

The Royal Norwegian Ministry of Agriculture

Norwegian Market Statement

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1. General economic situation

The Norwegian economy shows slower growth than anticipated last autumn. This is mainly due to the weak performance of the global economy and impaired competitiveness of the Norwegian manufacturing industries. Mainland GDP is projected to grow even slower in 2003 than the two previous sub-trend years. The weaker performance this year stems partly from lower electricity production, but the sour sentiment at home and abroad has also reduced growth prospect through weaker than expected private consumption, exports and Mainland investments. After a period with high appreciation of the krone (Norwegian currency) due to the positive interest differential, the short term interest rate in Norway has now reached a historically low level at 2.5%. Even though the krone has depreciated in 2003, competitiveness is still fairly weak. This is explained by the growth in labour wages which is higher than in our trading partners.

- Mainland GDP is estimated to grow by $\frac{3}{4}$ per cent in 2003 compared to a 1.3 per cent growth last year. Growth is expected to pick up to close to 2 per cent in 2004, contingent on improved growth conditions, both internationally and domestically. Total GDP, which also includes petroleum and shipping, is expected to increase by some 1 per cent both in 2003 and 2004.
- Private consumption is estimated to grow by close to 3 per cent this year, more than $\frac{1}{2}$ percentage point lower than assessed in the National Budget. The downward revision is due to lower income growth and weaker development in the labour market.
- The number of housing starts is trending downwards, and is seen to decrease somewhat during the year. Thus, residential investments are projected to decline for the second year in a row. Still, residential investments remain at a high level.
- Mainland business fixed investments are projected to decline by 6 per cent in 2003, after a similar fall last year. A marked deterioration of cost competitiveness places a heavy burden on the Norwegian manufacturing industries. Subdued global growth is also taking its toll on the cyclically sensitive business sector. Thus, a pick-up of investments in the mainland business sector is probably dependent on a firm recovery amongst our trading partners.
- Petroleum investments are projected to rise by 13 per cent in 2003, roughly in line with the estimate of the National Budget.
- Traditional merchandise exports are projected to fall by 2 per cent in 2003, after growing 1.3 per cent last year. The current account balance is estimated at NOK 204 bn. in 2003, down from NOK 211 bn. last year.
- Employment is estimated to fall by $\frac{1}{2}$ per cent in 2003, after growing by 0.3 per cent in 2002. Nevertheless, the Norwegian employment rate remains high, both historically and internationally. The unemployment rate is estimated to increase from 3.9 per cent in 2002 to 4.4 per cent this year, before stabilising at $4\frac{1}{2}$ per cent in 2004.
- Consumer price inflation is estimated to average $2\frac{3}{4}$ per cent in 2003, boosted by high electricity prices. Core inflation, CPI adjusted for excise duties and energy prices, is expected to increase by $1\frac{3}{4}$ per cent from 2002 to 2003.
- Despite large wage carry-over from last year's generous wage settlement, agreements concluded for major areas indicate much more moderate negotiated increases this year. The wage growth is now estimated at $4\frac{1}{2}$ per cent in 2003 and $4\frac{1}{4}$ per cent in 2004, compared to 5.7 per cent in 2002.
- The forest sector represents about 1.1% of GDP, 1.6% of employment and 8.6% of export value, not including oil and gas.

2. Forest policy measures taken over the past 18 months, which might have a bearing on trade and markets of forest products

Sales of forest and agricultural properties in Norway are subject to public regulations. A buyer of an agricultural property bought in the free market needs a concession from the forest and agricultural authorities, and the price is subject to regulation. About 80% of the property transactions for agricultural properties take place within families where no concession is needed. The price regulations for forest and agricultural properties are currently under revision. The existing political trend is towards less regulation on price setting, especially for properties where forests are the main economic interest.

The use of political instruments for forestry is changing. In the government budget for 2003, all direct subsidies for silviculture are removed, whereas the regulations related to the Forest Trust Fund are improved. The removal of subsidies for silviculture implies that afforestation is no longer a political goal. The scope of economic incentives is also widened. Priority areas are development of the market for bio-energy and support for activities that stimulate demand for wood products. In 2000 the Government launched a 5-year development programme aimed to increase the degree of domestic processing and use of wood products. The programme seeks to create conditions that promote wood as an environmentally friendly material with a wide range of applications and tap into the positive consumer attitude towards wood. Focus is also on the necessity to improve communication along the value chain from forest to market. The programme is established as a partnership between the public and the private sector. Forest owners and forest industry are practically and financially involved in the program in order to ensure successful implementation. Concrete activities and projects are developed and several of these are now in the course of implementation.

3. Developments in forest product markets sectors

Wood energy

The Government aims at a higher utilization of wood for energy purposes to strengthen growth and employment in rural areas, and for the reduction of greenhouse gas emissions caused by the combustion of fossil fuels. In 2003 the Government has granted 1.9 million € in financial support to investments in bioenergy activities.

Removals for wood fuel is expected to reach 1.3 million m³ in 2003. This represents an increase by 10% compared to 2002. The increase of removals for wood fuel may be explained by the extraordinary high level of the electricity prices in the winter 2003, and forecast of high electricity prices in the coming winter.

In addition to the removals for wood fuel, a significant part of the wood residues from processing sawlogs is used for energy purposes. The amount of wood residues from processing sawlogs may be as high as 50% of the volume, which could give a total amount of wood residues of nearly 2 million m³.

Government policies to develop alternative sources of energy also encourage increased use of bioenergy from forestry. Bioenergy from forestry, including the use of wood energy by the forest industries was 13.9 TWh in 2000. It is assumed that this could be increased to 27 TWh.

Other goals and measures taken by the Government includes:

- The use of mineral oils for heating should in the period 2008-2012 be reduced by 25 %, by increasing the use of renewable energy sources and heat pumps.
- The increase of water based heating should be 4Twh by the year of 2010.
- Establishment of ENOVA, a public enterprise under the Ministry of Petroleum and Energy. ENOVA should contribute to environmental sound and rational use and production of energy.

Wood raw materials

The commercial removals of sawlogs, pulpwood and other industrial roundwood are expected to reach 7.1 mill m³ in 2003. This represent a decrease by 5% from 2002. Import of sawlogs is expected to decrease by 16% in 2003, while the export is is expected to decrease by 14%.

The decrease in imports is partly explained by reduced supply from the Baltic area. The domestic demand for sawlogs is probably the reason for decreasing export.

The domestic demand for pulpwood is now higher than the current supply, which may indicate that the suppliers are expecting increasing prices in the future, putting production on hold. In some areas removals for wood fuel gives better profitability than wood pulp.

Certified forest products

Nearly all of the forestry in Norway has been certified according to the ISO 14001 or EMAS EMS with the Living Forest Standards (www.levendeskog.no) defining the environmental performance level. This constitutes 95% of the removals in Norway. Certificate holders are the District Associations of the Norwegian Forest owners Federation, Norsk Skogsertifisering and Nortømmer – two companies owned by the Norwegian Forestry Association, the forest of Norske Skog and SB Skog.

Certification based on the ISO 14001 or EMAS EMS, with the 23 Living Forest Standards for sustainable Forest Management, meets the requirements of the PEFC.

There is no FSC standard for Norway and only one forest property is certified on the basis of the general FSC principles. As long as the ISO 14001 system is accepted by the forest industries, there has been low interest among forest owners for developing or adapting to other certification systems

Sawn softwood

Production and imports of sawn softwood is expected to decrease by 2% in 2003, while the export of sawn softwood is expected to decrease by 10%. Domestic consumption is expected to remain at the same level as in 2002. As the the appreciation of the Norwegian Krone was considered to be a threat to future profitability one year ago, it is reason to believe that forecasts will be adjusted if the measures taken by the Bank of Norway succeeds in weakening the exchange rate of the Norwegian currency.

Pulp and paper

Production of pulp remains stable, while production of paper is expected to increase by 2 % in 2003, and 5 % in 2004. Increased use of recycled fibres explains pulp production remaining stable while pulpwood removals and imports decreasing slightly.

Production capacity was low in the first 6 months of 2003, but is now better utilized.

Import and export of paper are expected to increase by 7 and 4 % in 2003, while the forecast for 2004 expect a further increase by 8 %.

These forecasts are based on the assumption that the recent adjustments of the short term interest rates will lead to a depreciation of the Norwegian Krone. Also an expectation of a general increases of demand and prices both domestic and by our trading partners underlies the forecasts.

Sources:

The revised National Budget 2003, Ministry of Finance, May 2003. www.fin.dep.no
Monetary policy and the economic situation, Speech by Mr. Svein Gjedrem, Governor of Norges bank, 2. September 2003, www.norges-bank.no

Green heat from the forests of Hedmark, Speech by Mr Lars Sponheim, Minister of Agriculture, 28. January 2003. www.ld.dep.no
National Report to the Third Session of the United Nations Forum on Forests, Ministry of Agriculture, January 2003. www.ld.dep.no

Statistics Norway, www.ssb.no
Norwegian Forest Owners Federation, www.skog.no
Norwegian Pulp and Paper Association, www.pulp-and-paper.no
The Norwegian Sawmill Industries Association, www.trelast.no

Tables

Key projections for the Norwegian economy. Volume changes from previous year. Per cent.

		NOK billion			
		2002	2002	2003	2004
Private consumption		683.5	3.3	2.9	2.8
Public consumption		336.6	4.5	0.3	0.8
Gross fixed capital formation		258.5	-3.3	1.1	1
Of which: Oil activities		59.0	7.0	13.3	1
Mainland business sector		98.8	-6.0	-6.0	1.3
Residential		52.0	-3.9	-1.1	0.7
Public sector		42.3	0.1	0.1	0.2
Final demand from Mainland Norway		1 305.5	2.1	1.8	1.9
Exports		640.7	-0.5	0.0	2.8
Of which: Crude oil and natural gas		275.0	0.2	0.5	1.6
Traditional goods		199.8	1.3	-2.2	4.1
Imports		415.1	1.7	1.3	2.8
Of which: Traditional goods		272.0	4.7	1.9	3.1
Gross domestic product		1 531.2	1.0	1.1	2
Of which: Mainland Norway		1 205.9	1.3	0.7	1.9
Memo: Employment. persons		..	0.3	-0.6	0
Consumer price inflation		..	1.3	2¼	1½
Core inflation		..	2.3	1¾	2¼
Wage growth		..	5.7	4½	4¼
Current account balance NOK bn		..	211.2	203.7	190.1
Household savings rate. pct. of net disposable income		..	7.4	6.8	6.6
Unemployment rate (pct. of labour force)		..	3.9	4.4	4.6

Sources: Statistics Norway and Ministry of Finance.

Forest production and trade 2002, estimate 2003 and forecast 2004

			Unit. 1000	2002	2003	2 004
Industrial roundwood	Removals	Saw- and veneer logs	m ³	4 107	3 925	4 025
		Pulpwood	m ³	3 345	3 140	3 240
		Other industrial roundwood	m ³	26	26	26
		Total	m ³	7 478	7 091	7 291
	Imports	Saw- and veneer logs	m ³	304	258	258
		Pulpwood	m ³	2 261	2 350	2 300
		Total	m ³	2 565	2 608	2 558
	Exports	Saw- and veneer logs	m ³	408	352	352
		Pulpwood	m ³	442	453	453
		Total	m ³	850	805	805
Sawnwood	Production	m ³	2 238	2 168	2 118	
	Imports	m ³	931	916	916	
	Exports	m ³	619	555	555	
Wood pulp	Production	Mt	2 303	2 320	2 350	
	Imports	Mt	93	100	100	
	Exports	Mt	626	600	600	
Paper and Paper board	Production	Mt	2 114	2 150	2 250	
	Imports	Mt	560	600	650	
	Exports	Mt	1 881	1 950	2 100	

Sources: Statistics Norway, Norwegian Forest Owners Federation, The Norwegian Sawmill Industries Association, Norwegian Pulp and Paper Association, Foreningen norske lauvtrebruk