Republic of Ireland

National Market Report

2006

To

Annual Meeting of Timber Committee

3rd-4th October 2006

1. General economic trends.

The table below summarises the performance and growth of the Irish economy in recent years, together with indicators of the likely outturn for this year.

	2001	2002	2003	2004	2005*	'01-'05 Av.	2006 Forecast
Personal Consumption	5.4	3.8	3.2	3.8	6.6	4.6	5.8
Government Spending	9.8	7.1	3.2	1.8	4.6	5.3	3.5
Investment	-0.2	3.5	5.7	7.4	12.8	5.8	4.7
Exports	8.6	4.5	0.5	7.3	3.9	5.0	4.0
Imports	7.2	2.4	-1.2	8.6	6.5	4.7	4.5
GDP	5.7	6.0	4.3	4.3	5.5	5.2	4.8
Value, billion	€116.8	€129.9	€138.9	€147.6	€161.2	-	€172.6
GNP	3.8	2.8	5.5	3.9	5.4	4.3	4.6
Value, billion	€97.8	€106.2	€117.2	€124.4	€136.1	-	€144.7

Figure 1: Economic growth (volume rates) in the Republic of Ireland.
Source: Monthly Economic Bulletin, September 2006.
**preliminary*

Economic Highlights for 2006*:

- Strong economic growth will continue in 2006 with both GNP and GDP forecast to grow by more than 4.8 and 4.6 per cent respectively.
- Consumption is expected to continue to grow strongly over the forecast horizon, driven by a very robust labour market and healthy incomes growth.
- Investment demand should remain strong with growth rates exceeding forecasts.
- Net exports are predicted to make a negative contribution to GNP growth, with imports growing more strongly than exports.
- Employment is forecast to increase by 85,000 in 2006. These increases imply a continuing strong rate of immigration (69,000 for 2006).
- Inflation is expected to increase to an average 3.8% for 2006.

***Source:** *Monthly Economic Bulletin, September 2006.*
The Economic and Social Research Institute.

2. Market Drivers

The **construction industry** in Ireland has shown rapid growth over the last 10 years and continues to be a major sector of the Irish economy, directly accounting for greater than one eighth of total employment. The total number of house completions for 2005 was 80,957 units, 5.2% up on 2004. Ireland is building more than double the amount of houses over 1997 (Figure 2) and Ireland is now producing houses at a rate of 20 per 1,000 residents, which is the highest rate of new house build in Europe. A third of the current total number of houses in Ireland (547,000 houses) were built in the last 10 years. Total output from the construction sector was valued at around €30 billion, equivalent to almost 19% of GDP and 22% of GNP. Residential housing accounted for around 65% of total construction output, or €19.5 billion.

YEAR	NUMBER OF HOUSE COMPLETIONS
1993	21,391
1994	26,863
1995	30,575
1996	33,725
1997	38,842
1998	42,349
1999	46,512
2000	49,812
2001	52,602
2002	57,695
2003	68,819
2004	76,954
2005	80,957

Figure 2: Number of house completions, 1993-2005.
Source: DOE

One of the most important market drivers for wood is an increase proportion of **timberframe houses**. This situation creates higher demand for sawnwood and other forest products, e.g. OSB. In 1989 the percentage of timber frame buildings was very small. However in 2005, this method of construction has become very important as an estimated 30% of the 81,000 completed dwellings were built in the timber frame technology.

Consumer spending is also one of the main driver of the Irish economy and it represents a significant level of personal wealth and consumer confidence. A **Special Savings Incentive Scheme (SSIS)** was released by the Irish government in 2001. Much of the Special Saving Incentive Accounts (SSIA) will be realised in 2006/07 and may push consumer spending further. It is expected that with the income generated from the SSIA's people will be more interested in buying properties, purchasing DIY products and renovating projects which may have impact on timber demand in the home market. Higher consumers' confidence is also impacting on **changes in people's lifestyle**. A modern and comfortable design of gardens have become a very important part of people's private and social life. This creates great potential for wooden decking, garden furniture, rails, posts and fencing elements.

As Ireland's **road network** expands, there are more concerns about traffic noise levels and their influence on the environment. This situation creates a new market for roadside wood products, including roadside timber fencing and wooden acoustic barriers for road noise reduction. It is proposed by the National Road Authority that in Phase 1, 800 km of roads will be tested for noise levels (end of 2006). Phase 2 will examine a further 2,500 km of road by the end of 2012.

3. Policy Developments Effecting Trade

The EU Birds Directive and the Habitat Directive require designation of Special Protected Areas for vulnerable species of birds, and Special Areas of Conservation for natural and rare habitats. Two protected species which influence Irish forestry the most at present are hen harrier (*Circus cyaneus*) and pearl mussel (Margaritifera margaritifera L.). Both of them require special conservation and has resulted in changes in forest management and operations. This is impacting on harvesting and wood flows.

Irish Forestry is committed to the concept of sustainable forest management and in 2001 the State Forest company, Coillte, was awarded the Forest Stewardship (FSC) Certification. However, the idea of certification in the private forest sector is not as well developed yet and there are still concerns among private forest growers. All of the major sawmills and panel mills have chain of custody procedures. The demand for certified timber products in the Irish market is still relatively poor and there is no strongly developed public procurement policy for them.

4. Developments in Forest Products Markets.

4.1. Irish Roundwood Markets

Of the total roundwood supplied to the Irish roundwood processing industry in 2005 (3.5 million m^3), almost 77% was brought to the market by Coillte Teoranta,12% was provided by the Northern Ireland Forest Service and 5% by private sector (Figure 3). 6% of roundwood was imported, mainly from Scotland. Almost 69% of the total roundwood was processed by the sawmills. The remaining 31% was pulpwood and stakes. Sawlog is converted into sawn timber products such as construction timber, fencing, pallet and garden/leisure products. During this process, around 49% of sawnwood generated co-products (chips, sawdust and bark) which, together with pulp logs, supplied the boardmill sector.

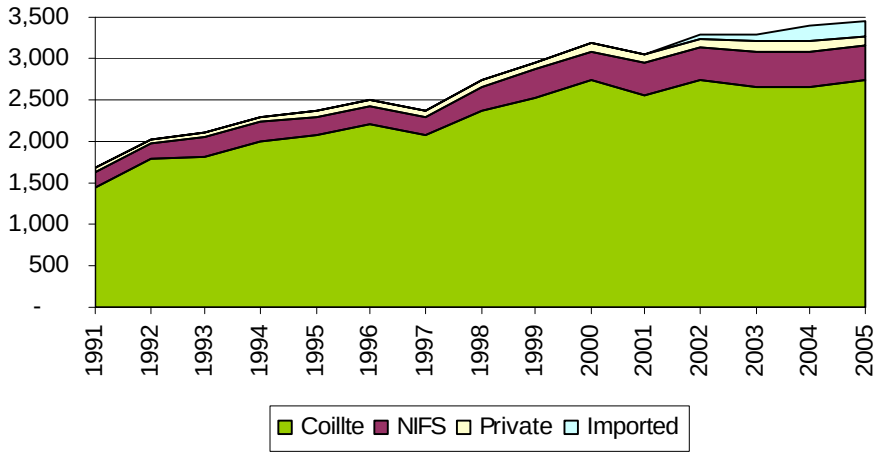

Figure3: Sources of Roundwood on the Island of Ireland (Northern Ireland + Republic of Ireland)
Source: Coillte, NIFS

4.2. Construction Timber

Allied to the strong construction activity in the Irish market, sawn timber usage in the Republic of Ireland has increased from an estimated 1.67 million m^3 in 2004 to 1.81 million m^3 in 2005. There have been some notable changes in supply pattern into the Irish market (Figure 4). Imports from Sweden increased from 282,000 m^3 to 341,000 m^3 in 2005, a rise of 21%, due to increased volumes being processed after the windblow of January 2005. However, imports from Finland fell from 185,000 m^3 to 168,000 m^3, a fall of 9%. Also, supplies from the Baltic states fell back by 19%. However, supplies from Germany rose from 28,000 m^3 to 104,000 m^3, a rise of 37%, making Germany one of the major players in the Irish market. Irish suppliers into the Irish market increased home sales by 5%, mainly due to pallet and fencing material being sold more in the Irish market than was traditionally done. This gives Irish producers of sawnwood an estimate 43% share of the total Irish sawnwood market.

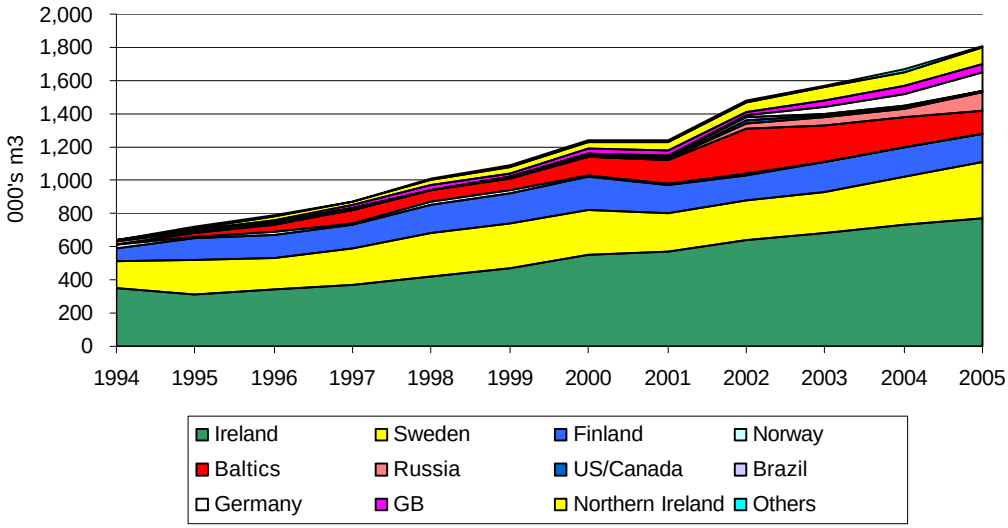

Figure 4: Republic of Ireland Softwood Sawnwood Market 1994 - 2005.
Source: Coillte, CSO, Swedish Wood Exporters Association, D. Barry.

4.3. Pallet and Packaging Timber

Demand for pallet and packaging timber remained very strong in 2005 driven by a buoyant Irish economy, and high levels of construction and manufacturing activity. Approximately 49% of pallet and fencing timbers were exported to the UK market. However, at the end of the year the level of exports to Great Britain decreased by around 13%. This situation was connected with a depressed British market. This situation caused the switch back of pallet and fencing products to the Irish market by sawmills.

4.4. Value added wood products

- **Fencing, Decking and Lifestyle Products**

2005 was a very good year for fencing, decking and timber lifestyle products in the Irish market. Irish customers favoured wood over other materials in this market. Allied to this was the relatively good weather during the summer months which resulted in good volume sales. However, similar to pallet wood, over half of the production was exported to the UK market.

- **Furniture**

There are around 400 small and medium-sized firms producing furniture in Ireland with no dominant product category. However, the furniture industry is not fully integrated with Irish forestry and it doesn't relay on its timber resources. Most of the timber used by the Irish furniture producers is imported.

4.4. Sawmill Residues and Pulp Logs in the Board Mill Sector.

In 2005, roundwood processed in the Irish sawmills generated around 1.24 million m^3 of sawnwood co-products (chips, sawdust and bark) which together with 0.92 million m^3 of pulp logs supplied the boardmill sector. In 2005, the Irish board mills maintained their strong position mainly due to the increasing significance of the timber frame building industry in the home market and a good competitive position in their respective export markets, e.g. in Great Britain, North America and Europe. There are four main board mills in the Republic of Ireland and they produce chipboard, MDF, OSB and moulded door facings. The majority of their produce is exported.

5. Wood energy in Ireland

Biomass, mainly in the form of solid wood, is the largest source of renewable energy in Ireland, accounting for 57%, or 9 PJ of Ireland's total renewable energy consumption in 2004 (out of a total energy consumption of 629 PJ). This compares with wind energy, the second largest source of renewable energy, which accounted for 17% of total final energy consumption. The bulk of solid wood fuel is used as process heat in the wood processing industry, to generate electricity, and to provide heat in domestic dwellings. However, considerable potential exists to expand the wood energy sector. Over the next decade the contribution of wood energy could almost double, with the main source of raw material being privately owned plantations, established since the mid 1980s, many of which are now entering

the first thinning stage. Forest harvesting residues and short rotation energy crops also have the capacity to contribute to the development of the wood energy sector, but at a significantly smaller scale than thinnings.

Already two sawmills on the island are currently generating electricity from process residues, with a combined installed capacity of 5 MW. One of the mills has recently opened a sawdust pelleting plant, with a capacity to produce 50,000 tonnes a year. Sales are growing rapidly in the Republic, on foot of oil price increases, and the Greener Homes boiler grant scheme run by Sustainable Energy Ireland. SEI also administers the Bioheat Programme, which provides grant aid for the purchase and installation of boilers suitable for heating commercial premises.

6. Outlook for 2006

In 2006 construction volumes are forecast to grow at 3-5%, with house completions predicted at approximately 80,500 units. In regard to inflation, building material price increases are expected during the first half of 2006.

In 2006, economic pressure on sawmills will come from increasing input costs, including transportation, labour and electricity. Both the timber and the steel frame house construction sector is expected to play a more significant part of construction market than last year.

The Irish pallet sawnwood market should stay strong in 2006. However, it will be dependant on the UK pallet manufacturing which performed poorly in 2005. It is expected that the difficult situation in the UK market will change positively in the second half of 2006 and bring higher demand for Irish pallet sawnwood. This increase, if it happens, may be due to timber supply shortages across Europe. Also civil works connected with the Olympic Games in London 2012 may create a higher demand for Irish pallet timber, with building works likely to start at the end of 2006 and into 2007.

The demand for fencing, decking and lifestyle products in Ireland will depend on the weather during the spring, summer and early autumn, but it will also be influenced by rising competition from imported redwood and whitewood.