

## Chapter 1

# Overview of forest products markets in 2000 and early 2001

---

### Highlights

- Consumption of forest products continued to climb to new records in 2000 in the region covered by the United Nations Economic Commission for Europe (UNECE), despite a slight downturn in North America.
  - European forest products trade and production accelerated in 2000 in response to strong demand within the EU/EFTA subregion, growing consumption in central and eastern Europe and rising demand outside Europe.
  - Strong housing construction in North America fostered growth in the panel sector; however, a mid-2000 peak in sawnwood production, combined with a downturn in the paper and pulp sector, may signal an end to the long-term rise in consumption of total forest products.
  - December 1999 windstorms in western Europe felled almost 200 million m<sup>3</sup> of roundwood, the equivalent of two years' harvest in the most affected countries, causing chaos in forests and timber markets, especially for logs and pulpwood, but lesser effects on other downstream sectors.
  - Excess roundwood supply in Europe depressed prices in 2000 and 2001 and despite strong domestic and export demand, sawnwood prices moved lower too.
  - North American sawn softwood prices exhibited cyclical trends, rising from near record lows in mid-2000 to shoot up again in early 2001, in part due to the expiration of the United States – Canada Softwood Lumber Agreement (however, sawn softwood prices were falling again in mid-2001).
  - Russian Federation forest products consumption showed the first signs of recovery in 2000, rising 7%, despite significantly higher exports of paper and wood products, boosted partly by a weaker rouble.
  - Central and eastern European countries forest products markets generally outperformed other subregions of the UNECE, but on substantially smaller volumes.
  - After the peak in mid-2000 of the global business cycle, North American and European economies slowed considerably, which, together with currency fluctuations, especially the strengthening dollar and weakening euro, negatively affected international trade in the second half of 2000 and 2001.
  - Certified forest land area doubled from 2000 to 2001, to reach 80 million hectares in the UNECE region.
  - In Europe, PEFC-labelled certified forest products became available in 2000 in addition to FSC-labelled products; SFI-labelled products are expected in North America later in 2001.
-

## 1.1 Forest products market developments in the UNECE region

Forest products markets escalated to new heights in 2000 in the UNECE region.<sup>1</sup> Wood-based panels consumption rose throughout the UNECE region, out distancing all other primary forest products sectors with a gain of over 5%, to a record 121 million m<sup>3</sup> (table 1.1.1). Consumption of sawnwood rose by 1.7% to an all-time high of 304 million m<sup>3</sup>, with stronger European consumption outweighing a slight downturn in North American sawn softwood consumption (hardwood consumption rose universally in the UNECE region). Reflecting a mid-year downturn in demand as the United States economy slowed, paper and paperboard (and woodpulp) markets stalled in 2000, and were not showing any indications of rebounding in mid-2001. Commensurate with the developments above, roundwood consumption rose by 4.4% in 2000.

Three major factors affected the region's forest products markets in 2000: (a) the December 1999 windstorms in the Europe which felled almost 200 million m<sup>3</sup> of roundwood; (b) the slowdown in the European and the United States economies – but not housing construction – coupled with the strengthening of the dollar; and (c) the rebounding exports from central and eastern European and CIS countries. These factors above are all reflected throughout the Forest Products Annual Market Review, 2000-2001.

The catastrophic December 1999 windstorms in Europe left in their wake the equivalent of three year's harvest on the forest floor in France and Switzerland. One year's harvest volume was downed by the three storms in the eight most affected countries (in order of volume lost): France, Germany, Switzerland, Sweden, Denmark, Poland, Austria and Lithuania. Overall in Europe the windthrown volume was equivalent to a half-year's harvest. The storm clean-up began immediately where timber was accessible and continues today. The surplus supply of sawlogs, veneer logs and pulpwood drove prices down and resulted in heightened trade, both within Europe and offshore. Ramifications were not immediately apparent in the early statistics on which the special chapter analysis was based in last year's Review, but with full 2000 statistics the profound effects of the storm damage can be seen pervading primary forest products markets beyond roundwood, especially sawn softwood and hardwood. Fortunately the European and export markets for logs and sawnwood were strong in 2000 and about a third of the windthrow was used. Some

volumes are still in storage and even greater volumes have been uneconomical to remove from forests, or have been left intentionally for ecological reasons.

Reflecting the windthrow volumes and high demand for primary forest products, production of roundwood in the UNECE area climbed 5% in 2000 to 1.3 billion m<sup>3</sup>. These volumes are about half of the net annual increment on forests available for wood supply as published in the recent Temperate and Boreal Forest Resources Assessment 2000. Roundwood trade exploded in 2000 in the EU/EFTA subregion, expanding by 50% as 2.6 million m<sup>3</sup> more were exported than in 1999. Imports rose higher yet, by 6.8 million m<sup>3</sup>, a 19% increase over 1999, reaching 62.6 million m<sup>3</sup>, 8 to 10 times more than the other subregions. Much of these imports are intra-Europe, e.g. as pulpwood from the Baltic Countries to Sweden and Finland, but the imports from outside Europe are growing too, e.g. pulpwood from Russia and Brazil.

North American consumption of primary products fell overall by 1.0% in 2000, a drop of 7.6 million m<sup>3</sup> in roundwood equivalent. However, this total masks gains to record levels in consumption of wood-based panels, sawn hardwood and secondary processed wood products. The slight drop in consumption hides the fact that North America had the highest average unit value prices in the region for exports of industrial roundwood, sawnwood (hardwood and softwood), particle board and OSB, and newsprint. Commensurate with a decline in sawn softwood production, sawlog consumption fell accordingly.

This year's analysis of forest products markets in Europe investigates the differences in the magnitude of short-term trends between the EU/EFTA subregion and in the "Other Europe" subregion (principally the central and eastern European countries and Turkey). For all primary forest products combined, the consumption in "Other Europe" rose by 10.4% to reach almost 76 million m<sup>3</sup>, while consumption in the EU/EFTA subregion rose less, by 3.8%, but on considerably higher volumes, achieving 492 million m<sup>3</sup>. It is important to note that many central and eastern European countries (CEECs) have moved out of the economic transition period and have re-established their forest products production and trade capacities, often with foreign investments. These improvements are finally evidenced in rising domestic consumption. A special chapter in this Review focuses on the markets of one such country, Romania, which like other CEECs, is dependent on expanding export markets for development of the domestic forest products industry. Throughout different product sectors this same pattern is repeated, i.e. fast growth in consumption, production and trade in CEECs, but on considerably lower volumes and values than in the EU/EFTA countries.

<sup>1</sup> Countries in the UNECE region and its subregions are listed in the annex.

TABLE 1.1.1

Apparent consumption of sawnwood <sup>a</sup>, wood-based panels <sup>b</sup> and paper and paperboard in the UNECE region, 1997-2000

|                           | Thousand                            | 1997           | 1998           | 1999           | 2000           | Change 1999 to 2000 |             |
|---------------------------|-------------------------------------|----------------|----------------|----------------|----------------|---------------------|-------------|
|                           |                                     |                |                |                |                | Volume              | %           |
| <b>EU/EFTA</b>            |                                     |                |                |                |                |                     |             |
| Sawnwood                  | m <sup>3</sup>                      | 82,046         | 89,206         | 88,779         | 93,958         | 5,179               | 5.8         |
| Wood-based panels         | m <sup>3</sup>                      | 37,770         | 40,744         | 42,373         | 45,213         | 2,839               | 6.7         |
| Paper and paperboard      | m.t.                                | 72,023         | 73,266         | 77,930         | 79,390         | 1,460               | 1.9         |
| <b>Total</b>              | <b>m<sup>3</sup> EQ<sup>c</sup></b> | <b>435,866</b> | <b>456,295</b> | <b>474,028</b> | <b>491,808</b> | <b>17,780</b>       | <b>3.8</b>  |
| <b>OTHER EUROPE</b>       |                                     |                |                |                |                |                     |             |
| Sawnwood                  | m <sup>3</sup>                      | 13,708         | 15,133         | 15,340         | 16,331         | 990                 | 6.5         |
| Wood-based panels         | m <sup>3</sup>                      | 8,960          | 9,235          | 9,005          | 10,104         | 1,099               | 12.2        |
| Paper and paperboard      | m.t.                                | 8,275          | 8,595          | 8,775          | 9,900          | 1,124               | 12.8        |
| <b>Total</b>              | <b>m<sup>3</sup> EQ<sup>c</sup></b> | <b>64,323</b>  | <b>68,127</b>  | <b>68,702</b>  | <b>75,859</b>  | <b>7,156</b>        | <b>10.4</b> |
| <b>RUSSIAN FEDERATION</b> |                                     |                |                |                |                |                     |             |
| Sawnwood                  | m <sup>3</sup>                      | 15,949         | 14,731         | 12,683         | 12,523         | -160                | -1.3        |
| Wood-based panels         | m <sup>3</sup>                      | 3,310          | 2,603          | 3,030          | 3,615          | 584                 | 19.3        |
| Paper and paperboard      | m.t.                                | 2,122          | 2,128          | 2,848          | 3,382          | 534                 | 18.8        |
| <b>Total</b>              | <b>m<sup>3</sup> EQ<sup>c</sup></b> | <b>38,007</b>  | <b>34,948</b>  | <b>34,796</b>  | <b>37,285</b>  | <b>2,489</b>        | <b>7.2</b>  |
| <b>NORTH AMERICA</b>      |                                     |                |                |                |                |                     |             |
| Sawnwood                  | m <sup>3</sup>                      | 166,319        | 172,597        | 181,862        | 180,795        | -1,067              | -0.6        |
| Wood-based panels         | m <sup>3</sup>                      | 50,749         | 54,528         | 60,207         | 61,707         | 1,500               | 2.5         |
| Paper and paperboard      | m.t.                                | 95,718         | 98,587         | 104,089        | 101,641        | -2,448              | -2.4        |
| <b>Total</b>              | <b>m<sup>3</sup> EQ<sup>c</sup></b> | <b>671,795</b> | <b>697,612</b> | <b>740,176</b> | <b>732,569</b> | <b>-7,607</b>       | <b>-1.0</b> |

<sup>a</sup> Excluding sleepers.<sup>b</sup> Excluding veneer sheets.<sup>c</sup> Equivalent of wood in the rough. 1 m<sup>3</sup> of sawnwood and wood-based panels = 1.6 m<sup>3</sup>, 1 m.t. paper = 3.39 m<sup>3</sup>.

Source: UNECE/FAO TIMBER database, 2001.

CIS countries, based mainly on statistics received from the Russian Federation, reported the first gains in forest products consumption as a whole since the beginning of the transition process in 1991. In Russia the consumption of panels and paper and paper board both increased by approximately 19%. Consumption of sawnwood continued falling; however, exports of sawnwood rose 20%. In fact, in 2000, boosted by the devalued rouble, exports of most other products also increased: plywood by 7%, paper and paperboard by 17% and woodpulp by 21%. Roundwood production, of which 20% was exported, rose by 11%. Russia's pulp and paper sector experienced a significant recovery in 1999 and 2000, along with growing domestic and export demands. Exports of some paper and paperboard grades were half of production. Even with the increases in domestic

consumption, production and exports, Russia remains below the pre-transition levels.

For all of Europe, sawn softwood markets registered record production in part due to the storm-downed volumes of sawlogs, and mostly due to a rise in consumption. However supply, increased by imports from CIS and other supply regions, outstripped demand in Europe and prices generally fell from 2000 into 2001. A growing portion of the European production is being exported to Japan, other Asian markets including China, and the United States owing to favourable exchange rates in 2000 and 2001. Despite increasing exports out of Europe, the EU/EFTA subregion remains a net importer of sawnwood. When the rapidly expanding exports from "Other Europe" are added to those of the EU/EFTA subregion, Europe as a whole is a net exporter, with about

75% being traded within Europe and 25% being exported out of Europe.

North American sawn softwood markets were marked by the expiration of the United States – Canada Softwood Lumber Agreement in March 2001. The agreement, which had been in existence since 1996, had regulated Canada's exports to the United States and had influenced prices. North American sawn softwood prices were near record lows when the Review was written in summer 2000, but they rebounded in early 2001 as the end of the Agreement came closer. In the summer of 2001, Canadian exports, which are roughly one third of the United States consumption, have slowed as United States industry groups have initiated action to again control the Canadian imports. United States housing remains strong with 1.6 million houses built in 2000, of which over 90% are wood-framed, and the same levels are forecast in 2001 and 2002, despite the slowdown in the North American economies and the recession in the United States manufacturing sector in 2001.

Sawn hardwood consumption rose again throughout the UNECE region, to record levels in the United States and Europe, as demand for hardwood furniture, millwork and mouldings came from new housing construction and remodelling and repair. United States sawn hardwood consumption, for furniture, cabinets and flooring, rose over 2% to reach 33 million m<sup>3</sup>, while the EU/EFTA subregion rose by almost 8% to reach 15 million m<sup>3</sup>. Consumption in "Other Europe" rose less, by 3% to 4 million m<sup>3</sup>. Demand softened in the United States, as reflected by prices near the end of 2000 and into 2001. Likewise in Europe, lower demand at the end of 2000 and early 2001, coupled with the increased production from windthrow losses, resulted in falling sawn hardwood prices. China and other Asian countries have increased imports of sawn hardwood from the UNECE region, although some of that wood is returned in the form of value-added products such as furniture. In North America in mid-2001 there were indications that the record levels of production, consumption and trade would not be repeated in 2001.

The panel market is divided into structural panels, e.g. OSB and softwood plywood, and non-structural panels, e.g. MDF and particle board. These two sectors exhibited divergent trends in the subregions of UNECE. MDF drew all panel markets up again in 2000, but a slowdown in capacity expansion is forecast in Europe in 2001 for the first time, and North America. MDF has found increasing acceptance in new uses, in addition to the preference it has earned in furniture manufacturing. The other main non-structural board, particle board, is truly a European product as production in 2000 rose by over 4% to a record 29 million m<sup>3</sup>, in comparison to stable production in North America at 13 million m<sup>3</sup> (all statistics without

OSB). Trade of particle board in Europe was active in 2000, especially in the CEECs, but subdued in North America. With the strong dollar the United States imported more furniture, cabinets and other secondary processed wood products, which was reflected in domestic furniture plant closings, and a weakened demand for non-structural panels.

Structural panels showed opposite trends. OSB production in North America and Europe rose to new records by 2.3% to reach 18 million m<sup>3</sup> and by 54% to reach 1.4 million m<sup>3</sup>. OSB continued substituting for softwood plywood for construction in North America, recording a 75% market share in sheathing. Meanwhile in Europe, the utilization for residential construction is less, although it is starting in some countries with the advent of wood-framed housing techniques. The increased production of OSB (and MDF) in 2000 led to a price collapse in North America.

Production of engineered wood products increased in 2000, especially for glulam beams, which increased worldwide by 19% over 1999, to a record 3.1 million m<sup>3</sup>. For UNECE region producers the main export market is Japan, where approximately 55% of the market is imported, primarily from Europe, but also from North America and the Russian Federation, sometimes as glulam stock, i.e. sawnwood for manufacturing glulam<sup>2</sup>. Although wooden I-beams have gained a 33% market share of the North American new residential construction flooring, production fell by 3% in 2000, mainly because lower-priced sawnwood joists (beams) were substituted. As approximately 60% of North American LVL (laminated veneer lumber) production is used as flanges in the I-beams, production of LVL fell by 6% to 1.4 million m<sup>3</sup>.

In 2000, European paper, paperboard and pulp manufacturers registered a record year, benefiting from the weak euro and the strong dollar on which these products are traded internationally. In contrast, North American producers faced a market reversal in mid-2000 and the record profits in the first half of 2000 eroded. This continued in light of weak global demand in 2001, producing the first protracted decline since 1996. Paper, paperboard and woodpulp markets showed some of the earliest signs of the forthcoming economic slowdown. This turn of events is reflected in paper, paperboard, recovered paper and woodpulp prices, which fell from peak levels in early 2001. Accordingly some capacity adjustments were taking place in the UNECE region, although some new capacity is being added in China and

<sup>2</sup> This and other trends affecting UNECE region exports to Japan are the subject of a special chapter on Japan's market drivers.

other Asian countries, and some capacity is being restored or built in the Russian Federation.

In 2000 the tropical timber market continued to recover from the steep downturn of the 1997 and 1998 Asian crises. However, owing to softening economies in major tropical importing regions and countries (North America, EU/EFTA and Japan) in mid-2001, the full recovery may not be attained this year. Nevertheless, China is having greater influence on the tropical timber trade, currently importing the most roundwood, and later possibly the most primary processed products. The UNECE region increased its imports of tropical sawnwood in 2000. The tropical timber trade is orienting itself away from primary products and towards secondary processed wood products.

World trade of secondary processed wood products is expanding faster than trade of primary products, with five countries accounting for 60% of the imports: United States, Germany, France, United Kingdom and Japan. The initial effects of the shift of manufacturing of value-added wood products to low-cost labour regions are beginning to be seen in North America, as evidenced by furniture plant closures in 2001, as furniture imports increased.

Until now, markets for certified forest products (CFPs) have been constrained by supply, as well as final consumer demand. However in the last year, the area of forests certified for sustainable forest management doubled to 80 million hectares. Trade grew steeply too, especially in some environmentally-sensitive markets in the UNECE region. Demand continues to be driven by retailers and business-to-business markets, where advantages other than price premiums are currently important. Forest certification and certification of forest products is highly controversial, with strong opinions; however, positions are changing, and mutual recognition is established between some, but not all, schemes.

## 1.2 Globalization of forest products markets

A number of trends have been influencing forest products markets in the UNECE region in 2000 and 2001. Economic trends, the influence of the European storm's windthrow volumes and the emerging and re-emergence of central and eastern European and CIS markets were discussed above. However various globalization factors are continually affecting the UNECE

region's forest products markets<sup>3</sup>:

- The switch to lower cost fibre from forest plantation regimes. Sourcing of new material is shifting to newly-emerging forest producing regions.
- Emerging economies with commensurate rising consumer demand.
- The information-communication-technology revolution affecting all facets of the forest and forest industries sector.
- Interaction and interdependence between markets, and in the case of wood products, the threat of substitution by less environmentally friendly and non-renewable products.
- Increasingly uniform prices for globally-traded wood products similar to the current situation for the commodity grades of paper and woodpulp.
- Increased capital mobility, continued "dollarization" of the world economy and investor portfolios seeking more global diversification. Investor preference for companies that focus on fewer products on a bigger scale.
- Improving transportation logistics, from harvesting to ocean transport, leading to reduced transportation costs which supports greater international trade.
- Larger buying groups, especially big home centre chains and retailers, sourcing wood products (primary, secondary and finished goods) on a global scale.
- A movement towards trade in value-added wood products is evolving in many countries, simultaneously with growing constraints in the export of unprocessed goods.
- Higher costs of labour in developed economies favouring a shift to more abundant, lower cost labour in developing countries, especially with enlargement of free trade areas.
- Changing international trade framework.
- Increasingly strong pressures concerning environmental issues. Forest certification is a natural outcome of globalization.
- Marketing groups for wood products are increasingly concentrated and getting larger. Their purchasing imperatives are becoming global.

---

<sup>3</sup> Most of the ideas in this section come from a paper in production for the keynote presentation at the 2-3 October 2001 Timber Committee market discussions by the authors, Mr. Marc Boutin, Director, International Trade, and Mr. Nsimba Kinuani, Director, both with the Quebec Lumber Manufacturers' Association, 1175, avenue Lavigerie, Sainte-Foy, Quebec, Canada, G1V 4P1. telephone +1 418 657 7916, fax +1 418 657 7971, e-mail: marc.boutin@sciage-lumber.qc.ca and nsimba.kinuani@pribec.com

Faced with these factors, some of which are advantages, others not, often depending upon who is looking at them, the response of the forest products industry is crucial. The Timber Committee believes in developing new products and growing markets. This is evidenced by its promotion of the environmentally friendly and renewable attributes of forest products.

Product development and integration is ongoing as commodity manufacturers seek to add value to their products. With a foreseeable sustained worldwide surplus in wood supply and potential additional wood products manufacturing, there will be increased competition for existing markets. In this context, stimulating demand will require a global effort not confined to already mature markets. Improved consumption levels of solid and reconstituted wood products in emerging markets are needed. The development of building systems which employ solid and reconstituted wood products is another. Finally, the use of wood products in non-residential construction is another avenue which could relieve the oncoming supply imbalance.

### 1.3 Timber Committee forecasts for 2001

At their joint session in October 2000 in Rome, the Timber Committee and European Forestry Commission forecast production, consumption and trade of forest products in 2000 and 2001. For European consumption of sawnwood they forecast a slight rise, 0.5%, in 2001 to

reach 112 million m<sup>3</sup>. Wood-based panels were forecast to grow faster, by 1.7%. The Committee's European consumption forecasts for 2000 were lower than the recorded volume. Export forecasts for 2000 were also low, perhaps underestimating the windstorm effects on forest products markets, and thus with the slowing market in mid-2001, the slight increase forecast for the year may be accurate.

North American forecasts for a downturn in sawn softwood consumption in 2000 were accurate. However, the weak economic signs in mid-2001 bring uncertainty for the 1% rebound forecast in 2001. Panel consumption was forecast to increase by 0.5% in 2001, which correlates with mid-year strength in housing construction. Roundwood production was forecast to rise similarly, by 0.6%.

The Committee and Commission forecast Russian Federation consumption, production and exports to improve for all product sectors in 2000, which in general came true. The forecasts for 2001 were again optimistic, i.e. for growth, although slower than in 2000.

Slowing economies in 2001 confirm the forecast trends. The Timber Committee will review these forecasts for 2001 and then forecast forest products markets in 2002 at its October 2001 session. Nevertheless, in mid-2001 it appears that the 2000 records in some subregions, especially in North America and EU/EFTA, will not be repeated, at least for some sectors in 2001.