

CHAPTER 8

SAWN SOFTWOOD CONSUMPTION, SUPPLY AND TRADE

Highlights

- In 1998 North American sawn softwood consumption rose to a record level for the third consecutive year.
- European production and exports moved up to new records, although this development was not universal in 1998.
- CIS countries' sawnwood production and trade were negatively affected by the Russian economic crisis in mid 1998.
- Sawnwood exporters were severely hurt in 1998 by the downturn in Asian demand.
- Asian sawnwood markets were recovering in early 1999.
- In North America sawn softwood prices neared record levels in mid 1999.

8.1 Introduction

The sawn softwood markets in 1998 and 1999 directly followed economic developments in North America, Europe, the CIS and Asia. In North America consumption rose strongly and production reached record levels in 1998 but trade was also active with the notable exception of a sharp decrease in exports to Asia. European exporters were also constrained by the Asian economic crisis but as European consumption remained high, exports rose. CIS countries' production and trade was negatively influenced by the Russian economic crisis in mid 1998 and the subsequent devaluation of the ruble.

Readers may initially find the analysis below weighted too heavily toward Swedish sawn softwood market. However as Europe's largest producer and exporter, Sweden sustained unusual circumstances related to production, exports, prices, currency fluctuations and stock. The resulting market developments, which were generally opposite to those of other European countries, deserve extra attention.

Stocks of sawnwood are intended buffer swings in supply and demand, but stocks can also exaggerate them. Changes in stock levels can directly influence price. In many sawnwood markets the stocking levels have dropped as both buyers and sellers attempt to minimize inventory-carrying costs and inherent risks.

The result is a lack of a buffer and volatility in prices when demand and supply fluctuate. This effect can be seen in Europe, North America and Southeast Asia.

8.2 Consumption

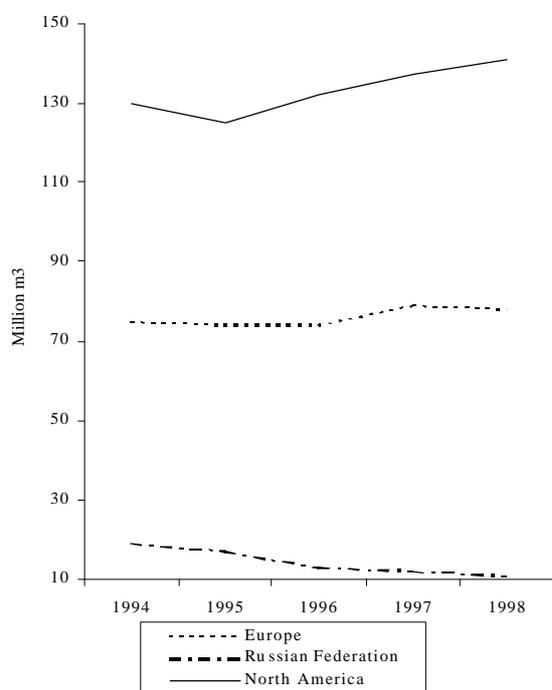
Consumption of sawn softwood in *Europe* rose slightly in 1998 to 79.6 million m³ but has not recovered the levels of the late 1980s (table 8.2.1 and graph 8.2.1). European consumption of sawnwood advanced, as the construction sector was strong in certain countries, especially in early 1998 as described in Chapter 2. Production moved up to record levels. Trade, both within Europe and elsewhere was active. Imports continued to grow for the fourth consecutive year and exports reached record levels as described below.

While the European housing market in 1998 and early 1999 exhibited continued weakness in many countries, a positive trend for the sawmilling sector is construction of single-family rather than multiple-family housing (European Organisation of the Sawmill Industry (EOS)).

In *North America*, boosted by strong housing construction in the United States, consumption rose to 140.6 million m³, the second consecutive record. Despite the cross-border trade limitations imposed by the five-year "Softwood lumber agreement between the Government of the United States and the

GRAPH 8.2.1

Sawn softwood consumption, 1994 to 1998



Government of Canada,” exports of Canada to the and the United States rose further.

Some 610,000 m³ additional volume was consumed by the domestic Canadian market in 1998, even though housing construction decreased by 8% to 137,400 units. The demand was filled by the 300,000 m³ in increased production and the decrease in export volumes from 1997, i.e. from part of the 417,000 m³ in “potential” exports. (Canadian imports, which are less than 50,000 m³, declined slightly.) In the absence of statistics on stock changes, the *apparent* consumption may disguise a build-up in stocks.

In the first four months of 1999, United States consumption rose 4.0% (American Forest & Paper Association, 1999). Consumption increases were met by higher production, which gained 5.2%, rather than by imports which rose less than 1%. Despite interest rates which moved up to 7.7%, with the rise in May 1999 housing starts at a rate extrapolated to 1.7 million annually, the Timber Committee forecast for United States consumption in 1999 of 123.5 million m³ appears realistic at this time. As the *Review* went to press, there was a calming in the demand for housing. This may be due to the traditional summertime lull, a slight rise in home mortgage interest rates, escalating sawnwood prices or a combination of these factors.

TABLE 8.2.1

Sawn softwood balance in Europe, the Russian Federation and North America, 1994 to 1998

	1994	1995	1996	1997	1998	Timber Committee estimates	
	(million m ³)					for 1998	for 1999
EUROPE							
Production	73.60	76.31	75.24	79.72	81.39	81.42	82.20
Imports	32.35	27.41	27.76	31.48	31.70	30.89	30.94
Exports	30.00	30.14	29.19	31.79	33.50	32.78	32.74
Net trade	-2.35	2.73	1.43	0.31	1.80	1.89	1.80
Apparent consumption	75.95	73.58	73.81	79.41	79.59	79.53	80.40
RUSSIAN FEDERATION							
Production	24.64	22.52	17.53	16.67	15.22	15.95	16.67
Imports	0.04	0.04	0.01	0.33	0.33	0.33	0.33
Exports	5.33	5.64	4.35	4.78	4.61	4.48	4.88
Net trade	5.29	5.60	4.34	4.45	4.28	4.15	4.55
Apparent consumption	19.35	16.92	13.19	12.22	10.94	11.80	12.12
NORTH AMERICA							
Production	141.14	135.33	141.83	145.22	146.27	152.33	152.41
Imports	38.98	41.36	43.75	43.32	44.19	42.64	42.86
Exports	49.98	52.14	53.55	51.55	49.85	48.72	48.94
Net trade	11.00	10.78	9.80	8.23	5.66	6.09	6.08
Apparent consumption	130.14	124.55	132.03	136.99	140.61	146.25	146.33

It should also be stated that American homes are getting larger with the corresponding implications for sawnwood demand since most houses are of wood construction. Many two-story homes have grown from 1500 to 2000 square feet (1987 average of 1905 square feet (about 200 m²)) to between 2000 and 3000 square feet (1998 average of 2195 square feet (about 240 m²)) (PaperTree Letter). An aging housing stock, i.e. the million plus homes built annually over the last decades drives a thriving repair and remodelling demand for sawnwood (including hardwoods). Despite these two main sources of demand, the increases in sawnwood usage per house have not increased proportionately, due to: 1) increased use of engineered wood products such as wooden I-beams which consume less wood to perform the same functions; 2) more efficient construction techniques such as wider stud spacing;

and more disturbing, 3) the substitution of nonwood materials.

Approximately 25% of new United States houses have an exterior, preservative-treated softwood deck in addition to, or in place of, a terrasse or patio (*Qualified Remodeler* as reported by *Forest Products Journal*). Decks are wooden platforms made of sawnwood slats for exterior, garden/yard furniture and outdoor activities. They are extremely popular in North America (80% of homeowners want a deck) and a common DIY project. The wood deck market consumed between 0.8 and 1.2 billion square feet (3.5 million m³ at a normal 1.5-inch thickness) and was valued at over \$3 billion in 1997.

The impact of the economic crisis in Russia was felt throughout the forest industry and consumption of

TABLE 8.3.1
Production of sawn softwood, 1995 to 1998

	1995	1996	1997	1998	Change 1997 to 1998	
	(1000 m ³)				Volume	Per cent
EUROPE	76,308	75,241	79,720	81,394	1,674	2.1
of which :						
Main exporting countries	56,041	55,329	59,884	60,485	601	1.0
Sweden	14,737	14,170	15,419	14,874	-545	-3.5
Germany	12,925	13,123	13,801	13,807	6	0.0
Finland	9,400	9,300	10,600	11,300	700	6.6
Austria	7,552	7,950	8,254	8,534	280	3.4
France	6,827	6,506	6,800	6,950	150	2.2
Poland	4,600	4,280	5,010	5,020	10	0.2
Other countries	20,267	19,912	19,836	20,909	1,073	5.4
of which :						
Norway	2,205	2,400	2,500	2,530	30	1.2
United Kingdom	2,106	2,140	2,214	2,269	55	2.5
Turkey	2,502	2,308	2,032	2,101	69	3.4
Romania	877	924	1,115	1,456	341	30.6
Switzerland	1,342	1,240	1,100	1,200	100	9.1
Russian Federation	22,525	17,530	16,675	15,220	-1,455	-8.7
Canada	59,343	61,828	63,764	64,082	318	0.5
United States	75,992	80,004	81,453	82,192	739	0.9
North America	135,335	141,832	145,217	146,274	1,057	0.7

sawn softwood fell to 10.9 million m³. Production fell by 9% in 1998 but exports fell by only 4%.

8.3 Production

Production of sawn softwood continued to rise in *Europe* in 1998 for the third consecutive year, by 2.1% over 1987, to reach a new record level of 81.4 million m³ (table 8.3.1). In general the main exporting countries increased production, including Austria, Finland and Germany to record production, as well as France and Poland.

The notable exception was Sweden, Europe's largest sawnwood producer, which fell 3.5%. Burdened with falling prices of pine and low prices of spruce/fir, with high domestic log costs, profitability slackened. Bankruptcy of mills which normally produced a total of 600,000 m³, approximately equalled the drop in national production (Swedish Wood Exporters' Association).

Most of the remaining countries in Europe achieved high production levels, many at new records, or at least at records since the break-up of the former USSR. Statistics from a number of countries in central and eastern Europe show that they have overcome early economic transition difficulties in the sector and are producing as much or more than they were prior to the early 1990s. Double-digit percentage production increases on relatively small volumes were reported by Croatia (11% to 154,000 m³), Romania (31% to 1,456,000), Slovakia (69% to 344,000 m³) and Slovenia (46% to 535,000 m³).

Baltic country sawnwood production is no longer universally growing, as Lithuania encountered serious roundwood constraints in 1998 which continued into 1999 (table 8.3.2). Ongoing restitution of land claims constrains many central and eastern European countries to some degree. This continues to reduce log removals, not only from current state forests where management is not carried out on land to be privatised, but also on privatised land, as most new owners are not

forest managers. In Lithuania sawmills were additionally constrained by the unaffordable logs from state forests, limited logs from restituted lands and a drastic reduction of log imports from both Kalingrad and from Belarus where log exports were banned as of July 1998. Belarus banned log exports to insure adequate supplies for domestic conversion to sawnwood at prices determined by the state.

North American production rose by 1.1 million m³ in 1998 to reach 14.6 million m³. United States production rose to an eight-year high of 82.2 million m³, falling well below late 1980s highs of near 90 million m³. Canada had record production at 64.1 million m³ despite the downturn in Asian exports, which were partly made up by increased exports to the United States. Following recovery in apparent consumption in 1997 to 16.9 million m³, Canadian consumption rose 4% in 1998, probably because of stock increases.

The concentration of North American production continued to shift from the west coast to the east coast in both Canada and the United States. From the late 1980s when environmental constraints reduced harvests in the United States Pacific Northwest, sawnwood production has dropped 22% overall (*Random Lengths* as reported by *Forest Products Journal*). The same effects are occurring in British Columbia, where production has fallen 14%. In the United States the shift has been accelerated by the South's excellent growing conditions combined with genetically improved species of pines.

In 1998 production in eastern Canada and the south-eastern United States accounted for 50% of the North American sawn softwood. In the United States the Western Wood Products Association reported a 1.7% decline in 1998 over 1997. Western production in the United States is more dependent on National Forest stumpage but in the USDA Forest Service's 1998 fiscal year, 20% less was sold although the actual harvest volumes rose slightly. However the fact that revenues were 26% lower in 1998 than in 1999 and that 40% of timber sold was other than sawlogs indicates that the Forest Service was selling a higher proportion of salvage timber (American Forest & Paper Association, 1998).

The change in production between provinces in Canada over the last decade shows clearly the shifting production from west to east (table 8.3.3).

The British Columbia forest products industry reported the poorest financial performance in the last 13 years with a net loss of Canadian \$1.1 billion. Despite an almost 5% fall in the value of the Canadian dollar, overall sales fell 7.4% to C\$15.0 billion; sawn

TABLE 8.3.2

**Baltic Countries sawn softwood production,
1992 to 1998**
(1000 m³)

	1996	1997	1998	% change 1998/97
Estonia	360	656	765	17
Latvia	1510	2550	2800	10
Lithuania	1350	1130	900	-20

TABLE 8.3.3

**Provincial sawnwood production in Canada,
1988 and 1997**
(1000 m³)

Province	1988	1997
British Columbia	37,726	31,545
Quebec	10,542	15,573
Alberta	3,736	6,021
Ontario	5,344	6,012
Other	1,926	4,931
Total Canada	59,274	64,082

Source: Council of Forest Industries Canada as reported by *World Wood Review* and ECE/FAO TIMBER database.

softwood sales fell from C\$7.9 billion in 1997 to C\$6.9 billion in 1998. Several sawmills were closed and most saw shift reductions and worker layoffs. Sawn softwood net losses were approximately C\$58 million in 1998 compared to net earnings of C\$259 million in 1997. The industry report stated that although sawnwood shipments to the United States were maintained at 1997 levels of 17.5 million m³, the value of the shipments slipped 13% down to C\$3.6 billion in 1998. The British Columbia industry claims the exports to the United States were restricted by the Softwood Lumber Agreement because the "cost structure is too high for the mills to be able to pay the tariffs on shipments in excess of the quota" (*The Forest Industry in British Columbia, 1998*).

In *Russia* production fell about 9% in 1998 to a new low of 15.2 million m³. Production has been steadily falling over the last six years and the mid-1998 economic crisis ensured that production levels would be even lower. Timber Committee forecasts for 1999 production (made in September 1998) were for a slight recovery in production back to 1997 level of 16.7 million m³.

The Russian Ministry of Economics created a new holding company, Rao Lesprom, to restore control, increase production and the international competitiveness of the wood industry (*Timber & Wood Products*). State-owned shares in 200 wood enterprises are to be given to Rao Lesprom for their control and to establish vertical integration. The Ministry also prepared a programme for up to the year 2005 which will create 800 large wood industrial holdings based on the present 30,000 small to medium-sized enterprises.

8.4 Trade

(i) ECE region

Trade was active in the ECE region in 1998 and Europe strengthened its net export position in 1998 after near equilibrium in 1997 (table 8.4.1, next page). Exports were slightly stronger than forecast for 1998 by the Timber Committee, possibly because some Asian export market strength returned at the end of 1998. Overall ECE region sawnwood exports normally destined to Asia were substantially reduced in 1998 and were partially reabsorbed on the domestic markets.

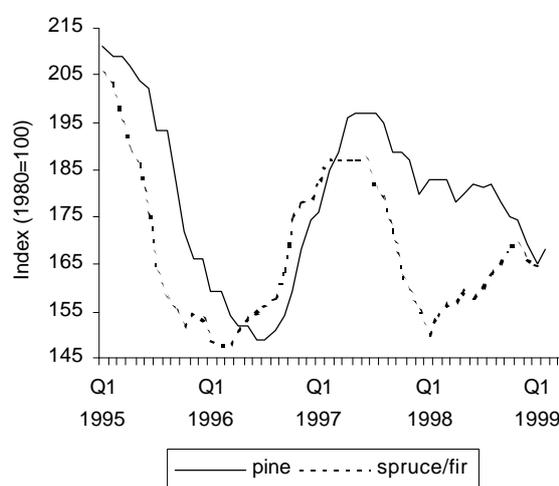
With Japan and Korea's diminished demand in 1998, ECE exporters faced with surplus production looked to their other markets, for example the Middle East. But as sawnwood flowed into Middle Eastern countries from many ECE region countries, South America and New Zealand, prices fell and countries such as the United States and Canada shipped less in 1998 than in 1997 (*Random Lengths Export*). Other countries were more successful, for example Finland's exports to the region were up 17.9% to 408,000 m³ in 1998.

(ii) European developments

Exports. Swedish wood exporters in 1998 "suffered the worst profitability crisis for a very long time" according to the Swedish Wood Exporters' Association *Annual Report*. Strong European demand enabled Sweden to maintain its high exports despite a drop in production. Swedish exporters faced stiff competition, especially for shipments outside of Europe, to Asian markets in particular. For Sweden sawnwood exports to Japan fell 29% from 1997, to reach 347,000 m³. The bright spot in Swedish exports

GRAPH 8.4.1

Swedish sawnwood price indices, 1995 to 1999



Source: Swedish Wood Exporters Association, 1999.

TABLE 8.4.1
Exports and imports of sawn softwood, 1995 to 1998

	1995	1996	1997	1998	Change 1997 to 1998	
	(1000 m ³)				Volume	Per cent
EXPORTS						
EUROPE	30143	29192	31795	33495	1700	5.3
of which :						
Sweden	10301	10960	10902	10975	73	0.7
Finland	7343	7016	7509	8292	783	10.4
Austria	4515	4000	4838	4897	59	1.2
Germany	1565	1604	1895	1899	4	0.2
Czech Republic	1512	1384	1397	1231	-166	-11.9
Romania	494	556	917	1210	293	32.0
Poland	885	592	831	873	42	5.1
Norway	710	775	700	712	12	1.7
France	386	393	454	543	89	19.6
Belgium-Luxembourg	344	257	275	...	...	...
Portugal	495	440	400	370	-30	-7.5
Other countries	1593	1215	1677	2093	416	24.8
Russian Federation	5637	4350	4780	4610	-170	-3.6
Canada	47561	49618	47664	47186	-478	-1.0
United States	4581	3929	3886	2665	-1221	-31.4
North America	52142	53547	51550	49851	-1699	-3.3
IMPORTS						
EUROPE	27408	27756	31484	31704	220	0.7
of which :						
United Kingdom	5010	5344	6491	6481	-10	-0.2
Italy	4612	4632	5145	5274	129	2.5
Germany	4570	4466	5280	4867	-413	-7.8
Netherlands	2636	2739	2889	...	...	...
Denmark	1868	1585	2256	2197	-59	-2.6
France	1562	1767	1828	2097	269	14.7
Belgium-Luxembourg	1360	1298	1270	1500	230	18.1
Spain	1112	1135	1275	...	...	...
Norway	626	800	958	969	11	1.1
Austria	875	900	904	874	-30	-3.3
Hungary	731	760	672	...	...	...
Other countries	2446	2330	2517	2609	93	3.7
Canada	760	768	804	618	-186	-23.1
United States	40596	42985	42514	43572	1058	2.5
North America	41356	43753	43318	44190	872	2.0

in 1998 were shipments to the United States, approximately 36,000 m³, which partly took advantage of Swedish sawmills' ability to produce to certain United States grade stamp requirements (some also exported to the United States without grade stamps).

"Profitability" is the key word in the discussion of European sawnwood industry developments in 1998. In 1998 export markets were firm in Europe, as were export markets outside of Europe with the exception of the Asia-Pacific region. However in Sweden, profitability fell when spruce and fir (white wood) prices rose in 1998, but not back to 1997 levels, while pine (redwood) prices continued to fall from 1998 (graph 8.4.1). Despite difficult spruce/fir logging conditions due to wet weather, many sawmills attempted to raise revenues, or at least cash flow, with the rising prices of pine by shifting production into the pine market. In 1998 Swedish exports rose slightly, by less than 1%, as stocks were drawn down, a condition that often precedes price rises. However the prices of sawnwood were stable in early 1999.

Falling pine sawnwood prices had ramifications throughout the sawnwood industry. Combined with rising log prices in some countries, the European Organisation of the Sawmill Industry noted widespread difficulties in profitability.

Denmark found profitable export markets for long logs, especially as the Swedish krona strengthened against the Danish krona. However sawmills, both softwood and hardwood, have suffered from the export of higher grade logs which leaves lower grade logs for domestic production. Sawmills received low prices for sawnwood in 1998 and with a 2% rise in log costs at the end of 1998, covered fixed, but not variable costs. Mills are smaller in Denmark than in neighbouring Germany and Sweden and with lower production and efficiency, coupled with 25% higher wage rates, Danish sawmillers face difficult competition (personal communication with Mr. Peter Hviid).

Sweden's plight was not shared by the other exporting countries. Finland's sawn softwood exports rose to new highs 8.3 million m³ with most increases going to European countries due to the soft Asian market. In 1999, Finnish exports were up 2.5% through May as compared with 1998, particularly to the United Kingdom, up by 67%, and to Germany, up by 20% according to the Finnish Forest Industries Federation. According to the Federation the weakness in the euro has benefited the exports of that 30 to 40% of sawmills which are exporting to euroland. Finnish customs information shows pine exports growing and possible overtaking spruce/fir exports in 1999. The definition of what constitutes "Finnish exports" has become more complicated with the corporate merger

of Stora-Enso with Schweighofer. Today approximately 25% of "Finnish" production is outside of Finland!

Several other European countries experienced recovery in their export markets or rose to new records as indicated in the table. France had an active trading year in 1998 with exports rising 19.6% to 543,000 m³ and imports gaining 14.7% to reach a record 2.1 million m³.

In 1999 the Japanese market has changed direction as evidenced by Sweden's export sales which more than doubled (from 101,000 to 239,000 m³) over the first quarter of 1998. However to all destinations combined, Sweden's sales of sawn softwood have declined by 9% and exports have dropped by about 13% in the first quarter, based on preliminary information from the Swedish Wood Exporters' Association. Sales to the United Kingdom and Germany were lower. Even the weakening of the Swedish krona has not helped sales to the United Kingdom.

Like Sweden, Germany's exports in the first four months of 1999 were off 14.4% overall, but almost tripled to Japan, as compared to the same period of 1998 (*Holz Journal*). Prices were stable and the domestic market was exhibiting some strength despite a forecast decrease in housing starts in 1999.

Baltic exports are not rising as fast as in the mid 1990s due to maximised production capacity, domestic resource limitations (both economic and real due to restitution of forest land to private owners) and rising domestic consumption (table 8.4.3). A lack of kiln capacity means considerable volumes of Baltic sawnwood are shipped green, which restricts acceptance in "dry" applications in Ireland or the United Kingdom. The *Review's* special chapter on Estonia mentions increased kiln capacity coming on-stream, often through foreign investment.

TABLE 8.4.2

Baltic sawn softwood exports, 1995 to 1998
(1000 m³)

	1995	1996	1997	1998
Estonia	283	485	597	690
Latvia	700	1286	2060	2250
Lithuania	728	1046	871	508

Slovakia reported increased exports, which could not be confirmed. However trade sources indicated that Slovakia and the Czech Republic have found new markets for special long lengths and have thus increased sales by 15% in early 1999 to the United Kingdom (*Timber & Wood Products*).

Imports. European countries imports in 1998 were not homogeneous: some countries went up while others went down (table 8.4.1). However total European imports did not change appreciably from 1997 levels (31.7 million m³)

Capacity expansion. In Germany the first full market effects of the expansion of processing capacity appeared in 1998 and 1999. According to Dr. Heiner Ollmann, former Chairman of the FAO/ECE Working Party on Forest Economics and Statistics, and Professor at the University of Hamburg, when the German Democratic Republic collapsed, so did all the industries based on roundwood, e.g., sawmills, panel producers and pulp producers. Only a few small sawmills survived which are now privately owned. The forest managers in the *Neue Bundesländer* (former GDR) lost the major part of their markets. Removals dropped from 11 million m³ in 1989 to 3 million m³ in 1992.

TABLE 8.4.3

German manufacturing roundwood capacity expansion, 1998 to 2000
(roundwood capacity 1000 m³)

<i>Enterprise name</i>	<i>capacity</i>	<i>Start up year</i>
Klenk Holzwerke in Baruth	1,300	2000 expansion
Klausner Nordic Timber in Wismar	750	1998 new
Klausner Nordic Timber in Wismar	1,200	2000 expansion
Holzwerke Wittenberg in Wittenberg	N.A.	2000 (+)
Pollmeier in Malchow	200	1999

Source: Dr. Heiner Ollmann, personal communication, July 1999.

The federal government initiated various economic development programmes in the *Neue Bundesländer* because of the depressed economic state. Depending on how many jobs were created investors could obtain grants for 50% or more of new manufacturing facilities. The following table shows the mammoth size of five new sawmill and wood-based panels plants.

These huge expansions have brought controversy. The German sawmilling industry alleged that roundwood demand and price increased, with the result that competitiveness had been distorted in a sector that was already struggling with high roundwood and depressed sawnwood prices. In their defence, some of the new mills claimed not to be impacting German forests, but rather other forests surrounding the Baltic Sea which supply these new large mills.

like the one in Wismar are export-oriented, they claimed not to distort the German domestic market.

Sawmilling sector. The EOS met prior to the last Timber Committee Session in 1998 to discuss sawnwood markets. According to their press release, three factors were having a negative impact on European sawnwood markets: the Asian crisis, the Russian economic crisis and the devaluation of the dollar, especially the Canadian dollar. While the markets had strong demand, mills were said to be suffering in some European countries from high log prices and low sawnwood prices. Sawnwood prices overall in Europe had risen, partly due to a reduction in stocks at mills. The EOS also called for a label to identify European sawnwood as being sustainably produced. Missing from the EOS traditional list of negative impacts on (western) European sawnwood markets was competition from central and eastern European countries, perhaps because Latvia became a new member of the EOS.

Mergers within the forest products industries are no longer news, but it is important to note that restructuring is affecting all segments of the industry, from producers to retailers, and most regions of the world. In the ECE region two Nordic giants, Stora of Sweden and Enso of Finland merged to form a diverse forest products supplier with products ranging from pulp and paper to sawnwood. Enso had combined with the Austrian company, Holzindustrie Schweighofer, with its sawmills in Austria and the Czech Republic, to achieve a combined capacity of 4 million m³ of sawnwood and further processed sawn products (*Timber & Wood Products* and *Random Lengths Export*).

(iii) North American developments

Exports. Overall Canada's exports of sawnwood fell for the third year, due primarily to the Asian economic crisis. For a number of reasons, such as EU phyto-sanitary regulations which precluded green sawnwood and reduced competitiveness against Nordic suppliers, Canada's exports to Europe have declined by over 80%, from 4.2 million m³ in 1989 to approximately 0.7 million m³ in 1997 (Statistics Canada). In 1998 Canada had a 5% share of the United Kingdom imported sawn softwood market which totalled 6.5 million m³. (Other United Kingdom import market shares in 1998 were: Sweden 33%, Baltic Countries 25%, Finland 17%, Russia 7% (*Timber & Wood Products*)).

As in 1997, United States sawn softwood exporters turned potential exports back to the voracious domestic market. United States exports of

sawn softwood have fallen over the last decade and at 2.7 million in 1998, are only half the level of five years ago.

United States and Canadian *offshore* exports fell sharply in 1998. Canadian sawn softwood exports totalled 5.0 million m³ in 1998, down 28% from 6.9 million m³ in 1997 of which 3.9 million was to Japan (USDA Foreign Agricultural Service). United States sawn softwood exports to offshore markets totalled 1.9 million m³, off 35.7% from 1997 with a 52.7% decline, to 0.7 million m³, to Japan.

In 1996, exports to Japan accounted for 70% of North American sawnwood exports, but they started falling in 1997 and then fell dramatically (by 46%) in 1998. Canada profited from the slight upturn at the end of 1998 in the Japanese sawn softwood demand, but the United States did not.

North American exports to Asia were recovering in the first four months of 1999. United States exports to the Pacific Rim moved up 5.1% in the first quarter of 1999 compared to 1998, with the greatest increases to China, up by 19% (*Random Lengths Export*). Canada shipped 1.3 million m³ of sawn softwood to offshore markets during the quarter, a 10% gain. Shipments to Japan, dominated by British Columbia, were up nearly 20% to 1.1 million m³.

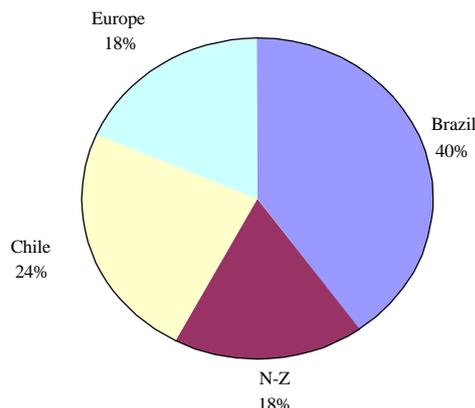
The resurgence of exports to Asia in late 1998 correlates with a strengthening of the yen which moved from over 140 yen per dollar in August 1998 to almost 110 yen per dollar in February 1999 (the rate has slipped back to somewhere in between these extremes in mid 1999). Japan also initiated some long-awaited economic recovery packages, one goal of which was to boost the home construction market.

Imports. The United States imported a record 43.6 million m³ of sawnwood in 1998, 97% from Canada, but growing volumes came from Europe, New Zealand and Chile (graphs 8.4.2 and 8.4.3). An increase in domestic production to the highest level since 1990 could not satisfy the rise in demand and imports increased rose by 1 million m³ in 1998. As forecast by the Timber Committee, in mid 1999 the United States had increased production and to a lesser extent, increased imports, in line with the 0.8 million m³ consumption in 1999.

Prices. The prices of North American sawnwood slumped in throughout 1997 and most of 1998 as Asian export demand fell and export volumes were turned back to the healthy domestic market. From the 1997 record high, prices slid 16% (graph 8.4.4.) However sawnwood prices turned around and surged in mid 1999, rising 33% from 1998's third quarter lows, to reach \$479/thousand board feet (*Random*

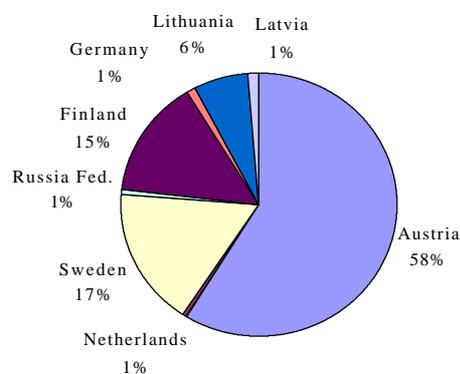
Lengths). The all time-high of the Random Lengths composite price was \$518 in January 1994. Home builders complained that the cost increase would add \$2,000 to \$4,000 to the cost of a new house.

GRAPH 8.4.2
United States softwood import sources (without Canada), 1998



Source: USDA Foreign Agricultural Service, 1999.

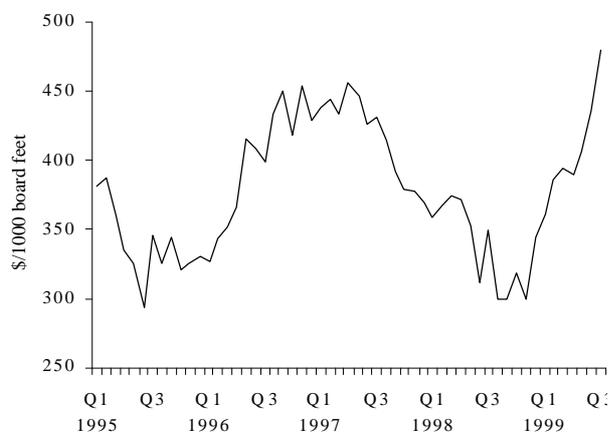
GRAPH 8.4.3
United States sawn softwood import sources from Europe, 1998



Source: USDA Foreign Agricultural Service, 1999.

GRAPH 8.4.4

North American composite sawn softwood price



Source: *Random Lengths Export*, 1999.

Changing resources. Sawnwood production from roundwood harvested from western National Forest Land has plummeted over the last decade. From a high of 27.1 million m³ in 1988 production dropped to under 4.7 million m³ in 1994 (Western Wood Products Association as quoted by *World Wood Review*). However roundwood supply does not seem to be a problem for the western sawmilling industry which has resized and now sources roundwood from private and industrial lands (table 8.4.1).

The plywood industry in the United States West, which was based on large, old growth peeler logs, did not fare as well. In fact, as plywood plants closed due to resource limitations, a portion of their raw material has been used for sawnwood. Other sources of raw material for sawmills have been logs which previously would have been exported to Asian markets, as well as some imported logs. Recovery in log exports to Japan is doubtful because of structural changes in the Japanese industry. These changes include the import of semi-finished or finished products rather than domestic manufacturing, especially with imported logs. Exporters compete intensely for the lucrative Japanese market, with other suppliers taking market share from United States exporters of logs, sawnwood and panel products.

The drop in western production has obviously been offset by production in the east and south-east United States, but still total domestic production at 82.1 million m³ is well below the record production in 1987 of 90 million m³. Although *World Wood Review* predicts a future constriction on the resource as

TABLE 8.4.4

Western sawnwood production by roundwood source, 1988 and 1998 (million m³)

	1988	1998
National Forests	27.2	4.4
Other government	3.4	3.5
Industry forestland	12.3	21.5
Private forestland	12.8	9.9
Total	55.8	39.3

Source: *World Wood Review*, 1999.

softwood harvests in the south-eastern United States outstrip growth by 6% or 0.8 million m³ per year.

Softwood Lumber Agreement. The *Softwood Lumber Agreement* between Canada and the United States aims to restrict Canadian exports to the United States to a duty-free quota of 34.7 million m³ (42.1 million m³ were exported in 1998 from all provinces). An understood, but unstated objective is the rise in sawn softwood prices. Efforts by Canadian producers to subvert the quotas by upgrading 2x4 studs, by drilling a hole or notching them, or to upgrade boards by reclassifying them as house siding, carpentry or joinery, but not "lumber", resulted in accusations of manipulation of the agreement and restraint of trade. In early 1999 the United States Court of International Trade ruled that notched and drilled studs were also subject to duties and quotas. Perhaps part of the 20% sawn softwood price spike in 1999 is due to the loss of this duty-free volume.

The Softwood Lumber Agreement had not hurt Quebec and Ontario sawnwood producers in 1997 and 1998 as production rose 16.3 and 7.7% respectively (The *Import/Export Wood Purchasing News*). However perhaps production and exports would have grown more without the agreement. As the agreement covers only the largest producing provinces, the Maritime and Prairie provinces have not been included and have more than doubled their exports to the United States since 1995 (*Random Lengths Yard Stick*). Despite the complaints of Canadian exporters, United States retailers and builders associations, Canadian exports to the United States rose to a record 42.1 million m³, while still remaining about one-third of United States consumption (*Random Lengths Yard Stick*).

In the first and second quarters of 1999 the high prices of sawn softwood in the United States enabled Canadian exporters to profitably increase exports over 1998 volumes, despite the \$106 per 1000 board feet (2.4 m³) duty.

While divisions appear to be growing in the fourth year of the five-year Softwood Lumber

Agreement between the United States and Canada, the two countries came closer together with the merger of their forest products industry giants, Weyerhaeuser and MacMillan Bloedel. A number of advantages were cited by the merger parties, among which, complementary market strengths, plus mutually advantage raw material supplying and processing capacities.

(iv) Russian Federation developments

The 1998 financial crisis only strengthened Russian sawmillers' desire to export. With domestic consumption falling, some two-thirds of production is exported. The most positive trends were exhibited by the pulp and paper exporters whose revenues at \$360 billion were up more than 11% on 1997 (*Timber & Wood Products*).

In March 1999 the Russian government imposed a 5% tax on timber exports. As most Russian sawnwood is exported in dollars, and with the collapse of the Russian rouble in mid 1998, the 5% will likely come from any profits of exporters. Rising sawnwood prices in European markets could alleviate the effect of the tax. In early 1999 Russian exports of sawnwood and logs to Japan were strong and as importers stocks became sufficient, prices softened (*World Wood Review*).

Russian sawnwood exports to Japan were forecast (in late 1998) to increase by over 10%, from 316,000 m³ in 1998 to 350,000 in 1999 according to the Japan Lumber Importers Association. In contrast, 1999 log imports from Russia were forecast to remain nearly steady at the 1998 level of 4.8 million m³. In mid 1999 trade sources reported an oversupply of pine sawnwood destined for the Japanese market had been partly sold at very low prices in the United Kingdom (*Timber & Wood Products*).

8.5 Promotion of sawnwood

In concluding this chapter the various national promotions of sawnwood merit mention. The loss of sawnwood market share to substitutes and engineered wood products was mentioned in the overview chapter. Unlike North America, many European countries do not have a broad modern "wood culture" in home construction, with the notable exception of the Nordic Countries. However, many trade associations, governments and organisations in Europe, including the Nordic Countries, have launched national campaigns to expand the amount of wood used in single-and multi-family houses.

Europe, Sweden, Germany, Finland and other countries have successful programmes to promote even more wood use in construction through

improved, efficient designs, often for multi-storey and multi-family residences. In Finland and Switzerland expansion of wood construction was retarded by restrictive fire codes and high insurance premiums, until these obstacles were brought up to date along with construction techniques (*La Forêt*).

The FAO/ECE Team of Public Relations Specialists in the Forest and Forest Industries Sector has succeeded in building a network of forest industries-related PR specialists who are undertaking activities to foster international co-operation to promote wood as an environmentally friendly and renewable resource (www.unece.org/trade/timber/pr).