

ECONOMIC COMMISSION FOR EUROPE
Timber committee

DRAFT

FINLAND

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MARKET REVIEW AND PROSPECTS

General economic situation

The Finnish economy experienced a satisfying outlook in 1998. GDP growth exceeded 5.6 per cent compared to the previous year. The sound economic recovery was based on expansion of export volumes (11.0 %) and increase of private investment and consumption (5.5 %). The growth in GDP is expected to continue, but the rate is slightly slower, approximately 3.5 per cent in 1999. In 1998 the unemployment rate has fallen sharply courtesy of favourable economic conditions. Thus, unemployment will continue to decline this and next year, although at a slower pace. This year the unemployment rate will be 10 per cent and next year 9 per cent. This year GDP growth will decelerate while exports are slowing down from 9.6 per cent last year to 3 per cent. This slowdown will be noticeable in industrial production, where growth will wane this year and next to six and five per cent respectively. The current-account surplus will therefore narrow this year, due to export difficulties, and current-account surplus will stand at 4.5 per cent in this and next year.

The prospects for paper exports are improving at the end of the year 1999, when the effects of Asian and Latin American crises will be facilitated to improve the European market. The volume of paper industry exports is estimated to decrease by 1 per cent this year due to export difficulties in the first half of the year 1999, but the growth in volume of paper exports is expected to increase by 4 per cent next year.

Residential construction will continue to grow this year at approximately last year's pace of 8 per cent, but next year growth will subside to 5 per cent. Public subsidies for residential construction have been cut to some extent. This will, however, be offset by growth in privately funded construction. Commercial building construction will also grow swiftly in both forecast years, albeit at a slower pace.

Key factors in the Finnish economy

- The global economic crises are easing and economic prospects for the EU countries have improved
- Finnish exports will begin to grow as demand conditions improve
- The price competitiveness of industry remains good
- Machinery and equipment investment are driven this year by services, next year industrial investment will also increase
- Growth in housing and commercial building construction abating, but remaining swift
- Income growth and tax cuts boosting consumption
- Unemployment rate already below 10 percent, inflation remaining low
- Overall public sector budget in surplus, central government budget moving into surplus next year
- Current account running a surplus, net foreign debt shrinking
- Risks: A sharp slowdown in U.S. economic growth, collapse in stock prices, Asian economic crisis, Russia's economic and political crisis, South America, overheating in the housing market in growth centres

Key Forecasts

| | 1997 | 1998 | 1999F | 2000F |
|----------------------------------|------|------|-------|-------|
| Gross Domestic Product, % | 5.9 | 5.6 | 3.5 | 4.0 |
| Consumer price index change, % | 1.2 | 1.4 | 1.1 | 1.7 |
| Wage level change, % | 2.0 | 3.7 | 2.8 | 3.0 |
| Unemployment rate, | 12.6 | 11.4 | 10.1 | 9 |
| Current account surplus / GDP, % | 5.6 | 5.9 | 4.5 | 4.5 |
| Industrial output change, % | 9.0 | 7.3 | 6 | 5 |
| Three-month EURIBOR, % | .. | .. | 2.8 | 3.3 |

Table 1. Key economic figures in Finland

Forest industry

Demand for forest industry products in Europe developed favourably in first half of year 1998, but latest half and especially quarter turned out modest. Pulp and paper industry production grew up by an average 2 % compared to previous year.

In 1998, output of paper and paperboard totalled 12.7 million tonnes in Finland. There was an increase of 4 % or 0.6 million tonnes from 1997. The latest quarter in 1998 was modest also in Finland and it was 7 % (production decline in pulp 5 %, paper 6 % and paperboard 13 %) less than in same period 1997. In the last quarter, the average operating rate of paper industry fell to 86 % compared with 97 % in 1997. The capacity utilisation rate was 94 % in the whole year of 1998 compared with 95 % in previous year. The shutdowns were due in part to a slackening off in demand, but were also implemented to facilitate maintenance and installation work. Production of printing and writing papers increased by 8 % and newsprint production rose only 1 %. Chemical pulp output rose 1,5 % to 6,7 million tonnes.

In 1998, the volume of the paper and paperboard exports increased by 4 %. Since the healthy demand of the first half of the year in the paper market, the price level remained moderate. The average export prices were some 8 % up the corresponding level of 1997. In July 1998 the oversupply of pulp started to press down the pulp prices from 570 USD to 460 USD by the end of 1998. In the paper and pulp industry, the export income increased by 9 % totalling 52 billion FIM for 1998.

In January-August 1999, the forest industry production volume increased only by 0.5 % in pulp and decreased by 3 % in the paper and board compared to January-August 1998. Operating rate of paper industry was 92 % on average, when it was 96 % in the same period of 1998. The prospects for paper exports are improving, when the dissipation of global economic crises and "millenium effect" have eased the export market in the pulp and paper industry.

Roundwood markets

In 1998 the raw material consumption of the Finnish forest industry was on a record level of 80 million m³ (including domestic and imported roundwood and wood residues). The volume increased by nearly 4 million m³ over previous year 1997. The consumption of imported wood was 11 million m³.

In 1999 the wood raw material consumption is estimated to stay at a level of 80 million m³ (domestic roundwood 55 million m³, wood imports 13 million m³ and domestic wood residues 12 million m³). The domestic roundwood sales activity declined during the first half-year but has picked up during the autumn. The industry expects that the volume it needs will be bought. The industry has compensated decreased domestic supply (of the first half-year) by increasing imports. The wood raw material consumption in 2000 is expected to increase by 2 million m³.

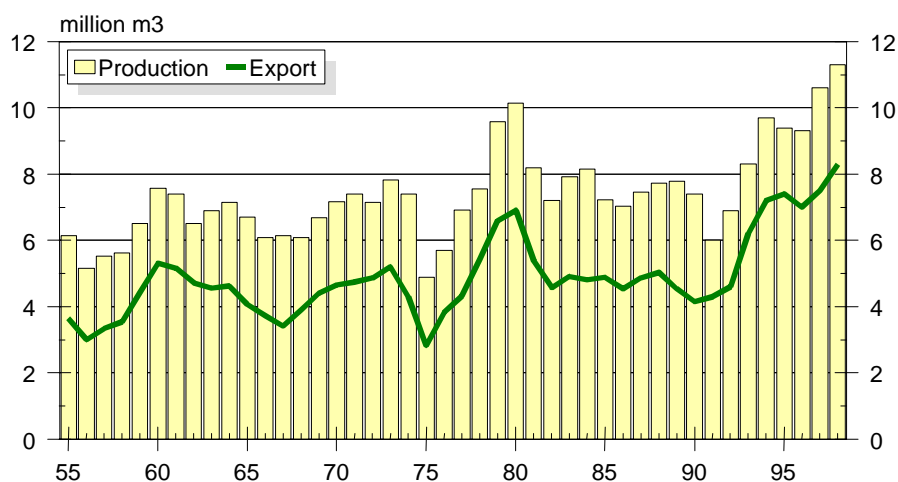
The current price for spruce sawlogs is 3 % above price level of September 1998 and thus reached a new record level. Meanwhile the prices for pine and birch sawlogs have declined by 3 % from the previous record in September 1998. The prices for pulpwood have also eroded, for pine and birch pulpwood (raw material for chemical pulp) by 10 % and for spruce (for mechanical pulp) by "only" 3 %.

The Sawmilling industry

At the end of 1998 the development in the sawn softwood market was twofold. On the one hand we could see the first signs of improving demand and prices of whitewood, due to the Japanese buyers returning to the market. On the other hand the redwood prices were falling as a result of overproduction.

The Finnish production of sawn softwood increased to 11,3 million cubic meters. The domestic market consumed 3,2 million cubic meters and export deliveries were 8,3 million cubic meters.

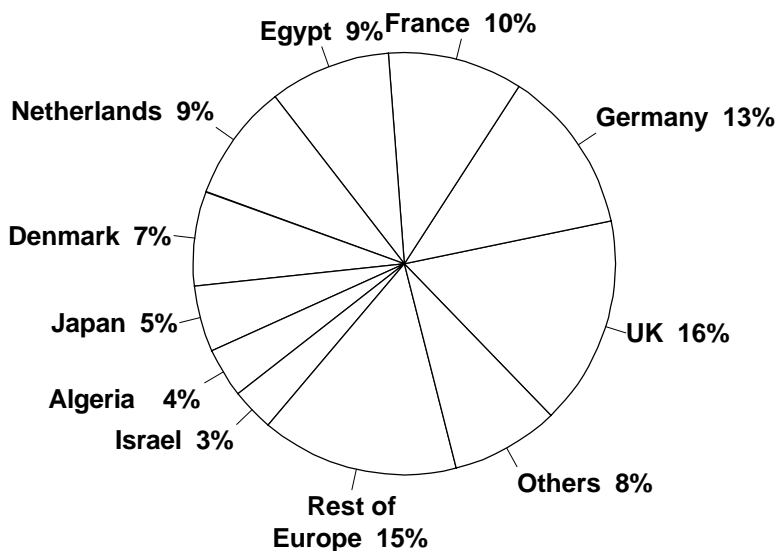
Production and export of Finnish sawn softwood 1955-1998



The deliveries to Japan recovered during the second half of 1998 and realised only 120.000 cubic meters lower than in 1997. However, the Asian crisis created uncertainty throughout the world and the sawmills tried to place the Asian quantities on other markets.

Finnish Exports of Sawn Softwood in 1998

8,3 mill. m³



The total exports to 8 importing countries in 1998 was 5,3 million cubic meters (10 % increase from 1997). The changes in individual countries can be seen in table 2.

| | 1997 | 1998 | change % |
|---------------------|-------------|-------------|-------------|
| Netherlands | 727 | 787 | 8,3 |
| Belgium | 107 | 143 | 33,6 |
| Spain | 100 | 143 | 43,0 |
| UK | 1238 | 1371 | 10,7 |
| Italy | 224 | 270 | 20,5 |
| France | 746 | 883 | 18,4 |
| Germany | 1070 | 1101 | 2,9 |
| Denmark | 611 | 605 | -1,0 |
| Total 8 | 4823 | 5303 | 10,0 |
| Total Europe | 5427 | 6041 | 11,3 |
| Japan | 558 | 433 | -22,4 |
| Others | 1545 | 1814 | 17,4 |
| Total | 7530 | 8290 | 10,1 |

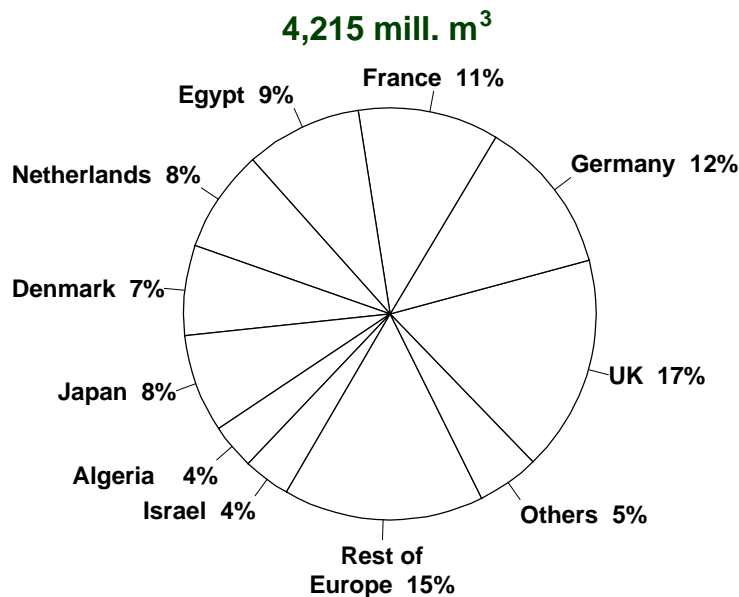
Table 2. Finland sawn softwood exports 1998 (1000 m³)

1999

In spite of record low interest rates at the beginning of 1999 the European economies were not improving as well as anticipated in the first half of 1999.

The Finnish exports of sawn softwood to Japan recovered miraculously. During the first half of 1999 export to Japan reached 330.000 cubic meters, twice as much as the corresponding period in 1998.

Finnish Exports of Sawn Softwood in first half of 1999



The sales to Japan reached 500.000 cubic meters at the end of July (+285 %). Without any doubt we will reach an all time high in our exports to Japan in 1999.

Exports to the eight conference countries declined by 7,4 % from the first half of 1998. The individual countries can be seen in table 3. Our host Spain has certainly shown their hospitality as our exports have increased by 41,7 %; the other slight increase was the UK by 0,4 %.

| | 1998 first half | 1999 first half | change % |
|---------------------|--------------------|--------------------|-------------|
| Netherlands | 448 | 345 | -23,0 |
| Belgium | 91 | 74 | -18,7 |
| Spain | 72 | 102 | 41,7 |
| UK | 708 | 711 | 0,4 |
| Italy | 156 | 147 | -5,8 |
| France | 516 | 458 | -11,2 |
| Germany | 552 | 523 | -5,3 |
| Denmark | 319 | 290 | -9,1 |
| Total 8 | 2862 | 2650 | -7,4 |
| Total Europe | 3255 | 2979 | -8,5 |
| Japan | 156 | 326 | 109,0 |
| Others | 828 | 910 | 9,9 |
| Total | 4240 | 4215 | -0,6 |

Table 3. Finland sawn softwood exports first half 1999 (1000m³)

As the whitewood stocks are record low in our country it is highly probable that whitewood exports to conference countries will not recover from the losses of the first half during the remainder of the year.

The Finnish sawmilling industry into the new millennium

- Our production will stay stable at the present level
- The changes in industry structure will go on
- Instead of looking at things on a national basis we have to start thinking on an EU-basis
- We must focus our actions on building system solutions and living with wood (consumer approach)
- We need joint actions in promoting our industry, in R & D and in sales promotion in order to survive in competition with plastics, steel and other materials

The forecast

| Balance, Finland 1999 | 1997 | 1998 | 1999E | 2000 E |
|------------------------------------|--------|--------|--------|--------|
| Sawn softwood (1000 m3) | | | | |
| <i>Opening stock</i> | 664 | 1 055 | 1 010 | 1 000 |
| <i>(+) Production</i> | 10 630 | 11 300 | 11 500 | 11 500 |
| sub-total | 11 294 | 12 355 | 12 510 | 12 500 |
| (-) Closing Stock | 1 055 | 1 010 | 1 000 | 1 000 |
| Availability | 10 239 | 11 345 | 11 510 | 11 500 |
| (-) Exports | 7 485 | 8 290 | 8 250 | 8 200 |
| Domestic use | 2 754 | 3 055 | 3 260 | 3 300 |
| (+) Imports | 160 | 150 | 100 | 100 |
| Domestic Consumption | 2 914 | 3 205 | 3 360 | 3 400 |

The Finnish plywood production totalled 992 000 m³

3.

be reached during 1999.

The production of particle board was 455 000 m³ which was 4 % smaller than previous year. The exports were 184 000 m³, 6 % down from year 1997.

Markets for certified forest products

To fulfil the customers' needs on the market Finnish forest sector has worked for credible forest certification system with other stakeholders for more than four years. The aim was to develop a forest certification scheme that would be applicable in the Finnish forestry conditions (small-scale family forestry). The Finnish Forest Certification System (FFCS) became operational in early 1999 and FFCS is now ready to be used in large scale in Finnish forests.

The certification work has been launched in practice. Forest owners in various parts of the country have made decisions this spring to establish and to join regional certification groups. Over half of Finland's forest area, or 12 million hectares, will be certified during this year. First external audit has been started in mid September and first certificates are expected to be issued after that. If auditing results are positive, half of the Finnish forest area will then carry FFCS-certificate and supply with certified wood at the end of this year. The quantity of certified timber will probably reach tens of millions cubic metres in the year 2000.

Customers are insisting on receiving certified Finnish timber, and it seems that FFCS certified products will be acceptable to the markets. E.g. one of the leading do-it-yourself chains in UK has decided to approve the FFCS.

The FFCS is expected to be among the first certification schemes to seek endorsement under the PEFC. If solutions are positive in auditing work and in the endorsement by PEFC-Council, most probably there will be products with PEFC-logo available for customers and consumers already in the turn of this year.

Further information: <http://www.smy.fi/certification>