

UNEVEN Timber Committee, Sixty-second session, 5-9 October 2004

1. General economic trends according to the National Institute of Economic Research (NIER), in August 2004.

In the second quarter, GDP growth in Sweden continued to surprise on the upside. Productivity surged, especially in manufacturing. Export rose more rapidly than expected, particularly in motor vehicles and telecommunication products. In the current quarter, growth in exports will slacken somewhat, also limiting growth in GDP to a certain extent. Household consumption and business investment, however, will accelerate in the period ahead. Low interest rates, high asset prices and a brightened economic outlook are encouraging household consumption. In 2005 and 2006, the upturn in investment will be reinforced by general government investment in infrastructure. With the world economy continue to prosper, exports is forecast to continue to increase. With rising export and domestic consumption, imports are beginning to pick up as well. Imports will also be stimulating by a slight appreciation of the Swedish krona in 2005-2006. All factors considered, GDP is forecast to rise by 3.5 percent this year, 3.0 percent in 2005 and 2.9 percent in 2006.

Like last year, Swedish exports will be growing faster than the world market in both 2004 and 2005 thanks to a favourable composition of demand. Despite investment, however, capacity utilization in Swedish manufacturing is expected to rise so high that some delivery problems will arise. In combination with a strong krona, this tendency will mean that exports will grow somewhat more slowly than the world market in 2006.

With inflationary pressure currently low the interest (repo) rate should, according to NIER, remain unchanged at 2.00 percent until the spring 2005, after it should be raised successively to 4.00 percent by the end of 2006. General-government net lending is forecast to increase from 0.7 percent of GDP this year to 1.8 percent of GDP in 2006.

The Swedish krona has weakened marginally since June in relation to the US dollar and the euro, as well as other currencies. Sweden's substantial current account surpluses are steadily improving the country's net foreign position, and indicates that the krona will strengthen. It is estimated that by the end of 2006 the krona will have strengthened. A euro is forecast to cost SEK 8.95 and a dollar about SEK 7.30 at the end of 2006.

2. Policy measures taken which might have bearing on trade and markets of forest products or forest management

In May 2004 the Swedish Government decided to set up an official report with the assignment to evaluate the Swedish forest policy. The basis of the forest policy shall, as a starting point, remain the same. This means that production and environment also in the future is the two main and among themselves equal objectives in the Swedish forest policy. The Government marks that it is essential to evaluate the fulfilment of the two objectives of the forest policy and to give proposals for adjustments and improved compliance with the two objectives. It is very difficult today to form an opinion of how this report will affect trade and markets of

forest products or forest management. The result and proposals will however probably influence forest management more than trade and markets of forest products.

In the budget bill for 2005 the Swedish Government are taking some measures to improve the economic conditions for forest owners. First of all will the inheritance and gift tax be abolished, partly to facilitate the transition from one generation to the next in family business. Since half of the forest land in Sweden is owned by around 350 000 private forest owners this proposals will affect the forest management. A second measure is to lowering the tax by SEK 1.7 per litre on diesel used by agricultural and forestry machinery. Since the Swedish forestry is exposed to tough competition from other EURO countries the tax cut is an adjustment down to tax levels used by competitors. Both these two measurements taken will improve the economic profitability in the forestry and therefore improve forest management.

The strong growth in housing investment continued in the second quarter of this year. The greatest increase has been in new construction, whereas the tendency in reconstruction has remained weak. The tax reduction for repairs, reconstruction and enlargement of housing (the so-called ROT deduction) has not yet had a significant impact on reconstruction, but is still expected to have some effect in 2004 and 2005. The improved demand has not yet led to higher employment. Firms do not expect any major changes in the next few months.

3. Developments in forest products markets sectors

A. Wood raw materials

Sawlogs

The removals of sawlogs in 2003 were 34.5 million m³ solid volumes under bark which was an increase by 2 %, and an all time high record, compared to 2002. In 2004 a further increase in removals are expected whereas the forecast for 2005 is decreasing volumes, compared to 2004, due to a downturn in the global economy.

Average price of sawlogs (delivery logs) increased in 2003 compared to 2002. During the first half of 2004 the price has increased compared to the same period last year. Prices of pine have increased during the spring and summer, and there is a lowering difference in between standing timber prices and delivery list prices. In the south of Sweden the price of standing timber is very high, especially on spruce. In general the price level on spruce is expected to be stable this autumn. Strong demand indicates stable or increasing prices.

A lot of Swedish actors on the sawlogs market now have the ambition to secure domestic raw materials. The background is higher import prices from Russia and the Baltic states.

Pulpwood

Removals of pulpwood were 26.3 million m³ solid volumes under bark in 2003. A small decrease compared to 2002. Removals are expected to increase in 2004.

Pulpwood prices (delivery logs) increased on average in 2003 compared to 2002, especially in the south of Sweden. In the first half of 2004 prices increased compared to the same period last year. A very high demand of pulpwood in the spring has now changed to a more balanced market.

Wood fuel

The production of wood fuel in district heating was 18.4 TWh during 2002, a small increase compared to the year before. Figures for 2003 are not yet clarified. Harvest of wood fuel is around 5.9 million m³ solid volumes and of logging residuals the volume is 3.4 - 4.3 million m³ solid volumes.

For time being there is a price press on wood fuel caused by a large oversupply due to increased production combined with increased import. The market is new and growing which probably will result in great shifts, but the trend is relatively clear. Energy will be more expensive and therefore the market for wood fuel is forecasted to be strong.

B. Wood energy

The Swedish University of Agricultural Sciences (SLU) has had a Government assignment to analyze the economic and environmental conditions for a continuing increased use of biofuel in Sweden. A written report was published by SLU in June 2004. The conclusions in the report, among all, follows below.

- The Swedish environment, energy and forest policies will, put together, lead to an increased demand on forest resources in a wider perspective. Forecast shows that with present policy the use of biofuel will increase and the price on raw materials will rise. Some actors will be “winners” and some “losers”. Losers are for example the particle board industry and winners forest owners.
- The effects in the forest sector by different environmental and energy objectives points to a complicated interaction between different sub markets within the forest sector.
- Climate policies increase the demand on biofuel, which results in improved competition.
- Combined environmental and climate policies will results in conflicts between different policy objectives which could have implications for the forest sector.
- One of the measures to solve the conflict between protection and use of the forest in Sweden is to increase production, for which there is a great potential.
- In many cases is it possible to let the mechanisms of the market work. Forest owners act rational in an economic sense. This combined with rising demand on raw materials implies higher quantities of raw materials in the future.
- The energy tax system has a great impact upon the forest and energy sector in general and on biofuel in particular. Therefore it is important to make the system more transparent, uniform and less distorted.

C. Certified forest products

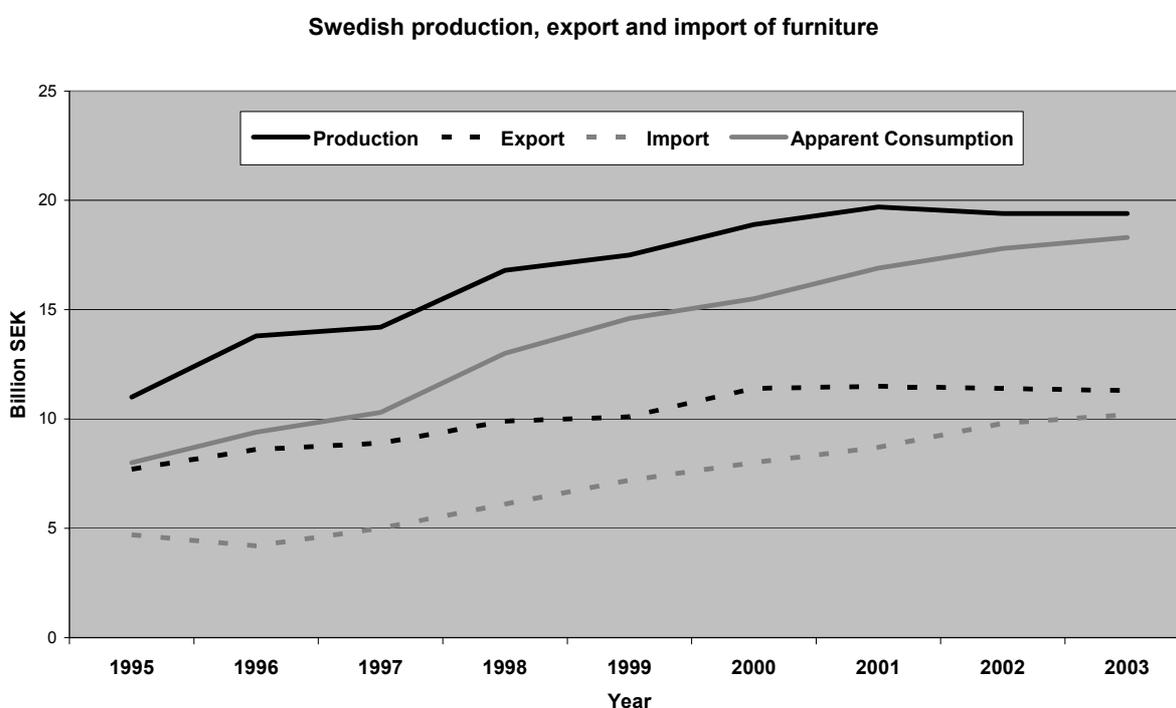
Approximately 14.0 million hectares or 62 % of total forest land were certified in Sweden in June 2004. This is an increase compared to last year. The PEFC certification system accounted for 4.0 million hectares, and ca. 21.000 forest owners, whereas FSC accounted for 10.0 million hectares. The FSC standard is now under revise which also PEFC is. New technical and standard has now resulted in a proposal when it comes to PEFC. At its last meeting Swedish PEFC decided to approve the forest company Bergvik Skog AB as a member of PEFC. Certified PEFC forest land will after this account for more then 6 million hectares. Another forest company, Stora Enso AB, has been revised according to PEFC in

June 2004. A lot of companies in Sweden are now double-certified according to FSC and PEFC.

Companies in Sweden have noticed an increased interest for certified wood products and paper in Europe, particularly in Great Britain and Ireland. Total volumes are still modest but interest is expected to rise among larger customer. In Sweden building-material companies have showed interest for certified wood products.

D. Value-added products

The Swedish production, export and import of furniture have steadily increased since the mid 90's. Largest Swedish export countries in 2003 were Norway (28 %), Denmark (11 %), Germany (9 %), Finland (8 %), Great Britain (8 %) and USA (6 %). Swedish import countries in 2003 were above all Denmark, Poland and Germany. Approximately 50 % of export and import are within the EURO area countries.



Source: The employee association of the Swedish wood products industry.

E. Sawn softwood

Production of sawn softwood was 16.7 million m³ during 2003, which is an increase compared to the year before. Production is expected to stabilize in 2004 and 2005. Export was 11.0 million m³ in 2003, a decrease compared to 2002. In 2004 export is expected to rise to 11.3 million m³. The record in production in 2002 seems to continue in 2003. Higher production in 2003 is due to a rise in domestic (apparent) consumption, from 5.0 to 6.0 million m³.

Largest non-European markets are Japan, USA and Egypt. An increased export in 2004 depends on whether prices in USA start to rise and the development of the Swedish exchange-rate. The US, European and Japanese market for sawn softwood of spruce are still very

strong. This result in a record high production volume at the Swedish sawmills. Prices are moderate, although some spruce-dominated sawmills are doing well. There is a very large stock of pine at the Swedish sawmills which depends mainly on strong increase of production in Eastern Europe which cause over supply on the market.

F. Sawn hardwood

Production of sawn hardwood in 2002 was 130,000 m³. Export declined and import increased in 2003.

G. Wood-based panels

During 2003 the production of particle board was 466,000 m³. The production is expected to stabilize or decrease around this figure. According to the trade statistics the export of particle board has decreased in 2003. Import of particle board has increase somewhat in 2003 compared to 2002.

H. Pulp and paper

In 2003 production of wood pulp was 11.7 million tons, which was about 400,000 ton more then the year before. The production is forecasted to continue to rise in 2004. Export increased in 2003 with and is predicted to continue to rise in 2003 and 2004.

Production and export of paper and paperboard increased in 2003. In 2004 production is expected to increase further.

B. Forest products production and trade in 2003, 2004 and 2005

Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2002	2003	2003	2004	2005
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS						
	Removals	1000 m ³	33 500	33 500	33 820	34 900	34 500
	Imports	1000 m ³	1 970 #	1 300 #	1 701	1 800	1 800
	Exports	1000 m ³	1 100 #	750 #	760	800	800
	Apparent consumption	1000 m ³	34 370	34 050	34 761	35 900	35 500
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS						
	Removals	1000 m ³	300	300	380	500	400
	Imports	1000 m ³	104 #	70 #	67	90	90
	Exports	1000 m ³	4 #	4 #	5	5	5
	Apparent consumption	1000 m ³	400	366	442	585	485
1.2.1.NC.T	of which, tropical logs						
	Imports	1000 m ³	3 #	2 #	2	2	2
	Exports	1000 m ³	0 #	0 #	0	0	0
	Net Trade	1000 m ³	3	2	2	2	2
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS						
	Removals	1000 m ³	23 300	23 800	23 400	24 000	23 000
	Imports	1000 m ³	3 190 #	3 000 #	3 299	3 600	3 600
	Exports	1000 m ³	623 #	775 #	732	725	725
	Apparent consumption	1000 m ³	25 867	26 025	25 967	26 875	25 875
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS						
	Removals	1000 m ³	3 100	3 400	3 300	3 500	3 400
	Imports	1000 m ³	3 853 #	3 700 #	3 444	3 900	3 900
	Exports	1000 m ³	24 #	25 #	21	20	20
	Apparent consumption	1000 m ³	6 929	7 075	6 723	7 380	7 280
3 + 4	WOOD RESIDUES, CHIPS AND PARTICLES						
	Domestic supply	1000 m ³	15 428 C	16 200 C	16 100	16 300	16 100
	Imports	1000 m ³	2 044 C	2 280 C	2 278	3 000	2 265
	Exports	1000 m ³	394 C	350 C	365	400	340
	Apparent consumption	1000 m ³	17 078	18 130	18 013	18 900	18 025
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS						
	Removals	1000 m ³	400	400	400	400	400
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS						
	Removals	1000 m ³	100	100	100	100	100
1.1.C	WOOD FUEL, CONIFEROUS						
	Removals	1000 m ³	2 950	2 950	2 950	2 950	2 950
1.1.NC	WOOD FUEL, NON-CONIFEROUS						
	Removals	1000 m ³	2 950	2 950	2 950	2 950	2 950