

ESTONIA
COUNTRY MARKET STATEMENT
66-th session of Timber Committee, 20.-24. October 2008 Rome

1. General economic trends affecting the forest and forest industries sector

Gross domestic product In 2007, Estonia's economic growth slowed down to 7.1% level (11.4% in 2006). This deceleration was driven by decrease in domestic demand to 9.3% level compared to previous year (15.1% in 2006). Slowdown of growth of domestic demand was caused by decreased private consumption and investment activity (8.9% and 7.8% respectively), growth was supported by increased government sector final consumption expenditures and increased inventories.

The growth of added value decreased in both industry and services sectors in 2007. The growth of manufacturing industry decelerated considerably (to 8.3% level, 12.8% in 2006), the trend was supported by low domestic demand and export growth. Domestic trade grew only 6% (12,6% in 2006), real estate sector 1,8% (due to lowered sales income), transport and communication 6.8% (mainly due to decrease in transit transport), construction 8,6% (decreased construction volume and more expensive production resources). The growth of financial intermediation (23.5%) remained at year 2006 level (22.8%).

The Ministry of Finance forecasts -1% negative growth in 2008. In 2008 domestic demand falls by 3.2% due to fall in both private consumption and investments. The growth of manufacturing is expected to slow down to 3% level due to lessened demand in real estate sector and slowdown of exports. The growth of services' sector becomes negative in 2008 that is affected by cooling real estate market and shrinking private consumption. In 2009 Estonian economy is expected to grow by 2.6% and the growth of domestic demand should accelerate somewhat to 1.3%. In the medium term, the growth rate of domestic demand should remain lower than the average growth of the economy.

Private consumption Private consumption decreased to 8.9% level in 2007 (15.8% in 2006) due to the fallen economic sentiment and rising consumer prices. Private consumption's growth will remain negative in 2008 (-1.8%). Lasting low real estate sector activity and fallen economic sentiment is reducing the consumption propensity from current income and is limiting credit usage in inter-temporal consumption smoothing. In 2009 consumption growth will remain modest (0.9%) in the light of still high inflation and continuing uncertainty.

Investments Annual investments growth decelerated to 7.8% in 2007 (19.7% in 2006) due to lowered economic growth and cooling real estate market. Growth of gross fixed capital formation decreased in enterprises, household and government sector.

Gross fixed capital formation is expected to fall by 4.5% in 2008 and increase by 2.2% in 2009. Downturn of economic cycle, worsened future prospects and lessened demand in real estate sector are generating downward correction in both household and corporate investments. Gradual recovery of investments is expected to start in 2009 supported by corporate (energy, manufacturing) and general government (EU funds) capital formation.

Balance of payments Imbalance of current account deficit amounted to record level of -17.7% of the GDP in 2007 (-14.8% in 2006). Current account deficit is expected to decrease considerably to -11.4% in 2008 due to modest growth of domestic demand and imports.

Foreign trade Growth of export and import decelerated considerably in 2007 due to the worsened condition of the world economy in the 2nd half of 2007. Rising labour and raw material costs decreased competitiveness of Estonian goods in foreign markets.

The modest growth of import (2.8%) was still higher than export growth (1.5%) but lowered the growth of negative trade balance (51.6 bn EEK) by 10% in 2007 compared to year 2006. Throughout years, Estonia has had a surplus trade balance in wood and wood products, furniture, loghouses and animal products. Trade balance of pulp and paper products' category changed to positive in 2007. Total trade turnover was 302.7 bn EEK and it grew 5% if compared to year 2006. Export value was 125.5 bn EEK (42%

of turnover) and import value 177.1 bn EEK (58%). Problems of export competitiveness increased in 2008 in following commodity groups: motor fuels (mainly Russian policy impacts), machinery and equipment (high costs, low productivity), wood and paper (rising production costs, Russian export tariffs), foodstuff (rising raw material and labour costs), vehicles (low demand in other Baltic states) and transit services. The export of goods and services is expected to fall -0.8% in 2008. Export growth is supported mainly by metal products, electrical machinery/equipment and travel services. In 2009 the growth of exports is expected to accelerate (5.2%). Growth of import of goods and services will start to accelerate in 2009–2010 in accordance with domestic demand and export developments.

Export Exports of goods and services accounted for 74.4% of the GDP in 2007 (80.9% in 2006). Real growth of export of goods and services decelerated to 7.1% in 2007 (19.5% in 2006); export of goods grew by 4.1% and export of services by 15.5% in 2007. Export growth of goods decelerated mainly due to the decreased volumes of mineral products and machinery (-19% and -12% respectively).

Exports of wood and articles of wood amounted to 16 billion EEK in 2007. Compared to the previous year, exports increased 10%. Exports of wood and articles of wood accounted for 12.8% of the total value of exports of Estonia. Sawn timber (17.5%), builders' joinery and carpentry of wood (15.5%), wooden prefabricated buildings (11.8%) and wooden furniture and parts thereof (19.2%) made up the largest proportions of the exports of wood and articles of wood at current prices. Export of roundwood has decreased remarkably in last 7 years, the trend continued in 2007. 1.5 million m³ of roundwood was exported in 2007 (1.61 million m³ in 2006), decrease was -6.8%.

In 2007, the share of the European Union in Estonia's export increased to 70% level. Export to CIS countries increased by 14% (50% in 2006)

Import Demand for the imported goods decreased in 2007 due to the lower investment activity and decreased growth pace of private consumption. Import increased only 6% in 2007.

In 2007 imports of wood and all articles of wood were 7.2 bn EEK. Compared to 2007, imports increased 25%. The share of imports of wood and articles of wood in the total imports of Estonia was 3.8%. The largest proportion of imports of wood and articles of wood had sawn timber (33%), roundwood (21%, mostly from Russia), wooden furniture (13%) and plywood, veneered panels and similar laminated wood (11%).

The share of the EU in Estonia's total import increased to 79%; the share of CIS countries decreased by 13%. The biggest import partner was still Finland. Germany rose to the second position, pushing Russia to the third place.

The growth of import is expected to be negative (-3.3%) in 2008, due to the declined growth rate of domestic demand and exports. Growth of imports is expected to recover in 2009–2010.

Labour market Growth in the employment continued in 2007 – number of employed increased by 1.4% (6.4% in 2006). Unemployment rate dropped to 4.7% level (5.9% in 2006). The number of employed persons reached 655 300 in 2007. Employment decreased by 0.3% due to negative economic growth in the 2nd quarter of 2008.

It is predicted that the number of employed will stay at high level but slowly decrease (-0.4% in 2008 and -0.8% in 2009), mainly in construction and real estate sector. At the same time unemployment rate will increase to 5.0% in 2008 and to 6.3% in 2009. In the construction business and in several other sectors (including forestry) has existed the shortage of qualified labour (structural shortage of workforce). After Estonia's accession to the European Union a part of qualified workforce moved to work in opened foreign labour markets (at least 3% of labour moved to work abroad), making it difficult for local companies to find employees. Decreasing number of unemployed, competition with open labour markets of neighbouring countries and Estonian inflation pressures resulted in continuing high growth of gross wages in real terms (13% in 2007). Average growth of gross wages in real terms exceeded productivity (GDP at constant prices per employed person) by 2 times. Productivity grew by 5.6% in 2007 but will decrease to -0.6% level in 2008. Decreasing need for employment due to the slowing economy will decrease the growth of wages to 4.2% in 2008.

Consumer price index CPI increased from 4.4% in 2006 to 6.6% in 2007. External factors - prices of energy and foodstuff – and high domestic demand (growth of income was higher than growth of productivity) has not enabled to slow down the CPI growth.

Inflation will accelerate to 10.7% in 2008 and will start to slow down to 6% in 2009 and to 3.6% in 2010. High inflation in 2008 is caused by foreign factors (robust growth of oil and food prices) and increase of excises (related to the commitments made in EU accession). The downturn of economic cycle and wage growth decrease has had downward impact on core inflation; continuation of this trend will be one important factor behind remarkable slowdown of inflation in 2009.

Manufacturing Manufacturing industry sales have grown by more than twice during the last six years. Wood processing industry has been among the most quickly developing branches. Sales of the manufacturing industry continued to grow fast at the beginning of 2007 but in the second half-year rapid growth of producer prices and deceleration of growth rate of domestic consumption started to influence it. Sales volumes grew by 12.3% and production volumes by 5.1% compared to year 2006. Sales in the domestic and export markets showed almost the same growth rate. Producer price index grew by 8.4%, prices rose the fastest in wood industry (by 17.5%), metal industry (11.6%) and building materials industry (11.3%) in 2007. Almost 60% of all sales of manufacturing sector were exported. By sales volume growth, the year was successful for manufacturers of machinery and equipment and electrical appliances and apparatuses; sales at current prices grew by almost a quarter in both.

Investments in fixed assets in the manufacturing industry increased by 6.7% in 2007. However, the growth was the slowest in 2007 compared to recent years. Almost quarter of the investments were made in metal, machinery and apparatuses industry. Large investments were made also in the food and wood processing sectors.

A survey conducted by the Estonian Institute of Economic Research among company managers showed that expectations for 2008 had improved but were more modest than a year ago. In contrast to the previous survey there were lower expectations about increase in product prices. This is probably due to the quite high prices that had started to undermine competitiveness.

In 2008 the growth of manufacturing will slow down to 3% due to lessened domestic demand and slowdown of exports. In 2009 is expected that the growth will accelerate up to 5%. In 2010–2012 the growth of manufacturing (average 7%) will outpace the growth of the overall economy due to increased competitiveness and productivity supported by increased domestic as well external demand.

Wood industry The wood industry is one of the largest industries in Estonia – over 900 enterprises, employment about 18000 people. In 2001–2007 the output volumes grew by almost 1.6 times and the share of exports in total sales is 60%. The Estonian wood industry is closely related to the Scandinavian wood sector through ownership relations. The assortment of the wood industry's products is comprehensive, ranging from sawn timber production and processing to manufacture of loghouses, windows and doors.

The year 2007 was rather bleak for the wood industry. Annual sales and export growth rates fell and the number of employees dropped. The problems related to raw materials that had started in 2006 continued as the price of raw materials continued its rapid growth. In 2007, sales of wood industry at current prices grew by 7.8% compared to the previous year and the output volumes at constant prices dropped by 5.4%. Most of this growth was due to domestic sales; export growth was slower. Thus, the domestic market accepted the rapid increase in prices better than the export market where the competitiveness of companies diminished. Wood industry's producer price index grew by 17.5%. The price increase was triggered by an increase in the price of domestic and imported raw materials by about one quarter, accompanied by rapid growth in labour costs.

In the past couple of years the felling volume in Estonian forests has been about 5-7 million cubic meters per year. Felling volumes have mainly dropped in private forests because owners have been rather passive in forest management. In state forests the felling volume has been more or less stable. The competition for timber has become fiercer, small businesses find it especially hard to get raw materials, the mild winter and risen Russian export tariffs make the situation in the wood supply even worse. Prices for the timber rose dramatically in 2007.

More than 60% of wood products are sold in export markets, most to the Scandinavian countries, Germany and the UK. The main Estonian export articles are sawn timber, log houses and construction details. Exports grew only due to the increased prices. Exports of sawn timber, the most important export article, plummeted due to problems with raw materials experienced at the beginning of the year, and the declining competitiveness related to high prices. On the positive side, exports of construction details went up.

According to the data given by enterprises, employment in the wood sector decreased by more than a thousand employees in 2007. Companies employing over 100 people reduced their workforce the most.

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Wood industry's investments in fixed assets dropped by 11.2% in 2007. The decline was mainly caused by smaller investments in construction and reconstruction of buildings and facilities. Almost half of the investments were made in machinery and equipment.

Expectations of companies, surveyed by the Estonian Institute of Economic Research at the beginning of 2008, were quite optimistic as regards the near future. Companies expected their output volume to grow and the number of export orders to increase. They were also of the opinion that sales prices would not change much. However, Russia's plans to increase customs duties for wood by more than three times in 2009 makes companies wary of the future.

Paper industry There are about 60 paper, pulp or paper products' enterprises in Estonia, with a workforce almost 2000 people. In the years 2001–2007 the output of paper industry grew by two times; more than 80% of the output is exported. Paper industry is a heavily concentrated industry in Estonia – the two larger companies give over half of the total turnover. Most of the companies make paper products from imported paper.

In 2007, sales and export volumes of paper industry escalated considerably. The number of employees increased slightly; productivity surged upwards. Compared to the rest of Europe, consumption of paper per person in Estonia is quite low (more than two times), enabling to forecast a certain growth in the domestic demand for paper products. Sales at current prices grew by 37.5% compared to the previous year and output at constant prices by almost 18%. The new aspen pulp mill in Kunda was definitely one of the driving factors, affecting most of the sector's enterprises.

Export was the main driving factor to support sales growth. Export of the industry was distributed rather evenly among the major target markets; the three most important partners were Germany, Italy and France. Compared to 2006, uncoated paper and paperboard export and production dropped to the second place. These two commodity groups gave almost 90% of the industry's total exports in 2007.

Employment rate has been rather stable in paper industry for years (1,700 to 1,800) but increased by one tenth in 2007 and reached almost 2,000 people.

Investments in fixed assets were the same as in 2006. Most of investments were made in machinery and equipment and renovation and construction of buildings.

Furniture industry More than 450 enterprises (employment about 9000 persons) engage in furniture manufacturing. In the years 2002–2007 production volumes at constant prices grew by about a sixth; more than two thirds of the output is exported. Output has grown due to export growth but in recent years domestic demand has also grown continuously. In export markets competition with furniture manufacturers from China, Poland and other countries has become tighter.

Due to tight foreign competition, furniture industry developments in 2007 were characterised by modest sales growth (3.5%) and diminishing output. Sales in the domestic market were supported by fast economic growth in the first half-year of 2007, the resulting increase in income and active housing construction. The industry had a 3% producer price index growth. Investments increased compared to 2006, and the employment decline trend halted.

The Nordic countries were still the primary export market, taking in almost three quarters of export. Exports to Latvia increased by more than two times; Latvia rose to rank sixth among the sector's export markets. The main export articles were, like before, bolstered seats with wooden frame, furniture details and dining room and living room furniture.

Investments in fixed assets grew by more than 40% in 2007. 90% of all investments were made in purchase of machinery and equipment, construction and reconstruction of buildings and purchase of land. Companies forecasted increase in output and sales in 2008 at the beginning of the year.

Construction Estonian construction sector is oriented mainly to the domestic market and influenced by the general development of Estonian economy. Recent years have witnessed a rise in construction volumes of housing and facilities. Productivity (value added per employee) of the construction sector has risen together with the overall expansion of the sector but the rapid increase in employment in recent years has brought about opposite trends.

The construction market stabilised in 2007. Sales and investments grew but not as fast as in previous years. Construction activities outside Estonia gathered momentum. The sector performed works in Estonia and outside for 58.1 billion kroons in 2007 which at constant prices was 8.5% more than the previous year. In 2007, construction volumes had increased by 30%. Construction price index rose by 12.7%, prices of construction increased due to the price increase of all inputs needed for construction.

2007 was a less successful year for the producers of building materials than expected. The sales of building materials rose by 17,1%, the price of building materials increased 8,3% in 2007.

In 2007, construction volumes in Estonia grew by 9.8%, being more than twice lower than in 2006 (23.4%).

The survey made by the Estonian Institute of Economic Research showed that construction companies' prospects and confidence dropped in 2007. Lack of labour force was still pointed out as the main bottleneck. Confidence about the future had fallen by the end of 2007 primarily due to the decreasing number of orders and the constantly raising construction prices.

Sources: 1. „2007. aasta majandusülevaade” (*Economic Survey of Estonia 2007*), Ministry of Finance, Ministry of Economic Affairs and Communications, Tallinn 2008. available at <http://www.mkm.ee/index.php?id=1323>
2. „Rahandusministeeriumi 2008. aasta suvine majandusprognoos” (Ministry of Finance Summer 2008 Macroeconomic forecast), Tallinn August 2008. available at: <http://www.fin.ee/?id=263>
<http://www.fin.ee/?id=619>

2. Policy measures

Legal measures

The new Forest Act was adopted by the Parliament in June 2006 (valid since 1-st of January 2007). In the Act several new or more detailed rules for forest management were made and procedures set up. Forest Act and related regulations are the legal basis for the sustainable forest management in following years. In 2008 minor amendments were prepared (discussed in Parliament in September and October) in the act to reduce bureaucracy in forest management for forest owners. The preparation of the Estonian Forest Development Plan until 2020 will start in last quarter of the 2008.

Forest law enforcement, governance and trade

Several measures have been taken to guarantee the sustainable forestry practice in Estonia: quick and easy access has been made available to forest inventory data for forest administration and public, capacity building in forest administration institutions have taken place, cooperation between governmental institutions have been set up to fight illegal activities in forestry, counselling and training of forest owners is continuously proceeds.

3. Developments in forest products markets sectors

A. Wood raw materials (e.g. roundwood: sawlogs, and pulpwood and fuelwood)

After the peak of fellings at the end 90-ies the felling volume stabilized for couple of years at about 12 million m³ level and decreased considerably in recent years. Highest felling levels were in the situation where:

- a) due to the progressing land reform yearly „new” forest land was obtained by owners and entered to the land and forest management market;
- b) wood industry developed rapidly capacity and was in need for further supply;
- c) changed economic system caused big changes in society and lot of people were in need of „starting capital”;
- d) “new owners” had the possibilities for wood procurement without previous investments into the silviculture.

In recent years the pace of land reform slowed down but there is still some 0,3 million ha (15% of total forest land area) out of active management.

In 2007 the removals accounted for 6 million m³ in Estonia remaining at the year 2004 level; one third of that was harvested in state and 2/3 in other forests. To cover the shortage for roundwood the wood industry companies have increased significantly the import volumes of roundwood in recent years. After the raised custom tariffs and problems with railway transport from Russia the import volumes decreased considerably in 2007. This trend is expected to continue even at higher pace in 2008. Felling volume in 2007 is expected to increase slightly to cover the decreased raw material supply from imports. Another mild winter of 2007/2008 caused serious trouble for timber procurement companies and forest owners. The year 2007 showed record high prices of roundwood; since the beginning of 2008 the prices started to decrease and this trend has continued throughout the year. Unfavourable tax system in wood sales for private owners, expected high

demand for fuelwood/chips in energy sector and expected high Russian tariff rises will make situation complicated for both forest owners and wood processing companies in coming years.

Volume of imported coniferous roundwood decreased 16% in 2007 compared to 2006, relevant figure for non-coniferous roundwood decreased by 47%. Altogether 1.3 million m³ of coniferous roundwood and 0.16 million m³ of non-coniferous roundwood was imported in 2007 (mostly from Russia). Considerable decrease in import of roundwood is expected in 2008. Export of roundwood has decreased considerably in last 5 years and is expected to remain at similar level in 2008. 1.5 million m³ of pulpwood and 0.05 million m³ of logs were exported in 2007. The use of non-coniferous logs is still relatively small compared to the resource. Low investments in silviculture of non-coniferous species in past decades result in poor quality of timber and small amount in good quality sawlogs. Low demand for certain tree species' logs (aspen) makes the picture even worse. Often log-quality material is used for fuelwood and pulpwood. At the same time there is strong demand for quality birch and alder logs. Some of niche products use only small quantities of non-coniferous logs (wood products for sauna, specific furniture projects etc).

In case of pulpwood there is contrasting situation with low domestic demand, big export and small import quantities. Pulpwood is exported mainly to Scandinavia. The export of pulpwood will decrease to 1.4 million m³ level in 2008 (1.5 million m³ in 2007).

The share of removals of fuelwood has remained at level of 2 million m³/year. Remarkable price accelerations of competitive energy carriers (especially of oil and gas), decreased felling volume and promoted renewable energy policies have developed the importance and demand for wood for energy purposes. Better use of low quality wood by different industries in the condition of scarce resources has given extra push to the price increase for fuel wood. New CHP plant with yearly raw material use of up to 0.3 million m³ of wood waste and wood chips will be in operation from December 2008.

B. Wood energy

Wood fuel, wood waste (including chips) and wooden briquette/pellets are the 3 main wood-based energy products produced in Estonia. According to latest available energy balance one of the main uses of the wood for energy is heat generation. There were 718 boilers working with wood in 2007 (the peak was in 2003 with 863 wood boilers in use) that is 18.7% from total number of boilers. There were 327 wood using boilers in industry sector, 107 in energy sector, 68 in agriculture, 24 in transport and 192 in commercial and public services sector. Total capacity of wood using boilers was 688 MW i.e. 13% from total capacity of boilers; 1668 GWh heat was generated in 2007 (26% from total heat generation) using 6483 TJ of wood fuel (17.2% from total used fuel for heat production). 62 000 m³ of fuelwood, 0.97 million m³ of wood waste and 3000 tons of wooden briquette/pellets were used for heat generation in 2007.

Gross inland consumption of fuelwood was 1.71 million m³ in 2007; 92.8% (1.59 million m³) of that in households, 2.8% (48 000 m³) in commercial and public services, 2.9% by industry (50 000 m³, of which 22 000 m³ by wood processing industry), 0.9% by energy sector (16 000 m³ for heat generation) and 0.5% by agriculture (8000 m³). 3.62% of fuelwood was consumed for conversion to other forms of energy (heat) and 96.4% for final consumption.

0.52 million m³ of wood chips was used in 2007, 0.6% of that in households, 80.5% by energy sector (mostly for the conversion to heat) and 11.4% by wood industry. 0.507 million m³ of wood waste was used for conversion to other forms of energy –1000 m³ for energy generation and 0.505 million m³ for heat generation. Final consumption accounted for 11 000 m³, 7000 m³ of that was used by wood industry and 3000 m³ by households. From 2007 wood chips are used as biomass fuel in heat and electricity coproduction power plants (CHP); in 2007 the usage of wood chips was 10 000 m³. Due to the new coproduction plants, which will be opened in the following years, the need for wood chips will increase considerably. New CHP plant with production capacity of electricity 180 GWh/year and of heat up to 500 GWh/year will be in operation from December 2008; plant will use yearly up to 0.3 million m³ of wood waste and wood chips.

1.1 million m³ of wood waste was used in 2007, 54% of that in households, 30% by wood industry and 8% by energy sector. 0.47 million m³ of wood waste was used for heat generation. Final consumption accounted for 0.63 million m³, 0.03 million m³ of that was used by wood industry and 0.6 million m³ by households.

16 000 tons of briquette/pellets were used as fuel in 2007, 75% (12 000 t) of that in households, 19% (3000 t) by energy sector for heat generation. Total production of briquette and pellets was 0.39 million tons in 2007 (nearly 90% of that was exported). Shortage of saw dust forces the pellet producers to import part of the raw material (mainly from Latvia).

In 2000–2007 the average prices of almost all fuels increased for the end-users. Compared to year 2006 only the average price of light fuel oil and shale oil has decreased slightly in 2007 (accordingly -1.1%

and -11.3%). There was the highest rise in the average price of firewood (33.3 compared to year 2006 and by 3.6 times compared to year 2000). Rise of the average price of natural gas was 32.3, wood waste 29%, heat 18.6%, wood chips 17.5%, sod peat 14.2%, coal 10.2% and other energy sources under 10% in 2007. The price of the fuelwood has increased due to the shortage of wood fibre supply and increased competition with other wood processing branches, overall rise of the price of mineral fuels and raised cost of labour (which causes the higher price of timber procurement).

Source: Eesti Statistikaameti on-line andmebaas. *On-line database of Estonian Statistical Office*
<http://pub.stat.ee/px-web.2001/dialog/statfile1.asp>

C. Certified forest products

There are 3 combined forest management/COC certificates and ca 820 000 ha of forest land certified according to the FSC scheme in Estonia (as of October 2008). Certified forest area accounts for 37% of total forest land area. Most of the FSC certified forests are managed by Estonian State Forest Management Centre – total certified area 1082600 ha of which ca 817 000 ha of forest land (according to NFI). 37 FSC chain of custody certificates have been issued to the companies acting in Estonia. COC certificate holding companies represent wide scope of different wood sector branches: roundwood, firewood, edge-glued panels, fencing material, veneer, sawnwood, outdoor furniture, garden and playground equipment, bark residuals, printing and other products' producers. Estonian FSC working group approved Estonian national FSC standard in 25.04.2007. Standard will be sent to the FSC centre for approval in near future. After the approval all relevant forest management certifications has to be carried out according to the national FSC standard. So far the temporary standards for Estonia have been used.

From year 2007 PEFC certification is available in Estonia. 2 companies BMG Trada ja HolzCert Austria have the right to carry on PEFC certification in Estonia. 3 COC certificates have been issued. Estonian national PEFC scheme was approved in 4.03.2008.

There is no significant demand for certified forest products in domestic market from end-users side. Demand is originating mainly from the further processing companies which supply the foreign markets and are in need of certified "raw material" e.g. sawnwood. Low interest in certification from forest owners' side can be explained by the almost non-existing price-premiums at the roundwood production level and high costs of the certification.

D. Value-added wood products

The manufacturing and trade of value-added products has increased considerably in Estonia. Decreasing raw material supply, increasing labour costs and competition in the market of primarily processed products have forced producers to invest in value-adding.

Wooden furniture has had relatively stable sales volume, close to 2 bn EEK level in last six years. In 2007 the production of wooden furniture decreased down to 1.6 bn EEK. Export value of wooden furniture was 3.1 bn EEK i.e. 18% from total export value of wood and wooden products in 2007; relevant figures for import were 1.0 bn EEK and 13%.

There has been rapid growth of joinery and carpentry products: production of wooden window frames in 2007 increased by 2.8 times in 2007 compared to year 2000, of doors by 3.5 times, of wooden details by 5.2 times and of glue laminated timber by 4.1 times. The share of joinery and carpentry products was 14.7% from the total value of wood products exports in 2007 (5% in 2000) and similar share for imports was 5.9% (7,3%).

Production of further processed sawnwood has increased about 7 times in 2007 compared to 2000. The share of further processed sawnwood was 5.6% from the total value of total wood products exports (2.5% in 2000) and similar share for imports was 1.9%.

Production of prefabricated wooden buildings has increased by 5.3 times in 2007 compared to 2000. The share of prefabricated wooden buildings was 11.2% from the total value of wood products exports (5.2% in 2000) and similar share for imports was 1.9%.

E/F. Sawnwood

Sawnwood production has increased throughout the last decade, although the growth rate has decelerated in recent years due to the rising competition and shortage of raw material. In 2007 production decreased slightly. About 1.7 million m³ of sawnwood was produced in 2007 (94% of that is coniferous) that is approximately quarter higher than in year 2000. Despite the efforts the share of non-coniferous sawnwood production remains lower than expected due to the low quality of logs and small supply of good quality logs.

In 2007 the production of non-coniferous logs stayed in same level. Small volume of quality non-coniferous logs covers the niche products' manufacturing needs and do not provide source for sustained growth.

Steady growth of sawnwood imports (0.82 million m³ in 2007 i.e. 9% more than in 2006) indicates increased domestic demand from further-processing companies and of growing domestic consumption (see point D Value added products). Sawnwood exports decreased by 27 % from 0.97 million m³ in 2006 to 0.71 million m³ in 2007. The share of sawnwood exports value from the total value of wood products exports in 2007 was approximately the same as in 1995, 17.5% and 17.1%. Similar figures for import of sawnwood are 32.8% and 8.6%

Production of sawnwood is expected to decrease 18% in 2008 due to lower demand and closing of Paikuse sawmill (production capacity 0.17 million m³) at the end of 2008. Import and export of sawnwood is forecasted to decrease about 45% and 30% in 2008.

G. Wood-based panels

The production of plywood stayed roughly same level (60 000 m³) in 2007 compared to 2006, imports and exports increased 14% and 10%. Imports and exports will decrease 29% and 25% in 2008, production is expected decrease to 0.05 million m³ level. Plywood production is influenced by birch veneer logs' shortage in domestic market. Share of value of plywood exports from total value of wood products export was 3.7%, share of imports 10.8% in 2007.

The production of particle board increased about 10% in 2007, imports increased 43% and exports increased by 10% compared to year 2006 level. Share of value of particle board exports from total value of wood products export was 3.4%, share of imports 3.6% in 2007.

The production of hardboard diminished 10 times (to 6000 m³ level) in 2007 due to closing of hardboard production line of A.S. Repo Vabrikud at the end of 2006. Imports decreased by 29% and exports 91%. In 2008 exports and production will increase slightly.

The production of insulating board increased 8% (almost to 41000 m³ level) in 2007 compared to 2006, imports increased by 2% and exports decreased by 60% compared to year 2006. Production and export will stay same level in 2008, imports will drop approximately 30 %.

Share of value of fibreboard exports from total value of wood products export was 1.1%, share of imports 3.7% in 2007.

H. Pulp and paper

Production of pulp increased remarkably in 2006 due to the opening of new thermo-mechanical aspen pulp mill in Kunda – alkaline peroxide mechanical pulp (APMP) technology, annual capacity of 140 000 tons of aspen pulp. Kunda factory produced 121 200 tons of wood pulp in 2007. Production of unbleached coniferous chemical wood pulp was 64 000 tons in 2007. There was second year row a big increase in export of pulp in 2007 (126 000m³ was exported) and only minor import of pulp (about 200 tons).

Paper production which includes mostly the unbleached kraft sack paper production decreased 8% in 2007. Imports increased 6% and exports decreased 7% of paper and paper products. The production, import and export are expected to stay in same level in 2008.

GDP Forecast for 2007–2012

(percentage)

	1997–2006	2007	2008*	2009*	2010*	2011*	2012*
1. Growth of real GDP	7.8	7.1	-1.0	2.6	5.7	5.2	5.2
1a. GDP in real terms (bln EEK)		169.1	167.4	171.6	181.4	190.9	200.9
2. Growth of nominal GDP	13.9	17.5	7.8	7.9	9.4	9.3	9.1
2a. GDP in nominal terms (bln EEK)		243.3	262.3	282.9	309.4	338.2	368.8
2b. GNI in nominal terms (bln EEK)		225.3	242.0	261.2	285.7	312.7	341.7
Components of real GDP							
3. Private consumption expenditure (incl. non-profit organisations)	8.3	8.9	-1.8	0.9	5.1	4.9	5.2
4. Government final consumption expenditure	1.0	4.8	2.5	0.1	0.1	1.0	0.8
5. Gross fixed capital formation	13.6	7.8	-4.5	2.2	6.3	6.0	5.7
6. Changes in inventories (% of GDP)	2.4	5.3	3.8	3.8	4.0	4.0	4.0
7. Exports of goods and services	12.5	1.5	-0.8	5.2	7.6	7.0	6.9
8. Imports of goods and services	13.2	2.8	-3.3	3.4	6.6	6.4	6.3
Contributions to real GDP growth ¹⁾							
9. Domestic demand (without inventories)	4.7	8.8	-2.3	1.4	5.2	5.1	5.2
10. Changes in inventories	0.5	1.8	-1.4	0.1	0.3	0.2	0.1
11. Ext. balance of goods and services	-1.5	-1.5	2.6	1.1	0.1	-0.2	-0.1
Value added growth							
12. Primary sector	5.3	-1.9	-1.5	1.8	2.2	2.3	2.1
13. Industry	8.4	7.5	1.8	4.4	6.9	6.5	6.6
14. Construction	9.5	8.6	-0.3	1.0	7.0	6.4	6.7
15. Other services	7.7	6.6	-1.3	2.1	5.2	4.8	4.7

1) Contribution to GDP growth indicates the share of a specific field in the economic growth. It is calculated by multiplying the field's growth with its share in GDP. The sum of the fields' share makes up the economic growth (the reason for a little difference is a statistical error – the part of GDP that could not be divided between the fields).

Source: Ministry of Finance of Estonia, Statistical Office of Estonia

Forest products production and trade in 2007– 2009.

TC1-Estonia

Roundwood

Product Code	Product	Unit	Revised	Estimate	Forecast
			2007	2008	2009
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS				
	Removals	1000 m ³	2 300	2 500	2 500
	Imports	1000 m ³	1 017	210	210
	Exports	1000 m ³	4	3	4
	Apparent consumption	1000 m ³	3 313	2 707	2 706
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS				
	Removals	1000 m ³	600	500	500
	Imports	1000 m ³	49	15	20
	Exports	1000 m ³	1	0	1
	Apparent consumption	1000 m ³	648	515	519
1.2.1.NC.T	of which, tropical logs				
	Imports	1000 m ³	0	0	0
	Exports	1000 m ³	0	0	0
	Net Trade	1000 m ³	0	0	0
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS				
	Removals	1000 m ³	650	750	750
	Imports	1000 m ³	245	110	110
	Exports	1000 m ³	659	650	650
	Apparent consumption	1000 m ³	236	210	210
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS				
	Removals	1000 m ³	950	1 000	1 000
	Imports	1000 m ³	112	130	130
	Exports	1000 m ³	839	750	750
	Apparent consumption	1000 m ³	223	380	380
3 + 4	WOOD RESIDUES, CHIPS AND PARTICLES				
	Domestic supply	1000 m ³	2 900	2 800	2 800
	Imports	1000 m ³	152	180	180
	Exports	1000 m ³	962	820	820
	Apparent consumption	1000 m ³	2 090	2 160	2 160
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS				
	Removals	1000 m ³	100	50	50
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS				
	Removals	1000 m ³	50	50	50
1.1.C	WOOD FUEL, CONIFEROUS				
	Removals	1000 m ³	400	450	500
1.1.NC	WOOD FUEL, NON-CONIFEROUS				
	Removals	1000 m ³	850	900	950

Product Code	Product	Unit	Revised	Estimate	Forecast
			2007	2008	2009
5.C	SAWNWOOD, CONIFEROUS				
	Production	1000 m ³	1 700	1 400	1 400
	Imports	1000 m ³	766	400	400
	Exports	1000 m ³	606	430	450
	Apparent consumption	1000 m ³	1 860	1 370	1 350
5.NC	SAWNWOOD, NON-CONIFEROUS				
	Production	1000 m ³	100	80	80
	Imports	1000 m ³	59	60	60
	Exports	1000 m ³	103	80	80
	Apparent consumption	1000 m ³	56	60	60
5.NC.T	of which, tropical sawnwood				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	1	1	1
	Exports	1000 m ³	0	0	0
	Apparent consumption	1000 m ³	1	1	1
6.1	VENEER SHEETS				
	Production	1000 m ³	20	20	20
	Imports	1000 m ³	6	5	5
	Exports	1000 m ³	19	17	17
	Apparent consumption	1000 m ³	7	8	8
6.1.NC.T	of which, tropical veneer sheets				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	0	0	0
	Exports	1000 m ³	2	2	2
	Apparent consumption	1000 m ³	-2	-2	-2
6.2	PLYWOOD				
	Production	1000 m ³	60	50	55
	Imports	1000 m ³	141	100	100
	Exports	1000 m ³	67	50	50
	Apparent consumption	1000 m ³	134	100	105
6.2.NC.T	of which, tropical plywood				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	0	0	0
	Exports	1000 m ³	5	0	5
	Apparent consumption	1000 m ³	-5	0	0
6.3	PARTICLE BOARD (including OSB)				
	Production	1000 m ³	275	290	290
	Imports	1000 m ³	56	40	45
	Exports	1000 m ³	201	220	220
	Apparent consumption	1000 m ³	131	110	115
6.3.1	of which, OSB				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	18	15	15
	Exports	1000 m ³	6	6	6
	Apparent consumption	1000 m ³	12	9	9
6.4	FIBREBOARD				
	Production	1000 m ³	40	40	40
	Imports	1000 m ³	74	75	75
	Exports	1000 m ³	19	20	20
	Apparent consumption	1000 m ³	95	95	95
6.4.1	Hardboard				
	Production	1000 m ³	6	6	6
	Imports	1000 m ³	20	20	20
	Exports	1000 m ³	4	5	5
	Apparent consumption	1000 m ³	22	21	21
6.4.2	MDF (Medium density)				
	Production	1000 m ³	0	0	0
	Imports	1000 m ³	50	45	45
	Exports	1000 m ³	8	5	5
	Apparent consumption	1000 m ³	42	40	40
6.4.3	Insulating board				
	Production	1000 m ³	40	40	40
	Imports	1000 m ³	5	3	3
	Exports	1000 m ³	8	8	8
	Apparent consumption	1000 m ³	37	35	35
7	WOOD PULP				
	Production	1000 m.t.	185	190	190
	Imports	1000 m.t.	0	0	0
	Exports	1000 m.t.	126	130	130
	Apparent consumption	1000 m.t.	59	60	60
10	PAPER & PAPERBOARD				
	Production	1000 m.t.	68	70	70
	Imports	1000 m.t.	148	140	140
	Exports	1000 m.t.	100	95	95
	Apparent consumption	1000 m.t.	116	115	115