UNECE

United Nations
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FOREST PRODUCTS ANNUAL MARKET REVIEW 2005-2006

Executive Summary

UNITED NATIONS

NOTE

This Executive Summary contains the highlights of the 12 chapters of the *Forest Products Annual Market Review, 2005-2006* (ECE/TIM/SP/21). For further background, including coverage, data sources and definitions, etc. readers are referred to the full version.

ABSTRACT

The UNECE/FAO *Forest Products Annual Market Review, 2005-2006* provides general and statistical information on forest products markets and related policies in the UN Economic Commission for Europe region (Europe, North America and the Commonwealth of Independent States). The *Annual Market Review* begins with an overview chapter, followed by a description of government and industry policies affecting forest products markets. After a description of the economic situation and construction-related demand in the region, five chapters based on annual country-supplied statistics, describe: wood raw materials, sawn softwood, sawn hardwood, wood-based panels, and paper and paperboard. Additional chapters discuss markets for wood energy, certified forest products, value-added wood products and tropical timber. In each chapter, production, trade and consumption are analysed and relevant material on specific markets is included. Tables and graphs provided throughout the text present summary information. Supplementary statistical tables may be found on the Market Information Service website within the UNECE Timber Committee and FAO European Forestry Commission website.

Chapter 1

Government procurement and corporate social responsibility policies influencing UNECE region forest products markets: Overview of forest products markets and policies, 2005-2006

Highlights

- Government procurement polices and corporate social responsibility policies are new drivers for ensuring the legality and sustainability of the source of wood and paper products in the UNECE region.
- UNECE region forest products markets climbed slowly to record levels in 2005 as demand from US housing and European construction stimulated production and trade.
- China has become the world's largest log importer, producing primary and secondary processed products for domestic and export markets; Chinese exports compete with UNECE region producers.
- Wood energy received a boost from record high oil prices and the policies that Governments initiated to promote renewable energy sources and to mitigate climate change.
- Storms in Sweden and the United States in 2005 devastated forests, but buoyant markets, aided by the need of reconstruction, absorbed the increased production of wood products.
- The United States – Canada Softwood Lumber Agreement was to end in July 2006, restoring $4 billion in duties collected from Canadian sawnwood exporters, and laying out a new seven-year framework for sawnwood trade.
- Illegal logging remains a critical issue in the forest sector, and both industry and Governments are enacting policies to combat illegal practices domestically and to stop imports of illegal wood products; one major step was the signing of the St. Petersburg Declaration at the Ministerial Conference on Forest Law Enforcement and Governance in 2005.
- Central and eastern European countries and Russia continue to accelerate out of the socio-economic transition period with increased exports, including value-added wood products.
- Engineered wood products, which are environmentally friendly and efficiently produced and employed, continued to make inroads into traditional wood products markets and fend off competition for non-wood substitutes.

Chapter 2
Policy issues related to forest products markets in 2005 and 2006[1]

Highlights

- As part of a continuing trend that has policy implications for forests worldwide, Chinese imports of wood continued to rise in 2005, with the volume of imports more than tripling since 1997.
- Since 1997 the export value of forest products from China increased from $4 billion to $17 billion, a period in which imports of Chinese wood products rose nearly 1,000% in the United States and 800% in the EU – in response, the United States and the EU took protective trade measures against some products.
- The Ministerial Conference on Forest Law Enforcement and Governance in November 2005 marked the signing of the St. Petersburg Declaration, an international agreement intended to stem illegal logging and related trade.
- A recent trend of sales of large tracts of US industry-owned forestland to investment groups is raising concerns about implications for the future on forestland and growth of conservation easement programmes.
- Life-cycle assessment of alternative building products has now gained the attention of the forest products industry, with life-cycle inventory findings widely promoted by industry associations.
- Recovery and reuse of construction timbers and other types of wood products for raw material and energy have gained the attention of Governments and niche market suppliers in the private sector, although further research and development of logistic channels will be needed to increase the use of recovered wood.
- In the United States, initiatives to combat climate change continue to emerge, including efforts on the part of clusters of States to act independently of the Federal Government and to force federal action.
- Research and development in support of biomass energy development is proceeding rapidly with the private sector pointing to its need for secure supplies of woody biomass and to avoid government policies that could divert wood from higher value-added uses.
- The long-standing sawn softwood dispute between Canada and the United States appears to have been resolved.
- Market growth of engineered wood products is robust in North America and Europe.

[1] By Dr. Jim L. Bowyer, Dovetail Partners Inc. and University of Minnesota, and Dr. Helmuth Resch, University of Natural Resources.

Chapter 3
Record North American housing market slows in 2006: Economic developments influencing forest products markets, 2005-2006[2]

Highlights

- Favourable macroeconomic conditions for forest products markets in 2005 are expected to continue in 2006.
- Low interest rates, favourable business profitability and increases in asset prices supported cyclical growth forces and offset the dampening economic effects of higher energy prices.
- Economic growth will slow slightly in North America in 2006, but will continue to be more robust than in the euro area where moderate growth in western Europe masks ongoing dynamic expansion in eastern European economies.
- High global demand for oil and high oil prices will support growth in Russia and other net energy-exporting countries.
- China's rapid economic expansion, which has become a major engine of global growth, is forecast to continue in 2006 with GDP growth of nearly 10%, generating strong import demand for oil and raw materials, including wood.
- US housing starts reached a 30-year high in 2005 at 2.1 million units, but rising mortgage rates should dampen housing construction in 2006.
- The upward trend in European new residential construction of the last three years may moderate as a result of rising interest rates.
- Construction activity has been stronger in central and eastern European countries than in western Europe and this is not expected to change.
- The ongoing robust expansion of output in the North American manufacturing sector is expected to strengthen both the non-residential building and non-building construction in the subregion.
- Price increases for building materials in North America moderated in 2005 despite the continuing strong housing market, reflecting better availability of building materials with increased domestic production and offshore imports.

[2] By Mr. Dieter Hesse, UNECE, Dr. Al Schuler, USDA Forest Service and Mr. Craig Adair, APA - The Engineered Wood Association.

Chapter 4
Higher global demand for sawnwood drives timber harvests to new record levels: Wood raw material markets, 2005-2006[3]

Highlights

- For the fifth year in a row, total removals of roundwood in the UNECE region again reached record levels in 2005, primarily as a result of increased consumption of sawnwood in Europe and the United States.
- The UNECE region increased its share of the total global roundwood production and is a particularly important player in the softwood market, with about 82% of global removals.
- Consumption of softwood roundwood in Europe increased by 22% between 2001 and 2005 as sawnwood production continued to increase.
- Almost all of the over 60 million m3 of damaged timber from the storm that hit Sweden in early 2005 has been removed and the timber market is entering conditions similar to those before the storm.
- The Russian Federation has increased timber harvests by 18% over the past five years and exported as much as 34% of the total harvest in 2005.
- Softwood roundwood harvests in the United States increased by 9% in the past three years, largely as a result of an expanding sawmilling sector.
- For the first time in five years, wood fibre consumption fell in the European pulp industry in 2005, primarily as a result of the strike in the Finnish pulp and paper industry when production was down for six weeks.
- Sawlog prices were higher in 2005 than the previous year in North America, Northwest Russia and central Europe due to high demand and increased transport costs.
- Wood fibre costs, including roundwood and residual chips, increased in local currencies for many pulp producers in both North America and Europe during 2005 and early 2006 due to higher fuel prices.

[3] By Mr. Håkan Ekström, Wood Resources International.

Chapter 5
North America peaking, Europe and Russia climbing: Sawn softwood markets, 2005-2006[4]

Highlights

- 2005 was a stellar year for sawn softwood producers and exporters in the UNECE region, but may be the high-water mark as markets look more challenging in 2006 and beyond.
- Opposing developments, both growth and contraction, occurred among the leading western European producer countries in 2005.
- Western Europe remained a net exporter in 2005, but offshore export markets in both the United States and Japan became variable and competitive because of a strong euro.
- In 2005 Europe strengthened its market share in its largest overseas market, the United States, but this rapidly weakened by mid-2006.
- Membership of the Baltic States in the EU has caused log market prices to converge quickly with European prices, reducing profitability for sawnwood producers.
- Russia continued to expand its sawnwood output (up 5.3%) and exports (up 19.5%) in 2005, gaining market share in many export markets at the expense of traditional suppliers.
- The long-awaited Russian Forest Code has not yet been adopted; combined with rising log export taxes, this Code could be a catalyst for expanding sawnwood output.
- United States' demand and prices for sawnwood reached new highs again in 2005 as a result of low interest rates and a soaring housing market.
- The long-running United States' housing market finally peaked late in 2005 and new housing construction is forecast to decline by a total of 13% through 2007; this will directly affect domestic producers and European exporters.
- Similarly to the effects of the Swedish windstorm in early 2005, expanding timber harvests in British Columbia, Canada, due to the mountain pine beetle epidemic, and conversely, government-imposed harvest reductions in Ontario and Quebec, will affect sawmills' raw material availability and their sawnwood production over the next few years.
- The long-running dispute on sawn softwood between Canada and the United States was getting closer to a new seven-year agreement in mid-2006 following four years of litigation, as well as countervailing and anti-dumping duties on Canadian sawnwood.

[4] By Dr. Nikolai Burdin, OAO NIPIEIlesprom, Mr. Arvydas Lebedys, FAO Forestry Department, Mr. Jarno Seppälä, Pöyry Forest Industry Consulting, and Mr. Russell E. Taylor, International WOOD MARKETS Group Inc.

Chapter 6
Increasing prices and raw material shortages amidst the rising influence of China: Sawn hardwood markets, 2005-2006[5]

Highlights

- Consumption of sawn hardwood in the UNECE region decreased by 1.5% in 2005, mainly due to the continuing decline of furniture manufacturing in Europe and North America.
- Total UNECE region sawn hardwood production fell by 0.7% to 47.8 million m^3 in 2005, despite a marginal increase in the Russian Federation, partly due to increased competition for raw materials from China.
- Overall European production was down last year, partly the result of a fall in demand for wood processing in the region, but also due to lower production in Romania following severe flooding.
- Governments in the United Kingdom, France, the Netherlands, Denmark, Germany, Belgium and Japan have made commitments to source "legal and sustainable" timber, including hardwood, in new public procurement policies, with other countries likely to follow.
- Hardwood flooring production and consumption in Europe increased considerably last year and marked a continuing trend in this sector, despite the ever-increasing threat of competitive imports from Asia.
- Oak continues to dominate hardwood consumption, with increasing demand across Europe and Asia; European and American white oak now represents over 50% of all European hardwood flooring production.
- Sawn hardwood production in North America decreased by 1.1% last year due to restructuring of several hardwood production and sales organizations, numerous sawmill closures, and increased importing of components and finished goods by domestic end-users, as well as rising log prices amidst competition for raw material from China.
- China's influence in all aspects of the global hardwood market is likely to develop further in 2006, putting pressure on roundwood supplies and raising sawn hardwood prices.
- Despite the slow development of the hardwood processing sector in Russia, exports of sawn hardwood increased significantly in 2005 and were mainly destined for China.

[5] By Rupert Oliver and Rod Wiles, both at Forest Industries Intelligence Ltd.

Chapter 7
Panel industry squeezed by energy costs, fibre supply and globalization: Wood-based panels markets, 2005-2006[6]

Highlights

- Favourable developments in the main demand markets in residential construction and associated demand for cabinetry and furniture had a positive effect on the wood-based panel industry in 2005 throughout the UNECE region.
- Although production and consumption are increasing, producers express mitigated optimism due to soaring production costs.
- The European panel industry is becoming increasingly export oriented, whereas the increase in Russian panel production was used domestically in 2005.
- The European panel industry, confronted with wood supply problems due to increasing competition with the biomass energy sector, is responding through a Renewable Energy Sources Working Group that provided their input to the EU Biomass Action Plan in 2005.
- North American production of particle board declined as a result of plant closings attributed to increased competition for wood supplies.
- Record housing starts in the United States drove the demand for structural panels to new highs.
- North American OSB production is expected to increase by 16% between 2006 and 2008, but a forecasted demand downturn could weaken prices and profits.
- In 2006, declining housing starts in North America have structural panel manufacturers looking to expand demand in the non-residential and industrial market segments.
- High United States furniture imports, especially from China, have undermined demand for particle board and MDF within the domestic furniture industry, and panel manufacturers are reducing production.
- The US applied an 8% import tariff on Brazilian plywood imports in mid-2005; however, Brazil exported increasing volumes of plywood and other panel products to the United States and Europe.
- China, the world's largest plywood exporter, does not yet have the required grade stamp to allow North American structural applications; however, imports are used for other purposes.

[6] By Dr. Ivan Eastin, University of Washington, Ms. Bénédicte Hendrickx, European Panel Federation, and Dr. Nikolai Burdin, OAO NIPIEIlesprom.

Chapter 8
Pulp & paper markets cope with high energy prices and growth in Asia: Markets for paper, paperboard and woodpulp, 2005-2006[7]

Highlights

- Pulp and paper markets in the UNECE region were influenced by higher energy prices and demand growth in Asia in 2005 and 2006.
- Important developments in Europe included the launching of the EU Emissions Trading Scheme, which was followed by substantial increases in electrical energy prices.
- High global energy prices pushed up costs of production and prices for pulp, paper and paperboard, with price increases absorbed by relatively strong global market demands.
- China continues to be a growing source of global demand for wood fibre, including recovered paper, which China imports in large volumes from the UNECE region.
- The European pulp and paper industry is deeply involved with the implementation of the Lisbon Agenda to improve the competitiveness of European industry, for instance, through the drafting of a Strategic Research Agenda.
- European producers of paper and paperboard set a new record for output, at 104 million m.t. in 2005, growing slowly by 0.4% from 2004.
- In 2005 in North America, output of paper and paperboard decreased by 1.5% to 101.1 million m.t. from 2004, although prices continued to increase in 2005 and the first half of 2006.
- In June of 2006, the International Council of Forest and Paper Associations announced the signing of an agreement by its global member companies on sustainability.
- Continued expressions of interest in sustainable forest management by forest and paper associations (and by customers of paper and paperboard products) suggest that related public procurement policies for paper and paperboard might become more common in the future.
- Production and consumption of pulp and paper declined in both the United States and Canada in 2005, but the production decline was much greater for Canada (-4.5%) than the United States (-0.8%).

[7] By Dr. Peter J. Ince, USDA Forest Service, Prof. Eduard Akim, PhD, the St. Petersburg State Technological University of Plant Polymers and the All-Russian Research Institute of Pulp and Paper Industry, Mr. Bernard Lombard, Confederation of European Paper Industries, and Mr. Tomás Parik, Wood and Paper, A.S.

Chapter 9
Soaring fossil fuel prices give wood energy a major boost: Wood energy markets 2005-2006[8]

Highlights

- Insecurity about future fossil fuel supplies and corresponding escalating prices boosts development of alternative energies, among which woodfuels are the most promising in the short term for medium- and large-scale heat and electricity production; woodfuels also have long term potential for transportation fuel.
- In Sweden, Finland and Austria, combinations of large domestic wood supply and policy measures have led to woodfuels now making up substantial shares of energy supply with national markets having become relatively mature.
- Woodfuel energy is increasing rapidly in response to EU policies to significantly raise bioenergy consumption, albeit from low starting levels in countries such as Belgium, Germany, the Netherlands and the UK.
- The EU Biomass Action Plan (2006) promotes the use of biomass fuels based on forest resources with the aim to increase the renewable share of electricity production in Europe from 14% in 1997 to 21% in 2010.
- In Sweden, the large growth of woodfuel energy use since the 1980s has in many ways been a result of policy measures such as carbon dioxide (CO_2) taxes and government funding for conversion from fossil fuels to woodfuels.
- Increased use of woodfuels in countries with limited forest resources is creating new trade, which will continue in coming years.
- Increased European demand for woodfuels will lead to integration of national markets for woodfuels with favourable logistic properties, such as pellets.
- Trade in woodfuels depends on the economic viability of low transport costs; ship transport will therefore be the dominant means of transport in an integrated pan-European woodfuels markets.
- Dependence on low transport costs will probably limit the European trade in woodfuels to mainly coastal areas for large-scale energy production.

[8] By Dr. Bengt Hillring and Mr. Olle Olsson, both at the Swedish University of Agricultural Sciences.

Chapter 10

Public procurement policies driving certification: certified forest products markets, 2005-2006[9]

Highlights

- The area of certified forest increased by 12% from 2005, reaching 270 million hectares by mid-2006, which is 7% of the global forest area.
- Certification remains largely confined to the northern hemisphere's temperate and boreal forests, and to developed countries: 87% of certified forest is in the UNECE region (58% in North America and 29% in western Europe).
- Roundwood production from certified forests represents approximately 25% of global production but only a tiny amount of this is labelled as being of certified origin.
- Only 2.7% of the commercially accessible forests in Russia were certified by mid-2006, thus Russia's vast forests are therefore the prize for certification schemes: the Forest Stewardship Council (FSC) certified 9 million hectares in 2005, while a national working group is establishing a Russian certification scheme that may apply for endorsement by the Programme for the Endorsement of Forest Certification (PEFC).
- Chain-of-custody certificates increased by approximately 20%, reaching 7,200 certificates worldwide, which still covers only a fraction of overall trade.
- In Asia, markets for certified forest products (CFPs) are rising in Japan, but China is producing CFPs mainly for export to North America and Europe.
- Public procurement policies for wood and paper products are increasingly specifying CFPs for assurance of sustainable forest management.
- Except in the Netherlands, there is a lack of demand from final consumers for CFPs.
- Procurement policies accounted for the origin of forest products, as well as the EU Action Plan for Forest Law Enforcement, Governance and Trade, may increase demand for CFPs.
- By May 2006, Canada accounts for over half of PEFC and almost one quarter of FSC worldwide certifications: the PEFC umbrella now covers more than two thirds of the total certified forest area worldwide, with FSC accounting for another 28%.

Certification of non-wood forest products is gaining importance in developing countries as well as in the developed world.

[9] By Mr. Florian Kraxner, International Institute for Applied Systems Analysis, Dr. Eric Hansen, Oregon State University, and Dr. Toshiaki Owari, University of Tokyo.

Chapter 11
Trade policies playing a major role in value-added wood products trade: Value-added wood products markets, 2005-2006[10]

Highlights

- Public procurement policies may change trade flows of value-added wood products at the cost of some regions in favour of others; UNECE region's benefits are uncertain.
- Asian furniture exporters' rapid penetration continued in all major markets; US imports grew rapidly while European markets remained flat.
- There is considerable controversy in US bedroom furniture market over imports – furniture retailers and domestic manufacturers on a collision course.
- Canadian furniture manufacturers filed a petition against Chinese furniture imports but lost, while US tariffs continue on some Chinese furniture.
- Facing lower cost imports, European furniture manufacturers have been trying to find ways to maintain competitivity without trade policy measures.
- In 2005 Europe's profiled wood imports were dominated for the first time by Brazil, China and Indonesia.
- Strong housing markets in the United States and Canada in 2004 and 2005 continued to drive demand for engineered wood products (EWPs).
- Glulam production reached another North American record in 2005, reversing the trend of increasing European imports, owing to the strong housing and non-residential markets.
- I-beam manufacturers gained market share in 2005 over solid sawn floor beams, open web wood trusses and steel, although a 5% drop in sawnwood prices constrained I-beam share growth.
- Laminated Veneer Lumber (LVL) production, following a dramatic increase in 2004, increased again in 2005, driven by the robust single-family housing market where open concept designs and customization by utilizing beams and headers create opportunities for EWPs.

Life cycles for wood products such as sawnwood and sheathing plywood are well past their prime – EWPs are the wood products of the future because of their predictable performance, design efficiencies and effective use of wood resources.

[10] By Mr. Tapani Pahkasalo, Savcor Indufor Oy; Mr. Craig Adair, APA - The Engineered Wood Association and Dr. Al Schuler, USDA Forest Service.

Chapter 12
Public procurement policies affecting tropical timber exports: Tropical timber markets, 2004-2006[11]

Highlights

- Public procurement policies in importing countries are beginning to affect tropical timber exports.
- With less than 5% of tropical forests managed sustainably, countries are moving towards certification of sustainable forest management as a means to maintain exports to environmentally sensitive markets.
- China remains the world's top log importer: tropical log imports have almost tripled since the mid-1990s, but fell in 2005 as imports of non-tropical logs continue to boom.
- Tropical log production increased in 2005 by 2%, although log exports fell 8% as economic development policies take effect for more domestic value-added processing.
- Producer countries log exports fell again in 2005 to a level well under half the level exported just over a decade ago.
- Sawnwood exports from Malaysia increased by 10% to 2.8 million m^3, benefiting from an Indonesian export ban.
- Log prices for some Southeast Asian species rose to eight-year highs in 2005 due to tighter supply of Asian logs heightened by crackdowns on illegal logging, restrictions on log exports and active buying from China and India.
- Malaysia and particularly Indonesia and Brazil are facing formidable competition from Chinese plywood exporters and losing market share in Europe and the United States.
- Prices of Brazilian plywood spiked in 2005 due to reconstruction following Hurricane Katrina in the southern United States.
- Brazil became the largest supplier of softwood plywood to the huge US market (well ahead of Canada) and lost its duty-free status in mid-2005.
- Chinese plywood imports remain at only around one-quarter of mid-1990s levels as authorities continue policies, including tariffs, to increase domestic plywood production from imported logs to boost employment and offset reduced domestic log supplies.

[11] By Dr. Steven E. Johnson, Dr. Jairo Castaño and Mr. Jean-Christophe Claudon, all from the International Tropical Timber Organization.