# Chapter 8
# Sawn Softwood – Consumption, Supply and Trade

## Highlights

- *Consumption, production and trade of sawn softwood rose to record levels in North America and Europe in 1999 and were even stronger in early 2000.*
- *Consumption of sawn softwood in the ECE region grew 4% in 1999, with growth of 6% in North America, 3% in Europe and a decrease of 18% in Russia.*
- *Strong economies in North America and Europe are driving demand for sawnwood for construction and other uses.*
- *Prices moved in opposite directions in 2000, falling to near-term lows in North America and firming in Europe.*
- *The United States increased imports by over 1 million $m^3$, with much of the new increase coming from Europe, as well as new sources from South America and Russia.*
- *Germany became the largest sawnwood producer in Europe and continues to be the greatest consumer by far.*
- *Central and eastern European countries are rapidly increasing domestic consumption, albeit from low levels, and are succeeding in finding new export markets in western Europe, United States and Asia.*
- *Russian Federation exports increased dramatically in 1999, although production fell.*
- *The ongoing recovery from the 1998 Asian economic crisis allowed ECE region exporters' markets in Japan to rebound.*

## 8.1 Introduction

*At the end of the millennium in 1999, sawn softwood demand benefited from strong economic conditions and related high levels of construction and other uses of sawnwood in North America and Europe. In contrast, the 1998 economic crisis in the CIS was still reflected in the 1999 statistics. The important, common export market for the ECE region exporters, Japan, partly recovered from the 1997/1998 Asian economic crisis and replenished stocks of sawnwood, although not to pre-crisis levels.*

*And at the beginning of the new millennium in 2000, record levels of sawn softwood production and trade were occurring in North America and Europe*

*This chapter will look at the sawn softwood markets, first on a region-wide basis, and then broken down by North America, Europe and the CIS. Each section is based on the ECE/FAO TIMBER database and then is completed with additional information obtained from official sources and trade journals.*

*The statistics for 1998 and 1999 for some countries differ from previous years because of important changes in the definition "coniferous sawnwood" (equivalent to sawn softwood). It includes both "planed" and "rough" sawnwood. Finger-jointed wood and continuously shaped mouldings, which were included in the prior definition, have been excluded. As a result this chapter focuses on the changes from 1998 to 1999 and updates the market developments for 2000 where unofficial information is available.*

## 8.2 ECE region market developments

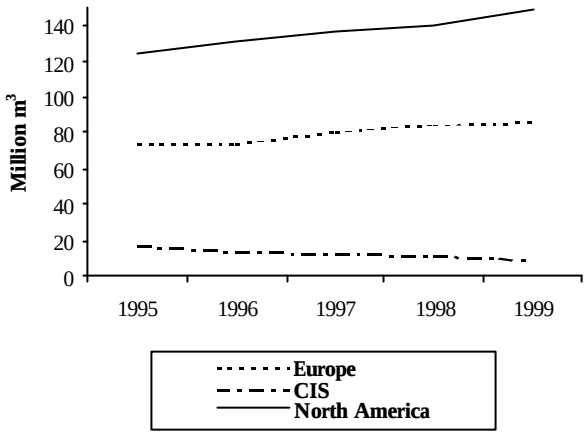
*Apparent consumption of sawn softwood rose strongly to a region-wide record level in the ECE region in 1999, by 4.1% over 1998. However the improvement was not universal as consumption in the CIS fell heavily as evidenced by an 18% drop in the Russian Federation[1]. Consumption tables with individual country volumes for the last few years may be found in the annex.*

*Nevertheless, with strong North American, European and Asian demand for sawnwood, ECE region exports rose by 4.8%. Trading was active, both between countries in the region and with countries outside the region. More countries outside the ECE region are becoming sources of supply, including for temperate species, for example from plantation radiata pine from Chile, New Zealand and other countries. Sawn softwood is also flowing into the ECE region from tropical sources such as Brazil.*

*At the sub-region level, Europe and North America continued extremely strong trends in 1999 with record levels of consumption, production and trade (graph 8.2.1) (table 8.2.1).*

*GRAPH 8.2.1*

*Consumption of sawn softwood, 1995-1999*




*Source: ECE/FAO TIMBER database, 2000.*

*The Timber Committee forecasts, from its September 1999 session, predicted continued growth in consumption in 2000, by 1.8% for Europe and by 0.4% for North America. The Committee had foreseen the fall in 1999 consumption in the Russian Federation, although not quite to the real depth, and predicted a rebound by 17% in 2000.*

*It should be noted that the forecasts in the table have been adjusted to be consistent with the actual 1999 statistics, by applying the forecast change from 1999 to 2000 to the 1999 statistics received earlier this year.*

*After the downturn due to the Asian economic crisis in 1997 and 1998, Japan's importance as an export market for European sawnwood rebounded and continued to expand in 2000 (graph 8.2.2). The ECE region is now supplying about 80% of Japan's sawnwood imports which were 9.7 million $m^3$ in 1999, down from a maximum of 12.6 million $m^3$ in 1997. The sawnwood breakdown after the first 5 months of 2000 is: North America, 53% market share, Europe 21%, and Russian Federation 6%. Softwoods, which are 88.2% of imports, are combined with sawn hardwood in the graph. Tropical hardwoods could be estimated from the statistics to be 14% of Japan's imports.*

[1] *The extent of the drop in apparent consumption would have been less if the fall reported in production had been less. There are many reasons that full volume of production might not be reported, for example, gaps in regional statistical reports or lack of full disclosure.*

TABLE 8.2.1

Sawn softwood balance in the ECE region, 1995-1999

(million $m^3$)

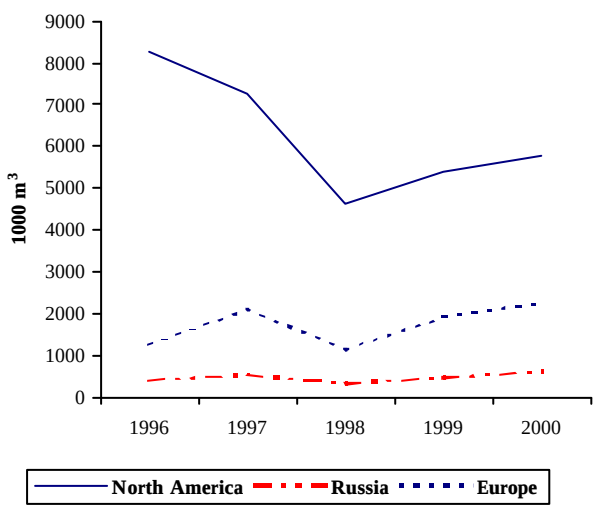
| | 1995 | 1996 | 1997 | 1998 | 1999 | Timber Committee estimates for 2000 * |
|---|---|---|---|---|---|---|
| EUROPE | | | | | | |
| Production | 78.44 | 78.28 | 83.90 | 86.58 | 90.07 | 92.04 |
| Imports | 27.58 | 28.36 | 31.97 | 34.66 | 35.82 | 36.18 |
| Exports | 31.81 | 31.99 | 35.60 | 37.01 | 38.86 | 39.71 |
| Net trade | 4.23 | 3.63 | 3.48 | 2.20 | 2.82 | 3.53 |
| Apparent consumption | 74.21 | 74.37 | 80.15 | 84.10 | 86.84 | 88.52 |
| RUSSIAN FEDERATION | | | | | | |
| Production | 22.53 | 17.53 | 16.68 | 15.61 | 15.13 | 18.45 |
| Imports | 0.04 | 0.01 | 0.33 | 0.01 | 0.00 | 0.00 |
| Exports | 5.64 | 4.35 | 4.78 | 4.63 | 6.11 | 7.75 |
| Net trade | 5.59 | 4.34 | 4.45 | 4.63 | 6.10 | 7.75 |
| Apparent consumption | 16.93 | 13.19 | 12.22 | 10.98 | 9.03 | 10.70 |
| NORTH AMERICA | | | | | | |
| Production | 135.34 | 141.83 | 145.22 | 145.92 | 155.12 | 154.24 |
| Imports | 41.36 | 43.75 | 43.32 | 44.32 | 45.55 | 46.29 |
| Exports | 52.14 | 53.55 | 51.55 | 50.06 | 51.56 | 50.85 |
| Net trade | 10.79 | 9.79 | 8.23 | 5.74 | 6.01 | 4.56 |
| Apparent consumption | 124.55 | 132.04 | 136.99 | 140.18 | 149.11 | 149.67 |

* = The Timber Committee's forecast trend from the September 1999 session was applied to the 1999 figure.

Source: ECE/FAO TIMBER database, 2000.

GRAPH 8.2.2

ECE region sawnwood exports to Japan, 1996-2000




Note: Includes both sawnwood and hardwood.
Data for 2000 estimated.

Source: Japan Wood-Products Information and Research Center, July 2000.

## 8.3 North American market developments

The consumption of sawnwood in North America continued to rise in 1999 by approximately 9 million $m^3$ to reach a record 149.1 million $m^3$. Canadian apparent consumption increased dramatically by nearly 18% or by over 3 million $m^3$ to accommodate increased demand for housing construction. It is possible that some of the Canadian "consumption" was further processed and exported as millwork, mouldings or other value-added products. A sustained high level of residential (1.6 million homes in 1999 and a possibly a similar level in 2000) and non-residential construction in the United States in 1999 drove up demand by 5.8 million $m^3$. Most of the United States consumption increase came from increased domestic production, which rose by 5.0 million $m^3$ to reach a record 86.9 million $m^3$ (table 8.3.1).

The supply of sawn softwood continues to shift in North America from west to east. For example Quebec's production has doubled in the last decade and capacity at 19.5 million $m^3$ now exceeds all other provinces and states, with the exception of British Columbia whose capacity has fallen by 7% over the last 5 years to

*32.9 million m³ in 1999 (International Woodfiber Report, 1999). United States western sawmills continue to decline in numbers and production, although they have succeeded in finding new raw materials supplies, not only from non-federal lands, but also from the decreased log exports and the reduced demand for peeler logs as plywood production drops.*

*Demand for sawn softwood is not only for construction, but considerable volumes go into higher value uses like furniture, mouldings, glulam and other value-added products. Even greater volumes go into low value uses such as pallets, crating and packaging.*

*Home construction in North America is nearly 95% wood-frame, in contrast to concrete, brick or other non-wood materials in Europe. Houses are considerably larger too and a typical new 2-story house would average 240 m², necessitating approximately 35 m³ of sawnwood and 100 m³ of panels (primarily OSB and plywood) (National Association of Home Builders, 2000). Many new homes are built with some engineered wood products such as glulam beams and I-beams in ceiling and floor assembles.*

*Included in the construction classification is sawnwood used for building decks. Approximately 25% of all new homes have a wooden deck on the outside, equivalent to the European cement or brick terrace. In addition, decks are one of the most common remodelling*

*TABLE 8.3.1*

*Production of sawn softwood, 1996-1999*

*(1,000 m³)*

| | 1996 | 1997 | 1998 | 1999 | Change 1998 to 1999 | |
|---|---|---|---|---|---|---|
| | | | | | Volume | % |
| EUROPE | 78,277 | 83,902 | 86,576 | 90,073 | 3,497 | 4.0 |
| of which : | | | | | | |
| Main exporting countries | 59,939 | 65,415 | 67,053 | 69,659 | 2,606 | 3.9 |
| Germany | 13,123 | 13,682 | 13,807 | 14,770 | 963 | 7.0 |
| Sweden | 14,170 | 15,419 | 14,874 | 14,608 | -266 | -1.8 |
| Finland | 9,300 | 10,600 | 11,300 | 11,700 | 400 | 3.5 |
| Austria | 7,950 | 8,254 | 8,534 | 9,558 | 1,024 | 12.0 |
| France | 6,506 | 6,800 | 7,197 | 7,450 | 253 | 3.5 |
| Poland | 4,280 | 5,010 | 5,441 | 5,275 | -166 | -3.1 |
| Czech Republic | 3,100 | 3,100 | 3,100 | 3,251 | 151 | 4.9 |
| Latvia | 1,510 | 2,550 | 2,800 | 3,047 | 247 | 8.8 |
| Other countries | 18,338 | 18,487 | 19,524 | 20,414 | 890 | 4.6 |
| of which : | | | | | | |
| Norway | 2,400 | 2,500 | 2,525 | 2,551 | 26 | 1.0 |
| United Kingdom | 2,140 | 2,214 | 2,253 | 2,387 | 134 | 5.9 |
| Turkey | 2,308 | 2,032 | 2,101 | 2,322 | 221 | 10.5 |
| Romania | 924 | 1,115 | 1,456 | 1,845 | 389 | 26.7 |
| Switzerland | 1,240 | 1,100 | 1,200 | 1,300 | 100 | 8.3 |
| Russian Federation | 17,530 | 16,675 | 15,610 | 15,130 | -480 | -3.1 |
| Canada | 61,828 | 63,764 | 64,082 | 68,235 | 4,153 | 6.5 |
| United States | 80,004 | 81,453 | 81,838 | 86,888 | 5,050 | 6.2 |
| NORTH AMERICA | 141,832 | 145,217 | 145,920 | 155,123 | 9,203 | 6.3 |

*Source : ECE/FAO TIMBER database, 2000.*

*projects, both for the pleasure of the owners and to enhance the value of the house for future resale. In 1997 the value of the wood in decks in the United States was $3 billion, or approximately 3.5 million m³ (Qualified Remodeler as reported by the Forest Products Journal).*

*In addition to new home construction, the millions of existing houses are aging and require maintenance and rehabilitation. Many homeowners prefer to remodel their present home rather than purchase a new one. Thus the repair and remodelling market, often supplied through large DIY stores, is a key element of demand for sawnwood (including hardwoods), as well as other wood products such as flooring, mouldings and millwork. In 1999, 37.2 million m³ went into repair and remodelling while 44.7 million m³ fed the residential construction demand. The remainder, approximately 37.4 million m³ was used in non-residential construction and materials handling, i.e. shipping containers and pallets.*

*Despite the dependence of wood for construction, substitution is occurring in the United States. Wood wall framing with solid sawnwood fell from a 93% market share in 1995 to 83% in 1998. Floor framing dropped from 59% to 42% and roof framing by a lesser degree during the same period (due to substitution by engineered wood products, specifically wooden I-beams) (Cintrafor News, 2000).*

*Overall in North America, sawn softwood prices rose by 15.2% in 1999, partly because of an early depletion of stocks (Random Lengths and World Wood Review, 2000). In 1999 at the time of publishing the last Review, the prices of North American sawnwood were at near record highs. But since mid-1999 the trend has been down. Last summer softwood lumber prices in North America were at an average of $480/thousand board feet, only $10 below their record 1994 price. Since then the price has fallen 39% to a level of $295 at the end of July, 2000 (based on preliminary information from Random Lengths) (graph 8.3.1).*

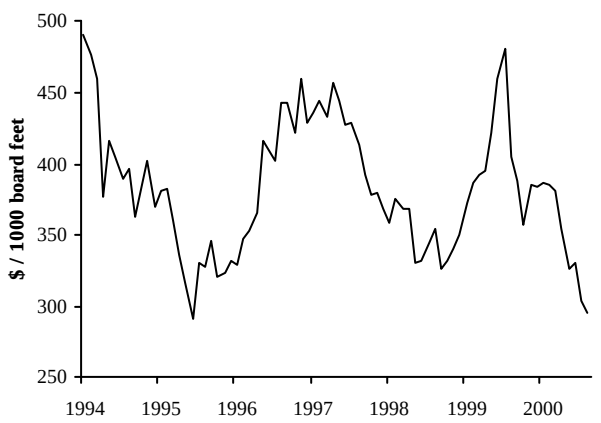
*The last time the price of lumber was this low was in 1995, just before negotiations between Canada and the United States which resulted in the Softwood Lumber Agreement of 1996 (discussed below). While it is beyond the Review to forecast prices, it is evident that price cycles in North America are becoming shorter. Some large sawnwood and panel manufacturers announced lower-than-expected second-quarter earnings due to low product prices (Wall Street Journal Europe, June, 2000).*

*United States imports, of which 95% by volume come from Canada, rose to almost 45 million m³ (table 8.3.2). The share of Canadian imports fell from 97% in 1998, apparently as sawnwood was imported from other sources graph 8.3.2). Non-Canadian imported sawnwood was not less costly based on unit values ($159 per m³ from Canada in 1999 versus $191 to 335 from South and Central America, $214 to 283 from Europe, $224 from Russia and $306 from New Zealand as calculated from USDA Foreign Agricultural Service statistics on import volumes and values). The long-established, cross border trade shows a close importer-exporter relationship. In 1999 Canada produced a record 68.2 million m³ of sawn softwood, of which a record volume, 42.5 million m³, flowed south into the United States.*

*This trade between the two North American countries is partly influenced by the exchange rate*

*GRAPH 8.3.1*

*North American sawn softwood prices, 1994-2000*

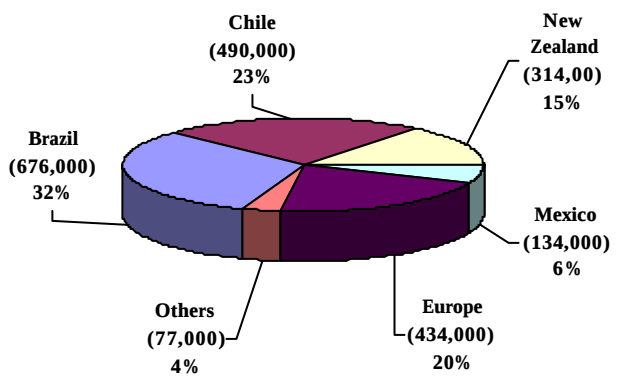



*Note: Prices are for a mix of qualities, species and sizes.*
*Source: Random Lengths Yardstick, 2000.*

*GRAPH 8.3.2*

*United States sawn softwood import sources (without Canada), 1999*

*(m³)*




*Source: USDA Foreign Agricultural Service, 2000.*

*TABLE 8.3.2*

*Exports and imports of sawn softwood, 1996-1999*

*(1,000 m³)*

| | 1996 | 1997 | 1998 | 1999 | Change 1998 to 1999 | |
|---|---|---|---|---|---|---|
| | | | | | Volume | % |
| EXPORTS | | | | | | |
| EUROPE | 31,992 | 35,603 | 37,013 | 38,859 | 1,846 | 5.0 |
| of which : | | | | | | |
| Sweden | 10,960 | 10,902 | 10,975 | 11,040 | 64 | 0.6 |
| Finland | 7,016 | 7,509 | 8,204 | 8,269 | 65 | 0.8 |
| Austria | 4,000 | 4,838 | 4,752 | 5,626 | 874 | 18.4 |
| Latvia | 1,286 | 2,060 | 2,250 | 2,447 | 197 | 8.8 |
| Germany | 1,604 | 1,895 | 2,223 | 1,968 | -255 | -11.5 |
| Romania | 556 | 917 | 1,210 | 1,494 | 284 | 23.5 |
| Czech Republic | 1,384 | 1,397 | 1,231 | 1,480 | 249 | 20.2 |
| Poland | 592 | 831 | 709 | 760 | 51 | 7.2 |
| Norway | 775 | 700 | 691 | 755 | 64 | 9.3 |
| Belgium-Luxembourg | 257 | 275 | 400 | 533 | 133 | 33.3 |
| France | 328 | 469 | 511 | 525 | 13 | 2.6 |
| Portugal | 440 | 400 | 416 | 325 | -91 | -21.9 |
| Other countries | 2,794 | 3,410 | 3,441 | 3,637 | 196 | 5.7 |
| Russian Federation | 4,350 | 4,780 | 4,632 | 6,105 | 1,473 | 31.8 |
| Canada | 49,618 | 47,664 | 47,177 | 48,336 | 1,159 | 2.5 |
| United States | 3,929 | 3,886 | 2,886 | 3,225 | 339 | 11.7 |
| NORTH AMERICA | 53,547 | 51,550 | 50,063 | 51,561 | 1,498 | 3.0 |
| IMPORTS | | | | | | |
| EUROPE | 28,358 | 31,968 | 34,661 | 35,816 | 1,155 | 3.3 |
| of which : | | | | | | |
| United Kingdom | 5,344 | 6,491 | 6,490 | 6,604 | 114 | 1.8 |
| Italy | 4,632 | 5,145 | 5,274 | 5,550 | 276 | 5.2 |
| Germany | 4,466 | 5,280 | 5,301 | 5,319 | 18 | 0.3 |
| Denmark | 1,748 | 2,133 | 4,046 | 3,500 | -546 | -13.5 |
| Netherlands | 2,739 | 2,889 | 2,923 | 3,352 | 429 | 14.7 |
| France | 1,884 | 1,960 | 2,237 | 2,539 | 302 | 13.5 |
| Spain | 1,135 | 1,275 | 1,275 | 1,357 | 82 | 6.4 |
| Belgium-Luxembourg | 1,298 | 1,270 | 1,500 | 1,407 | -93 | -6.2 |
| Austria | 900 | 904 | 841 | 1,035 | 194 | 23.1 |
| Norway | 800 | 958 | 918 | 775 | -143 | -15.6 |
| Other countries | 3,411 | 3,663 | 3,856 | 4,378 | 522 | 13.5 |
| Canada | 768 | 804 | 618 | 742 | 124 | 20.1 |
| United States | 42,985 | 42,514 | 43,704 | 44,807 | 1,103 | 2.5 |
| NORTH AMERICA | 43,753 | 43,318 | 44,322 | 45,549 | 1,227 | 2.8 |

Source :ECE/FAO TIMBER database, 2000

*between the United States dollar and the Canadian dollar. Since 1997 the Canadian dollar had been losing strength relative to the United States dollar which made imports from Canada that much more attractive. However throughout 1999 the Canadian currency gained a little strength. The mid-2000 exchange rate was at C$1.45 per US$1, approximately the same as at the end of 1999.*

*Due to strong demand and dollar, United States sawn softwood imports rose 2.5% and accounted for 35.3% of total consumption (Wood Statistical Roundup, AF&PA, 2000). Sawnwood imports from overseas sources in 1999 were a record 2.0 million $m^3$, up 46% from 1998 (Random Lengths Export, 2000). The value of the imported sawnwood rose 41% to $570 million. Imports from non-Canadian sources are forecast by Random Lengths to grow slower in 2000, by 10% to reach 2.2 million $m^3$. Accounting for 56% on the non-Canadian imports, South America led with four of the top 10 suppliers: Brazil, Chile, Argentina and Uruguay. Most of this volume was industrial grade lumber, although the Brazilian sawnwood included boards and dimension for treating. Mexico was the only top-10 supplier to decline as domestic consumption increased and more value-added wood products were exported instead.*

*European presence in the United States continues to grow. Mostly 2x4 studs and dimension (fixed sizes) are imported from Austria, Sweden, Lithuania, Germany, Finland and Russia in descending order of volume in 1999 (USDA Foreign Agricultural Service, 2000).*

*The Softwood Lumber Agreement has regulated trade between Canada and the United States over the last 4 years. Established in 1996 it was designed to restrict the Canadian share of the United States sawn softwood consumption. As a result the percentage share has decreased, although higher United States consumption over the period meant that Canadian volumes rose by 7.9% or almost 3 million $m^3$.*

*It will be up for renewal in March 2001 and key players are preparing arguments for and against continuation. The agreement initially resulted in higher prices of sawnwood and higher costs, mainly for United States home buyers.*

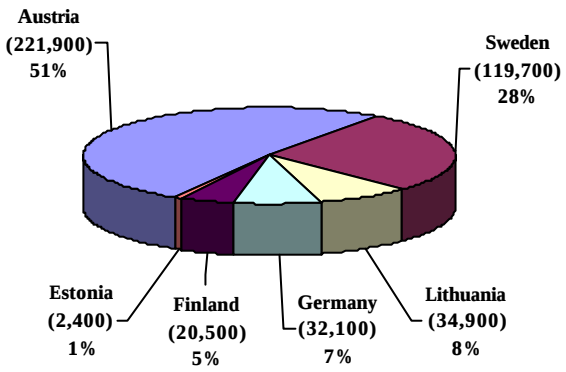
*One result of the agreement has been increased exports from the 8 Canadian provinces outside of its quota, by 163%, to 6.0 million $m^3$ (following capacity expansions). Western United States sawmills were sheltered under the agreement and production rose by 12% to 38.9 million $m^3$ (Wood Markets Monthly, 2000). Following the agreement, exports fell to the United States from the 4 provinces under quota restrictions (Alberta, British Columbia, Ontario and Quebec).*

*The European and Russian market share of United States imports increased dramatically in 1999, by over 200%, although the volumes are dwarfed by Canada (graph 8.3.3). Austria leads the European invasion with over 220,000 $m^3$, followed by Sweden with 120,000 $m^3$. These countries have the possibility of producing lumber for the United States market with its particular specifications, thus qualifying for one of the North American grade stamps. In the first half of 2000, Lithuania shipped 17% of its total sawn softwood exports to North America, in part aided by a Canadian joint venture-built sawmill. The third largest European supply source for the United States in 1999 with 35,000 $m^3$, Lithuania looks poised to increase market share in 2000 as volumes almost doubled.*

*GRAPH 8.3.3*

*United States sawn softwood import sources from Europe, 1999*

*($m^3$)*




*Source: USDA Foreign Agricultural Service, 2000.*

*According to Foreign Agriculture Statistics, no sawnwood was imported into the United States in 1998 from the Russian Federation. However shipments of 13,000 $m^3$ were recorded for 1999.*

*Canadian exports surged by 1.2 million $m^3$ or by 2.5% in 1999 due to strong demand from the United States and offshore markets. Shipments to Canada's most important offshore market, Japan, surged 14% in 1999, partly due to increased kiln drying capacity to meet new, more stringent Japanese standards.*

*The exports of sawn softwood from the United States have been seriously constrained by the strength of the dollar over most trading partners' currencies. It is too early to say whether the almost 12% increase in 1999 exports, from relatively low and falling levels, is the bottoming out of the trend. There are a number of reasons for reduced United States exports:*

- *Strong domestic market and increased consumption*
- *Increasing constraints on the former wood basket, i.e. the National Forest System*
- *Increasingly lower-priced competition in major export markets.*

*It appears that United States market share of sawn softwood in Japan is giving way to imports from Europe and elsewhere. Most regular suppliers to the Japanese market fared better then the United States as the Asian economic crisis came to an end, but United States exports to Japan fell 3% (Random Lengths Yardstick, 2000). Since a recent high of 145 yen per dollar in August 1998, the dollar has lost strength and was at 105 yen at the end of 1999 and was a little higher, at 109 yen per dollar, in mid 2000.*

*With the drop in exports to Japan, Canada became the most important export destination in 1999 (for all wood products combined). The United States shipped $1.7 billion worth of wood products to Canada in 1999 as compared to $1.6 billion to Japan. In the first 4 months of 2000 the United States exports of sawn softwood had risen another 9.6% in volume. For perspective, during the same period the United States exports of sawn hardwood to Canada, again the major export destination, rose by 22.4% in value and 11.9% in volume (367,000 $m^3$ of sawn hardwood versus 232,000 $m^3$ of sawn softwood)(USDA Foreign Agricultural Service, 2000).*

*In the United States sawnwood production was up almost 5% higher in the first four months of 2000 compared to the same period in 1999 (Eastern Quotes & Comments, July, 2000). Even higher production will be possible when some sawmills complete their capital investment improvements and the new mills being built begin production later this year. As shipments were only 3.4% ahead of the first 4-month period of 1999, stocks were being built. Combined with a slowing summer market, which is abnormal for this period of peak shipments, the result was the fall in prices mentioned above. A number of economic indicators were beginning to point to a slow down in the United States economy in mid 2000. For example mortgage rates had risen since the 30-year low in April 2000.*

*Canadian production continued at record rates in 2000, up 6.8% in the first quarter compared to the first quarter 1999 production (Statistics Canada, 2000). These gains were greatly aided by increased productivity. The largest increase, a rise of 11.7%, was reported in British Columbia, which produced 57.3% of the country's sawn softwood. Quebec rose less, by 4.7%, and was at 22.1% of the national production.*

*Canadian exports to Japan were strong and there have been some indications of renewed interest in United Kingdom markets as evidenced by some certified sawnwood being shipped in 2000.*

*Restructuring is occurring in the sawmilling sector in North America. In 1999 over 6.6 million $m^3$ of sawnwood was "traded" before reaching the marketplace due to acquisitions and mergers*

*Petroleum prices leapt up in North America in mid 2000 as a result of production constraints by OPEC. Shipping rates were already forecast to increase before the hike in diesel and gasoline prices, but now all transportation costs are being a closely followed. These rises may also affect imports coming into North America as well, since the oil market is global.*

*In summary, the strong market trends in 1999 were continuing in 2000 in North America. Despite concern about slight rises in mortgage rates, residential and other construction was at high levels and export markets, especially for Canada, were exhibiting improvements over 1999. There are continued mergers and acquisitions between North American sawnwood producers with a resulting loss of identity between Canadian and United States firms and integration into engineered wood products (more about EWP companies in Chapter 11).*

## *8.4 European market developments*

*In line with the overall strength of economies, particularly the construction sector, apparent consumption in many countries in Europe rose in 1999 and overall European consumption moved up 3.2% to a record 90.1 million $m^3$. Consumption rose significantly in many countries, often to new highs, for example: Austria, up 7.4% to a 5.0 million $m^3$, France, up 6.1% to 9.5 million $m^3$, Germany, up 7.3% to 18.1 million $m^3$, Italy, up 4.5% to 6.2 million $m^3$, the Netherlands, up 15.5% to 3.3 million $m^3$ and the United Kingdom, up 2.7% to 8.9 million $m^3$. However the trend was not universal and consumption appeared to have fallen in Sweden, by 8.0%, part of which may be due to sawnwood stock reductions, although domestic demand was rising in early 2000.*

*A 7.0% increase in production of sawn softwood in Germany in 1999, to a record 14.7 million $m^3$, coupled with a slight decrease in production in Sweden, has resulted in Germany being the largest producer of sawnwood in Europe. Higher consumption in Germany meant that most of that increase went to the domestic market as imports were stable and exports fell 11.5%. Part of the increase came from the new, large sawmills built in the former eastern Germany. The controversy over the substantial public funds which went into building some of these mills has quieted as no more large, publicly-funded sawmills are foreseen.*

*The year 1999 was the second consecutive year of decreased production in Sweden, a trend not shared by other large European producers. The Review reported last year that bankruptcies had resulted in 600,000 $m^3$ of reduced capacity in 1999, equivalent to the fall in national production. Rationalization of capacity continues in the Swedish sawmilling sector as smaller and older mills are not renovated, but rather closed (Timber and Wood Products, July, 2000). The older mills are under competitive pressures not only from more efficient domestic mills, but also competition from other countries for the same export markets. As exports rose in both 1998 and 1999, following a drop in 1997, this confirms that sawmills' sawnwood inventories are at low levels.*

*In central and eastern Europe stronger consumption was seen in Estonia, Hungary, Latvia, Romania, Slovakia and Turkey, while weaker consumption occurred in the majority of countries. The exports of pallets, manufactured primarily from softwoods in Europe, has increased from central and eastern Europe with the result that some "consumed" sawnwood is later exported in the form of pallets. Corresponding directly to economic cycles, crating, pallets and containers were in high demand as manufacturing output necessitated materials handling and packaging materials.*

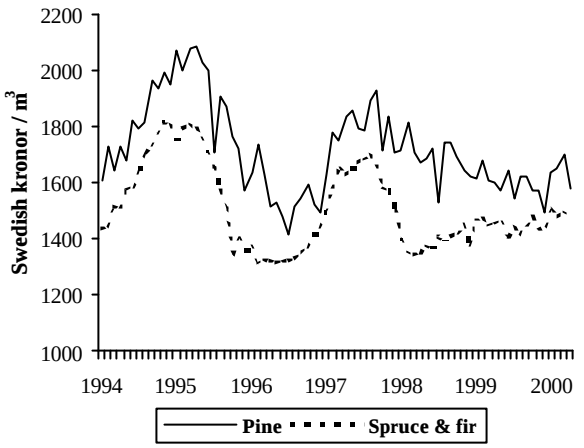
*Production also rose in Austria, by 12.0% to reach 9.6 million $m^3$ and like Germany, most of this went to domestic consumption as exports remained constant. Likewise Finland increased production to a record 11.7 million $m^3$, most of that going to the 12.5% increase in domestic consumption. Production increases did not fill all of the growth in consumption in many European countries and imports rose significantly in Austria, up 23.1% to over 1 million $m^3$, France, up 13.5% to 2.5 million $m^3$, Italy, up 5.2% to 5.6 million $m^3$, the Netherlands, up 14.7% to 3.4 million $m^3$, and the United Kingdom, up 1.8% to 6.6 million $m^3$.*

*In the United Kingdom in mid 2000 the exceptionally high demand for sawnwood for fencing was being met by domestic production and imports. Successful home improvement television programming has resulted in increased demand for home fences, as well as wooden decks (Timber & Wood Products, July, 2000). Decks were rare a few years ago, but due to successful promotional programmes, they have been integrated into the United Kingdom and Ireland markets. The other market for fencing is for sound barriers along motorways and railways. Millions of cubic metres of treated sawnwood have been used for walls along United States highways to reduce noise levels in urban areas and the trend is starting in Europe.*

*Prices of sawn softwood were generally declining since mid 1997, but showed strength in early 2000 as evidenced by Swedish export prices (graph 8.4.1). By the end of 1999 stock levels were extremely low and thus prices were rising. However in mid 2000 stocks remained low and, contrary to experience, prices were softer—perhaps only a temporary situation.*

*GRAPH 8.4.1*

*Sawn softwood prices in Sweden, 1994-2000*




*Source: Swedish Wood Exporters Association, 2000.*

*As mentioned in chapter 3, the December 1999 windstorms seem to have had minor effects on the sawnwood prices, which remained stable, partly because of strong demand in 2000. The prices in France showed a strengthening in the first 4 months of 2000 (table 8.4.1). There appeared to be no direct correlation between the change in price and the level of quality.*

*TABLE 8.4.1*

*Sawn softwood prices in France, 2000*

| *Species* | *Price range in April 2000 (French francs per $m^3$)* | *Change from January to April 2000* |
|---|---|---|
| *Maritime pine* | *1,140 to 2,085* | *+1.0 to +2.3%* |
| *Scot's pine* | *1,035 to 1,825* | *-0.4 to +2.2%* |
| *Spruce & fir* | *1,035 to 1,825* | *-0.6 to +2.5%* |

*Note: Price varies by quality. Before taxes and FOB at the sawmill.*

*Source: Centre des Etudes de l'Economie du Bois, 2000.*

*European sawn softwood prices in mid 2000 were being affected by currency fluctuations. The euro is currently at an all-time low versus the dollar and the pound sterling. Therefore those countries which sell in euros, both within the euro zone and from outside,*

*became more attractive to importers like the United Kingdom which pay in pounds (as at this time the United Kingdom is not in the euro zone). As Sweden is also not in the euro zone, but Finland is, the exports of the latter with the weaker euro have been doing well in markets like Japan and the Middle East. Likewise the United States dollar is very strong compared to European currencies with the result that wood products imports from the United States, or any wood traded in dollars, is relatively expensive.*

*European imports rose by 3.3% in 1999 to record levels. Strong gains in apparent consumption in the United Kingdom, Italy, the Netherlands, France and Austria were supported by greater imports. In an important contrast to higher imports to countries with increased consumption, German imports were almost the same as 1998, i.e., 5.3 million $m^3$ as increased production compensated for demand.*

*Europe's net trade of sawn softwood strengthened in 1999 as exports rose 5% over 1998. The large Nordic exporters had minor changes, less than 1%, however other countries such as Austria, Latvia, Romania and the Czech Republic had record exports. Considerable strength in exports in many central and eastern European countries was not universal as some countries either had production set-backs or increased domestic consumption.*

*A number of countries in central and eastern Europe reported important developments in production and trade of sawn softwood, sometimes on relatively small volumes. Often exports increased more than production, indicating the possibility of reduced consumption. In Romania the exports have tripled since 1996 and were reported at 1.5 million $m^3$, in line with production increases, but indicating an apparent consumption of 352,000 $m^3$. As discussed in the special chapter on China, often there is some level of wood consumption at the local level which is never recorded in the official statistics.*

*Following the slump in 1998 due to the Asian economic crisis, European exports to Japan resumed and reached 1.8 million $m^3$ in 1999 (Japan Ministry of Finance, as reported by Japan Lumber Journal, 2000). Although a slight fall in all wood imports is forecast for 2000, by 1.5% to 28.6 million $m^3$, the European share of sawn softwood is forecast to rise by 8.0% to reach 2.0 million $m^3$ (Japan Lumber Journal, 2000). Part of the success in European exports to Japan in 1999 and early 2000 is due to the weaker euro as compared to the yen. High-quality products have been cited as another reason (Japan Lumber Reports, 2000). In 1999 there were 28 European countries listed as sources of imports, of which a growing number and volume were from central and eastern Europe. In addition several CIS countries are exporting sawnwood and logs to Japan, of which Russia and Ukraine. Japan's domestic production of sawnwood, largely based on logs from Russia and North America, continues to decline in favour of imports.*

*The Japanese Forestry Agency revised its imports forecast in mid 2000 based on early trade reports. European sawnwood imports were forecast to be 13.5% higher than in 1999 at a level of 2.1 million $m^3$. In a further development, the Nordic Timber Council claims to have reversed the original 80% sawnwood share of the timber mix exported to Japan to now be 80% of further-processed products.*

*Production and trade in the Baltic countries is an annual theme of the Review because of its fast evolution and impact on western European sawnwood markets. However it is not possible to categorise these 3 countries together in terms of sawn softwood markets. Production increased in Estonia and Latvia by 10.3 and 8.8% respectively. Latvia's production is now over 3 million $m^3$, of which 80% is exported, despite a rise by 24% in domestic consumption. Estonia's production rose too, by 10.3%, and exports rose more, by 17.7%.*

*The Lithuanian situation is different – the country has less forests, and the proportion of conifers is less. Production fell in Lithuania in 1999, by 5.6%, and was considerably below the 1996 peak of 1.4 million m3, however exports increased by 3.3% for sawn softwood, and by 10% for all softwood combined (including logs). Some of Lithuania's exports of softwood are based on upgraded sawnwood imports. The continuing decline in production from state-owned forest enterprises, falling 16% in 1999, is partly due to closing of some mills (Information Bulletin, Centre of Forest Economics, 2000). In the first part of 2000, Lithuania's exports had increased by 25% (softwood and hardwood combined) and the United States had replaced the United Kingdom as the second largest export destination behind Germany.*

*The trade links with Russia, and its 1998 economic crisis, surfaced in the Baltic countries balance sheets in 1999. Nevertheless they have proved themselves to be market-oriented and have diversified from sawnwood into higher value-added products such as dimension (cut-to-size), components, turnings, planed and moulded sawnwood, flooring and panelling, pallets, furniture, millwork and now engineered wood products, i.e. glulam (Baltic Timber Journal, 2000).*

*It is extremely interesting to note the fast development in Baltic imports from the CIS of both sawnwood and roundwood. This imported sawnwood is often reprocessed and upgraded and then exported. Roundwood is both re-exported and processed into sawnwood. Some roundwood from Belarus, which is illegal to export except to Russia because of free trade*

*agreements, is first imported into Russia and then re-exported into the Baltic countries.*

TABLE 8.4.2

Baltic countries sawn softwood production, 1997-1999

| | 1997 | 1998 | 1999 | % Change 1998-1999 |
|---|---|---|---|---|
| Estonia | 656 | 780 | 860 | 10.3% |
| Latvia | 2550 | 2800 | 3047 | 8.8% |
| Lithuania | 1130 | 900 | 850 | -5.6% |

Source : ECE/FAO TIMBER database, 2000.

TABLE 8.4.3

Baltic countries sawn softwood exports, 1997-1999

| | 1997 | 1998 | 1999 | % Change 1998-1999 |
|---|---|---|---|---|
| Estonia | 597 | 690 | 812 | 17.7% |
| Latvia | 2060 | 2250 | 2447 | 8.8% |
| Lithuania | 871 | 501 | 517 | 3.3% |

Source : ECE/FAO TIMBER database, 2000.

TABLE 8.4.4

Baltic countries sawn softwood imports, 1997-1999

| | 1997 | 1998 | 1999 | % Change 1998-1999 |
|---|---|---|---|---|
| Estonia | 52 | 85 | 146 | 73.3% |
| Latvia | 21 | 29 | 118 | 306.9% |
| Lithuania | 127 | 189 | 247 | 31.2% |

Source : ECE/FAO TIMBER database, 2000.

TABLE 8.4.5

Baltic countries sawn softwood apparent consumption, 1997-1999

| | 1997 | 1998 | 1999 | % Change 1998-1999 |
|---|---|---|---|---|
| Estonia | 111 | 175 | 194 | 11.3% |
| Latvia | 511 | 579 | 718 | 24.0% |
| Lithuania | 386 | 588 | 580 | -1.3% |

Source

*Trade was extremely active in 1999, both between European countries and with countries outside Europe. Europe's exports to the United States have increased dramatically in 1999 as shown above. These export trends continue in 2000 as evidenced by Germany's exports of sawn softwood which increased by 51% in the first quarter of 2000 (table 8.4.6). It is also noteworthy that 2 of the 3 largest export destinations also sustained heavy storm damage in December 1999, although possibly these sales were concluded before 2000 and their shipments were recorded this year.*

TABLE 8.4.6

Exports of sawn softwood from Germany, 1999-2000

| | 1999 1st quarter | 2000 1st quarter | % Change |
|---|---|---|---|
| France | 100,796 | 129,602 | 28.6 |
| Italy | 84,063 | 103,408 | 23.0 |
| Switzerland | 13,022 | 98,758 | ++ |
| Netherlands | 51,234 | 65,338 | 27.5 |
| Belgium | 23,361 | 43,983 | 88.3 |
| Austria | 29,368 | 24,943 | -15.1 |
| Spain | 5,726 | 8,977 | 58.8 |
| United Kingdom | 3,965 | 8,785 | 120.5 |
| United States | 670 | 7,415 | ++ |
| Luxembourg | 3,188 | 5,334 | 67.3 |
| Japan | 11,063 | 4,669 | 57.8 |
| Czech Republic | 2,753 | 4,478 | 62.6 |
| Denmark | 2,751 | 4,336 | 57.6 |
| Slovenia | 4,606 | 3,408 | -26.0 |
| Poland | 970 | 1,061 | 9.4 |
| Others | 3,072 | 2,790 | -9.2 |
| Total | 340,628 | 517,283 | 51.9 |

Note: ++= increase over 200%.

Source : ZMP, 2000.

*Indications in mid 2000 were that the two main exporting countries, Sweden and Finland, were well on the way to even higher volumes of exports (national association statistics as reported by L'Echo des Bois, July, 2000). Sweden had by the end of May 2000 sold a little more, at 5.7 million $m^3$, than in 1999 with most of the increase going to the United Kingdom. Finland had increased sales by 5.5%, with most of the increases going to regular "customers" in the United Kingdom, Germany, France and the Netherlands, as well as Japan. In the first quarter of 2000, sawnwood production at 3.1 million $m^3$ was 13% greater than in the same 1999 period (Finnish Forest Industries Federation, 2000). Early statistics on trade do not reflect production and at this time the direct effects of the surplus roundwood from the storms of December 1999 cannot be ascertained.*

*Imports of sawn softwood in France in the first quarter of 2000 surged by 25% to reach 713,000 $m^3$ from the same 1999 period (table 8.4.7). At that rate 2000 would overtake the record level of 2.6 million $m^3$ of 1980. The softening construction-derived demand in France is mainly met by increasing sawnwood production which is mainly supplied by the storm-felled timber during this year (L'Echo des Bois, June, 2000). However imports, mainly from what customs classifies as "northern" sources, make up the majority of the imports.*

TABLE 8.4.7

Imports of sawn softwood by France, 1999-2000

| | 1999 1st quarter | 2000 1st quarter | % change |
|---|---|---|---|
| Finland | 228,446 | 214,847 | -6 |
| Sweden | 116,487 | 116,728 | 0 |
| Russian Federation | 42,630 | 71,435 | 68 |
| Estonia | 12,230 | 37,258 | 205 |
| Latvia | 20,025 | 25,199 | 26 |
| "North" Europe | 428,817 | 475,450 | 11 |
| Other Europe | 113,641 | 209,199 | 84 |
| Canada | 19,619 | 7,427 | -62 |
| United States | 2,523 | 2,343 | -7 |
| Africa | 5,807 | 7,971 | 37 |
| Other | 280 | 1,581 | 465 |
| Total | 571,097 | 712,836 | 25 |

Source: French Customs Service as reported by Le Commerce International du Bois, June, 2000.

Timber Committee forecasts from the September, 1999 session were for continued growth in Europe's 2000 production and trade. With consumption forecast to grow almost 2%, early reports confirm the prediction with production and trade active in 2000.

In summary, 1999 was certainly a record setting year in Europe, with much of the gains coming from a few countries in central and eastern Europe, as well as Germany. The year ended with a catastrophe, the December storms which directly affected the sawmilling sector in the following months. The trade in 2000 appears at mid year to be escalating towards new record levels although some weakness in prices is evident.

## 8.5 CIS market developments

Exports of sawn softwood from Russia were reported to have shot up by nearly 32% to 6.1 million $m^3$, the first important rise since 1992. Exports increased despite a reported continued decline in production, down by 3.1% to 15.1 million $m^3$, the lowest level recorded. If production declined and imports remained at minimal levels, then how did exports increase? The answer is in an 18% drop in apparent consumption due to the continued effects of the 1998 economic crisis. (Readers' attention is drawn to the footnote at the beginning of this chapter.)

The increase in exports occurred despite a rise to 5% in export duty in February 1999 on sawn softwood and logs. The duty doubled from 5% to 10% in December 1999 (Japan Lumber Reports, 1999). A positive development is the reduced requests to buyers for prepayment of Russian sawmill production before manufacturing and exporting (L'Echo des Bois, 2000).

In 2000 Russian exports to the United Kingdom were increasing, partly aided by a weaker rouble, especially from the Arkangelsk port where some mills are undergoing improvements (Le Commerce International du Bois, June, 2000 and Timber & Wood Products, July, 2000). In 1999 the Swedish share of the German sawnwood market was reduced while the Russian and Belarussian share increased. This situation seems to have continued in the first quarter of 2000, partly due to the Swedish krona/German mark ratio, although the effects of the December 1999 storms may be influencing the trade in the first half of 2000 (table 8.5.1).

TABLE 8.5.1

Imports of sawn softwood by Germany, 1999-2000

| | 1999 1st quarter | 2000 1st quarter | % change |
|---|---|---|---|
| Finland | 202,291 | 203,597 | 0.6 |
| Czech Republic | 110,447 | 128,497 | 16.3 |
| Sweden | 184,412 | 127,099 | -31.1 |
| Russia | 73,880 | 103,935 | 40.7 |
| Poland | 71,233 | 87,904 | 23.4 |
| Belarus | 52,062 | 85,386 | 84.0 |
| Lithuania | 68,135 | 68,325 | 0.3 |
| Latvia | 68,808 | 65,588 | -4.7 |
| Austria | 59,223 | 40,518 | -31.6 |
| Norway | 43,023 | 37,690 | -12.4 |
| Estonia | 23,445 | 31,581 | 34.7 |
| Belgium | 7,044 | 18,702 | 165.5 |
| Ukraine | 7,557 | 9,932 | 31.4 |
| Slovakia | 8,054 | 9,801 | 21.7 |
| Canada | 11,106 | 8,832 | -20.5 |
| Romania | 4,667 | 8,379 | 79.5 |
| United States | 9,427 | 7,495 | -21.1 |
| Netherlands | 2,888 | 5,064 | 75.3 |
| Other | 8,703 | 12,143 | 39.5 |
| Total | 1016,435 | 1060,405 | 4.3 |

Source : ZMP, 2000.

The Timber Committee forecast a strong production increase in the Russian Federation in 2000, with a 22% rise to bring it back to the 1995 level. If consumption does not increase again in Russia, the result could be higher exports than the predicted 27.1% increase to 7.8 million $m^3$, a volume not seen since before 1992 by the former USSR.

## 8.6 Conclusion

ECE region sawn softwood consumption, production and trade rose to record levels in 1999, benefiting on one hand from strong economies in North America and Europe, and on the other hand from strength following the end of economic crises in Japan and the Russian Federation. Nevertheless the picture was not universal as some countries, especially in the CIS, continued to suffer under the transition process.

*The storms that ransacked Europe's forests in December, 1999 have not had appreciable effects on sawnwood markets. Demand in 2000 was strong in most parts of the ECE region and in many countries production was rising as well as trade according to early reports. The Timber Committee's forecasts for 1999 were conservative compared to actual volumes and increases in production and trade were forecast for most countries in 2000.*