

ECONOMIC COMMISSION FOR EUROPE
Timber committee

FINLAND

September 2005

MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS

In 2005, unexpected slow economic growth in euro area together with the labour dispute in paper industry in May and June will induce slower demand for Finnish exports and reduce the industrial output, respectively. Therefore, the forecast of Finnish GDP growth for this year has been lowered to be slightly above 2 percent in year-to-year terms.

The outlook of Finnish economy for 2006 seems more optimistic. Both the Finnish business tendency survey and the consumer confidence indicator indicate strong confidence for Finland's economy. Because of the expected recovery of the international trade together with the reduction of total industrial output in this year caused by the labour dispute in paper industry and the consequent leverage effect for the next year, the GDP growth in Finland is expected to raise to 3.7 percent in 2006. Despite of this rapid growth, however, the views of unemployment development are pessimistic. In 2006, the unemployment rate is expected to decrease only to 8.2 percent.

GDP growth in Finland in 2006 is driven mainly by increase in domestic private investments and exports. Fixed private investments are expected to increase 4–5 percent in 2006. This is partly due to low inflation which ensures high purchasing power for households. Also, low interest rates induce that construction activity, especially residential construction, remains strong. Public investments will increase only slowly.

The economic growth in euro zone is expected to remain slow in 2006. The annual forecast is about 2 percent. This, as well as the forecasts of depreciation of the euro against the US dollar, rapid GDP growth in Asia, US, UK and Russian economies, will strengthen the demand for forest products, which create brighter prospects also for Finnish exports. Therefore, the total exports from Finland are expected to rise to 7 percent in 2006.

However, there are uncertainties which can threaten the positive outlook for Finnish economy. The excessive current account deficit, extent of indebtedness and gradual increases of interest rates in the United States economy could affect growth in the US economy, cause global uncertainty on the world economy and create disturbances also in currency markets. Unexpected exogenous shocks, such as price development of crude oil, natural phenomenon and catastrophes and China's increasing role in global content may also not be belittled.

2 RECENT POLICY MEASURES

As from March 1, 2005, a 1% border inspection sample has been taken from imported softwood in order to minimize the risk of harmful pathogens or pests spreading to the European Union. This new border control is working well.

3 DEVELOPMENTS IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2004, the domestic roundwood procurement for the industrial use amounted to 48,8 mill. m³ u.b. The supply from abroad accounted for 15.1 mill. m³ u.b. thus totaling 63.9 mill. m³ u.b. In addition, 0.5 mill. m³ of roundwood was exported. The total roundwood procurement was about one mill. m³ over the previous year's figure.

In 2005, the industrial wood consumption in Finland decreases due to pulp and paper industry lock-out, which lasted over 6 weeks extending its effects also to other wood industry segments. Inventories of felled wood and chips in forest industries increased by close to one half by the end of June 2005. The preliminary statistics for the domestic roundwood harvests in January-July 2004 show a 7 % drop from the respective levels in the previous year. In contrast, the imports of roundwood and chips have increased by 24 % during January-June 2005 over the same period last year.

It is estimated that the total imports of roundwood and chips will be at record level of about 16.8 mill. m³ u.b. in year 2005. Overall, the total use of roundwood in Finnish forest industry is expected to decline in 2005 to roughly 60 mill. m³, i.e. by about 7 %.

In spite of drop in wood consumption and harvests, the Finnish stumpage prices for roundwood have increased in January-July 2005 in comparison to the respective period in 2004. Spruce and birch sawlog and spruce pulpwood prices have experienced the most drastic increase of 4-5 % over previous year. Only stumpage prices for pine sawlogs show a decline of 2 % during 2005. In the turn of the years 2005/2006, the transition period in the Finnish forest taxation system from capital taxation to sales taxation, which has boosted especially the supply of sawlogs in the market, will end. Forecasting the use of domestic wood, harvests and stumpage prices for year 2006 is therefore more difficult task this time. Due to a low base year of 2005, use of roundwood is expected to rise by about one tenth in 2006, incorporating a new record in wood imports (18 mill. m³ u.b.).

B. Wood energy

Wood-based energy accounts for 20% of all energy consumed in Finland and 60% of the Finnish forest industry's energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.). The Government's aim is to make all forms of renewable energy, mostly

bioenergy, competitive on the open energy markets. The following support measures are employed:

- a carbon-based environmental fuel tax
- support to electricity production when based on renewable sources
- aid for investments aiming at develop and promote utilization of renewable energy
- support for the production of forest fuels
- public financial support to development and commercialization of technology

C. 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 ECO-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. m³), sawnwood (10 mill. m³) and panels (2 mill. m³) 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.

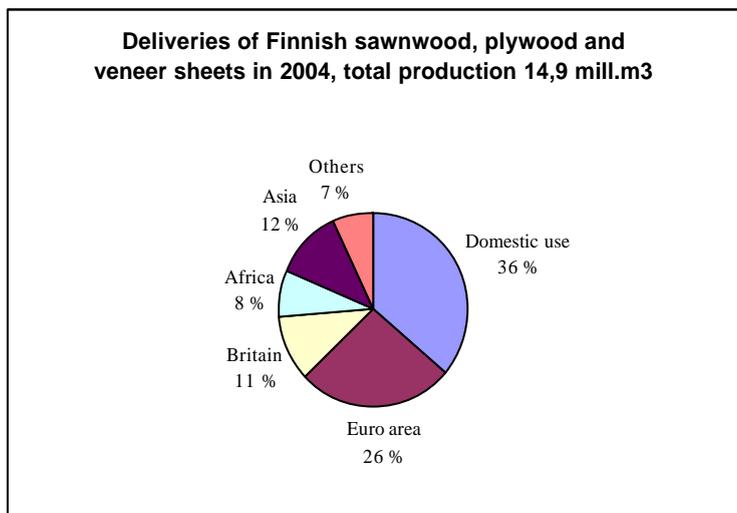
D. Value-added wood products

E. Sawn softwood

In the whole Finnish woodworking industry, sawnwood and plywood are the main products accounting for 51 % and 21 % of the industry's export value in 2004, respectively. The rest of 28 % is divided by particle board, wooden furniture, fibreboard, wooden prefabricated houses, etc.

In Finnish sawnwood industry sawn softwood is the main product. Europe is the main export market for Finland (especially UK, Germany, France and the Netherlands) accounting for 67 % of the exports in 2004. Due to increasing market competition and downward price development in Europe, sawnwood export growth in recent years has concentrated outside Europe, e.g. to Japan who's share in the Finnish sawnwood exports increased to 14 % in 2004.

In 2004, sawnwood exports was 1 % up reaching 8.23 mill.m³ of which planed goods and finger jointed products accounted for about 12 %. Production slightly decreased (1.4%) totalling 13.46 million m³. Redwood and whitewood have approximated equal share in sawnwood production. Domestic market is important to the Finnish sawnwood industry: in 2004 about 40% (5.3 mill. m³) went to domestic market, where the apparent consumption was roughly 1 m³ per capita.



Outlook for years 2005 and 2006

The spring and summer 2005 production lock-out in the Finnish pulp and paper mills affected directly on the Finnish sawmill industry. Production was halted in several sawmills due to difficulties in selling their chips. Sawnwood production decreased already in the first quarter of 2005 compared to the previous year, but the reduction in the first 7 months was altogether 14% behind the previous year's figures. However, it can be estimated that the production decrease over the year 2005 could be smaller (about 7%). Towards the end of the year, production quantities are expected to return close to levels produced in the last months of 2004, and the estimated production this year will be 12.50 mill. m³.

Exports of sawn softwood in January–June 2005 show decreasing development. Redwood and whitewood exports was 8% less than the figure for the same period last year. Although price increases are expected in the European export markets towards the end of the year, the prospects remain weaker for redwood than for whitewood due to its weaker market balance. To the main market area, Europe, Finnish exports have decreased 12 %. Exports to some African countries and North America show slight increases, but quantities are relatively small. For the whole year, Finnish export deliveries are estimated to drop (by 5 %) to 7.80 mill. m³. Domestic consumption will stay at the high level, apparent consumption being 5.2 mill. m³.

For the year 2006, prospects for the demand of Finnish sawnwood can be characterized by increasing competition from Russia and other East European countries with relatively flat price development in the Europe. Finnish sawnwood production is slightly decreasing due to shut-down and re-arrangements of production in a few smaller sawmills. We estimate production and exports to increase about 3 %, which means that quantities in 2006 will leave behind the year 2004 levels.

F. Sawn hardwood

Sawn hardwood is a minor product in Finland, with a share of less than 1% of the total sawnwood production.

G. Wood-based panels

Plywood is the most important product category in Finnish wood-based panels industry accounting for 70 % of panel production. During the past 10-15 years, plywood industry has invested new capacity especially in softwood plywood. At present Finland is Europe's main plywood producer with a 34% share of total European output.

Plywood production increased almost by 4 %, to a new record level 1.35 million m³ in 2004. Production shares of birch-faced and softwood plywood were 40% and 60%, respectively. The favourable production development was due to increasing demand in the European export markets, especially in the UK, Germany, Italy and France. Exports totalled 1.23 million m³ (5% increase) in 2004. Plywood is an export product for Finland, where domestic consumption accounts only for 15 % of production.

Due to increasing demand in export markets also Finnish particle board production increased 12 % to 0.45 mill. m³ in 2004. The increment in exports was 22% the main export destinations being the UK, Russia and Denmark. Domestic apparent consumption accounts for nearly 60 % of particleboard production.

Finnish fibreboard production remained approximately at the previous year's level in 2004. Domestic consumption (about 50% of production) increased, but export quantities fell to 63 000 tonnes (by 8%). The main export destinations of Finnish fibreboard are the UK, Sweden, Netherlands and Norway.

Outlook for years 2005 and 2006

Increasing demand in the main export market turned the price development of plywood upwards last year, and have improved export prospects also for 2005-2006. However, plywood production and exports are estimated to decrease slightly (to 1.32 mill.m³ and to 1.20 mill. m³ , respectively) in 2005 mainly due to the decision to close two small birch-plywood mills. Measures to intensify plywood production in other mills and the relatively strong export demand are expected to increase production and exports about 2-3 % in 2006. For particleboard and fibreboard no significant capacity increments are announced for 2005-2006. So, no significant changes in their production are estimated.

H. Pulp and paper

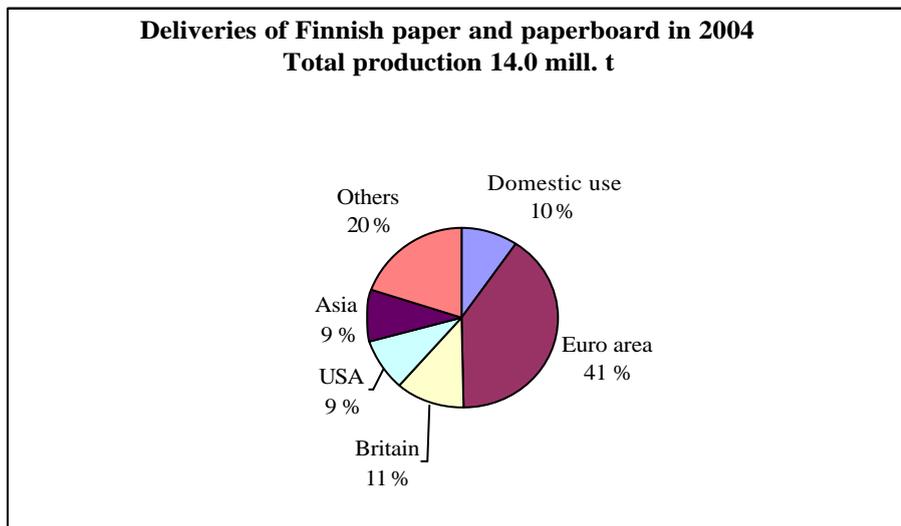
Situation in 2004

Overall production in the Finnish pulp and paper industry was rising in 2004. The production of paper, paperboard and pulp all set a new record. Paper and paperboard production amounted to 14 million tons in 2004, about 7.5% over the previous year. Capacity utilization in the paper industry averaged 93% (89% in 2003). The market situation was still difficult, because the export prices for paper continued their fall.

Production of printing and writing papers (including newsprint) totalled 10 million tons in 2004, up 8.2% over the previous year. In this category, production increase was particularly high for fine papers (wood free p&w papers), 16.5%, but production of magazine papers (mechanical p&w papers) rose as well (almost 5%). Production of other papers and cartonboard increased by almost 6% from the previous year.

Following the increased paper and paperboard production, mechanical pulp production increased by circa 5% from the previous year's figure in 2004. Chemical pulp production rose by almost 6% thanks to higher domestic demand as well.

In 2004, the total export volume of the Finnish pulp and paper industry was up by 7%. The value of exports was EUR 9.2 billion, only 2% more than in 2003. The average export prices decreased by some 5% for paper and paperboard, but remained constant for pulp when compared to year 2003. The decrease in paper prices was caused by overcapacity and the weakening US dollar.



Outlook for years 2005 and 2006

In the first quarter of the year 2005, the capacity utilization rate in the Finnish forest industry was quite satisfactory averaging 95%. However, owing to the labor dispute in May–June, strikes followed by a 6-week lock-out in the Finnish pulp and paper mills, the production collapsed in the second quarter. Production of paper and paperboard fell by 23% to 5.2 million tons, and pulp production decreased by one quarter when compared to the first half of 2004. Chemical pulp production totalled 2.9 million tons in the first six months of 2005. The total pulp production in January–June came to 4.7 million tons.

As to exports, the persistent decreasing trend in paper prices evened out, and in May the prices were rather close to December 2004 levels. In January–May 2005 the Finnish export prices of paper and paperboard were some 2% lower than year before, and pulp prices about 1% lower. Due to the labor dispute, both the export volume and value of the pulp and paper sector was down by some 19% in January–June when compared to previous years' figures.

The prospects for the rest of the year 2005 look more positive than for some time. Finnish production and exports of paper and paperboard are estimated to rise at a rate similar than in the first quarter of the year. This is supported by the fact that both paper producers and buyers need to refill their inventories that are exceptionally low due to the Finnish labor dispute.

In the year 2006, the market prospects for paper are expected to improve slightly when compared to the year 2005 and Finnish production and export quantities are likely to continue to rise moderately. When compared to this years' total production that will be exceptionally low due to the strikes and lock-outs, relative increment in the production will be more considerable.

4. TABLES

A. Economic indicators

Key economic indicators	2003	2004*	2005e	2006f
Gross domestic product growth, %	2.4	3.6	1.7	4.1
Consumer price index change, %	0.9	0.2	1.0	1.6
Wage and salary earnings change, %	3.9	3.8	3.7	2.8
Unemployment rate, %	9.0	8.8	8.3	8.0
Current account surplus/GDP, %	3.8	4.1	2.6	3.0
Industrial output change, %	1.1	5.3	-0.2	6.5
Three month EURIBOR, %	2.3	2.1	2.2	2.2

Source: The Research Institute of the Finnish Economy (ETLA); 5 Sep 2005

B. Production and Trade in 2004–2006

1. Forest industry production in Finland							
Product	Unit 1000	2004	2005e	2006f			
Sawn softwood	cum	13 460	12 500	12 900			
Plywood	cum	1 355	1 320	1 350			
Particle board	cum	448	430	450			
Fibreboard	cum	147	150	150			
Mechanical pulp	tonnes	4 836					
Chemical pulp	tonnes	7 783					
Pulp, total	tonnes	12 619	11 360	13 290			
Printing & writing paper	tonnes	10 024					
Magazine paper, newsp	tonnes	6 843					
Fine paper	tonnes	3 181					
Other paper	tonnes	1 154					
Paper, total	tonnes	11 178					
Paperboard	tonnes	2 858					
Paper & Paperboard total	tonnes	14 036	12 500	14 500			

Source: Finnish Forest Industries Federation (2004), Finnish Forest Research Institute (2005, 2006)

2. Exports of Finnish Forest Industry Products						
	Unit	2004	2005e	2006f		
Product	1000					
Sawn and planed goods	cum	8 226	7 820	8 020		
-Coniferous	cum	7 318				
Plywood	cum	1 234	1 200	1 210		
Veneer sheets	cum	77	75	75		
Particle board	cum	242	240	240		
Fibreboard	cum	74	80	80		
Mechanical pulp	tonnes	112				
Chemical pulp	tonnes	2 247				
Pulp, total	tonnes	2 359	2 200	2 800		
Newsprint	tonnes	573				
Magazine paper	tonnes	5 803				
Uncoated	tonnes	2 392				
Coated	tonnes	3 411				
Fine paper	tonnes	3 093				
Uncoated	tonnes	1 132				
Coated	tonnes	1 961				
Kraft Paper	tonnes	408				
Other Paper	tonnes	341				
Paper, total	tonnes	10 218				
Paperboard	tonnes	2 461				
Paper & Paperboard, total	tonnes	12 679	11 600	13 150		

Sources: National Board of Customs (2004), Finnish Forest Research Institute (2005, 2006)

3. Imports of Forest Industry Products						
	Unit	2004	2005e	2006f		
Product	1000					
Sawn and planed goods	cum	406	560	560		
-Coniferous	cum	286	500	500		
Plywood	cum	76	90	70		
Veneer sheets	cum	10	10	10		
Particle board	cum	53	50	50		
Fibreboard	cum	142	140	140		
Mechanical pulp	tonnes	13				
Chemical pulp	tonnes	154				
Pulp, total	tonnes	167	220	270		
Newsprint	tonnes	63				
Magazine paper	tonnes	23				
Uncoated	tonnes	13				
Coated	tonnes	10				
Fine paper	tonnes	75				
Uncoated	tonnes	45				
Coated	tonnes	30				
Kraft Paper	tonnes	20				
Other Paper	tonnes	12				
Paper, total	tonnes	192				
Paperboard	tonnes	225				
Paper & Paperboard, total	tonnes	417	490	430		

Sources: National Board of Customs (2004), Finnish Forest Research Institute (2005, 2006)