www.unece.org/press/pr2001/01tim03e.html

The UNECE Timber Committee examined the current forest products market situation in 2001 and forecast markets in 2002 for sawn softwood, sawn hardwood, wood-based panels, pulp and paper, wood raw materials and certified forest products. The full text of the Session's approved market statement is attached. Key points from the statement follow.

Overall findings

Forest products markets in the UNECE region were at record high levels in 2000, but forecasts for 2001 were for a decline in many markets, followed by general improvement in 2002. However, the 11 September 2001 terrorist attacks on the United States have cast uncertainty on the forecasts.

In light of the economic downturn in 2001, the Timber Committee stated that it is imperative to develop new wood products and to establish new markets to meet consumers' needs.

The Committee reasserted the importance for the forest products industry to work internationally to promote the environmental advantages of the sustainable production of wood.

Certified forest products and certification of sustainable forest management

The area of forests certified for sustainable management has expanded rapidly to over 90 million hectares worldwide, with around 95 % being in the UNECE region. While the main markets for certified products continue to be in parts of western Europe, and North America, demand is relatively small.

Sawn softwood markets

Sawn softwood trade has been disrupted in North America following the expiration of the United States-Canada Softwood Lumber Agreement and the subsequent filing of duties against Canada. Many Canadian sawmills have reduced production and Canada estimated a 5% drop in exports in 2001, mainly due to the US trade dispute.

Russia forecasts domestic consumption of sawn softwood to increase in 2001, by 9%, and rise further by over 5% in 2002. Production was forecast to rise less and exports were not forecast to rise in 2001.

Sawn hardwood markets

Sawn hardwood markets in North America are softening in 2001 with uncertainty for 2002 based on reports presented in the market discussions.

Production and trade of value-added products, both temperate and tropical, is increasing, in part due to globalisation effects. Tropical value-added products trade could exceed that of primary products for the first time in 2003.

Wood-based panels markets

With strong demand, European markets for OSB seem to be the exception to the general sluggish demand for the wood-based panels sector. Coupled with continued capacity expansions, resulting in competitive markets, and weaker production growth rates, panels markets in both Europe and North America find prices are under pressure.

Pulp and paper markets

Contrary to pulp and paper markets in most of the rest of the UNECE region, Russia foresees higher production, domestic consumption and exports in 2001 and 2002, spurred by the recovery of the Russian economy and the low rouble exchange rate.

Wood raw materials markets

The extensive windthrow of approximately 200 million m3 from the December 1999 storms in western Europe is still negatively affecting wood raw materials markets. Recent windthrow damages in Estonia in July 2001 drew attention to the fact that storm damage poses a permanent risk for roundwood markets and that silvicultural practises may need to be modified to mitigate future storm damage.

Globalisation of forest products markets

"Globalisation trends are accelerating," according to Mr. Marc Boutin, "driven by the free

movement of capital, growing concentration of forest products companies and access to forest resources." Mr. Boutin, Director of International Trade, Quebec Lumber Manufacturers' Association, in a keynote address presented the effects of globalisation on the forest products markets at the annual UNECE Timber Committee market discussions.

According to Mr. Boutin, the factors driving international trade of forest products are: emerging economies with commensurate rising consumer demand; investor preference for companies focussing on fewer products and larger scale; and a switch to lower cost fibre from forest plantations.

These forest products trends are linked to overall effects of globalisation on the world economy including increased capital mobility, information technology revolution, improved transportation logistics, and larger buying groups, e.g. DIY chains, sourcing wood products globally.

In addition, labour shortages in developed economies are favouring a shift to lower cost labour in developing regions according to Mr. Boutin and Mr. Peter Poschen, Forestry and Wood Industry Specialist, International Labour Office. Mr. Poschen added that, "Globalisation, decent work and sustainability are not necessarily contradictory" when the social dimension is adequately incorporated into policies related to the forestry sector.

STATEMENT ON FOREST PRODUCTS MARKETS IN 2001 AND 2002

The entire official text below was adopted by the Timber Committee in Geneva, on 5 October 2001.

ACCELERATING INFLUENCE OF GLOBALISATION ON FOREST PRODUCTS MARKETS—UNCERTAINTY ON SHORT-TERM MARKET OUTLOOK

Overview

Following record levels in 2000 of forest products consumption, production and trade in the UNECE region of Europe, North America and the Commonwealth of Independent States (CIS), markets started to fall in early 2001. The simultaneous weakening of all major economies exacerbated this trend. The Timber Committee forecasts reductions in forest products markets in 2001 and no significant recovery in 2002. Furthermore, uncertainty has increased since the 11 September 2001 terrorist attacks on the United States, which were not taken into account in the forecasts, prepared before the session.

The forest products sector, like other industry sectors, is increasingly influenced by globalisation, driven by economies of scale, rapid and free movement of capital, removal of trade barriers, better information and communication technology and cheaper transport. The most visible effects of globalisation in the sector are mergers and acquisitions among forest products companies, the emergence of multi-national buyers of forest products (e.g. large European and American DIY chains), global markets in a number of products, including fibre, pulp, newsprint, and some assortments of sawnwood and panels. Success of export-oriented plantations in locations with excellent growing conditions and productive species, is documented in the new FAO publication *State of the World's Forests 2001*. This has led to more vigorous competition on markets which had been traditionally domestic and small scale, as well as to innovation in products and marketing, modified industrial strategies, including, in some instances, outsourcing of production processes.

In light of the economic downturn in 2001, the Timber Committee stated that it is imperative to develop new products to expand existing markets and to establish new markets to meet consumers' needs. The Committee reasserted the importance for the forest products industry to work internationally to promote the environmental advantages of the sustainable production of wood. An opportunity to address these issues would be provided at the Committee's seminar under preparation in Romania for March 2003 on promoting the use of wood as an environmentally friendly raw material.

The Committee discussed the need to increase the wood culture in the ECE region. Delegates mentioned on-going national and subregional campaigns to promote the use of wood. The Committee suggested coordinating efforts in order to achieve greater success.

Economic background

The global economy has been in a weak state since mid-2001. After the end of the long boom fed

by investment in information and technology and the bubble in stock markets, some readjustment was inevitable. The three major world economies, North America, Japan and Europe, have all weakened simultaneously, for the first time since the early 1970s. Consumer and business confidence began to fall, a trend which was reinforced by the attacks of 11 September. This has increased the risk of a slide into recession in the major economies.

The outlook for the world economy is less favourable than before and huge uncertainty has been created, notably by the loss of the sense of security, leading to a "wait-and-see" attitude in many areas, including investment and consumption. Forecasts as of October 2001 are for GDP growth in 2001 of about 1% in the United States of America, and 1.8% in western Europe, with a 0.5% fall in Japan. There are downside risks arising from the consequences of the attacks of 11 September which are not as yet fully understood, the fragility of the Japanese economy, and the risk of a mutually reinforcing downward economic spiral.

In Russia, growth in 2001 has been slower than in 2000, but still healthy (+4.5% expected for 2001). Countries of central and eastern Europe are exposed to the risk of an economic downturn in their major export customers, notably in western Europe.

United States housing activity showed some signs of slowing down, with August 2001 starts down to a seasonally adjusted annual rate of 1.527 million. In August, no significant further fall was expected, but the decline in consumer confidence might affect these forecasts.

In western Europe, total construction activity is expected to grow by only 1.3% in 2001, while new residential construction is expected to fall slightly (source: Euroconstruct). In Germany, completions of new dwellings in 2001 are expected to be about 3% lower than in 2000, with no upturn foreseen in 2002.

Certified Forest Products

The Committee continued to review the markets for certified forest products (CFPs) and the latest developments for certification systems. The area of forests certified in the world is now nearly 90 million hectares, with around 95% being in the ECE region. The area certified has expanded rapidly in the last year as more systems come on stream and more companies have been certified. In Europe, there are now two major systems in operation, the Forest Stewardship Council (FSC) and the Pan European Forest Certification (PEFC).

The main markets for certified products continue to be in parts of western Europe and North America. However, it was stressed that information on the number of products certified and the volume of wood they represent is still very limited. Final consumers appear to have little awareness of, and interest in certified products, as the main demand for CFPs is from retailers. A smaller, but important contributor to the demand is public procurement by central and local governments.

Continued growth is expected in area certified and number of certified products sold, as all certification schemes make further progress. Additionally, schemes in some developing countries are likely to be finalized. To date though, CFPs have a very limited share of the market.

There is increasing interest in mutual acceptance or recognition between different certification systems. Some concern was noted that the current conflict between systems in Europe makes it more difficult for consumers to decide whether wood products can be bought with confidence. The result of this conflict is that products from more non-renewable materials such as concrete and steel, may gain market share at the expense of wood, which is a renewable material. Confidence in the instrument of certification could also be impaired. The Committee stressed that certification should not become a trade barrier.

Sawn softwood

Following record levels of consumption, production and trade in the UNECE region in 2000, sawn softwood markets are forecast to fall in 2001 and then possibly to improve in 2002. In Europe, consumption is forecast to fall by over 4% in 2001, down to 87 million m3 due to weaker economic conditions. Steeper drops are forecast for most western European countries than for countries in central and eastern Europe. Prices are at the lowest levels for many years in Europe, although exporters to the United States benefited from the strong dollar. There has been consolidation in the sawmilling industry throughout the ECE region. Some sawmills have closed in the region in response to low prices and oversupply. Commodity sawnwood manufacturers are continually moving towards value-added production including engineered wood products, for example glulam beams.

A slight improvement forecast for European sawn softwood markets in 2002 is uncertain, in the

wake of the slowing global economy. European imports follow a similar pattern: they are forecast to drop by 5% to 37 million m3 in 2001, then possibly to improve slightly in 2002. While exports are forecast to be lower in 2001, continued strength is expected for exports to Asian destinations.

At the expiry of the Canada-United States Softwood Lumber Agreement in March 2001, the United States Coalition for Fair Lumber Imports Executive Committee filed for countervailing and anti-dumping duties to be imposed against Canada. Approximately 95% of United States imports of sawn softwood come from Canada, making up over a third of the United States consumption. At the present time, North American trade officials are discussing alternatives to litigation. Nevertheless, softwood trade has been disrupted. Many Canadian sawmills have reduced production and Canada estimated a 5% drop in exports, down to 46.5 million m3 in 2001, mainly due the United States trade dispute. United States forecasts for 2001 and 2002 for consumption were not significantly different from the record 127 million m3 in 2000. This is positive news for European exporters to the United States, although again, caution should be exercised with these forecasts due to the current extraordinary economic uncertainty.

New housing construction remains high in the United States and houses have become larger and more complicated in design in recent years resulting in more wood per house. The repair and remodelling market share of sawn softwood consumption has grown to become as important as new residential construction. Engineered wood products continue to gain market share, for example approximately one third of new residential constructions employ wooden I-beams in floors.

Russia forecasts consumption of sawn softwood will increase in 2001, by 9% to reach 11 million m3, and a further rise of over 5% in 2002. Production is expected to rise by 5% in 2001, to 18 million m3, and by a further 5% in 2002. Domestic consumption should account for most of the increased production. Exports were not forecast to rise in 2001.

Sawn hardwood

European sawn hardwood markets were forecast to follow the same patterns as those of softwood, i.e., a decline from the record 2000 levels in 2001, then slight improvement in 2002. Sawn hardwood, certified as coming from sustainably managed forests, was said to be available for most species in adequate volumes to meet the current market demand.

North America produces and consumes 36.6 and 38.3 million m3 respectively, twice the volume of sawn hardwood as Europe. Record levels of production and consumption were reached in 2000. Both production and consumption were forecast to remain steady in 2001 and 2002. While imports were forecast to remain steady, exports were forecast to dip slightly in 2001 and recover in 2002. However, there are indications of sharply reduced production levels in mid-2001, increasing the uncertainty surrounding these forecasts.

There have been increased imports of value-added hardwood products, including tropical hardwoods, for example furniture and flooring. Hardwood flooring has been a growth market in both Europe and North America through 2000. However in 2001, flooring manufacturing has excess capacity and is in oversupply as housing demand slows.

Together, the United States, United Kingdom, Germany and France, along with Japan, import 60% by value of secondary-processed wood products. Imports of hardwood furniture are negatively affecting the United States furniture manufacturers, resulting in some plant closures in 2001. One third of United States furniture sales are of imported furniture, of which almost 30% comes from China. Rationalization of furniture manufacturing capacity is also occurring in western Europe.

Tropical timber producers continue to increase the share of further processed products in production at the expense of primary products (sawnwood, plywood, veneer and logs). The International Tropical Timber Organization (ITTO) forecasts that the value of exports of tropical secondary products will exceed primary products after 2003. ITTO forecasts increasing supplies from plantations in the tropics.

China is an important export market for the ECE region and temperate species imports increased to approximately the same volume as tropical species in 2000. ITTO expects China to import the greatest volume of primary tropical wood products in the near future. China’s increased imports of wood are influenced by the reduction in domestic logging in three major watersheds, as well as the raw material needs of the exporters of wood based products such as furniture. Exports of wood products such as furniture which were increasing by 30% per year until 1999, accelerated in 2000 by a further 45%.

Wood-based panels

Wood-based panels consumption in Europe attained record levels in 2000, nearly 8% higher than in 1999. In certain countries during the last quarter, signs of slowdown appeared, but generally, the momentum of 2000 continued through the first quarter of 2001 but then slowed. From mid 2001, sluggish demand, coupled with continued capacity expansions, resulted in very competitive markets and weaker production growth rates. European markets for OSB seem to be the exception: demand is still strong, though prices are under pressure. Timber Committee forecasts for Europe show cutbacks in very competitive panel export markets and even more significant reductions in imports. Nevertheless, production forecasts are on the whole still positive, at a modest 1%.

The strong growth of the wood-based panels sector in North America over the last decade showed signs of decline in 2000. The 10% growth in consumption in 1999 was followed by a 2.5% increase in 2000. Continued capacity expansions in the OSB and particle board sectors disrupted markets with noticeable price swings, as supply increased faster than demand. Forecasts for increases in production and consumption are modest while major cutbacks are expected for imports and exports. APA- The Engineered Wood Association predicts that US softwood plywood production will fall to 14.6 million m3 in 2001 following the 15.5 million m3 of 2000.

In the Russian Federation overall consumption of wood-based panels is expected to go up by about 6% and 3% in 2001 and 2002, respectively, following the nearly 20% increase in 2000. Exports are also expected to increase somewhat as a result of the weak rouble, which improved competitiveness of Russian exports in world markets.

Pulp, paper and paperboard

The markets for both pulp and paper peaked around the end of 2000. For paper and paperboard production and consumption, 2001 estimates for Europe and North America were within 1% of the 2000 data, although some countries showed stronger fluctuations, up or down. North American production and consumption of pulp are excepted to show minimal change but decreases of 1-2% are expected for Europe. Prices of some products, including market pulp, have been weakening despite the efforts by some producers to limit increases in capacity and production in line with real demand. Similar levels of production and consumption of both pulp and paper are forecast for 2002 as in 2001. Likewise no significant changes are forecast for trade in pulp and imports of paper in 2001 and 2002. Some paper exporting countries expect lower exports in 2001, with a recovery in 2002.

Russia foresees higher production, domestic consumption and exports of both pulp and paper in 2001 and 2002, spurred by the recovery of the Russian economy and the low rouble exchange rate.

Wood raw materials

The extensive windthrow of approximately 200 million m3 from the December 1999 storms, which mainly affected France, Germany, Switzerland and Denmark, is still influencing roundwood supply in Europe, chiefly in the EU/EFTA subregion. In 2000, removals and exports of roundwood accelerated, by 12% and 50% respectively because of the need to clear windthrown timber. Removals fell however in other, unaffected countries. Strong demand in 2000 for wood raw material mitigated the negative effects of the windthrow. Actions by governments limited the drop of roundwood prices, although prices remain under pressure. After the useable wood will be brought out of the forests, removals in 2001 were forecast to decrease by 8%, to a level slightly below that of before the storm. Recent windthrow damages in Estonia in July 2001 drew attention to the fact that storm damage poses a permanent risk for roundwood markets. Silvicultural practices may be modified in an attempt to reduce future storm damage.

The removals in central and eastern European countries, as well as in North America, are expected to remain more or less stable in 2001 and 2002. Further stabilisation of the policy framework in some countries of the CIS is forecast to lead to an increase of removals for 2001 by nearly 10%, whereas the growth expectations for 2002 are significantly lower. Roundwood exports from CIS, chiefly from Russia, are forecast to grow in 2001, but to slow in 2002, as domestic demand in the CIS is expected to compete more successfully with exports.

Europe: Summary table of market forecasts for 2001 and 2002

pdf

North America: Summary table of market forecasts for 2001 and 2002

pdf

The Timber Committee's market discussions were based on the recently published UNECE & FAO Timber Bulletin "Forest Products Annual Market Review, 2000-2001", country-supplied market forecasts and country market statements. All of these documents and forecasts may be found on the Timber Committee's Market Information Service at:
http://www.unece.org/trade/timber/mis/mis.htm

Full text of the statement below will be combined with statistics and forecasts for 2000-2002 and will be published in another UNECE & FAO Timber Bulletin "Forest Products Markets in 2001 and Prospects for 2002".

For further information please contact:

Ed Pepke
Forest Products Marketing Specialist
UNECE & FAO Timber Section, Trade Division
Palais des Nations, Office 439
CH – 1211 Geneva 10, Switzerland
Tel: +41 22 917 2872
Fax: +41 22 917 0041
E-mail: Ed.Pepke@unece.org
Website: www.unece.org/trade/timber

Ref: ECE/TIM/01/03