

# Chapter 1

## Overview of Forest Products Markets in 1999 and early 2000

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### Highlights

- Consumption of forest products in the ECE region once again reached record levels in 1999.
  - Strong economies in Europe and North America in 1999 and early 2000 resulted in record production and trade although there were signs of slower growth ahead.
  - The Commonwealth of Independent States had not recovered from the 1998 Russian economic crisis and although domestic consumption of sawnwood fell, it rose for panels and paper, while exports of most products increased.
  - Prices were weak for some products and sub-regions, for example sawn softwood and panels in North America where new capacity outstripped the rise in consumption.
  - Central and eastern European countries exported more roundwood and primary-processed products as well as increased exports of value-added products such as furniture.
  - Life-cycle analysis for wood-based panels confirmed continued market penetration for OSB and MDF, moderate growth for particle board and stagnation for plywood in North America.
  - The ECE region has the majority of the world's certified forestland and new certification systems for sustainable forest management are being implemented with possibilities for mutual recognition between systems. With the new certificates, the demand for certified products is less than the potential supply.
  - Windstorms in December 1999 felled 3 years' worth of timber in Europe causing chaos in forests and forest products markets for roundwood in early 2000.
  - China is rapidly increasing forest products imports with important benefits for ECE region exporters.
  - Japan began recovery from the 1997/1998 Asian economic crisis and imports from the ECE region improved.
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## 1.1 ECE region developments

Overall in the ECE region (Europe, North America and the CIS), forest products markets were at record levels in 1999 due to strong domestic and export demand for primary wood products (roundwood, sawnwood, panels, pulp and paper). Residential and non-residential construction was at high levels in North America and Europe in 1999 and early 2000, resulting in strong markets at the beginning of the millennium. Recovery from the 1998 economic crisis in the Russian Federation persisted into 1999, however, depending on the product, either lower consumption or higher production led generally to greater exports.

Consumption of forest products in North America rose sharply in 1999, by over 5% for sawnwood, panels and paper and paperboard, raising the roundwood required by 38.7 million m<sup>3</sup> (table 1.1.1). Sawnwood consumption moved up to 731 million m<sup>3</sup> and 56 million m<sup>3</sup> worth of panels were consumed for construction and non-structural uses. Sawnwood trade between Canada and the United States was at record levels in 1999, as were imports to North America. The strong US dollar weakened export opportunities in some markets, but not in all products. Paper and paperboard consumption increased to new records at 104 million m<sup>3</sup>.

European economies were generally stronger in 1999 and forest products markets were at record consumption. Sawnwood consumption rose by over 3% to 105 million m<sup>3</sup> and trade within Europe was high as well as exports to Asia and the United States. Paper and paperboard consumption rose too, to a record 105 million m<sup>3</sup>. Panels consumption, boosted by structural and non structural uses rose by half as much, 1.5%, to 52 million m<sup>3</sup>. Prices remained depressed in 1999, but they have somewhat strengthened in 2000.

Production of sawnwood in the Russian Federation fell to 13 million m<sup>3</sup>, and as domestic consumption fell even more, greater volumes were exported. Consumption of panels rose but did not overcome the drop in 1998. Paper and paperboard consumption rose most, by 29.3% to 3 million m<sup>3</sup>, moving back near the level in 1993.

Removals of roundwood from forests escalated in 1999 but remained well below annual growth as determined by the recently published study by the Temperate and Boreal Forest Resources Assessment.<sup>1</sup> The study shows higher levels of removals would still be possible under sustainable forest management.

Japan and some other countries in Asia began recovering from the 1997 and 1998 economic crisis. The

Chinese demand for wood products is growing fast due to a combination of factors, especially the decrease domestic harvests for flood control and the increasing consumption commensurate with opening borders and a rising standard of living for the 1.3 billion population. Exporters from across the region capitalised on these opportunities.

The export markets outside of Europe have become especially important in 2000 in light of the December 1999 windstorms which toppled 193 million m<sup>3</sup> of roundwood in France, Germany and Switzerland (as well as other countries). There were multiple market consequences of this disaster for the countries involved: 1. a sudden, enormous supply, equivalent to 2 to 3 years annual harvest; 2. the disruption of forest management plans in the damage zone and postponement of those outside the zone; 3. the collapse in roundwood prices, but not necessarily further processed product prices; and 4. the panic to remove usable wood before destruction by insects, disease or fire. In mid 2000, thanks in part to governments' actions, and due primarily to a strengthened solidarity in the sector, many countries struck by the storms had restored order to forests and forest products markets. Nevertheless, the effects of the storms will have serious repercussions for years in the hardest hit communities and regions.

Central and eastern European countries exhibited strong export orientation for roundwood and sawnwood and were making strides to develop value-added processing such as furniture manufacturing.

In North America the number of houses built was at near record levels, even though mortgage rates began to rise in 1999. Constructed essentially from wood, i.e. sawnwood and panels, the 1.7 million homes in the US, plus another 150,000 in Canada also meant a strong demand for millwork, mouldings and furnishings. These in turn necessitated increased forest removals, up slightly to 686 million m<sup>3</sup>. However this is below levels of the late 1980s when the US exported more wood.

The decline in US exports and the concurrent rise in production were not satisfactory to meet demand and imports of roundwood, sawnwood, pulp and paper rose. European sawnwood is becoming more prevalent in the US; however Canada maintains a 95% market share.

The paper and paperboard sector in Europe and North America saw strong growth in demand, and higher levels of production and consumption. Pulp's share of raw material used for paper and paperboard continued to decline to the profit of recovered paper and non-fibre raw materials such as coatings. Companies continued to merge and expand across regions, creating several truly global players. For both paper and pulp, profitability was restored as capacity growth was restrained, bringing up

<sup>1</sup> Forest Resources of Europe, CIS, North America, Australia, Japan and New Zealand, 2000 (ECE/TIM/SP/17).

the capacity utilisation rate, and influencing prices upwards.

The wood-based panels market is dynamic and when combined with engineered wood products the future of wood products markets becomes clearer. New product developments with end-use orientation are being reconstituted from flakes, shavings, veneers, fibres and other residues and by-products. These new composition products are in panels or glued into beams for uses in construction, materials handling, furniture and other uses.

Consumption of panels and engineered wood products is at record levels in North America and Europe

but with capacity being installed faster than demand, the result was weak prices in Europe and volatility in North America. MDF is a product which is replacing solid wood in furniture and mouldings, and which is constantly finding new applications. However like other panels, MDF capacity is high and prices are weak. Well established in North America, OSB does not have the same construction applications in Europe, although different applications and new market niches are being developed.

TABLE 1.1.1  
Apparent consumption of sawnwood, wood-based panels and paper and paperboard  
in the ECE Region, 1996-1999

	Thousand	1996	1997	1998	1999	Change 1998 to 1999	
						Volume	%
<b>EUROPE</b>							
Sawnwood <sup>b</sup>	m <sup>3</sup>	90,891	97,339	101,872	105,026	3,154	3.1
Wood-based panels <sup>c</sup>	m <sup>3</sup>	43,167	46,462	51,437	52,194	757	1.5
Paper and paperboard	m.t.	73,463	79,211	82,470	85,322	2,852	3.5
Total	m3 EQ <sup>a</sup>	463,533	498,607	524,868	540,795	15,926	3.0
<b>RUSSIAN FEDERATION</b>							
Sawnwood <sup>b</sup>	m3	18,412	16,753	14,731	12,558	-2,173	-14.8
Wood-based panels <sup>c</sup>	m3	2,228	3,134	2,560	2,866	306	11.9
Paper and paperboard	m.t.	2,212	2,353	2,128	2,751	623	29.3
Total	m3 EQ <sup>a</sup>	40,522	39,796	34,880	34,003	-876	-2.5
<b>NORTH AMERICA</b>							
Sawnwood <sup>b</sup>	m3	161,892	167,860	171,634	181,416	9,782	5.7
Wood-based panels <sup>c</sup>	m3	48,019	48,628	52,794	55,615	2,821	5.3
Paper and paperboard	m.t.	91,608	86,306	98,332	103,789	5,457	5.5
Total	m3 EQ <sup>a</sup>	646,409	638,957	692,431	731,095	38,664	5.6

<sup>a</sup> Equivalent of wood in the rough

<sup>b</sup> Excluding sleepers

<sup>c</sup> Excluding veneer sheets

Source: ECE/FAO TIMBER database, 2000.

## 1.2 Trends in forest products markets

Due to socio-economic changes, for example demographic changes, a number of structural changes are occurring in forest products markets in the ECE region. Markets are continuing to become more global, despite rising transportation costs, and wood raw materials are being shipped considerable distances between continents.

With increasing competition a stronger market orientation is becoming evident across the ECE region as primary forest product producers seek to diversify from commodity markets and meet market requirements. The result is sales offices in key export country destinations or, conversely, foreign investment in timber-rich areas. An example of the former would be Swedish sales offices in Japan and examples of the latter would be Malaysian investment in forests and sawmills in Russia, or Japanese sawmills and panel plants in Europe and North America.

Part of the market orientation is producing new products from wood to meet more exigent specifications or to improve on current uses of wood. An example is the substitution of wood I-beams for solid-wood joists and rafters. Combination of solid wood and composite products into engineered wood products enables serving new functions, as well as improvement on existing applications.

Another trend is the increased communication between the forest and forest industries sector and the public. Certification of sustainable forest management is established and thus far has been most beneficial in the ECE region as a tool to communicate companies' and governments' assurance that forest products are being sustainably produced. While availability of certified forest products is increasing, and the potential supply is increasing faster, in general in the region consumers are not demanding CFPs.

Industry is restructuring in line with global markets and marketing and the number of players is dropping as production capacity is rationalised, especially in the pulp and paper sector. Large, multi-national companies can achieve greater efficiencies in marketing, including distribution channels. Fewer players have an impact on prices, both for raw materials and final products.

Inventory carrying costs are continually minimised through just-in-time ordering. Sometimes price volatility occurs when stocks cannot buffer price rises.

More extensive and timely market information is available, both in print and in electronic form over the Internet. Electronic communication has accelerated price comparisons and ordering. Electronic marketplaces are no longer the future, but are well established.

The promotion of wood as a natural, renewable, environmentally-sound choice is accelerating in

countries, corporations and internationally. Nevertheless wood products and paper-based packaging remain under threat from substitution by plastics, steel, aluminium and concrete. Companies are finding that their environmental policies are an important competitive advantage in certain marketplaces.

The emphasis on new construction sometimes overshadows the important demand for wood and wood products for the repair and remodelling markets. Whether through professionals or through DIY stores, the values of wood materials going into renovation and improvement are often equivalent to the proportion for construction.

## 1.3 Timber Committee forecasts

The Timber Committee forecast production and trade of forest products in 1999 and 2000 at the September 1999 session. In retrospect the projected apparent consumption for 1999 was low for Europe and North America and the predictions for 2000 have been surpassed.<sup>2</sup> In early 2000 the trends were much stronger than envisaged and the annual totals will depend on continued strength in economies – an uncertainty in mid 2000. The Committee predicted the direction of the decrease in Russian Federation consumption of sawnwood, but not the magnitude. However the Committee foresaw a rise in sawnwood exports and a further increase was forecast for 2000. An anticipated growth in 1999 in panels' apparent consumption was correct and another climb was foreseen for 2000.

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<sup>2</sup> Direct comparison between forecasts and the actual statistics is difficult because of changes in definitions.