

ECONOMIC COMMISSION FOR EUROPE

Timber Committee 2009



UNECE Timber Committee Statement on Forest Products Markets in 2009 and 2010

Adopted on 16 October 2009

The Committee reviewed developments in forest products markets as reported in the Forest Products Annual Market Review, 2008-2009, as well as experts' presentations, country market statements and forecasts. The theme of the discussions was "The UNECE regions' forest products markets in a global economic crisis."

I. Overview of forest products markets in 2009 and 2010

The forest sector in the UNECE region suffered the greatest decline in consumption since the oil crisis in the 1970s, dropping 8.5% overall from 2007 to 2008. The housing crash in the United States, which spread to other countries, was the main cause for the downturn, as housing starts fell from over 2 million in 2005 to possibly below one-half million in 2009. Without this main driver for wood products, all forest products markets fell in 2008, and were forecast to fall again in 2009, with one major exception: wood energy which was buoyed by Governments' policies for renewable energy sources for a green economy. Profitability in 2008 and 2009 was low, or absent, and prices for most products fell with demand.

The Timber Committee forecast an upturn in most wood products market sectors in 2010. However, it is far too early to speak about a recovery. Even when market strength returns, the production capacity will not be immediately available since many plants have shut down, with disastrous effects on their labour force.

Policies affecting forest products markets

Policy developments encompass responses to the economic and financial crisis, to mitigate climate change and to assure the legality of timber imports. The US Government has attempted to spur the housing market by various measures, including a first-time homebuyer tax credit. The economic crisis had a negative impact on the R&D capacity of industry, and the funding of university research, important for continued innovation and competitiveness of wood and paper products.

In responding to climate change, EU legislation is most ambitious, with policies to reduce, by 2020, the percentage of greenhouse gas emissions by 20%, to increase the share of renewable energy to 20% and increase energy efficiency by 20%. There have been significant investments throughout the EU in biorefineries and biofuels usage. A carbon tax in Sweden gives incentives for the mobilization of wood as a renewable energy source. In the US the states have been active in

addressing climate change. At the federal level, climate change legislation is being debated in the Congress and the Environmental Protection Agency is considering regulating greenhouse gases. The controversies surrounding biofuels are likely to lead to future changes in policies.

Sustainable and legal wood trade

The US government decided in 2008 to prohibit the trade of illegally sourced wood under the Lacey Act Amendment. An EU proposal for a Due Diligence Regulation requires the first operators who place products on the EU markets to have systems that minimize the risk of trading illegally sourced wood and wood products. This regulation is expected to be adopted by the end of 2010. Both of these measures have serious implications for the trade of wood and paper products, and companies, trade associations and countries are attempting to conform to the new requirements. For example, the Swiss parliament has adopted a motion based on the obligation of declaring the origin and species of wood and displaying this information to consumers. Legislation to prevent the trade of illegal wood also raises issues of technical barriers to trade. Many questions remain regarding: the efficiency of such systems; the responsibility of operators; the burden of the proof of legality or illegality; the costs for compliance, especially for small operators; and role of public procurement. An international exchange of information would help countries implement effective policies to combat illegal logging. The animated discussions led the Committee to call for a multi-stakeholder workshop in 2010 dedicated to tariff and non-tariff trade barriers and emerging trade regulations on timber.

Certified forest products

Certified forest area is still increasing, but at a slower pace, and has reached about 320 million hectares worldwide in mid-2009. It is concentrated mostly in North America and Europe and this equates to 97% of the certified roundwood supply. Certificated forest area potential exists in Russia, where currently only 20 million hectares are certified. Chain-of-custody certificates increased sharply, by 41% in the last year, indicating strong market activity for certified forest products. According to a recent study, obstacles to market development for certified wood products are the fragmentation in trade and consuming sectors, as well as consumers' lack of awareness and willingness to pay premiums. The economic recession has widened the gap between "green operators" and others who might avoid the costs of good practices and certification. It has also driven some purchasers towards the less-expensive, legally verified products. The future progress of certification schemes will depend on their possible role in ensuring compliance with the new US and EU policies designed to combat illegal logging, as well as their ability to take into account constraints and opportunities brought by climate change policies and negotiations, such as accounting for carbon storage and certifying sustainable production of biofuels.

Green building

Green building continues to be an important market driver, especially considering that 40-50% of the world's energy usage is for space and water heating and cooling. While new construction is currently weak, there are tremendous opportunities for renovation of existing buildings to improve their energy efficiency. Governments are supporting energy-efficient construction and renovation through their subsidies and other programmes to promote a green economy. The Timber Committee endorsed the conclusions and

recommendations of a workshop on “Responding to climate change: Wood’s place in a global approach to green building.” To promote green building the forest sector needs to build strategic alliances with stakeholders to understand and acknowledge the contribution of wood products in buildings to fight climate change. The Committee promotes a scientific basis for green building rating systems, i.e. life cycle assessment for all construction materials, and the continuous updating and sharing knowledge on construction materials and energy consumption. See annex I and the website (<http://timber.unece.org/index.php?id=125>) for a list of conclusions and recommendations.

Corporate social responsibility

Companies and their trade associations are initiating and developing their corporate social responsibility (CSR) programmes to show to customers and consumers that they act responsibly. The issuance of the ISO 26000 standard in 2010 can be expected to be embraced by the industry similarly to the 14000 standard for environmental management. Annual environmental reports have evolved towards social responsibility and sustainability report measuring carbon footprints and discussing climate-change issues. This is a structural change in the way of doing business in the forest sector. Even in an economic crisis, CSR programmes help maintain market share, as well as build better relations with local communities and employees. Research shows a “legitimacy gap” between the expectations of citizens and the current and expected social and environmental performance of industry. CSR programmes are not universal across the UNECE region and the Timber Committee called for a workshop in southeastern Europe to share experiences and to build awareness of the attributes of CSR for the sustainable development of the forest sector.

China’s importance in the UNECE region forest products markets

China is the UNECE region’s major trading partner, especially for wood and paper products. For example, China is the world’s largest furniture manufacturer and exporter, and the major destinations are first the US, and second the EU. The exponential development of China’s wood and paper products manufacturing suffered its first downturn in 2008, and indicators in the first half of 2009 show an 11.7% wood and paper products export decrease from 2008. China is the world’s largest importer of roundwood to feed its wood and paper mills, but imports decreased in the first half of 2009 by 18%. The majority of imported logs come from the UNECE region, especially Russia, although that source was down by 27.6% in the first half of 2009 according to China Customs. This is presumably due to the higher price for Russian logs due to the export tax. Alternative log supply sources have been secured, including in order of export volumes, New Zealand, Canada and the US. With 1.3 billion people, equal to 22% of the world’s population, and millions moving into cities for employment, the Chinese Government spends about one third of its GDP in building housing (multi-storey, multi-family units). The immense scale of construction, combined with rising consumer spending, means increasing domestic consumption of wood and paper products. To produce paper, China dominates world waste paper imports. China forecasts its economy will recover quickly to double-digit growth, which is in part dependent on recovery of its trade partners’ economies to resume exports.

II. Economic situation

The world economy is in the midst of its worst economic downturn since the Second World War, with real gross domestic product (GDP) growth expected to be negative in 2009. The slowdown has been especially visible in the UNECE region, where all subregions (CIS, Europe, North America) experienced negative growth in 2009. Due to weaker social safety systems, and a higher percentage of populations living near subsistence levels, the economic downturn in some countries in central and eastern Europe is more severe than in western Europe and North America.

The GDP decrease noted during the current crisis was 4 times greater than that registered during the Great Depression in the 1930s. However, thanks to favourable socio-economic conditions and extraordinary government policies, a slow recovery is expected to begin in the second half of 2009 with positive but low GDP growth in 2010 (by 1.2%) throughout most of the region. It is estimated that positive trend will be maintained in 2011, when for the UNECE region a 2.5% growth is forecast. Economies of central and eastern Europe will be developing at faster rate (e.g. 3.6% for CIS) compared with the EU-15 (1.5%) and North America (2.8%). The predicted rate of recovery may be difficult to maintain in the long-term because of various factors such as declining governments' assistance, dysfunctional financial systems and high unemployment.

The housing market in the US continued to fall in 2008, reaching the lowest level since the Great Depression, but it is expected to stabilise in 2009 and begin recovery in 2010. The European construction market is forecast to slow down through 2010 due to weakening new residential construction in western Europe.

III. Market sector developments

Wood raw materials

The global economic crisis has had a major impact on the forest industry in the UNECE region, with demand for wood raw materials declining dramatically. Consequently, demand for roundwood fell in 2008 and early 2009. Total roundwood removals in the UNECE region declined by almost 10% to 1.22 billion m³ in 2008, reaching the lowest levels since 1999. The greatest reduction occurred in North America, where total removals went down 13.6% from 2007. Contrary to the previous year, a decrease was also registered in the CIS and Europe, where removals were down by 10.9% and 6.6%, respectively. It is forecast that decrease of roundwood production (and consumption) will continue in 2009 in all subregions. However in 2010, a slight upturn is expected in Europe and CIS, while removals in North America would remain nearly at the same level. The weak markets in North America pose difficulties for utilising dead wood from forests infested by the mountain pine beetle. In Canada it is estimated that 14.5 million hectares of forest, with 620 million m³ have been affected by the outbreak. Further losses are predicted, as it spreads geographically further within Canada and the United States and to new species.

In 2008, European roundwood imports declined to the lowest level since 2004, but imports of chips and pellets have increased substantially over the past 5

years, driven in part by government policies promoting wood energy. Contrary to the sawlog prices that fell sharply throughout the UNECE region in 2008, including western Canada (-36%), Russia (-51%), Latvia (-56%) and Finland (-36%), the price of chips remained stable.

Russian log export volumes were at their lowest level in six years, totalling 36 million m³, driven down by rising export taxes. Given the weakened economies of importing countries, log exports are forecast to fall even more in 2009 (to the level of 27 million m³). Impact of the Russian export taxes on the domestic economy as well as forest sectors in importer countries is a topic of the government and forest sector debate in Russia. The planned escalation of the taxes was postponed in 2009 and might be revised or even abandoned.

Wood energy

In contrast to other forest market sectors, wood energy markets continued to grow during the economic crisis despite an oil price drop by more than 50% compared to 2008. Wood is the most important source for renewable energy in the EU and its market development is strongly influenced by different policy issues, such as energy supply security, climate change mitigation and rural development. The renewable energy markets in North America and Europe are both strongly affected by policy measures and support programmes with slightly varying objectives. While North America was focussing on liquid biofuels production for transportation from agricultural crops, European countries set up support mechanisms for efficient heat and electricity generation from renewables. Woody biomass currently does not play any important role in the global production of liquid biofuels, however this may change quickly in the near future.

The global wood energy market is currently mainly driven by expanding production and consumption of wood pellets. The production and traded volumes of wood pellets are expected to double by 2012. Europe remains the biggest producer, importer and consumer of wood pellets. The American domestic pellets consumption remains minor compared to the exported volumes that are mostly shipped to Europe. In both subregions production capacities continued to increase and are expected to reach 2 million metric tons in Canada and 4.4 million metric tons in the US in 2009. The production did not follow this trend – due to severe supply shortfall of by-products from sawmills.

Several huge pellet plants are under construction in the Russian Federation and the Russian Parliament adopted a decree on renewable energy sources which aims to increase the role of woody biomass in the domestic energy consumption from 1% in 2008 to 4.5 % by 2020. One particular target for the increased domestic use of wood for energy generation will be the refurbishment of central district heating systems. The wood energy market is expected to grow strongly in each subregion throughout the next years.

Forest carbon markets

Carbon markets are increasingly important, economically as well as politically, as they are key tools for complying with international commitments on reduction of greenhouse gas (GHG) emissions and implementing climate change mitigation strategies. Forests play an essential role in the global carbon cycle, yet thus far forestry projects have played but a disproportionately minor role in GHG

emissions trading, compared to their full potential. The EU Emissions Trading System excludes forest carbon. A US cap-and-trade scheme which may be implemented by 2012, could accept a relatively large amount of forestry offsets from tropical developing countries, with potentially significant impacts on carbon markets. Methodologies are being developed for allowing Reduced Emissions from Deforestation and Forest Degradation (REDD) to start generating payments for conserving threatened forests in developing countries. The forest sector could undergo a structural shift after 2012, depending on the scope of the successor to the Kyoto Protocol. The negotiations include discussions of carbon storage in harvested wood products and REDD. Forest-related activities could play an increasing role in generating tradable carbon offsets, in the fields of SFM, REDD, as well as afforestation and reforestation.

Sawn softwood

The construction sector crash in the US, which spread to Europe with the economic crisis in 2008, had disastrous effects on the sawn softwood industry. Prices and profits collapsed. In North America sawnwood consumption fell by 20% in 2008, and is forecast to fall further, by over 24% in 2009. In line with forecasts for increased housing construction in 2010, consumption is predicted to turn upwards by 5.5% to reach 71.0 million m³, far from its peak in 2005 of 128.7 million m³. The sharp drop in production necessitated rationalization of capacity, with many mills closing, with grave consequences on forest industry-dependent communities. Weak US markets halted offshore imports and are forecast to fall by 31.0% in 2009, before moving upwards by 4.0% in 2010. Canada's exports are dependent on the US market, and they fell in 2009, at a rate predicted to be 24.1%, but are forecast to move positively in 2010 by 12.0%. These forecasts are in line with predictions for a steady rebound in US housing, after bottoming out in 2009.

Although not as bad as North America, European sawn softwood consumption is forecast to fall by 11.3% in 2009, to 83.9 million m³, before reversing the decline in 2010 by 2.5%. Production of sawnwood in Europe in 2008 was at record levels, driven by the surplus of storm-felled timber. Therefore the decline of 12.7% forecast in 2009 is partly due to a return to normal harvest levels. The Committee recognized that a negative effect of climate change is more frequent and more damaging windstorms, which have perverse market impacts. The decline in production resulted in part because the major capacity increases in 2006 were rationalized. European trade, both within Europe and outside, is forecast to fall in 2009, but to move upwards in 2010, by 4.4% for imports and 8.0% for exports.

After a fall of nearly 10% in 2008, CIS sawn softwood exports were expected to continue falling in 2009. In 2010, Russian sawnwood exports are forecast to rise by 3.3%, to reach 15.1 million m³. Russia's higher roundwood taxes resulted in reduced log exports to China. This supply was replaced by increased sawnwood imports. A building boom in Russia, which includes a small share of wooden houses, has increased domestic sawnwood (and panels) consumption.

The next 18 months will be challenging for the UNECE region's sawmilling industry. Although an improvement is forecast for 2010, demand will remain weak compared to prior levels. Prices are at extreme lows and more industry restructuring is anticipated.

Sawn hardwood

Sawn hardwood markets, which were already under pressure before the economic recessions, experienced a dramatic downturn in 2008 and 2009. In North America the production of sawn hardwood continued falling in 2008 and 2009, by 9.1% and 6.4% respectively. No change is expected in 2010, as production volume stays near 23 million m³. Although domestic demand is weak, sawnwood exports are forecast to improve, rising by 7.2% in 2010.

The European hardwood markets have more optimistic forecasts for 2010 than those for North America, with consumption and production to rise by 4.2% and 3.2% respectively. Volumes traded are greater than in North America. After dropping in 2009, imports are forecast to rise in 2010 by 5.7%, and exports by 3.1%. Russia's hardwood markets remain below their resource potential.

Next to China, the UNECE region imports the greatest amount of tropical timber products. However, trade restrictions, both from producer countries policies to manufacture greater value-added products, and importers' controls for sustainability and legality, are constraining the tropical timber trade. Certification of SFM remains low in tropical countries, and overall imports by UNECE region countries fell in 2009. With reduced demand, tropical sawnwood prices declined.

Wood-based panels

The panels markets developed generally much worse than forecast during the 2008 Timber Committee. In 2009 the Committee forecast a slight upturn in the panel markets in 2010 but the European Panel Federation expects continued downward trends. In all three subregions panel producers continue facing lack of affordable wood raw material due to reduced sawmill activity as well as continued severe competition for woody biomass with the energy sector. Despite the reduced demand for panels, prices for wood chips and particles as well as oil-based resin and glue remained high. Panel prices and profits were at extremely low levels, resulting in a record net reduction of production capacities within the past year (e.g. - 2.3 million m³ in North America).

North America is the only subregion where the apparent consumption will continue to decrease in 2010 by -4.4% (-7.6% in 2009). However, it is expected that the exports are going to develop strongly with an increase by 25% in 2010 after a 15% drop in 2009. OSB is the major panel product in North America and its production is forecast to drop by about 12% to 15.6 million m³ in 2009, but then is expected to start to recover by 18% to 18 million m³ in 2010.

European panel production, trade and apparent consumption are expected to increase in 2010 after a feeble 2009 market. Particle board production holds the greatest share of the European panels and its production is predicted to stabilize at 40.9 million m³ in 2009 and then move up to 41.8 million m³ in 2010. MDF production is also forecast to rise in 2010 at around 13.4 million m³ after a reduced production of 12.7 million m³ in 2009.

Increased panel production in the Russian Federation had been expected as a result of the Russian log export tax to 25% (or 15 euro / m³). However it dropped sharply in 2009. In 2010 an upswing of 5.6% is projected in the panel production in the Russian Federation. The export-oriented plywood industry is

suffering from the decline in international markets which is reflected by a -2% decline of production anticipated in 2009, but which is expected to strongly rebound by 6.6% in 2010.

Paper, paperboard and wood pulp

Pulp and paper production and consumption in both Europe and North America declined in 2008 and 2009 as the global economic crisis took hold. The paper and paperboard production in both Europe and North America is expected to decline by 9% and 4% respectively in 2009 which is considerably more than the 2008 drop. The net drop of wood pulp consumption hit North America and Europe in the same way. The domestic production of wood pulp in both subregions dropped significantly (North America by -10% in 2008 and forecast by -4% in 2009, Europe -8% in 2008 and -7% in 2009), whereas the imported and exported volumes remained constant. In mid 2009 pulp prices started to stabilize which is seen as a first hint of a positive market development. It is expected that the North American pulp production and consumption will stagnate at lower level, whereas the European development of pulp production and consumption is anticipated to recover slightly in 2010.

Russian Federation pulp export is expected to drop in 2009 before stabilizing in 2010. There are no major changes expected for the Russian paper and paperboard production, consumption and trade.
