
Overview of market trends through 2005
Forecasts for 2006 and 2007

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International Softwood Conference
Quebec, Canada, 19–20 October 2006
Topics

I. Softwood forest resources
II. Framework for market developments
III. Sawn softwood market developments
IV. Softwood sawlog markets
V. Recap of UNECE Timber Committee findings and issues from 3-4 October 2006
VI. Recap of UNECE/FAO *Forest Products Annual Market Review, 2005-2006* findings
VII. Conclusion

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Info sources

- EOS, UCBR and Timber Committee forecasts
- UNECE/FAO TIMBER Database
- UNECE/FAO *Forest Products Annual Market Review, 2005-2006*
- UNECE Timber Committee Market Discussions
  - Expert presentations
  - Official market statement
UNECE vs. ISC
“Europe”
UNECE vs. ISC
“Europe”

Additional “non-ISC” UNECE region production in million m³:
- Turkey 4.0
- Poland 3.5
- Slovakia 1.5
- Estonia 2.2
- Lithuania 1.0
- Ireland 0.9
- Bulgaria 0.8
- Others 1.8
- Total: +15.7
“Non-ISC” forecast additional million m³ in 2007:

Consumption 16.0

Imports 4.6

Exports 4.2
I. Forest resources
Softwood commercial

![Graph showing softwood commercial hectares by region.](image)

- **Europe**: 123 million hectares
- **N. America**: 152 million hectares
- **Russia**: 268 million hectares

Source: UNECE/FAO Forest Resources Assessment

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Forest area, net change

Red > 5% annual decrease
Green > 5% annual increase

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Forests’ growing stock

- Europe (41)
- North America
- CIS

Billion m3

- Growing stock
- Net annual increment
- Fellings

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Net annual growth vs. fellings

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### Forests’ net annual increment vs. fellings

<table>
<thead>
<tr>
<th>Region</th>
<th>Fellings as % of NAI</th>
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<tbody>
<tr>
<td>North America</td>
<td>80%</td>
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<tr>
<td>Europe-42</td>
<td>60%</td>
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<tr>
<td>Western Europe</td>
<td>64%</td>
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<tr>
<td>Nordic countries</td>
<td>72%</td>
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<tr>
<td>Baltic countries</td>
<td>50%</td>
</tr>
<tr>
<td>Central &amp; eastern Europe</td>
<td>56%</td>
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<tr>
<td>Russia</td>
<td>16%</td>
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</tbody>
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Resources summary

- Removers considerably below growth
- Growing stock increasing in Europe
- Shortages of sawlogs in some countries
- Southern hemisphere plantations expanding
- Increasing alternative demands on forests
- Oversupply compared to demand
II. Framework for market developments

- Global economic growth strong in 2006 and 2007, forecast at 5% each year
- Developing countries’ economies growing fastest – dynamic expansion in E. Europe
- Inflation low, despite rising energy prices
- Housing prices rising for 5 years – bubble to burst?
Economic framework - US

- US housing peaked in 2005
  - 2.2 million housing starts
  - “Only” 1.8 million starts in 2006
- Huge volume of unsold houses in US
- Record high trade deficit
- High national deficit
- US economy decelerating – risk of recession
China’s economic boom

- +60% trade surplus 2005/2004
- +25% trade surplus 2006/2005
- Rapid economic expansion, 10% in 2006
- Major engine for global growth
- Strong import demand for oil and raw materials, including wood
China’s wood market influence

- Largest wood products exporter
- 2nd largest importer
- Greatest softwood log importer
- Concern for legality
- Some certified products
- Huge capacity expansion
- Furniture exports up 33% annually
- Reshaping marketplace

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Economic framework - European housing

- Residential construction rising since 2004
- Rising interest rates
- Strongest construction developments in central and eastern Europe
  - Residential +4% 2006, +7% 2007
  - Source: Euroconstruct, 2005
Market drivers

- Public procurement policies
- Expanding wood energy
- Certified forest products
- Corporate social responsibility
- China’s surging trade
- Rebound of eastern Europe & Russia
- Illegal logging & trade
- Storms in 2005: Sweden and US
III. Sawn softwood – UNECE’s Europe

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Sawn softwood – ISC’s Europe

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Sawn softwood – ISC’s
Europe, 1998–2007

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Selected importers’ forecasts

- UK
- Germany
- France
- Netherlands
- Spain
- Belgium

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Selected producers

![Graph showing timber production from 2003 to 2007 for Germany, Sweden, Finland, Austria, and France.](Photo: NTC, Photo: Stora Enso, Photo: Stora Enso)

- Germany
- Sweden
- Finland
- Austria
- France

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Sweden</th>
<th>Finland</th>
<th>Austria</th>
<th>France</th>
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<tbody>
<tr>
<td>2003</td>
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<td>2007</td>
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Selected producers

![Graph showing production of selected producers from 2003 to 2007. The x-axis represents the years 2003 to 2007, and the y-axis represents production in 1000 m³. The countries shown are Czech, Latvia, Romania, Norway, and Switzerland. The bars for each year indicate the production volume for each country.]

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Sawn softwood - Russia

Million m³

Consumption  Production  Exports  Imports

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Sawn softwood – Russia, 1998–2007

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Sawn softwood - N. America

Million m³

Consumption  Production  Exports  Imports


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Photo: NTC
Photo: Stora Enso
Photo: Stora Enso

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Effects of US downturn

- Quebec exports, production
- Europe’s exports to US
- Search for alternative markets

III. Softwood sawlogs - Europe

![Graph showing consumption, production, exports, and imports of softwood sawlogs in Europe from 1964 to 2006.]

**Consumption**

**Production**

**Exports**

**Imports**

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Softwood sawlogs – Russia

Million m³

Consumption • Production • Exports

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Sawlogs - N. America

Million m3

Consumption
Production
Exports
Imports

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Sawlogs - N. America

Million m$^3$


Consumption  Production  Exports  Imports

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IV. E.O.S. questionnaire results on prices, costs and sawlog availability
Sawnwood prices

Europe
Russia
USA

End 2005  Mid-2006  End 2006

USA

100
%

Russia

Photo: NTC
Photo: Stora Enso
Photo: Stora Enso

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Log, energy, transport costs - Europe

![Graph showing the cost of log, energy, and transport in Europe between End 2005 to Mid-2007. The graph indicates an increase in costs over the period, with softwood logs showing the highest increase.]
Log, energy, transport costs - USA

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Log, energy, transport costs - Russia
Sawlog availability

- Russia
- USA
- Europe

High, Normal, Low
V. Timber Committee
Market Discussions - main findings

- European markets forecast at record levels in 2006 and 2007
- Chinese forest industry rapidly reshaping marketplace
- Continuing concern about illegal logging, climate change
- Record high energy prices and energy policies driving wood energy markets
- Despite forest growth outstripping removals, increased competition for timber
Timber Committee sawn softwood findings

- Volatile sawnwood prices in North America falling, but rising in Europe
- Beetles ravaging forest in BC, Canada – up to 1 billion m3 timber – glut of roundwood, sawnwood
- US/Canada softwood lumber dispute resolved with 7-year agreement: 4 billion duties returned to Canada
Timber Committee sawn softwood findings

- European consumption at record level, to increase 2% in 2006 and again in 2007
- Shortages of sawlogs in parts of Europe where prices low, demand high and sawmilling capacity increased
- Russian sawnwood production to rise 5% in 2006 and 7% in 2007 increases to exports
Timber Committee softwood sawlog findings

- Roundwood removals at record highs meeting strong demands
- 2006 storm damage in Sweden resolved, with some roundwood stocked in forests
- Roundwood prices rising in Europe, private forest owners selling
VI. Forest Products Annual Market Review findings

• 2005 was a stellar year for sawn softwood
• But may be the high-water mark
• Opposing developments in Europe, both growth and contraction, in 2005
• Western Europe remains a net exporter, strong export markets 2005
Forest Products Annual Market Review findings

- Expanding EU: log market prices converge quickly with European prices, reducing profitability for eastern sawnwood producers
- Russia continues expanding sawnwood output up 5.3% and exports up 19.5% in 2005, gaining market share in many export markets
**Forest Products Annual Market Review findings**

- Russian Forest Code not yet adopted
- Russia raises log export taxes -- catalyst for expanding sawnwood?
- Record US demand and prices for sawnwood in 2005 as a result of low interest rates and a soaring housing market
- US housing peaked late in 2005, new housing forecast to decline by a total of 13% through 2007
Forest Products Annual Market Review findings

- Swedish windstorm in early 2005 ramped up log availability, sawnwood exports
- Government-imposed harvest reductions in Ontario and Quebec affect sawmills’ raw material availability
VII. Growing the market
Growing too much wood?

Not enough wood products demand?

What are the solutions?

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Grow the wood markets!

- Guarantee that today’s wood products meet consumers’ needs
- Develop new products to meet evolving needs
- Develop new markets for wood products: substitute for non-renewable materials
- Promote wood culture outside N. America and Nordic Countries
How can we grow the wood markets?

- Build coordinated, international promotion programs
- Enlarge existing networks and coalitions
- Create favorable policy environments
- Promote public awareness of key issues and messages
Discussion
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N. American sawn softwood price trends

Source: Random Lengths, 6 October 2006

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