

Chapter 1

Forest products markets in 2001 and early 2002

The policy dimension and overview

Highlights

- Viable forest products markets, supported by policy reforms, underpin sustainable development in some central and eastern European countries' forest and forest products sector, as evidenced by their having become significant players in international forest products markets.
 - Following 10 years of growth, consumption of primary-processed forest products in the UNECE region declined sharply in 2001, falling by 3% overall, the greatest one-year drop since the 1970s oil crises and 1990s break-up of the USSR.
 - In contrast to developments in the other subregions of the UNECE region, consumption of wood products in the Commonwealth of Independent States (CIS) subregion, notably the Russian Federation, gained 7% in 2001, approximately the same as in 2000.
 - Due only to the extraordinary strength of the United States housing-related demand for wood products, the North American subregion did not sink to further depths in 2001.
 - Consumption of sawnwood fell in the UNECE region in 2001, by 4% for both softwoods and hardwoods; United States production decreases opened the door for increased imports from Canada, despite continuing trade disputes, and European countries as well as for growing volumes from southern hemisphere, plantation-based suppliers.
 - Market effects from Europe's catastrophic windstorms in late 1999 continued to influence wood raw materials and some primary processing sectors in 2001.
 - Influenced by a strong dollar in 2001, trade patterns and competitive positions will change in 2002 with the fall in value against the euro and the yen.
 - Structural change is occurring in United States and western European furniture manufacturing as production decreases rapidly, replaced by imports from central and eastern European and developing, including tropical, countries.
 - Certified forest product markets grew exponentially in 2001, but remained small compared to certified forest area, which surged to 124 million hectares in mid-2002, of which 90% is in the UNECE region.
 - Due to industry restructuring, and demand in construction, furniture and flooring, panels markets continued to expand in 2001, achieving new production records for oriented strand board (OSB) and medium density fibreboard (MDF).
 - Cross sectoral policy issues directly influence the forest products sector and both market stakeholders and policy decision makers must be aware of their current and future consequences.
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1.1 The policy dimension of forest products markets¹

1.1.1 Forest products markets in the context of sustainable development

Sustainable development of the forest and timber sector depends, *inter alia*, on strong forest products markets. Viable markets for wood and non-wood forest products support the economic viability of the whole sector. The entire production chain, from forest to end consumers, benefits from a continuous supply of affordable forest-based products, whether they be wood or non-wood.

The critical link between sustainable forest products markets and sustainable forest management was stressed by the joint session of the UNECE Timber Committee and the FAO European Forestry Committee in 2000. Neither can exist in isolation—each needs the other to be viable. This publication's analysis focuses on primary and secondary processed wood products, but non-wood forest products and services—such as recreation—also play an important role in the economic viability of the sector. However, income from the sale of wood is the mainstay of economic sustainability of the forest management.

This approach by the Committee and the Commission is in line with the conclusions of senior policy bodies at the global and regional level:

- In the Millennium Declaration, the signatories committed themselves to “intensify our collective efforts for the management, conservation and sustainable development of all types of forests”.
- The Intergovernmental Panel on Forests and the Intergovernmental Forum on Forests (IFF), predecessors of the UN Forum on Forests, called for action to improve market transparency, taking into account the role of the private sector, to help promote responsible producer and consumer choices in the supply and demand for forest products, forest services and their substitutes. Furthermore, the IFF asked Governments to “promote policies, as needed, to meet increasing demand for wood and non-wood forest products and services, through sustainable forest management”. The IFF also called on countries to “develop and implement policies designed to promote sustainable production of wood and non-wood forest goods and services that reflect a wide

range of values, and to ensure that the benefits of commercialisation of wood and non-wood forest goods and services contribute to improved management of forests and are equitably distributed to the people who protect and provide them”. The IFF requested Governments to explore “strategies to stimulate and promote the sound use of wood as a renewable and environmentally friendly material”.²

- The Ministerial Conference on Protection of Forests in Europe confirmed the social and economic development function of forests, especially in rural areas, by committing to optimizing the European forest sector's contribution to the sustainable development of society in the 21st century, especially to the development of rural areas, while respecting the social, economic and cultural functions of forests. The ministers stated that the “production, marketing and consumption of wood and other forest products and services from forests under sustainable management, a key renewable resource, should be actively promoted as a means for improving the economic viability of forest management, taking advantage of new market opportunities”.

1.1.2 Need for policies on the sound use of wood

Consumption and production of all forest products combined fell sharply in Europe in 2001. This was the steepest fall since the first oil shocks in the 1970s and the collapse of the Soviet Union in the early 1990s. Only the unexpected and exceptional strength of the United States housing market prevented similar developments in North America. Paper consumption in North America also dropped amid signs that this is more than a cyclical downturn owing to weak final demand. This might be the first signal of a structural change in the long-term growth trend for paper and paperboard. Paper is facing increasing competition from electronic media, e.g., the Internet, television and radio. Only engineered wood products and a few other sophisticated, client-oriented, specialized products (as opposed to commodity grades which compete essentially on price) showed strength and increased their market share compared with competitors such as plastics, aluminium or other forest products.

These difficult market conditions depressed prices both for products and for roundwood, reducing

¹ In the past, the *Forest Products Annual Market Review* began with an overview of forest products market developments in the UNECE region, however this initial section was added as a response to a request by the UNECE Executive Secretary to highlight policy relevant issues.

² A seminar on strategies to stimulate and promote the sound use of wood as a renewable and environmentally friendly material will be held under the auspices of UNECE and FAO in March 2003 in Poiana Brasov, Romania.

operating margins and employment in the sector. A structural threat to the economic viability of forest management in Europe may thus be emerging. The underlying causes may be summarized as follows:

- Forest owners provide a wide range of goods and services to society although they rely essentially on wood sales for revenue; most of them have high costs and few opportunities to achieve economies of scale. This applies particularly to the millions of small-scale private forest owners all across Europe, but also, and increasingly, to State forest services.
- The necessarily long-term nature of investment in forest management is difficult to reconcile with the short-term pressures influencing most markets.
- Globalization of forest products markets means countries with favourable growing conditions in other parts of the world have exposed European forest owners to competition which they are ill equipped to face, except in a few more specialized countries, e.g. in the Nordic and Baltic regions, and increasingly also in central and eastern Europe. European consumers, however, have benefited from the lower costs associated with economies of scale.
- There is strong competition in the marketplace from substitute materials, including plastics, concrete, brick, aluminium and steel. However, these materials are not as environmentally friendly as wood, and their prices do not fully incorporate the environmental costs associated with their life cycle.

In most countries, the forest owner, private or public, is a “price-taker” and must absorb most of the loss in profit for the whole chain. Furthermore, private owners rarely have the possibility of adapting to mitigating strategies unless they receive some form of public assistance. One option they have, which has been successful in some areas, is to reduce their risks and widen their options by forming forest owner associations. Increasingly, forest owners have other sources of income e.g. from an urban job, or agriculture. The loss of income to rural families must be considered a significant social problem, which should be addressed in the context of economic and social viability.

What policy options exist to ensure sustained economic growth in the forest and timber sector? A first step would be to consider explicitly downstream, market issues in the context of policies for sustainable forest management. Thus these policies would become policies for the sustainable development of the forest and timber sector as a whole. This approach is in line with the recommendation in the IFF Proposals for action that Governments develop “strategies to

stimulate and promote the sound use of wood and other forest products as an environmentally friendly and renewable raw material”.

What could be the components of such an approach? The answers will vary widely according to circumstances, but some elements would probably feature in most countries. In recent years, the Timber Committee has identified a number of issues, some of which are listed below:

- Encourage the use of wood. The main features of such campaigns and their market effects are discussed in a special chapter of this *Review*.
- Develop new markets. This involves large-scale investment which is difficult for many of the actors, industry or forest based, who operate on a rather small scale.
- Develop new products. New products from and applications of wood and wood composites must meet customers’ needs better.
- Incorporate downstream, market issues into national forest programmes and other forest sector policies. Markets for wood and other forest goods and services, including non-wood forest products and services must be an integral part of upstream planning.
- Expand forest owners’ income. Seek other sources of income than wood, for instance through contracts to provide environmental services or partnerships with tourism and water agencies, whose own success depends critically on the presence of attractive and sound forests.
- Improve communication and coordination. The splintered parts of the “wood chain” can actually be an effective amplifier of communication through coordination of forest and industry owners, wood buyers and processors, traders, wholesale and retail organizations, consumer and environmental organizations.
- Sponsor further research into the life cycle analysis of wood. Ensure that the research already done, e.g. in the European Union and the United States, is better known and more accessible.³
- Further develop communication with the public, to improve the general knowledge and image of the forest and timber sector and to dispel many misconceptions.

The importance of stimulating sound use of wood and highlighting the long-term economic viability of

³ For example *Environmental and Energy Balances of Wood Products and Substitutes*, FAO, 2002 and *A Summary of “The Competitive Climate for Wood Products and Paper Packaging: the Factors Causing Substitution with Emphasis on Environmental Promotions”*, UNECE/FAO, 1999.

the forest and timber sector has been recognized in a number of major international forums. A selection of their recommendations is set out above. In addition, the draft “Vienna Declaration” to be presented to the Ministerial Conference in April 2003, contains a commitment to “work towards enhancing the potential for economically viable sustainable forest management in Europe”.

However, it appears that the question of promoting the sound use of wood has been less politically visible than other aspects of sustainable development of the sector, although, at the highest level, there is a strong consensus that a holistic approach is necessary. In the opinion of the UNECE/FAO secretariat, more attention needs to be paid to “downstream” (market) aspects, to ensure a truly balanced approach to the complex issues facing the sector.

1.1.3. Emergence of some transition countries as forest sector specialists

In the last 10 years there have been fundamental and disruptive economic and social changes in the so-called transition countries. Apart from the broader developments, which have been recorded and analyzed in many places, including the UNECE *Economic Survey of Europe*, the forest and timber sector has seen many fundamental changes, including:

- Widespread privatization and restitution of forest in many countries, leading in some cases to uncontrolled cuttings by inexperienced and mistrustful new owners, some with an urgent need for immediate cash.
- Severe disruption of commercial relations and market channels and market intelligence, notably reliable statistics, leading to many bankruptcies and much unemployment.
- Multiple changes of institutional structures, and profound changes in the role of the national forest services, leading to completely revised forest sector institutions, which are all explicitly committed to sustainable forest management, as defined in the international instruments drawn up in the 1990s.
- Foreign direct investment in a few countries.
- Privatization of forest industries and harvesting operations.

The first half of the 1990s was marked by steep drops in consumption and production of wood and forest products in almost all countries. Removals in Russia, the world’s largest forest country, fell to a quarter of their mid-1980s level.

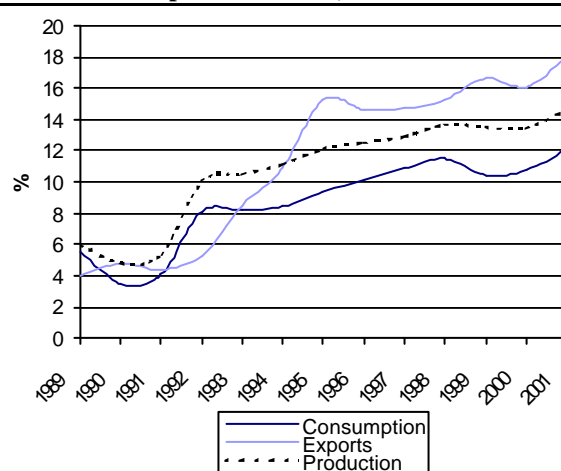
However, a new picture is beginning to emerge, at least in the advanced reform countries of central Europe and the Baltic region i.e. Czech Republic, Estonia,

Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. The new institutions appear to be functioning more efficiently and these countries are building on their strengths to develop their forest and timber sector. Their strengths include a well-managed and productive forest resource, a skilled and well-educated workforce, closeness to major markets, and a strong forest and timber tradition. As a result:

- Domestic consumption has recovered rapidly and is now growing strongly (graph 1.1.1).
- Production and exports of roundwood as well as sawnwood have increased faster than for Europe as whole, as these countries increase their market share.
- Trade flows from these countries, previously distorted by the CMEA (COMECON) system have changed fundamentally, with Europe, Asia and now North America, taking the place of the former Soviet Union as export destinations.
- Employment in the wood and wood products sector in four central European countries (Czech Republic, Hungary, Poland and Slovakia) has increased, contrary to the trend for manufacturing production as whole (see chapter 2). The Czech Republic, Hungary and Poland are becoming specialized in wood and wood products. Similar developments have occurred in the Baltic countries, which have become major players in European pulpwood and sawnwood markets.
- An export-oriented furniture industry has developed fast in Poland and some other countries,

GRAPH 1.1.1

Shares of European production, exports and consumption by selected central and eastern European countries, 1989-2001



Note: Included Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

Source: UNECE/FAO TIMBER database, 2002.

including Romania (see chapters 8 and 12).

In summary, for this group of countries, the policy and institutional reforms triggered by the transition process are now bearing fruit, and these countries may be on the path to a sustainable expansion of the levels of output of their forest and timber sector. Furthermore, some or many of them are becoming “specialized players” on European forest products markets, alongside (although not on the same scale as) such traditional specialists as Finland, Sweden or Austria.

In Russia, institutional change is still under way, and many plants have closed definitively, because of outdated equipment or uneconomical location (owing to distorted transport costs under the former system). However:

- Some of the surviving plants have been able to invest and prosper, sometimes with injections of foreign capital.
- Domestic demand, at least in Moscow and St. Petersburg, is recovering.
- Removals have started to rise. They are probably higher than stated because of unreported, possibly illegal, removals.
- Exports, especially of roundwood, fell only slightly, compared with domestic consumption, and are now recovering, including to the world’s newly significant importer, China (see special chapter in the 2000 *Review*). However, in mid-2002, President Vladimir Putin of the Russian Federation announced that roundwood exports must be stopped and replaced with added-value products.

There is no doubt of the potential for higher removals, production, consumption and exports in Russia, all on a sustainable basis, provided basic institutional problems can be resolved, and investment found. The UNECE Trade Development and Timber Division project on “Capacity Building to Improve Trade Finance and Investment Prospects for the Russian Forest Sector” has confirmed this for one important region, northwest Russia.

The situation is, however, less positive for the forest and timber sector of most countries in southeast Europe and the CIS where institutional reform has not progressed so far, inside and outside the forest and timber sector. Less information is available about these countries, but it is clear that they are far from emerging from the transition process.

1.1.4 Importance of cross-sectoral issues

The case of Turkey (chapter 4) serves as an example of the importance of addressing cross-sectoral issues. In recent years the Turkish forest and timber sector has been undergoing a marked and sometimes painful

transition from a traditional, rural, small-scale structure to that of a modern economy. Changes include significantly increased trade flows, lower product prices owing to competition on global markets, more prosperous, urban consumers, higher quality products, closure of uneconomic mills, with resulting unemployment and the birth of a new wood-based panel industry.

This profound transformation in the forest and timber sector has taken place essentially because of developments outside the sector, notably Turkey’s increasing openness to the world economy and its potential for European Union membership. Trade and market opportunities arising around the Black Sea and in central Asia are direct consequences of the process of transition from centrally planned to market economies in many of Turkey’s trading partners.

This is a further demonstration, of the importance of a cross sectoral policy approach to understanding developments in the forest and timber sector. The actors in the forest and timber sector, public and private, must be fully aware of, and understand, broader policy and social developments. They must also be sufficiently flexible to adjust to changes, which in most cases, they cannot influence, and to seize new opportunities.

Another example of cross-sector interactions is energy (see chapter 6 for a discussion of wood energy trends) and environment policy measures which have interacted in some intended and unintended ways and have created and are creating significant new trade flows. For example, the carbon tax in place in Sweden has created a lively market for energy wood (which of course does not have to pay the carbon tax). For Swedish wood suppliers, this “new” market (energy supply is in fact the oldest wood use of all) now augments the traditional roundwood markets of pulpwood and sawlogs. In Germany, environmental policy has led to the imposition of differentiated disposal charges, which have made the disposal of used wood (especially if treated), increasingly expensive. Middlemen have used the combination of these two policy measures to create a lively export trade in recovered wood from Germany to Sweden, where large, well-equipped wood burning plants can burn the treated wood without harmful emissions.

Furthermore, commitments by the Government of the Netherlands under the Kyoto Protocol have encouraged power generators in that country to increase their intake of renewable fuels. However, not enough biofuels are at present available in the Netherlands to meet these long-term commitments. Thanks to the UNECE project on Capacity Building to Improve Trade Finance and Investment Prospects for the

Russian Forest Sector, this has become an export opportunity for sawmills in northwest Russia which are developing their potential to satisfy this demand.

There are, no doubt, more examples of policy changes in other sectors influencing developments in forest products markets. Future editions of the *Review* will devote particular attention to identifying them, analysing their consequences and drawing them to the attention of stakeholders and policy makers inside and outside the forest and timber sector. A more systematic, long-term, approach to the same issues is being developed in the UNECE/FAO forest sector outlook (EFSOS) programme.

1.1.5 Issues linked to certification of sustainable forest management

One means of encouraging mutual support between trade and environment policies in the timber area has been certification that wood products originate from sustainable managed forests. This process involves both certification of forest management and a chain-of-custody and labelling system which provides the final consumer with the assurance that the purchased product does in fact originate from a sustainably managed forest. For five years the Committee and the Commission have been monitoring developments in this field (chapter 11, which will be complemented by an annual update of trends, to be published as a *Geneva Timber and Forest Discussion Paper*).

The Committee and the Commission follow these developments with keen interest because of the impact on the markets and forest management in the region. To date they view certification as an important communication tool to inform consumers that consumption of the region's forest products, both paper and wood, are both environmentally sound and often essential for sustained forest management. Many costs of forest management, including production of non-income bearing goods, e.g. biodiversity, and services, e.g. landscapes, can only be supported by profitable wood production. There is growing forest area and wood volumes within the UNECE region, as opposed to some other areas of the world, and wood and wood products are increasingly produced within environmentally friendly guidelines and legislation, with the result that the region's consumers can use, reuse and recycle wood and paper with complete confidence in its sustainability in the short and long term.

The competing certification systems in place have, as of summer 2002, certified about 124 million hectares, worldwide. This figure has been increasing exponentially over the last three years. However, only a small proportion of the products derived from these

certified forests are in fact sold with a label identifying them as certified forest products, owing to lack of capacity in the chain-of-custody systems. This unsatisfactory situation:

- Deprives information to those who seek assurance about sustainable forest management.
- Deprives suppliers of any price premium or public relations benefit they have been seeking.
- Deprives bodies such as the Committee and the Commission of a communication tool to carry the message about the sustainability of wood supply in Europe.

Almost all of the certified forest is in the UNECE region. This situation will probably to continue for some time, despite the initial focus on tropical deforestation. Furthermore, it is likely that most of the markets for certified forest products will, for the foreseeable future, also be in the region.

At the policy level, government action is limited in view of the consensus at the international forest dialogue that certification should be a voluntary, market-driven system. However, some Governments have expressed concern at the proliferation of certification systems, fearing that the resulting consumer confusion could harm the objective of promoting the sound use of wood.

At the upstream end of the "wood chain", in the forest, some Governments have facilitated certification of forests (public and private) in their country, for instance by organizing participatory processes to draw up guidelines for sustainable forest management which could thereafter qualify for certification under one or more of the competing systems.

Because of concern about illegal logging, some public procurement policies (at the national, subnational and local levels) have been linked to the provision of certificates of origin, so that purchasers may at least have the assurance that the product does not arise from illegal logging or trade. It is possible that Governments in developed countries will increasingly seek to develop formal policies as regards public procurement of forest products. Some Governments have already taken steps in this direction by putting in place requirements that publicly procured wood products not arise from illegal logging or trade.

In summary, certification is a visible issue. It has policy implications at the local, national and international level. Owing to the increasing globalization of markets and communication, Governments have a range of policy options to take in this area.

1.1.6 Conclusions as regards the policy dimension of forest products markets

On the basis of the information presented and analysed in the *Review*, this section has identified, a number of issues of concern connected with forest products markets:

- Forest products markets have a role to play in sustainable development of the forest and timber sector.
- Policies are needed for the sound use of wood.
- Policy reforms, in the forest and timber sector and elsewhere, undertaken in certain advanced reform countries are now bearing fruit: some of these countries are becoming significant players on international forest products markets.
- Russia has the potential to expand greatly its timber production, on a sustainable basis, provided certain institutional problems are resolved and investment found.
- Cross-sectoral policy issues are of vital importance for the future of the forest and timber sector. Policy makers, market actors and other stakeholders must be aware of these and be flexible in adapting to them. Likewise, policy makers in other sectors should explicitly consider the consequences of their decisions for the forest and timber sector.
- Certification of forests for sustainable management is developing rapidly and Governments at all levels have multiple policy options.

These conclusions, as well as the analysis of the other chapters of the *Review*, will form the basis for discussions at the sessions in 2002 of both the Timber Committee and the European Forestry Commission. Each of them have a mandate to formulate regional policy issues for the use of member governments as well as of global bodies such as the FAO Committee on Forests and the UN Forum on Forests.

1.2 Overview of forest products markets in 2001 and early 2002

Following 10 years of growth, aggregate consumption of primary-processed forest products in the UNECE region declined sharply in 2001, falling by 2.9% overall (table 1.1.1). The only other periods that experienced falls of greater magnitudes were the 1970s oil crises and the 1990s break-up of the Soviet Union. Of the region's fall, 70% was due to reduced consumption of wood products in North America, which was in economic recession, as was Europe.

In contrast to developments in the other subregions of the UNECE region, consumption of wood products in the Russian Federation grew 7.1% in 2001, approximately the same annual gain as in 2000. The

region-wide decline in wood products consumption would have been worse had not the Russian Federation continued improving consumption as the country climbed back towards its late 1980s consumption peak.

It was only due to the strength of the United States housing demand for wood products that the North American subregion did not sink to further depths in 2001. Despite a poor economic climate, the United States continued its high rate of housing construction, which is based primarily on wood—both softwoods for framing and hardwoods for millwork and furniture. Spurred by low interest rates, which were cut no less than 10 times in 2001, plus a strong demand for the financial security of home ownership, 1.6 million primarily wooden homes were built in 2001. The forecast is for similar levels of construction in 2002.

Sawnwood demand in North America, as measured by apparent consumption, was down by 5 million m³. Presumably this reflects a reduction in other wood-using sectors, as, similar to the trend in the United States, Canadian housing construction continued increasing to 163,000 houses, a 20% increase since 1998, with further gains achieved in early 2002. The United States manufacturing as a whole was in recession in 2001, accounting for considerable decreases in packaging and transportation requirements, for example wooden pallets. These and other industrial uses of wood account for a sizable percentage of the decline in consumption.

Europe, too, was in recession in 2001 and consumption of wood products fell in the EU/EFTA subregion by 2.4% and on smaller volumes in the "Other Europe" subregion,⁴ by 6.2%. European demand for forest products was dragged down by serious construction declines in Germany, with associated decreases in sawnwood, furniture and millwork.

Paper and paperboard and woodpulp consumption fell heavily in North America by 5 million m.t. for the second successive year as the economic recession resulted in less demand for advertising and paper packaging. Consumption of paper and paperboard also fell in Europe, both EU/EFTA and "Other Europe", but rose by 15% in the Russian Federation, albeit on smaller volumes.

⁴ For purposes of the analysis throughout this *Forest Products Annual Market Review*, the UNECE region is subdivided into four subregions: CIS, EU/EFTA, North America and "Other Europe". This division of Europe enables closer analysis of the changes in the central and eastern European countries.

TABLE 1.1.1

Apparent consumption of sawnwood⁵ wood-based panels⁶ and paper and paperboard in the UNECE region, 1998-2001

	Thousand	1998	1999	2000	2001	Change 2000 to	
						Volume	%
EU/EFTA							
Sawnwood	<i>m</i> ³	89 206	88 446	92 720	90 604	-2 116	-2.3
Wood-based panels	<i>m</i> ³	40 745	42 309	45 249	43 278	-1 971	-4.4
Paper and paperboard	<i>m.t.</i>	73 267	78 199	78 611	77 559	-1 053	-1.3
Total	<i>m</i> ³ EQ ⁷	456 296	474 303	487 242	477 134	-10 108	-2.1
Other Europe							
Sawnwood	<i>m</i> ³	14 978	15 836	19 040	18 060	-981	-5.2
Wood-based panels	<i>m</i> ³	9 235	9 006	10 766	10 647	-120	-1.1
Paper and paperboard	<i>m.t.</i>	8 595	8 962	10 212	9 783	-429	-4.2
Total	<i>m</i> ³ EQ ⁷	67 880	70 128	82 311	79 095	-3 216	-3.9
Russian Federation							
Sawnwood	<i>m</i> ³	14 731	12 683	12 257	12 278	21	0.2
Wood-based panels	<i>m</i> ³	2 603	3 031	3 693	4 227	535	14.5
Paper and paperboard	<i>m.t.</i>	2 128	2 848	3 415	3 925	511	15.0
Total	<i>m</i> ³ EQ ⁷	34 948	34 797	37 095	39 714	2 620	7.1
North America							
Sawnwood	<i>m</i> ³	130 514	137 112	136 083	131 196	-4 886	-3.6
Wood-based panels	<i>m</i> ³	54 829	60 507	62 624	62 503	-121	-0.2
Paper and paperboard	<i>m.t.</i>	98 738	104 240	102 803	97 840	-4 963	-4.8
Total	<i>m</i> ³ EQ ⁷	631 268	669 563	666 435	641 597	-24 838	-3.7

⁵ Excluding sleepers. ⁶ Excluding veneer sheets. ⁷ Equivalent of wood in the rough, 1 m³ of sawnwood and wood-based panels = 1.6 m³, 1 m.t. paper = 3.39 m³.

Source: UNECE/FAO TIMBER database

Coupled with a drop in demand in 2001, the rising strength in the dollar also affected forest products markets in the region. United States exports of wood products continued their 6-year decline, accelerated by the strong dollar, which constrained exports but which drove wood products imports to uncharted levels. This ever-widening trade deficit in wood products could slow with the dollar weakening significantly in mid-2002 and achieving parity with the euro. Europeans have been trading in euros for 2 years, but in January 2002 the new euro currency appeared and has become the common currency in 12 of the 15 European Union members. (In 2002 the euro was not the official currency of Denmark, Sweden and the United Kingdom, although they trade some forest products in euros when exchange rates are advantageous.)

Simultaneous recessions in the United States, Europe and Japan, i.e. all three major economies together, weighed down trade, both intraregionally and interregionally. Those markets which are truly global, such as paper, paperboard and woodpulp, suffered the most. Most grades of paper faced weakened domestic demand and lower export demand for European and North American producers. The manufacturing recession diminished demand for paperboard packaging. In North America the result was continued rationalization of manufacturing capacity, while globally capacity growth slowed. Trade in paper, paperboard and woodpulp declined in 2001 for the region as a whole; however, the Russian Federation expanded exports, in part due to the lower value of the rouble. Russian imports of paper and paperboard rose more, and for the first time Russia became a net importer of paper and paperboard.

The UNECE subregions' exports exhibit opposite trends and rates of change. Exports primary-processed forest products from the CIS subregion have grown the most over the last four years, rising steadily to regain previous highs (graph 1.2.1). All other subregion's exports declined in 2001, following growth over the last 2 or more years. "Other Europe's" exports climbed consistently over the past years, in contrast to much slower growth for EU/EFTA and North America.

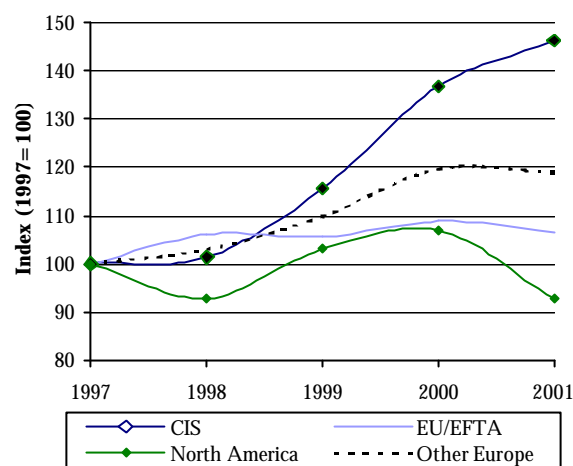
North America ranks second in primary-processed wood products exports, at \$38 billion, behind the EU/EFTA subregion with \$59 billion. Prior to 1992, the United States was a net exporter of forest products, but since that time the trade deficit in primary forest products has widened dramatically. For reference, in 2001 "Other Europe" was at \$5.4 billion and the CIS at \$4.5 billion.

Structural changes in trade patterns are taking place as a consequence of globalization of trade, facilitated by economical land and sea transport. Central and eastern European countries and developing countries outside the UNECE region are increasingly becoming timber supply sources for western European and North American countries. And these supply chains are no longer solely for wood raw materials—these countries are continually improving their manufacturing and marketing abilities to compete on an equal basis in western and developed countries' marketplaces. This change is illustrated within Europe by the increasing specialization of central and eastern European countries (CEECs) in higher-value wood products manufacturing, for example in furniture production. The same is occurring in tropical timber countries where steady progress has been made in capturing value-added processing benefits to further develop the forests and industries, and their socio-economic conditions. Some CEECs can no longer be categorized as "countries in transition to market economies" because they have superseded this economic development stage and now are experiencing socio-economic benefits from rising forest products exports.

The effects of globalization of forest products trade were described in last year's *Review*. These include shifting manufacturing to lower labour cost countries and industry concentration for production and marketing economies. In addition to reduced transport costs mentioned above, economies of scale, free movement of capital, removal of trade barriers, improved information and communication technology and reduced transport drive market globalization. These effects can be either positive or negative, depending on who is looking at them and when.

GRAPH 1.2.1

Exports of primary-processed wood products in the UNECE region, 1997-2001



Note: Primary-processed wood products include sawnwood, panels, paper and paperboard, woodpulp and roundwood.

Source: UNECE/FAO TIMBER database, 2002.

Globalization of forest products trade encountered obstacles in 2002 in the form of tariffs and duties within the UNECE region. The former Canada–United States Softwood Lumber Agreement resurfaced in May 2002 when the United States placed 27% duties on sawn softwood imports from Canada. These duties are not new, and in the past they have resulted in higher sawnwood prices, and slowed growth of Canadian imports to the United States. In another sector, in retaliation to United States tariffs enacted against imported steel, the European Commission proposed to the World Trade Organization that it be permitted to take countermeasures, including a 15% tariff on paper and paperboard products from the United States. Whether in paper or sawnwood, the restriction of these important trade channels will either create new—or grow existing—alternative channels. This is illustrated by rising United States imports of European and southern hemisphere sawnwood.

Globalization of forest products trade, combined with greater environmental awareness and concern about tropical deforestation, has accelerated certification of sustainable forest management. The area of certified forests expanded rapidly in 2001 and in mid-2002 there were 124 million hectares worldwide, of which 90% are in the UNECE region. Half of the world's certified forests are in Europe and 41% in North America. While still small and undeveloped, the market for certified forest products is growing fast and is believed by the Timber Committee and the European Forestry Commission to be a good communication tool to ensure buyers of the environmental advantages of purchasing and using wood products.

The Timber Committee discussed the downturn in wood markets at their October 2001 annual market discussions. In view of the negative market development the Committee stated that it is “imperative to develop new products to expand existing markets and to establish new markets to meet consumers’ needs. The Committee reasserted the importance for the forest products industry to work internationally to promote the environmental advantages of the sustainable production of wood. The Committee discussed the need to increase the wood culture in the UNECE region. Delegates mentioned ongoing national and subregional campaigns to promote the use of wood. The Committee suggested coordinating efforts in order to achieve greater success.”

The theme of the Timber Committee Market Discussions in September 2002 is the market effects of wood promotion.

The Timber Committee’s market forecasts for 2002 were tempered by the economic calamities following the 11 September 2001 terrorist attacks in the United States. Forecasts were exceptionally conservative; however, overall a slight upturn was forecast for 2002. Based on signs in early and mid-2002, the Committee’s forecast appears accurate in some market sectors. But considerable uncertainty exists in mid-2002 as the dollar sank below the euro in value for the first time since February 2000 and stock markets in North America and Europe shed considerable value. This uncertainty in mid-2002 will undoubtedly make for lively discussions at this year’s Timber Committee Market Discussions.

Chapter 2

2001 recession in market economies, healthy growth in transition countries: against the odds, United States housing boom continues.

Economic factors affecting forest products market in 2001 and early 2002

Highlights

- The growth of the global economy slowed in 2001, to 2.5%, exacerbated by the terrorist attacks of 11 September 2001 in the United States.
 - The three major economies – United States, Japan, Germany – turned down simultaneously and entered into recession in the second half of 2001.
 - Despite the global economic slowdown, the economies of nearly all transition countries grew in 2001 with an aggregate growth rate of around 5% in 2001, making this one of the fastest growing regions in the world.
 - Russia and the other CIS countries showed particularly strong growth for the third consecutive year.
 - Economic growth in the United States is expected to recover in the course of 2002, leading to a more general recovery, however, mid-2002 developments further underscore the fragility of growth forecasts.
 - The United States housing boom continued in 2001 and into 2002, despite the economic recession.
 - In Europe, construction stagnated in 2001 and minimal growth is expected in 2002. The largest construction sector in the region, Germany, is going through a deep crisis.
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Chapter 3

Market effects of wood promotion⁵

Highlights

- Multi-country wood promotion, which has been a long-standing tradition in the forest and forest products industry sector, is essential because of the highly fragmented structure of the sector and the fact that promotional campaigns are too expensive for one company.
- The first and most important objective of wood promotion is to enlarge wood's market share at the expense of competing materials.
- Because of intense competition in the marketplace, promotional work must be justified by measuring the market effects achieved, e.g. growing consumption, increasing market shares and rising prices.
- The key question in wood promotion is: How does decision making work in favour of or against wooden products in the particular target market?
- Wood promoters achieve their objective of higher consumption by changing decision makers' attitudes which are influenced by cultural and technical dimensions.
- Credibility is one of the important qualities of wood promoters, but it is faster lost than gained.
- Wood promotion is a success story as evidenced by growing interest in wooden products, especially in housing, as observed in Europe where the market share of wooden buildings has increased over the last twenty years.
- Key elements of successful promotional work are competence and neutrality, sufficient financial resources for passing over a critical threshold, leveraging to overcome small budgets and well-developed networks of the promotional bodies.
- The main problem of wood promotion is fundraising in a highly fragmented industry, where for many members of the wood sector, the "enemies" are seen in other wood products rather than in competing materials.
- Multi-country promotional activities must overcome cultural differences and the individual countries' proprietary sources of funding earmarked to build their own domestic and export markets.

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Chapter 4

Trade links strengthening as Turkey's forest sector is modernized

Turkey's forest products markets⁶

Highlights

- Turkey's forests produce 7.5 million m³ of industrial roundwood annually, and almost 10 million m³ of fuelwood, of which an important portion is illegally harvested.
- The forest products sector is of strategic importance for economic development, especially for rural employment.
- Turkish forest entrepreneurs are extending out with investments in CIS countries and central and eastern European countries, e.g. Bulgaria and Romania.
- The forest products sector, which has been constrained by difficult general economic conditions in Turkey, had a new shock in early 2002 when windstorms blew down 3.2 million m³, more than one third of the annual harvest.
- Roundwood prices, which were finally rising in 2001 following a dramatic decline over the last decade, could fall back owing to the oversupply from the windthrow.
- Sawnwood production and consumption are decreasing owing to substitution by wood-based panels and engineered wood products, as well as non-wood substitutes.
- Panel production experienced a steep growth phase through 1996, and although currently slowing as a result of rationalization and consolidation, a 25% capacity increase is forecast for some products in the short term.
- While Turkey is a net importer of roundwood and primary processed wood products, with many imports coming from CIS countries, it is a net exporters of secondary-processed wood products.
- Pent-up consumption of paper and wood products could accelerate if current economic plans are successful.

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Chapter 5

Chile's forest products markets— a plantation success story⁷

Highlights

- Since the 1950s when Chile introduced large commercial plantations of radiata pine and eucalyptus, which span over 2 million hectares today, dependency on the native hardwoods has decreased dramatically.
- Roundwood production from plantation radiata pine is expected to double to 37 million m³ in 15 years. With log exports being minor, 41% of harvest in 2001 was processed into sawnwood, 31% into pulp and the balance used for structural and non-structural panels.
- Eucalyptus is increasingly upgraded into solid wood applications rather than its traditional uses for firewood and pulp.
- Approximately 75% of the production of primary (pulp, paper, panels and sawnwood) and secondary products (engineered wood products, doors, windows, interior finish items and furniture and furniture components) is exported, mainly to the United States, followed by Japan and China, respectively.
- Over the last decade, wood products exports, worth \$2.2 billion, have more than doubled, mainly as a result of the six-fold increase in value of further-processed wood products exports.
- Forest products exports constitute 13% of Chile's total exports today by value.
- Imports of wood products into Chile are already significant, at almost \$540 million in 2001, and with expectations for continued GDP per capita growth, imports of paper, millwork and furniture are expected to increase.
- All of the plantation forests in Chile are privately owned, and with high industry concentration.
- There is a growing trend for Chilean forest product companies to invest their capital in other Latin American countries, including plantations, manufacturing facilities, and sales offices.
- Over 50% of Chile's plantation forests are managed with an environmental management system complying with ISO 14001, with the area growing steadily.

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Chapter 6

Market in Europe recovering from storm damage, but declining in North America

Wood raw material – production, trade and consumption⁸

Highlights

- European roundwood markets continued to incur supply aberrations in 2001 from the extensive oversupply generated following the devastating windthrow from the December 1999 storms, which mainly affected France, Germany, Switzerland and Denmark.
- The 1999 storms' aftermath left these effects on roundwood markets in the EU/EFTA subregion in 2001 following exceptional oversupply in 2000: a 10% decrease in removals (following the 11% increase from the storms in 2000), a 14% drop in exports and weak prices.
- European forest owners reduced their supply in 2001, in part due to shattered roundwood prices from the storm-generated oversupply, which created some supply shortages.
- Only the CIS subregion increased removals in 2001 in line with a 20% increase in exports.
- Export unit prices for Russian exports increased by 5% in 2001, the first rise since 1996, signalling strong demand and possibly future export volume increases.
- Following a 10% increase in 2000, consumption of roundwood decreased by over 2% in Russia in 2001.
- In line with reduced production of primary products, United States roundwood production decreased by 20 million m³ in 2001, and prices weakened.
- The biofuel trade, including wood pellets, briquettes, sawdust and chips, has increased rapidly in Europe over the past ten years, in large part spurred by favourable energy policies and technological developments.

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Chapter 7

Trends in sawn softwood markets⁹

Highlights

- Sawn softwood production in the UNECE region dropped almost 4% in 2001, following an all-time high of 225 million m³ in 2000.
- Consumption of sawn softwood ended a 3-year period of growth in the UNECE region in 2001, with declines in all subregions except the CIS, where consumption in the Russian Federation rose slightly, by 3%.
- Nordic countries, Germany and Austria continue to see growth in sawn softwood trade outside of the EU/EFTA region, to Japan and more recently to the United States.
- Sawn softwood exports dropped in 2001 for both the EU/EFTA subregion (-3%) and the “Other Europe” subregion (-9%); however, exports from Canada remained steady.
- United States exports of sawn softwood were at decade-long lows in 2001, at roughly 1.5 million m³ (compared to 5 million m³ in 1991).
- United States sawnwood imports from South America and Europe are at an all-time high, totalling nearly 3 million m³.
- Initiation of a 27.2% duty on sawn softwood imports from Canada to the United States enacted in May 2002 may have an impact on sawn softwood prices and on continued United States supply diversification.
- While Japan’s import volumes of sawn softwood remain considerably below the 1997 peak of over 10 million m³, it remains an important market for supplying regions globally, including Europe at the expense of North American market share (however mid 2002 strength in the euro could change this situation).
- Trade patterns in 2001 were influenced by the strong dollar, but the fall in value of the dollar against the euro and the yen will change the competitive position of exporters in 2002.

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Chapter 8

After steady growth, sawn hardwood markets declined in 2001

Sawn hardwood market developments, 2001-2002¹⁰

Highlights

- After rising to above 50 million m³ in 2000, total sawn hardwood production in the UNECE region declined, led by the sharp drop by the United States.
- In 2001 sawmill production increased significantly in central and eastern European countries, while it remained constant in western Europe.
- Some of the drop in western European sawn hardwood production can be attributed to the resolution of the 1999 windstorms oversupply.
- Exports for the UNECE region were down by 5% in 2001 compared to 2000, largely accounted for by the United States (down 9%) and the European Union (down 13%).
- UNECE region imports of sawn hardwood in 2001 were down by 6%.
- Apparent consumption in the UNECE region fell from its 2000 peak of nearly 53 million m³ due to a weakened United States market.
- Central and eastern European countries consumption of sawn hardwood is increasing for furniture manufacturing and re-export to the European Union, as evidenced by Poland's furniture exports rising to 7% of total national exports.
- The catastrophic events of 11 September 2001 served merely to accentuate reduced demand in UNECE markets that were already fragile.
- The rapid development of Asian furniture industries continues to have far reaching effects on the hardwood trade in the United States where furniture production has suffered increasingly, and on European producers that have partially lost Asian markets to which they were becoming accustomed.
- Markets continue to be affected by concerns over rates of currency exchange.
- Environmental issues, mainly surrounding certification, have received increased press attention and all hardwoods may well become increasingly embroiled in the issue of legality, whether tropical or temperate.

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Chapter 9

Wood-based panels supply, trade and consumption¹¹

Highlights

- In Europe and North America the wood-based panels industries are restructuring to increase profitability in the sector which has seen rapid capacity expansions, intense competition and prices under pressure.
- Better than the other wood sectors, North American consumption of wood-based panels in 2001 was steady at 63 million m³ due to continued strength in residential construction.
- European consumption of wood-based panels dropped by 6% in 2001 in the EU/EFTA subregion, down to 43 million m³ following the 7% increase in 2000, and by 1% in “Other Europe”; both subregions’ consumption fell as a consequence of the economic slowdown.
- Russian Federation consumption of wood-based panels climbed 15% in 2001, to reach 4 million m³, confirming the recovery of the sector.
- Continued substitution by oriented strand board (OSB) resulted in decreased softwood plywood production (and capacity) in 2001 in the United States.
- In Europe, softwood plywood production in EU/EFTA countries was down, due to cutbacks by the major producers, Finland and Germany, but production increased by more than 6% in “Other Europe” and by almost 13% in the Russian Federation.
- OSB production in North America continued upwards in 2001, reaching 20.0 million m³, however the gain masked considerable difficulties in profitability, as capacity was greater than what the market could bear.
- In Europe production of OSB set a new record level of 1.6 million m³, 28% higher than in 2000 as new mills came on stream and others reached operational capacity.
- As the European particle board industry restructured in 2001, the EU/EFTA subregion production dropped by 6% to 28 million m³ and the “Other Europe” subregion by 2.8% to 7.0 million m³.
- MDF production in 2001 in North America remained close to 2000 levels, at 3.3 million m³.
- MDF production in the EU/EFTA subregion in 2001 continued its rapid expansion, setting a new record of 7.4 million m³, commensurate with demand by furniture and laminated flooring.
- MDF production in “Other Europe” subregion expanded in 2001 to 1.5 million m³. Major increases occurred in Poland and Romania.

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Chapter 10

Gradual upturn underway in paper, paperboard and woodpulp markets¹²

Highlights

- European and North American pulp and paper markets began to show signs of a gradual upturn during the first half of 2002, after a downturn that lasted from 2000 through 2001.
- Spot prices for market pulp, recovered paper, and some paper and paperboard grades turned upward in the first half of 2002, and some producers raised list prices in the second quarter.
- Profits were weak in 2001, for most North American and European producers, especially for United States producers who were burdened by an exceptionally strong dollar (however the dollar lost value rapidly in mid 2002).
- United States paper and paperboard demand and output contracted through 2001 and into the first quarter of 2002, extending a multi-year downturn from historical peaks in the second half of 1999.
- European and Canadian pulp and paper production receded also in 2001, after producers had achieved record levels of paper and paperboard output earlier in the year 2000.
- Capacity rationalization continued in the United States in 2001 with closure of 26 paper and paperboard mills and shut down of some other mills' paper machines.
- Russia's pulp and paper sector continued to experience growth, although at a slower pace, boosted by low currency exchange rates, record high exports, political stabilization and tax reform.
- Contrary to declines in North America and EU/EFTA, production of paper, paperboard and woodpulp increased in "Other Europe" in 2001, however consumption fell indicating greater export volume.
- Globally, pulp and paper capacity growth remains well below historical growth rates, with the exception of ongoing capacity growth in parts of Asia, particularly in China.

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Chapter 11

Markets for certified forest products¹³

Highlights

- The area of certified forests in the world has grown considerably over the last year, reaching about 124 million hectares by mid 2002, mainly driven by the Pan European Forest Certification (PEFC) and the Sustainable Forestry Initiative in the United States.
- The potential supply of certified forest products (CFPs) has grown in parallel with area certified and is estimated at 234 million m³ annually worldwide.
- A minor part of the wood supplied from certified forests is actually traded as (labelled) CFPs, *inter alia*, owing to a lack of chain of custody certificates and low customer and consumer awareness and demand.
- Today only about 2,600 chain of custody certificates exist, mainly in Europe and North America, and issued almost exclusively by the Forest Stewardship Council (FSC).
- Existing markets for CFPs continue to be mainly located in western Europe, especially the United Kingdom, Germany and the Netherlands, and the United States.
- FSC-certified CFPs are today available across a large range of forest products in the more advanced markets, and PEFC certified CFPs are slowly becoming more visible.
- The CFP market continues to grow exponentially with CFP market share of total wood consumption (paper excluded) estimated at 10% in the United Kingdom, 7% in the Netherlands and 1% or less in Germany. This strong growth is expected to continue across a wide range of product categories, including paper.
- Consumer awareness of CFPs continues to be low, even in the more advanced markets in western Europe, which is seen as one main impeding factor for market growth.
- Public procurement is an important driver of demand in several key importing countries, including the United Kingdom, the Netherlands and Germany, and is expected to remain so, *inter alia*, owing to the illegal logging issue.

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Chapter 12

Trade in value-added forest products accelerating faster than primary-processed products trade

Market developments for value-added forest products¹⁴

Highlights

- Multiple benefits from value-added processing of wood have attracted policy makers and developers of forest industry in most emerging exporter countries.
- International trade barriers on value-added wood products, especially furniture have liberalized, thereby increasing the import component of consumption, thus creating more export opportunities for developing countries.
- International trade in the three groups of major secondary-processed products reached a total value of \$33.7 billion in 2000, up by 27% from 1996.
- In all major markets, furniture imports from developing countries have grown faster than overall imports, and influx of products from China is the single most important reason behind this development.
- In profiled wood, Latin American suppliers (Chile, Brazil) have reached a dominating position in the United States market, while Asian and central and eastern European suppliers have been gaining ground in Japan and in Germany, respectively.
- Competition will force the industrialized countries to transform their manufacturing industries; cost-competitive regions will participate in the supply chains.
- Tropical secondary-processed wood products production and exports will continue to grow rapidly in coming years, with corresponding reductions in primary tropical timber products.
- Engineered wood products, specifically glulam, I-beams and laminated veneer lumber, were at record high production levels in North America in 2001, with higher levels forecast for 2002.

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Chapter 13

China emerges as world's fastest growing market for tropical timber products!

Trends in the Tropical timber trade¹⁵

Highlights

- Japan and China are the world's top two importers of tropical timber but these two markets are moving in very different directions: Japan towards a higher degree of processing and China towards sawlogs and veneer logs.
- Many producer countries continued their shift to secondary processed products exports in 2001.
- Tropical log exports fell 11% to 14.4 million m³ in 2001.
- African exports of processed primary timber products exceeded log exports for the first time in 2001.
- Indonesian exports of sawnwood appear to have risen in 2001 reflecting new estimates based on trading partner reports.
- China's tropical plywood exports, based on imported logs, continue to soar, moving China past Brazil as the world's third largest exporter in 2001.
- Prices for tropical plywood continue to reach new lows due to depressed construction sectors in major importing markets and growing substitution by softwood plywood and other panels, such as OSB and thin MDF.
- Japan, the Republic of Korea and China are still dependent on tropical sources for over 90% of total plywood imports.
- Several ITTO producing countries, e.g., India, Thailand and the Philippines, have become major importers of tropical logs and sawnwood.

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