

## Chapter 7

# *Trends in sawn softwood markets<sup>1</sup>*

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### Highlights

- Sawn softwood production in the UNECE region dropped almost 4% in 2001, following an all-time high of 225 million m<sup>3</sup> in 2000.
- Consumption of sawn softwood ended a 3-year period of growth in the UNECE region in 2001, with declines in all subregions except the CIS, where consumption in the Russian Federation rose slightly, by 3%.
- Nordic countries, Germany and Austria continue to see growth in sawn softwood trade outside of the EU/EFTA region, to Japan and more recently to the United States.
- Sawn softwood exports dropped in 2001 for both the EU/EFTA subregion (-3%) and the “Other Europe” subregion (-9%); however, exports from Canada remained steady.
- United States exports of sawn softwood were at decade-long lows in 2001, at roughly 1.5 million m<sup>3</sup> (compared to 5 million m<sup>3</sup> in 1991).
- United States sawnwood imports from South America and Europe are at an all-time high, totalling nearly 3 million m<sup>3</sup>.
- Initiation of a 27.2% duty on sawn softwood imports from Canada to the United States enacted in May 2002 may have an impact on sawn softwood prices and on continued United States supply diversification.
- While Japan’s import volumes of sawn softwood remain considerably below the 1997 peak of over 10 million m<sup>3</sup>, it remains an important market for supplying regions globally, including Europe at the expense of North American market share (however mid 2002 strength in the euro could change this situation).
- Trade patterns in 2001 were influenced by the strong dollar, but the fall in value of the dollar against the euro and the yen will change the competitive position of exporters in 2002.

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## Secretariat introduction

Traditionally one of the most important commodities traded in the UNECE region, sawn softwood is a barometer of market health in the UNECE region and the difference in trends between and within its subregions. The secretariat expresses sincere appreciation for this chapter's analysis to Drs. Rob Kozak, University of British Columbia, and Chris Gaston, Forintek Canada, both specialists in forest products markets. This is the second year that they have written this chapter. Their specialization of trade between the UNECE region and Asia comes to light in several passages. Dr. Gaston co-authored the earlier chapter in this *Review* on Chile's forest products markets. He is also the leader of the new UNECE&FAO Team of Specialists on Forest Products Markets and Marketing, and has presented his work at the Timber Committee's market discussions.

## 7.1 Introduction

The global production of sawn softwood in 2000 decreased marginally by 0.3% to just below 300 billion m<sup>3</sup>, from an all-time high in 1999<sup>2</sup>. The UNECE region, namely Europe, CIS<sup>3</sup> and North America, manufactures approximately three-quarters of this global total (table 7.1.1). Consumption levels for the UNECE region are generally down for 2001, with the most severe slowdowns being witnessed in European countries that do not belong to the EU/EFTA subregion and moderate gains being made by the Russian Federation (graph 7.1.1).

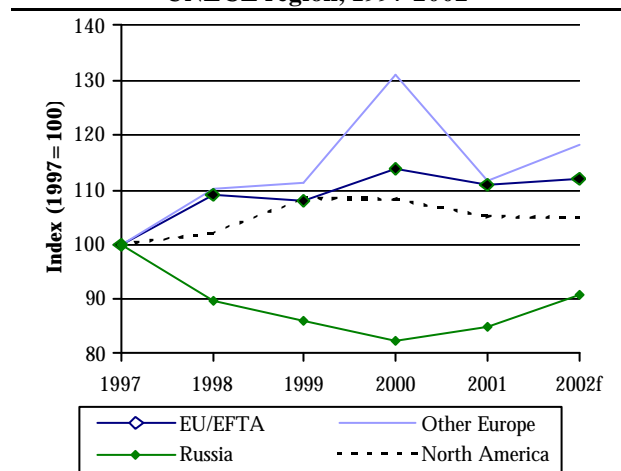
Overall, the production of sawn softwood in the UNECE region decreased across the board in 2001, after an exceptionally strong two year period of growth and expansion. Output from North America was down by 4.1%, marking the second consecutive year of decreasing production in this region. The EU/EFTA and "Other Europe" subregions experienced production losses of 1.7% and 9.1%, respectively. Within the UNECE region, the CIS was the only subregion to register stability, with 0.2% growth in the Russian Federation. These production woes are reflected in the levels of imports and exports in the UNECE regions, which are generally down or stagnant, with some exceptions being Denmark, Poland and the CIS (increased imports from a low level) and Slovakia

(increased exports, assuming that data are comparable over time).

This chapter will look at production, consumption and trade of sawn softwood within the UNECE region in detail. As in previous years, information presented here is from the UNECE/FAO TIMBER database. North American sawn softwood statistics are presented for the first time in actual volumes. Canadian production and trade volumes and United States trade volumes were converted to actual dimension basis by applying the United States conversion factor of 0.7203 to estimate Canada's actual volumes from the nominal and in the case of exports, mixed actual and nominal volumes submitted (United States production data was submitted in actual measure, equivalent to European and CIS measure). All of the data presented here are for the year 2001, with one exception. At the time of writing this chapter, trade flow data for 2001 were not available and 2000 data were used in their place. Further information from industry associations, trade journals, consultants' reports and other official sources was used to supplement the existing data, and is cited in the references section at the end of this chapter.

Trade of sawn softwood is discussed for the four major softwood producing and consuming regions: EU/EFTA, "Other Europe", the CIS and North America. For each subregion, major trade patterns are also considered. In addition, trends in Japan are discussed because of its importance within the global sawn softwood marketplace.

GRAPH 7.1.1  
Apparent consumption of sawn softwood in the UNECE region, 1997-2002



*Note:* f = The Timber Committee's forecast trend for 2001 to 2002, made at the October 2001 session, was applied to the 2001 figure.

*Source:* UNECE/FAO TIMBER database, 2002.

<sup>2</sup> Global statistics for 2001 were not available at the time of writing.

<sup>3</sup>The CIS countries reporting sawn softwood statistics included Republic of Belarus, Republic of Moldova and the Russian Federation.

TABLE 7.1.1  
Sawn softwood balance in the UNECE region, 1997-2001  
(Million m<sup>3</sup>)

	1997	1998	1999	2000	2001	Timber Committee estimate for 2002 <sup>1</sup>
<b>EU/EFTA</b>						
Production	67.75	69.10	71.21	75.26	73.96	74.90
Imports	29.80	35.74	33.85	36.09	34.34	34.40
Exports	28.10	29.05	30.09	32.33	31.26	31.56
Net trade	-1.70	-6.69	-3.76	-3.76	-3.08	-2.85
Apparent consumption	69.44	75.79	74.96	79.02	77.04	77.74
<b>Other Europe</b>						
Production	15.36	16.52	17.50	19.91	18.09	18.60
Imports	2.15	2.38	2.87	3.28	3.08	3.41
Exports	7.42	7.80	8.84	9.68	8.79	8.93
Net trade	5.27	5.41	5.97	6.41	5.71	5.52
Apparent consumption	10.09	11.11	11.52	13.50	12.38	13.08
<b>Russian Federation</b>						
Production	16.68	15.61	16.64	17.46	17.50	18.33
Imports	0.33	0.01	0.00	0.00	0.00	0.00
Exports	4.78	4.63	6.13	7.37	7.10	7.24
Net trade	4.45	4.63	6.12	7.37	7.10	7.24
Apparent consumption	12.22	10.98	10.51	10.09	10.40	11.09
<b>North America</b>						
Production	104.86	105.11	111.70	110.53	106.02	106.60
Imports	31.20	31.83	32.81	33.26	34.20	34.25
Exports	37.31	36.06	37.18	37.19	36.60	37.34
Net trade	6.11	4.23	4.37	3.93	2.40	3.09
Apparent consumption	98.75	100.88	107.34	106.60	103.62	103.50

<sup>1</sup>The Timber Committee's forecast trend for 2001 to 2002 made at the October 2001 session was applied to the 2001 figure.

Source: UNECE/FAO TIMBER database 2002.

## 7.2 Europe

The general upswing of European consumption and production of sawn softwood (high quality sawnwood in particular) witnessed over the last few years came to a halt in 2001. This was unexpected by the UNECE Timber Committee, who witnessed a weaker than expected demand for sawn softwood products. Overall, consumption of sawn softwood in Europe fell by 3.4% (table 7.1.1), with some industry experts anticipating further decreases of 1.4% in 2002. While apparent consumption for 2001 is up by 3.1% in the Russian Federation (to 10.4 million m<sup>3</sup>), this increase is more than outweighed by decreases in the EU/EFTA subregion of 2.5% (to 77 million m<sup>3</sup>) and precipitous drops in the "Other Europe" subregion of 9.0% (to 12.4 million m<sup>3</sup>).

It is useful, however, to provide some context in viewing these decreased levels of consumption. Specifically, it should be noted that European consumption levels were exceptionally high in 2000 largely because of a good economy and heightened building activity. While the economy was muted somewhat in 2001, sawn softwood consumption has generally increased in the last five years in both the EU/EFTA and "Other Europe" subregions. One important exception to the trend is a 7% decrease in consumption in Germany, the largest consumer in the subregion. This was due to the downturn in German construction discussed in an earlier chapter.

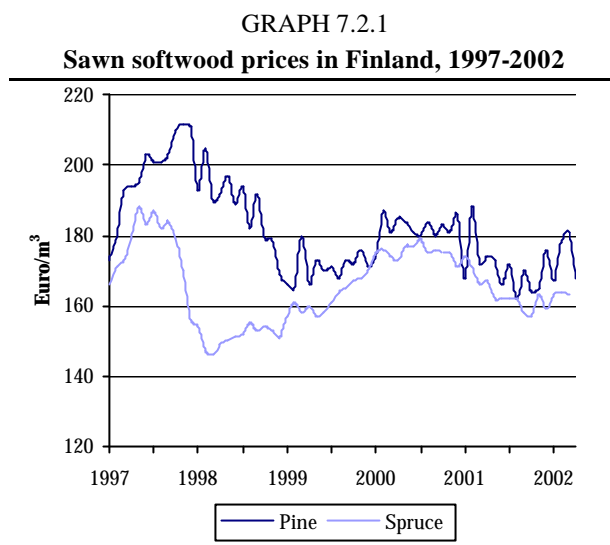
That said, in spite of the 2001 downturn, it is estimated that sawn softwood production of the top producing countries in 2001 (Germany, Sweden, Finland, Austria, France and the Baltic countries, but

excluding Russia) will continue to rise in the medium term, possibly surpassing Canadian production for the first time. This is not surprising, given that exports from these eight countries have more than doubled over the last decade.

Several factors have contributed to the sawn softwood landscape in Europe. On the upside, several key European producers, Nordic countries, Austria and Germany in particular, continue to forge strong market ties with offshore markets in Asia and North America, and continued market growth is anticipated. In addition, construction activity in Europe was progressing as expected (moderate slow downs), with the exception of Germany, the largest market, which was in steep decline. For these reasons, the market for construction grade spruce remains mixed. That said, European construction activity is expected to slow even further in 2002 and 2003, further reducing the demand of sawn softwood. One bright spot on the horizon is the growth of multi-storey timber frame buildings, especially in the Nordic countries. Another positive sign is that the pine market remains stable, with consistent demand expected from the European value-added and furniture sectors.

However, there were also several hurdles that European producers of sawn softwood faced in 2001 and early 2002. For instance, there was an acute supply shortage of high quality logs, due in part to a glut of beetle-attacked and windthrown fibre, as well as forest owners waiting for higher sawlog prices. Some industry experts argue that this shortage may have led to production reductions of 10% during 2001. In addition, there is a severe shortage of Nordic spruce as more and more Nordic producers are keeping their own stocks of high quality wood for domestic production and non-European markets, especially Japan. This has served to not only increase spruce prices across Europe (graph 7.2.1), but to open doors for competitor products ranging from steel to engineered wood products to factory-built housing.

As a result of construction slowdowns, consumption of sawn softwood decreased. European production also declined as a result of decreased logging owing to bad weather, heavy rains and flooding in 2001. Of particular note are the repercussions that have been felt throughout Europe in the wake of the catastrophic winds and hurricanes that occurred in December 1999. The hardest hit regions included France, Germany and Switzerland, and forests did not escape its wrath. Over 500,000 hectares of forests were damaged in Europe, with an estimated 300 million trees felled or the equivalent of almost 200 million m<sup>3</sup> of timber. This volume of fibre, equivalent to a three-year harvest in France, the hardest hit country, has had a considerable



Source: Metinfo, Finnish Forest Research Institute, 2002.

impact on the market landscape for sawn softwood in Europe (see table on windstorm damages in the preceding chapter). Obviously, all of this timber could not be brought to the market in 2000 – this would only have served to cripple timber prices. As a result, excess roundwood was stockpiled and continually sprayed with water or otherwise protected to prevent attack from fungi and parasites. With federal Government-imposed harvesting restrictions, most of this wood quickly came on line as many local Governments enacted policies which provided support for forest landowners and mobilized infrastructure and transportation.

Lastly, question marks still surround two issues with respect to markets for sawn softwood: 1) the impacts that forest certification will have on the European marketplace; and 2) a proposed European ban on chromated copper arsenate (CCA)-based wood preservatives. In the former case, experts generally agree that the current shortage of certified sawnwood may lead to price increases in the near future. However, if and when more and more of the forests in Russia and the Baltics become certified, and have visible chain-of-custody, this will have a considerable impact on markets and prices (see chapter 11). In the latter case, there is a distinct possibility that CCA-treated wood products will be banned across Europe, following a similar line of action taken by the Environmental Protection Agency (EPA) in the United States. The EPA has effectively banned the use of CCA in the United States by the end of 2003, because of the “unreasonable risks to the public” posed by the arsenic contained within the preservative. This is expected to have a considerable impact on the markets for treated sawnwood products. In particular, the price of treated wood is expected to increase significantly in the short

TABLE 7.2.1  
**Production of sawn softwood in the UNECE region, 1998-2001**  
*(1000 m<sup>3</sup>)*

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
EU/EFTA	69 097	71 205	75 260	73 955	-1 305	-1.7
of which:						
Sweden	14 874	14 608	15 970	15 600	-370	-2.3
Germany	13 807	14 537	15 020	14 902	-118	-0.8
Finland	12 240	12 708	13 320	12 670	-650	-4.9
Austria	8 534	9 400	10 150	10 011	-139	-1.4
France	7 197	7 257	7 568	7 670	102	1.3
Other Europe	16 523	17 496	19 906	18 090	-1 815	-9.1
of which:						
Czech Republic	3 100	3 251	3 782	3 559	-223	-5.9
Latvia	2 800	3 047	3 320	3 195	-125	-3.8
Poland	3 538	3 349	3 532	2 850	-682	-19.3
Turkey	2 101	2 280	3 033	2 391	-642	-21.2
Romania	1 456	1 845	2 077	1 805	-272	-13.1
Estonia	780	1 100	1 346	1 536	190	14.1
Lithuania	900	850	1 000	950	-50	-5.0
CIS	17 133	18 292	19 782	19 763	-19	-0.1
of which:						
Russian Federation	15 610	16 635	17 460	17 500	40	0.2
North America	105 106	111 704	110 526	106 023	-4 502	-4.1
Canada	46 158	49 361	49 382	46 673	-2 708	-5.5
United States	58 948	62 343	61 144	59 350	-1 794	-2.9

Source: UNECE/FAO TIMBER database, 2002.

term, as viable alternatives to CCA-based wood preservatives are developed and implemented. Recent actions in Germany and Sweden have led many European timber traders to believe that a Europe-wide ban is not far off and, if such a ban is imposed, this no doubt will result in similar price increases for treated wood in Europe. This is yet another example of how environmental policies can affect timber markets.

### 7.2.1 EU/EFTA subregion

In 2001, production of sawn softwood in the EU/EFTA subregion of Europe (excluding the Nordic countries) remained fairly robust despite a general flattening of the economy (table 7.2.1). This is in stark contrast to the major production gains observed in the previous year. Output has decreased marginally in two major sawn softwood producing countries, Germany (down 0.8% to 14.9 million m<sup>3</sup>) and Austria (down 1.4% to 10.0 million m<sup>3</sup>). In addition, decreases are noted in Belgium, Ireland, Italy, Portugal and

Switzerland. Production increases were seen in France (up 1.3% to 7.7 million m<sup>3</sup>), as well as in the United Kingdom (up 2.8% to 2.5 million m<sup>3</sup>).

As in 2000, the vast majority of the production in this region of Europe is used domestically or traded within Europe (table 7.2.3), with the exception of Austria and Germany, which continue to find success in the offshore markets of the United States and Japan. This represents a continuation of the movement towards self-sufficiency on the part of European producers in the wake of heated construction activity and value-added production. Despite this trend, the countries such as United Kingdom, Germany, France, Italy, Denmark and Spain still rely on imports of sawn softwood. In particular, the Nordic countries and, to a lesser extent, Canada and the United States, continue to be significant suppliers of sawnwood. In addition, Chile and Brazil continue to have a marked presence in Spain, the United Kingdom and Italy.

TABLE 7.2.2  
Exports and imports of sawn softwood in the UNECE region, 1998-2001  
(1,000 m<sup>3</sup>)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
<b>EXPORTS</b>						
EU/EFTA	29 047	30 092	32 328	31 257	-1 071	-3.3
of which:						
Sweden	10 975	11 060	11 022	10 794	-228	-2.1
Finland	8 204	8 269	8 405	8 114	-292	-3.5
Austria	4 752	5 652	6 195	6 136	-58	-0.9
Germany	2 223	1 891	3 295	2 980	-315	-9.6
France	511	529	724	719	-6	-0.8
Belgium	...	602	678	595	-82	-12.1
Other Europe	7 796	8 840	9 685	8 792	-892	-9.2
of which:						
Latvia	2 250	2 447	2 635	2 417	-218	-8.3
Czech Republic	1 231	1 480	1 701	1 596	-105	-6.2
Romania	1 210	1 494	1 677	1 344	-333	-19.8
Estonia	690	816	912	944	32	3.5
Slovakia	735	681	683	616	-68	-9.9
Poland	705	722	785	522	-263	-33.5
Lithuania	501	517	619	521	-98	-15.8
CIS	4 898	6 699	8 593	8 303	-290	-3.4
of which:						
Russian Federation	4 632	6 125	7 373	7 099	-274	-3.7
North America	36 061	37 175	37 190	36 600	-590	-1.6
Canada	33 982	34 852	35 011	35 082	71	0.2
United States	2 079	2 323	2 179	1 518	-661	-30.3
<b>IMPORTS</b>						
EU/EFTA	35 739	33 847	36 089	34 338	-1 751	-4.9
of which:						
United Kingdom	6 490	6 604	7 308	7 180	-127	-1.7
Italy	5 274	5 551	6 304	5 948	-356	-5.6
Germany	5 301	4 705	5 522	4 103	-1 419	-25.7
Denmark	4 046	4 569	3 346	4 092	746	22.3
Netherlands	2 923	2 911	2 957	2 957	0	0.0
France	2 237	2 446	2 682	2 657	-24	-0.9
Other Europe	2 384	2 868	3 278	3 079	-199	-6.1
of which:						
Hungary	659	733	977	977	0	0.0
Israel	369	383	334	334	0	0.0
Yugoslavia	275	412	350	296	-55	-15.6
Poland	140	174	219	253	34	15.5
Lithuania	189	237	260	226	-34	-13.0
Czech Republic	158	169	219	226	7	3.2
CIS	211	659	979	1 042	63	6.4
of which:						
Russian Federation	6	4	4	3	-1	-25.0
North America	31 830	32 810	33 263	34 195	932	2.8
Canada	445	535	554	394	-160	-28.9
United States	31 385	32 274	32 709	33 802	1 093	3.3

Source: UNECE/FAO TIMBER database, 2002.



TABLE 7.2.3  
Sawn softwood direction of trade, 2000  
(1,000 m<sup>3</sup>)

Major Exporters	Major Importers										United States	Japan	Other	TOTAL World
	United Kingdom	Italy	Germany	Netherlands	France	Denmark	Austria	Spain	Other Europe	Sub-TOTAL				
Sweden	2,261	246	1,506	891	460	1,305	30	606	1,361	8,666	161	715	1,646	11,188
Finland	1,342	218	873	569	727	566	108	216	444	5,063	54	847	2,441	8,405
Austria	11	3,945	629	20	7	0	-	2	39	4,653	155	564	823	6,195
Russian Federation	552	384	520	468	374	90	169	164	558	3,279	28	802	3,264	7,373
Latvia	1,745	10	263	163	97	72	1	40	105	2,496	11	20	108	2,635
Germany	35	276	...	190	342	43	316	46	297	1,545	184	31	15	1,775
Czech Republic	16	286	558	16	1	0	606	2	53	1,538	58	48	57	1,701
Poland	13	62	422	110	26	43	17	35	41	769	0	1	15	785
Estonia	261	11	137	87	125	36	6	10	80	753	2	7	150	912
Romania	0	47	40	4	7	0	36	17	447	598	0	0	1,078	1,676
Sub-Total	6,236	5,485	4,948	2,518	2,166	2,155	1,289	1,138	3,425	29,360	653	3,035	9,597	42,645
Canada	264	80	52	50	36	4	0	3	115	604	42,285	5,134	905	48,928
United States	30	74	46	11	42	2	0	171	31	407	...	710	2,104	3,221
Chile	51	4	0	3	0	0	0	27	4	89	575	540	474	1,678
Brazil	15	32	1	12	13	0	0	95	13	181	674	4	417	1,276
New Zealand	4	0	0	0	0	0	0	0	0	4	353	270	894	1,521
Other	524	512	13	31	419	137	179	700	1,176	3,691	870	0	1,229	5,790
<b>TOTAL World</b>	<b>7,124</b>	<b>6,187</b>	<b>5,060</b>	<b>2,625</b>	<b>2,676</b>	<b>2,298</b>	<b>1,468</b>	<b>2,134</b>	<b>4,764</b>	<b>34,336</b>	<b>45,410</b>	<b>9,693</b>	<b>15,620</b>	<b>105,059</b>

*Note:* AUT = Austria, BEL = Belgium, BRA = Brazil, CAN = Canada, CHE = Switzerland, CHL = Chile, CHN = China, CZE = Czech Republic, DEU = Germany, ESP = Spain, EST = Estonia, FIN = Finland, FRA = France, GAB = Gabon, GBR = United Kingdom, HRV = Croatia, HUN = Hungary, IDN = Indonesia, ITA = Italia, JAP = Japan, KOR = Republic of Korea, LVA = Latvia, MAL = Malaysia, MEX = Mexico, MYS = Malaysia, NLD = Netherlands, NOR = Norway, NZL = New Zealand, PNG = Papua New Guinea, POL = Poland, P.o.C = Province of China, PRT = Portugal, RUS = Russian Federation, SVK = Slovakia, SWE = Sweden, THA = Thailand, USA = United States, ZAF = South Africa.

*Source:* UN COMTRADE/EFI, 2002.

Sawn softwood production in the Nordic countries for 2001 was down across the board from the high levels seen in 2000 (table 7.2.1). Finland's record production levels of 2000 have decreased by 4.9% to approximately 12.7 million m<sup>3</sup>, while Sweden has seen decreases of 2.3% to 15.6 million m<sup>3</sup>. Norway too has seen its production eroded by 1.2%, continuing a slight five-year downward trend. However, Norwegian production destined for domestic and European markets is facing stiff challenges, especially in export markets as interest rates have increased and the Norwegian krona has strengthened. Still, overall production in the Nordic countries remains robust, with sawn softwood production levels in Sweden and Finland generally higher than the output for the period between 1997 and 1999. The decreases in sawn softwood production for the Nordic countries correspond with a general rationalizing and downsizing of the industry as the global economic picture continues to worsen. For example, in Sweden the number of mills producing more than 5,000 m<sup>3</sup> annually has decreased from 300 five years ago to 240 today as consolidation continues. In addition, increased competition from central Europe and Russia resulted in downward pressure on prices and decreased profits in 2001, although prices for spruce and pine are seen to be recovering in 2002 (see graph 7.2.1). Although the overall number of sawmills is decreasing, this has been mitigated somewhat by larger sawmills increasing their production levels as well as an increased focus on value-added manufacturing, specialty products and service provision by vertically integrated interests. For these reasons, higher proportions of spruce stocks are being kept within the Nordic countries either for domestic consumption or for exports of glue laminated timber (or components) to Japan.

Despite these production setbacks, Sweden and Finland remain the two highest volume exporters of sawn softwood in Europe, with 2001 export levels of 10.8 and 8.1 million m<sup>3</sup>, respectively (table 7.2.2). That said, exports in 2001 have decreased by 2.1% in Sweden and 3.5% in Finland to the lowest levels since 1997. While the major export destinations of Nordic sawn softwood continue to be within Europe, exports to central Europe and the United Kingdom are generally stagnant as competition from "Other Europe" producers, especially the Baltic States, and Russia continues to gain momentum. The emerging expansion of Nordic sawn softwood market share into offshore markets like Japan and the United States continues to make great strides, with sales into these markets exceeding the impressive gains made in 2000. In 2001, Nordic countries exported 420,000 m<sup>3</sup> and 1,600,000 to the United States and Japan, respectively.

## 7.2.2 Other Europe subregion

"Other Europe" producers of sawn softwood (including the Baltic countries as detailed below) continue to maintain a market presence, accounting for nearly 20% of the total European output or approximately 18 million m<sup>3</sup> (table 7.2.1). Overall, 2001 production from these regions is down 9.1% over the previous year, with the largest losses being seen in the central and eastern European nations of Poland (down 19.3%) and Romania (down 13.1%), as well as in Turkey (down 21.2%). The other major producer, the Czech Republic, fared somewhat better with production decreases of only 5.9%. It is useful to put these results into perspective by noting the massive gains in sawn softwood production made in 2000. This was especially prevalent in eastern Europe as these countries began to accelerate out of the transition period and re-establish themselves as key producers of sawn softwood by building up infrastructure and developing their sawmill sectors. Similar trends are noted for lower volume producers of sawn softwood like Slovakia, Slovenia, Bulgaria and Hungary.

While the Baltic countries make up more than half of the total sawn softwood production in eastern Europe, the remaining eastern European countries have significant production totalling 9.6 million m<sup>3</sup> for 2001. However, in terms of exports, the non-Baltic eastern European producers have significantly lower levels than those of Latvia alone (table 7.2.2). That said, the Czech Republic and Romania continue to be actively involved in export markets – mostly within Europe – with volumes of 1.6 m<sup>3</sup> and 1.3 million m<sup>3</sup>, respectively. However, much of the decreased production of sawn softwood in eastern Europe can be attributed to western European export markets falling off. In 2001, the Czech Republic, Romania and Poland experienced decreases in export volumes of 6.2%, 19.8% and 33.5%, respectively. These declines in the "Other Europe" subregion can be explained in large part by the precipitous drop of 7.1% in German apparent consumption in 2001. In 2000, exports from "Other Europe" regions grew at a more rapid rate than the EU/EFTA countries (9.5% versus 7.4%). In 2001, the rates of decline in exports were more divergent, down 3.3% for EU/EFTA and down 9.2% for "Other Europe".

### 7.2.2.1 Baltic countries

Sawn softwood production in 2001 has increased slightly in the Baltic countries together, but varied by country (table 7.2.1). Output from the major producer, Latvia, fell by 3.8% from the previous year to 3.2 million m<sup>3</sup>. Similar trends were observed in Lithuania, where production was down 5.0% to 950,000 m<sup>3</sup>



because of changes in log supply related to the 1999 windstorms. In early 2000 following the storm, damaged spruce was removed quickly from forests to avert insect infestation (to both windthrown timber, and adjacent healthy stands). The drop in quality sawlog supply translated into a loss in production.

However in contrast, Estonia's production increased in 2001, by 14% or nearly 200,000 m<sup>3</sup>, based on a national estimate. This means that Estonian production of sawn softwood has doubled over the last four years, to reach 1.5 million m<sup>3</sup>. It is difficult to gauge any long-term trends in this region, as production levels from year to year have been extremely volatile. Some of the volatility is due to availability of domestic logs because of the on-going restitution of private forestland, and the other part depends on the availability of logs from the CIS, mainly Russia.

A major factor impacting Baltic production in mid-2001 has been the heavy rains, which effectively slowed logging down in this region, leaving mills with a shortfall of higher-priced sawlogs and decreased shipments. In addition, intense competition from the Nordic countries has resulted in further downward price pressures and mill shutdowns. That said, Baltic countries continue to have a marked competitive advantage over Nordic countries in some markets in that their strategic focus is still on the production of lower-priced unseasoned and ungraded sawn carcassing (which face possible phytosanitary restrictions). The United Kingdom remains the major destination for this non-dried wood, despite sector-wide efforts to move towards kiln-dried and value-added timber products. While exports of sawn softwood from Latvia and Lithuania have decreased substantially (down 8.3% and 15.8%, respectively), Estonia has made gains in the order of 3.5%, bringing its 2001 exports up to an all time high of 944,000 m<sup>3</sup> (table 7.2.2). The major importing countries for Baltic timber remain the United Kingdom, Germany, Netherlands and France. However, markets for sawn softwood in these countries, with the exception of the United Kingdom, are weakening with a general softening of the economy in many parts of Europe.

The Baltic countries have also exported sawnwood to the North America. For Lithuania, growing North American exports, 24% share in 2001 (and based on first 5 months of 2002, a 28% share), have been second only to Germany. "North America" must be specified, because an increasing share is being exported to (or through) Canada because Lithuania's largest sawmill, Pajurio Mediena, is Canadian-owned. The 40% increase in Lithuanian exports to North America must be combined with a 60% increase to the United Kingdom, the third export destination. Part of the

reason for this increase is due to a more favourable currency exchange since 1 February 2002 when the Lithuanian litas (LTL) was pegged to the euro at 1 euro per 3.45 LTL, rather than the former standard, the United States dollar which was \$1 per 4 LTL. Lithuania's exports fell heavily in 2001, by 15.8%, due to two reasons: 1. changes in log supply, and 2. growing exports of value-added products (joinery, pallets and pre-fabricated houses) (Lithuanian Centre of Forest Economics, MEC). The Lithuanian Centre of Forest Economics expects exports to rebound in 2002, by 10 to 20%, owing to: 1. favourable exchange rates, 2. good demand from the United States and United Kingdom, and 3. satisfactory log supply, supplemented by more windstorms in January and July 2002, with 0.5 million m<sup>3</sup> damage in spruce stands.

Estonian exports could also increase in 2002, based on first quarter statistics reports showing exports to United Kingdom up 20%, to Egypt down 18% and to Germany up 100% (these were Estonia's 3 major markets in descending order in 2001) (*EUWID*, 2002). Conversely, Latvia's exports decreased in the first quarter of 2002, by 10%, down to 518,000 m<sup>3</sup> (*EUWID*, 2002). In 2001, Latvia's major export destinations, in descending order, were the United Kingdom, Germany, the Netherlands, Egypt, Denmark, Ireland and France. Japan imported 35,000 m<sup>3</sup> from Latvia in 2001, up from 22,000 m<sup>3</sup> in 2000. The fall in first quarter exports from Latvia is attributed to a log shortage following a large increase in sawmilling capacity (*EUWID*, 2002). This was confirmed by an increase in imports of spruce sawlogs from Lithuania in the first quarter of 2002 by the Lithuanian Centre of Forest Economics.

Some major trends in the Baltic countries worth noting include the fact that these regions continue to import lower cost Russian logs to supplement their own domestic supplies. These volumes may increase as there is talk of lowering transportation costs (in Latvia, for instance) through a liberalization of tariffs. The rationalization of sawmills that was prevalent in 2000 when smaller, less-efficient mills were sold off to larger joint ventures, continued in 2001. For example, a vertically integrated partnership between enterprises in Latvia, the United Kingdom and Russia is currently being discussed and would incorporate state-of-the-art German technologies in the manufacture of pine timber products. Lastly, there has been a general strengthening of the Baltic economies, which are candidates for European Union membership. This, no doubt, would serve to improve their market presence for sawn softwood.

### 7.2.3 Intra Europe trade (including CIS)

Approximately 69% of all European imports (29.3 million m<sup>3</sup>) of sawn softwood originated within Europe (including the CIS subregion) in 2000<sup>4</sup>, which represents an increased volume of 2% over the previous year. However, the amount of sawn softwood that was traded within Europe as a proportion of total production decreased from a level of 71% in the previous year. This anomalous result can be easily explained by the fact that the year 2000 saw production increases across the board coupled with the emergence and growth of markets for sawn softwood outside of Europe (the United States and Japan in particular). Increased levels of intra Europe trade are currently not expected for three reasons: 1) continued successes with new found offshore markets; 2) the flattening out of the European economies; and 3) an increasing trend towards self sufficiency as countries move further and further up the wood products value-chain to meet domestic demand for consumer products.

The major exporting countries remain Sweden, Finland and Austria, followed by the Russian Federation, Latvia and Germany. The major importing countries for wood originating in Europe were the United Kingdom, Italy and Germany (table 7.2.3, 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 markets within close proximity (Italy and Germany). An interesting trend carrying over from previous years is that some European regions, the Nordic countries in particular, are shipping some of their higher quality wood to more lucrative offshore markets resulting in a supply shortage of the highest-quality sawnwood for intra Europe trade. This has been offset somewhat by major sawnwood producing regions procuring logs from the Russian Federation and the Baltic countries to serve the rest of the "European" marketplace. This trend is expected to change as Russia and the Baltic countries are strategically poised to move up the value-chain by increasing their domestic production of higher value timber products. Currently, Russian and the Baltic countries have maintained sizable markets in the United Kingdom, Germany and France, with Russia also serving Italy and the Netherlands.

<sup>4</sup> It should be noted that at the time of writing this chapter, 2001 trade flow data were not yet available. This particular analysis relies on 2000 data from the FAO *Forest Products Yearbook*, 2000. Note that the EU/EFTA, "Other Europe" and the CIS subregions have been incorporated into the analysis on intra Europe trade.

Austria, the third largest intra Europe exporter, continues to maintain a large market presence in neighbouring Italy and in Germany. Germany is one of the leading European producers of sawn softwood, but it continues to trade proportionately little of its production, opting instead to bolster its own domestic production of sawnwood, value-added wood products and furniture. Lastly, growth of the "Other Europe" sawn softwood producers continues to be robust, with the Czech Republic maintaining its strong market presence in Germany and Austria, Poland concentrating on Germany and the Netherlands and Romania creating successful market niches by supplying several smaller markets within Europe like Hungary and Greece.

The UNECE region trade of sawn softwood represents 84% of the global trade. The greatest change in trade flows has been the increased trade from the CIS subregion to non-UNECE regions (graph 7.2.2).

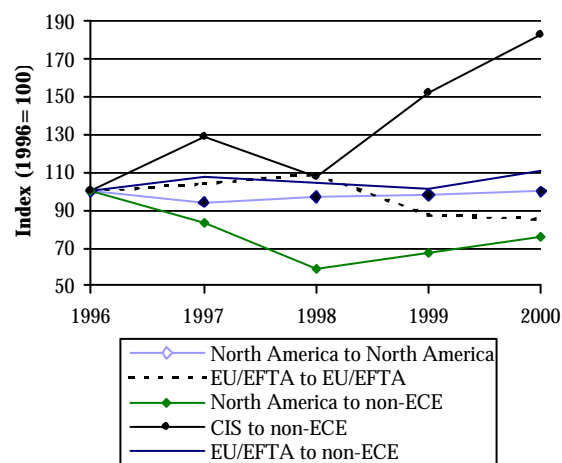
#### 7.2.4 European trade with Japan

Sawn softwood exports from Nordic countries, Austria, and Germany continue to witness impressive gains in Japan. This has been due, in part at least, to favourable exchange rates relative to competing regions of North America. It will be very interesting to see if this will remain to be the case given recent increases in the euro relative to United States /Canadian currencies. For a more detailed analysis of Japanese sawn softwood import trends, see section 7.5.

### 7.3 CIS subregion

CIS countries continue to undergo significant

GRAPH 7.2.2  
Major sawn softwood trade flows in the UNECE region, 1996-2000



Source: UN COMPTRADE/EFI, 2002.

structural changes since the fall of the USSR, and the sawn softwood industry is by no means immune to these uncertainties. The largest producer of sawn softwood, the Russian Federation, remains in a slump relative to the huge volumes that were produced in the late 1980s and early 1990s. However, marginal gains have been made in sawn softwood production for 2001, with output increasing by 0.2% over 2000 to 17.5 million m<sup>3</sup>, a new five year high. In addition, some regions within Russia, Siberia in particular, are thriving with reported production gains exceeding 25% (suggesting that the overall increase in the Russian Federation is not uniform between all regions). While Russian exports of sawn softwood are down 3.7% over 2000 to 7.1 million m<sup>3</sup>, these levels are an improvement over those seen in the mid-1990s and exports remain an integral part of the Russian sawn softwood industry (third only on the European continent to Sweden and Finland). Furthermore, according to Russia's Ministry of Natural Resources, export profits are estimated to be up by 12% over 2000, partly due to a weaker rouble. This trend is expected to continue as more and more Russian production is bound for Chinese and Japanese markets. This will continue to complement Russia's maintained presence in established European markets (the United Kingdom, Germany, Netherlands, Italy and France) and other CIS countries, where demand is expected to remain strong.

Despite increases in sawn softwood production and exports from the Russian Federation, there is a general consensus that the sawmilling sector is in need of capital expansion and technology improvement (to replace outdated equipment) in order to sustain growth over the long term. Furthermore, there is an urgent need for restructuring of the timber sector and improved management systems. There are encouraging signs within the Russian Federation, not the least of which are initiatives to move up the value-chain from commodity wood products to finished and specialty products and to increase logging capacity through infrastructure improvement, better forest management practices and a crackdown on illegal logging. In addition, continued inward and foreign investment remains strong, with several new pilot projects and joint ventures currently underway. Lastly, according to the Russian government sources, production costs for Russian timber are currently less than Nordic or North American sawn softwood for a variety of reasons. Some of these cost savings can be attributed to the fact that Russian forests are not yet certified. The Government has stated that certification of Russian forests is imminent in so much as it is a requirement to entry into the export marketplace. In fact, the Russian Federation, as in previous years, is poised to recover its

position as a major competitive force with the potential to have a significant impact on global production, consumption and trade patterns of sawn softwood. To that end, there have been recent expressions of intent at the highest political level in achieving the full potential of Russia's timber sector.

## 7.4 North America

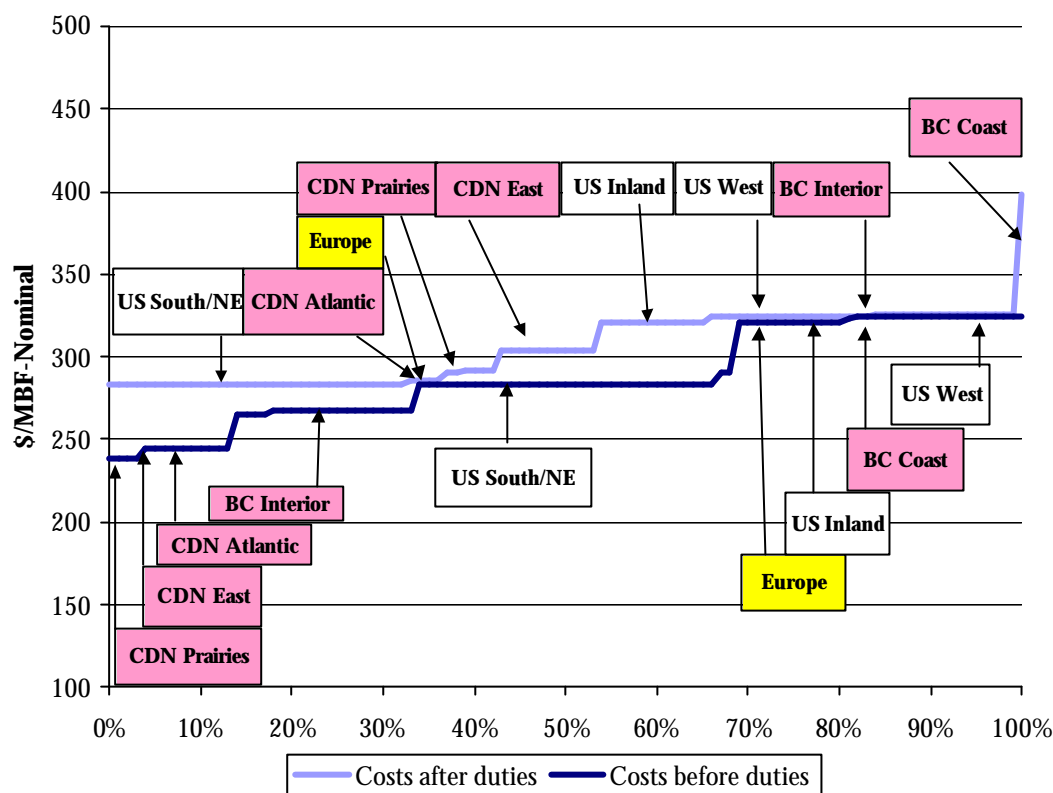
With annual Canadian exports to the United States of over 30 million m<sup>3</sup>, North America with total exports of 36.6 million m<sup>3</sup> remains the largest trading block for sawn softwood in the world (followed by EU/EFTA at 31.3 million m<sup>3</sup> of exports). Fuelled by the continued strength of the United States economy, sawn softwood exports from Canada to the United States again made all-time highs in 2001, for the 4th year in a row. Given the combined tariff (countervailing and anti-dumping) of 27.2% on sawn softwood under the new Canada / United States Softwood Lumber Trade Agreement (SLTA), effective as of the end of May 2002, it will be most interesting to see how much shipments will be affected for the year. It will also be interesting to see the degree to which the United States continues to diversify their supply, primarily with South American and European sawnwood.

With the announcement in March 2002 by the United States Department of Commerce that the countervail rate would take effect on 22 May 2002, a flurry of Canadian exports of sawn softwood was witnessed. Shipments exceeded 15.5 million m<sup>3</sup> for January through April, up 7% from the same period last year for an all time record (the 1997 to 2001 average was 13.7 million m<sup>3</sup>). In addition for the same period from 2000 to 2001, the United States West saw a 9% production increase, the United States South saw a 7% increase, and non-Canadian imports increased by 55%. It is, therefore, not surprising that the United States found itself in an over-supply situation, leading to softening prices, in spite of continued strong demand. Housing starts for January to May 2002 are 4% above 2001's already impressive starts for the same period.

In the period of time between 22 May and 28 June 2002, the Canada Department of Foreign Affairs and International Trade has reported that Canadian shipments of sawn softwood have dropped 25% compared to the same period in 2001. Regionally, the decreases were 17% for British Columbia, 45% for Ontario, and 49% for Quebec. Note, however, that much of this drop can be attributed to the heightened shipments leading up to the 22 May initiation of the agreement. The real test of the effect of the duties on trade will be most felt during the seasonal autumn slowdown in United States housing construction.

GRAPH 7.4.1

## Forecast price consequences of the Canada/United States Softwood Lumber Trade Agreement, 2002



**Note:** Prices are delivered to the United States on a 2x4 basis. CDN is Canada. BC is British Columbia. NE is the northeast region of the United States. MBF is thousand board feet. % = of United States sawn softwood consumption (53.7 billion BF).

**Source:** R.E.Taylor & Associates, Ltd, 2002.

Canada has appealed the United States duty levy with the World Trade Organization, whose interim report is due out in July 2002. It is generally felt that, if the WTO findings favour Canada's position, it may pave the way to rekindle a negotiated settlement between the two countries. Canada has also filed appeals with a North American Free Trade Agreement panel, but their findings are not expected before sometime in 2003. Regardless of the outcome, it is likely that Canadian producers will continue to lower their reliance on the United States commodity sawn softwood market, in part geographically, but mostly through further processing / value-addition of United States bound products within Canada.

It is worth noting that under the SLTA there will be a change in the cost structure of the regional supply areas within North America as forecast by R.E. Taylor & Associates (graph 7.4.1). The United States South becomes the low-cost producer, and the British Columbia Interior (which represents over 40% of Canadian sawn softwood supply to the United States) becomes a high-cost producer. Note that their cost structure estimates suggest a flatter supply curve; i.e., a

given change in price of sawn softwood now leads to a greater supply response.

Some key trends in North America merit mention:

- Overall, apparent consumption of sawn softwood in North America continues a three-year decreasing trend. In 2001, consumption was down by 3.0% over the previous year for a total of 103.6 million m<sup>3</sup> (table 7.1.1).
- Canadian exports of sawn softwood continue to be dominated by spruce-pine-fir dimension lumber<sup>5</sup> to the United States, primarily used for housing construction and renovation. While there remained an overall rise in Canadian sawn softwood exports in 2001, gains in the shipments to the United States mask a drop in shipments to Japan (graphs 7.4.2 through 7.4.5).
- Canadian exports of further-processed sawn softwood, including mouldings, flooring, siding, cabinetry, millwork, builders' joinery, and wood

<sup>5</sup> "Dimension lumber" is standard-sized construction sawnwood, e.g., 2 x 4s.



furniture has grown dramatically during the 1990s (graph 7.4.6 shows this growth for builders' joinery, pre-fabricated components, and other products included in HS Code 4418.90).

- North America continues to enjoy considerable price premiums in offshore markets for sawn softwood, particularly Japan and Europe. This reflects a change in the product mix from construction sawnwood to higher-valued appearance sawnwood.
- United States exports of sawn softwood have declined dramatically over the 1990s, with 2001 levels at record lows of only 1.5 million m<sup>3</sup> (graphs 7.4.7 through 7.4.10). This trend in changing United States sawnwood production has been due to strong domestic demand and roundwood supply reductions in the United States West in the early 1990s (table 7.4.1).
- United States imports, while dominated by Canadian supply, are increasingly being diversified to other sources (graphs 7.4.11 through 7.4.13), most notably plantation-based sawnwood from South America and New Zealand. Nordic countries' supply of sawn softwood continues to make inroads into this large market, as does timber from other parts of Europe, most notably Germany and Austria (see the "other" category in graph 7.4.12). Diversification of United States import sources continued increasing from January 2002 to April 2002 compared to the same period one year earlier (table 7.4.2).
- United States sawn softwood usage has changed over the last decade with more sawnwood going into new residential construction, both in volume and percentage terms. Industrial wood usage, e.g., for pallets, has remained constant at approximately one quarter of sawnwood use. Estimates by the USDA Forest Service indicated that the manufacturing slowdown in the United States in 2001 resulted in a drop of approximately 0.8 million m<sup>3</sup> in sawnwood consumption from this "industrial wood usage" category (table 7.4.3).

TABLE 7.4.1  
United States sawn softwood production by region,  
1988, 1995 and 2001  
(Million m<sup>3</sup>, nominal, %)

	1988		1995		2001 (preliminary)	
West	50.6	56%	34.2	45%	36.8	45%
South	29.9	33%	34.7	46%	37.0	46%
Other	9.5	11%	7.2	9%	7.7	9%
TOTAL	90.0	100%	76.1	100%	81.5	100%

*Note:* Table volumes in nominal dimensions do not match UNECE/FAO TIMBER database tables' volumes.

*Source:* Resource Information Systems, Inc., 2002.

TABLE 7.4.2  
United States imports of sawn softwood, January –  
April, 2001 to January – April, 2002  
(% change)

Germany	236%
Sweden	141%
Austria	84%
Russia	250%
Argentina	175%
Chile	26%
New Zealand	16%
Canada	7%
Total non-Canada	55%

*Source:* U.S. Department of Commerce, 2002.

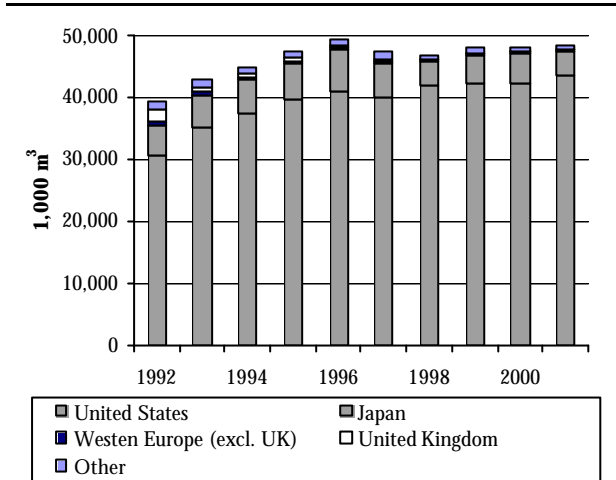
TABLE 7.4.3  
Sawnwood usage sectors in the United States,  
1991 and 2001  
(Million m<sup>3</sup>, %)

	1991		2001 (estimated)	
New residential construction	33.3	34%	54.4	41%
Repair and renovation	34.2	35%	38.4	30%
Non-residential construction	6.6	7%	5.8	5%
Industrial wood usage	24.5	24%	29.7	24%
Total	98.6	100%	126.3	100%

*Source:* Resource Information Systems, Inc., 2002.

GRAPH 7.4.2

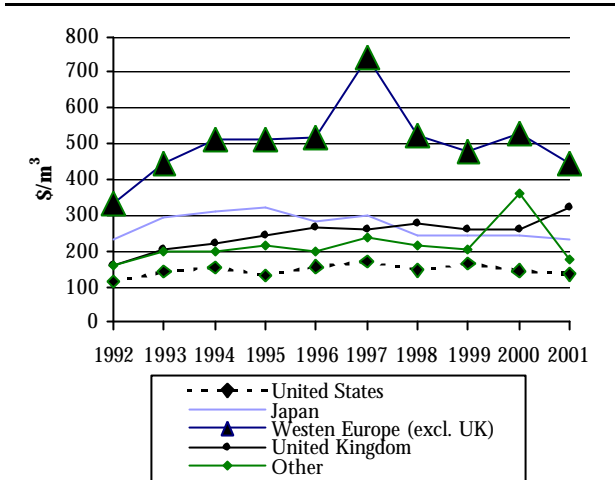
Canadian exports of sawn softwood, by destination and volume, 1992-2001



Source: Statistics Canada, 2002.

GRAPH 7.4.3

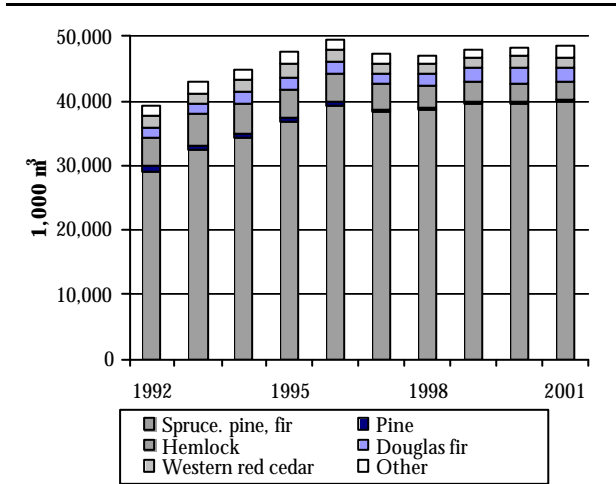
Canadian exports of sawn softwood, by destination and unit value, 1992-2001



Source: Statistics Canada, 2002.

GRAPH 7.4.4

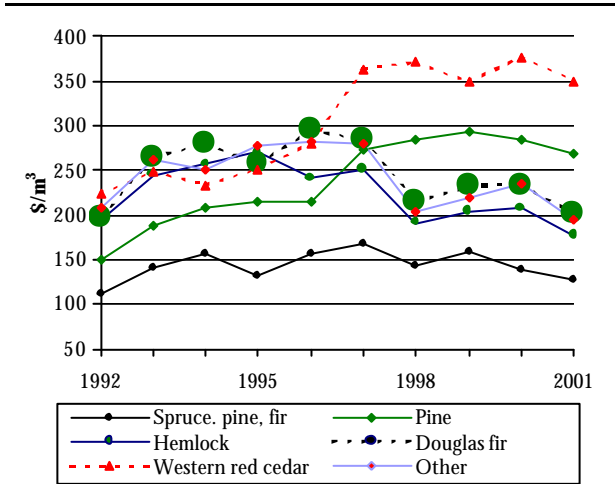
Canadian exports of sawn softwood, by species and volume, 1992-2001



Source: Statistics Canada, 2002.

GRAPH 7.4.5

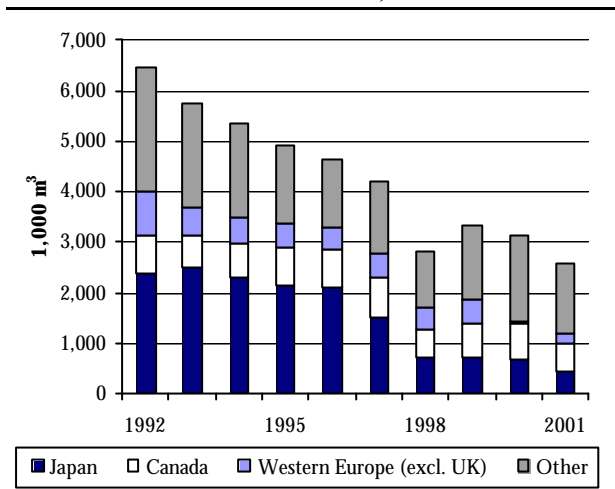
Canadian exports of sawn softwood, by species and unit value, 1992-2001



Source: Statistics Canada, 2002.

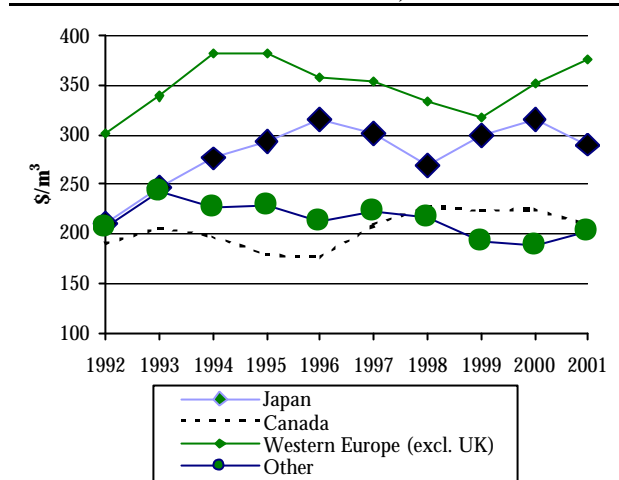


**GRAPH 7.4.7**  
**United States exports of sawn softwood, by destination and volume, 1992-2001**



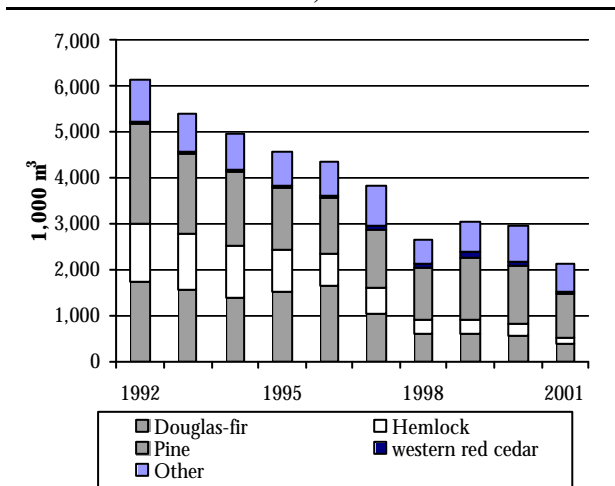
Source: United States Bureau of Census, 2002.

**GRAPH 7.4.8**  
**United States exports of sawn softwood, by destination and unit value, 1992-2001**



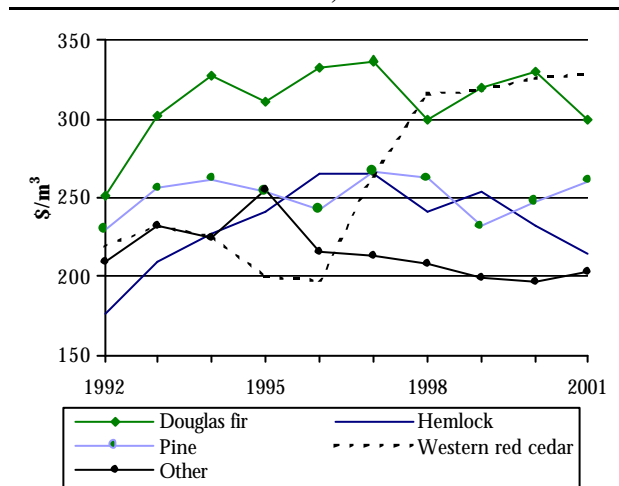
Source: United States Bureau of Census, 2002.

**GRAPH 7.4.9**  
**United States exports of sawn softwood, by species and volume, 1992-2001**



Source: United States Bureau of Census, 2002.

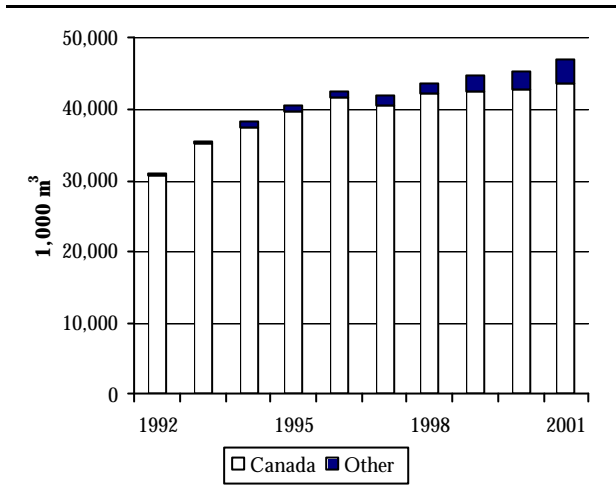
**GRAPH 7.4.10**  
**United States exports of sawn softwood, by species and unit value, 1992-2001**



Source: United States Bureau of Census, 2002.

GRAPH 7.4.11

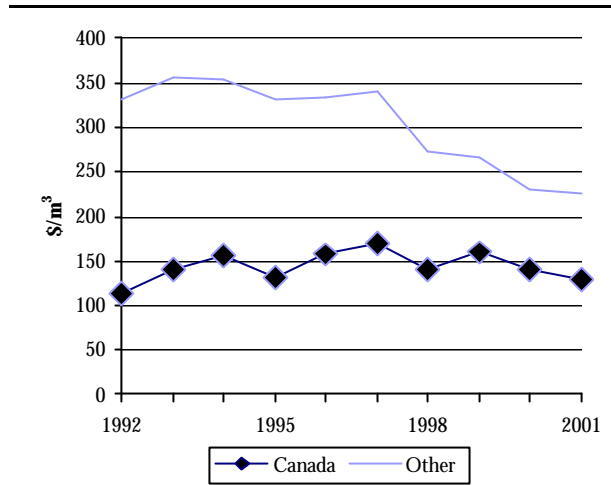
United States imports of sawn softwood, by source and volume, 1992-2001



Source: United States Bureau of Census, 2002.

GRAPH 7.4.12

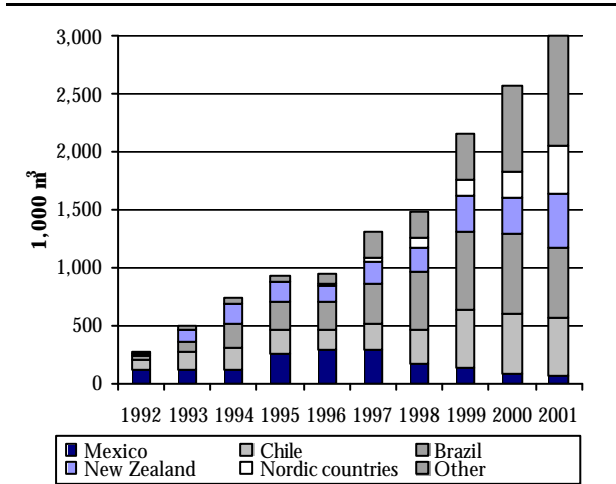
United States imports of sawn softwood, by source and unit value, 1992-2001



Source: United States Bureau of Census, 2002.

GRAPH 7.4.13

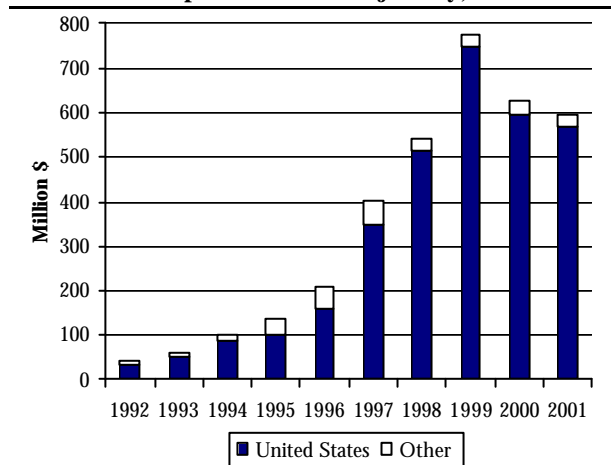
United States imports of sawn softwood (less Canada) by source and volume, 1992-2001



Source: United States Bureau of Census, 2002.

GRAPH 7.4.6

Canadian exports of builders joinery, 1992-2001



Source: Statistics Canada, 2002.

## 7.5 Japan

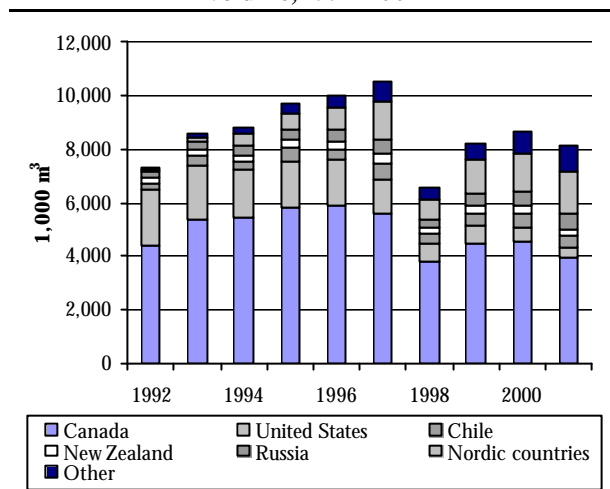
The demand for sawn softwood is dominated by three regions globally; North America, Europe and Japan. Like North America, Japan has a long history of building wooden single family homes outside of the large urban centres, and this represents the major end-use of Japan’s domestically produced and imported sawn softwood. Unlike North America, however, there is little repair and renovation wood use, although this is beginning to emerge<sup>6</sup>. Wood for interior applications represents the next largest wood use.

Some key trends in Japan worth noting:

- While overall sawn softwood imports have increased since the 1998 political and economic crisis lows, Japan’s economy remains sluggish, and housing starts are not expected to return to their 1990s peaks.
- Nordic countries, Austria and Germany have gained impressive market share for sawn softwood, approaching 2.5 million m<sup>3</sup> in 2001 (graph 7.6.1 and 7.6.2 (note Austria and Germany make up the largest portion of “other”). This has mostly been at the expense of United States’ supply. Canada’s market share has been fairly stable by volume, due in part to the favourable exchange rate compared to the United States dollar.
- Price premiums remain at modest levels for North American sawn softwood compared to Nordic countries’ sawn softwood (average prices over all species; Nordic countries’ shipments are dominated by a single species, spruce). Price discounts remain for sawn softwood from New Zealand (primarily radiata pine) and Russia (see graph 7.6.2.).
- Japan continues to move towards pre-cut components for its home building, which has greatly reduced its demand for green sawn softwood in favour of kiln-dried sawnwood.
- The use of glulam continues to rise dramatically. This point, combined with the previous point and the fact that Japan has a shortage of drying capacity, have created a large demand for kiln-dried sawn softwood as furnish for domestic glue laminated production (“lam stock”). In fact, a large proportion of the sawn softwood imported from Europe is for this end use.
- More than ever before, Japan has become incredibly price conscious, both for structural wood products and for interior finish components. For the latter, this has included a much greater use of

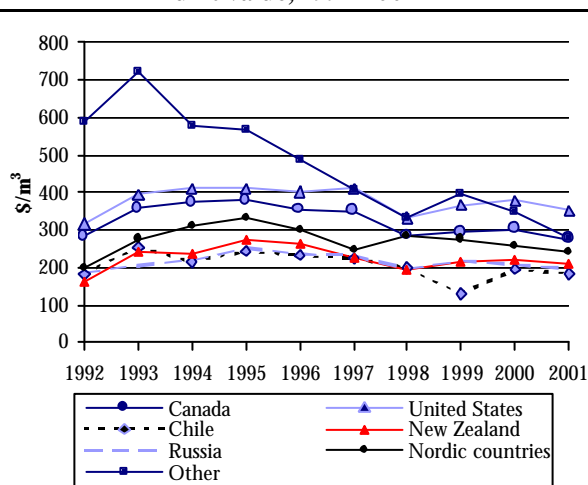
veneer-wrapped edge-glued panels as opposed to the more traditional clear, solid sawnwood. The overall volume of sawn softwood use is not expected to change significantly in the coming year, but the product mix (and possibly source) is expected to continue its evolution.

GRAPH 7.6.1  
Japanese imports of sawn softwood by source and volume, 1992-2001



Source: Japan Tariff Association, 2002.

GRAPH 7.6.2  
Japanese imports of sawn softwood, by source and unit value, 1992-2001



Source: Japan Tariff Association, 2002.

<sup>6</sup> The average life expectancy of a single family house in Japan has been less than 30 years, creating little demand for repair and renovations.

## 7.6 Summary

Given the rather significant market slowdown in Europe for sawn softwood in 2001, the UNECE Timber Committee estimates for 2002 were, not surprisingly, conservative. It should be noted that the Committee's forecasts, on the basis of official data supplied by Governments, were made in October 2001, in a period of great economic uncertainty following the 11 September 2001 terrorist attacks on the United States. Modest growth in production, imports and exports are anticipated in 2002 across all European regions. Nordic countries exports outside of the EU/EFTA countries may be dynamic in the coming year due to recent strengthening of European and Japanese currencies relative to the United States and Canada.

While it was suggested in last year's *Review* that the Softwood Lumber Agreement between Canada and the United States would, in all likelihood, negatively impact sawn softwood production and trade flows, such was not the case; 2001 Canadian trade to the United States was actually slightly higher than in 2000! It will be interesting to see what happens in 2002 with the new combined countervailing and anti-dumping duties. Regardless of outcome of the new trade dispute, the trend toward increased Canadian exports of further processed, duty-exempt products will likely continue, lowering their reliance on commodity sawn softwood trade. The Timber Committee estimates a slight increase in apparent consumption of sawn softwood for North America, fed by imports as opposed to production. It is likely that these increased imports will be met by non-Canadian sources of supply.

The Committee has estimated that the Russian Federation, and to a lesser degree "Other Europe", will continue to see sawn softwood production outstrip demand for 2002. This, coupled with the supply growth that continues at a rapid clip for plantation grown radiata pine in South America and Oceania, may lead to a global oversupply situation for sawn softwood in the near future.

Finally, in the short term at least, Japan remains the only other significant source of demand for sawn softwood outside of the UNECE regions. While overall levels of demand are not expected to be dramatically altered in 2002, sources of supply will continue to be dynamic. In the medium to longer term, optimism for demand growth remains for emerging south east Asian economies such as Taiwan Province of China, Korea, China and even India.

## 7.7 References

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