Forest Products Market Developments:

2009-2010

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European Institute for Wood Preservation Congress
Dubrovnik, Croatia, 2 September 2010
Contents

I. Brief intro to UNECE/FAO
II. Overview of developments
III. Market drivers
IV. Policy drivers
V. Specific sector developments
   A. Wood raw materials (roundwood)
   B. Sawn softwood
   C. Wood energy
   D. Certified forest products
VI. Conclusions
VII. Discussion
Main sources of information

- UNECE/FAO *Forest Products Annual Market Review, 2009-2010*
- UNECE/FAO Forest resources assessment
- UNECE/FAO Timber database
- FAO Statistics
- All sources available on Internet
I. UNECE/FAO Geneva

• Established 1940s following WWII
  – UN Economic Commission for Europe
    Timber Committee
  – Food and Agriculture Organization
    European Forestry Commission

• Work areas
  – Forest products markets
  – Forest resources
  – Long-term outlook studies
  – Forest sector policy
  – Implementation sustainable forest management
UN Economic Commission for Europe

Geneva Headquarters

You are Here!

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Forest Products Annual Market Review

• What’s the FPAMR?
  – First annual comprehensive market analysis
  – Linked to a current theme; in 2010, Innovation for structural change recovery

• Who produces it?
  – Geneva-based production team
  – 150 people globally
  – Industry, research, int’s organizations

• Who’s it for?
  – Industry & assns, government, research, education

• Why do we do it?
  – Gives a comprehensive, up-to-date analysis of the forest sector developments and issues

• 100th edition. Evolution from simple background doc to stand-alone publication

• Worldwide recognition, thanks to high quality content, on-time production, global coverage
Contents of FPAMR

• 13 chapters
  - Overview of forest products markets
  - Economic developments
  - Policy issues
  - Wood raw materials
  - Sawn softwood (lumber)
  - Sawn hardwood
  - Wood-based panels
  - Paper, paperboard and woodpulp
  - Wood energy
  - Certified forest products
  - Carbon markets
  - Value-added wood products
  - Tropical timber

• Electronic statistical annex
II. Highlights of developments
“Innovation for structural change recovery”

• The UNECE region forest sector is experiencing a structural change
  – Innovating and adapting for short-term survival and long-term growth

• Consumption of wood and paper fell sharply in 2009
  – By 12%, greatest percentage recorded since 70s oil crisis
  – Global economic and financial crisis continued
Consumption of forest products in the UNECE region

*Note:* Based on roundwood equivalent for sawnwood, panels and paper and paperboard.  
Highlights of developments

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• Production of industrial roundwood hit record low

• Russian roundwood export taxes skew market
Industrial roundwood production
UNECE region


Lowest since we started collecting statistics in 1964
Russian roundwood exports

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Highlights of developments

• Government and industry policies drove demand for renewable energy
  - Competition exists for wood raw materials, with increased costs for manufacturers that benefit chip producers and forest owners

• Global economic and financial crisis impacts
  - Sawn softwood industry downsized
  - Sawn hardwood industry crisis in N. America
  - Paper and pulp decline in 2009, improvement 2010
  - Panels consumption fell 11%

• Trade of illegal wood increasingly difficult (legal wood too!)
  - EU FLEGT, due diligence
  - US Lacey Act Amendment
Forest sector structural change

1. Downturn in demand forcing rationalization of capacity
2. Climate change policies push wood energy
3. Globalization of markets
4. International control of origin
1. Downturn in demand

- Extreme at 11.6% drop in consumption for UNECE region (sawnwood, panels, paper)
  - 8.5% for EU
- Capacity reductions, temporary and permanent
- Trade channel disruptions
- Disastrous for owners, employees, communities (trade associations)
2. Climate change policies

- Promotion of renewable energies
  - Wood most viable in present and future
- Wood energy markets growing, despite economic downturn
- Subsidies distort markets
- Competition for wood
  - Wood industry effects vary
    - Residue producers have market options
    - Panel and pulp manufacturers face competition
  - Forest owners find new markets
- Short-term shortage, long-term feasible to fulfil all needs
3. Globalization

- Manufacturing shifting continually to lower-cost countries
- China
  - Phenomenal growth – government support lessened global economy impact
Globalization: Chinese forest products output

Note: Includes roundwood, sawnwood, panels, paper and pulp.

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3. Globalization

- Manufacturing shifting continually to lower-cost countries
- China
  - Phenomenal growth – government support lessened global economy impact
  - Largest roundwood importer
Chinese roundwood consumption

Sources: FAOSTAT and secretariat estimates, 2010.
3. Globalization

- Manufacturing shifting continually to lower-cost countries
- China
  - Phenomenal growth – government support lessened global economy impact
  - Largest roundwood importer
  - Largest wood exporter (in value)
  - Domestic consumption rising
- No forest? No problem
- Good logistics, economic advantages
4. Constraining illegal trade

- Certification of sustainable forest management
- Chain of custody
- Corporate social responsibility
  - Companies, trade associations
  - Government procurement policies
- EU FLEGT, due diligence, voluntary partnership agreements
- US Lacey Act Amendment
Summary of structural change in the forest sector

• Adaptation
  – Rationalization of capacity
  – Mergers and acquisitions

• Innovation
  – New products
  – New processes
  – New markets and market channels

• Short-term survival

• Long-term growth
III. Market Drivers

- Economic recovery
- Rebound in construction
- Renewable energy policies
Economic recovery

- In 2010, the world economy is recovering from the most severe financial shock since the Great Depression and deepest economic downturn since the Second World War.
- In mid-2010, an escalating debt crisis in the euro zone cast doubt on the strength of the recovery in the European Union.
- United States recovery forecast more rapid, because
  - Downturn smaller than some other advanced economies
  - Aggressive monetary- and fiscal-policies.
- Financial institutions in US and Europe owned considerable US subprime mortgage-backed assets that collapsed in value
- Fall in house prices curtailed activity and employment in the construction industry in the US and western Europe
- Mid-2010 debt crisis is hindering a housing recovery
Economic recovery

• Significant exchange rate movements occurred in 2009-2010
  - US dollar rose during the height of the crisis, then declined as the recovery began to take hold
  - With European debt crisis the euro weakened and dollar strengthened
  - For forest products exporters trading in euros, this could be an advantage.

• 2008-2009 economic crisis particularly acute in many of the former transition economies, including Russia

• A slow-to-moderate recovery is forecast for 2010, but most of the UNECE region’s economies will not return to their 2008 income levels until 2011
Rebound in construction

Housing starts in the UNECE region

Sources: US Census Bureau, Canada Mortgage and Housing Corporation, Euroconstruct, 2010.
Rebound in construction

United States housing starts

Note: SAAR = Seasonally adjusted annual rate.

IV. Policy drivers

• General economic stimulus by governments had little measurable impact on the forest sector
• China took significant actions to support its forest sector during the global economic crisis
• The Russian policies
  – Forest code adopted in 2008, not fully implemented
  – Log export tax to induce value added processing
  – Further tax increases delayed but not abandoned.
• Bioenergy advances
• Support for green building initiatives
• Measures to halt trade of products from illegally sourced timber continue to be put in place in both Europe and North America,
• Corporate social responsibility programmes give competitive advantage
V. Specific sector developments

- Wood raw materials (roundwood, residues)
- Sawn softwood
- Sawn hardwood
- Wood energy
Wood raw materials

- Total timber harvest in the UNECE region was 1.1 billion m³ in 2009
  - Down 300 million m³ compared with 2007
  - Greatest reductions occurred in North America and the CIS subregions, down 14% from 2008.
- 880 million m³ of the total timber harvest was used for industrial purposes – lowest ever recorded.
  - Total wood fibre consumption by the pulp industry in Europe was 136 million m³
  - Down 16% from 2007 peak
- Weak sawnwood, panel and paper markets
- The substantial rise in demand for woody biomass
- The strong pulp market, particularly in China, pushed wood fibre costs upward in 2010
Global softwood sawlog price index

*Note:* Price index based on delivered sawlog prices in 19 key regions worldwide.  
Global softwood sawlog price index

- Between the first quarter of 2009 and the same quarter of 2010, the global average conifer sawlog price increased 17%, mostly in the Nordic countries.

- North America saw only minor price rises. The strong pulp market has pushed pulpwood and wood chip costs upward in most regions around the world.

- Both softwood and hardwood fibre costs have risen about 11% in 2010 as compared to 2009.

(Note: Price index based on delivered sawlog prices in 19 key regions worldwide.

Source: Wood Resources International LLC, 2010.)
UNECE region industrial roundwood production

Sawn softwood

- Demand drop in UNECE region starting in 2008, continued into 2009 and the first half of 2010
  - Lower production
  - Consumption dropped by 13.8% in 2009
- Recovery dependent on US housing market
- European sawmills took strategic measures
  - a fall in output of 12.5% from 2008 levels.
- Raw material (log) availability in Europe constrained
- New markets for European shippers
- The Russian log export tax boosts sawnwood
Sawn softwood

- North American output fell sharply in 2009, by 20.3% to 71.6 million m³ after a drop of 18.8% in 2008
- For North American producers a few bright spots in 2009 that carried into 2010
  - Improving housing starts and repair and remodelling activity
  - Stronger exports to China
  - Rapid expansion of the wood pellet and bio-fuels industries
Consumption of sawn softwood

Note: CIS apparent consumption represents a secretariat estimate.
Sawn hardwood

- The downturn deepened in 2009 across the UNECE region
  - Production declined 5.9% to 39.2 million m³
  - Consumption fell a further 7.2% to 38.5 million m³ in 2009

- Consumption of sawn hardwood within Europe fell by 9.3% in 2009, reflecting slow demand for furniture and parquet

- Sawn hardwood production in North America has been declining for a decade
  - Concern that the hardwood forest resource is now seriously under-utilised.

- Emerging markets, notably China, a more critical role in the sawn hardwood trade
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Chinese imports of sawn hardwood

Wood energy

- The European Union has decided not to impose EU-wide sustainability criteria for solid biomass.
- Production levels increasing in Russia despite the overall regression of the Russian forest sector up to 2010.
- Russian energy policies
  - Energy efficiency
  - Renewable energy supply
  - Increasing wood energy use and production
- United States the world’s leading producer of wood pellets
- Canadian wood pellet industry evolving with increased utilization of non-traditional raw materials (i.e. not sawmill co-products) and growing domestic pellet demand.
European wood pellet production

Certified forest products

- Global area of certified forest increased to 355 million hectares in 2010 = 9% of the world’s forests.
- Demand for certified products growing steadily as evidenced by chain of custody.
- Competition for market share, FSC between PEFC.
- Chain of custody certification accelerated over the past year.
  - Commitment of large publishers and other customers of the paper and packaging sectors has been the main factor driving growth.
- Significant drivers of demand for certified forest products:
  - Public-sector procurement policies.
  - Green building initiative.
  - Legislation in the US and EU to prevent illegal logging.
- EU Forest Law Enforcement Governance and Trade’s Voluntary Partnership Agreements and comprehensive legality verification.
Chain-of-custody certificates

Sources: FSC and PEFC, 2010.
VI. Conclusions

• Structural change in forest sector
  – Dramatic downturn in demand
  – Globalization
  – Climate change policies push wood energy
  – Increasing scrutiny of sources of timber

• Survival and growth: adaptation and innovation

• Full recovery dependent on US housing

• Timber Committee forecast (in 2009)
  improvement in 2010 for most product sectors

• Important signs of strength 2010
  – Rising prices
  – Increasing demand
VII. Discussion
More info?

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