

ECONOMIC COMMISSION FOR EUROPE

Timber Committee

FINLAND

September 2007

MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS

After the exceptionally high growth rate of 5.0 percent in 2006, Finnish GDP is expected to decelerate to slightly less than 4 percent growth in 2007. This growth rate is still above its long-term mean, and it is remarkably higher than in euro area in average. The positive economic development in Finland is driven mainly because of moderate growth of private domestic consumption, investments and exports.

Even though the wage and salary increases are still under union-level negotiations, they are expected to increase about 4 percent in this year, and 3-4 percent in next year. Along with the improved employment, this means that households' real disposable income remains high and private consumption is expected to increase 4.0 percent in year-to-year terms. Export sector shows also strong performance. Although the exceptionally high growth figures from previous year cannot be reached, the exports are still expected to increase 5.8 percent. Especially, metal and engineering industries are leading export sectors. Rising interest rates, increasing expenses, regional shortages of building land and skilled labour is constraining domestic residential and housing construction, and it is decreasing about 2 percent. However, due to the other constructing activity and investments in machines and engineering, the total investments are increasing over 4 percent in 2007. Also, both the Finnish business tendency survey and the consumer confidence indicator indicate strong confidence for Finland's economy.

The outlook of other macroeconomic fundamentals for 2007 reveals also strong economic performance. Along with the acceleration of economic growth, financial position of local government remains strong. Increase of collected taxes and income from dividends imply that the surplus of government finances is estimated to be 4.3 percent of GDP in this year. Public debt is decreasing to 36 percent of GDP. Due to the business cycle politics, the public investments and consumption will increase only slightly. The robust economic growth are decreasing unemployment rate to 6.7 percent in 2007. Current account surplus is expected to increase to 10 billion euros, while the economic activity accelerates annual inflation rate to 2.5 percent.

Even though Finnish economy will not attain as high growth rate as in 2007, the scenario for 2008 seems also rather optimistic. GDP is predicted to grow about 3 percent in year-to-year terms. Due to the wage and salary increases and improving employment position, domestic private consumption growth is expected to be 3 percent. Residential construction will decrease but other construction activity and investments will increase total investments to 5 percent growth. Also, Finnish exports will perform fairly strong with 5

percent growth in 2008. Economic activity will boost annual inflation rate to 3 percent and unemployment rate will decline to about 6 percent.

The uncertainties which can threaten the positive outlook for Finnish economy are related to the development of main export areas, such as euro zone, Russia and Sweden. Especially, the financial turbulence and uncertainties in US housing markets as well as the monetary policy of European Central Bank may affect Finland as well as other industrial countries. Together with labour shortage problems and increasing expenses, the increase of interest rates are likely to affect consumers' and firms' confidence for future, private consumption and investments.

2 RECENT POLICY MEASURES

New rules for good silviculture became effective August 1, 2006. More flexible criteria for regeneration and thinnings opened up new alternatives which can be applied for improvement of the profitability of forestry. They have an increasing effect on allowable cut, particularly in pine forests in northern Finland.

In bioenergy issues Finland is committed to the EU policy.

Russian's recent policy changes aiming at reductions in roundwood exports will have a great impact in Finland. June 1, 2006, the export duties levied on coniferous roundwood were risen from EUR 2.5 to 4.0 per cum. July 1, 2007, the duties rose to EUR 10 per cum and included also birch logs. The next rise to EUR 15 per cum is scheduled to April 1, 2008. The killer rise to EUR 50 per cum will be due to January 1, 2009. For the most important roundwood type, birch pulpwood, such a high duty will take affect two years later.

3 Market drivers

High demand of sawn wood in western Europe due to growths in housing construction has markedly risen sawn wood prices. Scarcity in saw log supply in many countries has contributed to the same. Sawmilling industry have been able to improve their profitability.

4 DEVELOPMENTS IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2006, the use of industrial roundwood amounted to record-high 66 mill. m³ u.b. In addition, 1.0 mill. m³ of roundwood was exported. The industrial roundwood use was about

7 million mill. m³ over the previous year's figure which was dropped due to lock-out in pulp and paper industry. In the turn of the years 2005/2006, the transition period in the Finnish forest taxation system from old site-productivity taxation to forest income taxation, which had boosted especially the supply of sawlogs in the market, ended, and it was quiet in timber market during the spring 2006. However, as trade volumes picked up during the early summer with increasing prices, market adjustment to this structural change occurred with a relative ease. In 2006, roundwood imports, 18 million m³ u.b., were 7 per cent lower than record-high imports of the previous year. About 80 per cent originate from Russia.

Finnish roundwood markets are at boom. The above mentioned upturn continued until July 2007 as far as prices are concerned and traded volumes are still at record-high level. Booming sawmilling industry, low inventories of felled roundwood and declining wood imports contribute to high demand and rising prices particularly of sawlogs.

The statistics for the domestic roundwood harvests in January-July 2007 shows a 15 per cent increase from the previous year. Also industrial roundwood inventories have fallen to record-low level. Wood imports have decreased by a quarter but it is mainly due to poor logging conditions during the last winter.

Overall, the industrial roundwood consumption in Finland increases in 2007 by 2 per cent as compared to last year, totalling about 67 mill. m³ u.b. Domestic roundwood removals will account close to 52 mill. m³ in 2007. It is forecast that imports of roundwood and chips will be about 16 mill. m³ u.b. this year, a drop of 10 per cent from the previous year. Procurement of main articles, i.e. coniferous sawlogs and pulpwood will be 27 and 23 mill. m³ u.b. in 2006, respectively.

Due to booming demand, the stumpage prices for all kind of roundwood were much higher in January-August 2007, in comparison to the respective period in 2006: pine sawlogs 41 %, spruce sawlogs 38 %, birch logs 12 %, pine pulpwood 27 %, spruce pulpwood 14 % and birch pulpwood 25 %.

Roundwood removals in 2008 are expected to maintain the same level that is estimated for the current year. Removals of coniferous sawlogs and pulpwood will be about 23 and 21 mill. m³ u.b, respectively. Imported wood included, the volumes are 26 and 23 mill. m³ u.b., respectively. Imports of 2008 are slightly lower than in 2007, but facing the EUR 50 per cum export duty at the start of 2009, forest industries are obviously trying to maximize the imported volumes in 2007 and 2008.

B. Wood energy

Wood-based energy accounts for 20% of all energy consumed in Finland and 60% of the Finnish forest industry's energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.). The Government's aim is to make all forms of renewable energy,

mostly bioenergy, competitive on the open energy markets. The following support measures are employed:

- a carbon-based environmental fuel tax
- support to electricity production when based on renewable sources
- aid for investments aiming at develop and promote utilization of renewable energy
- support for the production of forest fuels
- public financial support to development and commercialization of technology

Along with industrial roundwood, fuelwood to be used in industrial power plants and district heating plants has become a new type raw wood. In 2006, 3.1 mill. m³s of felling residues, small-sized trees and stumps were used for energy purposes in Finland. This type of fuelwood is mainly logged in spruce-dominated clear-felling areas in coordination with industrial roundwood logging. The logged volumes have been growing year by year. Small stumpage is nowadays paid for forest owners for this type of fuelwood. The prices at plant yard have been rising to present average EUR 17 per cum solid. In addition, household firewood, a part of which consists of felling residues, has maintained its volume (6 mill. m³s/yr). The Finnish pellet production is annually about 250 000 tonnes, most of which is exported to Sweden.

C. Certified forest products

About 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation.

Demand for ECO-labelled products is growing. Forest industry companies have acquired certified chain-of-custody systems in order to obtain PEFC-logo usage right. According to the Finnish Forest Certification Council, there are today 88 PEFC logo licence holders among Finnish forest industries. These licenses cover the major share of wood procurement, sawnwood and panels production as well as paper and paperboard production.

D. Value-added wood products

E. Sawn softwood

In the whole Finnish woodworking industry, sawnwood and plywood are the main products accounting for 51 % and 23 % of the industry's export value in 2006, respectively. The rest of 26 % is divided by particle board, wooden furniture, fibreboard, wooden pre-fabricated houses, etc.

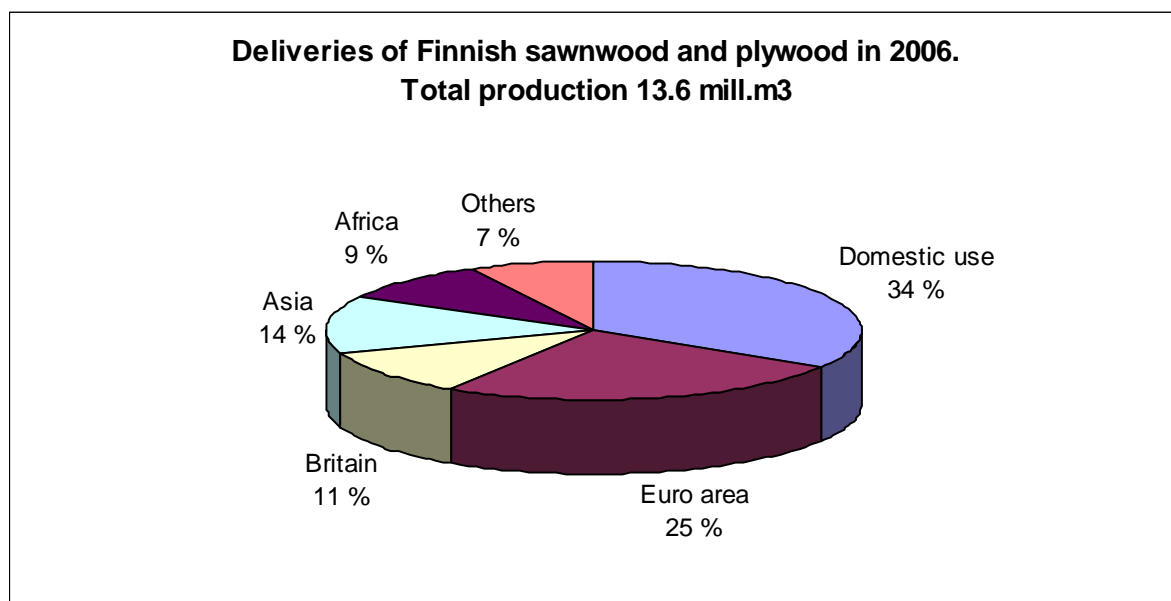
In Finnish sawnwood industry sawn softwood is the main product. About 60 % of sawnwood production is exported and 40 % is domestically consumed. Europe is the main export market for Finland (especially UK, Germany, France and the Netherlands) accounting for 60 % of the exports in 2006. Due to increasing market competition and

downward price development in Europe, sawnwood export growth in recent years has concentrated outside Europe, e.g. to Japan who's share in the Finnish exports increased to 16 % in 2006. The share of Africa increased to 17 % last year.

Last year, the unexpectedly high growth in housing construction boosted the demand for sawnwood in Western Europe. Along with the increase in demand, sawnwood prices rose due to scarcity of supply. This scarcity was largely due to temporary shortage of sawlogs caused by mild weather in many European producer countries. The rise in sawnwood prices boosted production in Europe and led high supply level. The rise in Finnish nominal export unit price of sawnwood was 11 % compared to 2005.

In spite of the export price rise, sawnwood exports from Finland went up only slightly, 1 %, to 7,7 million m³ of which planed goods and finger jointed products accounted for about 12 %. Production amount was slightly lower than in 2005 totalling 12.1 million m³. Due to weak profitability, caused by the unfavourable relationship between sawlog and sawnwood prices, integrated sawmills have decreased their production during the 2000's by closing some older production units. Also scarcity of sawlogs limited production in the first half of the year. In Finland, sawmills integrated in the pulp and paper industry, produce about half of the total sawnwood production.

From the Finnish sawnwood production redwood accounted for 51 %, whitewood about 49 % and hardwood (mainly birch) less than 1 % in 2006. Last year, favourable export market demand increased the production share of pine sawnwood by 2 percentage points. Domestic market is important to the Finnish sawnwood industry. In 2006 about 40% (about 5 mill. m³ from domestic production) went to domestic market. During the last 10 years, the growth in housing construction and repair has boosted considerably domestic sawnwood consumption and per capita figure has increased from 0,5 m³ to about 1 m³ in 1995 to 2006.



Outlook for years 2007 and 2008

In 2007 European sawnwood markets are affected by several developments that naturally reflect also to Finnish sawnwood industry. According to the forecasts of the Euroconstruct conference in June 2007, the activity of new residential construction reaches a peak in Western Europe this year. Construction growth is already slowing indicating slower growth for sawnwood consumption, too. Rising sawnwood prices have boosted production quantities up and the stormfells in Central Europe in January 2007 have had the same effect. The declining demand in the US construction sector and strong euro have weakened the European producers's competition ability in the US market and exports from Europe have declined remarkably. The supply of whitewood have been especially high because of a large share of spruce in the stormfells. The current oversupply forms a riks, that sawnwood prices turn downwards already in the second half of this year in Europe. To improve the market balance, it would be necessary to limit sawnwood production or to increase overseas exports, e.g., to Japan and Near East. However, possibilities are limited because of the strengthening euro. So, competition is expected to increase in the next coming year in the European market.

It is estimated, that the Finnish sawnwood production will increase about 4 % totalling 12,6 mill. m³ in 2007. Sawnwood price increases have improved profitability of sawnwood production, although also rawmaterial prices have gone up. In January-June 2007, the nominal unit value of Finnish sawnwood exports was up by 26 % on the same period the previous year, while the respective rise in the stumpage price of coniferous logs was about 38%.

In the first half of 2007 total export volume of sawn softwood was lower than in the first half of 2006. However, there were differences between wood species. Redwood exports were 7 % over the last years's volume, but whitewood exports were down 11 %. One reason for this has been the temporary oversupply of whitewood situation caused by storm-fells in the Central Europe.

The slightly downward development of sawnwood market price towards the end of the year, shall bring some weakening in the profitability of sawnwood production and exports, when the share of high priced sawlogs increases in the production process. However, the export price level remains still high and for the whole year, Finnish export deliveries are estimated to slightly increase in 2007 (to 7.8 mill. m³). High activity in residential construction, especially in the sector of low-rise housing will rise domestic consumption, apparent consumption being 5.3 mill. m³.

For the year 2008, prospects for the export demand of Finnish sawnwood seem slightly gloomier than in 2007. We estimate Finnish sawnwood production to decrease to 12.5 mill. m³. Lower level of market prices weakens the competition ability in the European market. Residential construction activity is cooling in the export and domestic markets and sawnwood supply level remains high in Europe.

F. Sawn hardwood

Sawn hardwood is a minor product in Finland, with a share of less than 1% of the total sawnwood production.

G. Wood-based panels

Plywood is the most important product category in Finnish wood-based panels industry accounting for 70 % of panel production. During the past 10–15 years, plywood industry has invested new capacity especially in softwood plywood. At present, Finland is Europe's main plywood producer with about a 30 % share of the total European output.

Construction growth and increased activity in furniture industry raised European plywood consumption slightly in 2006. Contrary to sawnwood or other wood based panels, Europe is a net importer of plywood, production volumes being smaller than consumption volumes. Especially Russia and China expanded their supply of birch plywood in Europe.

Demand growth in the European export boosted Finnish export volumes by 7 % and production increased to 1.4 mill. m³ in 2006. The main European destinations were Germany, Britain and Netherlands. The shares of birch-faced and softwood plywood in the Finnish total production are 40% and 60%, respectively. Plywood is an export product for Finland, where domestic consumption accounts only for 15 % from production.

Finnish particle board and fibreboard production represent a very small share in Finnish woodworking industry production. Production volumes have been relatively stable in re-

cent years and new plans for capacity enlargements have not been presented. Last year particle board production amounted to 0.44 mill. m³ and fibreboard production 0.13 mill. m³. Although production volumes are small, particle board and fibreboard are also exported the main destinations being Britain and Sweden. Domestic apparent consumption accounts for nearly 60 % of particleboard production. In the case of fibreboard, domestic consumption is larger than production and imports are needed to fulfill the gap.

Outlook for years 2007 and 2008

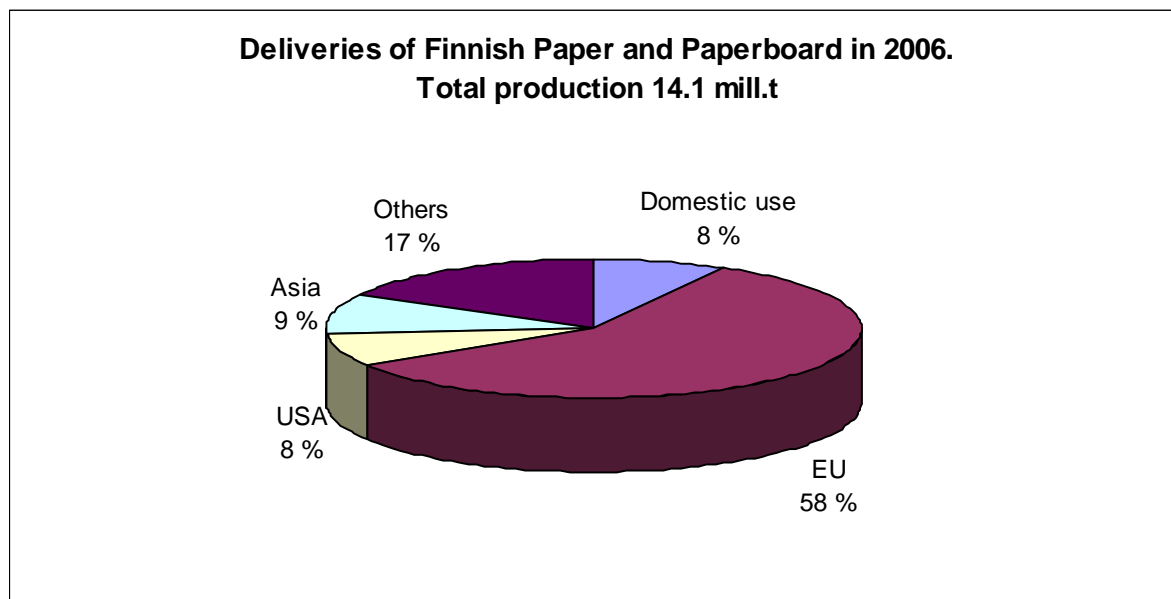
In 2007, Finnish plywood production and exports are expected to rise slightly over the level of 2006. A relatively strong export demand and moderately rising export prices boost production to 1.45 mill. m³ and exports to 1.30 mill. m³. In 2008, a slightly gloomier development of new residential construction is limiting especially the consumption of softwood plywood. Finnish production and exports are expected to stay about at the same level as in 2007. Production will be close to the full capacity in plywood industry.

For particleboard and fibreboard no significant capacity increases are announced for 2007-2008. So, no significant changes in their production are estimated.

H. Pulp and paper

The Finnish pulp and paper industry's production and exports went up considerably in 2006 compared with the 2005 figures, which were exceptionally low owing to a labour market dispute in the Finnish paper industry. Production volumes of paper and paperboard rose by 14 % to 14.1 million tonnes. The relative increase in pulp production was of the same magnitude. Chemical pulp production amounted to 7.9 million tonnes, while the total pulp production went up to 13.1 million tonnes.

The demand for paper on Finland's main export markets in Western Europe has risen only slightly in 2006 and price development remained weak because of the overcapacity in many paper grades. Finnish export volume of paper and paperboard rose by 13 % from 2005 totalling 12,9 million tonnes. The main part of the paper industry production, roughly 90% is exported.



Outlook for years 2007 and 2008

Paper consumption will stay at a high level in Finland's main export markets in Western Europe during 2007-2008. In the first half of the year 2007, the demand has slightly improved in the export markets, and the prospects for the rest of the year 2007 look positive as well. The Finnish paper industry's production will amount to 14.5 million tonnes and exports will be up about 2% compared with the 2006 figures.

Chemical pulp production and exports have decreased in the first half of the year as a result of weak availability and high prices of wood. Exceptionally mild winter has caused temporary difficulties in wood supply. The winter season was nearly one-third shorter than normal. The Russian government's decision to increase export duties raises roundwood fellings and stumpage prices in Finland and there will be need to replace wood supply from Russia by wood from other sources, too. Some mills have plans to replace birch pulp with Eucalyptus pulp and softwood sulphate pulp.

In the year 2008, market prospects for paper are expected to improve, given that the relatively favourable economic growth forecast for the Western Europe materializes. The demand is picking up in the main export markets for the Finnish pulp and paper industry. At the same time, the capacity shutdowns are helping to reduce the overcapacity in the printing and writing paper markets. The production of paper and paperboard is forecast to be 14,8 million tonnes. The chemical pulp exports are expected to increase slightly from the previous year's level.

5. TABLES

A. Economic indicators

Key economic indicators	2005	2006*	2007e	2008f
Gross domestic product growth, %	2.9	5.0	3.8	3.1
Consumer price index change, %	0.9	1.6	2.5	2.7
Wage and salary earnings change, %	3.9	3.0	3.2	5.1
Unemployment rate, %	8.4	7.7	6.7	6.2
Current account surplus/GDP, %	5.1	5.8	5.6	5.1
Industrial output change, %	3.9	10.6	5.0	3.5
Three month EURIBOR, %	2.2	3.1	4.6	4.6

Source: Nordea, Economic Outlook 4.9.2007. Due to the changes in calculations of Finnish national accounts, data released earlier than 1 March 2006 are not in all respects comparable with the data in this Table.

B. Production and Trade in 2004–2008

1. Forest industry production in Finland						
Product	Unit	2004	2005	2006	2007e	2008f
	1000					
Sawn softwood	cum	13 460	12 190	12 145	12 600	12 500
Plywood	cum	1 355	1 305	1 415	1 450	1 450
Particle board	cum	448	452	440	400	400
Fibreboard	cum	147	149	130	130	130
Mechanical pulp	tonnes	4 836	4 361	5 121	5 120	5 270
Chemical pulp	tonnes	7 783	6 773	7 946	7 950	8 190
Pulp, total	tonnes	12 619	11 134	13 067	13 070	13 460
Printing & writing paper	tonnes	10 024	8816	10 010	–	
Magazine paper, newsp	tonnes	6 843	6090	6 714	–	
Fine paper	tonnes	3 181	2727	3 296	–	
Other paper	tonnes	1 154	1026	1 162		
Paper, total	tonnes	11 178	9842	11 172	11 400	11 630
Paperboard	tonnes	2 858	2549	2 977	3 130	3 220
Paper & Paperboard total	tonnes	14 036	12 391	14 149	14 530	14 850

Source: Finnish Forest Industries Federation (2004–2006), Finnish Forest Research Institute (2007, 2008), Finnish Forest Industries Federation (woodworking industry 2007, 2008)

2. Exports of Finnish Forest Industry Products						
	Unit	2004	2005	2006	2007e	2008f
Product	1000					
Sawn and planed goods	cum	8 226	7 664	7 727	7 815	7 815
-Coniferous	cum	8 209	7 649	7 712	7 800	7 800
Plywood	cum	1 234	1 173	1 250	1 250	1 250
Veneer sheets	cum	77	71	78	78	78
Particle board	cum	242	230	224	200	200
Fibreboard	cum	74	82	70	72	72
Mechanical pulp	tonnes	112	87	233		
Chemical pulp	tonnes	2 247	1 950	2 528		
Pulp, total	tonnes	2 359	2 037	2 761	2 760	2 900
Newsprint	tonnes	573				
Magazine paper	tonnes	5 803				
Uncoated	tonnes	2 392				
Coated	tonnes	3 411				
Fine paper	tonnes	3 093				
Uncoated	tonnes	1 132				
Coated	tonnes	1 961				
Kraft Paper	tonnes	408				
Other Paper	tonnes	341				
Paper, total	tonnes	10 218	8973	10 401	10 600	10 800
Paperboard	tonnes	2 461	2163	2 552	2 680	2 760
Paper & Paperboard, total	tonnes	12 679	11 136	12 953	13 280	13 560

Sources: National Board of Customs (2004–2006), Finnish Forest Research Institute (2007, 2008), Finnish Forest Industries Federation (woodworking industry 2007, 2008)

3. Imports of Forest Industry Products						
	Unit	2004	2005	2006	2007e	2008f
Product	1000					
Sawn and planed goods	cum	404	511	578	563	563
-Coniferous	cum	341	448	515	500	500
Plywood	cum	76	96	107	100	100
Veneer sheets	cum	10	11	12	12	12
Particle board	cum	53	52	54	50	50
Fibreboard	cum	142	154	188	190	195
Mechanical pulp	tonnes	13	26			
Chemical pulp	tonnes	154	257			
Pulp, total	tonnes	167	283	327	360	540
Newsprint	tonnes	63				
Magazine paper	tonnes	23				
Uncoated	tonnes	13				
Coated	tonnes	10				
Fine paper	tonnes	75				
Uncoated	tonnes	45				
Coated	tonnes	30				
Kraft Paper	tonnes	20				
Other Paper	tonnes	12				
Paper, total	tonnes	192	258	242	250	250
Paperboard	tonnes	225	206	213	210	210
Paper & Paperboard, total	tonnes	417	464	455	460	460

Sources: National Board of Customs (2004–2006), Finnish Forest Research Institute (2007, 2008)