

UNECE Timber Committee, Sixty-third session, 27-30 September 2005

1. General economic trends according to the National Institute of Economic Research (NIER), in August 2005.

The Swedish economy has slackened. But growth will increase during the year, with GDP rising by 2.4 percent this year and 2.9 percent in 2006 and 2007. After a prolonged phase of cyclical contraction, the labour market is expected to pick up, though very gradually. Employment will still be far below the target, even in 2007. Inflation will remain low in 2006 and 2007, even though it is assumed in the forecast that the repo rate would be cut to 1.50 percent in June. General government net lending is close to zero and should be strengthened by SEK 5 billion in 2006 and another 10 billion in 2007. The global economic upswing is continuing, though more slowly than before. The price of oil will remain high throughout the forecast period. The cautious attitude of both households and firms has contributed to extremely low interest rates. In the euro zone the recovery that started in 2004 has come to a halt. A stronger euro and high oil prices are contributing causes.

The exports growth is somewhat more slowly than the world market in 2005. This year, exports of primary products will be increasing more slowly since exports of petroleum will be down from their temporarily high level last year. Moreover, increasing international supply of wood pulp will mean that exports of this product increase only slightly. The upswing in exports of primary products will be due primarily to higher exports of foodstuffs, electric power and sawn wood. The large rise in sawmill output will lead to continued increase in exports this year. Exports of forest products will also surge this year because of the trees downed by the storm in southern Sweden last January. In addition, exports of paper will rise further this year. Global growth will be relatively strong in 2006 and 2007. Increasing competition on international markets, however, means that Swedish producers of primary products are losing market share and can only increase their exports to a limited extent in 2006 and 2007. In recent years, economic growth in Sweden has been driven primarily by strong global growth, which has benefited Swedish exports. But international demand is expected to provide less help in 2005–2007. With global growth decreasing, domestic demand must assume a driving role if Sweden's economic recovery is to maintain its strength.

This spring the Swedish krona depreciated by more than 4 percent in effective terms, weakening the most against the dollar and more modestly against the euro. As the Fed raised its policy interest rate, the market increasingly began to expect that the Bank of Sweden (Riksbank) would lower the repo rate this year; these expectations have weakened the krona. In a somewhat longer-term perspective, the fundamental determinants indicate that the krona will appreciate in effective gradual, and during the forecast period the value of the krona in effective terms will change relatively little. The forecast is that at the end of 2007 a euro will cost SEK 9.10 and a dollar slightly more than SEK 7.00.

2. Developments in forest products markets sectors

A. Wood raw materials

Sawlogs

The removals of sawlogs in 2004 were 35.4 million m³ solid volumes under bark, which was an increase by 3 %, compared to 2003. The forecast for 2005 is an all time high record in production due to the January storms in southern Sweden. The forecast for 2006 shows a strong decline in volumes due to the stocks build up following the storm in 2005, especially in southern Sweden.

Average price of sawlogs (delivery logs) increased in 2004 compared to 2003. To the contrary, inflation-adjusted prices were lower in from the year 2000 than in the 1990's. The prices fell between 30-40 % in the storm-affected region. The storm impact on the market suggests weaker prices, but it is still too early to accurately predict what changes will occur in prices. While it is too early to determine the full impact on trade flows, it is likely that additional sawlogs export volumes will probably increase in the coming months.

Pulpwood

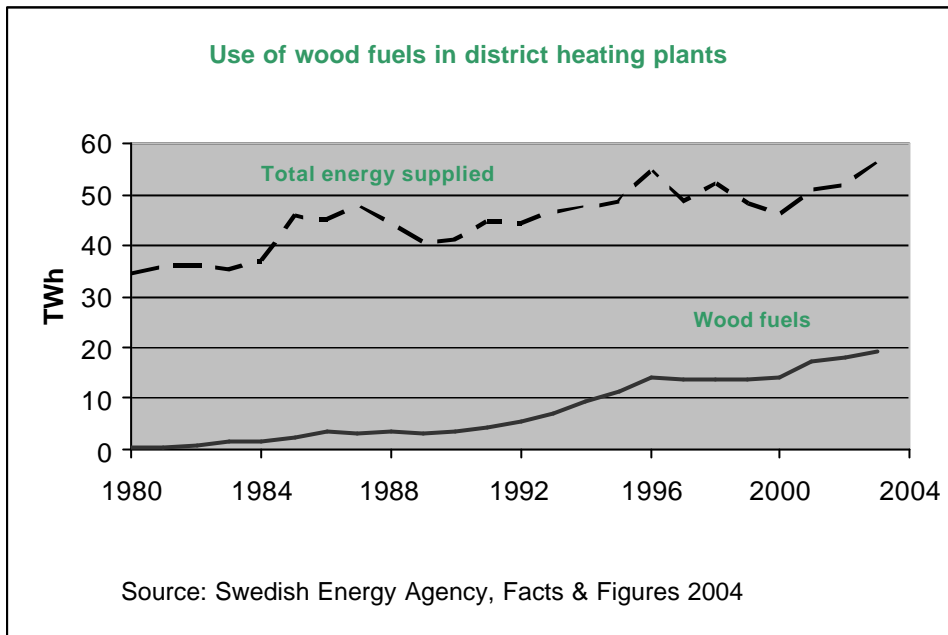
Removals of pulpwood were 26.6 million m³ solid volumes under bark in 2004. A slight increase compared to 2003. The forecasts for 2005 influenced by the storm will increase the volumes

Pulpwood prices (deliver logs) increased on average in 2004 compared to 2003, especially in the south of Sweden. The prices of conifer pulpwood were affected by the storm and decreased by 30-40 % in the hit region.

Wood fuel

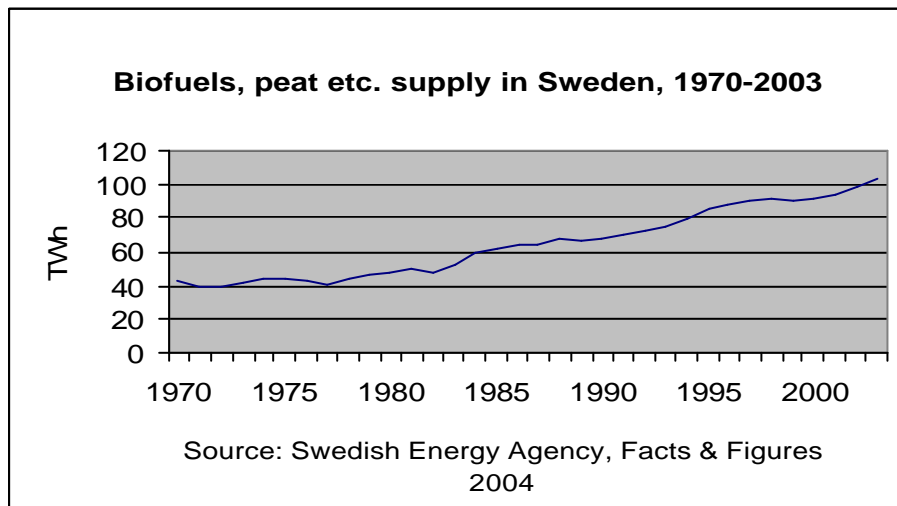
The use of wood fuels in district heating amounted to 19.2 TWh in the year 2003. This is an increase by 4 % compared to 2002. The use of wood fuels is increasing, particularly for district heating but also for electricity production. District heating has expanded rapidly. Most marketable wood fuels are sold as chipped logging residues for district heating. The technology for making processed wood fuels (briquettes, pellets and saw powder) developed considerably throughout the 90's. The use of wood fuel in the district heating has increased fivefold since 90's. Today some 40, 000 houses in Sweden are heated with wood pellets, an increase from 8, 000 in just five years. The sale of wood fuels was as following:

- 11.2 TWh fuel chips and hog fuel
- 10.0 TWh sawdust and bark
- 6.3 TWh processed wood fuel



B. Wood energy

Utilisation of biofuels, peat etc. has doubled in the last twenty years. The share of biofuels supplied to the Swedish energy system is now larger than the share of supplied of electricity from hydropower or nuclear power, or the share of oil heating. In 2003 the biofuels in the Swedish energy production was 103 TWh. There are about 60 forest fuel companies on the market. The national supply of forest fuel is spread all over the country, while the basis for district heating is in the densely populated areas of southern and central Sweden. According to the Swedish district heating association the long run production potential of wood fuels and biofuels is estimated to increase by some 10 TWh from 2002 to 2010 in district heating.



C. Certified forest products

Approximately 16.5 million hectares or 73 % of total forest land were certified in Sweden in June 2005. This is an increase by 10 % compared to last year. The PEFC certification system accounted for 6.6 million hectares, where number of participating forest owners were 23, 000. The FSC accounted for 10.0 million hectares. A new Swedish PEFC forest certification system for 2005 – 2010 has been submitted to the PEFC Council for endorsement. The

scheme, replacing the previous one, was revised in a twelve-month long process from January to December 2004 incorporating the latest scientific knowledge and practical experience from the field in the standard. In particular the recommended changes of the so-called “Stockdove” process, the bridging document for the Swedish PEFC and FSC standards, have been included.

The market demand for certified timber products has increased in Europe. Total volumes are still modest but interest expected to rise among larger customer.

D. Value-added products

Wooden furniture

The Swedish production, export and import of furniture have successively increased since the mid 90's. In 2004, the Swedish exports of furniture accounted to some 55 % to EU, while Norway accounted for 28 % of exports. Imports of wooden furniture mainly came from Denmark, Germany, Poland and Lithuania.

Builder's joinery, carpentry, and profiled wood

In 2004 the Wooden Floor Industry comprise of 30 companies and 2600 employees. The turnover for 2004 was approximately 4 billion SEK, which is nearly the same as 2003. Nearly 73 % of the production goes to the export market. The other category in this sector like doors, windows etc. are insignificant due to smaller volumes.

E. Sawn softwood

Production of sawn softwood reached 16.9 million m³ during 2004, which is a modest increase compared to the year 2003. A strong forecast growth in production by 6 % will reach 17.9 million m³ in 2005 and decrease by 3 % in 2006 expected to reach 17.4 million m³. Swedish exports of sawn softwood are forecasted to increase in 2005 and 2006. Statistics on exports for January-May 2005 show an increase of 4.7 % in volume, compared to the same period last year. The largest percentage increase in export volumes has been to USA +56 % and Africa +13 % during this period.

The average export price for pine has decreased by 6 % in the last few months, compared to 2004. There is a modest increase in average export prices for spruce.

F. Sawn hardwood

Production of sawn hardwood in 2004 was 130,000 m³. Export forecast for 2005 and 2006 possibly decline and import forecast to remain at the same volumes.

G. Wood-based panels

During 2004 the production of particle board was 437,000 m³, of which one-fifth were exported. The production and export forecast for 2005 and 2006 probably stabilize or decrease. According to the trade statistics the export of particle board has decreased in 2003. The rise in the import of particle board was relatively higher 2004 compared to 2003. The import forecast for 2005 and 2006 will have a modest increase compared to 2004. The production of fibreboard will decrease modest in 2005 and 2006. The export will remain at the same level, while forecast for imports are likely to increase.

H. Pulp and paper

In 2004 production of wood pulp was 12.0 million tons, which was about 280,000 ton more than the year before. The production is forecasted to increase modest in 2005 and rise more in 2006. Export increased in 2004 and the same pattern to continue to rise in 2005 and 2006.

Production and export of paper and paperboard increased in 2004. In 2005 and 2006 both production and export is expected to increase.

Overview of Forest Storm in Sweden

The storm in southern Sweden on 8-9 January 2005 is the worst that have affected the country's forests in modern times. The National Board of Forestry has estimated that approximately 63 million cubic metres under bark of industrial wood was blown down. This is equivalent to some 90 % of the total volume harvested in Sweden every year. Norway spruce is by far the most affected tree species. The total damage cost in the forestry has been calculated to 18 billion SEK, around 2 billion EUR.. The storms caused extensive damage to the electric power grid and the telephone network as well as to forests, particularly in the counties of Kronoberg and Jönköping. Nearly half of the felled volume is recovered by the end of June this year. The forecast for the third quarter this year estimates to recover another some 11 million m³ under bark. The work in the forests to recover wood is presumed to continue until the first half of 2006.

The harvest and transport capacity has been greatly increased through "imports" from Central Sweden and abroad. Shortage of lorries has been a major problem. Much of the fallen wood cannot be processed locally and moved north in Sweden or exported, mainly to Finland, Norway, Germany and Estonia. Wood prices have fallen by 30-40 % in the region affected by storm. The prices will remain lower and it is assumed that different prices for the "storm wood" and the "fresh wood". The profitability of the pulp and sawmilling industry will probably increase somewhat in the short run with the drop in the price of raw material. However, in the long run the profitability can be lower. Several Government initiatives such as alleviations in the legislation, financial support to long-term storage and regeneration, as well as and tax reductions for forest owners have been adopted or are in progress.

Logging in other areas of the country can only be cut back to a limited extent to compensate for the larger wood harvest in southern Sweden. The trade flow of coniferous saw logs and pulp wood from Russia and the Baltic countries will probably decrease, but not all imports will be eliminated. For instance, non-coniferous wood is required in production, and the industry is also bound by contracts. In three or four years, the supply of wood will probably decrease in southern Sweden. The resulting increase in costs will have negative impact on the local sawmilling industry. It may be difficult to obtain seedling for reforestation.

In conclusion, the storm Gudrun is expected to have a minor impact on GDP as measured despite significant financial consequences for forest owners, insurance companies and the local forestry industries concerned. Unfortunately, the effects of the storm will endure for decades in some localities where forests were devastated.

Further analysis are undertaken in the ongoing project by assignment of the Swedish Government to the National Board of Forestry in cooperation with other relevant state authorities to further evaluate the ecological, economic and social consequences due to the storm.

Swedish forecasts on removals, production and trade in forest products

Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2003	2004	2004	2005	2006
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS						
	Removals	1000 m ³	34 200	34 900	34 900	52 000	25 500
	Imports	1000 m ³	1 701	1 800	1 540	1 000	1 500
	Exports	1000 m ³	760	800	818	1 100	800
	Apparent consumption	1000 m ³	35 141	35 900	35 622	51 900	26 200
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS						
	Removals	1000 m ³	500	500	500	600	500
	Imports	1000 m ³	67	90	77	80	80
	Exports	1000 m ³	5	5	2	3	2
	Apparent consumption	1000 m ³	562	585	575	677	578
1.2.1.NC.	of which, tropical logs						
	Imports	1000 m ³	2	2	2	2	2
	Exports	1000 m ³	0	0	0	0	0
	Net Trade	1000 m ³	2	2	2	2	2
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS						
	Removals	1000 m ³	23 300	22 500	23 600	30 300	21 800
	Imports	1000 m ³	3 299	3 600	3 667	3 300	3 600
	Exports	1000 m ³	732	725	679	800	600
	Apparent consumption	1000 m ³	25 867	25 375	26 588	32 800	24 800
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS						
	Removals	1000 m ³	3 000	3 000	3 000	5 600	4 700
	Imports	1000 m ³	3 444	3 900	3 600	3 500	3 700
	Exports	1000 m ³	21	20	22	20	20
	Apparent consumption	1000 m ³	6 423	6 880	6 578	9 080	8 380
3 + 4	WOOD RESIDUES, CHIPS AND PARTICLES						
	Domestic supply	1000 m ³	16 100	16 900		19 400	17 000
	Imports	1000 m ³	2 278	2 607		2 600	2 600
	Exports	1000 m ³	364	587		650	600
	Apparent consumption	1000 m ³	18 014	18 920		21 350	19 000
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS						
	Removals	1000 m ³	400	400		400	400
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS						
	Removals	1000 m ³	100	100		100	100
1.1.C	WOOD FUEL, CONIFEROUS						
	Removals	1000 m ³	2 950	2 950		3 000	3 500
1.1.NC	WOOD FUEL, NON-CONIFEROUS						
	Removals	1000 m ³	2 950	2 950		3 000	3 500

We would like to point out that forecast 2005 & 2006 for removals, production & trade are uncertain. This is due the January storm of 2006. We recommend to be extra cautious when comparing the data.

Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2003	2004	2004	2005	2006
5.C	SAWNWOOD, CONIFEROUS						
	Production	1000 m ³	16 640	16 740	16 924	17 900	17 500
	Imports	1000 m ³	236	204	204	190	200
	Exports	1000 m ³	10 996	11 247	11 247	11 900	11 500
	Apparent consumption	1000 m ³	5 880	5 697	5 881	6 190	6 200
5.NC	SAWNWOOD, NON-CONIFEROUS						
	Production	1000 m ³	160	160		160	160
	Imports	1000 m ³	145	132		130	130
	Exports	1000 m ³	16	12		10	10
	Apparent consumption	1000 m ³	289	281		280	280
5.NC.T	of which, tropical sawnwood						
	Production	1000 m ³	0	0		0	0
	Imports	1000 m ³	14	13		13	13
	Exports	1000 m ³	1	1		1	1
	Apparent consumption	1000 m ³	12	12		12	12
6.1	VENEER SHEETS						
	Production	1000 m ³	15	15		15	15
	Imports	1000 m ³	29	28		30	30
	Exports	1000 m ³	22	25		20	20
	Apparent consumption	1000 m ³	22	18		25	25
6.1.NC.T	of which, tropical veneer sheets						
	Production	1000 m ³	1	1		1	1
	Imports	1000 m ³	2	3		2	2
	Exports	1000 m ³	1	1		1	1
	Apparent consumption	1000 m ³	2	3		2	2
6.2	PLYWOOD						
	Production	1000 m ³	75	75	71	70	70
	Imports	1000 m ³	161	164	172	175	175
	Exports	1000 m ³	39	28	29	30	30
	Apparent consumption	1000 m ³	197	211	214	215	215
6.2.NC.T	of which, tropical plywood						
	Production	1000 m ³	0	0		0	0
	Imports	1000 m ³	3	4		3	3
	Exports	1000 m ³	1	1		1	1
	Apparent consumption	1000 m ³	2	3		2	2
6.3	PARTICLE BOARD (including OSB)						
	Production	1000 m ³	466	437	437	440	440
	Imports	1000 m ³	363	523	511	515	515
	Exports	1000 m ³	70	79	79	75	75
	Apparent consumption	1000 m ³	759	881	869	880	880
6.3.1	of which, OSB						
	Production	1000 m ³	0	0	0	0	0
	Imports	1000 m ³	18	26	110	100	100
	Exports	1000 m ³	4	4	6	5	5
	Apparent consumption	1000 m ³	14	22	104	95	95
6.4	FIBREBOARD						
	Production	1000 m ³	179	167	137	140	140
	Imports	1000 m ³	184	237	237	240	240
	Exports	1000 m ³	33	31	30	30	30
	Apparent consumption	1000 m ³	331	373	344	350	350
6.4.1	Hardboard						
	Production	1000 m ³	62	62	54	55	55
	Imports	1000 m ³	102	115	64	65	65
	Exports	1000 m ³	13	12	15	15	15
	Apparent consumption	1000 m ³	151	165	103	105	105
6.4.2	MDF (Medium density)						
	Production	1000 m ³	87	75	83	85	85
	Imports	1000 m ³	46	58	118	125	125
	Exports	1000 m ³	7	7	15	15	15
	Apparent consumption	1000 m ³	126	126	186	195	195

Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2003	2004	2004	2005	2006
6.4.3	Insulating board						
	Production	1000 m ³	31	31	0	0	0
	Imports	1000 m ³	37	65	55	50	50
	Exports	1000 m ³	14	13	0	0	0
	Apparent consumption	1000 m ³	54	83	55	50	50
7	WOOD PULP						
	Production	1000 m.t.	11 737	12 106	12 016	12 100	12 500
	Imports	1000 m.t.	400	435	470	450	450
	Exports	1000 m.t.	3 426	3 546	3 572	3 500	3 500
	Apparent consumption	1000 m.t.	8 711	8 995	8 914	9 050	9 450
10	PAPER & PAPERBOARD						
	Production	1000 m.t.	11 062	11 589	11 589	11 600	12 100
	Imports	1000 m.t.	638	628	700	750	750
	Exports	1000 m.t.	9 080	10 211	10 414	10 500	10 700
	Apparent consumption	1000 m.t.	2 619	2 006	1 875	1 850	2 150

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