

Market outlook

Roundwood markets in UNECE regions in 2021-22

Key trends and outlook

Foresta2021 – Joint Session of the UNECE Committee on Forests
and the Forest Industry and FAO European Forestry Commission

23rd November 2021

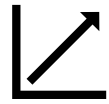


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Key dynamics impacting UNECE roundwood markets in 2021-22

COVID rebound



- Strong lumber markets in US and Europe
- Paper and packaging rebounding
- Housing crisis in China?

Russian log export ban



- Challenge for China
- Opportunity for other log exporters
- Russian industrial expansion?

Climate / forest health



- Decline in BC harvests in wake of mountain pine beetle
- Fires in US West
- Temporary surge in Central European harvest

Sustainability initiatives

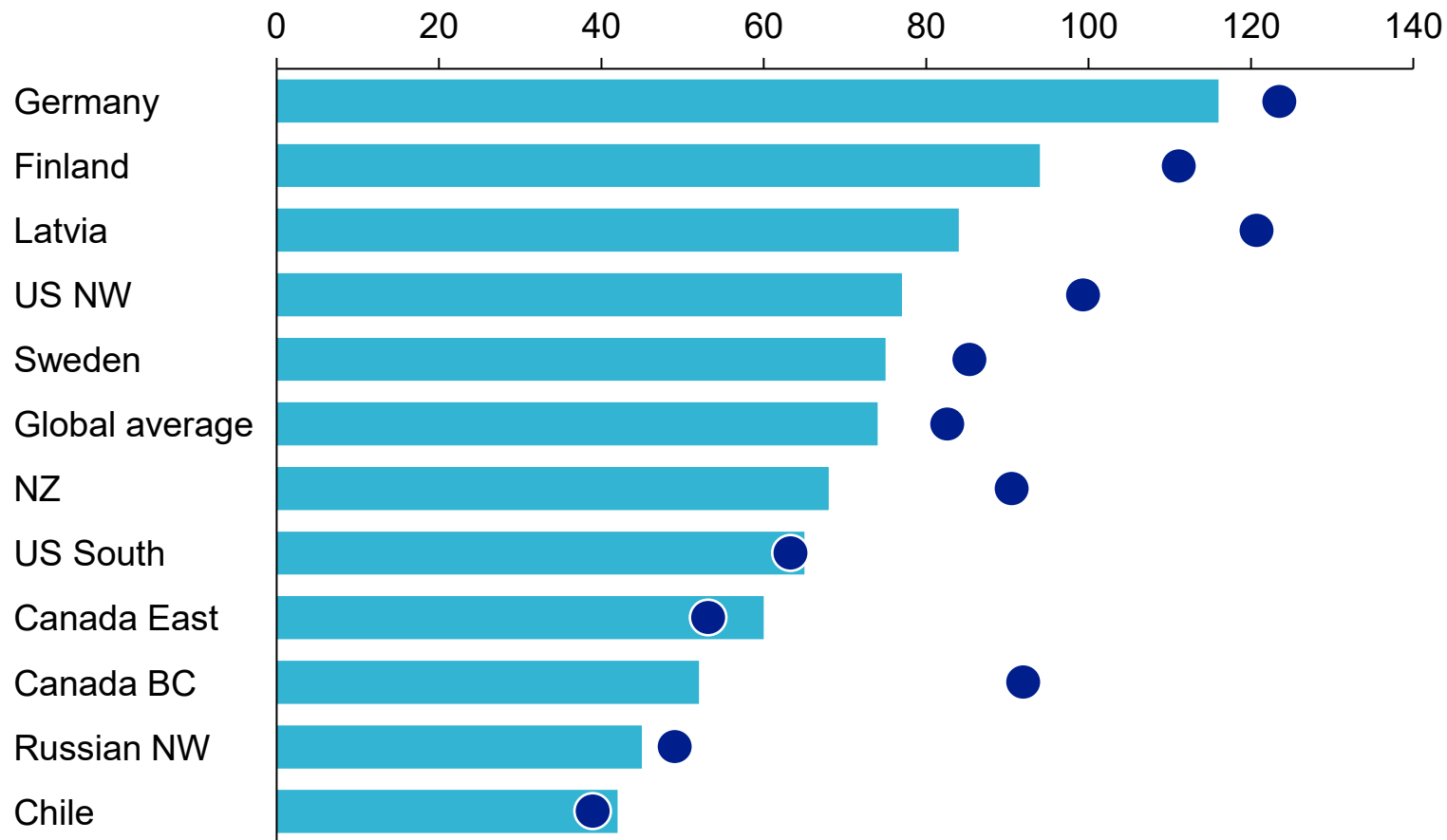


- LULUCF
- EU Forest Strategy
- Carbon forestry



Sawlog prices are well above long-run average levels

Softwood sawlog prices¹; USD / m³ ■ Average 2000-21 ● Current (2021)

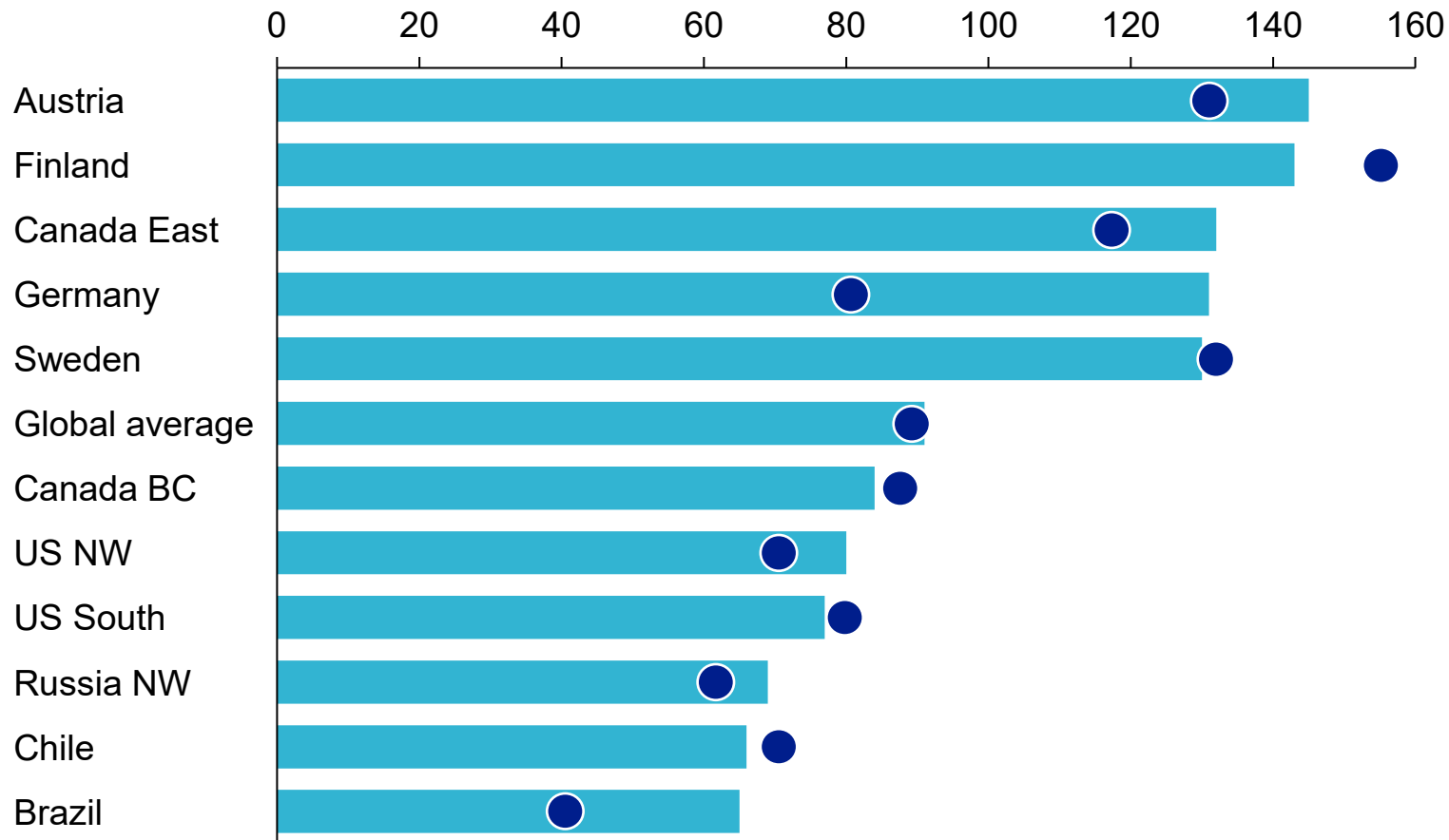


- Sawlog prices in many regions are well above average, e.g.,
 - Germany 7%
 - Finland 18%
 - Latvia 44%
 - BC 77%
- Key drivers:
 - Strong lumber market
 - Supply constraints (e.g. BC)
 - China log imports (e.g. Germany, NZ)

1. Delivered mill gate

Pulplog prices are mostly around long-run average levels

Softwood pulplog prices¹; USD / m³ ■ Average 2000-21 ● Current (2021)

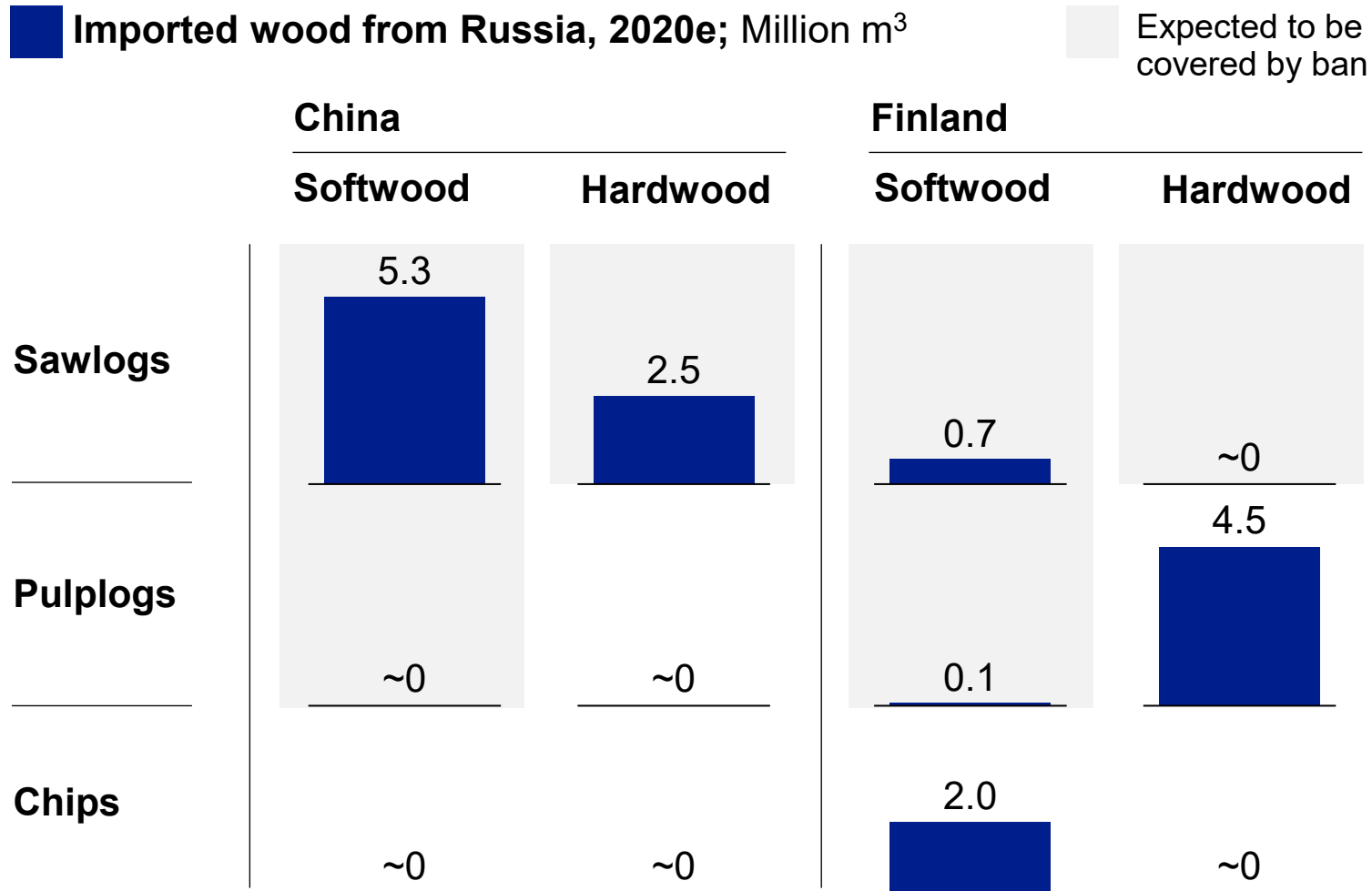


- Pulplog prices around average level in most regions.
- Some exceptions (e.g. strong prices in Finland, weak in Germany, Brazil).
- Key drivers:
 - Slight rebound in P&P and panel markets
 - Elevated sawmill residue supply

1. Delivered mill gate



China and Finland are both dependent on Russian logs; China mainly for sawmills, Finland for pulp and paper



• Important for Chinese sawmill industry

- 10-15% of softwood log imports, 30% of hardwood log imports
- Secondary impact on residues for panel mills

• Less impact on Finland

- Russian import mostly hardwood pulplogs (not covered)
- Softwood imports mainly as chips not covered

1. Delivered mill gate

SOURCE: Customs data; WRI/OA analysis



Of the largest lumber-exporting regions, Russia has the greatest potential to increase exports

Total softwood lumber exports 2020e Million m³

○ Low ● High

Potential to increase lumber exports



1. Germany and Austria, 2. Belarus, Ukraine, Czech Republic, Romania, Slovenia, Poland, Slovakia, Bosnia and Herzegovina

SOURCE: Customs data; WRI/OA analysis

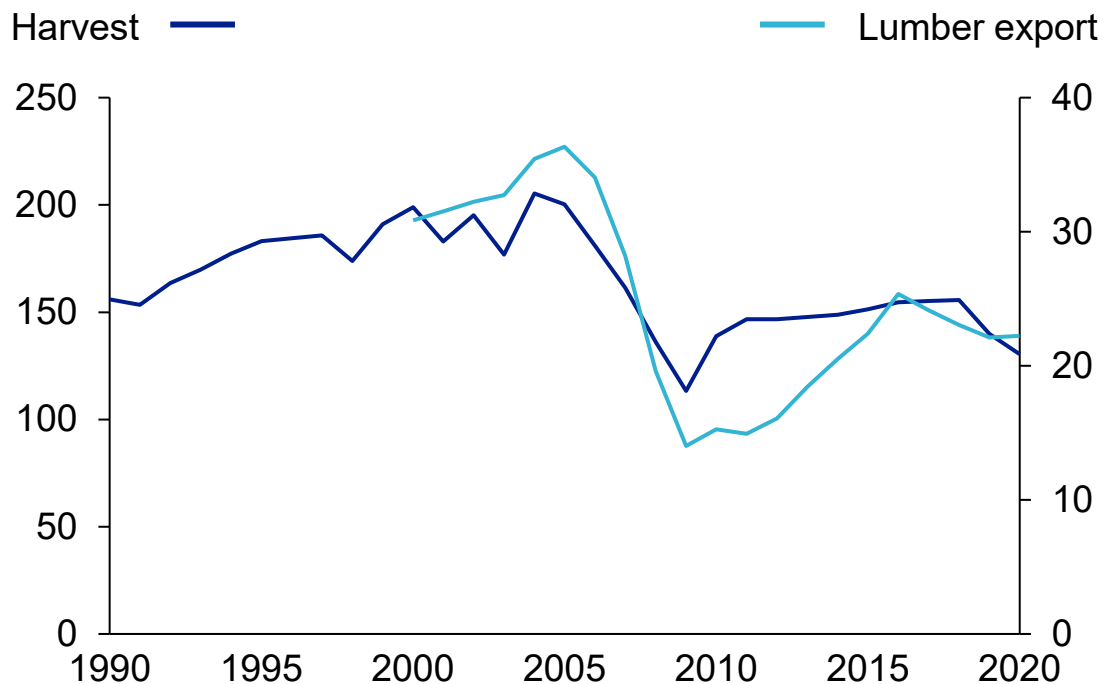


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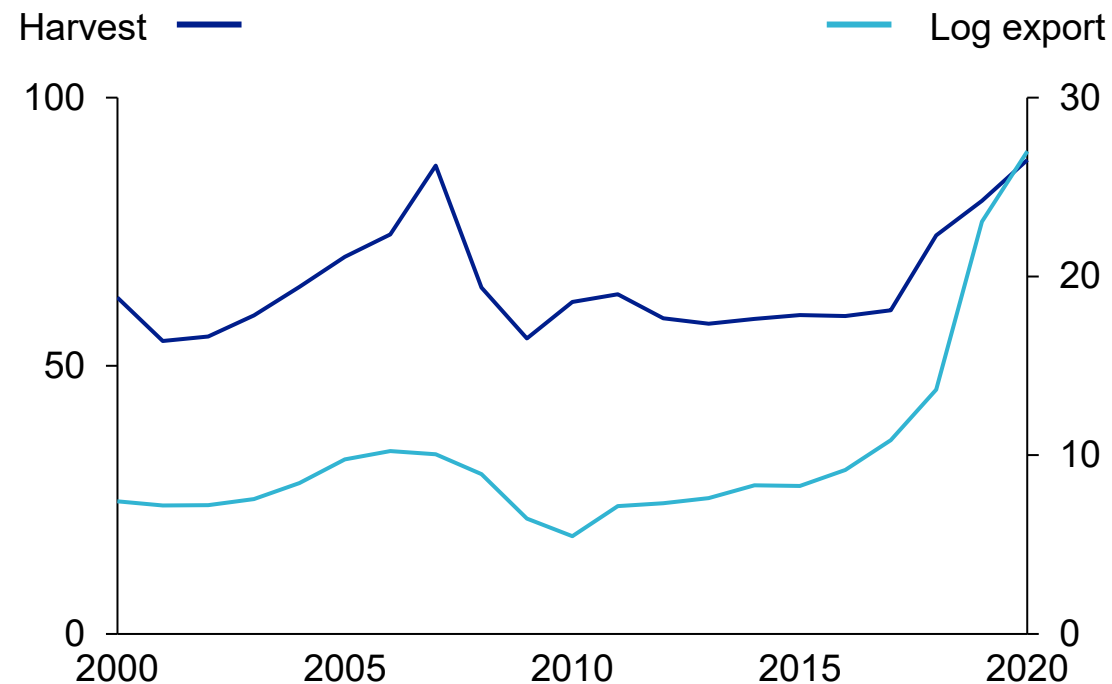
Forest damage, related to climate change, is impacting roundwood supply in Canada and Europe – for many years to come

Canada harvest and lumber export to US; Million m³



Implication: Reduced lumber supply to US and Asia

Central European¹ harvest and export; Million m³



Implication: *Temporary* surge in log exports to China, supply to domestic lumber industry

1. Germany and Czech Republic

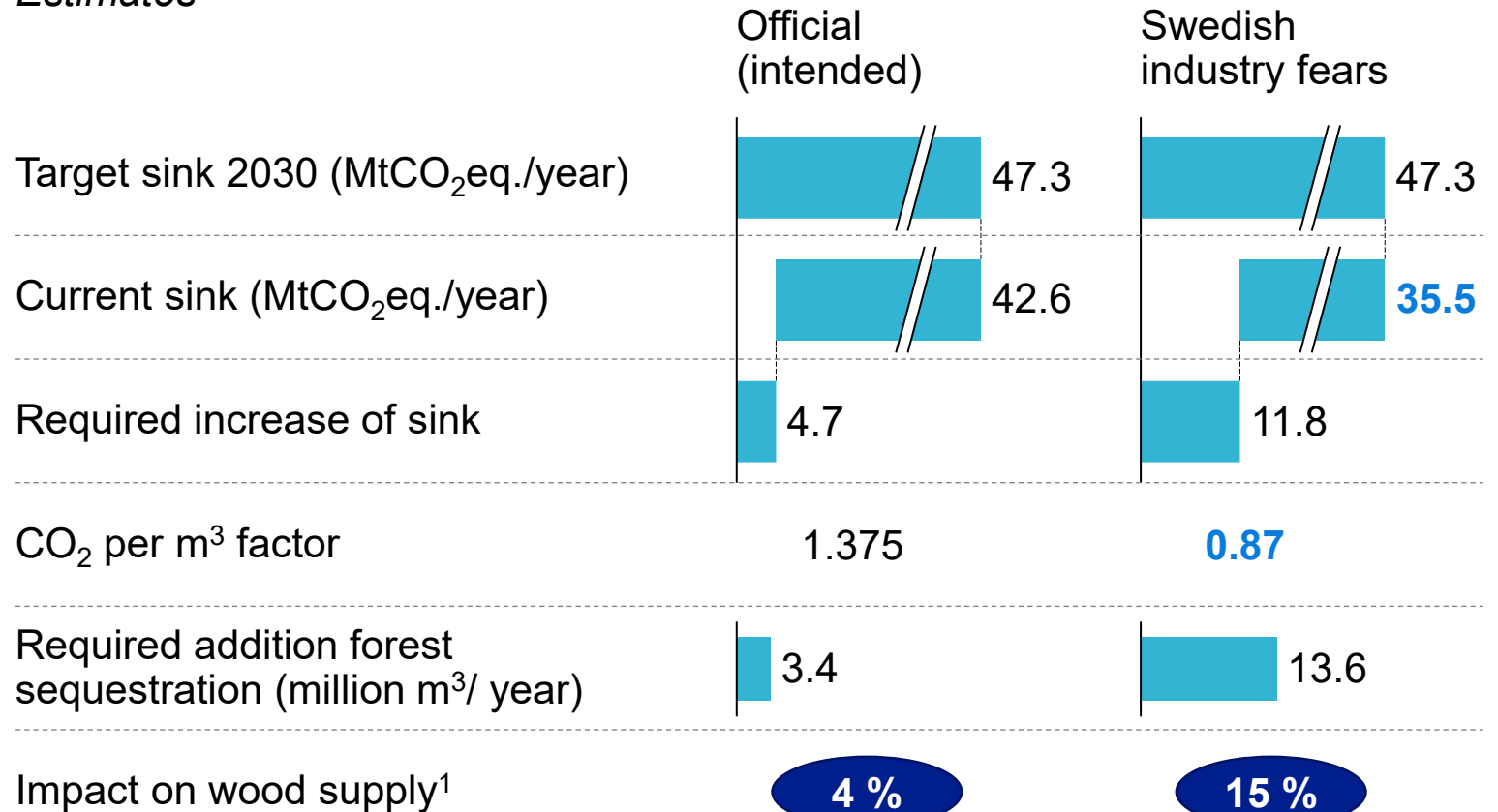
Sustainability initiatives, while arguably necessary, will have a large impact on wood supply

Sustainability initiatives impacting forestry

- LULUCF (EU)
 - Targets for increased forest sequestration
- EU Forest Strategy
 - Continuous cover forestry (selective logging)
 - Increased forest protection
- Forest carbon markets
 - NCX (US)
 - Voluntary carbon offsetting

Example: Potential impact of LULUCF on Sweden wood supply

Estimates



1. If full LULUCF target achieved by reducing harvests, baseline felings ~94 million m³

Global roundwood market outlook (pricing)

■ Tight ■ Balanced ■ Soft

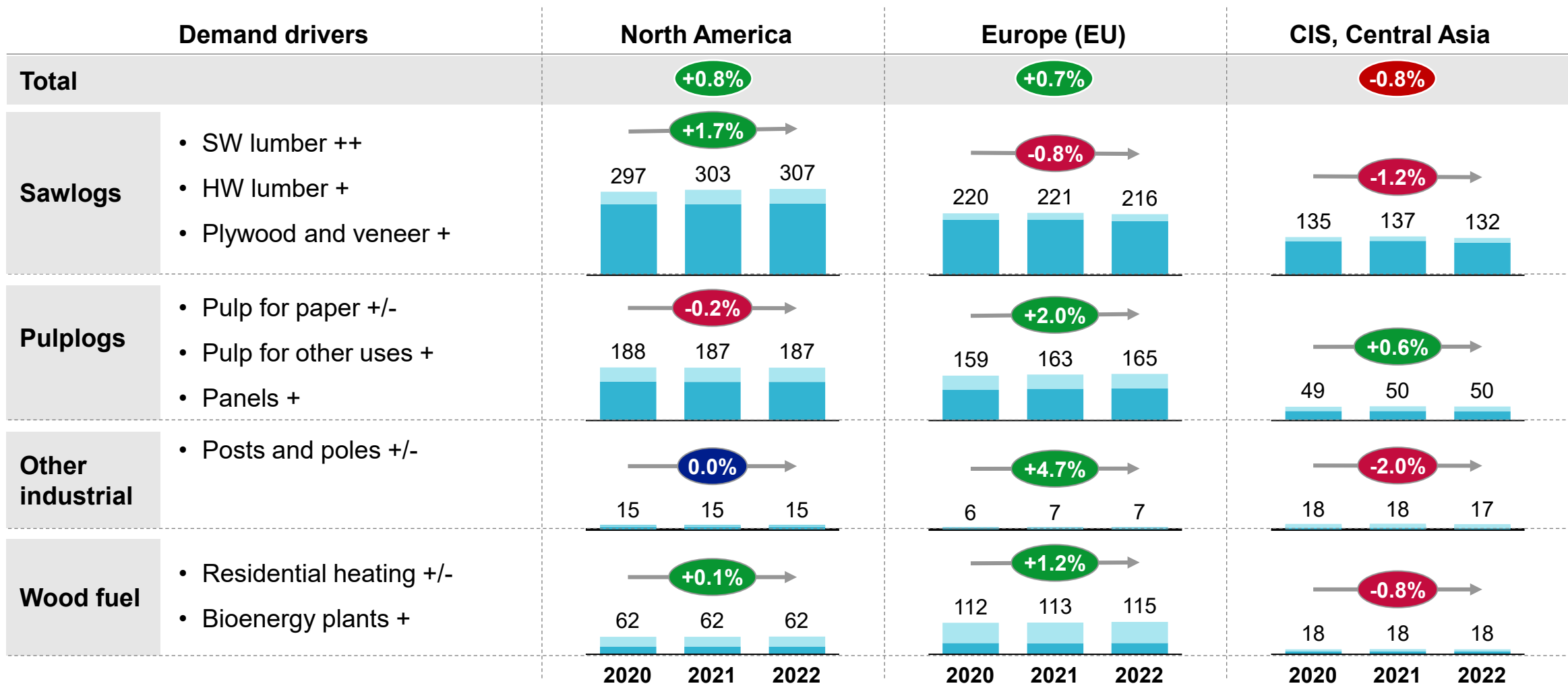
	UNECE regions			Other regions	
	North America	Europe (EU)	CIS, Central Asia	Asia-Pacific	Latin America
Sawlogs	<p>Strong lumber market</p> <p>Additional potential in US South, Canada E, US NW</p>	<p>Strong lumber market / export</p> <p>Post bark beetle</p>	<p>Russia log export ban</p> <p>Sawmill expansion</p>	<p>Strong lumber market</p> <p>Russia export ban</p> <p>Reduced NthAm export</p>	<p>Declining exports, with reduced supply and more domestic demand</p>
Pulpwood	<p>Strong sawmill residue supply</p> <p>P&P demand returning to normal</p>	<p>Central: sawmill residues</p> <p>Nordic: strong pulp production, harvest constraints</p>	<p>Strong pellet industry</p>	<p>Pulpmill expansion</p> <p>China restrictions on RCP import and log import from Australia</p>	<p>Plantations expanding with demand (e.g. new pulp mills)</p>
Things to watch for	<ul style="list-style-type: none"> • Housing starts • US South expansion • Carbon forestry 	<ul style="list-style-type: none"> • Sawmill expansion • LULUCF, end of clear-cuts? 	<ul style="list-style-type: none"> • Pellet / panel / P&P expansion with new sawmills 	<ul style="list-style-type: none"> • Chinese housing crisis? • NZ peak export 	<ul style="list-style-type: none"> • Afforestation for climate

UNECE Timber Forecasts for 2020-22

x CAGR

Hardwood Softwood

Forecast roundwood removals; Million m³



SOURCE: UNECE COFFI and FAO EFC Foresta2021



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Contact details

Wood Resources International

Mr. Håkan Ekström
Seattle
USA

Phone: +1-425-402-8809

E-mail: hakan@woodprices.com

www.woodprices.com

O'Kelly Acumen

Mr. Glen O'Kelly
Stockholm
Sweden

Phone: +46-73-56-98-039

E-mail: glen.okelly@okelly.se

www.okelly.se



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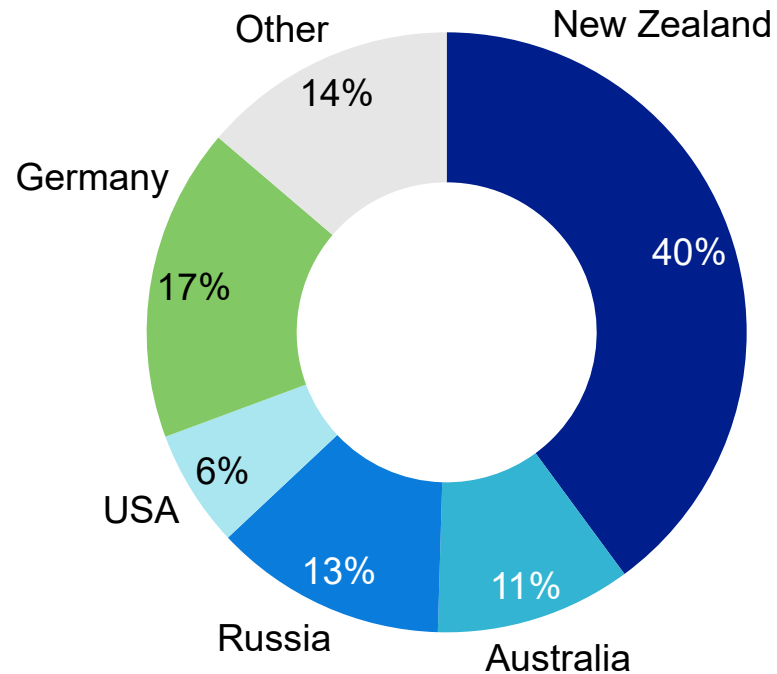


Backup slides for questions

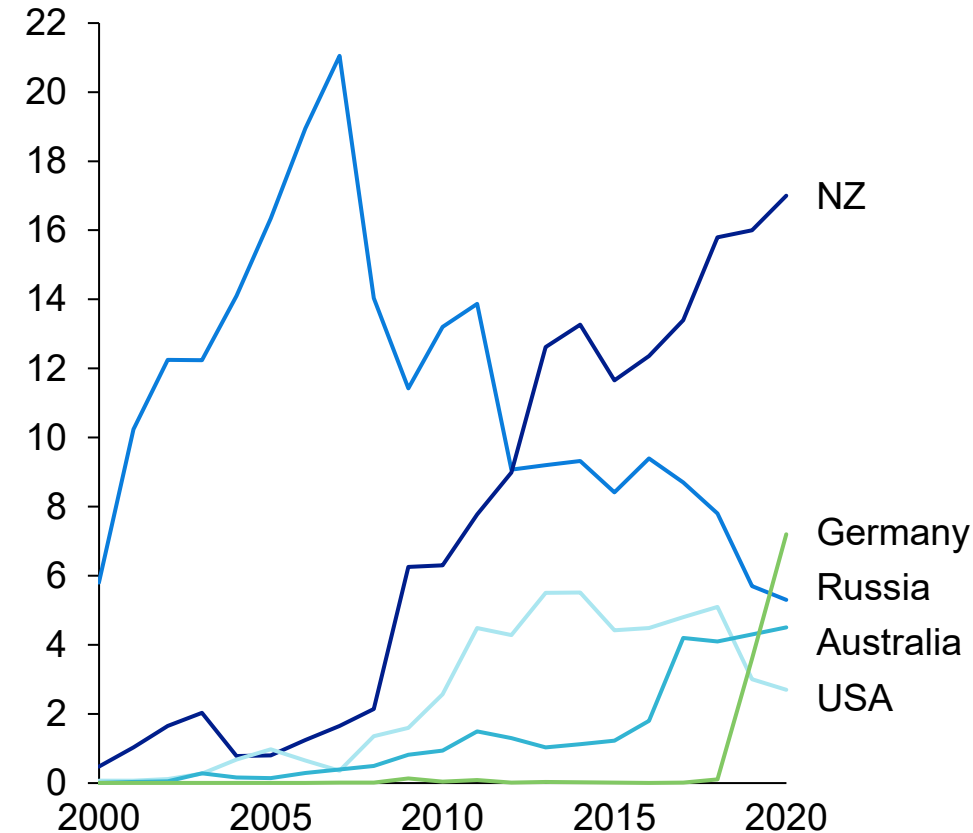


Since tariffs were first introduced in 2007, China has replaced ~75% of Russian volumes with imports from other countries

China softwood imports 2020e
100% = 43 Million m³



Development of imports by source;
Million m³

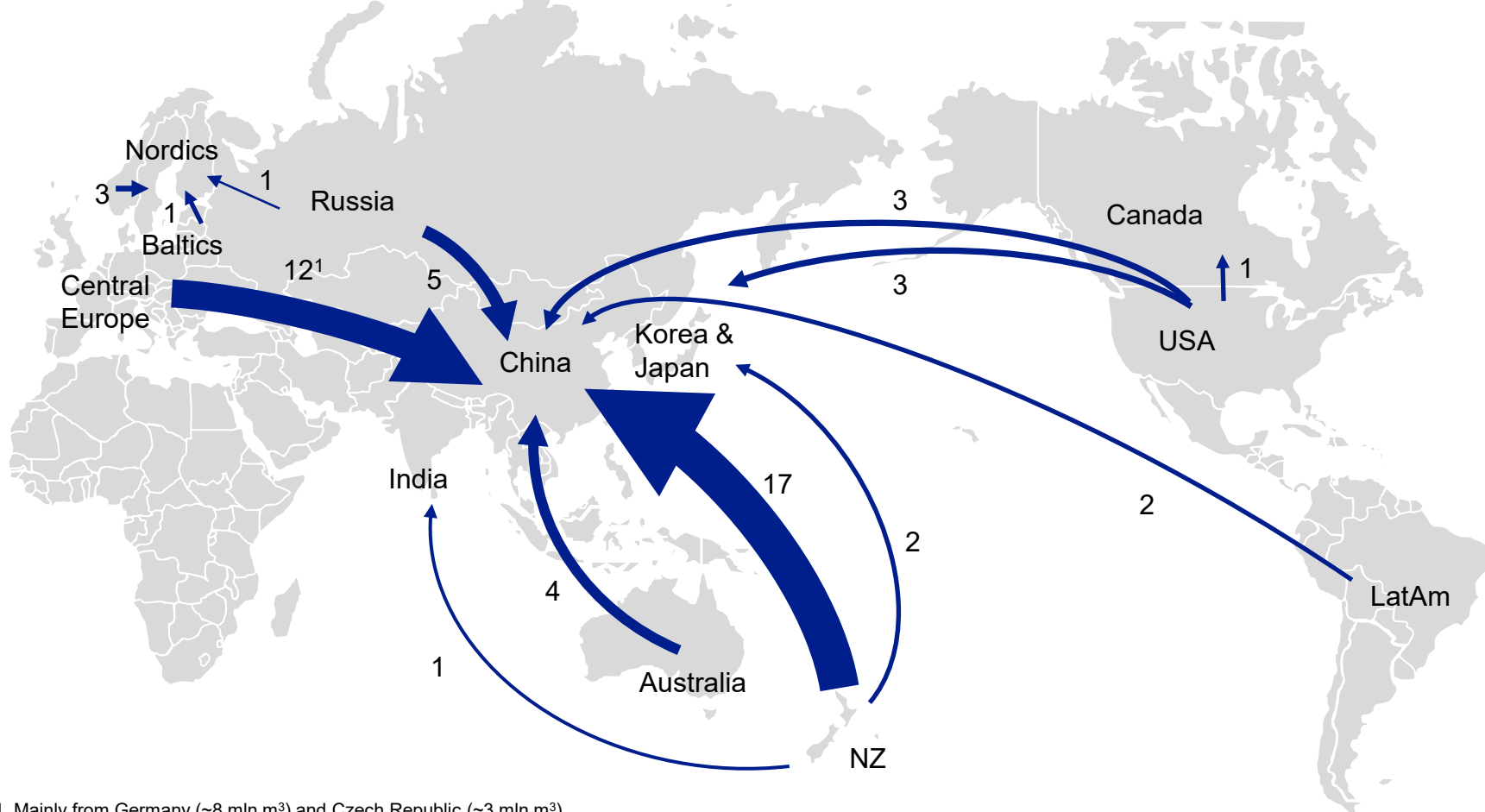


Key take-aways

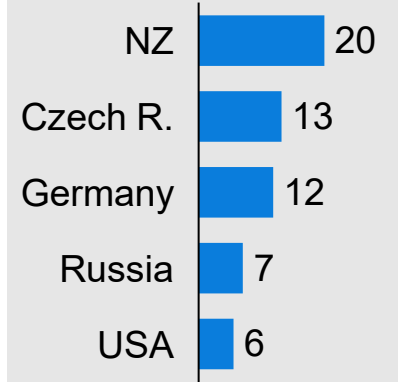
- Since 2007, China has shifted ~15 million m³ of Russian softwood log imports to other sources, especially New Zealand.
- China has further diversified import mix recently with increasing volumes from Australia and Germany.
- Exports from Europe are likely a short-term phenomenon, due to bark beetle salvage.

Decreased Russian exports of softwood logs to China will create opportunity for New Zealand and European exporters

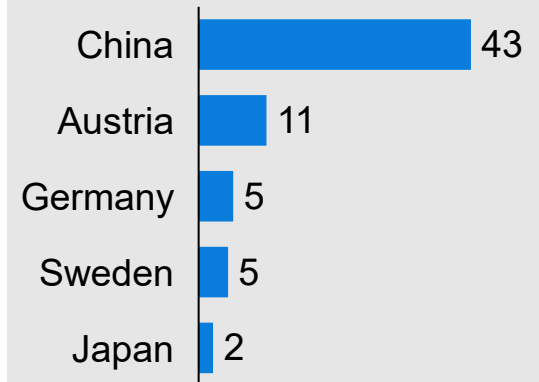
Global trade-flows 2020e – Softwood logs; Million m³



Largest exporters



Largest importers

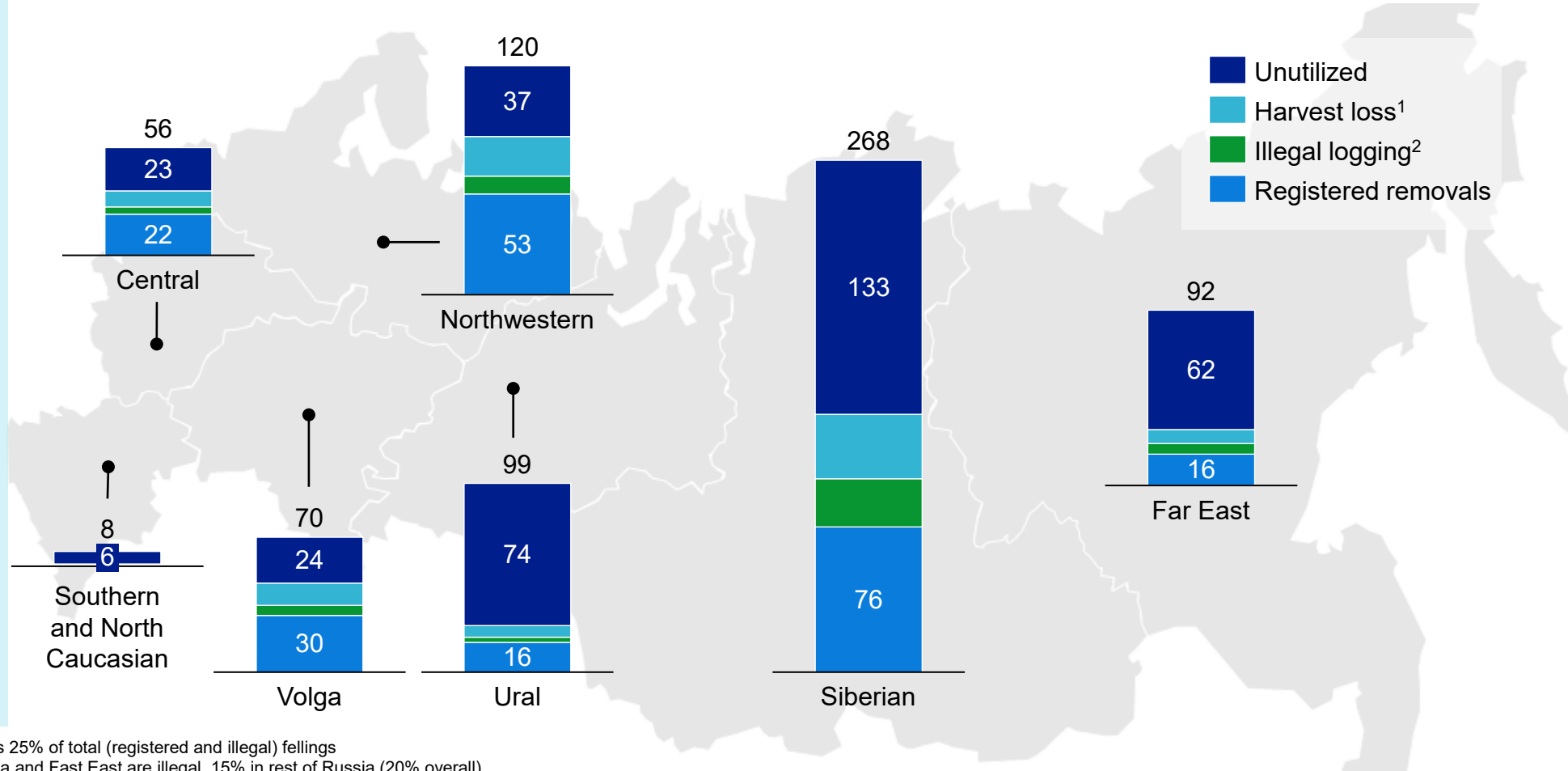


1. Mainly from Germany (~8 mln m³) and Czech Republic (~3 mln m³)

Most potential for additional log supply is in the east of Russia

Large unutilized potential in east of Russia – not currently available due to cost constraints and long distances from processing facilities or railroad.

Russia's annual allowable cut and harvest by Federal District, 2017; Million m³

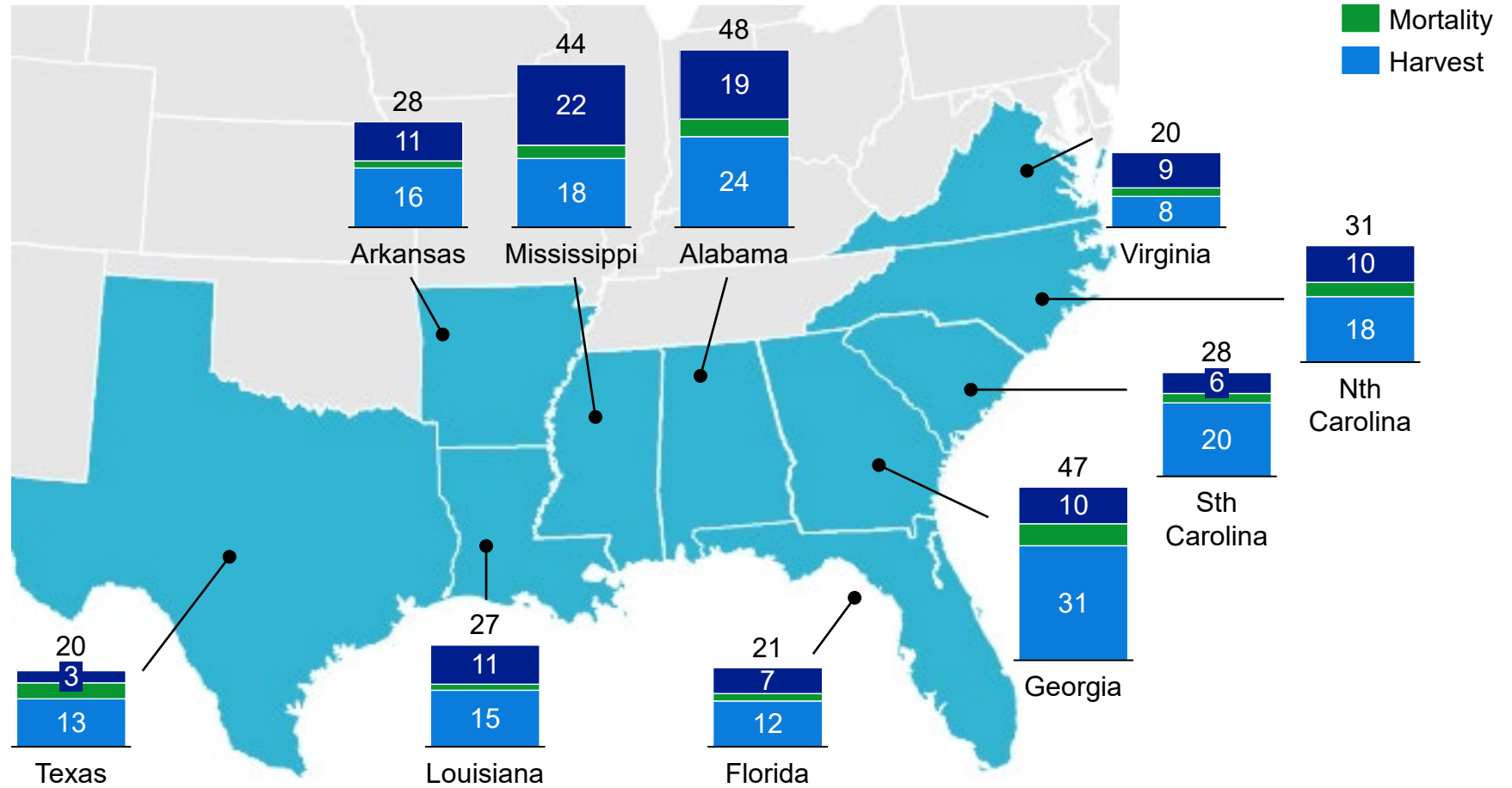


1. Estimated, assuming logging waste and bark is 25% of total (registered and illegal) fellings

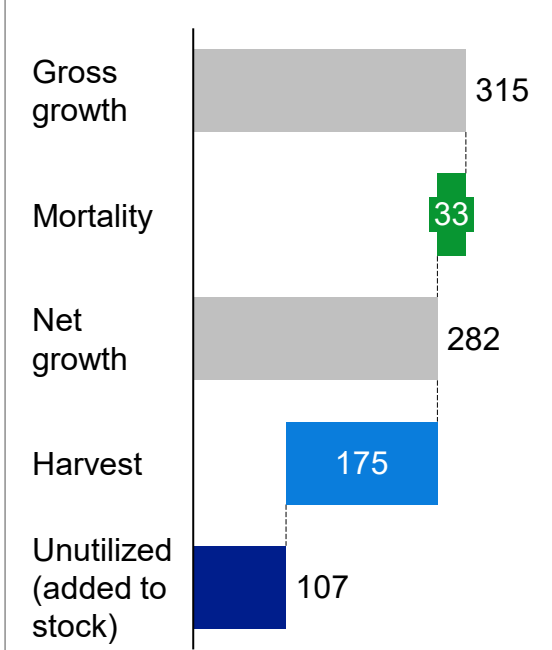
2. Estimated, assuming 25% of harvests in Siberia and Far East are illegal, 15% in rest of Russia (20% overall)

Forest growth of ~315 million m³ across the region, in production forests, of which ~175 million m³ is harvested

Softwood growth, productive forest, US South, 2017-20¹; Million m³



Total across US South



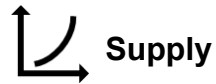
Some of forest growth is lost to mortality (tree death, fires, storms). Of net growth, only about 62% is currently harvested, including harvest losses – remainder is added to stock.

1. Assessment dates vary by state, from 2017 to 2020

Global lumber markets are in flux, with several trends suggesting a tighter demand-supply balance in years to come

Developments in global lumber markets

■ Tighter markets
 ■ Softer markets
 ■ Mixed impact



Supply



Demand

Actual / near term

- • Russia expected to introduce an export ban on softwood logs and high-value hardwood logs from Jan 2022
- – Restricted sawlog supply to China, increased import of lumber and sawlogs from other regions
- – Increased Russian export of lumber, and investments in improved quality (kiln-drying).
- • Canada's harvest potential reduced with mountain pine beetle in BC.
- • Central Europe harvests increased short-term due to bark beetle damage but will fall to below pre-beetle levels from 2022/23.
- • Decreased export from LatAm to domestic economy rebound and reduced sawlog supply.

- • Strong demand in US due to COVID stimulus and increased DIY
- • Continued strong demand growth in China post-COVID

Potential / long-term

- • Additional US South supply potential of ~20 million m³ long-term
- • Increased focus on forests' role in climate change abatement, growth in forestry carbon markets
- – Longer rotations and forest protection (esp. NthAm and Europe)
- – Surge in new forest planting (e.g., Southern Hemisphere)
- • Increased frequency of climate-related forest damage (insects, fire)
- • Increased investment in plantation forestry in new regions, e.g., Africa, SE Asia, increasing sawlog and lumber supply.

- • Increased use of wood in construction, including multi-family and non-residential, driven by interest in "green building materials" and innovation in modular solutions (e.g., CLT).