

## **Press Release – For Immediate Release**

Seattle, USA. June 12, 2008

### **Log costs in Finland among the highest in the world in the 1Q/08**

*The Finnish forest industry has had a tough year. The wood supply has been tight and the country is having some of the highest sawlog and pulpwood costs in the world, according to the market report, the Wood Resource Quarterly (WRQ).*

In the 1Q 2008, softwood and hardwood pulpwood prices in Finland reached an 18-year high (in US dollars) after having increased for 10 consecutive quarters. Softwood pulpwood prices were 57% higher in 2008 than in 2006, while hardwood prices increased over 67% during the past two years.

The surge in wood costs cannot only be explained by the weakening US dollar; higher costs in the local Euro are also contributing to the price increases. The Finnish pulp industry now has the highest softwood pulplog costs of all the 16 regions tracked by the WRQ, averaging over twice the wood costs for pulpmills in the US, Latin America and Oceania. Hardwood pulplog costs are the second highest in the world after Germany.

The high wood costs in Finland are the result of increased competition for logs in the domestic market because the availability of Russian logs is dwindling. The Finnish industry has long relied on relatively inexpensive logs imported from its neighbor in the east, but this situation changed in 2006 when domestic prices in Russia started to go up and log export taxes were implemented.

The Russian government has assisted its forest industry by shutting of foreign competition for logs. As of April 1 this year, Russian log export taxes for conifer species and large birch logs (mainly for plywood production) increased from 20% (minimum €10/m<sup>3</sup>) to 25% (minimum €15/m<sup>3</sup>) of the log value. Smaller birch logs (<15 cm), which are very important to the Finnish pulp industry, are still not taxed. Although the tax increase of five dollar per m<sup>3</sup> is a small share of the total log cost for Finnish sawmills, it has still had an impact on the sourcing strategies for many companies in the country. The higher costs for Russian logs has resulted in increased imports of softwood logs from non-Russian countries from 1.8 million m<sup>3</sup> in 2006 to over 2.8 million m<sup>3</sup> in 2007. This trend away from Russia to Sweden and the Baltic States is likely to continue in the coming years.

Private forest owners' timber sales in Finland in the 1Q were only half of the timber volume compared to a year ago, a clear sign that there will continue to be tight supply of logs in Finland and that both pulpmills and sawmills may be forced to reduce production in the coming months.

*Global pulpwood and sawlog market updates are included in the 50-page publication Wood Resource Quarterly. The report, established in 1988 and with readers in over 20*

*countries, tracks wood prices in most regions around the world and also includes regular updates of international pulp, lumber and biomass markets.*

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