

Chapter 6

Sawn softwood – consumption, production and trade ¹

Highlights

- In 2000 in the UNECE region, production of sawn softwood reached a new high of 264 million m³, a 1.6% increase over 1999.
- Nordic countries' production and exports were at record highs in 2000, and shipments of further processed sawn softwood products are increasing.
- Nordic countries' and Austria continue to see growth in exports of sawn softwood outside of the EU/EFTA region, especially to Japan.
- Growth in exports from central and eastern Europe, 13% from 1999 to 2000, is considerably higher than the export growth rate in the EU/EFTA subregion of Europe of 4%.
- Sawn softwood exports from Canada to the United States made record highs in 1999 and 2000, representing roughly 35% of total United States consumption.
- Canadian exports of further processed sawnwood products, including wood furniture, reached record levels in 2000.
- United States exports of sawn softwood continue near their decade lows of 1998, at less than 3 million m³, due to increased domestic consumption and reduced production.
- United States imports from South America and Europe are at record levels.
- Expiration of the Canada – United States Softwood Lumber Agreement in March 2001 has created much apprehension for Canadian producers, leading to a drop in shipments and higher prices.
- While Japanese import volumes of sawn softwood remain considerably below the 1997 peak of over 10 million m³, Japan remains an important market for supplier regions around the globe. Canada has maintained market share in Japan, while the United States lost market share, and Sweden, Finland and Austria enjoyed spectacular gains.
- Sawn softwood production and trade increased sharply to record levels in France, Germany and Switzerland following the December 1999 windstorms and sawnwood prices weakened.

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Secretariat introduction

For the first time the authors of this chapter come from outside of the secretariat, thus giving a fresh look to the Review's sawn softwood analysis. The chapter maintains the traditional statistical tables, based on UNECE and FAO statistics, and subregional analysis. Drs. Chris Gaston and Rob Kozak are thanked for their assessment of the market developments in 2000 and 2001. They come from Forintek Canada Corporation and the University of British Columbia, respectively, where they are marketing specialists who are up to date on worldwide sawn softwood market trends and intelligence.

Analysing Europe by "EU/EFTA" and "Other Europe" (principally central and eastern European countries), in line with the same break out in other chapters, the authors divulge the dynamics of the rebounding central and eastern European sawnwood markets, contrasted to the much larger western European markets, with their slower growth.

6.1 Introduction

Globally, the production of sawn softwood has displayed an upward trend, reaching an all-time high of over 320 million cubic metres in 1999 (FAO, 2001). The UNECE region, namely Europe, CIS and North America, manufactures more than 80% of this global total (table 6.1.1). Consumption rose to record levels in the EU/EFTA subregion, as well as in the "Other Europe" subregion, but fell by 1.2% in North America and by 2.0% in the Russian Federation (graph 6.1.1).

Overall, the UNECE region has displayed positive growth in the last year. However, production in North America is down more than 1% after an exceptionally strong 1999. Conversely, production in Europe is up more than 5% for the same period, with the strongest growth taking place in the EU/EFTA region of Europe. In addition, imports and exports have increased across the board in each of the UNECE regions – with the largest

TABLE 6.1.1
Sawn softwood balance in UNECE region, 1996 -2000
(Million m³)

	1996	1997	1998	1999	2000	Timber Committee estimate for 2001 ¹
EU/EFTA						
Production	63.67	67.75	69.10	71.21	75.12	75.47
Imports	26.28	29.80	35.74	33.85	36.10	36.42
Exports	26.21	28.10	29.05	29.87	31.93	32.38
Net trade	-0.07	-1.70	-6.69	-3.98	-4.17	-4.04
Apparent consumption	63.74	69.44	75.79	75.18	79.28	79.51
OTHER EUROPE						
Production	13.60	15.36	16.52	17.19	18.69	19.05
Imports	2.08	2.15	2.38	2.87	3.39	3.51
Exports	5.79	7.42	7.80	8.84	10.00	10.27
Net trade	3.71	5.27	5.41	5.97	6.61	6.77
Apparent consumption	9.89	10.09	11.11	11.22	12.08	12.28
RUSSIAN FEDERATION						
Production	17.53	16.68	15.61	16.64	17.67	18.52
Imports	0.01	0.33	0.01	0.00	0.00	0.00
Exports	4.35	4.78	4.63	6.13	7.37	8.19
Net trade	4.34	4.45	4.63	6.12	7.37	8.18
Apparent consumption	13.19	12.22	10.98	10.51	10.30	10.34
NORTH AMERICA						
Production	140.24	145.58	145.92	154.79	152.75	151.72
Imports	43.75	43.32	44.32	45.55	46.18	47.42
Exports	53.55	51.55	50.06	51.72	52.15	50.99
Net trade	9.79	8.23	5.74	6.17	5.97	3.57
Apparent consumption	130.45	137.35	140.18	148.61	146.78	148.14

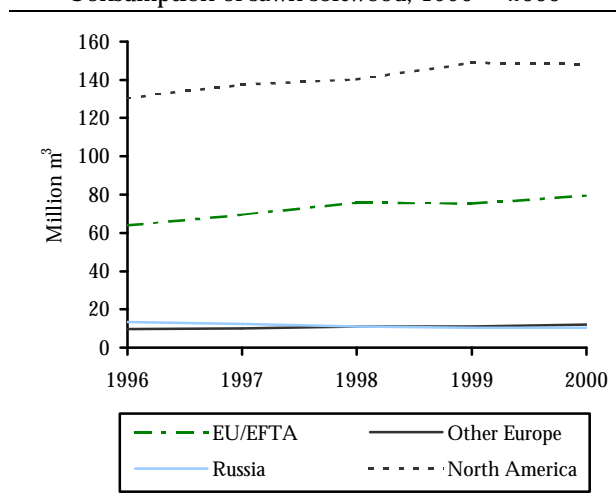
¹ The Timber Committee's forecast trend for 2000 to 2001, made at the October 2000 session, was applied to the 2000 figure.

Source : UNECE/FAO TIMBER database, 2001.

gains seen in the “Other Europe” category (imports) and the CIS countries² (exports).

GRAPH 6.1.1

Consumption of sawn softwood, 1996 -2000



Source: UNECE/FAO TIMBER database, 2001.

This chapter will look at production, consumption and trade of sawn softwood. As in previous years, information presented here is from the UNECE/FAO TIMBER database. All of the data presented here is for the year 2000, with one exception. At the time of writing this chapter, trade by direction data for 2000 was not available and 1999 data was used in its place. Further information from industry associations, trade journals, academic publications, consultants' reports and other official sources was used to supplement the existing data, and is cited accordingly and referenced at the end of the chapter.

6.2 Production and trade

Trade of sawn softwood is discussed in three sections, based on the three major softwood producing and consuming regions: Europe, North America and Japan. For each region, major trade patterns are considered based on data from the UNECE/FAO TIMBER database and other sources. In addition, other trade issues are discussed, most notably the emerging trend in the production, trade and consumption of plantation-grown sawn softwood.

6.2.1 Europe

Regional highlights for European sawn softwood production and trade are reported below. Much of the information comes from the European Sawn Softwood

Conference 2000 (London, England), reported in Timber and Wood Products (TTJ) and EUWID (Europäischer Wirtschaftsdienst). In general, European production of sawn softwood, especially high quality sawnwood, is on an upswing (table 6.2.1). This is due to several factors including, but not limited to: positive economic conditions within Europe; an expanding domestic construction market; exporters' favourable exchange rates for currencies pegged to the euro; the unusual availability of windthrown logs resulting from the hurricanes of December 1999; and market expansion beyond intra European trade.

6.2.2 Nordic countries

Sawn softwood production in Nordic Europe for 2000 is up across the board. Finland saw a record production level of over 13 million cubic metres, while Sweden's production returned to 1998 levels after a drop in 1999. Norway has also seen some slight increases in output, most of which was used domestically, or sold within the Nordic countries and central Europe.

Finland and Sweden exported record levels of sawnwood in 2000 (table 6.2.2). A growing proportion of Swedish and Finnish production is being sold into markets outside of Europe. Most notably, Japan continues to be a key export destination and the United States is growing in importance. Finnish and Swedish 2000 exports to Japan grew by approximately 58% and 8% over 1999, respectively. Interestingly, Swedish exports to the United States saw impressive gains, doubling in volume to more than 140,000 cubic metres. This emerging trade pattern is largely being driven by the exchange rate between the weaker Swedish krona and the euro, leading to intense competition from Baltic countries and a loss of share within European markets (graphs of exchange rates may be found in the economic overview chapter). The high production of the Nordic countries, plus the increased production volumes from other EU/EFTA countries, other European countries and the CIS, combined with softening demand, has led to weaker prices since mid-2000 (graph 6.2.1).

Most of the sawnwood being shipped from the Nordic countries to the United States and Japan is high quality whitewood (spruce and fir), which speaks to two emerging trends in Nordic Europe. First, there is a movement away from commodity goods to more downstream processing and value-addition. Planed and processed lumber is displacing rough sawnwood and increases are noted in the production of value-added goods, for example solid pine flooring by Swedish sawmills and building systems. Second, as exports of high quality lumber products from Nordic countries to international markets increase, there is a growing need for Nordic Europe to import raw logs (mostly from (and

² The CIS countries reporting sawn softwood statistics included Republic of Belarus, Moldova and the Russian Federation.

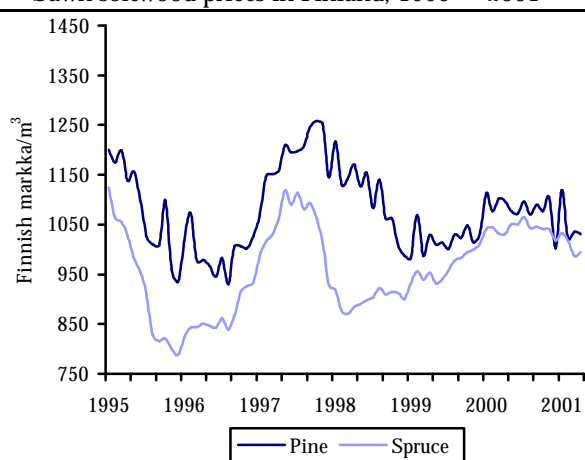
TABLE 6.2.1
Production of sawn softwood in the UNECE region, 1997 -2000
(1,000 m³)

	1997	1998	1999	2000	Change 1999 to 2000	
					Volume	%
EU/EFTA	67,745	69,097	71,205	75,116	3,911	5.5
of which:						
Germany	13,682	13,807	14,537	15,005	468	3.2
Sweden	15,419	14,874	14,608	14,839	231	1.6
Finland	11,360	12,240	12,708	13,320	612	4.8
Austria	8,254	8,534	9,400	10,150	750	8.0
France	6,800	7,197	7,257	8,708	1,451	20.0
OTHER EUROPE	15,357	16,523	17,192	18,695	1,503	8.7
of which:						
Czech Republic	3,100	3,100	3,251	3,782	531	16.3
Latvia	2,550	2,800	3,047	3,450	403	13.2
Poland	3,450	3,538	3,349	3,350	1	0.0
Turkey	2,032	2,101	2,280	2,542	262	11.5
Romania	1,115	1,456	1,845	2,077	232	12.5
Estonia	656	780	1,100	1,050	-50	-4.5
Lithuania	1,130	900	850	1,000	150	17.6
CIS	17,751	17,133	18,204	19,310	1,105	6.1
of which:						
Russian Federation	16,675	15,610	16,635	17,673	1,038	6.2
NORTH AMERICA	145,578	145,920	154,786	152,745	-2,041	-1.3
Canada	63,764	64,082	68,235	68,557	322	0.5
United States	81,814	81,838	86,551	84,188	-2,363	-2.7

Source : UNECE/FAO TIMBER database, 2001

GRAPH 6.2.1

Sawn softwood prices in Finland, 1995 -2001



Source: Metinfo, Finnish Forest Research Institute, 2001.

through) the Baltic countries and the Russian Federation) in order to feed European demand for sawn softwood.

6.2.3 Baltic countries

While Latvian and Lithuanian production increased by over 13% and 18% in 2000, respectively, Estonian production decreased by 4.5%. This trend may continue as Estonia currently has overcapacity of sawmills and Estonian marketing specialists expect a rationalization in late 2002. Currently, production is based both on domestic and Russian logs. As the Estonian kroon is indirectly linked to the euro, and Russian logs are exported in dollar prices, Estonian sawmillers face rising raw material costs, as the euro remains weak. The combination of low sawnwood prices with high log costs leads to a precarious state of affairs. Some smaller, less-efficient mills have been sold to larger, joint-venture companies. Nevertheless, exports were up again by 11.9% in 2000, which, in combination with the reduced production, meant that apparent consumption fell by almost 22%.

TABLE 6.2.2
Exports and imports of sawn softwood in the UNECE Region, 1997 -2000
(1,000 m³)

	1997	1998	1999	2000	Change 1999 to 2000	
					Volume	%
EXPORTS						
EU/EFTA	28,098	29,047	29,871	31,933	2,062	6.9
of which:						
Sweden	10,902	10,975	11,060	11,188	128	1.2
Finland	7,509	8,204	8,269	8,405	136	1.6
Austria	4,838	4,752	5,652	6,195	543	9.6
Germany	1,895	2,223	1,671	2,478	807	48.3
Belgium	602	808	206	34.2
France	469	511	529	722	193	36.5
			E	E		
Other Europe	7,421	7,796	8,840	10,004	1,165	13.2
of which:						
Latvia	2,060	2,250	2,447	2,635	188	7.7
Czech Republic	1,397	1,231	1,480	1,701	221	14.9
Romania	917	1,210	1,494	1,677	182	12.2
Slovakia	285	735	681	1,006	325	47.7
Estonia	597	690	816	912	97	11.9
Poland	747	705	722	785	63	8.7
Lithuania	871	501	517	619	102	19.7
CIS	5,045	4,898	6,699	8,592	1,893	28.3
of which:						
Russian Federation	4,780	4,632	6,125	7,373	1,248	20.4
North America	51,550	50,063	51,722	52,149	427	0.8
Canada	47,664	47,177	48,386	48,928	542	1.1
United States	3,886	2,886	3,336	3,221	-115	-3.4
IMPORTS						
EU/EFTA	29,798	35,739	33,847	36,101	2,254	6.7
of which:						
United Kingdom	6,491	6,490	6,604	7,308	704	10.7
Italy	5,145	5,274	5,551	6,304	753	13.6
Germany	5,280	5,301	4,705	4,610	-95	-2.0
Denmark	2,133	4,046	4,569	4,569	0	0.0
France	1,960	2,237	2,446	2,670	224	9.2
Netherlands	2,889	2,923	2,911	2,559	-352	-12.1
			E	E		
Other Europe	2,152	2,384	2,868	3,390	522	18.2
of which:						
Hungary	672	659	733	977	243	33.2
Yugoslavia	275	275	412	412	0	0.0
		P	P	R		
Israel	369	369	383	383	0	0.0
		P	E	R		
Lithuania	127	189	237	260	23	9.8
Turkey	117	188	207	235	28	13.5
Czech Republic	138	158	169	219	50	29.6
CIS	534	211	659	974	314	47.7
of which:						
Russian Federation	329	6	4	3	-1	-25.0
North America	43,318	44,322	45,550	46,179	629	1.4
Canada	804	618	743	769	26	3.5
United States	42,514	43,704	44,807	45,410	603	1.3

Source : UNECE/FAO TIMBER database, 2001.

Latvia is also facing falling lumber prices and unfavourable exchange rates. Nevertheless, exports and production were up again, by 7.7% and 13.2% based on volume respectively. However, in early 2001, some shipments were either running late or not being delivered owing to a sluggish market demand.

The situation in Lithuania is slightly more optimistic. Exports for sawn softwood have increased by 20%, resulting in the highest levels since 1998. Most of this production is shipped to Germany, while North America remains Lithuania's second biggest export destination, accounting for approximately 15% of the sawnwood exports and displacing the United Kingdom (where exports have dropped by over 20%).

6.2.4 EU/EFTA (excluding the Nordic countries)

In 2000, production of sawn softwood in EU/EFTA has increased in most countries, with the notable exception of the United Kingdom, which saw slight decreases owing largely to a slowing of the economy. Production in the United Kingdom is expected to improve in the coming year and markets for German, Austrian, French, Spanish and Swiss producers are all expected to remain strong. With the exception of Austria, which has a significant and growing market in Japan, buyers of sawn softwood tend to be within Europe (either traded between countries or used domestically).

It is interesting to note that western Europe had success in 2000 and early 2001 in finding markets for windthrown timber – this has not become an over-supply problem as some had predicted. The countries hardest hit, i.e. France, Germany and Switzerland, all increased production to record levels, by 20.0%, 3.2% and 9.6% respectively. Fortunately the sudden rise in sawnwood supply coincided with an increased sawnwood demand in Europe owing to construction increases in many European countries in 2000.

Strong growth in sawn softwood output is largely due to an increasing movement towards self-sufficiency on the part of European producers. This point is made all the more salient as a result of Europe's strengthening economy and growing construction volumes. In fact, demand for sawn softwood is so high that France is now producing 40,000 cubic metres of plantation Douglas-fir per year. Of note is the continued reliance on Nordic countries' exports, and to a lesser extent, North America, to meet its construction and value-added needs, and also the growing importance of Chile as a supplier of sawn softwood.

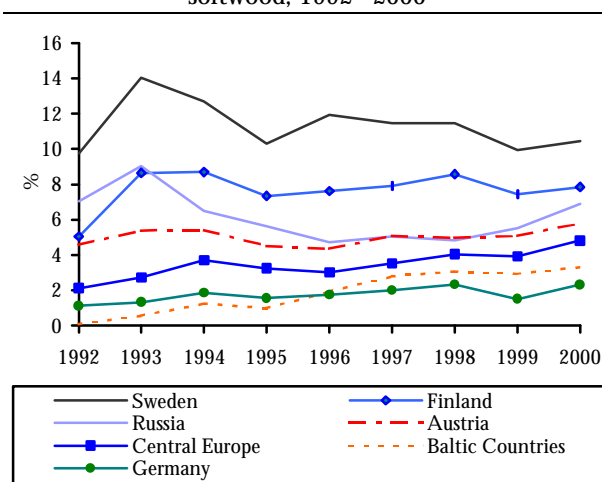
6.2.5 Other Europe

With approximately one quarter of the sawn softwood production in Europe, four central European countries –

the Czech Republic, Poland, Romania and Slovakia – are accelerating out of the transition period and re-establishing this important European sawnwood producing region. Output levels in these four countries far exceed those of the Baltics. That said, each of these countries exports less than Latvia alone. However, at between 0.8 and 1.7 million m³ of sawn softwood exported in 2000, each country is an important wood products supplier, behind only Austria, Finland, Sweden and the Baltic countries (graph 6.2.2). Production levels in eastern Europe are on the rise, with the biggest increases seen in the Czech Republic (16%) and Romania (13%). Exports, primarily traded within Europe for the time being, are displaying similar trends and are growing at a more rapid rate than the EU/EFTA region of Europe (13% increase from 1999 to 2000 as compared to 6.9%, respectively). Of particular note is Slovakia, whose sawn softwood export levels were reported to have increased by nearly 50% in 2000 to over 1 million cubic metres. Although most of these countries had rises in their domestic consumption levels, development of their sawmilling sector is intrinsically linked to export market growth.

GRAPH 6.2.2

Share of total European export market of sawn softwood, 1992 -2000



Note: Central Europe for this graph is Czech Republic, Poland, Romania and Slovakia

Source: UNECE/FAO TIMBER database, 2001.

6.2.6 CIS countries

The Russian Federation increased both its sawn softwood output and its exports by more than 1 million cubic metres in 2000 over 1999 levels. Russia is by far the most important lumber producer in the CIS, with the majority of its exports being traded in Europe and other CIS countries. It has also managed to develop and

maintain significant market shares outside of Europe, most notably in Egypt and Japan.

Demand for Russian sawn softwood is expected to remain strong, especially in places like France and Belgium, where prices of CIS lumber are relatively low. However, further growth of the Russian forest products sector is expected to be slow. It should be noted that the current sawmilling capacity in Russia is on the order of 60 million cubic metres and is grossly underutilized for a variety of technical and economic reasons, not least of which is that many Russian sawmills are simply not profitable or are heavily leveraged. That said, if output ever approaches capacity, this would have a significant global impact on production, consumption and trade patterns. Like the central and eastern European countries, Russia is dependent on export market development. Apparent consumption of sawn softwood continued falling in 2000, by 2%, a slower decline than previous years. As production increased by over 1 million m³, apparently the majority of that sawnwood was exported.

6.3 Intra Europe trade

Over 71% of all European imports (approximately 28.3 million cubic metres) of sawn softwood originated within Europe in 1999³, with the major exporting countries being Sweden, Finland and Austria, followed by Russia, Latvia and Germany. The major importing countries were the United Kingdom, Italy and Germany (table 6.3.1, inner box). Not surprisingly, intra European trade flows are geographically based with much of the Nordic shipments going to the northern part of Europe (United Kingdom, Germany, Netherlands and Denmark) and Austrian shipments finding homes within close proximity (Italy and Germany).

Nordic country shipments to Europe are notable in that, increasingly, less indigenous fibre is being used to serve European markets. Nordic countries' wood is typically shipped to foreign markets like Japan (over 1 million cubic metres in 1999) in the form of higher grade lumber products to service the growing wooden home sector. This has a 'ripple effect' on the European log market as the Nordic countries must meet their increased demand by procuring roundwood from places such as the Baltic countries. These logs, earmarked for domestic European consumption, are processed in Nordic sawmills and sold throughout Europe, with the largest market gains being made in the United Kingdom. It is interesting to note that the Baltic countries, in turn, procure raw logs

from the Russian Federation. The Russian Federation, and Latvia to a lesser degree, are active exporters to Europe, with the largest share of sawn softwood shipments going to the United Kingdom (largely as a result of weakening currencies in these exporting regions), but significant amounts also being sold in Germany, the Netherlands, France and Italy.

Despite being one of the leading European producers of sawn softwood, Germany trades proportionately little of its production. The vast majority of lumber manufactured in Germany is used domestically in its construction sector and its massive value-added and furniture industries. Germany is becoming more and more self-sufficient, a notable trend for many European countries. But Germany's exports did grow by more than 50% in the first quarter of 2000, most of which can be attributed to intra European trade with countries that sustained heavy storm damage (special chapter in the Review, 1999-2000). European exports from Germany are expected to stabilize and signs point to maintaining a consistent market presence throughout central Europe (especially Italy, France and the Netherlands). It is also interesting to note the growing importance of eastern European wood producers within Europe, many enjoying record exports for 1999. Poland sells significant amounts of sawn softwood in Germany, while the Czech Republic has captured both German and Austrian markets and, to a lesser degree, Italian markets. Lastly, Romania is a growing force in the trade of sawn softwood and has captured a niche by selling into several other, smaller markets in Europe (for example, Hungary and Greece).

³ It should be noted that at the time of writing this chapter, 2000 trade flow data were not yet available. This particular analysis relies on 1999 data from the FAO Forest Products Yearbook, 2001.

TABLE 6.3.1
Sawn softwood direction of trade, 1999
(1,000 m³)

Major Exporters	Major Importers										United States	Japan	Other	TOTAL World
	United Kingdom	Italy	Germany	Netherlands	France	Denmark	Austria	Spain	Other Europe	Sub-TOTAL				
Sweden	2,384	243	1,311	905	447	1,188	44	558	1,288	8,368	72	497	2,103	11,040
Finland	1,258	237	939	572	754	529	114	167	773	5,343	45	600	2,281	8,269
Austria	14	3,572	646	15	7	0		1	42	4,297	135	357	837	5,626
Russian Federation	428	342	406	377	272	55	129	139	492	2,640	14	594	2,857	6,105
Latvia	1,557	10	356	139	96	44	2	48	105	2,357	16	4	70	2,447
Germany	35	502		325	507	29	178	32	259	1,867	29	49	23	1,968
Czech Republic	21	192	600	18	2	0	500	9	50	1,392	48	36	4	1,480
Poland	11	57	430	84	17	44	10	17	37	707	0		53	760
Estonia	255	7	139	73	103	32	8	16	48	681	3	4	124	812
Romania	0	44	40	3	1	0	29	13	476	606	0		604	1,210
Slovakia	8	105	47	1	3	0	72	1	317	554			127	681
Sub-Total	5,971	5,311	4,914	2,512	2,209	1,921	1,086	1,001	3,887	28,812	362	2,141	9,083	40,398
Canada	231	96	48	34	42	5	2	4	112	574	42,456	4,503	803	48,336
United States	45	148	58	12	54	2	0	198	52	569		758	1,898	3,225
Chile	80	13	0	3	0			15	16	127	535	475	308	1,445
New Zealand	1	0		0		0		0	0	1	349	245	775	1,370
Other	276		299	791	234	1,125		1,746	601	5,072	1,105	250	3,940	10,367
TOTAL World	6,604	5,568	5,319	3,352	2,539	3,053	1,088	2,964	4,668	35,155	44,807	8,372	16,807	105,141

Source : FAO, 2001.

6.4 North America

With annual Canadian exports to the United States of over 40 million cubic metres, North America remains the largest trading block for sawn softwood in the world. Fuelled by the strong United States economy, sawn softwood exports from Canada reached record highs in 1999 and 2000, representing roughly 35% of total United States softwood lumber consumption (American Forest and Paper Association, 2001).

Some key trends merit mention:

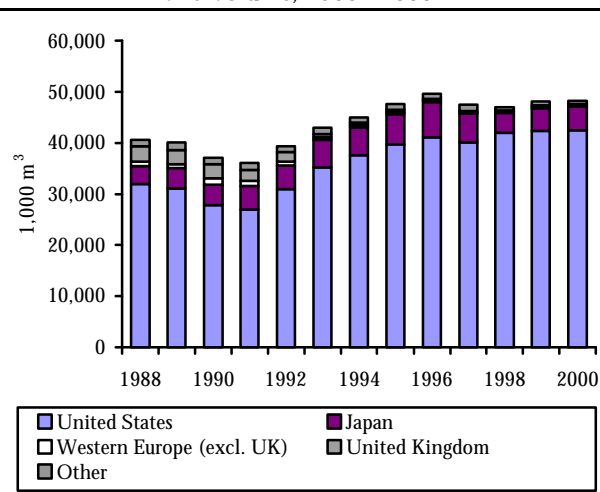
- Canadian exports of sawn softwood continue to be dominated by spruce-pine-fir dimension lumber (2-inch by 4-inch (2x4), 2x6, etc.) to the United States, primarily used for housing construction and renovation. Nominal prices have more than doubled for this commodity trade from the late 1980s to date (graphs 6.4.1-6.4.4).
- Canadian exports of further processed sawn softwood, including mouldings, flooring, siding, cabinetry, millwork, builders' joinery, and wood furniture has grown dramatically over the 1990s. The dollar value of these exports exceeded C\$4.7 billion in 1999, compared to C\$2.0 billion in 1995.
- North America continues to enjoy considerable price premiums in off shore markets for sawn softwood, particularly Japan and Europe. The increase in the

unit values of shipments to Europe, in fact, have almost compensated in overall value for the drop in trade volumes. This reflects a change in the product mix from construction sawnwood to higher-valued appearance sawnwood.

- United States exports of sawn softwood declined dramatically in the 1990s, due to strong domestic demand and supply reductions in the Pacific Northwest (graphs 6.4.5 to 6.4.8).
- United States imports, while dominated by Canadian supply, are increasingly turning to other sources, most notably plantation-based sawnwood from South America and New Zealand. Interestingly, Nordic European supply of sawn softwood is also making an inroad into this large market (Graph 6.4.9 through Graph 6.4.11).
- United States sawn softwood usage in 2000 was as follows (Resource Information Systems, Inc. 2001):
 - New residential construction 51.8 million m³
 - Repair and renovation 37.0 million m³
 - Non-residential construction 5.8 million m³
 - Industrial wood usage 31.3 million m³
- An important issue related to North American trade in sawn softwood in 2001 is the expiration of the Canada – United States Softwood Lumber Agreement (see text box in this section).

GRAPH 6.4.1

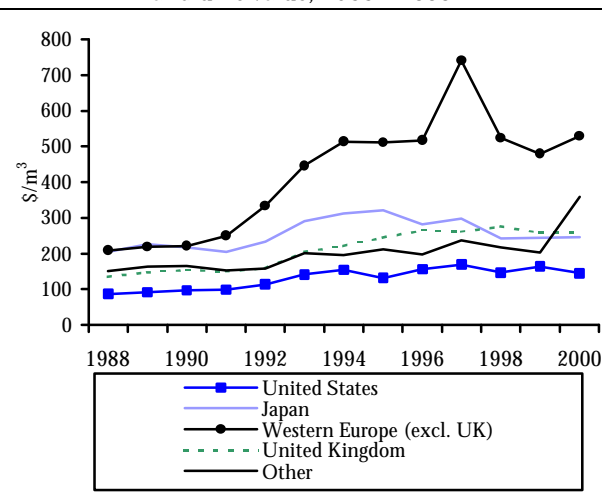
Canadian exports of sawn softwood, by destination and volume, 1988 -2000



Source: Statistics Canada, 2001.

GRAPH 6.4.2

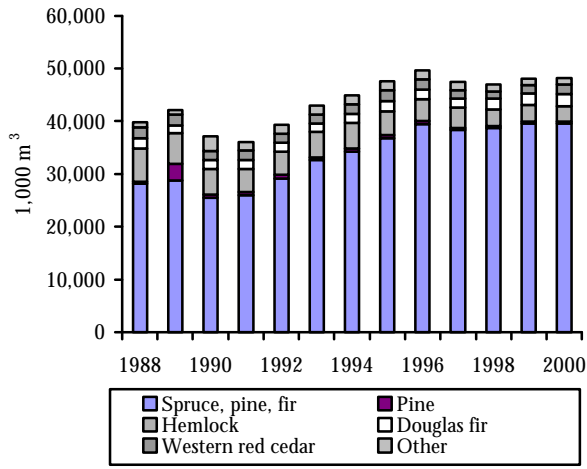
Canadian exports of sawn softwood, by destination and unit value, 1988 -2000



Source: Statistics Canada, 2001.

GRAPH 6.4.3

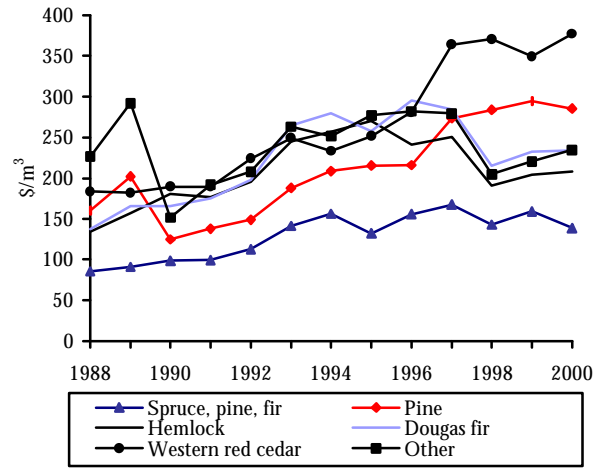
Canadian exports of sawn softwood, by species and volume, 1988 -2000



Source: Statistics Canada, 2001.

GRAPH 6.4.4

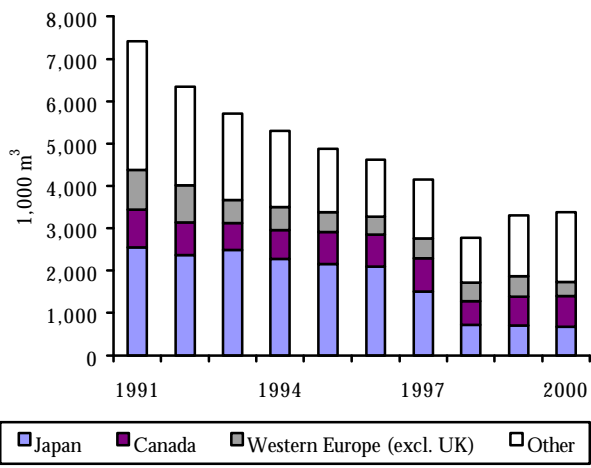
Canadian exports of sawn softwood, by species and unit value, 1988 -2000



Source: Statistics Canada, 2001.

GRAPH 6.4.5

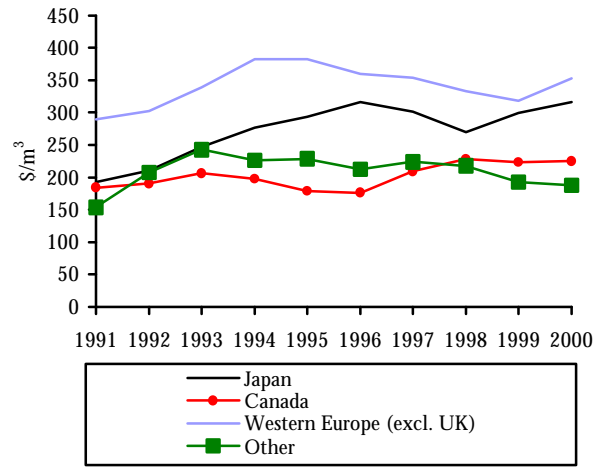
United States exports of sawn softwood, by destination and volume, 1991 -2000



Source: United States Bureau of Census, 2001.

GRAPH 6.4.6

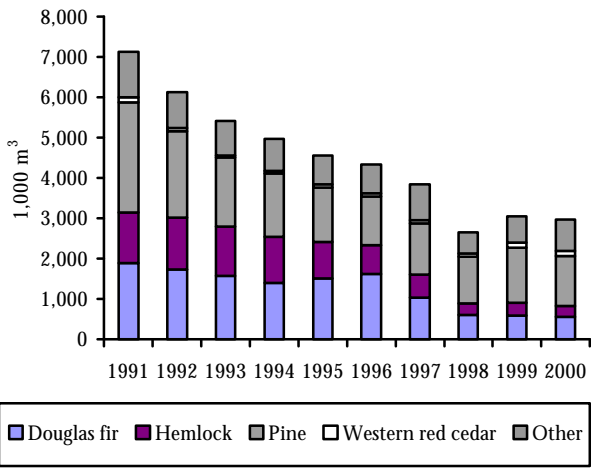
United States exports of sawn softwood, by destination and unit value, 1991 -2000



Source: United States Bureau of Census, 2001.

GRAPH 6.4.7

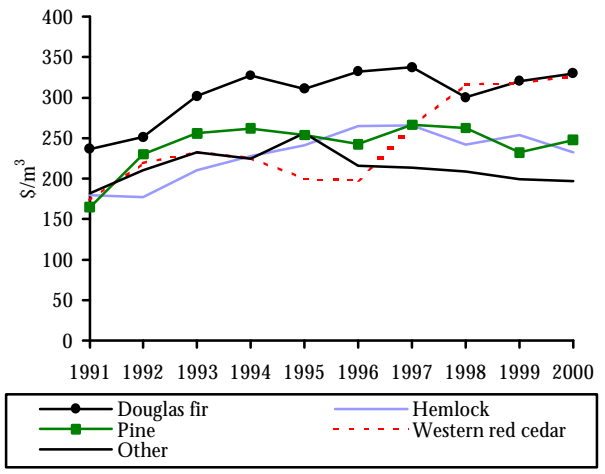
United States exports of sawn softwood, by species and volume, 1991 -2000



Source: United States Bureau of Census, 2001.

GRAPH 6.4.8

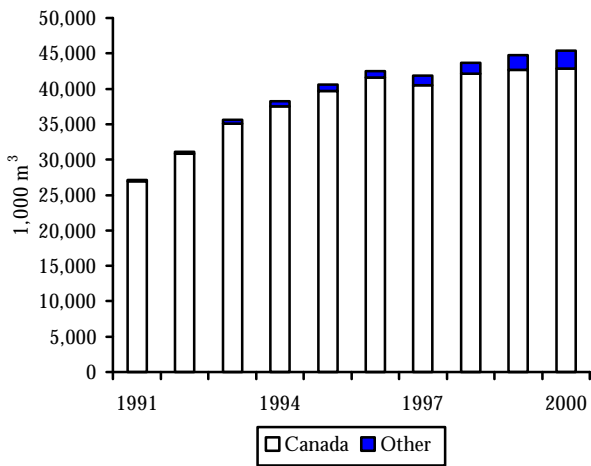
United States exports of sawn softwood, by species and unit value, 1991 -2000



Source: United States Bureau of Census, 2001.

GRAPH 6.4.9

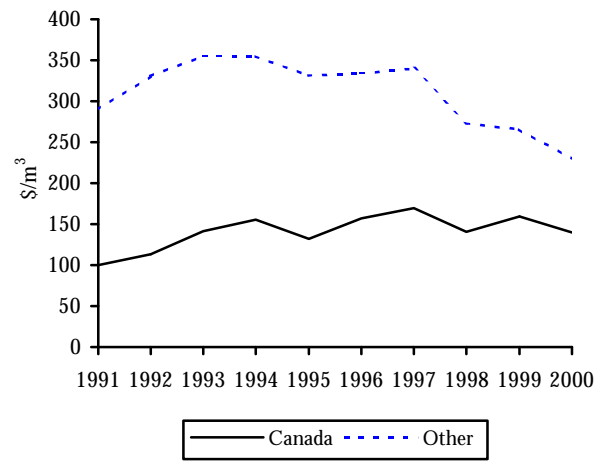
United States imports of sawn softwood, by volume, 1991 -2000



Source: United States Bureau of Census, 2001.

GRAPH 6.4.10

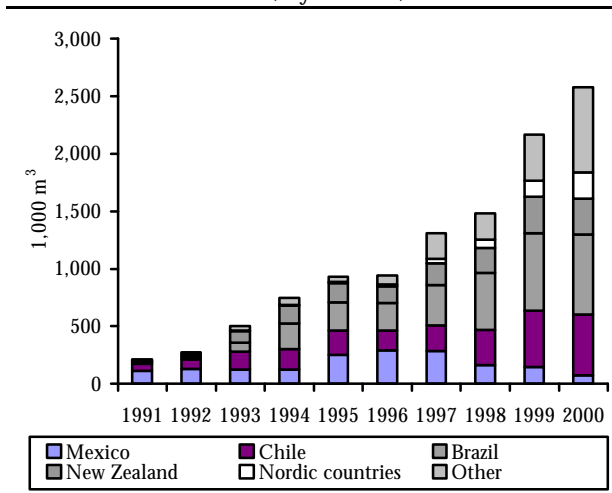
United States imports of sawn softwood, by unit value, 1991 -2000



Source: United States Bureau of Census, 2001.

GRAPH 6.4.11

United States imports of sawn softwood from sources other than Canada, by volume, 1991 -2000



Source: United States Bureau of Census, 2001.

Canada – United States Softwood Lumber Agreement

Canada and the United States have a long history of softwood lumber trade disputes centred around the claim by the United States industry that Canada subsidizes its lumber (sawnwood) sector. Specifically, the claim is that stumpage fees applied to Canada's largely publicly owned forests are too low and create an unfair market advantage over the United States, where the majority of the commercial timber resource is privately held. To that end, three countervailing duty investigations of Canadian softwood lumber products have been conducted by the United States in 1982, 1986 and 1992. In the first countervailing duty investigation, the United States Department of Commerce found that Canadian stumpage fees did not constitute a countervailable subsidy. The second countervail investigation was terminated before a final determination could be made as a result of a Memorandum of Understanding (MOU) enacted in late 1986 between the United States and Canada. The net result of this arrangement, which was without prejudice to both parties' positions, was a 15% export charge collected by the Canadian Government on all softwood lumber shipped to the United States. That export charge could be replaced by measures taken by provincial Governments to reform their forest management systems. In 1991, the Government of Canada terminated the MOU, claiming that stumpage rates had been increased. This led the United States Government to initiate a third countervail action. The United States lost two appeals before international trade panels and eventually ruled that there was no countervailable subsidy. Faced with the threat of a fourth countervailing duty investigation, Canada entered into discussions with the United States which resulted in the creation of the 1996 Softwood Lumber Agreement (Fukuda, 2001).

The Canada – United States Softwood Lumber Agreement (SLA) went into effect in April 1996. Consisting of ten articles, the SLA was an export control regime which permitted the fee-free export to the United States of 14.7 billion board feet of softwood lumber, with escalating fees imposed above that amount. In no way did it restrict the amount of softwood lumber that could be shipped from Canada to the United States. In return, the United States agreed to bring no further trade action during the course of the SLA. It should be noted that the SLA applied only to the four major lumber-producing provinces: Alberta, British Columbia, Ontario and Quebec. The remaining provinces were exempt. The quota itself had a lower and upper fee based structure (US\$ 50 and US\$ 100 per thousand board feet, respectively), depending on the total volume shipped to the United States (Fukuda, 2001).

The SLA expired on 31 March 2001. Over its course, shipments of softwood from each of the four affected provinces did not exceed shipment levels prior to quota being imposed in April 1996. Shipments from the SLA-exempt provinces (Manitoba, New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island and Saskatchewan)

have more than doubled in the same time period, accounting for over 15% of total softwood lumber shipments to the United States. Finally, shipments by Canadian lumber producers of quota-exempt wood products such as logs, value-added goods, and in some instances remanufactured lumber products, have increased substantially (Fukuda, 2001). In the latter case, it is interesting to note that shipments of builders' joinery from Canada to the United States increased dramatically from the time that the SLA was enacted until 1999 (graph 6.4.12). Builders' joinery, distinct from mouldings and millwork, is essentially a modified lumber product and was, for a time, considered quota-exempt.

In general, softwood lumber prices have seen a slight upward trend and increased volatility over the past five years (graph 6.4.13). Average softwood lumber prices for the period 1996 to 2000 increased by 24% in Toronto, Canada compared with the period 1991 to 1995 while softwood lumber prices in the United States, either Great Lakes-delivered or western base price, increased 18 to 19% during 1996 to 2000 compared to 1991 to 1995. The price increase can be partially attributed to the SLA.

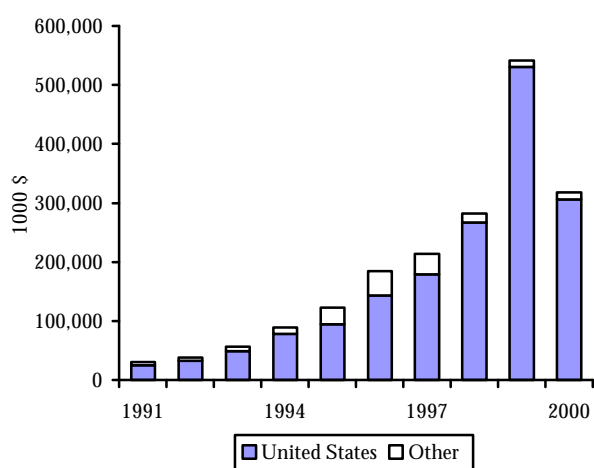
Production of softwood lumber in the United States has continued to increase to meet the growing domestic demand spurred on by strong economic growth and a robust housing market. The possibility that another quota system would succeed the expiring agreement compelled Canadian producers to ship to the limit of their quotas during the first quarter of 2001, i.e. before the SLA expiration, regardless of market signals, so as to assure themselves of the highest possible share. This no doubt influenced the huge price dip in the latter part of 2000 and the early part of 2001. The speedy recovery in prices after the first quarter of 2001 has been seen as the result of United States retailers failing to renew inventory levels at normal rates during the preceding period owing to the perception that there would be a "wall of wood" from Canada following the expiry of the agreement. While some risk-averse Canadian producers may be holding back on shipments to the United States for fear of retroactive action if a new tariff or duty is imposed, overall, shipments from Canada have increased moderately. Lumber inventories of Canadian producers are building up (Johnson, 2001b) and any United States bound lumber is being charged a premium to offset potential future levies (Johnson, 2001a, Random Lengths, 2001).

Beyond the trepidation currently being exhibited by some Canadian producers, there can be no doubt that the expiration of the SLA has had a negative impact on the production of softwood lumber in Canada, with some mills planning to decrease production and others limiting their shipments to the United States (Random Lengths, 2001). Certainly, the anticipated flooding of the United States market by Canadian lumber producers did not occur as a result of a duty-free environment. In fact, some evidence points to the possibility that softwood lumber trade will approach levels seen when the SLA was first put in place, especially in view of the weakening United States and Japanese economies (Smyth, 2001).

It is difficult to foretell what the future has in store for Canada – United States softwood lumber trade relations. There is currently no formal agreement in place. In all probability, a countervail duty will again be imposed, appealed and enacted through the World Trade Organization (WTO) and NAFTA. On 2 April 2001, United States industry petitioned for countervailing and anti-dumping duties on Canadian softwood lumber. The petitions call for a countervail duty of 39.9% and an anti-dumping duty of between 28% and 38%. The United States Department of Commerce's countervailing duty and dumping investigations are expected to make preliminary findings in the late summer or early fall of 2001, which could result in new duties on shipments from Canada. Canadian producers that have shipped softwood lumber after the expiration of the SLA may be forced to pay some duties retroactively if the United States finds "critical circumstances", e.g., a significant surge (over 15%) in Canadian lumber imports (Wood Markets, 2001, Johnson, 2001a).

GRAPH 6.4.12

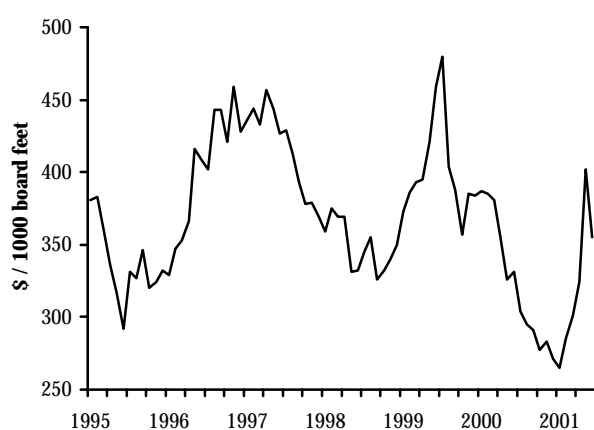
Canadian exports of builders joinery, 1991 -2000



Source: Statistics Canada, 2001.

GRAPH 6.4.13

North America sawn softwood prices, 1995 -2001



Note: Prices are for a mix of qualities, species and sizes.

Source: Random Lengths Yardstick, 2001.

6.5 Japan⁴

The global demand for sawn softwood is dominated by three regions: North America, Europe and Japan. Like North America, Japan has a long history of building wooden single family homes outside of the large urban centres, and this represents the major end use of Japan's domestically produced and imported sawn softwood.

⁴ For a more detailed overview of wood products issues in Japan, please refer to Chapter 4 of the Forest Products Annual Market Review, 2000 – 2001 (“Influences on Japanese demand for wood products” by Cohen, Gaston and Kozak).

Unlike North America, however, there is little repair and renovation wood use (although it is beginning to emerge (see discussion in chapter 4)). Wood for interior finish represents the next largest wood use.

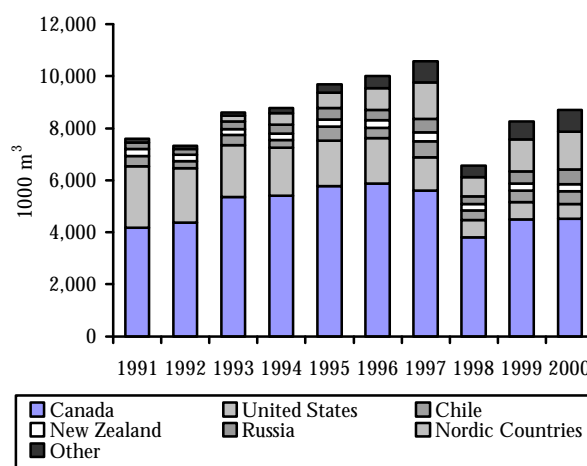
Key Trends:

- While overall sawn softwood imports have increased since the 1997-1998 economic crisis lows, Japan's economy remains sluggish, and housing starts are not expected to return to their 1990s peaks.
- Nordic countries and Austria have gained impressive market share for sawn softwood, approaching 2 million cubic metres in 2000, and trending higher. This has mostly been at the expense of United States supply (graph 6.5.1). Canada's market share has been fairly stable, owing in part to the favourable exchange rate as compared to the United States dollar.
- Price premiums remain modest for North American sawn softwood as compared to Nordic European sawn softwood. Prices are generally lower for sawn softwood from New Zealand and Russia (graph 6.5.2). Price differences may be due to variations in traded sizes, species and qualities.
- Japan is moving to pre-cut components for its home building, which has greatly reduced their demand for green sawn softwood in favour of kiln-dried lumber.

The use of glulam continues to rise dramatically. This, combined with the previous point and the fact that Japan has a shortage of drying capacity, has created a large demand for kiln-dried sawn softwood as furnish for domestic glulam production (“lam stock”). In fact, a large proportion of the sawn softwood imported from Europe is for this end use.

GRAPH 6.5.1

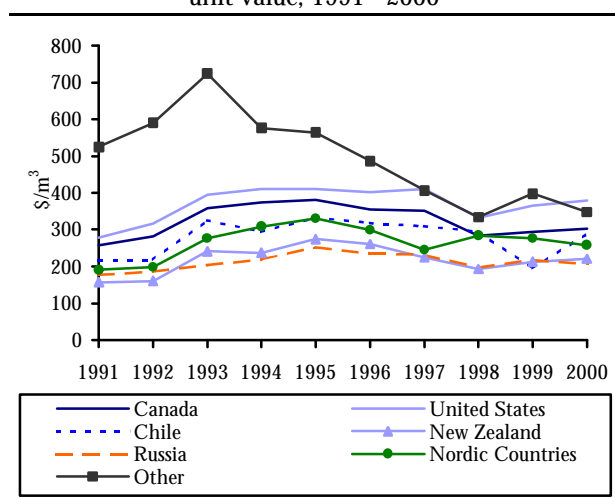
Japanese imports of sawn softwood, by origin and volume, 1991 -2000



Source: Japan Tariff Association, 2001.

GRAPH 6.5.2

Japanese imports of sawn softwood, by origin and unit value, 1991 -2000



Source: Japan Tariff Association, 2001.

6.6 Plantation -sourced sawn softwood

Plantation supplies of sawn softwood, while not insignificant in the southern United States, mostly lie outside of UNECE region. However, it is important to recognize that the volumes are significant (tables 6.6.1 and 6.6.2). Looking to the future, Brown (2000) estimates total plantation supply (softwood and hardwood) from the present day's 125 million cubic metres to 330 million cubic metres by 2050.

6.7 Summary

In what has been a fairly economically robust 2000, the UNECE Timber Committee estimates for 2001 were, not surprisingly, positive. Growth in production, imports and exports was anticipated for 2001 across all European regions. The same cannot be said for the UNECE region of North America, where the end of the Softwood Lumber Agreement between Canada and the United States will, in all likelihood, have a negative impact on sawn softwood production and trade flows. The extent to which this will impact on trade with Europe depends largely on when an agreement between these two key sawn softwood players can be reached and what that agreement would be. However, at the time of writing this chapter, there had been no resolution.

The outlook for European consumption of sawn softwood continues to look promising, especially in light of favourable economic conditions and long-term growing construction markets. Nordic countries will continue to dominate in sawn softwood production, but will rely less on indigenous fibre as a source of raw material and increasingly on log imports from other European countries (such as the Baltic countries) and the CIS in order to sell high quality lumber products overseas. Some of this domestic demand will also continue to be met by Austria, Germany and the burgeoning lumber producing regions of eastern Europe.

TABLE 6.6.1

Production of industrial roundwood from plantations compared to Sweden, 1995 -1999
(1,000 m³)

	Industrial roundwood				
	1995	1996	1997	1998	1999
New Zealand, Chile and Brazil	72,818	67,207	68,495	64,719	68,022
Sweden	56,200	48,660	52,460	51,436	49,620

Source : FAO, 2001.

TABLE 6.6.2

Production of sawn softwood from plantations compared to Sweden, 1995 -1999
(1,000 m³)

	Sawnwood				
	1995	1996	1997	1998	1999
New Zealand, Chile and Brazil	14,919	15,354	15,995	15,981	16,421
Sweden	14,737	14,170	15,419	14,874	14,608

Source : FAO, 2001.

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