ECONOMIC COMMISSION FOR EUROPE
Timber committee

FINLAND

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MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS AFFECTING THE FOREST AND FOREST INDUSTRIES SECTOR

Economic growth in Finland's main European forest industry export markets remained low in 2003. Demand for forest products was weak and the market suffered from oversupply. As a result prices were falling and the value of Finnish forest industry exports dropped 4% compared to 2002. Export quantities rose only in the paper industry moderately. The GDP growth in the euro area was no more than 0.5%. Among the key export countries, growth was particularly weak in Germany. The strengthening of the euro against the US dollar has been one factor restraining economic growth.

In 2004, the acceleration in GDP growth in the world economy has improved the economy in the euro area as well. The strengthening of the US and Asian economies, in particular, has boosted exports, and this, together with low interest rates and a gradual revival in consumption are expected to raise GDP growth in the euro area. According to the reports of most forecast organizations the economic growth is expected to be almost 2% in 2004.

The improving economic situation has strengthened also the demand for forest products, which create brighter prospects also for Finnish exports. 2004 GDP growth in the world economy weighted according to the distribution of Finnish forest industry exports is expected to rise from 1.80 in last year to about 3% in 2004. Next year the weighted growth is expected to remain a bit under 3%.

There are, however, uncertainties that cast a shadow over the prospects for this brighter outlook. The extent of indebtness in the United States economy and among US households is a key uncertainty that could affect growth in the US economy and create uncertainty on the world economy and the currency markets. Uncertainty is also related to the price development of crude oil and its effects on world economic growth.

2 DEVELOPMENTS IN FOREST PRODUCTS MARKETS SECTORS

2.1 Roundwood

In 2003, the raw material consumption of the Finnish forest industry was at a level of 85.8 million m^3 over bark (domestic roundwood 57 mill. m^3, imported roundwood and chips 16.5 mill.m^3, and domestic wood residues 12.3 mill.m^3). The volume increased by 2.5 million m^3 over previous year 2002 due to an increase in operation rates in the forest industry.

In 2004, the industrial wood consumption in Finland is estimated to hit a new record level. This is due to an increase in the forest industry operation rates and due to the entrance of some new pulp and paper capacity during the year. However, the increase in the forest industry production and thereby in wood consumption does not show in the harvests yet. The preliminary statistics for the domestic roundwood harvests in January-July 2004 show a 2% drop from the respective levels in the previous year. The net wood imports have increased by 1% during January-June 2004 over the same period last year. Roundwood inventories of forest industries have declined considerably.

The Finnish stumpage prices for roundwood have decreased in January-August 2004 in comparison with the respective period in 2003. Pulpwood prices have experienced the most drastic decrease. Stumpage prices for pine and birch pulpwood have dropped by about 12% and spruce pulpwood by 5%. Regarding sawlogs, the stumpage price of pine logs has been down by 3% and spruce sawlogs down by 1.5% in comparison with January-August 2003.

The industrial wood consumption in 2005 is expected to rise further by approximately 1 %.

2.2 Pulp and paper

Situation in 2003

Despite falling export prices, overall production in the Finnish forest industry was rising in 2003. Paper and paperboard production amounted to 13.1 million tons in 2003, about 2% over the previous year. Capacity utilization in the paper industry averaged 89% in 2003 (88% in 2002). The low figure shows that the market situation was still difficult like the year before. The situation varied from one paper grade to another, however.

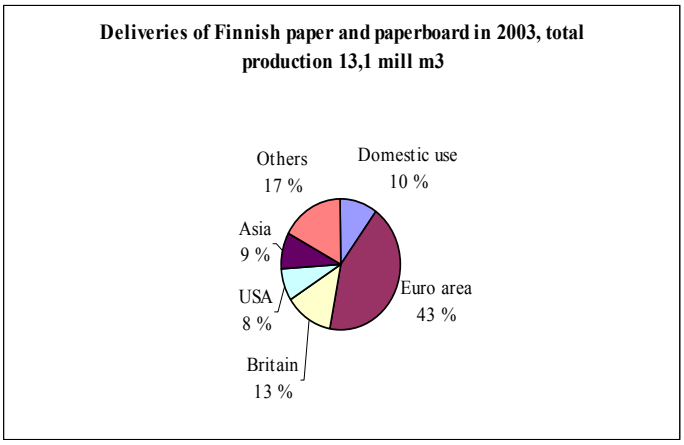
Newsprint production continued to decline throughout the year and totalled circa 0.9 million tons in 2003. This signified a drop of 6% on the previous year's figure.

The reduction was due to demand-related stoppages. Production of printing and writing papers totalled 8.3 million tons in 2003, up 4.6% over the previous year. In this category production rose for both fine papers (wood free p&w papers) and magazine papers (mechanical p&w papers). Production of kraft paper declined whereas the production in the other paper group rose by 2% in 2003.

Mechanical pulp production remained close to the previous year's figure in 2003, because the drop in newsprint production was compensated by the increased magazine paper production. Chemical pulp production, on the other hand, rose by 3% thanks to higher domestic and export demand.

Paperboard production decreased slightly and totalled 2.7 million tons.
In all, the pulp and paper industry production in Finland increased by 2 per cent in 2003. The paper and paperboard production still fell considerably short of the record level achieved in 2000, while the chemical pulp production set a new record.

In 2003, the total export volume of the Finnish pulp and paper industry was up by 4%. The value of exports was 9 billion EUR, 5% less than in 2002. The average export prices decreased by some 9% for paper, 4% for paperboard and 6% for pulp from that of 2002. The decrease in prices was caused by overcapacity and the weakening US dollar.



Outlook for years 2004 and 2005

Growth in the world economy improved in the first half of 2004. A recovery of the demand for paper in Europe shows in capacity utilization rate in the Finnish paper industry, which averaged 91 % in the first half of 2004. The figure in the year before was 88%. Nevertheless, the operation levels are still unsatisfactory.

In January–June 2004, the paper and paperboard production totalled 6.8 million

tons. This was up 6% on the same period in 2003. Chemical pulp production rose by almost 7% and totalled 3.9 million tons. The total pulp production in January–June came to 6.3 million tons, which was also 6% higher than the year before.

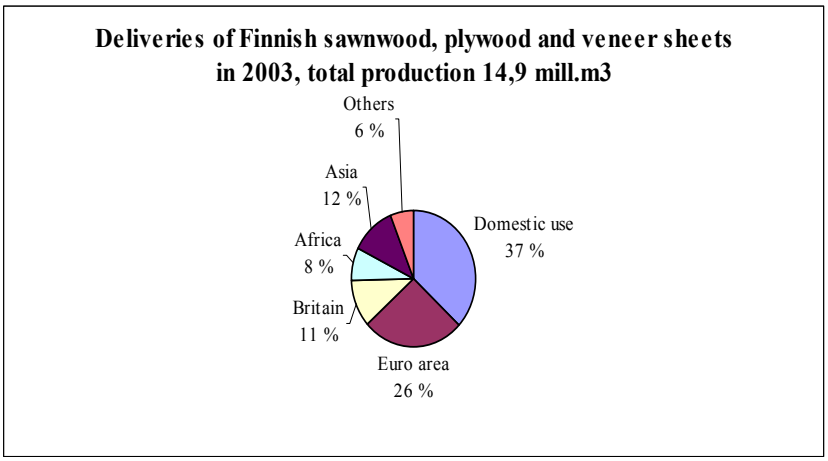
As to exports, the tight market situation and the strong euro kept the falling price trend in most products. On average, on the first half of 2004 the Finnish export prices of paper and paperboard were some 7% lower than year before. While the export volume was up by 7% the value of exports remained unchanged.

Due to the improved economic prospects for the whole year 2004, Finnish production and exports of paper and paperboard are estimated to rise at a higher rate than last year. Also for the year 2005, prospects for the production and exports are expected to remain bright and production and export quantities are expected to continue to rise moderately.

2.3 Sawn softwood

Production of sawn softwood increased by 3% and reached a record level in 2003, 13.65 million m^3. Redwood and whitewood had roughly equal shares. Exports of sawn softwood totalled 8.1 mill.m^3, of which planed goods and finger jointed products accounted for 11%. The importance of the domestic market to the Finnish sawnwood industry has grown: in 2003 about 43% (5.6 mill.m^3) went to domestic market. With an increase of almost 5% from the previous year, the domestic apparent consumption was roughly 1 m^3 per capita.

The main export countries for Finland are in European Union (especially UK, Germany, France and the Netherlands) consisting of 62 % of the exports in 2003. Exports to Japan have increased strongly during the past decade, totalling 1 mill. m^3 in 2003. The share of Japan in the Finnish exports was 12 %.



Outlook for years 2004 and 2005

Finnish production of sawn softwood has continued to stay at the high level during the first half of the year. It is estimated that for the whole year of 2004, production will be 13.7 mill. m^3 with about 50–50% of redwood and whitewood.

Exports of sawn softwood in January–May 2004 indicate strong growth in redwood exports (by 8%) and slight growth (2%) in whitewood. Exports of planed goods have decreased by 5% during January-May. However, towards the end of the year the prospects are slightly better for the whitewood exports, and the share of redwood will slightly decline. Best export markets for Finnish sawnwood in January-May have been France (+10%), Germany (+12%) and Japan (+7%). Also export levels to the United Kingdom have remained high with an only 2% drop from the previous year.

For the whole year, Finnish export deliveries are estimated to remain at about the same level as last year (+1%) and equal 8.2 mill.m^3. Domestic apparent consumption will again be at the very high level, over 5.5 mill.m^3.

For the year 2005, prospects for the production and exports of sawn softwood are relatively stable. We estimate production and exports to decrease by 1% next year mainly due to shut-down of a few smaller sawmills.

2.4 Wood-based panels products

Plywood is the most important product category in Finnish wood based panels production. During the past decade, the plywood capacity has increased substantially. In 2003, the production of plywood increased with +5% to a new record level 1.3 million m^3. Especially softwood plywood production in Finland has grown as a result of growing capacity. Birch production has suffered from increased competition, especially from outside Europe.

Particle board production was 0.4 mill.m^3 in 2003 and it has remained at constant level during the recent years. There is no change in production capacity in 2004. Exports have suffered from the poor market in Europe and that has been reflected on the price level. Domestic consumption increased by 4% in 2003.

Increase in the production of fibreboard was up by 4% last year. In year 2004, production is expected to reach roughly 150 000 tons, the same as last year.

2.5 Certified forest products

About 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation.

Demand for PEFC-labelled products is growing. Forest industry companies have acquired certified chain-of-custody systems in order to obtain PEFC-logo usage right. Today there are 75 PEFC logo licence holders among Finnish forest industries. These licenses cover the major share of wood procurement (55 mill. m^3), sawnwood (10 mill. m^3) and panels (2 mill. m^3) production. Furthermore, 3 mill. tons of pulp, 2.3 mill. tons of paper and 0.5 mill. tons of paperboard production have been granted the PEFC-logo usage right.

3 TABLES

3.1 Economic indicators

Key economic indicators	2002	2003*	2004e	2005e
Gross domestic product growth, %	2.3	2.0	3.2	3.5
Consumer price index change, %	1.6	0.9	0.2	1.3
Wage level change, %	3.3	3.9	3.5	3.0
Unemployment rate, %	9.1	9.0	8.9	8.7
Current account surplus/GDP, %	7.4	5.2	5.3	6.0
Industrial output change, %	2.1	0.1	2.9	4.9
Three month EURIBOR, %	3.3	2.3	2.1	2.4

Source: The Research Institute of the Finnish Economy (ETLA); September 2004

3.2. Forest Industry Production and Exports in 2000–2003

1. Forest industry production in Finland					
	Unit	2001	2002	2003	2002/2003
	1000				Change, %
Sawn softwood	cum	12670	13280	13645	3
Plywood	cum	1145	1240	1300	5
Particle board	cum	430	413	399	-3
Fibreboard	tons	109	101	101	0
Mechanical pulp	tons	4621	4588	4598	0
Chemical pulp	tons	6548	7143	7350	3
Pulp total	tons	11169	11731	11948	2
Paper	tons	9902	10050	10353	3
-Newsprint	tons	1296	1007	946	-6
-Prnting & writing p.	tons	7592	7955	8318	5
--Mechanical P&W	tons	5062	5335	5586	5
---Uncoated	tons	2039	2204	2195	-0
---Coated	tons	3022	3131	3391	8
--Woodfree	tons	2530	2621	2732	4
---Uncoated	tons	1231	1139	1091	-4
---Coated	tons	1300	1482	1641	11
Kraft Paper	tons	494	543	532	-2
Other Paper	tons	520	544	557	2
Paperboard	tons	2601	2738	2706	-1
Paper & P. board total	tons	12503	12788	13058	2

Source: Finnish Forest Industries Federation, Statistics 2004

2. Volume of Exports of Finnish Forest Industry Products					
	Unit	2001	2002	2003	2002/2003
	1000				Change, %
Wood products industry					
Sawn and planed goods	cum	8135	8187	8169	0
-Coniferous	cum	7196	7174	7227	1
Plywood	cum	1009	1117	1172	5
Veneer sheets	cum	97	75	78	4
Particle board	cum	218	219	199	-9
Fibreboard	tons	72	72	68	-6
Pulp					
Mechanical pulp	tons	1	26	20	-24
1)Chemical pulp	tons	1593	1954	2235	14
Pulp total	tons	1800	2243	2491	11
Paper	tons	8894	9116	9444	4
-Newsprint	tons	1041	749	744	-1
-Prnting & writing p.	tons				
--Mechanical P&W	tons	4711	5070	5317	5
---Uncoated	tons	1814	2158	2144	-1
---Coated	tons	2897	2912	3173	9
--Woodfree	tons	2316	2571	2679	4
---Uncoated	tons	1158	1093	1040	-5
---Coated	tons	1158	1478	1639	11
Kraft Paper	tons	461	402	398	0
Other Paper	tons	366	324	306	-6
Paperboard	tons	2209	2310	2261	-2
Paper & P. board total	tons	11103	11426	11705	2

Source: National Board of Customs
1)Bleached sulphate pulp