

CHAPTER 1

OVERVIEW OF FOREST PRODUCTS MARKETS IN 1998 AND EARLY 1999

Highlights

- Total consumption of forest products in North American and European was at record levels in 1998.
- The mid-1998 economic crisis in Russia deepened the fall in consumption, production and trade.
- Central and eastern European countries exhibited strong signs of recovery of production and exports from early 1990s levels.
- The Asian economic crisis negatively affected ECE region exports in 1998, but some recovery was evident in mid 1999 as tropical timber markets restructured.
- Corporate restructuring and mergers are creating larger, multi-national corporations with greater market shares.
- Certified forest products are becoming more available through increasing forest certification activity, but consumer demand remains low.
- Oversupply of some forest products restrained prices in some commodities; simultaneously other product prices rose sharply with demand.

1.1 ECE region forest products markets developments in 1998 and 1999

Overall in the ECE region (Europe, North America and the CIS), forest products markets continued to improve in 1998. Total consumption of primary forest products (roundwood, sawnwood, wood-based panels and pulp and paper) rose in Europe and North America, but continued to fall in the Russian Federation (table 1.1.1).

European consumption of sawnwood, both hardwood and softwood, was at record levels. Paper and paperboard demand continued climbing beyond the jump in 1997. Overall wood-based panels consumption rose slightly on the strength of record particle board production. On lower volumes MDF consumption leapt by 20% with corresponding increases in production and imports.

The United States was the locomotive in world forest products markets in 1998. Housing construction grew to high levels in 1998 and was still going strong

in early 1999. Not only do 1.6 million wooden houses consume tremendous quantities of sawn softwood, but they also spur demand for structural panels, such as OSB, and engineered wood products – these too were at new highs. Sawn softwood consumption reached record highs and although production rose, it still remained at levels below the late 1980s. Imports, primarily from Canada, reached new heights. With new housing the consumption of sawn hardwoods achieved record levels for furniture, millwork and flooring, including an additional 40% that went to packaging and other low-grade uses.

Canadian exports suffered from the Asian crisis but continued expanding to the United States. Production was at record levels in 1998 although not in all provinces.

European sawn softwood production rose and trade was active as Europe confirmed its net exporter status. Sawn hardwood consumption rose, showing signs of a new trend, and imports and exports were at record levels.

TABLE 1.1.1
Apparent consumption of sawnwood, wood-based panels and paper and paperboard in Europe, the Russian Federation and North America, 1995 to 1998

	Million units	Volume				Change 1997 to 1998	
		1995	1996	1997	1998	Volume	Percent
EUROPE							
Sawnwood	m^3	91.11	89.86	96.60	97.74	1.14	1.2
Wood-based panels	m^3	44.46	43.86	46.49	46.84	0.35	0.8
Paper and paperboard	$m.t.$	72.77	73.08	78.40	80.02	1.62	2.1
Total	$m^3 EQ^a$	468.88	466.65	499.88	506.56	6.68	1.3
Change on previous year							
- Volume			-2.23	33.23			
- Percent			-0.5	7.1			
RUSSIAN FEDERATION							
Sawnwood ^b	m^3	20.64	17.33	15.95	14.31	-1.64	-10.3
Wood-based panels ^c	m^3	2.94	2.23	3.28	2.83	-0.45	-13.7
Paper and paperboard	$m.t.$	2.47	2.21	2.35	2.19	-0.16	-6.8
Total	$m^3 EQ^a$	47.04	39.71	39.48	35.65	-3.83	-9.7
Change on previous year							
- Volume			-7.33	-0.23			
- Percent			-15.6	-0.6			
NORTH AMERICA							
Sawnwood ^b	m^3	153.31	160.58	166.49	172.06	5.57	3.3
Wood-based panels ^c	m^3	44.43	48.02	48.92	51.91	2.99	6.1
Paper and paperboard	m^3	96.62	90.66	85.38	87.47	2.09	2.4
Total	$m^3 EQ^a$	662.19	659.09	651.18	672.30	21.12	3.2
Change on previous year							
- Volume			-3.10	-7.91			
- Percent			-0.5	-1.2			

^a Equivalent of wood in the rough.

^b Excluding sleepers.

^c Excluding veneer sheets.

The fall in Russian sawnwood production and trade was accelerated by the mid-1998 economic crisis. Nevertheless, one export-oriented sector,

woodpulp, expanded production, as did the wood-based panels industry.

World pulp markets in 1998 were characterised by oversupply and weak prices. However production

cutbacks, some quite severe, seem to have restored market balance and pulp prices were rising again in mid 1999.

Roundwood removals (production) in Europe rose to meet the demand for pulpwood (used for pulp and panel furnish) and sawnwood. Pulpwood trade was active: imports expanded strongly within and to Europe, primarily to Finland and Sweden. Imports were mainly from the Baltic Countries and Russia, while eucalyptus came from both inside and outside the region. Conversely, North America saw severe pulpwood oversupply with high pulpwood stocks and subsequent rationalisation (reduction) in the production of pulp, leading to steeply falling prices.

Tropical timber markets experienced an upheaval in 1997 and 1998 during the Asian economic crisis. This affected not only Asia and the other tropical producing regions, but also the ECE region exporters. Recession in Japan, the world's largest forest products importer (the majority tropical timber) had a domino effect on its trading partners. Economic weakness and associated currency devaluations resulted in decreased production and reduction of harvests. Some countries were able to gain export market growth in value-added products, such as furniture, which became affordable with the devaluations. In late 1998 and early 1999 some tropical timber markets were recovering.

Certified forest products are becoming more available, primarily in Europe, but still remain a small part of the forest products trade. Some forests in the ECE region have been certified by the Forestry Stewardship Council, the Sustainable Forestry Initiative and various national schemes. The new Pan European Forest Certification system has the possibility of doubling the area of forests certified in Europe. The majority of the worldwide demand for certified forest products comes from within the ECE region, mainly from Europe and principally from net importing countries. At the present time producers of certified products seek advantages other than immediate profit, such as improved corporate environmental image.

1.2 Current trends in the forest and forest industries sector

In the ECE region the production capacity is being rationalised to the demand, both intra-regional and outside the region. Sawnwood is being produced in fewer but larger mills. Plywood production has changed technology to adapt to smaller peeler logs and moved to where resource exists. Plywood faces increasing competition from OSB in structural uses and MDF in furniture and had lower production in

North America in 1998. Pulp manufacture draws resources worldwide and is increasingly dependent on recycled fibre. With advances in technology the difference is becoming less between a pulplog, a sawlog and a veneer log.

There are important changes underway in the structure and location of manufacturing capacity. In some regions, capacity has been closed, with the intention of removing structural overcapacity. This has been done not only to prevent oversupply and maintain prices but more importantly to gain economic efficiencies of scale and to implement new manufacturing technologies. Closures of British Columbia, Canada sawmills, southeastern United States pulpmills, Swedish sawmills and European and North American panel mills took place in 1998. However at the same time, very large mills are being built or have already come on-stream: examples of this are large sawmills in southern Sweden, France and the *neue Bundesländer* of Germany, as well as OSB and MDF capacity which continues to expand in the ECE region and worldwide. For pulp, new capacity is mostly outside the region, notably where there is a tropical plantation resource.

Region-wide there is no shortage of supply of wood fibre in the forests. However locally there may be species, size or quality problems. And region-wide the costs for harvesting and transportation and transformation may render certain timber uneconomical. "Pulpwood" includes residues and chips and an increasing share of pulp furnish is coming from "urban forests", i.e. from recovered paper and paperboard. This has had ramifications on other sectors of the industry, for example sawmill chip constraints, as well as effects on forest management. In North America substitution of wheat straw furnish for wood fibre in the manufacture of particle board is occurring.

Engineered wood products which are produced by reducing wood to its basic components, for example down to the wood fibre in the case of MDF, are rebuilt into functional members using combinations of fibres, flakes, veneers and products. The question becomes, "What is solid wood?" as these new products replace traditional sawnwood used in construction and furniture. Substitution of modern wood components for traditional wood usage, such as with wooden I-beams for sawnwood joists and rafters is occurring. Substitution by engineered wood products is easier to accept than the loss of market share to competing non-wood materials, like plastic window frames and steel doors. Considerable information can be found in the newly published study from the

FAO/ECE Team of Public Relations Specialists in the Forest and Forest Industries Sector¹.

The “centres” of manufacturing are losing political identity as corporations merge, consolidate and form national and international marketing alliances in order to gain strategic advantage. Increasingly the questions of location of production, source of raw material, location of decision taking and distribution of economic benefit must each now be treated separately. In this sense, the forest products sector shows the same characteristics as many other sectors.

For example, in the sawnwood sector is it true to say that 25% of Finnish production occurs outside of Finland? Is it a *German* sawmill when by being located on the Baltic Sea (in Germany) it can import logs from around the Baltic Sea and then export most of its production out of Germany? There are more than difficulties in semantics with the ongoing globalisation of the forest industries – the internationalisation of forest products production is gradually blurring regional identities too. While these structural changes in the forest products industry are not treated *per se* in this *Review*, they are having multiple and significant effects on the markets.

The true effects of world trade are just appearing with some developed and developing countries welcoming free trade, while others (and some of the same ones) attempt to protect domestic production through tariff and non-tariff barriers. (A special chapter is devoted to “Forest products trade barriers”.)

With freer trade and increasing globalisation, smaller countries with adequate and available resources can become world players. Estonia is an example of a country that has benefited from open trade policies. (A special chapter is included on “Forest products markets in Estonia”.) Outside of the ECE region there are export-oriented countries which depend heavily on open markets, for example New Zealand. (A special chapter is dedicated to “Forest products markets in New Zealand.”)

The Kosovo crisis in 1999 is too recent to have been manifest in forest products statistics. However there have still been some immediate consequences for the region’s forest products markets: production and trade halted in Kosovo and Yugoslavia, western buyers sought alternative sources in the surrounding region,

and all forest products transportation on the Danube River was disrupted.

The electronic business channel using the WWW is expanding and is already changing the way forest products are traded. Currently the Internet is mainly a “yellow pages” type of advertising for most countries in the forest products industry. However sawnwood is now traded at some sites which specialise in either hardwood or softwood. (A special chapter focuses on electronic business channels.)

With the onset of European Monetary Union (EMU) in 1999 the euro became the currency of intra-European Union (EU) trade for those countries who joined. In 1999 trade within member countries of the EU was conducted in national currencies. However companies in non-EMU countries, for example Sweden and the United Kingdom, could choose when to trade in euros. The effects of the euro on forest products trade may be more evident next year.

Europe may be seeing the emergence of a Baltic region grouping of economies with strong forest industries based on a forest resource with roughly similar ecological characteristics. This region would include not only Finland and Sweden, Estonia, Latvia and Lithuania, but also Poland, Denmark and northeastern Germany. In 1998, the performance of this group seems to have been better than that of other parts of Europe (in as much as the data are available, which is not the case for sub-national groupings).

1.3 Timber Committee forecasts

At its September 1998 session the Timber Committee forecasts were cautious due to the ongoing Asian and Russian economic crisis. The European apparent consumption forecasts for 1998 and 1999 were both exceeded by the 1998 consumption total reported in Table 1.1.1 for sawnwood, wood-based panels and roundwood. In North America forecasts were in the right direction for 1998. Forecasts for the CIS countries in mid 1998 were obviously difficult due to the ongoing economic instability.

¹*The Competitive Climate for Wood Products and Paper Packaging: the Factors Causing Substitution with Emphasis on Environmental Promotions.* Edited by Mr. John Burrows and Ms. Berit Sanness, 1999.

