

UNECE



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**FOREST PRODUCTS ANNUAL
MARKET REVIEW
2003-2004**

Executive Summary

Chapter 1

Forest products markets climb to new records in the UNECE region: Overview of markets and policies, 2003-2004

Highlights

- Forest products markets rose to new records overall in the UNECE region as evidenced by the third consecutive year of rising consumption; however, this development was not universal among all subregions, nor among all products.
 - Approaching two million housing starts in 2003, the United States was the engine for demand of forest products, both primary and secondary, in the UNECE region, while outside the region Chinese and Japanese imports soared for temperate and tropical wood.
 - China's exports of value-added wood products, especially furniture, have increasingly impacted markets in the UNECE region, and in mid-2004, the US imposed anti-dumping duties.
 - Concern for the origins of wood products imported into the UNECE region, and increasing awareness of illegal logging, led government agencies, industry associations and international organizations to initiate measures to curb the trade in such products.
 - Certified forest products markets are being driven, in part, by government purchasing policies that ensure sustainable forest management and legality of the source of their purchases.
 - Wood energy promotion policies and record high oil prices resulted in heightened consumption of wood for energy; however, the pulp and panel sectors are concerned about raw material costs.
 - Sawn softwood demand rose strongly in western Europe and Japan in 2003 and European exporters profited, while in the US, imports continued to rise, despite a weak dollar, benefiting traditional Canadian exporters as well as European and other offshore sources.
 - Despite rhetoric to reduce tariff and non-tariff barriers, the ongoing sawnwood trade dispute between Canada and the US continues and the EU has imposed some punitive tariffs that have affected wood and paper products markets.
 - The sawn hardwood sector strengthened with rising demand and prices in the US and Europe, fuelled by increased housing starts in Europe and North America.
 - Panel markets benefited from rising demand, achieving consumption records and higher prices; however, the competition is fierce in this global market for commodity products.
 - Paper consumption climbed strongly in central and eastern Europe and in Russia; however, western Europe demand remained steady, and North American demand continued to erode.
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Chapter 2

Policy issues related to forest products markets in 2003 and 2004¹

Highlights

- Illegal logging occurs worldwide, including in the UNECE region, and an EU regulation to control imports of illegally sourced timber from specific countries is in preparation.
- Forest certification programmes expanded worldwide, spurred by both government purchasing programmes and requirements of major wood buying groups and retailers in the UNECE region.
- European lobbying organizations called upon ministers “To support an EU wide promotion campaign on the enhanced use of wood through the removal of codes or other barriers governing the use of wood in the construction, furnishing, decoration and energy sectors”.
- Development of structural and non-structural composite products is allowing the use of rapidly grown, low strength woods in the manufacture of large size, high-strength construction timbers and panels, with profound implications for forest management and plantation development.
- Despite the significant role of research for the continued development and competitiveness of the forest sector as a whole, funding for forestry research, and particularly wood utilization research, has declined markedly in the region in recent decades.
- Growing global competition in wood-based commodity products markets is forcing North American producers to re-examine long-established manufacturing and marketing strategies, resulting, e.g. in radical new thinking about the nature of paper manufacturing in the future.
- The global carbon trade market grew rapidly in 2003 and 2004, with an estimated total market value of \$300 million in 2003.
- Energy markets and the international biofuel trade are developing rapidly as governments promote renewable energy sources; however, though positive for forestry profitability, this new reality means that wood fibre prices must be competitive with the price of wood as a fuel.
- The EU imposed retaliatory tariffs in March 2004 on over 1,600 US products, including more than 165 wood and paper products, following a WTO ruling that a US incentives programme to promote exports was an unfair trade subsidy.
- Due to sanitary and phytosanitary requirements resulting from increased vigilance and concern about environment and safety issues, some markets in developed countries are becoming difficult to access by developing countries.
- A controversial new Russian Forest Code would theoretically enable the sale of Russia’s forestland to private companies.

¹ By Dr. Jim L. Bowyer and Dr. Ewald Rametsteiner.

Chapter 3

Continued strength in United States housing and growing strength in eastern European construction: Economic developments influencing forest products markets in 2003 and 2004

Highlights

- Global recovery started in the second half of 2003 after the economic uncertainties created by the conflict in Iraq and the outbreak of the SARS epidemic in Asia had dissipated.
 - The United States and Asian economies remain the main engines of global growth, while continental western Europe is lagging behind in the cyclical upturn.
 - The disappointing overall performance of most the EU-15 Member States contrasts with the strong economic growth in the 10 countries that joined the Union at the beginning of May 2004.
 - In the US, the annual increase in real GDP accelerated to 3.1%, while in contrast, the euro area remained the principal “weak spot” of the global economy in 2003.
 - Forty-year lows in US interest rates resulted in best housing market ever in 2003, with 1.9 million starts.
 - 2004 residential construction started off strong in the US, but most analysts expect interest rates to trend upward as the economy improves, which will cool housing beginning in the latter half of 2004 and continuing through 2005.
 - Non-residential construction sector in the US is expected to strengthen with the economy in 2004, following two consecutive years of contractions.
 - In Europe, overall construction markets contracted in 2003, a reflection of the poor economy.
 - Weakness was concentrated in new residential construction in Europe – a reflection of the weak job market and lack of any substantial income growth.
 - The best construction sector in Europe was civil engineering as infrastructure spending increased in 2003 with further increases expected in 2004.
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Chapter 4

Roundwood consumption increases with higher wood products production: Wood raw material markets, 2003-2004²

Highlights

- The total removals of roundwood in the UNECE region were close to record levels in 2003 as higher consumption of forest products increased the operating rates in the forest industry.
- The highest increase of roundwood removals, 2.4%, occurred in the EU/EFTA region, where Austria, France and Finland together harvested almost 3.8 million m³ more in 2003 than in 2002.
- Exports of chips from rising sawmill residues from central and eastern European countries to EU/EFTA for rising pulp and wood-based energy production have doubled in three years.
- Russian industrial roundwood at almost 30% of the total harvest volume, continue to be an important supply source for the forest industry in both Asia and Europe.
- Roundwood consumption in North America was 4% lower than it was in 1999 due to declining exports of forest products.
- Sawlog prices fell in many markets when industrial roundwood supply increased more than demand; however, the exception was in the Baltic States and Poland, where higher sawnwood production pushed sawlog prices upward during 2003 and 2004.
- Higher prices, and therefore revenues, for many pulp and paper grades made it possible for the industry to pay more for its wood raw materials and ensure a stable wood fibre supply in the face of increasing competition and, hence, rising prices for chips and pulpwood.
- Wood energy promotion policies, such as favourable taxation and investment incentives by UNECE-region Governments, have resulted in higher consumption of fuelwood, as well as increased concerns about the impact these changes will have on pulp and panel manufacturers' raw materials.
- Forest products imported to the EU and manufactured from illegal logs in Asia and Africa have been forcing government agencies and industry organizations to outline initiatives and recommendations to curb such trade.

² By Håkan Ekström

Chapter 5

Riding the crest of the wave: Sawn softwood markets in 2003-2004³

Highlights

- Globalization of the sawn softwood sector continues as we ride the crest of the wave, characterized by generally positive markets worldwide.
- In North America, market conditions for sawn softwood are booming, fuelled by a robust housing sector; however, the ongoing trade dispute between the United States and Canada is dampening this generally positive outlook.
- The mountain pine beetle epidemic that rages in British Columbia, Canada continues, with approximately 4.8 million hectares of forestland currently infested and government policies regarding harvesting approaches being enacted as rapidly as possible.
- Demand for sawn softwood in the increasingly important Chinese market continues to grow, providing market opportunities for exporters of both sawnwood products and logs.
- Japanese sawn softwood consumption increased in 2003 for the first time since 1995 because of short-term increases in housing starts: European sawnwood exports to Japan reached record levels in 2003.
- Markets for sawn softwood in Europe remain strong and Nordic producers fared well in 2003, particularly Sweden, whose sawnwood output neared record levels of 17 million m³, in spite of increased competition from Russia and the Baltic countries and due largely to increased marketing efforts in the United Kingdom.
- The eastern European countries and Russia continue to re-define the global marketplace for sawn softwood, as foreign investments in these regions all along the forestry supply chain ramp up their ability to compete worldwide.
- A United States government ban on CCA-treated sawnwood in residential applications goes into effect in 2004, leaving wood preservers to seek alternative wood preserving solutions.
- The outlook for sawn softwood markets in 2004 is being impacted by the interplay of lower housing demand, increased roundwood supplies and a weaker US dollar.
- Based on historical trends, it is possible that higher North American prices for sawn softwood could still prevail through the first quarter of 2005, followed by a return to more normal pricing.

³ By Mr. Henry Spelter, Dr. Robert Kozak and Dr. Nikolai Burdin.

Chapter 6

Sawn hardwood markets show signs of recovery in 2003 and 2004⁴

Highlights

- Sawn hardwood production in the UNECE region rose during 2003 due to increased domestic demand in the United States, a result of a buoyant construction sector and higher demand in central and eastern Europe for secondary processing.
- Apparent consumption of sawn hardwood in the UNECE region increased in 2003: both production and imports increased, while exports fell, due to a weakening in demand from Asian markets.
- After three consecutive years of decline, with much of the production moving to central and eastern Europe, production of sawn hardwood in the EU/EFTA subregion stabilized in 2003.
- Due to stabilization of the economic situation, as well as increased imports and decreased exports, apparent consumption of sawn hardwoods in the EU/EFTA subregion increased by 9.1% in 2003 compared with 2002, taking it back towards the peak level of 2000.
- EU production and consumption of hardwood flooring rose once again in 2003, having levelled off in 2002, mainly due to optimism about the future economic situation in Europe.
- Production, trade and consumption of sawn hardwood all grew in central and eastern Europe, driven predominantly by Romania, Turkey and the Baltic countries.
- CIS subregion production and consumption of sawn hardwoods are forecast to continue to rise slowly but steadily, as investment, infrastructure and general economic conditions improve.
- US production of sawn hardwood increased in 2003, driven by domestic demand and increased demand for exports to the EU/EFTA subregion.
- North American sawn hardwood prices rose significantly in 2003 and remained firm through the first half of 2004 as supplies struggled to meet demand.

⁴ By Mr. Roderick Wiles.

Chapter 7

2003 was the turning point in wood-based panel industries: Wood-based panels markets, 2003-2004⁵

Highlights

- Following two years of depressed markets and low prices, 2003 has witnessed the growth of most of the panel industries due to a healthier demand coupled with stronger prices in a context of increasing global markets.
- The particle board industry, both in western Europe and North America, has experienced further restructuring; some plants have closed and others have upgraded to more efficient production lines.
- The particle board industry was back on track at the end of 2003 as tightening of supply in western Europe and the United States, and increased demand in Europe, produced a positive effect on prices.
- European MDF and OSB markets boosted production and knocked down stocks and prices rose.
- The European plywood industry recorded positive results, but remains seriously affected by fierce foreign competition.
- Wood energy policies in Europe remain a concern to the wood-based panels industries, as wood raw material costs increased due to higher competition with bioenergy producers.
- Central and eastern Europe and the CIS subregion enjoyed clearly higher growth rates and increased capacity investments.
- North America's particle board industry marked a modest recovery on the back of exports, and cheaper furniture and cabinet imports from China and South-east Asia
- North America reconfirmed its world lead in the OSB business, as output was near full capacity driven by strong demand from the housing sector and record high prices.
- Plywood imports are substituting for decreasing domestic production in the US, and rising MDF imports made up for a downturn in US production after many years of continued production growth.

⁵ By Ms. Eva Janssens and Dr. Nicolai Burdin.

Chapter 8

Consumption climbs in central and eastern countries, stagnates in the west: Markets for paper, paperboard and woodpulp, 2003-2004⁶

Highlights

- Annual paper and paperboard output climbed by 2.2% in the EU/EFTA region in 2003, a record year for European papermakers, while the subregion's woodpulp output climbed by 2.8%.
- Higher paper and paperboard exports from the EU/EFTA subregion to non-UNECE countries, and a 16% increase in net exports in 2003, propelled expansion of output in the subregion.
- Paper and paperboard consumption in central and eastern Europe was boosted by stronger regional economic growth in 2003, but the region also experienced a large increase in imports.
- Consumption of paper and paperboard in the Russian Federation increased by 12.1% in 2003, while production increased by 6.2%.
- Although Russian paper and paperboard exports greatly exceed imports in tonnage, the trade balance in product value continued to deteriorate in 2003, with increasing higher valued imports.
- Annual paper and paperboard output in North America receded by 1.2% in 2003, but output climbed in the second half of the year and the first half of 2004.
- With the exception of shipments to China and other countries in Asia, excluding Japan, total Canadian pulp, paper and paperboard product shipments to all major destinations declined.
- Paper and paperboard tariffs were set to disappear by the year 2004 and are at zero according to GATT (Uruguay Round of 1994), but punitive tariffs and an array of non-tariff barriers still exist, sometimes arising from trade disputes with a scope wider than the sector itself.
- Central and eastern European countries' exports of paper and paperboard grew more than in the other UNECE subregions, boosted by successful preparations for EU accession and investments in capacity by global pulp and paper industries.

⁶ By Dr. Peter J. Ince, Prof. Eduard Akim, PhD, Mr. Bernard Lombard and Mr. Tomás Parik.

Chapter 9

Public procurement policies boost demand: Certified forest products markets, 2003-2004⁷

Highlights

- Worldwide, the area of certified forest continued to rise over the last year, reaching 176 million hectares by mid 2004, an increase of 17%.
- Half the world's certified forest area is in North America, with another 40% in western Europe; Canada, the United States and Finland have the largest area of certified forest.
- Growth in the area of forestland certified by the major schemes slowed in 2003, with the notable exception of the Canadian Standards Association scheme, which doubled its area.
- Public procurement policies continue to be a driving force for certification and an important source of demand for certified forest products (CFPs).
- Demand for CFPs by private end-consumers remains minor, which is a major obstacle to market growth; however, general consumer sentiment about deforestation and forest degradation keeps the sector under pressure to act.
- Illegal logging dominates governmental political discussions related to forest products in 2003 and 2004; however, voluntary certification systems cannot guarantee legality.
- Chain-of-custody (CoC) certificates increased by about 50%, reaching almost 4,500 certificates worldwide, driven mainly by a doubling of the Programme for the Endorsement of Forest Certification Schemes (PEFC) certificates, which now constitute 30% of total certificates.
- Germany and France are leading in CoC certificates within the UNECE region, while Japan and Brazil have more certificates outside the UNECE region.
- Policies have been developed by which forest certification could potentially play a role as a verification mechanism for small-scale afforestation and reforestation projects under the clean development mechanism in the first commitment period of the Kyoto Protocol.
- Mutual recognition between the Forest Stewardship Council (FSC) and the PEFC is not expected; however, the other major schemes have established mutual recognition agreements between themselves and the PEFC.

⁷By Mr. Florian Kraxner and Dr. Ewald Rametsteiner.

Chapter 10

European industry tackles policy issues to remain competitive: Value-added wood products markets, 2003-2004⁸

Highlights

- The temporary drop in world trade of value-added wood products (VAWPs) in 2001 was reversed in 2002, with a strong 10% growth to \$36.5 billion as measured by world imports, which continued in some sectors in 2003.
- European woodworking industries are developing policies to promote growth in demand for wood products and the integration of sustainable value chains into national and EU policies in order to create more favourable regulations.
- European woodworking industries regret that the current EU renewable energy policy does not properly acknowledge the industry's interest in rationally utilizing the value-added potential of wood raw material before bio-energy use, which is on the rise.
- Furniture trade continues to be the most dynamic sector in the international trade of VAWPs, dwarfing builders' joinery and carpentry (BJC), as well as profiled wood trade.
- China's imposing manufacturing and exporting powers have pushed many United States furniture companies out of business, or into outsourcing production while maintaining marketing, and this phenomenon will eventually occur in Europe as well.
- Concerned by the loss of 70% in earnings and 34,000 jobs, on behalf of some domestic manufacturers and unions the US Department of Commerce imposed preliminary anti-dumping duties on wooden bedroom furniture imported from China.
- Most of the growth opportunities for trade in engineered wood products (EWPs) in the short term are in exports of glulam to Japan for factory-built housing components.
- Market growth of EWPs, which is tied to residential construction markets in North America, stabilizes as market share reaches the limit of substitution for conventional wood products.
- New applications for EWPs need to be developed if historical growth rates are to continue.
- In the BJC segment, the Conformité Européen (CE) Marking will be extended to several new building products in 2005-2006, following the entry into force of the CE marking on plywood in 2004, resulting in a temporary barrier to trade for those companies not carrying the CE label.

⁸ By Mr. Jukka Tissari, Mr. Craig Adair, and Dr. Al Schuler.

Chapter 11

Markets rise in the East: Tropical timber market trends, 2002-2003⁹

Highlights

- China's increasing imports continued to drive the tropical log and sawnwood markets, with the country also becoming a significant tropical plywood exporter based on imported logs.
- China remained the world's largest tropical sawnwood importer in 2002, despite a slight decline of 1% in imports to under 2.9 million m³.
- Debate continues on the extent of illegal logging and the role of international trade, and many international agencies and civil society bodies undertook further research on this issue, in cooperation with the tropical timber producing countries.
- Crackdowns on illegal logging reduce the supply of tropical logs, but have little impact on the tropical timber market because of weak demand.
- Prices for Asian and African tropical sawnwood in most cases continued to rise in 2003 and for some species moved to record highs due to restrictions on trade, including logging and export bans.
- Plywood traders in Latin America experienced firm prices and exporters generally benefited from the strong demand from housing construction in the United States during 2003.
- With the appreciation of the euro against the US dollar, prices for African timbers showed significant gains over products traded from South-east Asia, which are traditionally priced in dollars.
- Prices for Malaysian rubberwood logs for domestic consumption in the export-oriented furniture sector increased significantly in 2003.
- India, Malaysia, Thailand and the Philippines are the major ITTO producing-country log importers.
- China continued to export tropical plywood to the EU, particularly to the United Kingdom.

⁹ By: Dr. Steven E. Johnson, Dr. Michael Adams and Ms. Masaki Miyake.

