UNECE

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FOREST PRODUCTS ANNUAL MARKET REVIEW 2004-2005

Executive Summary

Chapter 1
UNECE region forest products markets respond positively to globalization: Overview of forest products markets and policies, 2004-2005

Highlights

- Strong economic conditions, combined with effective industry and government promotion policies, drove forest products markets to record levels in 2004 for the UNECE region as a whole.
- China's imports of unprocessed and semi-processed wood from the region, and its exports of value-added production back to the region, have mixed effects, depending on how successfully companies have adapted to globalization.
- Illegal logging is less than 1% of legal fellings for most countries in the region; however it is greater for a few countries, with substantial environmental, social and economic costs to governments, and with negative ramifications throughout the sector.
- North America became a net importer of sawn softwood in 2004 and its sawnwood imports exceeded European imports for the first time, as consumption expanded, driven by over 2 million housing starts.
- The important forest sector policy issues of 2004 in Russia included the Kyoto Protocol ratification, debates about private ownership of forests, use of satellites for preventing illegal logging and legal disputes over ownership and management of some wood and paper companies.
- Secondary processed wood product exports by tropical countries exceeded the value of primary wood product trade in 2004 for the first time, reflecting successful policies to promote value-added production.
- In both North America and Europe, trade associations have joined forces to promote value-added processing, and to promote the forest and forest industries sector in general.
- Concerns that wood products are legally and sustainably produced, drove governments, industry and retailers to implement purchasing policies requiring certified forest products, thereby influencing all market sectors.
- With over 240 million hectares of certified forestland, an increase of one third in the last year, the supply of certified forest products is increasing in all market sectors, from roundwood to value-added wood products.
- Sawn hardwood consumption is falling within the region, largely due to downsizing of the US furniture industry in response to imports from Asia; however, hardwood exports to Asia increased.

Chapter 2
Policy issues influencing forest products markets in 2004 and 2005[1]

Highlights

- Illegal logging constitutes 8-10% of global wood products production and a similar share of the global wood products trade, costing governments and national economies about $15 billion annually.
- Governments and several major non-governmental organizations around the world are beginning to act to curb the trade in "illegal timber" and products made from such timber.
- Momentum to promote the use of sustainably produced products is growing worldwide, with early efforts focused on materials used in building construction; certified timber products are required in all such programmes.
- Efforts are underway in many countries to promote wood use through code harmonization, encouragement of public investment in wood products technology development, and highlighting the sustainable development credentials of wood products.
- Following a long period of decline in funding for research into wood utilization and competitiveness in the European Union and in North America, current initiatives on both sides of the Atlantic are seeking to reverse this trend.
- Carbon trading and the creation of forest-based carbon registries are developing quickly within the EU and globally, with ratification of the Kyoto Protocol helping to stimulate action.
- The Kyoto Protocol came into effect after it was ratified by Russia in 2005, spurring action at several levels of government to target CO_2 and methane in emissions reduction programmes and strategies; the United States remains steadfast in its opposition to the protocol.
- Bioenergy production is growing: in Europe heat energy from woody biomass is a major focus; while in the US, biofuels industry development is particularly rapid, driven by subsidies and incentives from state governments.
- Trade disputes between forest sector trading partners, such as the ongoing sawn softwood dispute between the US and Canada, continue to make headlines.
- Phytosanitary regulations on unseasoned wood packaging to prevent the spread of insects and disease pose a barrier to the use of wood pallets and various forms of wood packaging.
- China's emergence as a major player in the global wood products manufacturing arena has major implications for principal wood products producing and consuming regions and poses new challenges vis-a-vis illegal trade of wood and wood products.

[1] By Dr. Jim L. Bowyer and Dr. Ewald Rametsteiner.

Chapter 3
Continued global economic recovery boosts housing construction: Economic developments influencing forest products markets in 2004 and 2005[2]

Highlights

- World output increased by 5% in 2004, which was the fastest annual rate of increase in 30 years; however, in western Europe, the cyclical recovery lost momentum in the second half of 2004.
- Western Europe will experience another year of moderate growth in 2005, in contrast to central and eastern Europe, where growth will be significantly stronger than in western Europe.
- Continued low interest rates, income growth and improving labour markets, supported by strong demographics, drove United States housing markets to record levels in 2004, with starts reaching almost 2 million, with the outlook to remain at this level in 2005.
- The further depreciation of the dollar during 2004 was partly reversed in the second quarter of 2005, however, the considerable US current account deficit, which is projected to continue widening in 2005, remains a major downside risk to the global economy.
- Oil prices reached record levels in the first half of 2005 and high oil prices are expected to be a feature of the world economy for many years to come.
- In 2004, the CIS emerged as one of the fastest growing regions in the world economy, with all 12 members posting solid, albeit varying, rates of GDP growth.
- The short-term outlook is for a moderate slowdown in global economic growth in 2005, with the US and China remaining the major engines of global economic activity.
- Construction scenarios in Europe are similar to those for North America: strong housing (both new housing and remodelling and maintenance) and weak non-residential markets.
- Construction forecasts for western Europe expect stronger non-residential and civil engineering sectors and slower new residential construction, but residential remodelling and maintenance remains healthy.
- Concern exists in North America and Europe about some over-heated housing bubbles.

[2] By Mr. Dieter Hesse, Dr. Al Schuler and Mr. Craig Adair.

Chapter 4
Roundwood harvests reach record levels due to higher pulp and sawnwood demand: Wood raw material markets, 2004-2005[3]

Highlights

- Total roundwood removals in the UNECE region reached record levels in 2004 reflecting a growing demand for both wood and paper products.
- Trade of roundwood continued to decline in both Europe and North America as a result of increased local processing of softwood and hardwood sawnwood.
- Huge storm hits northern Europe in early 2005, damaging 85 million m^3 of timber, which will continue to impact harvests, trade flows and wood prices in Europe into 2006.
- Fuelwood removals in Europe were approximately 14% of total removals in 2004, and with the lack of affordable non-wood biomass in many countries, there has been a rise in trade of woodfuel, increasingly in the form of wood pellets.
- The CIS increased roundwood removals by 4.7% in 2004, with exports of raw material up by almost 12% compared with 2003, amounting to almost one third of the total industrial timber harvest.
- In addition to documented harvests and exports from Russia, there are substantial volumes of undocumented roundwood removals, from the eastern provinces in particular, destined for further processing in China, which are then exported to Europe, North America and other markets.
- In North America, the share of softwood industrial roundwood grew from 2002 to 2004, primarily as a result of a substantial increase of sawn softwood production.
- Sawlog prices have been rising in most regions of North America and Europe in 2004 and 2005 as a result of higher log consumption by sawmills trying to meet the increased demand for sawnwood, mostly from the United States, Canada and central Europe.
- Prices for both pulplogs and residual chips were slightly higher in local currencies in Europe in 2004 than in 2003 and, as a result of the weaker US dollar, pulp manufacturers in Europe found themselves less competitive than many producers in the US.

[3] By Mr. Håkan Ekström.

Chapter 5
Exceeding Timber Committee forecasts, sawn softwood markets rise to record levels: Sawn softwood markets, 2004-2005[4]

Highlights

- Europe and North America achieved record levels of sawn softwood consumption, production and trade in 2004.
- In North America, heightened market activity resulted from favourable interest rate policies and surging housing starts (also at record highs), which continued into 2005.
- European exports to the United States and Japan increased dramatically in 2004 and continued increasing in early 2005.
- Russia's sawnwood exports were at record levels in 2004 as favourable policies promoted foreign direct investment; however, domestic consumption has continued to fall dramatically.
- Major investment projects in new capacity are taking place in Germany to take advantage of available raw materials and strong market demand for sawnwood and its by-products.
- Windstorms hit the Baltic Sea region in 2005, causing severe forest damage in many countries, and resulting in an oversupply of roundwood and sawnwood.
- Baltic sawmills have become an integrated part of the international Nordic forest industries as fibre sources, e.g. chips, as satellite production facilities, and as a "jump-point" to eastern forest resources from Belarus and Russia.
- Membership of the Baltic countries in the EU has had positive effects in the sawnwood and other sectors, e.g. open borders with fewer customs formalities mean faster, less costly delivery.
- European sawnwood exports continue to gain US market share while Canadian exporters continue to face US countervailing and anti-dumping duties; near-record high prices, however, allowed all suppliers to achieve strong financial returns in 2004.
- British Columbia's mountain pine beetle epidemic led the provincial government to expand its massive salvage programme and industry has responded with significant sawmill investments to process the increasing volumes of dead timber.
- In the first quarter of 2005, North America became a net importer of sawn softwood for the first time as offshore imports exceeded exports to offshore destinations and in 2004, North American sawn softwood imports exceeded European imports for the first time.

[4] By Dr. Nikolai Burdin, Mr. Antti Koskinen, Mr. Arvydas Lebedys and Mr. Russell E. Taylor.

Chapter 6
UNECE region hardwood markets strongly affected by global trade: Sawn hardwood markets, 2004-2005[5]

Highlights

- Apparent consumption of sawn hardwood in the UNECE region decreased by 3% in 2004 as compared with 2003, largely due to falling consumption by the United States furniture industry.
- Total UNECE region sawn hardwood production dropped by 3.6% in 2003 due to a 10% drop in the US, despite an increase of 5.7% in Europe.
- In line with rising consumption, European production increased as infrastructure investment continued and as eastern European harvests increased on both state and private forestland.
- In the EU-25, production was led by France, which held its production levels, with oak demand offsetting falls in beech.
- European exports have fallen steadily since 2000, sliding further by 2.6% in 2004, as the increase in oak exports did not match the reduction in exports of beech.
- US exports rose 10% in 2004 to the highest level since 2000, principally due to a 39% increase to China and a 95% increase to Viet Nam.
- Oaks have dominated sawn hardwood market consumption, leaving European beech prices to continue their long-term downward trend.
- US imports of sawn hardwood, which have risen in the last four years, jumped a further 25% in 2004, with half from Canada and most of the balance from South America.
- The 2005 sawn hardwood market has begun with nervousness, particularly in the US furniture and flooring sectors, where producers fear that some domestic market loss may be permanent and with red oak demand sharply down.
- Rising US and European imports of furniture, and now flooring, are significant in their effects on domestic production and consumption of sawn hardwood.
- Sawn hardwood producers are newly organizing themselves, in the US with the new Hardwood Federation lobbying the Government, and in Europe with the European Hardwood Export Council promoting and coordinating marketing of exports.
- Concern for the legality of the source of sawn hardwood, and its sustainable production, are reflected in public procurement policies and industries' and retailers' purchase procedures.

[5] By Mr. Michael Buckley.

Chapter 7
Striking recovery of the panels industry in 2004 – difficult to beat in 2005: Wood-based panels markets, 2004-2005[6]

Highlights

- The particle board industry in Europe recorded a major upswing in 2004, but faces a difficult start in 2005.
- MDF consumption in Europe accelerated by nearly 10% during 2004, with the laminate flooring industry as the key driving force.
- OSB production in Europe continues to expand and benefits from strong North American demand.
- The European plywood industry faces fierce competition from China despite anti-dumping duties of up to 67% on imports of okoumé plywood
- The Russian particle board and MDF industries are developing rapidly and will be characterized by major restructuring over the next few years.
- Prices in Europe rose steadily and prices in North America spiked several times in 2004 before declining to levels that were still well above previous years.
- A strong housing market allowed the North American plywood industry to post a 100% capacity utilization rate.
- Increased imports of cabinets and furniture reduced demand for particle board in the United States.
- OSB production in North America increased by 3% in 2004 and reached a record volume of 23.1 million m^3.
- Strong demand for OSB has resulted in plans to build 10 new mills in North America by 2008.
- Rapid growth of plywood imports from Brazil resulted in the rescission of its duty-free status in the United States and the imposition of an 8% duty in mid-2005.
- Several Chinese plywood manufacturers are expected to receive approval to grade stamp structural plywood by late 2005 or early 2006 and begin exporting to the US.

[6] By Ms. Eva Janssens, Dr. Nikolai Burdin and Dr. Ivan Eastin

Chapter 8
Higher demand and production in 2004, but growth wavers in 2005: Markets for paper, paperboard and woodpulp, 2004-2005[7]

Highlights

- In Europe, production of paper and paperboard increased 4.1% in 2004 to a record 103.1 million m.t., in response to growth in GDP and exports, while pulp output rose 2.4%.
- In North America, production of paper and paperboard increased 3.3% in 2004 to 104.2 million m.t., with a robust increase of 4.1% in the United States and 2.3% in Canada.
- In the CIS, production of paper and paperboard increased 6.6% in 2004 to 8.0 million m.t., while paper and paperboard consumption increased 6.5%.
- The annual growth in apparent consumption of paper and paperboard within the CIS halved between 2003 and 2004, while in North America, growth rebounded over the same period.
- Net exports of paper and paperboard from Europe increased by 34.3% in 2004 to 12.1 million m.t., as exports to Asia rose substantially.
- In Europe, policy issues are related to industry competitiveness, simplification of EU legislation on chemicals and dramatic energy price increases.
- In the CIS, ratification of the Kyoto Protocol by Russia was an important policy development that is fostering industry accountability for greenhouse gas emissions.
- In the United States, a decline in the exchange value of the US dollar in 2003 to 2004, as well as labour productivity gains, helped restore industry competitiveness and profitability.
- Growth rates for US industrial production and advertising expenditures, key determinants of demand in US for paper and paperboard, appear to be lower in 2005 than in 2004.
- A labour strike and lockout halted paper production in Finland for more than six weeks in mid-2005, impacting world markets for products such as coated paper, and creating opportunities for competitors to fill the void.

[7] By Dr. Peter J. Ince, Prof. Eduard Akim, PhD, Mr. Bernard Lombard and Mr. Tomás Parik.

Chapter 9
Western Europe certifies 50%, and North America 30%, of their forests: Certified forest products markets, 2004-2005[8]

Highlights

- Certified forest area increased by more than one third during the last year, to 241 million hectares, mainly due to an increase in Canada by the Canadian Standards Association scheme.
- In 2005, 60% of the world's certified forest area is located in North America, and 36% in western Europe.
- The potential roundwood supply from certified forests is estimated at 22% of global industrial roundwood production; however, only a small share of products from certified origins bear a label.
- Chain-of-custody (CoC) certificates increased by about one third, reaching 6,000 certificates worldwide, issued by the Programme for the Endorsement of Forest Certification Schemes (PEFC) and the Forest Stewardship Council (FSC).
- China now has the fourth highest volume of CoCs outside the UNECE region, and is producing some certified forest products (CFPs), mainly for export markets in North America and Europe, rather than for its domestic market.
- No price premium exists for CFPs in most markets; however, certified products have become more visible in the marketplace, driven by large do-it-yourself (DIY) and international paper companies.
- Active demand by private end-consumers remains a minor factor for CFPs and its absence is an obstacle to market growth, but negative consumer perception about forests keeps the companies in the sector under pressure to act.
- More public procurement policies with regard to legally harvested and sustainably produced wood are developing in Europe, are increasingly a driving force for certification and an important source of demand for CFPs
- Illegal logging dominates governmental political discussions related to forest products because it causes damage to companies acting legally and is a major cause of tropical deforestation.
- Certification of short-term forestry plantations for bioenergy production in the southern hemisphere might play a role under the clean development mechanism of the Kyoto Protocol.
- Mutual recognition between the FSC and the PEFC is not expected; however, the other major schemes in the UNECE region have established mutual recognition agreements with PEFC.

[8] By Mr. Florian Kraxner and Dr. Ewald Rametsteiner.

Chapter 10
Value-added wood products industry implements policies to stay competitive: Value-added wood products markets, 2004-2005[9]

Highlights

- Value-added wood products (VAWPs) imports by the five largest importers grew by 17% to a total of $37 billion in 2004.
- Wooden furniture and parts grew impressively by 15%, builders' joinery and carpentry (BJC) increased by 19% and profiled wood and mouldings rallied by 38%, in part due to the weakened dollar.
- United States imports grew by 15% for wooden furniture, 32% for BJC, and 54% for profiled wood, to a greater value than the other top four countries combined: Germany, France, United Kingdom and Japan.
- China's wooden furniture trade continued to increase, together with that of the US, despite anti-dumping measures imposed by the US during 2004.
- Europe and Canada appear to be the next major targets for Chinese exporters, who are consolidating their outsourcing capacities into mega-factories and diversifying their furniture from mass-market items to the higher end of the market.
- With mainly wood-based construction of almost 2 million homes in 2004, US continued imports of BJC and profiled wood jumped 32%, as domestic production became less competitive.
- The European Confederation of Woodworking Industries (CEI-Bois) initiated the Roadmap 2010 strategy to boost competitiveness of EU value-added woodworking industries.
- North American glulam timber production reached a record high in 2004, attributed mostly to the huge housing market and stock beam capacity.
- Exceptionally strong housing market, combined with a reviving economy, provided a background for record production of glulam timber, I-beams and LVL in North America in 2004.
- Market acceptance of LVL for beams and headers makes LVL the fastest growing engineered wood product in North America.

[9] By Mr. Jukka Tissari, Mr. Craig Adair and Dr. Al Schuler.

Chapter 11
Exports of tropical value-added products surpass primary products: Trends in the tropical timber trade in 2003-2004[10]

Highlights

- Reflecting successful policies to promote value-added production, secondary processed wood product exports by tropical countries exceeded the value of primary wood product trade in 2004 for first time.
- Growth of China's tropical plywood exports, based primarily on imported logs, has been rapid, reaching 567,000 m^3 in 2003 (30% above 2002 levels), and leaping a further 68% in 2004.
- Possible mislabelling of Indonesian logs creates large discrepancies in the reported tropical log trade between Malaysia and China.
- Tropical log exports have dropped by half in the past decade, with Malaysia currently accounting for about one third of the 13 million m^3.
- In 2003, total tropical sawnwood imports by European Union countries increased by almost 8% to 2.7 million m^3 due primarily to increased imports in France, the United Kingdom and Italy.
- Prices of many tropical timber products were affected by disruptions to trade due to civil unrest, CITES listings of substitute species, currency fluctuations, export bans, and import regulations and restrictions.
- In 2004, despite factors limiting supply, tropical timber prices did not rise significantly (except for plywood), largely because the main market for tropical sawnwood, the EU, was weak.
- Supported by strong demand, Brazilian plywood prices rose due to compliance with new EU safety rules on the manufacture of structural plywood (CE marking [Conformité Européenne]) which took effect in early 2004.
- In addition to its large tropical exports, Brazil became the major supplier of softwood plywood to the huge United States market, well ahead of Canada, the former main supplier; and in line with demand, Brazilian elliotis pine plywood prices reached record highs in early 2004, but waned during the remainder of the year as US stocks rose sharply due to buyers speculating on further price increases and imported more.

[10] By Dr. Steven E. Johnson, Dr. Michael Adams, Dr. Jairo Castaño and Ms. Masaki Miyake.