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Forest products markets badly hit by the crisis but use of wood energy on the rise - UNECE/FAO

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Geneva-The current economic crisis is hitting hard the forest products sector across the UNECE region, according to the UNECE/FAO's Forest Products Annual Market Review 2008-2009.

Approximately 42% of the global forests are in the UNECE region. The 56-country UNECE region is the world's largest producer (60% worldwide), consumer (57%), exporter (77%) and importer (70%) of wood and paper products (imports and exports include within-region trade).

From record levels of forest products consumption, production and trade in 2006, the slight downturn for the region in 2007 escalated rapidly in 2008 and continued in the first half of 2009.

Total consumption of forest products in the UNECE region fell by 8.5% overall in 2008, the sharpest year-on-year decline since the first oil shock of 1973, but with marked differences between the three subregions: consumption fell by 12.7% in North-America and 5.9% in Europe but grew by 3.2% in the CIS (see graph 1). Linked directly with demand, production fell accordingly, resulting in mill closures and job losses.

This trend was mainly driven by the sharp decline in the construction of new houses in North-America and Europe. Housing construction is the main driver of forest products markets, especially for the main forest product: sawn softwood (lumber). From a peak of 2.2 million houses in 2006, housing starts in the US fell by 25% in 2007, 34% in 2008 and are expected to fall a further 50% in 2009 (APA – The Engineered Wood Association, May 2009 forecast). In Europe housing construction was down by 13.9% in 2008 and a similar decline is forecast for 2009 (Euroconstruct, January 2009 forecast) (see graph 2).

By contrast, in the CIS, the construction of new houses rose again in 2008, but at a pace only half that of the 10% average growth from 2001-2007. Timber-framed housing in the Russian Federation is growing rapidly and has tripled in the last 10 years, albeit from a low level.

The fall in demand has pushed real prices of building materials to their lowest levels since the 1940s (see graph 3). The paper industry continued deeper into crisis: production in Europe and North America decreased some 17% in 2008 (see graph 4). In the CIS the decline has been smaller thus far but Russia's negative trade balance in paper products continued to escalate (imports of higher quality and more expensive paper exceed the value of exports of lower value paper such as newsprint).

The wood and paper industries across the region have rationalized production in line with reduced demand: many mills have been permanently shut down. Forest landowners and managers have reduced harvests accordingly, and have sought alternative markets. This means less employment, less income and less tax

revenues from forests throughout the UNECE region.

The surge in wood energy markets

The wood energy sector seems to have been immune to the global economic crisis. Demand for renewable energy sources, including wood biomass, continues to grow steadily due to Governments' incentive policies fostering climate change mitigation efforts and energy security.

World wood fuel pellet markets grew by approximately 20% in 2008 and are expected to double by 2012 (see graph 5). Production capacity has increased faster than consumption, anticipating strong growth in demand.

Europe is the largest consumer and producer of wood fuel pellets, while Canada is the single largest exporter (mainly to Europe). Asia could also become an important consumer of wood fuel pellets, as the first large-scale industrial projects to co-fire coal with wood biomass took place in Japan in 2008.

The forest sector has high expectations that the Copenhagen Climate Change Conference (COP 15) in December 2009 will finalise the international framework to pay for Reducing Emissions from Deforestation and Degradation (REDD), tentatively agreed upon in Bali in December 2007 (COP 13).

In the UNECE region, wood constitutes a secure, sustainable source of renewable energy. In addition, using wood as an energy source will help countries meet their carbon emission reduction targets since the CO₂ released when burning wood comes from trees' uptake of carbon during their life and emissions from burning will be captured in new growing trees. Wood can also be a substitute for non-renewable construction materials like plastics, steel or concrete.

Other key issues for the sector in the COP 15 negotiations are: adopting measures to prevent deforestation and degradation, expanding the role of carbon offset projects, and including carbon accounting to fully include the harvested wood products as carbon storage.

The role of China

China's forest products output continued rising strongly in 2008 (+23%) driven by economic growth and a multi-billion dollar investment plan in the forest sector launched by the Government as part of a package to stimulate domestic demand (see graph 6 & 7).

While most of China's production of wood and paper is consumed locally, China is also a major exporter of wood products. The sector registered a trade surplus of \$8.7 billion in 2008, but export volumes were down 14.2% due to the global economic slowdown and the fall of imports from the US (see graph 8).

In particular, China has become the world's largest exporter of furniture (importing wooden raw material and exporting final products). More than half of its furniture exports go to the US market.
