

NORWEGIAN MARKET STATEMENT 2006

The sixty-fourth session of the Timber Committee, 3-6 October 2006.

1. General economic trends affecting the forest and forest industries sector (predictions and description made by Statistics Norway, www.ssb.no)

The boom in the Norwegian economy has intensified. GNP growth in Norway in the first half of 2006 was almost 4 per cent in terms of annual growth. Unemployment is now almost as low as during the peak in the economy at the end of the 1990s. Despite the high rate of economic growth, inflation is low. Wage growth and price growth, however, are set to rise.

High international growth and low interest rates are two of the factors behind the 3-year economic recovery in Norway. High growth has been experienced in both the demand from the mainland economy, oil investments and the export of goods and services from Mainland Norway. This has contributed to growth in most industries. In response to the activity growth, Norges Bank increased the key interest rates by 1.25 percentage points during the course of a year. It is anticipated that the key interest rates will be further increased by 0.5 percentage points and that the money market interest rate will thus reach around 3.75 per cent at the end of the year.

As in the past, Statistics Norway have based assumptions on a moderate economic downturn in the USA in 2007 and 2008, and on the development in the EU also being moderate next year. This will contribute to a poorer future export development. It is also anticipated that oil investments will, in real terms, fall slightly from this year to next. Coupled with slightly higher interest rates, this will contribute to the growth in the Norwegian economy being somewhat muted in the future. Unemployment, however, is expected to remain at roughly the same low level as today.

Considering the activity level in the Norwegian economy and the increase in energy prices, the growth in wages and consumer prices is very moderate. Wage growth this year is estimated at 4 per cent, but high profitability in trade and industry and relatively great pressure in the labour market are expected to take the wage growth up to 5 per cent next year.

The low growth in the Consumer Price Index adjusted for taxation changes and excluding energy goods (CPI-ATE) in August this year has not been seen since 2004. While the prices of oil-related products may have peaked, we are now facing strong growth in household electricity prices this autumn. The total CPI is expected to increase considerably in the months to come, and is likely to exceed 3 per cent before Christmas. Electricity prices, however, are expected to fall somewhat during next spring, whereby the year average for the CPI could fall to 1.5 per cent in 2007, compared with 2.4 per cent this year. Combined with a weaker NOK, slightly higher wage growth and lower productivity growth can contribute to the underlying price growth (measured by the CPI-ATE) increasing from an average of roughly 0.8 per cent this year to around 1.5-2.0 per cent from 2007 to 2009.

Preliminary monthly figures from Statistics Norway show that 31,608 new dwellings were started in 2005, a growth of 7.3 % from 2004 and the highest number of housing starts registered since 1982. 4,601,600 m² non-housing area were started, of which 3,267,800 m² industrial buildings, an increase of 17.6 % compared to the previous year. In addition, 1,333,800 m² were started for leisure properties and garages in 2005, a growth of 17.2 % from 2004. The pressure in the cottage/leisure building market has increased throughout the year

too. According to temporary figures from Prognosesenteret, more than 500,000 m² were built with higher standard than earlier.

2. Policy measures taken over the past 18 months, which might have a bearing on trade and markets of forest products or forest management

A. Forest law enforcement, governance and trade

The new forestry act came into force on January 1st 2006. The new act represents a simplification compared to the existing forestry act of 1965, which it replaces. The forest legislation focuses on the role of the local authorities in forest management. Further, the responsibility of the forest owner is made more explicit. The forest owner is expected to know the environmental resources in a way that ensures the biological sustainability of forest operations taking place. The requirements for regeneration after harvesting are also set out more clearly in the new act. New forest roads cannot be built without permission from local authorities, and the local authorities may also establish regulations requiring forest owners to submit plans before carrying out certain operations.

A regulation for sustainable forestry was introduced in 2006. The regulation is founded on forestry act, and has specific requirements for regeneration, environmental considerations to be taken when planning and carrying out forest operations. The environmental requirements are close to the performance level standards used in forestry certification in Norway.

B. Policies promoting the sound use of wood

In 2005 the Parliament expressed concern over what seems to be a low activity in the forest sector, and therefore requested the Government to propose national strategies for increasing the annual harvesting. After the election in the autumn of 2005, Norway got a new coalition government, made from the Labour party, Socialist left party and the Centre party. The new government has announced that higher emphasis should be put on supportive measures aimed at forest owners, in order to achieve higher activity and profitability in the forest sector. In 2005 economic support for reforestation was reintroduced, and support for silviculture and bioenergi purposes was increased. Additional measures aimed at increasing the forestry activity are expected when the Government presents its proposal for the national budget for 2007 in October 2006.

Based on experiences from the Wood programme 2000-2005, which was established in order to increase the value adding processing and application of timber, the Wood-based Innovation Scheme was launched by the Government in 2006. The new programme aims to increase the awareness and use of wood by stimulating innovation and market orientation in the wood industries. The main goal for the programme is to increase use of wood and profitability for the forest sector. Like the previous programme, the Wood based Innovation Scheme supports the forest sector industries in their goal of increasing the annual average consumption of wood per capita from 0.55 m³ to 0.75 m³ by 2010.

The programme will put special effort on three areas:

- 1) Industrial building
- 2) Wood products

3) Innovation systems

Under industrial building, support will be directed to new and innovative building techniques where wood constitute a substantial part of the materials used. In the area wood products, focus will be put on new products and concepts aimed at the consumer market. In addition, this will also include new ways to produce or organise production of traditional wood products. Innovation systems will cover business innovation, research, development and education. This part of the programme is jointly coordinated with the Research Council of Norway through the research and development programme WOOD.

C. Climate change policy

The Government is developing sector specific action plans as a follow up of UNFCCC and the Kyoto protocol. The goal of these action plans is to identify the most cost effective measures for further emission reduction. The action plans will be presented in a parliament paper in 2007. This will form the basis for the Government's selection and decision of sector specific targets, including targets for the forest and agricultural sectors, and measures to be implemented in the national climate change policy.

D. Wood energy promotion policies

The annual consumption of bio energy in Norway is 16 TWh. The Government supports the aim set by the agricultural and forestry industry for an increase of 10 TWh by 2015. By funding projects and investments in bio energy the Government encourages the increased use of bio fuel, substituting non-renewable energy sources. From 2004, producers of bio fuel are granted tax relief, and energy tax is not claimed for bio energy. Public support schemes for bio energy has increased in 2006, and the Government has announced cost share programs for private investments in pellets ovens in order to establish a consumer market for wood pellets. The importance of wood for energy purposes is expected to increase in the future. Some parts of the forest industry are already experiencing harder competition for the raw materials.

E. Research and development policies

The research and development programme WOOD is a joint initiative between Innovation Norway and The Research Council of Norway, established to achieve synergy effects between innovative development work, applied research and basic research. The programme is closely linked to the Wood based innovation scheme, and will strengthen the effects of the strategies developed and prepared jointly by the forestry and wood-based industries. The overall objective of the programme is to contribute to increased creation of valued added through research and development in Norwegian forestry and wood-based industries. The programme is to contribute to increased use of timber and, through this, to the creation of growth conditions for Norwegian forestry and wood-based industries. The programme is also to contribute to more sustainable production and consumption patterns.

In 2006 the Norwegian Institute of Land Inventory and the Norwegian Forest Research Institute, both under the Ministry of Agriculture and Food, was merged into the new Norwegian Forest and Landscape Institute. By this reorganisation of the two of the most important knowledge producers for forestry, the Government expect synergies and a more robust and diversified base for forest related information, research and development.

3. Developments in forest products market sectors

A. Wood raw materials

Removals for industrial purposes in 2005 was 7,706,000 m³ compared to 7,353,000 m³ in 2004, an increase of 5 %.

The import of sawlogs was 597,000 m³ in 2005, no significant change from 2004. The export of sawlogs increased from 137 000 m³ in 2004 to 297 000 m³ in 2005, an increase of 115 %.

The import of pulpwood increased from 2.15 mill. m³ in 2004 to 2.4 mill. m³ in 2005, an increase of 10 %, while the export of pulpwood increased from 211 000 m³ to 264 000 m³, an increase of 25%.

Sweden is the largest exporter of sawlogs and pulpwood to Norway. With increasing demand of sawlogs in the Nordic countries and Europe in general, the import is expected to decrease in the coming years.

B. Wood energy

The official figure for harvested wood fuel for sale from market statistics is less than 1 million m³. However, a lot of the wood fuel harvested for private consumption is not offered for sale in the market. Much of the wood fuel is sold directly from the forest owner to the consumer, often in small amounts. A lot of private households will also have access to wood fuel on their own property, covering the need for themselves, their relatives and friends. Based on consumption studies and other non-verified estimates the total amount of wood fuel consumption in households and recreational houses is estimated to 2.7 million m³, making it a substantial part of the total fellings in Norway. Another component of the total consumption of wood energy is the energy produced and used by the wood industries, utilising the residues and waste from timber processing.

C. Certified forest products

More than 95% of the Norwegian forestry is certified under the national certification scheme. The major imports of wood, 60%, come from Sweden, where certification rates are similar for commercial forestry. Norwegian forest certification is endorsed by the PEFC. The major buyer of pulpwood in Norway, Norske Skog, requires forest certification of all their suppliers of Norwegian roundwood.

D. Value-added wood products

There is an increasing demand for value-added wood products in Norway. The increase can mainly be explained by the general growth of the economy, as the use of joinery is strongly correlated to building and refurbishing activity. In addition the increase should probably also be explained by an increasing competitiveness of wood due to product development and marketing efforts.

E. Sawn softwood

Sawn softwood production in 2005 was 2.3 mill. m³, a slight increase compared to the last two years and almost equal to the last ten years' average. In most parts of the country there has been a good supply of sawlogs, especially during the 2nd semester.

Norway exported 458,000 m³ sawn softwood, an increase of almost 38,000 m³ or 9 % compared to 2004. Netherlands, Denmark and Belgium are the 3 main importing countries. Exports to France and Belgium represent the highest relative increase. The trend on the export markets was stable prices throughout the year, measured in each country's currency. There were moderate improvements in the market conditions in Europe, yet it seems that many producers gave priority to a good domestic market.

The import of sawn softwood was 986,000 m³ against 829,000 m³ in 2004, an increase of 19 %. The increased domestic consumption of sawn softwood comes mainly from imports, mostly due to high activity in the Norwegian building sector

F. Wood based panels

There have been only minor changes concerning wood based panels. There has been a reduction of production capacity, as one of the fibre board factories has shut down. Still fibre board production is expected to increase slightly towards 2007. Domestic consumption is expected to increase more, by 32% until 2007, and will mostly be based on increased import.

G. Pulp and paper

For wood pulp there have only been small changes from 2004 to 2005. The same applies for the production and export of paper and paperboard, but an increased import by 30% compared to 2004 explains the higher domestic consumption.

There has been a slight increase in prices of pulp and paper. Still, the market situation is considered to be under pressure. In 2006, 20 factories have shut down, including one paper mill. The situation is expected to stabilize in 2007.

4. Tables

A. Economic indicators

Key projections for the Norwegian economy. Volume changes from previous year. Per cent

	2005 NOK billion	2005	2006	2007
Consumption in households etc.	795.7	3.4	3.5	3.7
General government consumption	387.5	1.5	2.5	2.4
Gross fixed investments	356.3	10.9	7.7	-0.1
Extraction and transport via pipelines	88.2	15.6	5.2	-1.8
Mainland Norway	252.0	8.8	7.0	0.5
Exports	862.2	0.7	1.5	4.7
Crude oil and natural gas	427.9	-4.1	-4.1	9.1
Traditional goods	229.6	5.8	5.0	1.9
Imports	534.2	7.4	8.2	3.7
Traditional goods	351.1	8.3	7.7	3.4
Gross domestic product	1 903.8	2.3	2.1	2.9
Mainland Norway	1 410.3	3.7	3.2	2.1
Memorandum items:				
Consumer price index (CPI)	..	1.6	2.4	1.5
CPI adjusted for tax changes and excluding energy products	..	1.0	0.8	1.7
Wage growth	..	3.6	4.0	5.0
Employment growth	..	0.7	2.5	1.0
Unemployment rate	..	4.6	3.4	3.3
Household saving rate. Per cent of net disposable income	..	12.6	4.3	6.2
Current account balance, NOK billion		316.5	390.0	368.8

Source: Statistics Norway 2006

B. Forest products production and trade in 2005, forecasts for 2006 and 2007

			Unit 1000	2005	2006	2007	
Industrial roundwood	Removals	Saw and veneer logs	m ³	4 254	4 205	4 255	
		Production	Pulpwood	m ³	3 427	3 410	3 460
			Other industrial roundwood	m ³	25	25	25
			Total	m ³	7 706	7 640	7 740
	Imports	Saw and veneer logs	m ³	597	508	508	
		Pulpwood	m ³	2 402	2 244	2 144	
		Total	m ³	2 999	2 752	2 652	
	Exports	Saw and veneer logs	m ³	295	302	302	
		Pulpwood	m ³	264	255	255	
		Total	m ³	559	557	557	
Sawnwood	Production	m ³	2 331	2 332	2 383		
	Imports	m ³	1 042	1 158	1 210		
	Exports	m ³	490	504	504		
Wood pulp	Production	Mt	2 458	2 314	2 320		
	Imports	Mt	79	68	70		
	Exports	Mt	669	694	700		
Paper and paper board	Production	Mt	2 223	2 115	2 120		
	Imports	Mt	591	593	595		
	Exports	Mt	1 915	1 865	1 880		

Sources: Statistics Norway, Norwegian Forest Owners Federation, The Norwegian Sawmill Industries Association, Norwegian Pulp and Paper Association