SPANISH MARKET REPORT 2015

1. - GENERAL ECONOMIC TRENDS: OVERVIEW.

The official estimations for 2015 confirm the upturn in the Spanish economy's output. GDP increased 1% in 1st quarter 2015 and 0.8% in the 2nd quarter. These numbers were accompanied by improvement in job creation figures. The final forecast for **GDP** 2015 ranges from 2.5 to 3.1% depending on sources (chart 1).

For 2016, the buoyant upturn is expected to continue, though a more contained path is being discernible in the second half of the current year, once the impact on the pace of GDP of some of the recent expansionary impulses, such as the fall in oil prices and the depreciation of the euro, begins to ease. The risks of slippage from this baseline scenario are balanced, although the recent volatility on financial markets heightens the uncertainty. Still, annual average growth of 2.7% is indicated as 2016 estimation for most of the reports.

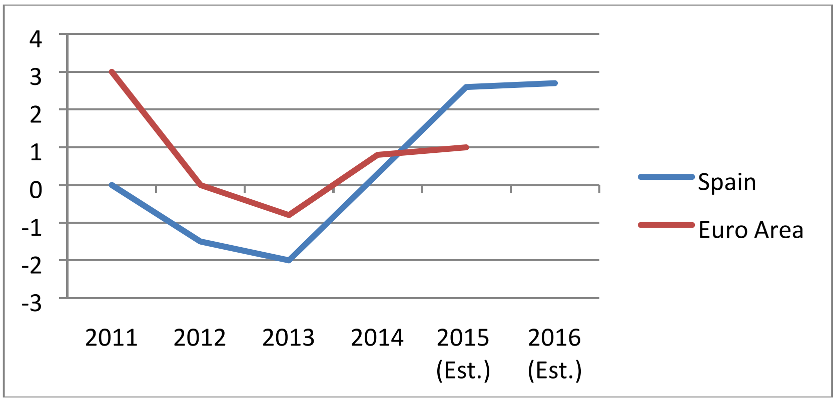

Chart 1: Gross Domestic Product, Spain/Euro Zone. (Source: Banco de España, Eurostat).

After bottoming out at -0.1% last autumn, **inflation rate** has progressively risen up to 0.5% in May 2015, set against the cyclical improvement and the depreciation of the euro. This has been accompanied by something of a rise in inflation expectations in recent months. The projections for the rate of change of inflation are estimated to stand at -0.2% on average in 2015, rising to 1.3% in 2016 (chart 2), though latest estimations (September 2015) consider most probable a certain increase in this inflation rate projection.

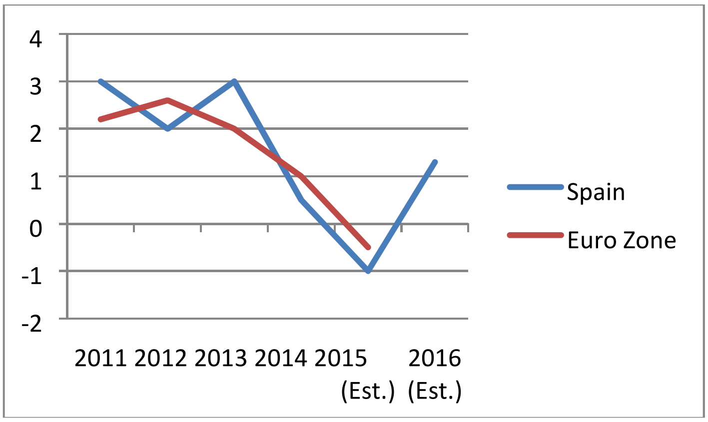

Chart 2: Index of Consumer Prices (Source: Banco de España, Eurostat).

Therefore, it cannot be ruled out that the effects of some of the impulses currently operating may extend beyond the baseline scenario, with the result that the strong rate of recovery in domestic demand observed in the most recent period may continue in the coming months.

2. - POLICY MEASURES TAKEN OVER THE PAST 18 MONTHS

No significant **legislation** or measures regarding **wood export restrictions** have been taken in Spain; neither the existence of those measures in Eastern European countries will affect the Spanish market in a very remarkable way. Though Spanish forest product market has a negative balance in most of the areas, its deficit in unprocessed roundwood occurs mainly in eucalyptus logs, whose imports do not come from the referred geographic area.

The Spanish political and administrative system establishes that the Autonomous Communities (Regional Governments) are competent for most of the forest issues, being the Government of Spain in charge of establishing the common basis for forestry and forest sector. 17 Regional governments exist in Spain, and they legislate on forest and forest product aspects.

Regarding the central **Government of Spain**, the most relevant political measures affecting trade and market of forest products have been:

a) Forest Law 21/2015, modifying the previous existing Forest Law 43/2003. It regulates different aspects, of timber and forest product purchasing processes for public administrations, as well as minor changes in forest harvesting:

   - Certification: public administration will promote the development of voluntary & transparent forest certification systems (51, changing previous art. 35).

   - Responsible purchase of forest products: public administrations could exclude from public purchase those forest products which could not credit the fulfillment in origin of legality and/or sustainability. Forest certification is accepted as one of the systems to guarantee the sustainability (52, changing previous Art 35 bis).

   - Forest harvesting: establishing changes in forest timber and non-timber products harvesting, property and management (53&54, changing previous Art.36&37).

- The system of penalties for infringements of the rules set European Union Regulation and a statement of responsability for operators who exercise due diligence for products placed in EU market.

b) Royal decree for the development of EU Regulations 2173/2005, 1024/2008, 995/2010 to combat illegal timber trade and implement FLEGT. The deployment of the measures associated to this regulation is still on process and under discussion. It is anyhow sure that the effective bodies for the verification of the compliance of the regulation requirements will be the Autonomous Governments.

c) Also some legal initiatives to reduce differences on general trade requisites inside Spain have been taken, among them, the law 20/2013, of December 9, for guaranteeing market unity has been approved to harmonize the different situation with basic standards.

3. – MARKET DRIVERS

With respect to **construction**, which plays a key role in the Spanish forest product demand and is the key market driver for sawnwood, added-value goods, fibreboard, particleboard, plywood and veneer, the investment has turned upwards in 2015 after a long period of recession (table 2). Even small, this is the best increase in the sector since 2012.

The **use of wood** for construction is still small in Spain. Several initiatives have been developed to promote it in recent years, particularly "Building with Wood" and "Living with Wood".

4. – DEVELOPMENT IN FOREST PRODUCTS MARKET SECTOR

4.1 WOOD RAW MATERIAL

In 2014 the roundwood production in Spain reached 19,7 million m^3 ob (table 1). This represents around 37% of the total annual growth (approx. 52 million m^3 ob) and proves the nonexistence of any overharvesting risk.

The total offer of roundwood in Spain will probably remain at similar levels for 2015.

Removals	*Million m^3 ub*	2014	2015
Roundwood		16,1	15,6
	Industrial roundwood	12,7	12,2
	Softwood	*5,8*	*5,7*
	Hardwood	*6,9*	*6,5*
	Fuelwood	3,4	3,5

Table 1: Removals of industrial roundwood and fuelwood, 2014 (Million m^3 ub)
(Source: Ministerio de Agricultura, Alimentación y Medio Ambiente -MAAMA)

Hardwoods represented in 2014 57% of the total harvested volume, while softwood reached 43%. The split softwood/hardwood has changed in the last years: from a traditional position leaded by softwoods to a dominancy of hardwoods

Removals	*1000 m^3 ub*	2014	% of total	2015
Industrial roundwood		12.657,0	100	12.615,0
	Sawmilling and Plywood/Veneer	*3.691*	*29%*	*3.650*
	Pulp & Boards (particle board, fibre board)	*8.745*	*69%*	*8.745*
	Other industrial uses	*221*	*2%*	*220*

Table 2: Industrial end uses for the total industrial roundwood removals (1000 m^3 ub) (Source: Ministerio de Agricultura, Alimentación y Medio Ambiente).

In 2014 approx. 69% of the total felling ended up in pulpwood, while 29% was used for sawmilling and plywood/veneer industries (table 2). The weight of pulpwood has increased regularly in the last 5 years, though previously it represented around 60% of the total felling. The most of the sawngoods produced are coniferous species.

Eucalyptus was the leading harvested specie for industrial use, followed by Pinus pinaster & Pinus radiata. Populus sp are second to eucalyptus in hardwood removals, with an estimated yearly harvesting volume of 0,7 million m^3.

In 2014 the trade has shown positive balance in roundwood, as exports have increased while imports decreased (table 3). The trade of roundwood in Spain reflects a dominant regular flow of eucalyptus imports since the late seventies. The tropical roundwood imports are very much reduced. Finally, around 0,5 million m^3 of coniferous logs are imported and around 1 million exported.

Roundwood trade	*1000 m^3*	2014	2015
Roundwood imports		1.754	981
	Hardwood (incl. tropical)	*1.292*	*486*
	Tropical	*5,0*	*1,0*
	Softwood	*457*	*494*
Roundwood exports		2.605	1.956
	Hardwoods (incl. tropical)	*1.631*	*1.199*
	Tropical	*0,3*	*1,0*
	Softwood	*974*	*756*

Table 3: Roundwood trade by species (1000 m^3). (Source: MAAMA)

4.2 WOOD ENERGY

Both wood fuel and wood pellet market showed increases in 2014 (table 10). And also the demand of roundwood for fuel competing with industrial uses (pulp & board) was significant. The wood energy market in 2014 & 2015 has kept positive fundamentals both in demand and price. This was the trend since 2011-2012, being the driving force the demand for wood to be used as heat producing fuels.

WOOD ENERGY		2014	2015
Wood fuel *(1000 m^3)*	Production	3435	3030
	Softwood	*1.195*	*1.200*
	Hardwood	*2.240*	*2.250*
Wood pellets (*1000 t*)	Production	350	400
	Imports	37	23
	Exports	40	21

Table 4: Figures for wood fuel production (1000 m^3) and wood pellets production and trade (1000 t). (Source: MAAMA).

The situation in first half 2015 shows good demand for domestic use and even better for export markets, The increase in the demand for small diameter logs, particularly in softwood, has brought along an uptrend pressure in stumpage prices. The Spanish legal framework for energy reflects the EU strategy and targets.

4.3 SAWNGOODS

Spanish sawmills suffered heavily during the recent economic crisis; even during the construction boom, important structural problems were detected but unfortunately not corrected. The market situation has improved slightly in 2014-2015 (table 5). Sawmills related to construction and packaging have improved particularly in packaging qualities (pallet manufacturers). The domestic production in P. radiata has positive indexes. The rate Euro/US dollar is a favourable factor for competitiveness.

Regarding trade, the sawngoods market in Spain shows a traditional dependence on softwood imports. The dominant origins for better qualities have long since been Sweden & Finland. But in the last decade, also Central European countries have played a significant role.

	2014	2015
Production	2245	2260
Softwoods	*1879*	*1880*
Hardwoods	*366*	*380*
Imports	974	980
Softwoods	*833*	*830*
Hardwoods	*141*	*150*
of wich Tropical	*42*	*55*
Exports	213	194
Softwoods	*184*	*161*
Hardwoods	*30*	*33*
of wich Tropical	*4*	*8*

Table 5: Sawnwood market in Spain 2014 (thousand m^3)
(Source: Ministerio de Agricultura, AEIM).

Flooring, paneling and other similar products were being used in an increasing way during the building boom that ended in 2007; after that, a regular demand exists but on much smaller basis.

4.4 CERTIFIED FOREST PRODUCTS

Two forest certification systems are followed in the Spanish forest:

- PEFC (Program for the Endorsement of Forest Certification). -
  FSC (Forest Stewardship Council).

The market for certified forest products also demands mainly these two schemes, as most of the commerce has origin and destiny in UE countries.

PEFC is leading the certified forest area in Spain, with 1,8 million ha. 768 Chain of Custody Certificates have been issued so far for 1132 certified installations.

Sector	Number of Installations/Companies
Timber & construction	269
Sawmilling	222
Graphic industry	132
Pulp & paper	86

Table 6: PEFC Chain of custody Certificates by type of company (9/2015)
(Source: PEFC España)

FSC Certified forests in Spain reach 202.000 ha (April 2015) and have issued around 400 Chain of Custody Certificates.

4.5 PULP & PAPER

Pulp and paper overpassed the Spanish crisis better than most of the sectors. The hardest times occurred in 2009, and after that, an improvement in the situation has raised back the sector turnover to a standstill level. Year 2015 is maintaining this situation.

The 2014 consumption of pulplogs in Spain to produce virgin fibre pulp was 5.6 million m^3 ub. The composition by species indicates that 80% (4.5 million m^3 ub) was Eucalyptus sp and 20% (1.5 million m^3 ub) was Pinus sp.

Pulp consumption of logs	2014	2013
Eucalyptus	4525,2	5009,8
Domestic	*3310,8*	*3779,3*
Imported	*1214,4*	*1230,5*
Pine	1153,0	1130,3
Domestic	*1145,0*	*1130,3*
Imported	*8*	*0*
TOTAL	5678,2	6140,1

Table 7: Pulp consumption of logs in Spain (1000 m^3 ub)
(Source: MAAMA, ASPAPEL).

The total production of virgin fibre pulp in 2014 reached 1,8 million tons, slightly less than in previous years. 59% of this amount was exported, mainly to UE countries (73% of total exports).

1000 t	Paper and paperboard		Pulp	
	2014	2015	2014	2015
Production	6.036	6.100	1.863	1.870
Imports	3.000	3.149	1.006	1.087
Exports	2.768	2.707	1.038	929
Consumption	6.269	6.542	1.831	2.028

Table 8: Main figures for pulp & paper production in Spain (thousands tons)
(Source: MAAMA, ASPAPEL).

Apart from market concerns, a big controversial regarding the energy supply/production of pulp and paper factories is taking place as a consequence of the change in the Spanish law regarding energy co-generation since July 2013.

4.6 WOOD BASED PANELS

Wood based panel also had good activity in first half 2015 and some production increases and even investments are taking place in the factories. Main customers for the board manufacturers in Spain are furniture and components, door factories, construction and flooring.

	1000 m3	2014	2015
Particleboard			
	Production	1.797	1.820
	Imports	479	474
	Exports	603	608
Fibreboard			
MDF	Production	*1.371*	*1.375*
	Imports	*295*	*315*
	Exports	*1.001*	*1.106*
Hardboard & others	Production	*146*	*150*
	Imports	*54*	*56*
	Exports	*98*	*102*
Plywood			
	Production	284	290
	Imports	104	156
	Exports	189	220
Veneer			
	Production	117	115
	Imports	93	105
	Exports	37	31

Table 9: Principal figures for the wood based panel market in Spain. (Source: MAAMA).