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Record amount of Finnish pulp, paper and paperboard in 2006

Finland produced 14.1 million tons of paper and paperboard in 2006, which was more than ever before. Chemical and mechanical pulp production also reached an all-time high of over 13 million tons. Production volumes rose compared with the previous record year, 2004, because companies were able to keep mills running at both Christmas and Midsummer for the first time after the change in labour market agreement in 2005.

In 2006 the gross value of production in the Finnish forest industries amounted to approximately 21 billion euros. This was about 14% more than the figure in 2005, which was marred by a labour dispute, and about 6% more than in 2004.

“Finland has good possibilities to maintain its position as a leading production and innovation environment in the forest industries,” says Dr Anne Brunila, President and CEO of the Finnish Forest Industries Federation. “While unprofitable capacity is being closed in Europe and Finland, efficient and modern mills are doing well. According to preliminary information, the forest industries are investing more in Finland than any other branch and are working to maintain the competitiveness of their domestic capacity.”

At the same time with the ongoing programmes to improve their profitability, the Finnish forest industry companies are initiating measures to build new competitive advantages. "Our intention is to establish the so called Forest Cluster Ltd in the near future and to start the cluster's research and development programmes. The national strategy of the EU's Forest-Based Industries Technology Platform provides a good basis for preparing research programmes and putting them into practice. When the new unit goes into operation, we can join forces in a new way to spur innovation in processing a renewable resource."

In 2006 sawn wood production in Finland totalled 12.1 million cubic metres which was about the same as the year before. Demand for products is good, but production is limited by the availability and price of domestic wood.

Finnish forest industry corporations have grown to be the largest in Europe and the world. Only about a tenth of their aggregate turnover is generated in Finland, however. 40% of their production capacity is located in Finland and the majority of the remainder in other European countries. In recent years, the industry has been expanding its operations close to growing markets in Asia and the vast raw material resources of South America.

Demand for paper is growing slowly in Europe, the main market area for the Finnish forest industry, and there is excess supply. The focal point in demand growth has shifted from Europe and North America to Asia, China especially. Demand is also growing much faster in Eastern European countries than in the traditional markets.

The price development of the forest industry's end products, such as paper, has been negative for several years. In spite of this, the industry's domestic timber raw material is the most expensive in Europe. Cost competitiveness is also being eroded by rising energy prices and the high cost of transporting goods to Europe.

The forest industry operates in a global market and its products are priced according to demand; it is not possible to transfer the higher costs of the domestic market into prices. This is why many corporations are implementing efficiency-enhancement and cost-competitiveness improvement programmes.

Turnover and profitability

Finnish forest industry companies' combined turnover totalled about 40 billion euros in 2005. The share of five biggest companies was 85 per cent, 34 billion euros. Half of the turnover came from the production plants in Finland and half from the units abroad.

Finnish forest industry companies' profitability remained low in 2005, as in the previous three years. Profit before tax totalled 40 million euros or 0.1% of turnover in the branch. Excluding non-recurring items profit was a little over 600 million euros or 1.8% of turnover. This was slightly higher than the year before. Reduced sales, rising variable costs and an extended labour dispute in Finland in the summer hurt profitability.

Investments

In Finland the paper industry has been shifting more and more towards high-quality printing and writing papers, which has meant a rise in the degree of processing. As a result of investments in this product group, Finland now has modern production capacity and some of the largest paper machines in the world, allowing economies of scale. In technological competitiveness the Finnish paper industry is a world leader.

Investments in the wood products industry are lower in absolute terms and in relation to turnover compared with the paper industry.

Lower investments in recent years

The internationalization of Finnish forest industry groups was reflected in increasing investments abroad in the 1990s. This included both acquisitions and real investments. Investments in 2000-2001 were high specifically because of large acquisitions abroad. During these years over 80% of investments were outside Finland. They also strengthened companies' operating conditions at home, since investments in different parts of the world support each other and help balance companies' risks.

Investments have levelled out since the peak years. In 2005 Finnish forest industry companies' investments totalled about 2.8 billion euros. The lion's share or 2.0 billion euros was still abroad.

Export

The structure of forest industry exports has changed substantially over the years, as the focus moved to high-quality printing and writing papers. Today, these products are the core of the Finnish forest industry.

The main markets of mills in Finland are in Europe, although products are, in fact, exported to some 160 countries. Europe accounts for nearly 80 % of the total; in 2005 the EU countries accounted two thirds and the euro countries for about 45 %. The single most important countries were Germany and the UK.

Other key markets are North America (7 %) and Asia (11 %). Most of production is exported to Europe.

Significance to Finland

The forest industry accounts for some 4% of Finland's GDP and 17% of industrial production. When forestry is included, the share of the whole forest sector rises to 7%. The forest sector have been affected by the declining paper prices.

The forest industry exported products worth some EUR 11 billion in 2005. Paper and paperboard together accounted for two thirds of this figure.

In 2005, the forest industry accounted for 20% of Finland's goods exports. Although the forest industry has grown steadily in recent decades, it accounts for a decreasing proportion of exports. Export of metal products and electronics have grown more rapidly, and thereby reduced the relative significance of forest industry products together with the declining paper prices in recent years.

Wood, the principal raw material, is obtained mainly from Finland. The domestic energy input in the forest industry is also high because wood and turf cover more than 80 % of the fuels used in the mills.

On average, only some 15 % of the input required for production is obtained abroad, which is considerably below the figures for other export sectors. Thus the forest industry is still a primary generator of net export revenue.

Forest cluster

Over the decades, a cluster of industrial and production companies and organizations has grown up around the forest sector. High-quality products and success on the market are based on close cooperation among the forest industry, equipment manufacturers, raw material suppliers and research and development.

In the autumn of 1997, the Finnish forest cluster also organized cooperation with the rest of the EU. In practice, forest cluster sectors in Finland have worked closely together for decades.

In Finland, the forest cluster comprises

- forestry
- the pulp, paper and board industry
- the wood products industry
- manufacturers of machines, equipment, and automation and control systems
- chemical manufacturers
- the packaging industry
- the printing industry
- energy generation
- logistics and consulting
- research institutes and universities serving the sector

The food products industry also has close ties with the cluster; it tests new packaging materials together with the board industry. Cooperation between the wood products industry and the construction and welfare clusters is also close.

Finnish-made pulp and paper machines, equipment and components account for 30% of the world market. Finnish-made automation and control systems, valves, transmissions systems and pumps for pulp and paper mills, and logging and harvesting machinery have also earned their place in the world market.

The manufacture of pulp and paper chemicals in Finland is also an important sector. The forest cluster is further strengthened by forest management, consulting and some of the top research institutes in the world.

The forest cluster employs almost 200,000 people in Finland. Its turnover in Finland is about 35 billion euros and the value added is around 12 billion euros. The forest cluster is growing at an average rate of about 3 per cent annually and it is expected to remain the largest cluster in Finland.

The Finnish forest cluster annually invests some 250 million euros in research and development.

The forest cluster's contribution to the Finnish economy

- almost 10% of GDP
- about 30% of industrial production
- about 35% of net export revenue

No other country has such a large and diversified concentration of enterprise and expertise based on forest resources.

World market

Net sales of the global forest industry is approximately USD 450 billion (EUR 500 billion).

Paper and board account for 60% and the wood products industry for 36%. The remaining 5% is contributed by market pulp.

Production

World paper and board production in 2005 totalled 367 million tons - Asia being the largest producer. The growth of production is gradually shifting outside the traditional supply areas.

The major paper producers in America and Asia

Finland is the world's sixth largest producer of paper and board. All those countries producing greater volumes than Finland also have considerably larger populations and most of their production is consumed at home (except for Canada). The biggest paper and board producing countries are the United States, China and Japan.

Finland is the world's second largest exporter of paper and board. Only Canada exports more than Finland. Finland's paper exports account for 12% of the world total. As to the printing and writing paper, the Finnish exports cover 20% of the world trade, because Finland specializes in these grades.

North America produces nearly half the world's sawn softwood. Finland is the world's sixth largest producer of sawn softwood and the tenth largest producer of plywood.

Future

According to long-term FAO estimates, world consumption of forest industry products will continue to grow. Up to 2010 it is estimated that paper and board consumption will increase at the annual rate of 2.5 %. In Western Europe and in North America, where the consumption level is currently rather high, the consumption is expected to grow at a somewhat slower rate during the same period.

The fastest growth will be in printing and writing papers. Consumption of paper and board will rise, because of

- economic growth
- population growth
- increasing level of education and income
- higher periodical circulations keeping pace with the expansion of democracy
- a growing need for packaging

The information society will also require more high-quality paper, although electronic media and information processing equipment are expanding their share of the market. Sawn

timber consumption is expected to grow at a rate of 1.5 % annually until 2010.



Share of Forest Industry in the Finnish Economy, %

	1980	1985	1990	1995	2000	2005
Share of employment						
Wood industry	2,4	1,8	1,5	1,5	1,4	1,2
Pulp and paper industry	2,4	2,1	1,9	1,9	1,7	1,4
Total forest industry	4,8	3,9	3,4	3,4	3,1	2,6
Share of GDP (value added)						
Wood industry	2,5	1,3	1,5	1,4	1,2	1,0
Pulp and paper industry	4,2	3,6	2,9	5,0	4,8	2,7
Total forest industry	6,7	4,9	4,4	6,4	6,0	3,7
Share of industrial production						
Wood industry	9,0	5,2	6,3	5,5	4,6	4,4
Pulp and paper industry	15,4	14,5	13,0	19,8	18,1	11,5
Total forest industry	24,4	19,7	19,3	25,3	22,7	15,9
Share of exports						
Wood industry	13,4	7,1	7,1	6,9	5,2	4,7
Pulp and paper industry	29,0	29,1	30,5	26,9	20,8	15,4
Total forest industry	42,4	36,2	37,6	33,7	26,1	20,1

Finnish Forest Industries Federation

SOURCE:
Statistics Finland, National Board of Customs