reduction for ROT. There was a rise by 7 percent in 2012 compared to 2011. This gave some net revenue to the treasury through VAT, payroll taxes and employee and cooperate taxes and increased employment. ROT has had a positive effect on the domestic demand of sawn wood.

Government stimulus: A forest kingdom – with values for the world

In 2011 the Government launched a programme to promote new jobs in the forest sector and thereby helping economic development in rural areas. The programme is based on the sustainable use of forests and coequal objectives of environment and production. It focuses on four themes:-, sustainable use of forests, processing and innovation, ecotourism and recreation and Sweden internationally. These form the basis of the work with countrywide involvement of forest stakeholders. Furthermore, it will help to improve the communication and awareness raising on the multiple benefits sustainable forest management, as a key element of a broader green economy concept, provides to the environment, economy and society. The concept of green economy is surely complex and includes several trade-offs e.g. on land use and biomass availability for different uses. The development of a green economy could however add value and create and maintain employment in rural areas. The Government has earmarked SEK 20 million annually until 2015 for projects promoting more jobs in the forest sector.

Rural Development Programme (RDP)

In September 2013 the Swedish government presented its state budget for 2014. RDP will have a tighter budget in the next programming period, and funds are not targeted towards forestry in 2014. From 2015 and onwards the programme is still under development.

Wood products in green buildings

Building houses – even high ones – in wood is one way of enabling dwellings that strike a better balance with the environment and the climate. The construction of multi-storey buildings in wood has increased rapidly in the 21st century in Sweden. These successes are based on industrial construction in wood, where Sweden is among the front runners in Europe

The new building methods mean that most of the construction process takes place indoors in factories. The time saving may be up to 80 percent and the cost benefits are substantial. With its economic and environmental advantages, industrial construction in wood has started to challenge traditional building methods.
Lifecycle analyses show better results for wood-framed houses compared to other materials. More and more companies and organisations are demanding information on the quantities of fossil carbon dioxide created by different products, their “carbon footprints”.

Trade policy issues affecting forest products markets

European Union Timber regulation

The European Union Timber Regulation (EUTR), which became effective on 3 March 2013, is intended to prevent the entry of illegally logged wood into the 27 EU Member States. The Regulation prohibits placing on the EU market wood and wood products illegally harvested and obligate operators to exercise due diligence and use a due diligence system. Operators can develop their own system or use one developed by a monitoring organization. The Member States are responsible for laying down effective and dissuasive penalties applicable to infringements. Competent authority shall carry out checks on operators and monitoring organisations to verify compliance with the requirements in EUTR.

The Swedish Forest Agency (SFA) is assigned to be the competent authority for EUTR implementation in Sweden. For two and a half years the SFA has been preparing and implementing the EUTR. The main activities has been to draw up a proposal for national legislation to consult, discuss and inform different stakeholders and operators, recruiting personnel and other organisational preparations (IT-system, check lists, risk-based plan etc.). There is no national legislation in place but a legislative proposal will probably be passed in the parliament in the first half of 2014. SFA has in autumn 2013 started the process on checks on operators importing timber and timber products. The checks are currently voluntarily as national legislation is not in place and thus there is no possibility to sanction operators.

Renewable energy policies and their impacts on forest products markets

Most important for the on-going replacement of fossil fuels with bioenergy are the carbon dioxide tax and the renewable electricity certificate system. Because by- products from the forest and forest industry are the main source of bioenergy, the demand rather strengthens the supply side as it is improving the marginal profitability of forestry. So far, raw material competition between the energy sector and the traditional forest industry has been limited to wood from thinning operations within the vicinity of large heat-and-power plants.

Impacts of carbon markets

There is no national market scheme in Sweden where forest owners may sell carbon credits from carbon sequestration in Swedish forests. There is concerns that such payments, in the long-term perspective, could be counterproductive for climate mitigation due to reduced removal resulting in lowered substitution rates in the longer term. Carbon markets where forest estate owners acts as sellers of carbon credits would also bring high monitoring, transaction and administrative costs, undermining the profitability and hence the incentive of carbon sequestration actions.

There is also a general concern that complete linkage of carbon credits between the LULUCF-sector and other sectors could reduce incentives for limiting and decreasing emissions from fossil energy sources. This risk is most prominent in forest-rich low-emitting countries where removals in the LULUCF-sector are relatively large compared to economy-wide emissions.

Research and Development policies

Sweden has strategically aligned energy-related RD&D policies with its energy and climate objectives. These are strongly geared towards market deployment and build on the country's comparative strength, including smart grids and biofuels. Innovation and business sector commitment are a key factor for the success of the Swedish energy RD&D policy. Since 2009, co-financing from industry has been increasing, especially in demonstration. This is the result of the strong involvement of the private sector and academia in the formulation of the strategic plans, by means of the Energy R&D Board and its technology platforms and stable public support.

Every four years, the Government presents a research and innovation bill that deals with the Government's priorities for the following four year period. In September 2012 the Government presented its new research and innovation bill, which will contain priorities for the period 2013-2016. The bill was presented during the autumn 2012. With this bill the Government increased its support for research and innovation by 4 billion SEK, coming into full effect by 2016. Specially, the increase in resources will focus on four strategic areas. A common theme is to prioritize research/innovations leading to new products and services. Forestry interest/commitment focus is in four main areas

- Energy
- Sustainable use of natural resources
- Effects on natural resources, ecosystem services and biodiversity
- Climate models

Bioenergy

Significant funding is being channeled via the Energy Agency.The Swedish Energy Agency supports research and development on the supply, conversion, distribution and use of energy. Assistance is also provided to development of new technologies

Future Forests - Sustainable Strategies under Uncertainty and Risk

The research program will generate new knowledge within several important areas where critical information for a sustainable development of forests and forestry in Sweden is missing, or is incomplete. These areas include adaptations and mitigations to climate change, water quality, nutrient cycling, and biodiversity. The funding applied for by future forests program for the period 2013-2015 is 126 million SEK.

National forest sector dialogue on SFM

In recent years Sweden has experienced increased polarization between environmental groups and the forest industry. During 2011 the Government launched a national dialogue on SFM

with a view to create more consensus on national forest policy goals and means to achieve them. The process will continue to go on during 2013 and will eventually result in concrete measures.

National strategy for bioeconomy

The research institutions Formas, together with Vinnova and the Energy Agency, has jointly submitted a proposal for a research and innovation strategy for a biobased national economy. The objective is to reduce the climatic impact and use of fossil raw materials and to optimise the value of ecosystem services and their contribution to the economy. The priority principal areas 1) Replacement of fossil raw materials by biobased raw materials, 2) Smarter products and smarter use of raw materials, 3) Changed consumption patterns and attitudes, 4) Prioritisation of, and a choice between, measures. Research will be complemented by inputs that promote innovation and measures that specifically deal with the challenges of bioeconomy

VINNOVA, the Swedish innovation agency granted the Swedish Forest Industry Federation (SFIF) 500 000 SEK for a new project on the future of bio-based products. The project aim is to better match users´ and consumers´ needs with research advances that are constantly being made. Developing new materials and products based on renewable raw materials to meet Sweden´s transition to a bio-based economy. This will help one step closer to SFIF vision to double the value added in 2035.

3 Market drivers

Sweden is an export-oriented and export-dependent as more than 80 % of sawnwood, paper and pulp production is exported. . A main driver for wood products is demand in the construction sector. This sector has declined in recent years. Factors frequently cited as drivers of change with regard to long-term global demand for wood products are: economic development; demographics; scientific and technological developments; globalization; global climate change; policies, regulations and customer preferences linked to climate change; environmental policies and regulations other than those linked to climate change

The increased focus on wood as a renewable and climate friendly solution represents an opportunity for the forest sector. New requirements for energy efficiency benefits increased use of wood in buildings.

There is more awareness of using wood in building and housing regarding technology, environment and economy. The construction processes, greater industrialisation and extensive use of modularisation and prefabrication are becoming increasingly important, as are products and technologies for flexible design of interiors and exteriors of buildings

In Sweden multi-storey, multi-residential timber frame construction is proving to be cheaper and faster to build than equivalent buildings in concrete or steel. It is also rated as much better by tenants who had previously lived in concrete apartments. A considerable amount of research has been done covering fire, acoustic, differential movement, construction costs and disproportionate collapse. The main concern of building authorities has been fire performance but those concerns now appear to have been allayed. Having building regulations expressed in

performance terms rather than prescriptive terms has been a significant breakthrough for timber in this application.

4 Development in the forest products markets sectors

Wood raw materials

Sawlogs

Sawlogs removals fell by 4 percent from 2011 to 2012. The downward trend is predicted to continue in 2013 and the main explanation is decline in new housing starts and reduced demand for sawnwood. The forecast for 2013 and 2014 is 31.0 respectively 32.4 million m^3 (solid volumes under bark).

Average price of sawlogs (only statistics for delivery timber is available which represents some 15 percent of total sales) fell by 10 percent in 2012 compared to 2011. In 2013 prices has continue to fall in all regions, both for pine and spruce. The main reason for falling prices on sawlogs is decreasing production in sawmills which in turn is due to diminishing demand on the internal and external construction markets. The appreciation of the Swedish krona against the Euro has also resulted loss of market shares for Swedish sawmills. In 2014 prices are predicted to increase somewhat since there are early signs of improvements in construction market on the main export market of Swedish sawn wood.

Pulpwood

Removals of pulpwood decreased from 31.7 million m^3 (solid volumes under bark) in 2011 to 30.1 million m^3 in 2012. Forecast for 2013 shows further decline in 2013 (29.4 million m^3) and in 2014 (29.3 million m^3).

The forecast for 2012 and 2013 for export/import of pulpwood shows modest changes. Pulpwood prices decreased in all regions of Sweden by 6-15 % in 2012 compared to 2011. From quarter 1-3 of 2013 average pulpwood prices declined compared to prior quarters. The region South has by far the highest prices of pulpwood compared to region North and Central Sweden. Prices are predicted to remain unchanged on a relatively low level.

Wood energy, with focus on government policies promoting wood energy

Sweden aims to discriminate what is environmentally costly, and let the acceptable alternatives compete on a free market, rather than using various subsidies. Most important for the yet on-going replacement of fossil fuels with renewable energy, mostly bioenergy, in the energy system is the Carbon Tax, implemented in 1992 and increased a few times after that. Some replacement of fossil fuels used for electricity production (already before a minor portion) has been made due to the “Renewable Electricity Certificate” system implemented in 2001.

So far, the carbon tax has been lower for energy production for industries outside the EU Emission Trading System. Now it has been decided that this tax will increase substantially

from January 1, 2015, and already now there is a noticeable increase in decisions made about substitution from fossil fuels to renewables within the sector.

Moreover, there is a tendency of increased supply of waste from other EU countries to the bioenergy market, probably due to a tightened implementation of the EU waste directive which prohibits deposition. The increase in the capacity for domestic combustion and procurement of its energy does not keep pace. Thus, within Sweden the use of low value wood from the forest has not increased as much over the last few years as it did during the previous decade.

Wood fuels

The supply of renewable energy in the energy system has increased steadily since the 1970:s mainly through use of bioenergy. Renewable energy accounts for half of the domestic energy consumption (excl. transformation losses). By far the greatest contributor to Sweden's renewable revolution has been bio-energy. Bio-mass, such as firewood, wood chips, pellets, briquettes, ethanol, methanol, biodiesel, bio-oil, bio-gas, dimethyl ether and biomethane accounts for most of Sweden's renewable energy. The use of biofuels, peat etc. for energy purposes was 121 TWh in 2011. Of that amount, 51 % was used for industrial purposes (including electricity generation), 39 % for district heating and 10 % for house combustion units.

Biofuels, waste and peat are used primarily in the forest industry, for heat and electricity production and for heating residential buildings. The greatest increase is being seen in industry and in district heating plants. The use in the residential sector and transport sector is also increasing. Both the pulp industry and sawmills use sawdust and bark as fuel in their industrial processes. Between 1970 and 2010, the proportion total energy use by industry provided by biofuels, peat etc. has increased from 21 % to 37 %. Biofuels are the main energy source in the pulp and paper industry and in the wood products industry.

The use of biofuels in the district heating sector has increased more than fivefold since 1990. These biofuels are mainly wood fuels in the form of logging residues and low-grade round wood, as well as solid by-products from the forest industry. Refined fuels such as briquettes and pellets are being used to an increasing extent. An advantage of district heating is its flexibility in terms of utilisation of different fuels. Since the 1970s, there has been a major shift towards the use of renewable fuels. In 2011, biofuels accounted for 47 %, waste for 20 %, peat for 4 %, oil for 4 %, natural gas for 5 %, coal for 5 %, heat pumps for 9 % and waste heat for 6 % of the energy input for district heating production in Sweden.

District heating demand is anticipated to decrease as a consequence of energy efficiency improvement measures and global warming. At the same time the market share for district heating will increase and a large proportion of the future cooling demand is produced by district heating by absorption cooling. It is vital that the district heating sector can contribute to recover the surplus heat from industry and future biofuel production

In 2011, the carbon dioxide tax rate on heat produced in CHP plants was reduced from 15 % to 7 % of the price base amount. This can be compared with the carbon dioxide tax rate of 94 % of the price base amount for plants supplying only heat. With effect from 1st January 2013, the Government's proposal to remove carbon tax in its entirety from CHP production will come into force, and will also cover supplies of heat to industry from heating plants.

The trend for the use of wood fuels in detached houses is increasing and amounted to some 12.0 TWh in 2011, while oil heating in houses almost disappeared.

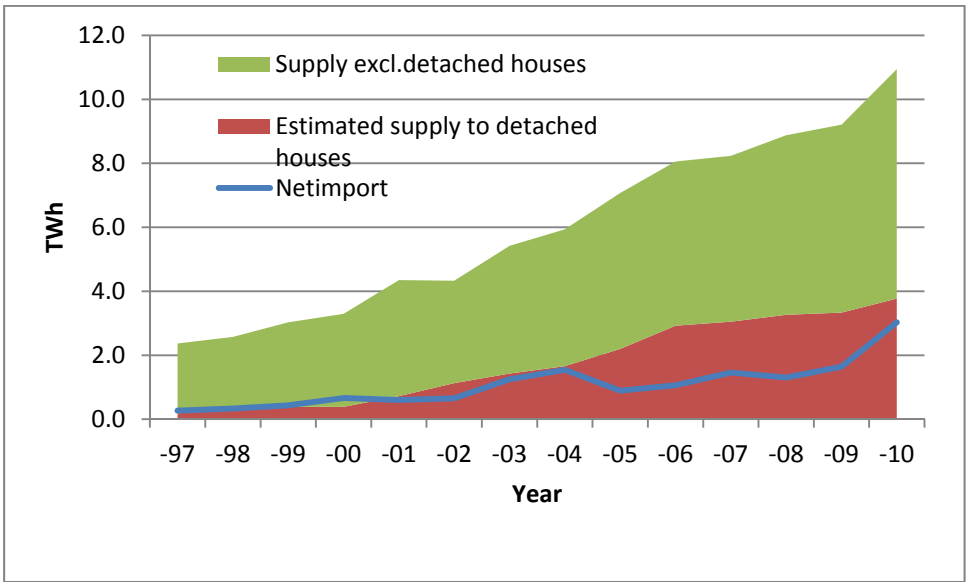
The increased use of biofuels for electricity and heat production has particularly increased the demand for wood fuels. During the 1980s and 1990s, the prices of wood fuels for heating plants remained essentially unchanged. A long period of surplus of by-products from the forest industry, with no potential sales outlets, meant that there were good stocks of cheap and easily available fuels. The increased demand increased competition for wood fuels, and price levels rose during the 2000s. Greater recovery of branches and tops from clear felling has been the main factor in enabling the use of these fuels to be increased. Several factors indicate that greater use of waste for electricity and heat production can help to restrain expected future rising prices.

In Norrköping, E.ON, Lantmännen Agroetanol, Swedish Biogas and the local municipality have invested nearly $1.5 billion into plant that produces steam (used for production of fuel ethanol), electricity and heat from biomass.

In Värmland County, a $540 million plant are under planning to produce bio-methanol using raw material from the forest.

The rapid demand for wood pellets is increasing. Demand for wood pellets in Sweden has outpaced domestic production over the years. The proportion of the net import of wood pellets is estimated to just under one tenth. An equivalent of 3.4 TWh of wood pellets was imported and 0.3 TWh exported in 2010. In 2010, peat imports amounted to 1.0 TWh. Increase in the prices of oil and gas which have been especially beneficial for pellets.

Figure 1. Supply of pellets to the Swedish market, 1997-2010, in TWh



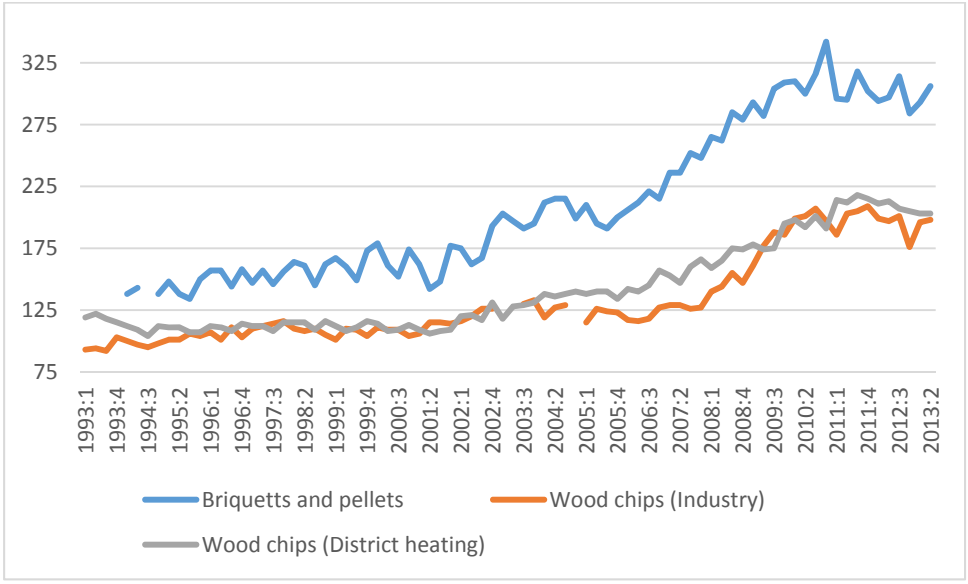
Source: Swedish Association of Pellets Producers.

Pellet prices for residential customers in recent years have basically remained constant despite increased raw material costs. In comparison with such electricity prices fluctuate even less over years seen. The low price can have several causes. One seems to be the establishment of producers which appeared clearly in 2011 and 2012 when several producers closed down its operations due to declining profitability. Another reason may be competition from imports, and sometimes cheaper, quantities of wood pellets, mainly from the Baltic States, Russia, the U.S. and Canada. Sales of wood pellets are temperature dependent and the use goes up during the cold winters. A warm winter of 2011 resulted in fewer sales.

The average prices of wood chips at district heating plants per MWh, current prices excluding taxes, decreased from 214 SEK/MWh in 2011 to 209 SEK/MWh in 2012. Prices for fuel chips at industries also decreased, from 199 to 189 SEK/MWh. Prices for briquettes and pellets for use in district heating went down from 300 to 292 SEK/MWh between 2011 and 2012.

The preliminary figures for the first and second quarter of 2013 shows that prices are rising for all wood fuel and peat assortments, when compared to the quarters before.

Figure 2. Price trends of wood chips and briquettes/pellets, quarterly 1993-2013, SEK/TWh, current prices



Certified forest products

In 2013 total certified forest land according to PEFC standard was 11,025,000 hectares productive forest land, which is 48 percent of total productive forest land. The number of agreements amounted to 38,000 at the same period.

Forest land certified according to FSC standard covers half of the productive forest land, 11,694,260 hectares, in 2011. More than 500 companies are FSC certified, of which 477 according to chain of custody (CoC).

A lot of forest companies, mostly large ones, are double-certified which makes it difficult to produce certified areas share by system of total forest land.

European Union acknowledges that certification schemes play an important role in due diligence efforts required in the Timber Regulation (EU) 995/2010 applicable since 3 March 2013. The regulation itself mentions certification and verification as tools for assessing and mitigating risks. Furthermore, the Implementing Regulation 607 released by European Union on 6 July 2012 sets out criteria for certification schemes to be considered in this context. Certification is also mentioned in the guidance document. When the European Union Timber regulation was published two years ago, no timber verification scheme fully addressed the broad legality definition, but both PEFC and FSC have worked to adjust their systems to the new legality requirements.

Value-added wood products

Sweden's prefabricated wooden houses industry comprises 2600 companies with 4,500 employees, of which 123 companies has more than five employed. Production value were 10 billion SEK in 2011 compared to 9.4 billion in 2010. In the first half of 2013 orders rose by 5 percent compared to the same period last year. Total exports of prefabricated wooden houses increased by 4 percent and amounted 502 million SEK in the first half of 2013 compared to 2012. Swedish exports were mainly to Norway, Japan, Finland, Germany and Denmark. Exports to Japan increased by 158 percent in 2012 compared to 2011. Swedish imports were mainly from Estonia, Norway and Finland.

The Furniture industry comprises 2,230 companies, of which 1,374 has null employees. During 2012 total production of furniture amounted to 21 billion SEK. Total number of employees were 13,857 in 2012, a decrease by two percent. Total exports of furniture declined by two percent to 15.5 billion SEK in 2012 compared 2011. Exports to EU also declined by 5 percent to 8 billion SEK. Swedish exports were mainly to Norway, Denmark, Germany, Finland, Great Britain, USA and France. Total import of furniture declined by 4 percent to 12.9 billion SEK in 2012 compared to 2011. Swedish imports were from China, Poland, Germany, Denmark, Lithuania, Norway and Italy.

Sawn softwood

The production of soft sawnwood amounted to 15.8 million m^3 in 2012. During the first eight months of 2013 the production was 2 % lower when compared to the same period 2012. The production is estimated to decline by 1.3 % to 15.6 million m^3 in 2013 when compared to 2012. This is the lowest level since 1996. The stronger housing market is foreseen in Europe in 2014 and the production is forecasted to 16 million m^3.

The European debt crisis produced weak consumption, especially in the traditionally larger key export markets for Sweden. The growth in the building renovation sector will continue. No real recovery in construction activity in Europe is foreseen before 2014. The good sign is that producer’s stock levels of logs after the summer are the lowest ever reported in Sweden.

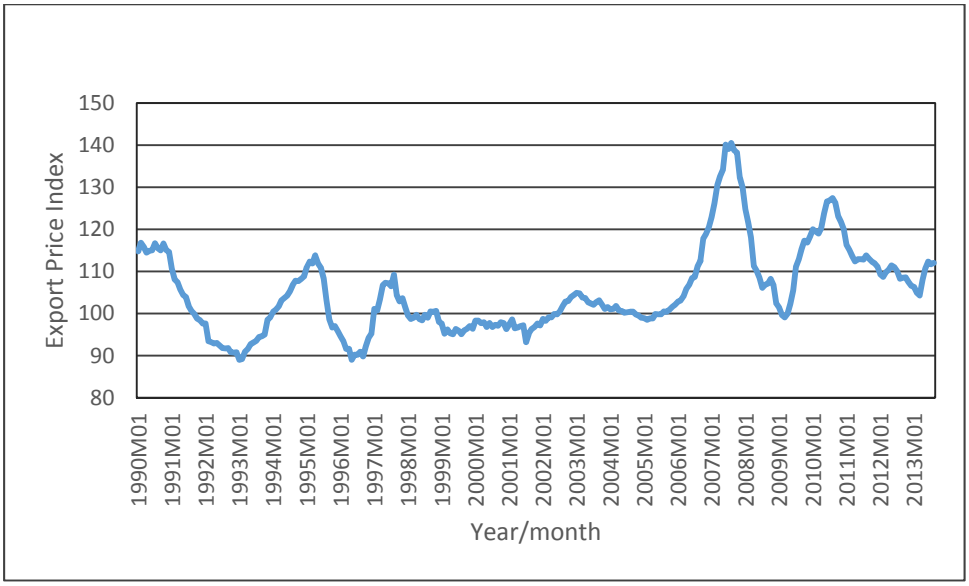
Demand for wood in the construction sector is forecasted to increase by 1-2 % per year up till 2015.

The relative competitiveness of Swedish sawmills has weakened because of the strong Swedish krona (SEK). The SEK is about 10 per cent stronger than the average since year 2000. As the strong krona is combined with a historically quite high saw log price (despite a decrease during the last two years), the profitability is generally low. Also, due to weaker demand from both the energy sector and the pulp industry, prices for by-products such as chips and sawdust have decreased during the last years in Sweden.

Exports of sawn and planed softwood increased in 2012 by about 2 % to 11.8 million m^3. During January-June 2013, export deliveries were 7 % lower and the export value declined by 10 % compared to last year. Both export deliveries and export prices are estimated to fall in 2013. The export trend has changed since 2008 and more and more exported volumes go to the Middle East and North Africa. The share of exports outside Europe is some 40 % today. Even exports volumes to China have increased drastically in 2013 starting from low levels and account for some 3 % of the total exports volumes.

Estimates made in 2010 on use of sawn planed softwood in Sweden shows that large share of some 50 % was used in work repair, renovation, extension and maintenance on houses. Approx. 10 % in new construction, some 15 % in wood industries that manufacture floors, furniture, windows, doors etc. and 18 % in pallets and packaging.

Figure 3. Export price index for sawn softwood, 1990- August 2013. Price Index 2005=100



Source: Statitics Sweden

After a peak in average export prices in 2007 prices fell during 2008 and reached bottom in the second quarter of 2009. The average prices have increased again in the first half of 2010 due to combination of higher prices for sawlogs and decreasing stock volumes of sawlogs. In the mid-2011 the export prices have declined by some 10 percent compared to the same

period last year. The prices have declined in the first eight months of 2013 compared to the same period 2012.

Wood-based panels incl. Parquet industry

According to Statistics Sweden the wood-based industry and parquet industry consists of more than 100 companies with some 2 000 employees in 2011and output accounted for approximately 4.0 billion SEK and value added amounted to 1.0 billion SEK. Most are inputs in the furniture and joinery industries and the construction industry. Although manufacturing of packaging and packaging are significant uses. There was a slight increase in overall production of wood based panels by 1 percent to 654 000 m³ in 2012 compared to 2011. Both exports and imports volumes have declined in 2012.

In recent years the cost of wood raw material, energy and chemicals has affected wood based panel industry negatively. The industry will continue to face growing competition for wood from renewable energy sector.

Paper, paperboard and woodpulp

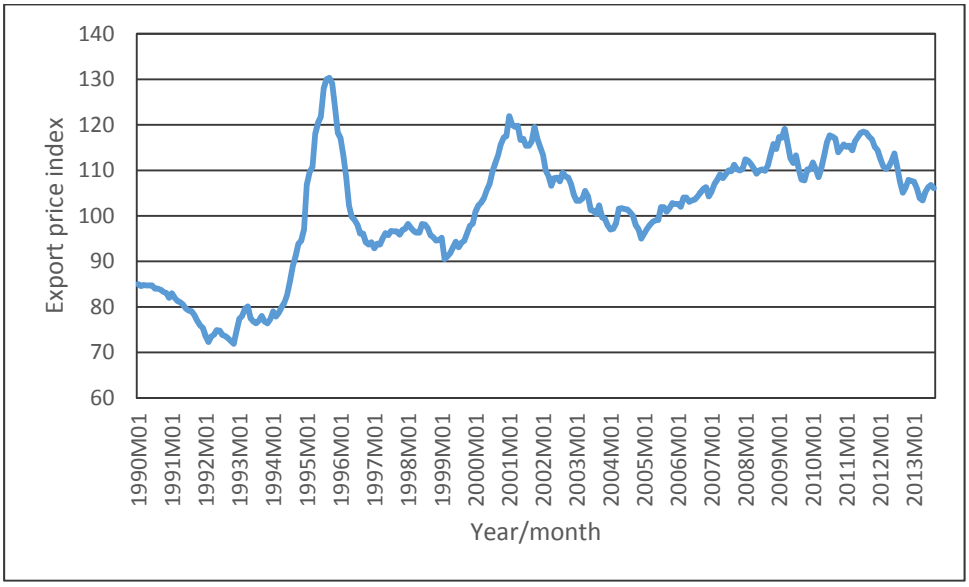
The production of paper and paperboard increased slightly by 0.8 percent to 11.4 million tons in 2012 compared to 2011. Newsprint (-5 %) and mechanical printing paper (-1.5 %) declined while other paper grades increased. The production remains slack in the first 7 months of 2013 with a fall by 5 % mainly in the production of newsprint. The production and exports are forecast to decrease in 2013 and further fall in 2014 compared with 2012. The declining trend is mainly due to the weakening of export markets. The global economic slump is affecting negatively the demand and prices of the paper products. The structural change in the newsprint and printing and writing papers markets is continuing. Since the start of 2012 the demand and production for printing and writing papers have continued to decline. Late last year and early this summer three newsprint machines were closed with an annual production of some 600 000 tonnes. The growing competition and supply of paper products from Asia to European markets increases the competition in export markets. In Sweden the share of packaging papers is increasing and today it is nearly half of the total production of paper and paperboard.

Prices on local currency remained under pressure in most of the paper grades under 2012 and prices are expected to be close to the 2012 level due to the continued weak demand in Europe.

Production of wood pulp reached 12.0 million tons in 2012. This was slight increase by 0.8 % compared to 2011. Chemical pulp has the highest share of some 68 percent of the total pulp production. There was a modest fall in production by 1 % in the first half of 2013 compared to the same period in 2012. The balance of stock levels of pulpwood are stable and low due to several mills have reduced production or extended maintenance shutdown or closed during the second half of 2013. Pulp exports in 2012 reached 3.3 million tons and exports for the first 7 months of 2013 are marginally lower, while exports to EU were 7 % higher when compared to the same period last year. Price flucuations are closely tied to global stocks and changes in balance between supply and demand. Export prices remain dependent on the exchange rate of USD and SEK.

Modest change is foreseen in the forecasts of pulp production and export volumes in 2013 and 2014.

Figure 4. Export price index for pulp and paper and paperboard, 1990- August 2013. Price Index 2005=100



Source: Statistics Sweden

Innovative wood products

Biorefinery industry

Innovation incentives have their origins in the innovation systems of the various stakeholders, such as companies, universities, colleges, institutes and regions. Different clusters have been established around these actors and the competence of these can be augmented by cross-sector collaborations with other branches and sectors. As the biological resources (forests, arable land, wetlands etc.) are distributed throughout the country, these clusters also contribute to regional growth and initiatives can be combined with efficient funds.

Already today Domsjö Development area is an advanced biorefinery. The various product streams are processed in the area into high quality special products with many uses such as viscose production (30 % of the world viscose products market), chemicals, fuels, paints and construction materials. Environmental issues are important in the biorefinery and great environmental consideration is taken throughout all production.

The various companies utilise each other’s process streams and also cooperate within the areas of energy supplies, purification plants and other infrastructure issues.

Examples of innovation work in the sawmills

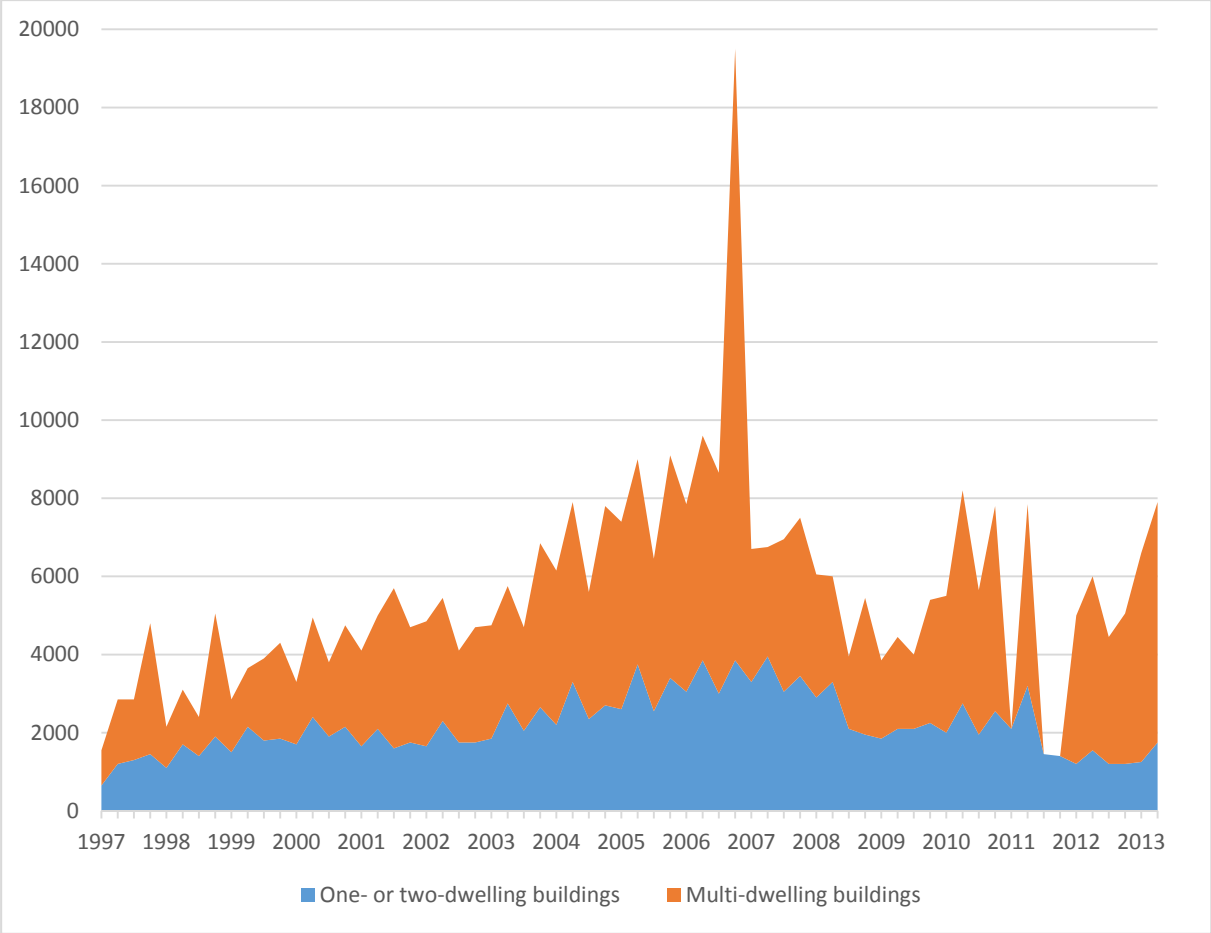
• engineered wood products (EWP, such as pre-fabricated wall panels and flooring systems);
• wooden composites with other materials for green building;
• fittings and consumer products.

Housing and construction

During the first and second quarters of 2013, construction of 14,550 dwellings was started. This is an increase of 33 percent compared to the same period of 2012, when construction of 10,959 dwellings was started. Of total started dwellings 2,950 (+9 percent) was of one- or two-dwelling buildings and 11,600 (+41 percent) was of multi-dwellings buildings. It was, thus, mainly start of multi-dwelling buildings that increased in the first half of 2013.

In the first half of 2013 some 5,100 building permits granted, which is an increase by 3 percent compared to the same period last year. Of all permits granted 3,000 were for new dwellings, an increase by 300.

Figure 2. Number of started dwellings 1997-2013



Source: Statistics Sweden

Sweden's construction is low in a European perspective. After the collapse in 1990s the Swedish housing construction in the year 2000 was only 1.4 dwellings per 1,000 inhabitants, which was far below EU average of around five. Since then the housing construction has increased but is still half as many per capita compared to Norway, Denmark and Finland.

Almost all governmental subsidies for construction ended from 2007 onwards. This meant that a large amount of constructions was stated at the end of 2006, affecting the number of dwellings stated in 2007 and 2008. But the phase out of subsidies has no longer an impact on construction. A low activity in the housing market can instead be explained by the slackening economy and to some extend regulatory changes in the mortgage market.

Growth in the construction market will probably increase in second half of 2013 and 2014 due to an accumulated need for new dwellings but also due to a more positive view on the future economy as a whole. There are, however, constraining factors that affects the construction market. One is the mortgage ceiling which means that loans for investments in dwellings can only be made at 85 percent of the market value. The mortgage ceiling will mainly have negative consequences for investments in one- or-two-dwelling buildings. On the other hand the mortgage ceiling resulted in slower debt growth among household, which is positive, since the rate of the debt growth has been too high in the past.

An excessively low level of construction could harm the broader economy in the longer term. An example is lower mobility on the labour market.

5.a Table on selected Economic indicators

Macro-Economic indicators (Annual percentage change and percent, respectively)	**2012**	**2013**	**2014**	**2015**
GDP at market prices	0.7	1.1	2.5	2.8
Current account[1]	6.7	6.0	5.7	5.2
Employment	0.7	0.9	0.8	0.9
CPI	0.9	0.1	0.8	2.0
Unemployment[2]	8.0	8.0	7.9	7.5
Repo rate[3]	1.00	1.00	1.00	1.50
Productivity in construction sector	3.5	1.2	3.0	N.A.
Krona/Euro	8.71	8.58	8.51	8.39
Krona/Dollar	6.78	6.55	6.64	6.67

1. Percent of GDP
2. Percent of labour force
3. Percent at year-end

N.A. Not available

5.b Forest products production and trade in 2012, 2013 and 2014

Product Code	Product	Unit	Revised 2012	Estimate 2013	Forecast 2014
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS				
	Removals	1000 m^3	32 300	31 000	32 400
	Imports	1000 m^3	763	900	900
	Exports	1000 m^3	362	360	360
	Apparent consumption	1000 m^3	32 701	31 540	32 940
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS				
	Removals	1000 m^3	200	200	200
	Imports	1000 m^3	16	10	20
	Exports	1000 m^3	6	6	6
	Apparent consumption	1000 m^3	210	204	214
1.2.1.NC.T	of which, tropical logs				
	Imports	1000 m^3	2	2	2
	Exports	1000 m^3	0	0	0
	Net Trade	1000 m^3	2	2	2
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS				
	Removals	1000 m^3	26 190	25 580	25 490
	Imports	1000 m^3	3 102	3 000	3 000
	Exports	1000 m^3	336	320	330
	Apparent consumption	1000 m^3	28 956	28 260	28 160
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS				
	Removals	1000 m^3	3 910	3 820	3 810
	Imports	1000 m^3	2 433	2 500	2 500
	Exports	1000 m^3	5	5	5
	Apparent consumption	1000 m^3	6 338	6 315	6 305
3	WOOD RESIDUES, CHIPS AND PARTICLES				
	Domestic supply	1000 m^3	18 700	17 800	19 100
	Imports	1000 m^3	2 150	1 900	1 900
	Exports	1000 m^3	300	280	300
	Apparent consumption	1000 m^3	20 550	19 420	20 700
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS				
	Removals	1000 m^3	250	250	250
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS				
	Removals	1000 m^3	250	250	250
1.1.C	WOOD FUEL, CONIFEROUS				
	Removals	1000 m^3	2 950	2 950	2 950
1.1.NC	WOOD FUEL, NON-CONIFEROUS				
	Removals	1000 m^3	2 950	2 950	2 950

Product Code	Product	Unit	Revised 2012	Estimate 2013	Forecast 2014
5.C	SAWNWOOD, CONIFEROUS				
	Production	1000 m^3	15 800	15 600	16 000
	Imports	1000 m^3	354	300	300
	Exports	1000 m^3	11 842	11 400	11 600
	Apparent consumption	1000 m^3	4 312	4 500	4 700
5.NC	SAWNWOOD, NON-CONIFEROUS				
	Production	1000 m^3	100	90	100
	Imports	1000 m^3	49	40	45
	Exports	1000 m^3	11	10	10
	Apparent consumption	1000 m^3	138	120	135
5.NC.T	of which, tropical sawnwood				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	1	1	1
	Exports	1000 m^3	0	0	0
	Apparent consumption	1000 m^3	1	1	1
6.1	VENEER SHEETS				
	Production	1000 m^3	29	25	25
	Imports	1000 m^3	13	10	10
	Exports	1000 m^3	19	15	15
	Apparent consumption	1000 m^3	23	20	20
6.1.NC.T	of which, tropical veneer sheets				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	1	1	1
	Exports	1000 m^3	0	0	0
	Apparent consumption	1000 m^3	1	1	1
6.2	PLYWOOD				
	Production	1000 m^3	55	50	50
	Imports	1000 m^3	173	165	165
	Exports	1000 m^3	39	35	35
	Apparent consumption	1000 m^3	189	180	180
6.2.NC.T	of which, tropical plywood				
	Production	1000 m^3	0	0	0
	Imports	1000 m^3	10	8	8
	Exports	1000 m^3	3	1	1
	Apparent consumption	1000 m^3	7	7	7
6.3	PARTICLE BOARD (including OSB)				
	Production	1000 m^3	572	555	555
	Imports	1000 m^3	577	550	550
	Exports	1000 m^3	54	45	45
	Apparent consumption	1000 m^3	1 095	1 060	1 060
6.3.1	of which, OSB				
	Production	1000 m^3	250	230	230
	Imports	1000 m^3	90	80	80
	Exports	1000 m^3	2	1	1
	Apparent consumption	1000 m^3	337	309	309
6.4	FIBREBOARD				
	Production	1000 m^3	97	82	82
	Imports	1000 m^3	321	300	300
	Exports	1000 m^3	98	87	87
	Apparent consumption	1000 m^3	320	295	295
6.4.1	Hardboard				
	Production	1000 m^3	21	15	15
	Imports	1000 m^3	104	95	95
	Exports	1000 m^3	4	2	2
	Apparent consumption	1000 m^3	121	108	108
6.4.2	MDF (Medium density)				
	Production	1000 m^3	61	55	55
	Imports	1000 m^3	194	185	185
	Exports	1000 m^3	87	80	80
	Apparent consumption	1000 m^3	169	160	160
6.4.3	Other fibreboard				
	Production	1000 m^3	15	12	12
	Imports	1000 m^3	22	20	20
	Exports	1000 m^3	8	6	6
	Apparent consumption	1000 m^3	29	26	26
7	WOOD PULP				
	Production	1000 m.t.	12 033	11 750	11 850
	Imports	1000 m.t.	495	465	465
	Exports	1000 m.t.	3 343	3 350	3 400
	Apparent consumption	1000 m.t.	9 185	8 865	8 915
10	PAPER & PAPERBOARD				