

ECONOMIC COMMISSION FOR EUROPE

Timber Committee

FINLAND

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MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS

The global economic slowdown is affecting also Finnish economy after the high growth rate of 4.5 percent in 2007. In 2008, Finnish GDP is expected to grow slightly above 2 percent which is still higher than in euro area in average. The growth is mainly driven because of moderate growths of private domestic consumption, investments and exports.

In 2008, total exports from Finland are expected to grow 2.8 percent. Even though the exports to main export areas in EU have not increased during the first and second quarters of the year, the export growth is driven mainly because of increasing trade volumes to Russia and Asia. Also, the domestic private consumption and total investments are supporting the general economic growth with 2.6 and 4.0 growth rates, respectively. However, both the recent Finnish business tendency survey and consumer confidence indicator indicate rapidly decreasing confidence for economic circumstances which may affect the consumption behaviour during the last quarters. High interest rates together with increasing uncertainty are decelerating domestic construction and investment activity. Public consumption is expected to grow only 1.5 percent in 2008. In spite of the deteriorating economic growth, unemployment will decrease to 6.2 percent. Along with the globally increased crude oil price and prices of raw materials and food products, domestic inflation will accelerate close to 4 percent.

The outlook of Finnish economic performance for 2009 seems not either positive. Despite of increasing real purchasing power of the households, general uncertainty, possible high retaining domestic inflation and slightly increasing unemployment induce that domestic private consumption is expected to increase only 1.7 percent in year-to-year terms. The economic growth in EU area is expected to remain slow and demand for Finnish export products is weak. As a result, exports are not expected to grow at all even though the anticipated depreciation of euro helps to export outside the euro zone. Domestic investment activity remains also slow with only 1.0 percent growth. Totally, Finnish GDP in 2009 is expected to grow only slightly above one percent.

The uncertainties which can threaten the outlook for Finnish economy in 2008 and 2009 are related to inflation rate in euro zone, corresponding monetary policy of European Central Bank and bankrupts in US financial sector together with their influence on global economy. If inflation rate in euro zone remains above the target of ECB, interest rates remain also high. These, in turn, affect consumers' and firms' confidence for future, private consumption, investment behaviour and exchange rate development.

2 RECENT POLICY MEASURES

New rules for good silviculture became effective August 1, 2006. More flexible criteria for regeneration and thinnings opened up new alternatives which can be applied for improvement of the profitability of forestry. They have an increasing effect on allowable cut, particularly in pine forests in northern Finland.

Early 2008 the Finnish government decided on a rather extensive investment program for improvement of transport routes important for the forest industries.

The Finnish government has played also an active role in roundwood market by deciding on 50 per cent tax reductions for roundwood sales in 2008 and 2009 and on 25 per cent reduction for the year 2010. In addition, sales related to first thinnings were exempted from taxes during April-August 2008. These measures resulted high peaks in sales at the turn of August-September but later the sales levelled off.

Russia's policy aiming at reductions in roundwood exports will have a great impact in Finland. June 1, 2006, the export duties levied on coniferous roundwood were risen from EUR 2.5 to 4.0 per cum. July 1, 2007, the duties rose to EUR 10 per cum and included also birch logs. The next rise to EUR 15 per cum took place in April 1, 2008. The killer rise to EUR 50 per cum will be due to January 1, 2009. For the most important roundwood type, birch pulpwood, such a high duty will take affect two years later.

3 Market drivers

Weakening demand for forest products in western Europe due to the economical downturn has led to markedly decreased sawn wood prices in 2008. Paper prices in euros have remained close to their last year's level and no major improvements in price development can be expected in the near future as well. However, wood, energy, labour and other input costs have increased. In the light of weakening profitability during several past years in the 2000's and oversupply situation in West Europe, Finnish forest industry has reacted by plans to arrange production and cut capacity in Finland and other countries. In Finland, the special worry is wood availability after the rise of Russian roundwood export tariffs in the beginning of 2009. September 10, 2008 Stora Enso and UPM Kymmene announced of capacity cuts in paper and pulp industry and more cuts are expected depending on the wood availability. Sawnwood production volumes have markedly decreased during 2008 and closures of production units are planned in sawnwood industry, too. Russian roundwood export tariffs in 2009 probably have impacts on roundwood markets not only in Finland, but also in the other world. The 50 € /m³ duty makes the wood imports from Russia unprofitable. Japan and China are large importers of Russian wood and the question will be: how to compensate the rawmaterial gap in China's and Japan's woodworking industry? Sawlog price level probably rises globally and the rising Asian demand for sawnwood and plywood may push up prices in these product groups also in Europe.

4 DEVELOPMENTS IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2007, the use of industrial roundwood remained at the same record-high level (66 mill. m³ u.b.) than in the previous year. In addition, short 1 mill. m³ of roundwood was exported. The domestic roundwood procurement reached record-high 52 million m³. In 2007, imports of roundwood and sawmill chips, 16 million m³ u.b., were 9 per cent lower than that of the previous year. About 65 per cent originate from Russia.

Compared to the year 2007 Finnish roundwood markets are down due to decreased production in forest industries: -21 percent in sawmilling and -5 percent in paper industry during the first half of 2008. Consequently, softwood log prices are down 10–12 percent from the previous year. Demand on pulpwood has been much better and prices for pine and birch pulpwood are 4–6 per cent over the 2007 prices. However, the traded volumes are much lower than in 2007: -61 per cent in sawlogs and -14 per cent in pulpwood during January-August.

As roundwood trade was very much down yearly 2008 the Finnish government decided on exemptions from taxes related to first thinnings. However, uncertainty involved in its implementation almost watered down the incentive. So, the government returned to the matter again in July and decided on 50 percent tax reduction for all roundwood sales in 2008 and 2009 and 25 per cent reduction for roundwood sales in 2010. Tax exemptions related to first thinnings then finished at the end of August 2008. The rapid outcome of these measures were exceptional peaks in roundwood sales at the turn of August September but soon after the traded volumes levelled off. The effects of the tax incentives in a long run are to be seen but no doubt they promote roundwood trade in near future.

The statistics for the domestic roundwood harvests in January-August 2008 show a 8 per cent decrease from the previous year. During the first half of the year, wood imports run at 20 per cent higher level than in 2007 which contributed to the high inventories of industrial wood as the industrial wood consumption have been rather down.

Overall, the industrial roundwood consumption in Finland decreases in 2008 by 12–13 per cent as compared to last year, totalling about 59 mill. m³ u.b. Domestic roundwood removals will account close to 46 mill. m³ in 2008. It is forecast that imports of roundwood and chips will be about the same than last year, 16 mill. m³ u.b.. Procurement of main grades, i.e. coniferous sawlogs and pulpwood will be 21 and 23 mill. m³ u.b. in 2008, respectively.

Roundwood removals in 2009 are expected to be somewhat higher than are estimated for the current year. Removals of coniferous sawlogs and pulpwood will be about 20 and 19 mill. m³ u.b., respectively. Imported wood included, the volumes are 21 and 22 mill. m³ u.b., respectively. Roundwood imports are expected to go down by 40 per cent in 2009 due to the high export duties (EUR 50 per cum) for the Russian softwood. No Russian pine available shouldn't be a problem but no Russian spruce means full use of domestic resources if the same volumes are to be procured. The imports of Russian birch pulpwood are expected to continue so far.

B. Wood energy

Wood-based energy accounts for 20% of all energy consumed in Finland and 60% of the Finnish forest industry's energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.).

Along with industrial roundwood, fuelwood to be used in industrial power plants and district heating plants has become a new type of raw wood. In 2007, 2.7 mill. m³s of felling residues, small-sized trees and stumps were used for energy purposes in Finland. This type of fuelwood is mainly logged in spruce-dominated clear-felling areas in coordination with industrial roundwood logging. The logged volumes have been growing but the price fluctuations in GHG emissions trading have their impact. Small stumpage is nowadays paid for forest owners for this type of fuelwood. In addition, household firewood, a part of which consists of felling residues, has maintained its volume (6 mill. m³s/yr). The Finnish pellet production is annually about 350 000 tonnes, most of which is exported to Sweden.

C. Certified forest products

About 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation.

Demand for ECO-labelled products is growing. Forest industry companies have acquired certified chain-of-custody systems in order to obtain PEFC-logo usage right. According to the Finnish Forest Certification Council, there are today 101 PEFC logo licence holders among Finnish forest industries. These licenses cover the major share of wood procurement, sawnwood and panels production as well as paper and paperboard production.

D. Value-added wood products

E. Sawn softwood

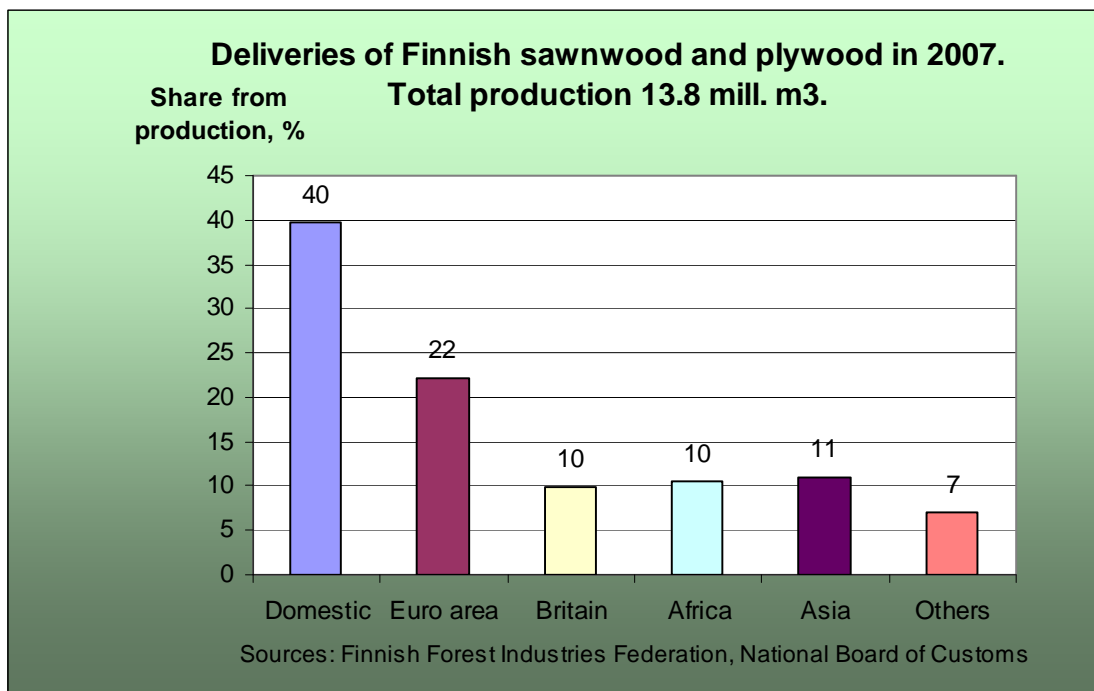
In the whole Finnish woodworking industry, sawnwood and plywood are the main products accounting for 52 % and 21 % of the industry's export value in 2007, respectively. The rest 27 % is shared by particle board, wooden furniture, fibreboard, wooden prefabricated houses, etc. In Finland, sawmills integrated in the pulp and paper industry, produce about half of all sawnwood.

Finnish sawnwood industry produces mainly coniferous sawnwood the share of hardwood being marginal. More than a half of production is exported and about 40 % is domestically consumed. The main export markets are in western Europe (the UK, France, Germany, the Netherlands, Denmark, Italy and Spain) accounting for about a half of the exports in 2007. Due to increasing

market competition and downward price development in Europe, sawnwood export growth in recent years has occurred outside Europe, e.g. to Japan who's share in the Finnish exports was 13 % in 2007. The share of Africa increased to 20 %. Demand for sawnwood has been at a good level in the African oil producing countries.

In West Europe, the activity of new residential construction reached its peak in 2007 and rising sawnwood consumption boosted production quantities and prices up also in Finland. Finnish sawnwood production increased about 2 % totalling 12,4 mill. m³ in 2007. Production included about 54 % redwood, 45% whitewood and less than 1 % hardwood (birch). Sawnwood price increases improved profitability of production, although also rawmaterial prices went up. In 2007, the nominal unit value of Finnish sawnwood exports was up by 23 % from the previous year, while the respective rise in the stumpage prices of coniferous logs was about 33-34%.

In spite of the rising price level, the total export volume of coniferous sawnwood was 9 % lower than in 2006. The decrease of exports resulted from problems in whitewood markets and the temporary oversupply of whitewood caused by stormfells in the Central Europe. The drop in exports was, however, partly compensated by a rise in domestic consumption that went up due to the increased residential construction, especially in the sector of low-rise housing. During the last 10 years, the growth in housing construction and repair has boosted considerably domestic sawnwood consumption and per capita figure has increased from 0,5 m³ in 1995 to 1 m³ in 2007.



Outlook for years 2008 and 2009

During the first part of the year 2008, the decreasing West European housing construction has led to a fall in European sawnwood demand and a remarkable drop in prices. According to the forecasts of the Euroconstruct Conference in June 2008, the activity of new residential construction will decrease strongly in West Europe during the current and the next year. For Finland the figures of Statistic Finland show that in January-June 2008 the number of building permits granted for housing construction was about 24 % lower than the figure for the same period last year. In low-rise housing, that is an important end-user of sawnwood in Finland, the drop was 32 %. No improvements in the activity can be expected for the next year, either.

The market development in Europe and also in North America indicates, that downward price pressures for sawnwood will continue towards the end of 2008. The average export price of Finnish sawnwood is expected to drop significantly in 2008 compared to the last year average. Falling prices of the end products, rising energy, transport and labour costs and the high price level of softwood sawlogs mean weakening profitability of production and exports. Finnish sawmills have cut their production quantities in 2008. The cut in January-June 2008 was 21 % compared to the figure for the same period last year. For the whole 2008 production level may remain under 10 mill. m³. The export figures show a similar trend. The drop was 18 % for the first part of the year 2008 compared to the same period last year. In addition to the present production reductions, Finnish companies UPM and M-real have announced closures of Leivonmäki and Soinlahti sawmills and more capacity closures are possible in the near future.

In 2009, the weakening economic and construction activity indicates that no improvements of sawnwood demand can be expected in West Europe or North America. This would press European sawnwood prices down also in 2009, if the oversupply situation seen in the first half of 2008 continues in 2009. There is, however, a possibility that the market balance is improving for the European sawnwood producers. Scandinavian and several West European countries' producers have already cut their production volumes. But, in the light of the weakening construction activity, these production reductions probably turn the price development up only very slightly in Europe.

There are, however, other possibilities for better price development in Europe, which are related to the 50 €/m³ duty for Russian roundwood export. Asian growing markets, Japan and China have used a large amount of Russian wood in their woodworking industry. For example, China needs a huge amount of sawnwood in its large furniture industry. If Japan and China will compensate the roundwood gap by increasing imports of more processed products like sawnwood or plywood, Europe is an important source. The large production capacity cuts in North America have reduced producers' possibilities for sudden production increases. So, in Europe, the increased demand from Asia may be large and it may turn the present weak price development clearly upwards improving the profitability of production. The possibilities to increase overseas exports are dependent, however, on the exchange rates between the euro and USD. At a bit longer sight, in 2010, a similar price boom for sawnwood as in 2006-2007 is possible. This requires, however, that the recession in the European and North American construction starts to give a way to the new construction growth in 2010, as is forecast.

F. Sawn hardwood

Sawn hardwood is a marginal product in Finnish sawnwood industry with a share of less than 1% of the total sawnwood production.

G. Wood-based panels

Plywood is the most important product category in Finnish wood-based panels industry accounting for 73 % of panel production in 2007. During the past 10–15 years, plywood industry has invested new capacity especially in softwood plywood. Finland is Europe's main plywood producer with about a 32 % share of the total European Union output.

Contrary to sawnwood or other wood based panels, Europe is a net importer of plywood. Production volumes accounted for about 55 % of the apparent consumption in 2007. Among the foreign suppliers Russia and China expanded their supply of birch plywood in Europe. China registered the highest growth of 38 % in its total plywood imports to Europe. Russia has increased plywood capacity 40% between 2003-2007 and the quantities supplied to West Europe have also increased. However, a significant rise in Russian export supply is improbable due to the domestic needs from growing housing construction.

European economic growth and construction sector activity increased plywood demand in 2007. The average export unit price of Finnish plywood showed an upward development and production volumes were close to the 2006 level. The rise in domestic consumption due to the construction growth reduced export possibilities and the export volume was slightly lower than in 2006. The six largest European buyers of Finnish plywood were Germany, Britain, the Netherlands, Sweden, France and Denmark accounting for about 70% from the total of Finnish plywood exports. The shares of birch-faced and softwood plywood in the Finnish total production are 40% and 60%, respectively. Plywood is an export product for Finland, where domestic consumption accounted for 21 % from production in 2007.

Finnish particle board and fibreboard production represent a minor share in Finnish woodworking industry production. Production volumes have been relatively stable in recent years and no new plans for capacity enlargements have been presented. With no interest in investments production quantities are slowly shrinking. In 2007 particle board production reduced 9 % compared to 2006. The reduction was larger in the exports, because more particleboard went to domestic consumption. Fibreboard production decreased slightly totalling 126 000 m³ in 2007. Exports went down, but domestic use increased. In the exports, the main destinations were the Netherlands and Britain. Domestic apparent consumption accounted for 73 % of particleboard production. In the case of fibreboard, domestic consumption is larger than production and imports are needed to fulfill the gap.

Outlook for years 2008 and 2009

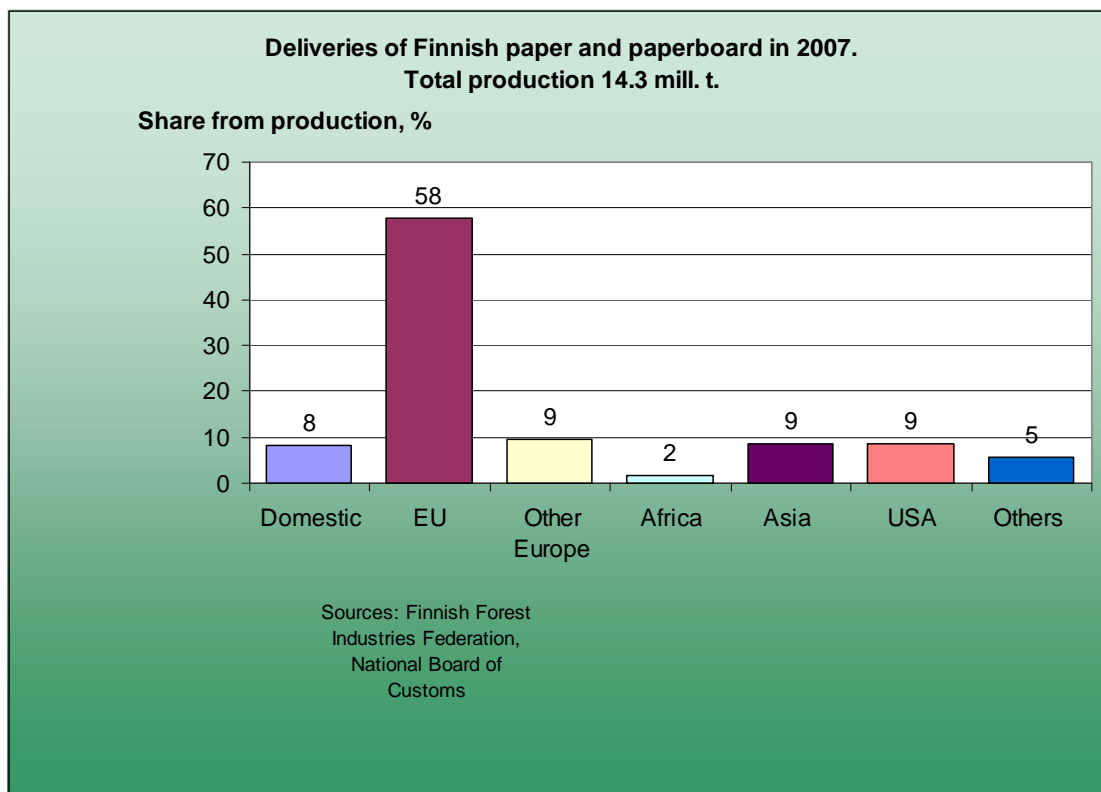
In 2008, Finnish plywood production and exports are expected to decrease slightly from the level of 2007. European demand and prices are moderately falling due to the slowing economic

growth. This concerns especially coniferous plywood, the use of which is more dependent on housing construction activity than the use of birch-faced plywood. The favourable price development of birch-faced plywood has continued in Europe and the average export price from Finland has considerably risen in January-June 2008 compared to the same period last year. In spite of good export demand level, Finnish export quantities have dropped. The insufficient availability of birch logs is a problem. About 40 % of the total use of birch logs have originated from Russia. In 2009, due to the high Russian export duties the alternatives for the industry are to fill the gap of birch logs from other sources or cut production in Finnish mills.

Particleboard and fibreboard production and exports remain near the 2007 levels.

H. Pulp and paper

The Finnish pulp and paper industry's production and exports were about at the same record-high level in 2007 than in the previous year. However, the export prices were still slightly on decrease due to the overcapacity in many paper grades. Production volumes of paper and paperboard amounted to 14.3 million tonnes, roughly 90 per cent of which were exported. The pulp production amounted to 12.9 million tonnes.



Outlook for years 2008 and 2009

The market outlook for the years 2008 and 2009 is rather gloomy. First, the economies world wide and including Finland's main export markets (Germany, Britain, USA) are weakening markedly from the year 2007. Secondly, despite of cuts in production capacity world wide, overcapacity prevails in many grades keeping product prices slightly on decrease. Third, production costs, including wood and other raw materials and energy, have been increasing. The profitability of the industry remains low.

The production and exports of paper and paperboard in 2008 are estimated to be 5 per cent lower than in the previous year. In 2009, the production is forecast to amount to 13.1 million tonnes and the exports to 12.0 million tonnes, both being 4 per cent lower than in 2008.

5. TABLES

A. Economic indicators

Key economic indicators	2006	2007	2008e	2009f
Gross domestic product growth, %	4.9	4.5	2.3	1.3
Consumer price index change, %	1.6	2.5	3.8	2.2
Wage and salary earnings change, %	3.0	3.3	5.3	4.8
Unemployment rate, %	7.7	6.9	6.2	6.3
Current account surplus/GDP, %	4.6	4.6	3.5	3.4
Industrial output change, %	10.5	8.6	3.0	0.5
Three month EURIBOR, %	3.1	4.3	4.9	3.7

Source: Nordea, Economic Outlook 2.9.2008

B. Production and Trade

1. Forest industry production in Finland

Product	Unit	2006	2007	2008e	2009f
	1000				
Sawn softwood	cum	12 145	12 400	9 500	10 000
Plywood	cum	1 415	1 410	1 350	1 350
Particle board	cum	440	400	380	400
Fibreboard	cum	130	126	120	120
Mechanical pulp	tonnes	5 121	5 157	4 850	4 400
Chemical pulp	tonnes	7 946	7 699	7 550	7 400
Pulp, total	tonnes	13 067	12 856	12 400	11 800
Paper, total	tonnes	11 174	11 272	10 600	10 200
Paperboard	tonnes	2 967	3 063	2 950	2 850
Paper & Paperboard total	tonnes	14 140	14 335	13 550	13 050

Sources: Finnish Forest Industries Federation (2006, 2007; wood products 2008, 2009),
Finnish Forest Research Institute (pulp and paper 2008, 2009)

2. Exports of Finnish Forest Industry Products

Product	Unit	2006	2007	2008e	2009f
	1000				
Sawn and planed goods	cum	7 727	7 081	5 815	6 315
- Coniferous	cum	7 712	7 066	5 800	6 300
Plywood	cum	1 250	1 239	1 200	1 200
Veneer sheets	cum	78	73	71	71
Particle board	cum	224	183	200	200
Fibreboard	cum	55	47	60	60
Mechanical pulp	tonnes	233	196	190	190
Chemical pulp	tonnes	2 528	2355	2 180	2 070
Pulp, total	tonnes	2 761	2552	2 370	2 260
Paper, total	tonnes	10 401	10 515	9 900	9 500
Paperboard	tonnes	2 552	2 641	2 550	2 460
Paper & Paperboard, total	tonnes	12 953	13 156	12 450	11 960

Sources: National Board of Customs (2006, 2007),
Finnish Forest Industries Federation (wood products 2008, 2009)
Finnish Forest Research Institute (pulp and paper 2008, 2009)

3. Imports of Forest Industry Products

Product	Unit 1000	2006	2007	2008e	2009f
Sawn and planed goods	cum	578	626	563	563
of which coniferous	cum	515	561	500	500
Plywood	cum	107	116	100	100
Veneer sheets	cum	12	14	40	40
Particle board	cum	54	75	60	60
Fibreboard	cum	188	196	150	150
Pulp, total	tonnes	327	405	500	600
Paper, total	tonnes	242	247	240	250
Paperboard	tonnes	213	239	280	290
Paper & Paperboard, total	tonnes	455	486	520	540

Sources: National Board of Customs (2006, 2007), Finnish Forest Research Institute (2008, 2009)