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Economic Commission for Europe

# FOREST PRODUCTS ANNUAL MARKET ANALYSIS 2002-2004

## *Executive Summary*

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## Chapter 1

# Recovery of forest products markets in the UNECE region:

# Overview of forest products markets and policies, 2002-2004

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### Highlights

- Forest law enforcement, governance and trade policies are being developed as countries build partnerships to control illegal logging and the trade of forest products sourced from illegal harvesting.
  - UNECE region forest products markets turned upwards in 2002, overcoming the dip in 2001, achieving some record levels.
  - Certified forest area worldwide extended to over 150 million hectares by mid-2003, 90% of which are in the UNECE region, however, not all potentially labelled certified forest products reach final consumers.
  - Total roundwood consumption for the UNECE region was 1.3 billion m<sup>3</sup>, well within sustainable harvest limits.
  - Structural oversupply has arisen for some products and subregions, and with strong global competition, this has increased pressure on the economic viability of forest management in some countries.
  - Forest products markets remained weak in western Europe, with the exception of sawn softwood, which bounced back from a drop in 2001 to reach record production and exports levels.
  - Strong housing construction in the United States drove demand for sawn softwood and structural panels, with an increasing amount being imported.
  - Increased market share of imported forest products led the United States to continue quotas and tariffs on Canadian sawnwood imports in 2002 through mid-2003.
  - Markets in Other Europe exhibited strong, continuing recovery in 2002, and for some products, pre-transition levels were attained.
  - Consumption of wood energy in the EU/EFTA rose to a record level in 2002, leading panel and pulp manufacturers to express concern about competition for their raw material.
  - CIS exports of roundwood and sawnwood expanded to record levels, but domestic consumption remained soft.
  - Sawn softwood consumption, production and trade rose to record levels in the UNECE region in 2002, but sawn hardwood demand peaked in 1999 and has since been falling.
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## Chapter 2

# Policy implications of forest products market developments in 2002 and 2003

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### Highlights

- Availability on world markets of wood products derived from illegal logging, is drawing attention to the gravity of this problem and its place among the causes of deforestation and has also placed severe downward price pressure on products from legally and sustainably managed forest operations.
  - While certified forestland area has increased rapidly, volumes of certified products reaching the consumer are low, posing a policy dilemma about governments' support for certification systems.
  - Oversupply of roundwood and some commodity sawnwood and panels, is leading to weak price development, and threatening sustainable forest management in some parts of Europe: this calls for a policy response from Governments.
  - Energy markets and international biofuel trade are developing rapidly as countries promote renewable energy sources, however pulp and panel manufacturers are expressing concern for raw material availability and affordability.
  - Climate change policies could have significant consequences in the long term for wood supply and for the market position of forest products.
  - Changes in trade policy, such as removal of tariff and non-tariff barriers and new relationships between trade and environment policies could significantly influence trade patterns for forest products.
  - Trade tensions between Canada and the United States led to duties and quotas intended to reduce the growth in Canadian share of the United States sawn softwood market.
  - There is increasing appreciation of the importance of developing policies for the sound use of wood, alongside those for sustainable forest management, wood promotion and building codes.
  - Policy measures in other parts of the world, e.g. logging bans in China, which led to China becoming world's largest importer of roundwood, have affected trade flows in the UNECE region.
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## Chapter 3

# *United States housing remains strong despite economic weakness in UNECE region:*

## *Main economic developments affecting forest products markets in 2002 and early 2003*

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### Highlights

- United States housing remained robust through 2002 and in the first quarter of 2003, spurred by the lowest mortgage rates in 40 years.
  - Global economic activity was disappointing in 2002 and remained sluggish in the first half of 2003, despite the rapid end of the war in Iraq.
  - Interest rates fell to historically low levels throughout the UNECE region.
  - Current forecasts are for a moderate strengthening of growth in North America and western Europe in the second half of 2003 and in 2004.
  - Economic activity in eastern Europe and the CIS slowed down in 2002, although growth rates are generally higher than in western Europe.
  - Growth in 2002 was generally stronger in the CIS and the Baltic states than in central Europe.
  - The short-term outlook for eastern Europe is for a slowdown in growth overall, but for strong growth in the CIS.
  - Construction stagnated in 2002 in western Europe, especially in new residential construction, while repair and remodelling showed some improvement over 2001.
  - While European construction growth slowed in 2002 and early 2003, the consensus is for a moderate increase in 2004, followed by more robust improvement in 2005.
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## Chapter 4

# *Raw material consumption on the rise despite weak global economy and local oversupply:*

## *Wood raw material markets, 2002-2004*

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### Highlights

- Total removals of roundwood in the UNECE region were close to record levels in 2002.
- Stronger demand within the CIS and Other Europe, as well as from export markets in Asia and elsewhere, has substantially increased removals in the two subregions.
- Roundwood exports from the Russian Federation were 14% higher in 2002 than the previous year.
- Raw material costs for sawmills and pulpmills fell in many regions for two main reasons: oversupply of roundwood and wood chips, and lower market prices for manufactured forest products.
- The trade surplus for roundwood in North America declined for the fifth consecutive year, due to both declining exports and increasing imports.
- Although wood chip imports to the EU/EFTA region fell almost 11% in 2002, the region continues to be a large importer of wood chips.
- Almost 15% of the total roundwood removals in the UNECE were used as fuelwood in 2002, mostly in North America.

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## Chapter 5

# Globalization revolutionizing sawn softwood markets in 2002-2003

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### Highlights

- Globalization is rapidly changing the production, consumption and trade dynamics of sawn softwood as new producers emerge and scale up production, leading to a world oversupply of sawn softwood.
- The recent competitive price advantages that many sawn softwood producing regions have enjoyed in recent years are disappearing as many currencies, notably the euro, appreciate against the United States dollar.
- Demand for sawn softwood products in most regions of the UNECE remains strong, especially in North America, due to a surge in housing construction, but the possible bottoming out of mortgage rates in the United States signals a first warning of a change in conditions.
- The increased international flows of sawn softwood are also fuelling trade disputes, evidenced in 2002 by the United States imposing a duty of 27% on Canadian imports, which led to major disputes and appeals to world and regional trade bodies.
- More than ever, two regions of the world continue to have the potential to significantly influence the global market dynamics of sawn softwood: Russia (on the supply side with record exports) and China (on the demand side with record imports).
- At 8.6 million m<sup>3</sup> in 2002, Russia's exports of sawn softwood exceeded those of the entire former USSR for the first time.
- Prices for sawnwood in North America were under pressure in 2002, but have begun to recover in mid-2003 as strong housing boosted demand, while the increasing burden of an appreciating currency dampened the Canadian supply.
- Prices for sawnwood in Europe rose steadily in 2002, but increasing supplies from eastern Europe are making it more difficult for suppliers in high-cost countries to compete, at least on commodity markets.
- Sawn softwood production increased by 6% in the UNECE region, rising in every subregion, and in the EU/EFTA subregional production rose to record levels in 2002, and some of this volume was exported to North America, where imports hit their highest volumes ever.

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## Chapter 6

# Sawn hardwood markets stabilize in 2002-2003<sup>3</sup>

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### Highlights

- The growth in exports of processed hardwood products from eastern Europe and Asia, notably China, is significantly affecting both the manufacture of hardwood products and also the trade in sawn hardwood, in Europe and especially in the United States.
- After a fall in 2001, sawn hardwood production remained at the same levels in 2002 in the UNECE region.
- Apparent consumption of sawn hardwood fell 6% in the major European markets (EU/EFTA subregion), but rose 6% in the Other Europe subregion, although the consumption in the EU/EFTA subregion remains double that in Other Europe, at 12 million m<sup>3</sup>.
- Trade of hardwood dimension (semi-processed panels and parts) continues to grow, resulting in reduced sawnwood and log trade in the UNECE region.
- Romanian exports rose again, by 21% in 2002, nearly doubling over the last five years, in part as a result of government policies to promote foreign investment and trade.
- After rising steadily, European Union consumption of hardwood flooring, a major market driver in the last years, levelled off in 2002.
- Demand from traders and manufacturers for certified sawn hardwood continued to grow in 2002 and 2003, but insufficient stock was available.

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## Chapter 7

# Panel production rising despite falling prices and current overcapacity:

## Wood-based panels markets, 2002-2004<sup>4</sup>

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### Highlights

- Russian wood-based panels industry beating all growth records on the back of vigorous domestic demand.
- Other Europe subregion boosting the European medium density fibreboard (MDF) industry with massive growth in production.
- Other Europe subregion and the Russian Federation rapidly expanding their export markets.
- North American panel industry picked up well after serious distress, but particle board overcapacity continues to overload the weak markets.
- A recent development in the North American structural panel sector is the rapid market share growth of newcomers, in part due to current exchange rates.
- Oriented strand board (OSB) exports from EU/EFTA climbed steeply as the fledgling industry found offshore markets.
- Discouragingly low prices in Europe and North America cast a chill on the wood-based panels industry.
- Plywood exports from outside the UNECE region continue to expand rapidly in Europe and North America.
- European wood-based panels industry anticipates competition with energy sector on raw wood supply, affecting primarily the particle board industry.

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## Chapter 8

# Upturn in 2002 yields uncertainty in 2003 for paper, paperboard and woodpulp markets<sup>5</sup>

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### Highlights

- 2002 was a year of recovery for paper in EU/EFTA countries as production rose to near record levels after the 2001 downturn, as output and demand levels increased.
- Although an upturn was under way in 2002 and into 2003, signs of market weakness reappeared in the second quarter of 2003, with faltering momentum in prices.
- The rise of the euro in relation to the dollar and other currencies changed the relative competitive position of major producers on world markets.
- In the Other Europe subregion, woodpulp production declined in 2002, although paper and paperboard output and consumption increased.
- The Other Europe subregion remains a net importer of paper and paperboard, although exports have been increasing, particularly for packaging paper.
- In the Commonwealth of Independent States (CIS) subregion, Russia continued to experience stable and relatively robust growth in 2002, with pulp production up by 4.3%, and total paper and paperboard up by 5.2%.
- Along with continued growth in Russia, there was continued restructuring and realignment of the industry, by ownership and by product speciality.
- With United States industrial production still well below peak levels, North American paper and paperboard demand remains relatively soft.
- The gradual market upturn that was evident through 2002 yielded to persistent weakness and uncertainty in the first half of 2003.
- Forest policies related to pulpwood supply are more of an immediate concern in Europe than in North America, where pulpwood markets show a contemporary surplus of fibre supply.
- Consumption of paper and paperboard grew strongly in Russia and steadily in the CEEC, while in EU/EFTA and North America it stagnated or declined.

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## Chapter 9

# Markets for certified forest products, 2002-2003<sup>6</sup>

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### Highlights

- The area of certified forests in the world has further grown over the last year, reaching about 150 million hectares by mid-2003, mainly driven by the Pan European Forest Certification (PEFC) system and the Sustainable Forestry Initiative in the United States.
- The potential supply of certified forest products (CFPs) has grown in parallel with the area certified, and is estimated at almost 300 million m<sup>3</sup> annually worldwide, close to the annual industrial roundwood consumption of Europe (excluding the Russian Federation).
- Still, only a fraction of the wood supplied from certified forests is actually traded as (labelled) CFPs, reflecting the difficulty of finding viable markets and stable supply through the chain-of-custody.
- Today, about 3140 chain-of-custody certificates exist worldwide, which is an increase of almost 20% from last year; 2/3 of these are held by companies in Europe, and 80% by the Forest Stewardship Council.
- Business-to-business markets for CFPs continue to be mainly located in Germany, the United Kingdom and the United States.
- Markets for CFPs are now often supply-driven; however, no official data is available.
- FSC-certified CFPs are available across a large range of forest products; PEFC-certified CFPs are increasingly taken up by the roundwood trade and the sawmilling industry, especially in Germany, Austria and Finland.
- Consumer awareness of CFPs continues to be low, even in the more advanced markets in western Europe; however, growing familiarity with the FSC logo is claimed in the United Kingdom, and PEFC is stepping up its communications campaigns.
- Public procurement is an important driver of demand in several key importing countries, including Germany and the United Kingdom, and is expected to become more visibly so for tropical wood.
- The illegal logging issue has dominated public discussion in 2002 to 2003, from which it emerged that legality of the wood traded is not to be confused with the quality of management.

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## Chapter 10

# Trade In Secondary-Processed Wood Products Slowed: Value-Added Wood Products Markets, 2001-2003<sup>7</sup>

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### Highlights

- International furniture trade is continuing to create more export opportunities for central and eastern European countries and for developing countries, even though 2001 witnessed a 2 to 3% fall in imports in key world markets.
- China is overtaking the world's number two and three furniture exporters, Germany and Canada, all three trailing Italy.
- Lower cost Asian furniture imports led some United States furniture manufacturers to close manufacturing facilities and concentrate on their marketing strengths.
- Engineered wood products (EWPs) production and consumption are growing phenomenally in North America – they now comprise 5% of structural lumber demand.
- Builders' joinery and carpentry trade is growing in wooden doors, shingles and shakes, although wooden windows have been losing ground since 1997.
- Intense competition fostered by globalization is driving demand for EWPs as well as decreased availability of large-diameter timber, new conversion technology and worldwide adoption of performance-based building codes.
- Both product and business innovations are necessary in traditional wood products markets, which rely too heavily on residential housing markets.
- Higher value-added processing motivates new countries to develop secondary-processed wood products exports, however, there is a risk of falling into a cycle of growth without prosperity, thereby reducing the financial resources available for sustainable forest management.
- As new countries enter the export business, their competitiveness depends mostly on lowering production costs and product prices against immediate regional rivals, instead of real product and process-related strengths such as better materials, operational efficiencies, total quality and enhanced design and marketing.

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## Chapter 11

# China's imports drive tropical timber trade:

## Trends in tropical timber markets, 2002-2003<sup>8</sup>

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### Highlights

- China consolidated its position as the world's largest tropical log and sawnwood importer in 2002.
- Log exports from tropical countries fell almost 20% to 12.8 million m<sup>3</sup> in 2002 due largely to export bans in Africa and Indonesia.
- China's imports of tropical plywood are shrinking, but the country is becoming a significant tropical plywood exporter based on imported logs.
- Low prices and over-capacity persist in the tropical plywood sector.
- Tropical countries are increasing exports of reconstituted panels, pulp, paper and secondary-processed wood products.
- Certification of sustainable forest management is a concern for many tropical exporters, inspiring some countries, led by Malaysia and Indonesia, to develop national schemes and to seek recognition from international certification systems.
- Increasingly, Governments and other stakeholders are developing new ways of cooperation to improve forest law enforcement and governance; for example, bilateral agreements to reduce trade in illegally sourced forest products.
- The United Nations Security Council has prohibited imports of wood products from Liberia, as revenue from timber exports by that country has increasingly been used for illegal arms transactions.

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