

IRELAND
NATIONAL MARKET REPORT, 2004

To

Annual Meeting of Timber Committee

5th – 9th October 2004

1. GENERAL ECONOMIC TRENDS

Key economic indicators of the performance of the Irish economy in recent years, together with an indication of the likely outcome for this year are illustrated in the following table:

	1997-2002 Average	2003	2004 mid-year Forecast
	Annual Percentage Volume Changes		
Economic Growth			
Gross Domestic Product (GDP)	8.4	3.7	4.7
Gross National Product (GNP)	6.4	2.8	4.2
Expenditure on GNP			
Personal Consumption	6.6	2.6	3.6
Public Consumption	8.1	2.5	2.1
Fixed Investment	7.9	3.4	4.4
Exports of Goods and Services	14.1	-0.8	5.3
Imports of Goods and Services	13.6	-2.3	4.3
Level of GNP (€ billion)	-	111.7	120.2
Employment change (000)	75	33.6	38
Unemployment (%)	5.8	4.6	4.5
Consumer Price Index (%)	3.4	3.5	2.2
General Government Balance as % of GDP	1.9	0.2	-0.4

Source: Economic Review and Outlook, August 2004.

Economic Highlights for 2004:

- Real GDP and GNP are expected to grow by about 4.7 per cent and 4.2 per cent respectively. This compares favourably with forecast EU-15 growth of 2%. Ireland remains one of the strongest economies in the EU.
- Employment is forecast to increase by 2.1 per cent, or 38,000. Unemployment is expected to average 4.5 per cent for the year as a whole.
- Inflation, as measured by the Consumer Price Index (CPI), is expected to average in the region of 2.2 per cent for the year.
- A government deficit is projected. The debt/GDP ratio is expected to be about 31.5 per cent.

2. DEVELOPMENTS IN FOREST PRODUCTS MARKETS

2.1 Roundwood Markets

Most of the roundwood produced in Ireland (approx. 94%) is harvested from plantation forests established over the past 70 years and are owned and managed by Coillte Teoranta (The Irish Forestry Board). The overall forest estate, excluding plantations under 10 years old, is adding incremental volume of 3.3 million m³ annually, of which about 80% is harvested depending on market demand. Roundwood supply from private forests is expected to increase over the next 10 years.

Roundwood production in 2003 amounted to 2.66 million m³ from Coillte (overbark), a decrease of 2% on the previous year's production, and another approx. 0.2 million m³ from the private forest owners. There was an increase in the demand for sawlog of 6% and a decrease of 16% in the demand for pulpwood. The decrease in pulpwood demand was mainly due a substitution of chips for pulpwood in the panel board sector. A increase in roundwood production is expected in 2004, due principally to increased demand from OSB and MDF panel sector. For the first time in recent history Ireland has seen the importation of sawlog from Scotland to Ireland but volumes while small it is expected to increase in 2004.

2.2 Construction Timber

The Irish market for construction timber has grown substantially in recent years. Consumption remains high in 2003 despite the general slowdown in economic activity. The number of new houses and apartments built in 2003 rose to 68,819, up 16% on 2002 (57,695 units). This was the 11th successive year of increased house completions, with an annual average increase of 11% (Figure 1).

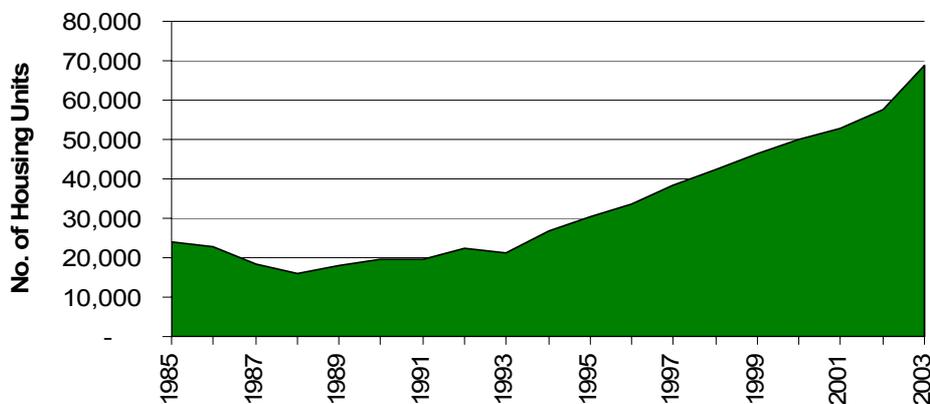


Figure 1: New Houses Completions in the Republic of Ireland (1996 -2002). **Source:** (DOE, 2004)

There was a noticeable shift in the house type being built, which impacts the consumption patterns of sawn softwood (Figure 2). The larger consumers of sawnwood, the detached house and bungalow, showed a decline, while the semi-detached house, terraced house and apartment grouping showed an increase.

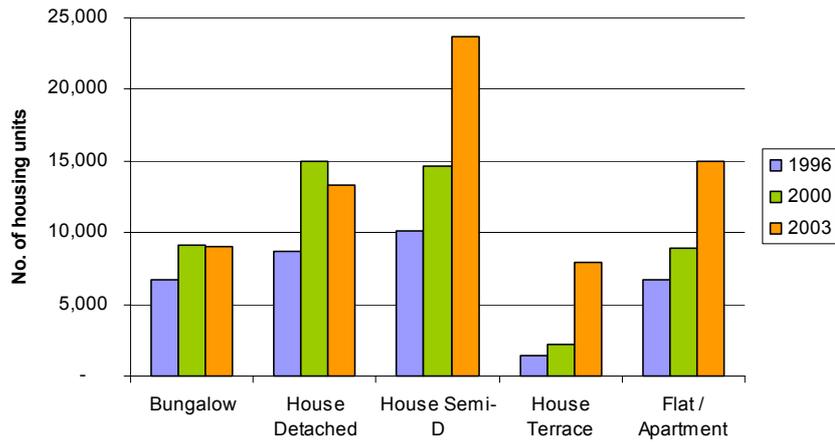


Figure 2: New Houses Completed by House Type in the Republic of Ireland (1996, 2000 & 2003).
Source: (DOE, 2003).

The overall consumption level for timber in 2003 is estimated at approx. 1.6 million m³, up on the demand in 2002 of 1.4 million m³ (Figure 3). However, there have been some changes with the supplying nations. The major shift comes from a reduction in supply from the Baltic States at approx. 218,000 m³ from 274,000 m³ in 2002. The Baltic's now represent 14% of the Irish sawn softwood market, just behind Sweden at 16% (an increase in volume terms) and Finland has increase volume sales by 20% to 178,000 m³, at 11% of the market. The Russians are still small players but have gone from 5,000 m³ in 2001 to 47,000 m³ in 2003. Also, there is increased evidence of more German timber, particularly long length material, coming into Ireland. Despite the increased production from Irish sawmills, their overall market share remained constant at 43%. Almost all of Irish produced construction sawnwood is consumed on the Island of Ireland.

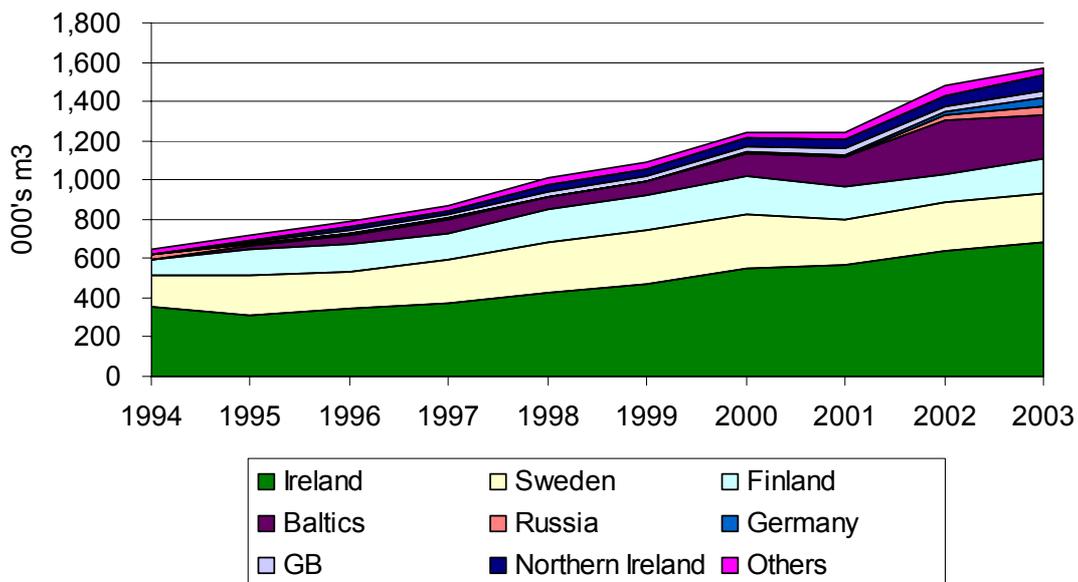


Figure 3: Sawn Softwood Consumption in the Republic of Ireland. (Source: Coillte, 2004)

2.3 Pallet and Packaging Timber

Demand for pallet and packaging timber remained very strong in 2003 as a result of the high levels of construction and manufacturing activity. However, over half of the production of pallet material from Irish sawmills was exported in 2003, mainly to the UK. This trend is likely to continue due to the high levels of production of pallet boards and block material. Exports to the UK remain stable but are under price pressure due to increasing volume coming on stream from UK sawmills and large volumes of imported material arriving on the UK docks. Also, this export market is very sensitive to the Euro / Sterling exchange rate. There is also a shift in the product mix coming from Irish sawmills away from pallet and packaging material into the value adding market of fencing and lifestyle products.

Fencing and garden / lifestyle products are becoming an increasingly important market for Irish sawmillers with 27% of all sawn timber going into this market sector. The increase in new houses being built links with increased consumer demand for decking and other garden products and has proved an important value added market for Irish producers. However, similar to pallet wood, over half of the production is being exported to the GB market.

2.4. Pulpwood and Sawmill Residues Demand

The Irish board mills maintained a competitive position in their respective markets. Demand for residues and pulpwood from the panel board sector increased to around 1.8 million m³, up approx. 6% on 2002 demand. In 2003 the panel sector increased production significantly over 2002, continuing to develop strong market position, particularly in the North American, GB and European markets. The Irish market is expanding with the increase proportion of timberframe houses being built, now standing at 20%, up from less than 1% in the early 1990's. OSB is becoming a more accepted product in the market place for sheathing, shuttering and general site usage.

3. OUTLOOK

The outlook for forest products in Ireland for remainder of 2004 remains positive. There is continuing strong demand for roundwood in 2004 from the pulpwood sector, with sawlog demand levelling. House construction activity is still high in 2004 but forecasts suggest that there is an expected levelling off in housing demand after 2004 and there a slowdown expected in commercial construction activity over the next few years. The principle challenges will be to further improve the competitiveness of the sawmilling industry, to increase the share of the Irish construction market supplied by Irish timber, particularly in the Dublin market, and to expand into the Repair, Maintenance and Improvements market. Also, to increase the demand of fencing and garden products and to remove the reliance on the pallet and packaging sector.

4. SUSTAINABLE FOREST MANAGEMENT / CERTIFICATION

Coillte Teo (The Irish Forestry Board) is the largest landowner in Ireland, with a forest estate of close to 500,000 hectares. Coillte is committed to the concept of Sustainable Forest Management and in mid – 2001 was awarded the Forest Stewardship Council (FSC) Certification. Coillte had its first surveillance audit in November 2001 with a positive result and its fourth audit in May 2004, again with a positive outcome. The FSC auditors will continue to monitor Coillte's operations.