

CHAPTER 1

OVERVIEW OF FOREST PRODUCTS MARKETS IN 1997 AND EARLY 1998

Highlights

- ECE region forest products consumption increased in 1997, in some cases to record levels.
- European sawn softwood markets, both within Europe and export, increasingly to Japan, were strong in 1997.
- North American housing construction and furnishing drew increased quantities of sawnwood and wood-based panels.
- Globalization of forest products markets was demonstrated in late 1997 and in 1998 as the economic crisis in Asia disrupted trade with the ECE region.
- European consumption of wood-based panels, mainly particleboard, increased close to North American levels, which are increasingly made up of OSB and MDF.
- Oversupply of some forest products in the ECE region has weakened prices.
- Some initial signs point to a slowdown in the decline of forest products markets in the Russian Federation.
- A number of new and continuing trends are shaping the ECE region forest products markets, e.g. new markets for certified forest products, increasing substitution by engineered wood products for solid wood, and corporate restructuring.

Forest products markets generally improved in the ECE region (Europe, North America and the CIS) in 1997. Consumption in *Europe and North America* of most forest products, sawnwood, wood-based panels and paper and paperboard increased and to record levels in some cases (table 1.1).

European sawn softwood markets improved significantly in 1997 following their analogy in last year's *Review* as a train which had "got back on track in the second half of the year and was picking up steam going into 1997." Profiting from strong markets and rising prices, for both domestic and export consumption (including Asia), production increased strongly in 1997. But then at the end of 1997 that train overran the station as demand softened with the weak European construction sector and as Asian demand fell sharply. Declining sawn softwood prices in late 1997 turned upwards in Europe in 1998 as supplies were adjusted to demand.

European sawnwood exports (mostly softwood, but also hardwood) to Asian countries have dramatically increased in the last few years. In 1997

the European share of the Japanese sawnwood market had increased to 17% from negligible volumes as recently as 1993.

North American sawnwood markets continued their steady upward climb as housing construction remained strong in 1997 and in early 1998 and production rose to meet the heightened demand. Total sawn softwood imports, mostly by the United States and mostly from Canada, ended their recent rising trend, partly because of their Softwood Lumber Agreement. However new sources have increased their small market shares, for example sawnwood from Europe. In early 1998 sawmillers accustomed to strong Asian export demand, were seeking alternative domestic markets and in the West, reducing production. The shift in potential North American log exports to Asia back to the domestic market, as well as increased production from the southeastern United States infers that additional production increases could constrain imports in 1998 as in 1997. Rising European sawnwood export prices in early 1998, in contrast to

TABLE 1.1
**Apparent consumption of sawnwood, wood-based panels and paper
 and paperboard in Europe, the Russian Federation and North America
 1994 to 1997**

	Million units	Volume				Change 1996 to 1997	
		1994	1995	1996	1997 ^a	Volume	Per cent
EUROPE							
Sawnwood	m ³	92.69	91.11	89.86	96.18	6.32	7.0
Wood-based panels	m ³	40.96	44.47	43.86	46.85	2.99	6.8
Paper and paperboard	m.t.	72.90	72.77	73.13	75.42	2.29	3.1
Total (equivalent volume of wood in the rough)	m ³	466.28	468.88	466.80	489.53	22.73	4.9
Change on previous year							
Volume			2.60	-2.08			
Per cent			0.6	-0.4			
RUSSIAN FEDERATION							
Sawnwood ^b	m ³	25.37	20.64	17.33	14.74	-2.59	-14.9
Wood-based panels ^c	m ³	3.63	2.94	2.23	2.26	0.03	1.3
Paper and paperboard	m.t.	2.53	2.47	2.21	2.40	0.19	8.6
Total (equivalent volume of wood in the rough)	m ³	56.11	47.04	39.71	36.15	-3.56	-9.0
Change on previous year							
Volume			-9.07	-7.33			
Per cent			-16.2	-15.6			
NORTH AMERICA							
Sawnwood ^b	m ³	158.61	153.31	160.58	166.16	5.58	3.5
Wood-based panels ^c	m ³	45.74	44.43	48.02	48.51	0.49	1.0
Paper and paperboard	m.t.	91.76	96.62	90.66	95.08	4.42	4.9
Total (equivalent volume of wood in the rough)	m ³	656.76	662.19	659.09	683.02	23.93	3.6
Change on previous year							
Volume			5.43	-3.10			
Per cent			0.8	-0.5			

^a Preliminary.

^b Excluding sleepers.

^c Excluding veneer sheets.

falling North American prices, could also hinder imports of European sawnwood.

Sawn hardwood consumption increased slightly in Europe, partly as a result of greater imports from North America. In North America, production increased to record levels and prices rose for lighter coloured species that found favour in domestic as well as European and Asian markets.

The globalization of forest products markets was demonstrated in 1997 as the economic and political *crisis in Asia* had a profound effect on world forest products trade. Japan entered into a deep recession and housing construction, which had significantly

fallen in 1997, continued to decline in 1998. Domestic production, mostly based on imported raw materials, and imports of all forest products had decreased since mid 1997. Japan is the largest tropical forest products importer and the drop in economic activity had directly and indirectly affected the whole of Asia, as well as the ECE region. Conditions were even more difficult for southeast Asian producers: despite sharply devalued currencies, they were unable to increase market share because of multiple supply constraints, often linked to the chaos in the banking system.

In 1998 ECE region forest products exports to Japan, and many other Asian destinations, with the possible important exception of China and Hong

Kong, had tapered significantly. Prices were forced lower, but with initial stocks of higher-priced wood, Asian importers could not absorb more, especially in light of the unpredictable outlook. Asian plywood, sawnwood and log prices crashed in dollar terms with currency devaluations, ending in many cases less than half of their former values. As a consequence of the current crisis, a structural change in Asian forest products markets may be underway, characterized by more trade in further processed products and the substitution of products based on small wood, often of plantation origin (e.g. oriented strand board (OSB), medium density fibreboard (MDF), market pulp, engineered wood products), for traditional solid wood products of the tropical forest.

European *panel markets* rose in 1997, especially for particle board whose production and trade increased again. Demand and production of MDF soared, but OSB still has only a small (but growing) share of the wood-based panel market in Europe. Consumption of wood-based panels, particle board, fibreboard and plywood combined, are approaching that of North America. Europe's net exports expanded in 1997.

North American panel markets continued to evolve away from plywood and particle board with substitution by OSB and MDF. Strong demand for these newer panels due to more housing and furnishings, was met by a surge in manufacturing which created localized oversupply situations and prices have fallen, or at least not risen.

Paper and paperboard consumption increased throughout the ECE region. Pulp production also rose, but less fast, and market pulp prices recovered from the low of early 1996. Record volumes of pulpwood were consumed. Pulpwood prices ceased to fall in Europe and rose through 1997 in several countries. The trade in pulpwood from Russia and the Baltic states to Finland and Sweden continued to expand.

While still experiencing severe economic difficulties, some signs were evident that the declines in forest products markets in the *Russian Federation* have slowed. Roundwood removals continued to decline in 1997, as did sawnwood production, but the exports of some products increased slightly, specifically sawnwood, panels and pulpwood. Log exports from Russia to Japan continued to grow through 1997, increasing in both volume and market share in a declining market which has fallen in volume by about one-third over the last decade, and which was falling faster in mid 1998. Other countries in transition fared better in 1997 and some had both rising consumption and rising exports as their economies progressed.

Some additional *trends* are occurring in the ECE region forest products markets. While production and trade have increased for many products, their profitability has not always followed. Complaining that high log costs constrain profitability, where possible sawmillers have increased efficiency, and sometimes production, to achieve greater economies of scale. Pulp manufacturers have sought lower-priced raw materials and have succeeded in economizing by incorporating higher recycled fibre contents. Composite panel manufacturers have always been based on residues, but now those residues might not be only wood. Veneer manufacturers have learned to extend their resource through thinner slicing and application on composite panels and mouldings.

Engineered wood products continue to substitute for solid wood products, which is perceived to be better than the substitution by non-wood products. Wooden I-beams, glulam beams, laminated veneer lumber (LVL), composite panel products like OSB and MDF, paralam and other reconstituted wood products are changing housing and furniture construction practices and increasing market shares.

Markets for *certified forest products*, i.e. those products coming from forest lands which have been certified to be sustainably managed, are still in their infancy. Some of the first shipments of certified sawnwood occurred in the ECE region in 1997. At this time the incentive to produce certified products is not for immediate profitability, but rather to protect or increase market share or to establish a positive corporate image. Buyers' groups have been established in a number of ECE member countries and currently some larger do-it-yourself store chains and some publishers are providing the main impetus for the development of these markets, rather than the final customers themselves.

Corporate mergers continue in order to gain market share, acquire forest resources and manufacturing capabilities and to achieve efficiencies of corporate, including marketing structures. Both new products, e.g. engineered wood products, as well as traditional primary forest products, e.g. pulp and paper manufacturing, are increasing in efficiency and necessitating corporate restructuring. In some sectors automation and modernization have been essential to maintain profitability when either product prices are constrained by competition or raw material costs are increasing or both.

Forecasts for 1998 by the Timber Committee in October 1997 were generally positive for Europe and North America, especially in the pulp and paper sector, including pulpwood (some of which is used in panels manufacturing). Panel production, especially MDF

was forecast to grow along with consumption, or in the case of Europe ahead of consumption. Sawntwood consumption and production in Europe was forecast to fall in contrast to North America. Trade in both regions was forecast to increase. Overall the forecasts for the Russian Federation were for slight increases in 1998, ending the general declines since 1992.

The above overview simplifies a complex situation which is further detailed in the following chapters.