

Norwegian Market Statement to the UNECE Timber Committee (TC) Market Discussions 13-14. October 2009 at the Timber Committee Week, at the Palais des Nations, Geneva, Switzerland

Provided by the Norwegian Ministry of agriculture and Food
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1. General Economic trends for Norway

September 2009 – Source: Statistics Norway

Improvement, but slowdown continues

The dramatic fall in economic activity in Norway and abroad during the winter half of the year is over. However, growth is barely strong enough to prevent an increase in unemployment for a long time to come. Nevertheless, the increase in unemployment in Norway has been much lower than in other OECD countries, a situation that we expect to continue.

The current slowdown in Norway began as far back as early 2008, but worsened dramatically when the financial crisis hit the economy with full force at the end of the third quarter last year. According to the most recent seasonally-adjusted figures from the quarterly national accounts, the GDP for mainland Norway fell by 2.7 per cent from the third quarter last year to the first quarter this year. The GDP for mainland Norway increased by 0.3 per cent in the second quarter and growth is expected to gradually recover in the next few years. The activity in 2011 is expected to recover to such a degree that it can be characterised as an upswing in the economy. Unemployment is likely to peak the same year with an unemployment figure, according to the Labour Force Survey, of approximately 110 000 persons.

Counter-cyclical policy effective

The economic slump is easing off after extensive policy interventions aimed both directly at the problems in the financial markets and in the form of more traditional demand stimulation. Interest rates are at record low levels and the fiscal policy is extremely expansive.

Export industries will continue to struggle

Many of the traditional export industries in Norway have been hard hit by the international slowdown. However, the financial crisis has been partly responsible for a weakening of the value of the NOK, which eased the pressure on many companies. Part of this weakening has now been reversed, and the strengthening of the NOK is expected to continue. Because the Norwegian economy as a whole is fairing much better than the national economy of our trading partners, we should also expect a higher growth in wage costs in Norway than in our competitors' countries. Impaired cost-related competitive power will therefore counteract the improvement in the international markets. Despite progressive growth in traditional exports of goods, the export volume in 2012 is expected to only just surpass the level of 2008.

Investments in industry declining

The decline in investments in Norwegian mainland industries that started earlier this year is expected to continue into 2010. On an annual basis, we expect a 12.5 per cent fall this year and a further 4 per cent at least next year. On the other hand, the investments in the mainland industries are expected to see a clear increase in 2011 and 2012, but still not surpassing the 2008 level. Investments in petroleum are expected to fall somewhat from the first half of this year, but on an annual basis will increase from 2008 to 2009 and stabilise at around the 2009

level throughout the projection period. The development in petroleum investments is not therefore expected to lead to any major growth impetus for the Norwegian economy, but does nevertheless entail a stabilizing element.

Expansive fiscal policy

The fiscal policy is extremely expansive this year, with estimated growth in public consumption and investments of 5.7 and 12 per cent respectively. The policy is expected to be far less expansive next year. Public consumption is expected to grow by 3.5 per cent, while investments are expected to increase almost as much as this year. The stance of the fiscal policy in 2011 and 2012 is expected to be relatively neutral. Growth in the Government Pension Fund – Global can result in a budget deficit in 2012 that is perfectly in line with the fiscal rule, after the budget deficit being too large in the intervening years.

Interest rates going up

We believe that the money market has already bottomed out and that Norges Bank will gradually put the base rates up starting in December. The banks' interest on loans is affected by a time lag by the money market rate. On an annual basis, the average interest on loans in the banks is expected to reach its lowest level in 2010, at 3.7 per cent, and subsequently increase gradually to 7 per cent during 2012.

Halt in consumption fall

Low interest rates, increased incomes, increased wealth and better prospects all contributed to increased household consumption in the second quarter, after being in decline for a year. As an annual average, growth this year is estimated at 0.4 per cent, and 5.4 per cent next year. Household consumption corresponds to approximately 55 per cent of the GDP in mainland Norway, and the development in activity is contributing to a considerable increase in activity in the Norwegian economy. Consumer growth, however, is expected to diminish in 2011 and 2012, partly due to the higher interest rates.

Housing market picking up

Housing prices fell during the second half of 2008, but have subsequently increased. However, no further increase is expected for the rest of 2009 and housing prices as a year average will therefore be around 2 per cent higher than 2008. Housing prices over the next three years are expected to increase by approximately 6 per cent per year. The real housing price could thus surpass previous peaks in 2011. The improvement in the housing market is expected to contribute to increased investments in housing, thus turning the decline of the past two years into an upswing next year.

Reduced wage growth and inflation

The current slump in the Norwegian economy is partly responsible for the clear fall in wage growth. Wage growth in 2009 is expected to increase by 4 per cent from last year, compared with almost 6 per cent in 2008. Wage growth is expected to fall further in the two subsequent years. Consumer inflation, which was 3.8 per cent in 2008, is expected to fall, with an annual average in 2009 of 1.9 per cent. The strengthening of the NOK is expected to contribute to inflation falling below 1 per cent next year.

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

A substantial part of the extraordinary grants in the 2009 state budget aiming at fighting the consequences of the financial crises are directed towards the construction sector; namely maintenance of public buildings in regional and local communities (kindergartens, schools, universities, homes for students, churches, social service buildings and sports arenas). These types of buildings are often built with and – evidently - maintained with a large share of wood based building materials.

The Norwegian Government has also introduced measures aiming at stabilizing the economy that will directly promote wood energy and use of wood in constructions. The goal for these activities is to facilitate employment and value adding, as well as contribute to reducing greenhouse gas emissions.

As extraordinary measures to curb the economic crisis, a total of NOK 120 million are granted for bioenergy purposes, wood based innovation, landscape restoration and silviculture.

- NOK 75 million are to be used for activities that stimulates increased sustainable harvesting and gathering of biomass, production of wood chips for energy and support for newly established heating plants based on wood chips.
- NOK 20 million are granted to the wood based innovation scheme, aiming mainly at promoting the use of wood in industrial construction, but also the more traditional utilisation. Development of effective and flexible systems for production and utilisation of wood are encouraged under the scheme.
- NOK 15 million are set aside for landscape restoration purposes, and will be granted to activities that combine clearance of vegetation along the roadside at selected locations, with the with the use of cleared biomass for energy or heating.
- NOK 10 million are to be used for silvicultural activities, mainly planting and pre commercial thinning.

Two recent reports from the government present positive signals to the forest sector. A report from the Ministry of Agriculture and Food, which is dealing with the role of agriculture and forestry in the work to fight climate change, points at forestry and forest based industry as important parts of the answer. The report is presented to the parliament as a government white paper. Another report on the Governments architecture policy, put together by several ministries, has emphasised the environmental role of architecture. The report clearly states that increased substitution with wood based products will have significant positive effects on climate.

Government policies promoting wood energy

Increased domestic production of wood energy is important goal for the Government. The Government aims at an increase in bioenergy production of 14 TWh by 2020 to reduce the emissions from fossil fuel.

As a follow up of the white paper on climate change policy, the Government presented a new strategy for increased production and use of bioenergy in 2008. In order to create favourable conditions through focused and coordinated policy means, the strategy announced several measures to remove obstacles for and to promote use of bioenergy.

In the original proposal for the national budget for 2009, the Government announced increased efforts in research and development on bioenergy issues along with support to facilitate increased production and utilization of bioenergy from forests.

Later revisions of the national budget in 2009, including the stimulus packages to secure employment supports policies for increased production and use of bioenergy. Other relevant policy papers are the Government white paper on the contribution from the Agriculture sector in tackling climate change challenges, and the new Government architecture policy, emphasizing the need for more energy efficient and climate friendly buildings.

3. Market drivers, including wood and paper procurement policy developments affecting forest products markets

Source: Wood Focus

The increased governmental focus on environmental and climate is starting to influence the market, benefiting wood based products. It is expected that the two recent reports on agriculture and climate and the new architecture policy will enhance this development. The new action plan for the housing and construction sector also emphasizes environmental and climate friendly solutions. The government wants public contractors to be a driving force in developing a more climate friendly and energy efficient construction industry. This is expected to influence public procurement in the future. In a private initiative, the dominating actors in the construction industry have started a process aiming at developing an environmental classification system for use in Norway based on the international LEED and BREEAM systems.

4. Developments in forest products markets sectors

Wood raw materials

Source: Norwegian Federation of Forest owners

In 2008 there was a falling demand of sawlogs, the demand for pulpwood remained high and the price difference between sawlogs and pulpwood was extraordinary low.

This development was interpreted as a result of the announced increase of the Russian export taxes from 01.01.2009. There is also an assumption of many buyers positioning based on the forecasts of shortage of fiber in Europe in the years to come.

In the beginning of 2009, the wood-based industry and the forest sector was hit harder by the economic crisis than most other economic sectors in Norway. Construction activities almost stopped, and the demand for sawlogs was low. Global challenges in the pulpwood markets

also led to a decreasing demand for pulpwood. Some regions have experienced situations where there have been no buyers for pulpwood.

Although there has been an improvement regarding the demand for both sawlogs and pulpwood in the second half of 2009, there is a hesitation in the supply side. Forest owners expect the roundwood prices to increase from the present low levels, and those who have the possibility to delay felling await the development.

Depending on the development of roundwood prices, there is a possibility for increased roundwood production in the last quarter of 2009.

The forecast for 2010 is a gradual improvement of the market situation. In the long term increased demand for roundwood and wood for energy purposes is expected, and there are already signs of large energy companies positioning in the market. This is partly explained by the implementation of the EU renewables directive.

The foreign trade has been low in 2009, and it is expected that the industry will focus on domestic wood also in 2010.

Certified forest products

Source: Wood Focus and the Norwegian Pulp and Paper Association

The wood processing industry requires certification on all roundwood, and in the end user market there is more or less an expectation that all products originate from certified wood. This is sometimes, but not always mentioned specifically in contracts. The use of Chain of custody-certification is increasing, but there is not a large market driven demand for this at the present time.

The Norwegian pulp and paper industry experience loss of market shares due to the lack of FSC certification of the Living Forests standard, which is the most common basis for forestry certification in Norway. The few companies that are FSC certified have better access to the market.

Value added forest products

Source: Wood Focus

There is a positive development for value added products in Norway. This is explained by a stable activity related to renovation and rehabilitation of both public and private buildings. Increased focus on environmental issues also benefits value added wood products.

Sawn softwood

Source: Norwegian Sawmill Association

While sawlog availability was satisfactory in 2008, several mills have now been forced to reduce production due to sawlog shortage. Sawlog prices have been adjusted upwards, but many forest owners are still waiting for better market conditions. A significant pulpwood price rise is longed for to increase felling.

Even if the reduction in domestic construction activity has been less dramatic for single family houses and other small buildings (high wood material share) than for blocks of flats (low wood material share) the downturn must be characterised as severe. When sales of construction qualities improved somewhat in the late spring of 2009, this was to some extent to refill necessary stocks among retailers. Total sales volumes from retailers for all building materials in the first half of 2009 were 80 per cent of 2008 volumes. If it had not been for the stimuli from the government to fight the effects of the financial crisis and the relatively stable renovation and amplification activity in private sector, sales figures would have been significantly worse. The figures for new orders within construction were higher in the first and second quarters of 2009 compared to the third and fourth quarters of 2008. However, this was not enough to prevent a continued reduction in stocks of orders.

Industry outlet, which amounts to approximately 25 per cent of total sales (domestic and exports), has mainly shown the same development pattern as for building materials. There is, however, a clear tendency towards increased exports and reduced imports (January – August 2009 compared to same period the previous year).

Pulp and paper

Source: Norwegian Pulp and Paper Association

Some production capacity is taken out due to market demand and prices. The situation is much the same as for 2008, but the export volumes has taken a bigger hit than anticipated, due to the capacities taken out. A lot of Norwegian capacity is in the graphic papers, which struggles especially with overcapacity and lower prices.

From 2005 the US government has given tax credits in cash under the Safe, Accountable, Flexible, Efficient Transportation Equity Act to companies that use alternative fuels or a mixture of fossil and alternative fuels. The eligibility scope was broadened in 2007, so that the pulp and paper industry could benefit from the law. The pulp and paper industry makes a by-product when cooking wood for extraction of cellulose, called black liquor. In 2008 the US pulp and paper industry started mixing a minimum of 0,1 % diesel (fossil fuel) in their black liquor, qualifying them for subsidies in the order of USD 0,50/gallon black liquor. The tax credit may reach USD 300/ton pulp, reducing production costs and allowing marketing of the commodity at prices below those currently charged. 21 of the largest US pulp and paper companies have gotten credits in the amount of 2,85 billion USD until June 30th this year. The tax credit scheme will come to an end on December 31st 2009. The scheme has resulted in similar measures in Canada, and will have an adverse effect on the global pulp and paper market. Both the European Commission and the Norwegian government have conveyed the impact on the market to the US Administration.

Due to the tax credit and the following market distortion, European and Norwegian pulp and paper mills have had to take of capacity from the market.

Tables

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

	2008 NOK billion ²	2008	2009	2010
Private consumption.....	992.3	1.5	0.0	
Public consumption.....	489.0	3.7	5.7	
Gross fixed investments	527.2	3.3	-6.3	
Petroleum.....	122.8	7.1	5.5	
Business sector, Mainland Norway.....	201.9	6.6	-16.1	
Exports.....	1 196.3	0.9	-5.3	
Crude oil and natural gas.....	590.8	-2.3	-4.5	
Traditional goods.....	324.2	4.8	-7.3	
Imports.....	731.4	4.2	-2.4	
Traditional goods.....	480.0	3.2	-4.0	
Gross domestic product.....	2 537.9	2.0	-1.9	
Mainland Norway.....	1 842.5	2.4	-1.0	¾
<i>Memorandum items:</i>				
Consumer price inflation (CPI).....		3.8	1.8	
Underlying inflation (CPI-ATE).....		2.6	2.4	
Wage growth		6.0	4	
Employment growth.....		3.2	-1.0	-1½
Unemployment rate (LFS).....		2.6	3¾	4¾
Current account balance (per cent of GDP).....		18.4	9.8	

¹Constant 2006 prices.

²Preliminary national account figures. Current prices.

Sources: Statistics Norway and Ministry of Finance.

Forest products production and trade in 2008, forecasts for 2009 and 2010

			Unit 1000	2008	2009	2010	
Industrial roundwood	Removals	Saw and veneer logs	m ³	4 104	3 102	3 502	
		Production	Pulpwood	m ³	3 980	2 980	3 400
			Other industrial roundwood	m ³	40	40	40
	Total			m ³	8 124	6 122	6 942
	Imports	Saw and veneer logs	m ³	207	205	205	
		Pulpwood	m ³	1393	748	672	
		Total	m ³	1600	953	877	
	Exports	Saw and veneer logs	m ³	251	181	201	
		Pulpwood	m ³	635	620	620	
		Total	m ³	886	801	821	
Sawnwood	Production	m ³	2 228	1 978	2 128		
	Imports	m ³	935	835	935		
	Exports	m ³	417	552	602		
Wood pulp	Production	Mt	2 095	1 549	1 800		
	Imports	Mt	43	60	50		
	Exports	Mt	604	494	500		
Paper and paper board	Production	Mt	1 898	1 540	1 700		
	Imports	Mt	557	495	500		
	Exports	Mt	1 656	1 253	1 400		

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