

1. General economic trends according to the National Institute of Economic Research (NIER), in August 2003.

The recovery in GDP growth that got under way at the end of 2001 lost momentum in the third quarter of last year. The primary reason was a weakening tendency in manufacturing due to temporarily slackening demand for exports. Output increased somewhat more rapidly in the fourth quarter. For last year as a whole, GDP growth was 1.9 %.

In September this year Sweden held a referendum whether to join the EMU's final stage and introduce the euro or not. The result of the referendum was "no" to the euro and Sweden will remain outside EMU. In the NIER's forecast for the economy, described below, consideration has been taken for a "no" to the euro. In general a "no" will, according to NIER, result in higher interest rates, weaker exchange-rate and weaker recovery of the economy.

Growth has remained weak this year, particularly in manufacturing. During the first half of this year the growth has gradually slackened in demand and output in manufacturing, probably related at least initially to the Iraq crisis. In August, however, the NIER's survey reported less dissatisfaction with orders on hand and inventories of finished goods, as well as production plans indicating some increase in manufacturing output in the next few months. This more optimistic view among firms does not, however, include forest industries which report lower inflow of export orders. This year, manufacturing will contribute little to GNP growth. Growth will be sustained primarily by the service industries. The tendency in the business sector is expected to be more

favourable in 2004 and 2005. All factors considered, the forecast is that GDP will grow by 1.3 % this year, rising to 2.3 % in 2004 respectively 2005.

The inflow of orders to the intermediate goods industry has decline in the past few months. The forest and steel industries in particular reported a lower level of demand and dissatisfaction with their order books and stock situation. The volume of production is expected to remain more or less the same in the next few months and continuing price cuts are being announced, particular in the forest industry.

After two years of virtually no change in exports, conditions now appear to favour a stronger tendency. World demand is expected to rise substantially in the next few years, a factor that will contribute to a stronger increase in Swedish exports. Prices of exports in Swedish currency will be decreasing this year as well because of a stronger krona. They are expected to remain largely unchanged next year and then to rise somewhat in 2005.

The monetary-policy target of the Riksbank (The Swedish Central Bank) is to limit inflation to 2 % with a tolerance of 1 percentage point for deviation from this rate. This year the Riksbank has been emphasizing that its monetary-policy assessment are not influenced by temporary price effects except when these might cause repercussions elsewhere in the economy. CPI inflation excluding costs of interest, electricity, heating oil and fuel is similar to the measure used by the Riksbank. CPI inflation exceeds the upper tolerance limit of 3 % late in 2002 and early in 2003, but then subsided quickly. The high rate of inflation last winter was due to price increase in electricity and oil. Domestic demand-related inflationary

pressure will remain low, at the same time, a slow rate of increase in prices of foreign exports and a strong krona will tend to restrain imported inflation. Given these conditions, the inflation rate is forecast to be 0.7 % in 2004 and 2.3 % in 2005. The UNDEX inflation rate will be less than 2 % in 2004 and 2005.

Fiscal policy has been highly expansionary in recent years. Since 1998, unfinanced increases in expenditure, in addition to tax cuts of SEK 20 billion to 40 billion, have been implemented each year. Nevertheless, general-government net lending increased until 2001 because of strongly rising employment. In recent year, however, employment has no longer been going up, this development, together with a higher number of sick-listed persons, means that no margin is left for unfinanced increases in expenditure or for tax cuts. This year, fiscal policy is still slightly expansionary, while monetary policy is stimulating the economy via a lower repo rate.

2. Policy measures which might have bearing on trade and markets of forest products

An investment subsidy for production of smaller homes has been presented by the Government. The subsidy is not yet approved by the EU, but if approved, it is expected to have a positive effect on domestic construction volumes in 2004-2005.

3. Developments in forest products markets sectors

A. Wood energy

Over the past decade the use of bio fuel for energy purpose has steadily increased in Sweden. The use of biofuel is today about 16 % of the total energy supply in Sweden. Biofuel are above all used in the forest

industry (50 %), district heating plants (30 %) and in small single family houses (10 %). This increase in consumption can mostly be explained by changes in the Swedish energy taxation system and the Swedish Government efforts of promoting renewable resources. Very simplified the current construction is that there are specific tax rates for each energy carrier and among and within different sectors of society. Bio fuel is regarded as carbon dioxide neutral and has a tax-exempt from carbon dioxide (CO₂) taxes. Fossil fuels are fully taxed for district heating plants and private users while industry pays 25 %. The industrial sector has a general reduction, i.e. no energy tax and only 25 % of the CO₂ tax. As a whole this has favoured bio fuel, above all in the sector of district heating.

In 2001 the Swedish Government convened a special Committee with the assignment to investigate the above described form of regulations governing reductions in tax on energy. The model proposed by the Committee is more general and includes the entire business sector. One of the proposals is reduced tax on fossil fuel used in district heating plants and therefore a deterioration of wood fuels competitiveness in this sector. It is for the present uncertain whether the committee's proposal will come into force or not.

Another policy measure affecting wood energy is the views presented by the Commission on a system and regulatory framework for the flexible mechanisms of the Kyoto Protocol (FlexMex2 Commission). The Commission presented its views on two aspects: one was the principles on which the allocation of emission allowance is intended to be based. The other is how the national allocation plan should be drawn up in the run-up to the scheme of emissions trading that is to be introduced throughout the EU from 1 January 2005. The Commission does not address in crucial issues such as the question of the role of carbon tax in the

future scheme of emission trading. This issue and other connected to the FlexMex2 system all, when decided upon, have a great impact on trade and markets regarding wood energy.

Both the above mentioned policy processes affects the wood energy market and the pulpwood market. Panel markets are also affected via higher demand of saw dust from the Pellet industry. The different markets compete in different segments of the same raw material.

The Swedish Government has recently given the Swedish University of Agriculture Science an assignment to analyze the economic and environmental conditions for a continuing increased use of bio fuel in Sweden. Among other things shall a survey be made around the risk of conflict between an increased use of biofuel for energy purpose and the forest industry needs of raw supply.

Statistics concerning wood fuel is in many ways deficient in Sweden today. Since the importance of biofuel in the energy market is growing, an improvement of the statistics is necessarily. The National Board of Forestry will, together with other public authorities and stakeholders, start a working group aiming to improve wood fuel statistics in Sweden.

B. Wood raw materials

Sawlogs

The removals of sawlogs in 2002 were 33.8 million m³ solid volume under bark which was an increase of 2 % compared to 2001. In 2003 and 2004 a further increase in removals are expected, 35.7 and 36.3 million m³ respectively.

Average price of sawlogs (delivery logs) declined in 2002 compared to 2001, despite higher felling volumes. During the first half of 2003 the price has increased compared to the same period last year. In

this autumn some predict a deficit of sawlogs of spruce in the south of Sweden and a deficit of pine in north of Sweden. Deficits are due to higher demand. Yet, just minor changes of prices are expected in the short run.

Pulpwood

Removals of pulpwood were 26.4 million m³ solid volumes under bark in 2002. An increase of 12 % compared to 2001. In 2003 and 2004 removals are expected to increase to 27.2 respectively 27.6. million m³.

Pulpwood prices (deliver logs) declined on average (- 6 %) in 2002 compared to 2001. In the first half of 2003 prices increased compared to the same period last year. Prices are forecast to be unchanged in both short and long run. A factor affecting the pulpwood market this winter is the energy market. Higher biofuel prices can result in higher prices on pulp wood.

Wood fuel

The production of by-products as wood fuel was 31.5 TWh during 2001, a small fall compared to the year before. Figures for 2002 are not yet clarified but according to Swedish Wood Fuel Association figures so far indicate an increase of total wood fuel by 4 %. Production of processed wood fuel is unchanged in 2002, but the use in district heating plants decrease whereas the use in individual houses increase.

In 2003 indications points towards less supply and unchanged demand of wood fuel. This could partly explain the rise in prices. Harvest of wood fuel is around 5.9 million m³ solid volumes and of logging residuals the volume is 3.4 - 4.3 million m³ solid volumes.

In the coming season prices on wood fuel are not expected to change unless it will be a cold winter and therefore a rise in demand and prices.

D. Certified forest products

Approximately 12.3 million hectares or 55 % of total forest land were certified in Sweden in June 2003. This is just a small increase compared to last year. The increase seems to have slowed down when it comes to certifying forest land.

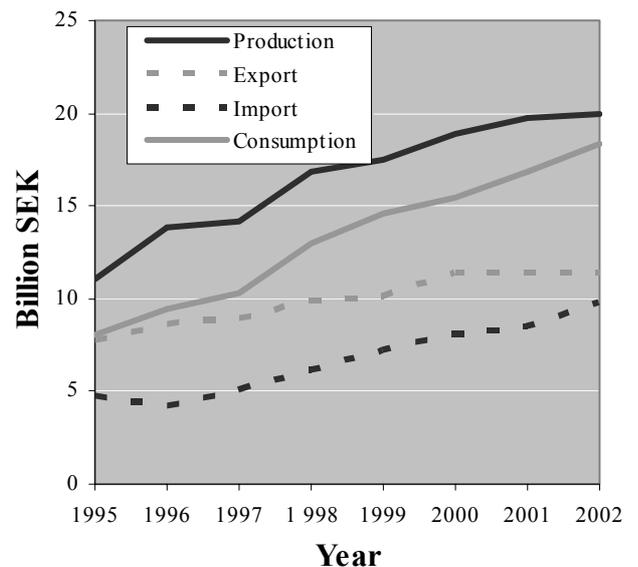
Companies in Sweden have noticed an increased interest for certified wood products and paper in Europe, particularly in Great Britain and Ireland. Total volumes are still modest but interest is expected to rise among larger customer. In Sweden building-material companies have shown interest for certified wood products.

As the first forest industry in Sweden Holmen AB has applied for certifying their forestry according to the PEFC-standard. The company will by that be double-certified since they earlier have been certified according to FSC-standard. The reason behind this is that the largest customer requires PEFC certified raw material. Other companies consider doing the same.

E. Value-added products

The Swedish production, export and import of furniture have steadily increased since the mid 90's. Largest export countries in 2002 were Norway (26 %), Denmark (10 %), Germany (9 %), Great Britain (8 %), Finland (7 %) and USA (6 %). Import countries in 2002 were above all Denmark, Poland and Germany. Approximately 50 % of export and import are with EU countries. Export between January and Mars 2003 is slightly bigger compared to the same period last year. Import has, on the other hand, been falling compared to last year.

Swedish production and foreign trade of furniture



Source: The employee association of the Swedish wood products industry.

F. Sawn softwood

Production of sawn softwood was 16.6 million m³ during 2002. Production is expected to rise to 17.0 million m³ in 2003. The data are revised due to a new method in compiling data. Export was 11.4 million m³ in 2002, an increase of 4.4 %. In 2003 export is expected to fall to 11.0 million m³.

Last year record in production seems to continue this year. Higher production in 2003 is due to an expected rise in domestic consumption, from 5.5 to 6.4 million m³. Utilization of capacity is about 90 %. Production is thus still good and export prices have increased at the outset of this year. Now, however, the prices have begun to go down. Export to Europe is decreasing whereas export to non-Europe has increased, to approximately 25 % of total export. An explanation of decreasing export so far in 2003 is a stronger krona and a slackening demand and an increasing supply on the world market.

Largest non-European markets are Japan, USA and Egypt. Increased export in 2004

depends on whether prices in USA start to rise and the development of the exchange-rate.

G. Sawn hardwood

Production of sawn hardwood in 2002 was 160,000 m³. Export and import declined in 2002 and are expected to fall further in 2003 and 2004. During 2004 production can, however, fall due to movement of production abroad.

Other changes on the market are that the company Kährs is closing-down a flooring plant and transfer the remaining operations to the Nybro plant. The cause of this reorganisation is a more competitive market condition in both Europe and North America. Floor manufacturing is anyhow still satisfactory, especially oak parquet.

H. Wood-based panels

During 2002 the production of particle board was 564,000 m³. The production is expected to fall this year and probably be unchanged the year after. According to the trade statistics the export of particle board has increased in 2002 but is expected to fall in 2003. Import of particle board has lowering in 2002 compared to 2001. In 2003 import is predicted to be unchanged.

Export value of wood-based panels declined from 612 to 499 million SEK, compared to 2001. An explanation to this is the close down of two factories in 2002. The competition from the energy sector about the byproducts from sawmills are still hard.

I. Pulp and paper

In 2002 production of wood pulp was 11.4 million tons, which was about 300,000 ton more than the year before. Production of wood pulp has in the first half of 2003 increased with 4 % compared to the same period last year. At the same time has production of mechanical and sulphate pulp increased with 6 respectively 4 %. Production of sulphite and semi-chemical pulp are unchanged compared to the first six months last year. The production is forecast to continue to rise in 2004. Utilization of capacity was over 90 % during this spring. Export increased in 2002 with 4 % and is predicted to continue to rise in 2003 and 2004.

Inflow of raw materials is relatively good, partly because of high production in sawmills which result in wood pulp and chips. Prices of wood pulp have been unchanged for a while and will probably lay still the whole season. In 2004 and 2005, the price of wood pulp is predicted to surge as demand for paper and paperboard rises in a strengthening economy. Export prices are estimated to fall principally due to a stronger krona. In 2004 prices are predicted to start rising.

Production and export of paper and paperboard slightly increased in 2002. In 2003 production is expected to further increase. In the first half of 2003 production of paper and paperboard increased by 4 % compared to same period last year. Export increased by 5 % the first half of 2003 compared to the same period last year. Production within the packing industry and foremost those producing cardboard for liquid has been doing very well lately.

4. Tables

A. Economic indicators

(Annual percentage change and percent, respectively)

	2002	2003	2004	2005
GDP at market prices*	1.9	1.3	2.3	2.3
Repo rate (At year-end)*	3.75	2.50	2.50	4.0
Productivity in business sector	4.1	2.7	2.5	2.6
Consumer price index, Dec-Dec*	2.3	2.0	0.7	2.3
UND1X, Dec-Dec*	2.2	2.3	0.9	1.6
Construction volume, total, constant prices	2.3	1.1	1.6	2.8
Forest industry				
Production, constant prices	4.0	1.0	3.9	3.5
Worked hours	-1.5	-1.5	1.1	0.8
Productivity	2.5	2.5	2.8	2.7
Export of Forest industry products				
Volume	7.0	5.0	2.8	2.3
Price index	-6.0	-4.5	6.2	6.2
Value, current prices	0.6	0.3	9.2	9.2
Import of Forest industry products				
Volume	10.4	11.2	3.0	1.7
Price index	-2.6	-2.2	5.2	5.4
Value, current prices	7.6	8.8	8.3	7.2
Housing Starts				
(Number)				
Blocks of flats	11,460	13,590	13,500	15,150
Single-and two- family houses	6,921	8,132	8,700	9,200

* Consideration for a “no” to the euro has been taken.

B. Forest products production and trade in 2002, 2003 and 2004

Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2001	2002	2002	2003	2004
5.C	SAWNWOOD, CONIFEROUS						
	Production	1000 m ³	15 830	16 400	16 600	17 000	17 000
	Imports	1000 m ³	145	328	328	350	350
	Exports	1000 m ³	10 967	11 454	11 454	11 000	11 000
	Apparent consumption	1000 m ³	5 008	5 274	5 474	6 350	6 350
5.NC	SAWNWOOD, NON-CONIFEROUS						
	Production	1000 m ³	158	160		160	160
	Imports	1000 m ³	154	111		80	70
	Exports	1000 m ³	26	22		20	20
	Apparent consumption	1000 m ³	286	249		220	210
5.NC.T	of which, tropical sawnwood						
	Production	1000 m ³	2	2		1	1
	Imports	1000 m ³	14	11		10	10
	Exports	1000 m ³	2	1		1	1
	Apparent consumption	1000 m ³	14	12		10	10
6.1	VENEER SHEETS						
	Production	1000 m ³	17 C	15 C	29	25	25
	Imports	1000 m ³	29 C	28 C	28	25	25
	Exports	1000 m ³	14 C	18 C	18	15	15
	Apparent consumption	1000 m ³	33	26	39	35	35
6.1.NC.T	of which, tropical veneer sheets						
	Production	1000 m ³	1	1		1	1
	Imports	1000 m ³	2	2		1	1
	Exports	1000 m ³	1	1		1	1
	Apparent consumption	1000 m ³	2	2		1	1
6.2	PLYWOOD						
	Production	1000 m ³	106 C	79 C	87	90	90
	Imports	1000 m ³	157 C	152 C	152	150	150
	Exports	1000 m ³	55 C	48 C	48	50	50
	Apparent consumption	1000 m ³	208	183	191	190	190
6.2.NC.T	of which, tropical plywood						
	Production	1000 m ³	0	0		0	0
	Imports	1000 m ³	6	4		3	3
	Exports	1000 m ³	1	1 E		1	1
	Apparent consumption	1000 m ³	5	3		2	2
6.3	PARTICLE BOARD (including OSB)						
	Production	1000 m ³	584	564		500	500
	Imports	1000 m ³	411	342		350	350
	Exports	1000 m ³	103	115		100	100
	Apparent consumption	1000 m ³	892	791		750	750
6.3.1	of which, OSB						
	Production	1000 m ³	0	0	0	0	0
	Imports	1000 m ³	21 E	17 E	49	50	50
	Exports	1000 m ³	5 E	6 E	17	15	15
	Apparent consumption	1000 m ³	15	11	32	35	35
6.4	FIBREBOARD						
	Production	1000 m ³	174 C	192 C	189	170	170
	Imports	1000 m ³	94 C	154 C	150	150	150
	Exports	1000 m ³	55 C	50 C	61	50	50
	Apparent consumption	1000 m ³	213	295	278	270	270
6.4.1	Hardboard						
	Production	1000 m ³	70 E	77 E	78	65	65
	Imports	1000 m ³	38	68	48	50	50
	Exports	1000 m ³	21 E	19 E	20	15	15
	Apparent consumption	1000 m ³	87	125	106	100	100
6.4.2	MDF (Medium density)						
	Production	1000 m ³	70 E	77 E	86	85	85
	Imports	1000 m ³	25	40	58	60	60
	Exports	1000 m ³	12 E	11 E	20	20	20
	Apparent consumption	1000 m ³	83	106	124	125	125
6.4.3	Insulating board						
	Production	1000 m ³	35 E	38 E	25	20	20
	Imports	1000 m ³	30	46	44	40	40
	Exports	1000 m ³	23 E	21 E	21	15	15
	Apparent consumption	1000 m ³	42	63	48	45	45
7	WOOD PULP						
	Production	1000 m.t.	11 028 C	11 382 C	11 354	11 600	11 800
	Imports	1000 m.t.	309 C	387 C	387	400	400
	Exports	1000 m.t.	3 041 C	3 377 C	3 377	3 500	3 600
	Apparent consumption	1000 m.t.	8 296	8 392	8 364	8 500	8 600
10	PAPER & PAPERBOARD						
	Production	1000 m.t.	10 534 C	10 724 C		11 100	11 300
	Imports	1000 m.t.	593 C	652 C		700	700
	Exports	1000 m.t.	8 420 C	8 989 C		9 200	9 300
	Apparent consumption	1000 m.t.	2 707	2 386		2 600	2 700