International Softwood Markets
2007 – 2009

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Tervetuloa! Ja kiitos . . .

• ISC
• Organizers
  – EOS
  – European Softwood Association
  – Finnish Forest Industries
• Contributors of market forecasts and statements
• Statistics and forecast preparation
  – Alex McCusker, UNECE/FAO Timber Section Statistician
Topics

I. Framework for market developments
II. Sawn softwood market developments
III. Roundwood markets
IV. Conclusions
V. Discussion
Info sources

- Forecasts & market statements
  - European Organisation of the Sawmilling Industry
  - European Softwood Association
  - UNECE Timber Committee
  - Note: Forecasts made October 2008

- UNECE/FAO TIMBER Database
- FAO Statistics
ISC “Europe”

20 countries
### UNECE vs. ISC “Europe”

**Additional “non-ISC” UNECE region production (million m\(^3\) 2009):**

<table>
<thead>
<tr>
<th>Country</th>
<th>Production (m(^3))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>4.45</td>
</tr>
<tr>
<td>Poland</td>
<td>3.30</td>
</tr>
<tr>
<td>Estonia</td>
<td>1.40</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1.92</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.11</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.91</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0.85</td>
</tr>
<tr>
<td>Others</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>+15.4</strong></td>
</tr>
</tbody>
</table>

Source: UNECE/FAO Timber database, 2008

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Helsinki, Finland, 16–17 October 2008
UNECE vs. ISC “Europe”

“Non-ISC”
2009 forecast

Consumption
+16.3 million m³

Imports
+5.3 million m³

Exports
+4.5 million m³

Source: UNECE/FAO Timber database, 2008
I. Overview of market developments

• “US forest products market crash impacts UNECE region”
• Green building systems: market driver and constraint
• Consumption of wood and paper fell in UNECE region in 2007 – first time in 6 years
• Oil price instability pumps wood, but supply problem

- Certified forest area over 300 million ha
- Some European market sectors exceeded N. America for the first time in 2007
  - Production of sawn softwood
  - Consumption of panels
  - Consumption of paper and paperboard
- China’s trade with UNECE region increases

- European wood products prices rose in early 2007, but then fell
- N. American prices fell dramatically in 2007 and 2008
- Roundwood and paper product prices remained high
- Russian export taxes rose in 2008; scheduled to escalate in 2009

• World economy experienced fifth year of real growth above 3% in 2007
• Emerging economies growing over twice as fast as the advanced economies in 2007
• Globally inflation was moderate, with the average rate below 3.0% for the last six years
Sub-prime crisis in US

- Financial market crisis started to develop in second half of 2007 in US. Why?
  - Inadequate regulation of financial industry
  - Poor risk management by private sector
  - Bursting residential property bubble
    - Home prices (and values) sink
    - Loans dry up
    - Construction slows dramatically
US housing starts

Note: SAAR = Seasonally adjusted annual rate.

~95% wood-frame construction

2008 Under 1 million

Million starts (SAAR)

Single family
Multi-family

Photo: NTC
Photo: Stora Enso
Photo: Metsäliitto and Vapo

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Sub-prime crisis in US

• Causes of the crisis (continued)
  - Defaults of sub-prime mortgages
    • Loans made to low-income households with poor credit history
    • Variable interest rates, which increased (too) rapidly
    • Extremely low down payments, minimal equity
  - Collapse in value and marketability of US mortgage-backed securities
  - European banks’ purchases of bundled US assets became losses
Sub-prime crisis spreads

• Spread throughout the world through trade and financial market linkages
• Accelerated in September & October 2008
• World growth is expected to decline in 2008 to 3.7% from 4.9% in 2007
• Continued decline to 3.0% in 2009 (IMF, Oct. ‘08)
• Increasing risk of recessions, especially with economic downturns in autumn 2008
• Also reduction in growth of world trade; on volume basis growth is forecast to fall to 5.6% in 2008, from 6.8% in 2007
Economic framework – US

• Collapse in US single family housing starts
  – 15% fall in 2006, 29% fall in 2007
  – Production of sawn softwood fell 10.6% in 2007 and for the first time, European production has overtaken that of North American
  – Sawnwood production, price collapse

• Weak demand, weak prices and excess capacity remain major concerns
Economic framework – Europe

- Growth in euro zone was 2.6% in 2007 and forecast 2.1% in 2008
- Concerns in housing markets
  - Housing prices falling
  - Banking sector hit by financial crisis
Economic framework – global

- Global economic crisis escalates, October 2008
  - Stock markets shed massive value
  - Massive cash infusions by individual governments
  - Concerted efforts by governments
  - Governments take over banks
Market drivers

- Green building movement
- Public procurement policies
- Wood energy targets
- Certified forest products
- Corporate responsibility
- Russia export taxes
- China’s surging trade
China’s forest products output

Note: Includes roundwood, sawnwood, panels, paper, pulp.


China’s forest products output

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China’s forest products output

Note: Includes roundwood, sawnwood, panels, paper, pulp.

China’s forest products production

Note: Woodpulp and paper products in million metric tons.

China’s forest products imports

Note: 2007 woodpulp, waste paper and paper products imports are secretariat estimates.

China’s forest products exports

Note: 2007 paper products exports is a secretariat estimate.
China’s furniture exports

Note: 2007 total furniture exports is a secretariat estimate.

China’s forest products consumption

Note: 2007 apparent consumption is a secretariat estimate.

Sources: FAOSTAT and Tan, X. et al., 2007.
II. Sawn softwood developments
**Forest Products Annual Market Review:** sawn softwood findings

- US housing market collapse caused 25% of N.A. industry capacity to curtail or close
- In 2007 and mid-2008, European prices fluctuated and then declined
- N.A. prices sunk – lowest since 1991
  - Maximum export tax for Canadian exporters
- Russian exports of sawn softwood continued climbing in 2007, by nearly 9%
Forest Products Annual Market Review: sawn softwood findings

• N.A. sawmillers kept mills running, sometimes below costs:
  – To maintain long-term contracts and relationships with customers
  – To ensure log supply contracts in the future
  – To keep trained and skilled labour force
  – To generate some revenues to meet fixed costs, e.g. bank loans
Forest Products Annual Market Review: sawn softwood findings

- After profitable 2006, European sawmill revenues declined in mid-2007 and into mid-2008

- Mid-2008: oversupply in most markets as sawnwood intended for Japan and the US were redirected to Europe or the Middle East
Forest Products Annual Market Review: sawn softwood findings

• German exporters maintained a US market share in 2007
  - Honored commitments of long-term contracts
  - Maintained customer relations
  - Flexibility in pricing, in part due to
  - Low-cost logs from winter storms
  - Increased capacity – decline domestic consumption = export (+35% early 2008, 6.7% forecast [total exports, not only US])
**Forest Products Annual Market Review: sawn softwood findings**

- Russian export taxes on roundwood are changing trade patterns
  - €50 per m³ in January 2009
  - Does tax significantly boost value-added production in Russia?
  - Impact on log importers: Finland, China, Baltic Countries, etc.
  - New trade channels...Serbia?
Sawn softwood – UNECE’s Europe

Source: UNECE/FAO Timber Database & forecasts

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Sawn softwood – UNECE Europe

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood – UNECE Europe

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood – ISC’s Europe

Production, Consumption, Imports, Exports

Source: UNECE/FAO Timber Database & EOS forecasts
Sawn softwood – ISC’s Europe

Note: Percentages are EOS forecasts

Source: UNECE/FAO Timber Database & EOS forecasts
Sawn softwood – ISC’s Europe

Note: Percentages and volumes are UNECE Timber Committee forecasts for ISC Europe (producers + users)

Source: UNECE/FAO Timber Database & EOS forecasts
Selected sawn softwood producers

Source: UNECE/FAO Timber Database & EOS forecasts

Million m³

Germany  Russia  Sweden  Finland  Austria

2006  2007  2008  2009

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Selected sawn softwood exporters

Source: UNECE/FAO Timber Database & EOS forecasts
Selected sawn softwood importers

Source: UNECE/FAO Timber Database & EOS forecasts
Sawn softwood – N. America

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood – N. America

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood – N. America

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood trade flows

Source: USDA, WOOD Markets

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Sawn softwood – Russia

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood – Russia

Production and Consumption

Source: UNECE/FAO Timber Database & forecasts

UNECE/FAO estimate

+4% +6%

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Sawn softwood – Russia

Source: UNECE/FAO Timber Database & forecasts
Sawn softwood prices

Source: WOOD Markets
III. Roundwood markets
Industrial roundwood – Europe

Source: UNECE/FAO Timber Database & forecasts
Industrial roundwood – Europe

Source: UNECE/FAO Timber Database & forecasts
Industrial roundwood – N. America

Source: UNECE/FAO Timber Database & forecasts
Industrial roundwood – N. America

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Industrial roundwood – N. America

Source: UNECE/FAO Timber Database & forecasts
Industrial roundwood – Russia

Source: UNECE/FAO Timber Database & forecasts
Industrial roundwood – Russia

Source: UNECE/FAO Timber Database & forecasts
IV. Conclusions
Conclusions

• Global economic crisis unfolding
• Forecasting uncertainty
• Markets dramatically down in N. America
• Markets weakening in Europe
• Markets forecast to strengthen in Russia
Conclusions. Effects of scheduled Russian export tax increases

• Will tax go into effect in January 2009?
• Can domestic processing of logs increase to consume previously exported logs?
• Can countries dependent on Russian logs find alternative sources?
• What happens to Russian communities dependent on log exports?
• What happens to companies dependent on log imports?
Conclusions

• US housing slump forecast to bottom out in 2009 (NAHB in early 2008, i.e. before severe economic crisis)
• Optimism in many forecasts for 2009
Congratulations to Martti Ahtisaari and Finland!

- Nobel Peace Prize laureate
- Former President of Finland
- Ultimate UN Peacekeeper
- Africa, Asia, Mideast, Europe (Kosovo)
- Finnish qualities
  - Patience
  - Tenacity
  - Perseverance
  - Sisu
Joint UNECE Timber Committee and European Forestry Commission Market Discussions, Rome

European Forest Week

20-24 October 2008

International Softwood Conference
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V. Discussion