

NORWEGIAN MARKET STATEMENT 2012
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Provided by the Norwegian Ministry of agriculture and Food

1. General economic trends

(Economic survey 3/12 - September 2012 - Statistics Norway)

Norwegian economy had a modest growth in 2011 which indicate a steady development of general economic growth. The domestic consumer demand has raised during the last 12 months and investment in housing and house prices indicates growth as well.

The unemployment rate is on a stable and low level and wages tends to increase slowly. Although, the inflation rate is low due to a strong Norwegian krone. The fiscal policy are affected of the international conditions, interest rates are still low, and the National Bank seems to keep the interesert rate low in a 12 month perspective.

Business and trade are fairly optimistic and this is also reflected in their plans for investments. This covers both the mainland industry and the oil and gas sector.

Increased domestic demand suppose to increase the economic growth in the years to come. Increased immigration supports the economic potential in the Norwegian economy and makes it possible to increase employment in several sectors.

Small export decrease

Weak international growth combined with reduced Norwegian cost competitiveness has resulted in a decrease in total exports in 2011. Exports of traditional goods has been stronger than export of oil and gas and this development is expected to proceed ni the years to come.

Tight fiscal policy

The growth impulses from fiscal policy will be less significant than previous years and this trend is expected to continue next year and in 2014. The budget deficit in 2013 is expected to be in line with the 4 percent fiscal rule.

Interest rates are kept on a low level

The key interest rate has been kept stable on a low level through 2012. The three-month money market interest rate has decreased a little over the last year and is below 3 per cent. Prospects of very low interest rates internationally, moderate growth in the Norwegian economy and low inflation will probably lead to a fiscal policy where the key interest rates will remain unchanged until the spring of 2013. The money market rate tends to follow the key interesert rate, but increased expences for the finance sector can change this to a slowly rising money market rate in the period 2012-2014.

Increased business investments

Following a couple of years of decline, there has been an increase in investment in mainland industries in the first part of 2012. This is expected to continue to rise the rest of 2011 and further in 2012. Investment in petroleum activities is expected to increase significantly in the years to come and this might lead to a certain pressure in the

mainland investments as well. This is especially significant in the northern part of Norway.

The building sector is recovering

The real price of houses has increased significantly the last two years. It is expected a further increase in the prices in the future due to a permanent gap between supply and demand in the building sector. High house prices stimulate housing starts and it is expected that investment in housing will continue to rise in the years to come. For 2013 it is expected that building of dwellings will be around 30.000 units.

Increased household consumption

There has been a steady growth in household consumption the last year and it is expected that this will continue. This is due to low interest rates and increased incomes. Consumer spending is expected to increase by 3.0 per cent this year and then grow by around 3,5 per cent the years to follow. At the same time the domestic savings are increasing slowly and will probably be 8,0 per cent in 2013. The growth in consumers disposable income seems to keep on a stable level in 2012 and the years to come – around 4.0 per cent.

Relatively tight labour market

The number of employees has fallen for nearly two years, but started to raise in 2011 and will show a modest growth of 1.5 per cent in 2012. This trend is expected to continue and the growth level will be around 2.0 per cent the next years. Reduced growth and periodic decline in the labour force has restrained the increase in unemployment. Adjusted for normal seasonal variations, unemployment as a proportion of the labour force was 3.3 per cent in 2011 and will probably remain stable on this level in 2012. It is estimated that the unemployment rate will keep stable on a low level in 2013 as well.

Modest wage and price increases

In 2011 the trend with intermediate decrease of wages was broken and 2012 will show a modest increase in wages and prices. The increase in wages is expected to continue with an increase around 4,0 per cent. Price increases are estimated at 1,5 per cent this year, giving a substantial rise in real wages.

2. Policy measures taken over the past 18 months, which might have a bearing on trade and markets of forest products or forest management.

White paper on agriculture and food policy

In December 2011, the Government presented a white paper for the Storting (Parliament of Norway) on the policies on agriculture and food. On Forestry, the Government reaffirmed the goal of active utilization of the country's forest resources through sustainable forestry in order to gain from economic development, positive climate effects and other environmental benefits. Among the expressed goals for the forestry sector, with the potential to influence on the markets on wood and wood products, are to facilitate for the increased use of wood in constructions and wood-based bioenergy. The Government will, if the demand for wood should increase, facilitate for a higher level of timber production, recognizing that such a potential exists. To secure important environmental values in forests, environmental efforts should be strengthened along with an increase of commercial forest operations. The white paper underlines that the forests can have a positive effect in combatting climate change, and the Government strengthen activities that will maintain and enhance carbon storage in terrestrial systems within necessary

environmental considerations. The white paper was adopted by the Storting in 2012, and is now the platform for the agriculture and food policy, including the forest policy in Norway.

Public support for restructuring of the wood processing industries

The critical situation of the traditional Norwegian pulp and paper industry, with several plants shutting down in the recent years, led to an extraordinary public grant presented in the revised national budget for 2012. The purpose of the grant of 100 million NOK was to facilitate restructuring of the wood processing industry, and to strengthen forest infrastructure to facilitate for stable and predictable supply of industrial raw material.

White paper on climate change

In April 2012, the Government presented a white paper on climate change to the Storting and entered into a Climate Agreement with the Conservative party (H), the Christian Democratic Party (KrF) and the Liberal Party (V), thus securing a political platform supported by a vast majority of the Storting. The white paper emphasises the role of the forest in reducing the risk of climate change, announcing an active forest policy to enhance forest carbon storage. Among the activities highlighted in the white paper is increasing the forest area, strengthened effort on regeneration, use of wood in construction, utilization of biomass for energy and fertilizing suitable sites to enhance production for increased carbon mitigation.

White paper on building policy

In June 2012, the Government presented a white paper on building policy to the Storting. The white paper has a broad perspective on the building sector in Norway. A overall aim is to obtain a more environmental effective and sustainable building sector. It is emphasized that increased use of wood is important in this respect. The Government also points out urban use of wood and use of wood in multi storey houses as market potentials for wood.

Statsbygg – Public Construction and Property Management

Statsbygg is the biggest builder in Norway and are building on behalf of the government. As a consequence of a general focus on sustainable building practise Statsbygg has started to analyze how governmental builders can support extended use of wood in their building projects.

Measures taken in the national budget for 2012

In the national budget for 2012, the Government continued its support to activities aiming for increased use of wood and bioenergy.

The scheme for increased production of wood chips for energy purposes, launched among the measures of the extraordinary stimulus packages to counter the financial crisis in 2009 has been prolonged. The purpose of the scheme is to stimulate the use of forest material which has not been sufficiently exploited so far. Although the scheme was started as a measure for securing employment during the financial crisis, it is equally important as a measure for achieving the aim of producing 14 TWh bioenergy within 2020.

During the last years the government has granted an increase of the budget of the Bioenergy scheme, one of the main instruments for increasing the production and use of bioenergy.

The public Wood-based Innovation scheme has an annual budget of 38 mill. Nkr. (2011), and the objective of the scheme is to increase the use of wood and added value in the entire value chain. Economic support is given in three areas: Industrial building and construction, Wood products and traditional use of wood and Innovation systems.

3. Market drivers, including wood and paper procurement policy developments. What market drivers are positively or negatively affecting your country's forest products markets?

The focus on sustainable building practise and environmental aspects in the building sector is still increasing. One of the major international environmental building schemes, BREEAM, was introduced last year on the Norwegian market and the interest in the building sector is significant. There is also an increased focus on the use of wood as a renewable and climate friendly solution. This represents an opportunity for the forest sector. New and increasingly stricter requirements for energy efficiency in new buildings are also a potential market driver for extensive use of wood in buildings.

There is an ongoing development of new products and applications of wood based alternatives where other materials have been preferred earlier. Increased focus on energy effeicient solutions and indoor climate enhances the use of wood in several applications and constructions. Old buildings need repair and maintenance and new facades made of wood elements is a preferred solution.

Public purchasers and builders are increasingly tending to focus on environmental aspects in their purchase and contracts. There are several public buildings projects and prosesses in the major cities of Norway which defines environmental specifications connected to building projects. This includes e.g. CO2-emissions which enhance to an extended use of wood. The major builder i n Norway, Statsbygg, is analyzing how governmental building projects can enhance the use of wood as an action to reduce CO2-emmissions from the building sector.

There is an increasing interest, although still on a low level, in biobased industry using renewable resources. This is more significant in Europe and other Nordic countries compared to Norway, but this development will also foreseen to take part i Norway.

On the other hand it is clear that the pulp and paper industry is influenced by the emerging global mega-trend showing shift from paper to electronic media. This is also affecting the total forest based value chain in Norway according to harvesting and availability of industrial roundwood as well as demand for by-products from the sawmilling industry.

4. Developments in forest products markets sectors

Sources: Norwegian Forest Owners Federation, The Norwegian Sawmill Industries Association, Norwegian Pulp and Paper Association, Wood Focus

Wood raw materials (e.g. roundwood: sawlogs, pulpwood and fuelwood)

Roundwood removals first half of 2012 was 4,67 mill m³. This in a small increase compared to last year and highest since 2000. Around 75% of the volume is spruce. In spite of a challenging period for the industry the sales of roundwood has been stable. On the other hand there is a great potential to increase the removals, but the industry are not capable to expand their activity.

The sawlog prices have increased in the first half of 2012, compared to 2011 where prices were stable. The pulpwood prices have stabilized on a fairly lower level compared to same period last year. The import of logs are following the trend from previous years, with some changes. One of the major pulpmills in Norway has switched from imported to domestic supply of roundwood.

For 2012 the positive trend from last year seems to be prolonged and the industry are expected to increase their consumption of roundwood in the next year. There is anyhow some uncertainty connected to the development in the paper and pulp industry, their purchase of pulpwood, and in this respect the total roundwood removals.

Wood energy, with a focus on government policies promoting wood energy

Increased use and production of bioenergy from wood is a goal in government policies. Measures for increased production of bioenergy have also been included in different stimulus packages. There has been a positive development in bioenergy production from forest biomass, and more than 200 000 m³ of wood chips has been produced from areas with previous little or no economic viable industrial roundwood producing capability.

Certified forest products

Most of the forestry in Norway is certified through PEFC. A minor percentage of the forest area is also certified through FSC. This includes both pulpwood and sawlogs. The interest for certified forest products is also increasing in the building sector due to the introduction of the BREEAM-scheme. This scheme sets chain of custody certification of forest products as mandatory. This has raised an increased certification activity throughout the entire value chain, with a special focus on the retailers.

Value-added wood products

There has been an increase in development and production of construction elements and other prefabricated products made from wood. This is an ongoing trend og replaces production on the building site. The development has initially started for new buildings, but are now also realized for repair and maintenance of older buildings, e.g. according to energy efficiency.

Sawn softwood

For sawn softwood, the situation is closely linked to the construction and renovation activity. Construction activity is improving, but there are huge regional differences in the pace of recovery. Residential construction improves faster than other construction sectors. Leisure house building, which is important for wood consumption, has shown a stable growth the last year. The renovation activity has been stable the last years, and is expected to grow slowly, partly because of an increased focus on energy efficiency in the building sector.

The total production of soft sawnwood are showing a modest upgoing trend. Sawn softwood production was 2.25 mill. m³ in 2011, a 4.5 per cent increase from the year before. So far in 2012 production figures are on the same level as in 2011. Mid year stocks of sawn as well as planed qualities are also on the same level as one year ago.

The total export of sawn softwood was 470 000 m³ in 2011, a 9.5 per cent reduction from the year before. By June 2012 exports were up 9 per cent on 2011 figures. In 2011, Germany, Belgium, Netherlands, Denmark, Sweden and UK were the main importing countries of Norwegian sawn softwood.

The total import of sawn softwood was 905 000 m³ in 2011, a 1.5 per cent reduction from 2010. By June this year imports were up 13 per cent compared to June 2011. Around 90 per cent of the imports to Norway were from Sweden.

Pulp and paper

In 2010 and 2011 three pulp and paper mills have shut down in Norway, leaving 11 pulp and paper mills and two fiberboard mills. In addition there has been market related difficulties in several mills, especially in early 2011. This situation has prompted the Ministries of Agriculture and Food and the Ministry of Trade and Industry to look closely at the situation in this part of the industry. The result is a temporary increase in funding for research, industry restructuring and infrastructure for forest raw material supply.

The pulp and paper industry faces challenges related to overcapacity globally, vulnerable product mix, high pulpwood prices, high transportation costs and increasing energy costs as the industry no longer benefits from subsidized energy. The Norwegian pulp and paper industry is rather exposed according to a shift in mega-trends from paper based to electronic media. This is especially visible in the newsprint sector. Anyhow, investment levels in the Norwegian pulp and paper industry are due to rise, as two major investments are supposed to be realized.

Tables

1. Key figures for the Norwegian economy¹. Percentage change from previous year

	2010 ¹ NOK billion ²	2011	2012 (prognosis)
Private consumption.....	1065.4	2.4	3.0
Public consumption.....	539.9	1.5	2.1
Gross fixed investments	488.9	6.4	6.7
Petroleum.....	122.4	13.4	12.5
Business sector, Mainland Norway.....	261.0	8.0	9.3
Exports.....	945.5	-1.4	-1.0
Crude oil and natural gas.....	396,2	-6.2	-3.7
Traditional goods.....	284.2	-0.4	0.5
Imports.....	725.8	3.5	4.1
Traditional goods.....	431.2	5.3	6.2
Gross domestic product.....	2372.5	1.4	1.8
Mainland Norway.....	1 910.6	2.4	2.8
<i>Memorandum items:</i>			
Consumer price inflation (CPI).....		1.2	1.5
Underlying inflation (CPI-ATE).....		0.9	1.1
Wage growth		4.2	4.5
Employment growth.....		1.4	1.5
Unemployment rate (LFS).....		3.3	3.2
Crude oil per barrel, NOK ²		621	580
Current account balance (per cent of GDP).....		14.6	11.2

¹Constant 2007 prices.

²Current prices.

Sources: Statistics Norway and Ministry of Finance.

2. Forest products production and trade in 2011, forecasts for 2012 and 2013

		Unit 1000	2011	2012	2013		
Industrial roundwood	Removals	Saw and veneer logs	m ³	4 341	4 400	4 400	
		Production	Pulpwood	m ³	4 345	4 300	4 300
			Other industrial roundwood	m ³			
		Total	m ³	8 686	8 700	8 700	
	Imports	Saw and veneer logs	m ³	170	122	102	
		Pulpwood	m ³	970	702	602	
		Total	m ³	1 140	824	704	
	Exports	Saw and veneer logs	m ³	252	400	400	
		Pulpwood	m ³	621	962	1 012	
		Total	m ³	873	1362	1412	
Sawnwood	Production	m ³	2 250	2 250	2 260		
	Imports	m ³	905	980	960		
	Exports	m ³	468	540	540		
Wood pulp	Production	Mt	1 603	1254	1 350		
	Imports	Mt	44	42	42		
	Exports	Mt	560	557	650		
Paper and paper board	Production	Mt	1 496	1209	1200		
	Imports	Mt	518	538	540		
	Exports	Mt	1 329	1109	1100		

Sources: Statistics Norway, Norwegian Forest Owners Federation, The Norwegian Sawmill Industries Association, Norwegian Pulp and Paper Association