

ECONOMIC COMMISSION FOR EUROPE

Timber Committee

FINLAND

September 2012

MARKET STATEMENT

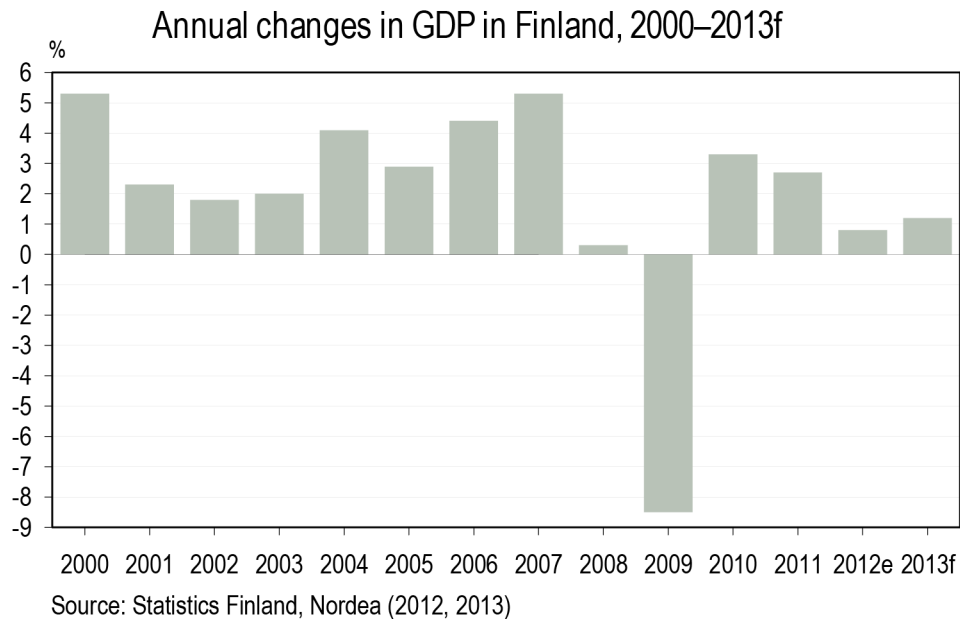
1 GENERAL ECONOMIC TRENDS

After the moderate 2.7 percent economic growth in 2011, Finnish economic activity has decreased after the early months of this year. In quarter-to-quarter terms, the growth of GDP in the first quarter was still 0.9 percent, but the second quarter showed 1.1 decrease of growth. The main reason for this declining economic development was the decrease of exports, which in turn was due to economic slowdown and contracting demand in main export markets in eurozone and in Sweden. Also, because of the increased uncertainty and weakened economic outlook, the confidence among both industry and consumers has ever weakened after the spring.

The outlook of Finnish economic performance for the rest of year seems not either positive. Several recent forecasts concerning Finnish economy predict that the decline in economy continues. Technically, this would mean that Finnish economy is in recession. The new orders received by the Finnish industry have turned down implicating that the exports are declining during the rest of year. This, in turn, remains investment activity and private consumption low together with slightly increasing unemployment. Public consumption is expected to grow only slightly. In 2012, Finnish GDP is expected to increase 0.8 percent.

The recent economic forecasts assume that along with the slow recovery in international demand and trade, the turnover in Finnish economy is achieved during the early months of the next year. Then, the export volumes are expected to start to grow again. While the domestic economic activity typically follows the development of exports with half-of-year lag, the private consumption is not expected to recover until the end of 2013. Also, the increasing unemployment and only slightly increasing purchasing power of households do not stimulate private consumption to grow. Investments and construction activity will recover only slowly and the timing for this recovery is towards the end of next year. The growth of government consumption remains slow. In 2013, Finnish economy is predicted to grow 1.2 percent.

The Finnish economy is highly dependent on the development of international trade and, especially, the recover of euro area. If euro will be revaluated, global economy will not start to grow and the debt crisis remains in eurozone, then it is hard to revitalise the consumer and industry confidence in Finland. Also, the export and GDP growths will be lower than those of predicted.



2 RECENT POLICY MEASURES

The National Forest Programme (NFP 2015) states the general goals of the Finnish Forest policy. The Ministry of Agriculture and Forestry is planning to update the programme. The specific goals related to the forest biodiversity safeguarding are stated in the Forest Biodiversity Programme for Southern Finland, METSO 2008–2016. In METSO programme, biodiversity conservation is based on voluntariness and compensation payments for landowners who will give their lands for protection.

Contrary to plans, the new act on energy subsidies for small-diameter trees is delayed and a renewed new application for the European Union is still waiting for the approval. Possibly the act enter into force not until 2013. The delay will hamper work to improve young stands and the harvesting and chipping of energy wood. The policy target is to increase the use of energy wood from the present 7 million m³ to 13.5 million m³ by 2020.

Some other important acts are under revision or planning. The revision of the Forest Act is in progress and will possibly enter into force in 2014. The revision of the Forest Management Association Act also started in 2012. The Forest Management Association is an organization of forest owners, and it has the right to collect forest management fees referred to this act. In the renewed act this fee might be abandoned after a transition time and every new forest owner will become automatically a member of the association.

The Ministry of the Employment and the Economy launched a new strategic programme for the forest sector in 2012. The programme's key objective is to launch and implement change processes promoting forest sector competitiveness and renewal. A special program to promote wood construction in Finland is also related to the programme.

3 MARKET DRIVERS

The most important market driver for the Finnish forest industry will be the economic development in the export markets of Europe, Asia (Japan) and Near East & North Africa, and for paper industry also North America. In paper industry about 90 % of production is exported, in sawmilling industry the corresponding share is about 60%.

In 2012 and in the beginning of 2013 weakening economic development in euro area and other export markets will cause downward push on Finnish production and exports. Economic forecasts presented after the summer 2012 generally indicate, that a modest recovery will be possible not earlier than late 2013. Closings of paper industry capacity in Europe have kept paper prices relatively stable, but prices of sawnwood will tend to decline at the end of 2012. Overcapacity is still problem especially in the European sawnwood markets, weak profitability being a consequence. The development of exchange rates (USD, SEK, GBP, Yen, Russian rouble) with respect to euro will have important effects on the competitive ability of Finnish sawnwood exports also in 2013. About half of exported sawnwood goes to markets outside Europe.

Russia's recent membership in the World Trade Organisation improves Finnish forest industry access to the growing Russian market. Membership will lead to lower export duties on Russian raw wood as well as lower import duties of forest products. The softwood export duty will be halved to 13–15% on the value. Hardwood duties will be 5–7% on the export value. The reductions in export duties will increase roundwood imports from Russia already in 2013.

The Russian import duties on LWC-paper will decrease from 15 to 10%. Duties to be levied on prefabricated wooden houses is going to decrease from 20 to 5%. This will improve the export possibilities of Finnish products to Russian markets. Last year the Russian share in Finnish paper exports was 4% and in cartonboard exports 8%.

4 DEVELOPMENT IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2011, the use of industrial roundwood decreased slightly to 53 mill. m³ u.b. from the previous year. Accordingly, the roundwood procurement decreased slightly, too. The domestic roundwood procurement reached 46 million m³ u.b. and imports of roundwood and sawmill chips were 9 million m³ u.b., in 2011.

In 2011, Finnish roundwood markets were rather sluggish. The traded volumes from private, non-industrial forests remained a quarter below those of the year 2010. However, nominal softwood log prices were up by 3 per cent from the previous year. Nominal pulpwood prices increased 2–4 per cent.

The statistics for the domestic roundwood harvests in January-July 2012 show they keep up with those of the previous year. During the first half of the year, wood imports run at 10 per cent lower level than in 2011, birch pulpwood and wood chips being the favourite items. Russia's recently agreed WTO membership cuts export duties but its impact are to be seen not until next year.

Overall, the industrial roundwood consumption in Finland decreases slightly in 2012 from the last year, totalling about 52 mill. m³ u.b. Domestic roundwood removals will account close to 44

million m³ in 2012. It is forecast that imports of roundwood and wood chips will be 9 million m³ u.b. which is slightly less than the last year's volume.

Roundwood removals in 2013 are expected to be somewhat lower (43 mill. m³) than are estimated for the current year. Removals of coniferous sawlogs and pulpwood will be about 18 and 19 million m³ u.b., respectively. Roundwood imports are expected to rise about 20 per cent.

B. Wood energy

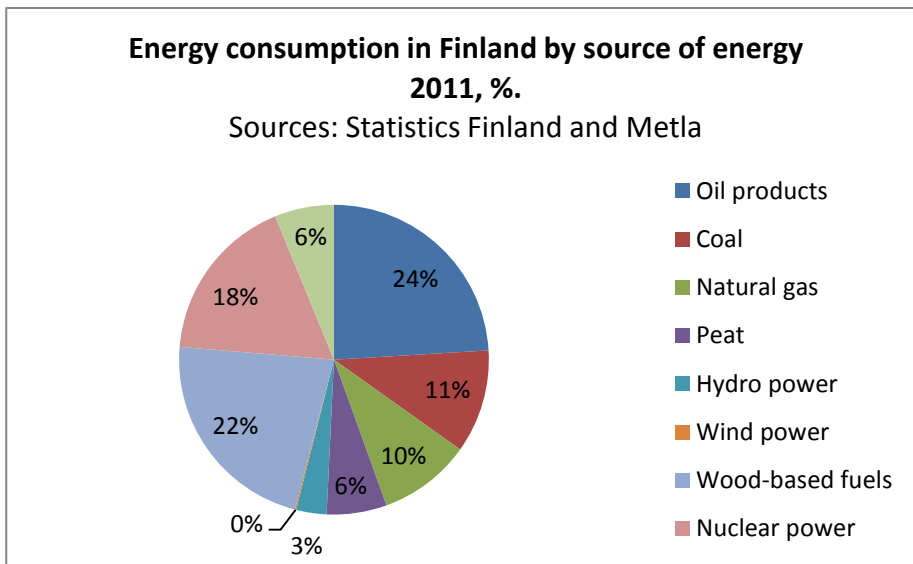
Finland's target for the share of renewable energy is 38 per cent of final energy consumption in 2020. Wood-based energy accounts for 20% of all energy consumed in Finland and 60% of the Finnish forest industry's energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.). Meeting bioenergy goals depends much on the wood processing industry. The black liquor is generated in pulp production and many other byproducts (bark, sawdust) in sawmilling. In addition, along with sawlog procurement from forest regeneration areas the main part of forest chips (branches, stumps, other waste wood) is logged.

In reaching the 38% target, wood based energy has the most important role. The target for 2020 is to use 13.5 million cubic metres of forest chips annually. The challenge lies in making it profitable to log the wood and transport it to energy plants. In 2011, the use of forest chips increased 9% to 7.5 million m³s from which 6.8 million m³ went to heating and other power plants (equivalent to an energy content of 13.6 TWh). Small-diameter trees account for 45% of the forest chip material, while large-sized stemwood accounts for 8%, felling residues for 33% and stumps for 14%. The use of forest chips is estimated to grow further to 7.8 million m³ in 2012 and to 8.3 million m³ in 2013.

The Finnish pellet production is annually about 300 000 tonnes, great part of which is exported to Sweden and Denmark. Because of weak price development in the export markets, some of the Finnish pellet producers have cut their production temporarily in 2012.

The Government also aims to increase the use of bio-based fuels in transport from the current level (practically zero) to 20 percent of transport fuels by 2020. A lot of research and development work has been done and is going on in big Finnish forest and energy industries as well as in research institutes. The challenge is to develop more efficient technologies to make the wood-based biodiesel production economically profitable.

At present there are two ongoing investments on biofuel production to be completed in 2013 and 2014. Investments in additional production units are presently uncertain due to lack of financing. Applications for planning new production units were also made for NER300 funding programme for innovative low-carbon technologies. However, only one BTL (biofuel to liquid) unit from Finland was approved in the list (new entrants reserve). The placement of an earlier approved unit is uncertain, it might be Finland or France.



C. Certified forest products

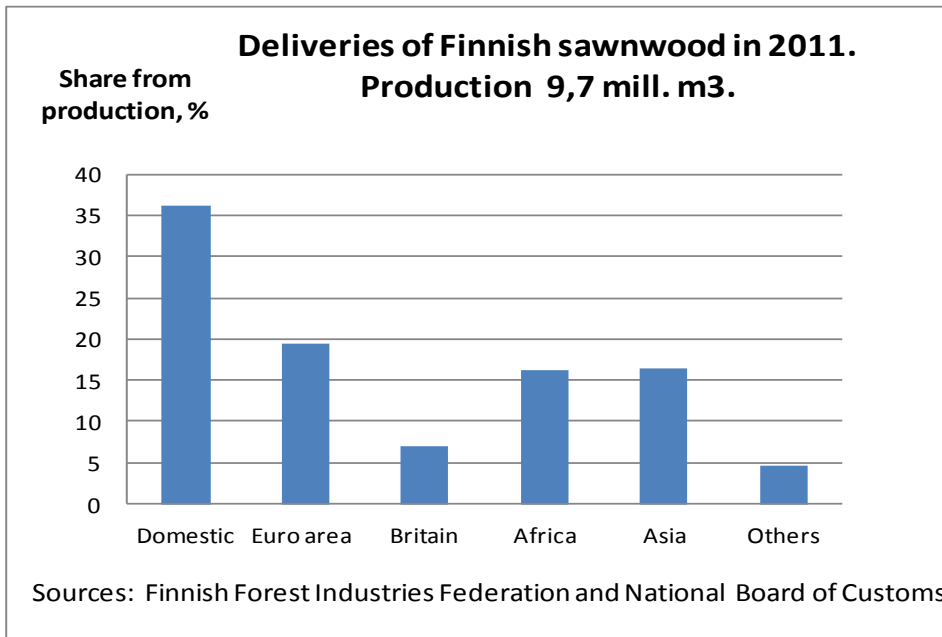
Currently, about 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation. Only some thousands of hectares are certified under the FCS system, but the situation is changing. Finnish national FCS standard was introduced in January 2011. Since May 2011, it has been possible for the Finnish forest owners to apply FCS certification. For example, the Finnish based firm, the UPM is going to certify a part of its Finnish forests under FCS. All of the UPM's Finnish forests, 0,9 million hectares, are certified under PEFC, but now also FCS certification is going to start.

Demand for ECO-labelled products is growing. Forest industry companies have acquired certified chain-of-custody systems in order to obtain PEFC-logo usage right. According to the Finnish Forest Certification Council, there are today 156 PEFC logo licence holders among Finnish forest industry firms, traders and distributors. The figure for the same time last year was 143. These licenses cover the major share of wood procurement, sawnwood and panels production as well as paper and paperboard production. In addition, 31 logo licences are hold by other actors such as national governing bodies, forest owners and managers.

D. Value-added wood products

E. Sawn softwood

Coniferous sawnwood forms the main part of the Finnish sawnwood production. The share of hardwood has been only about one percent. Domestic consumption covers 35–40% of the production and about 30% is exported to the European Union. Because of tightening competition in the West European export markets, Finnish exporters have increased their export supply to North Africa and Asia during the 2000's. In the first half of the year 2012 Finnish exports to Africa and Asia went up compared with the same period in 2011, while there was a drop in the exports to the European Union. Egypt and Japan are the largest export countries for Finland outside Europe.



Outlook for years 2012 and 2013

In the beginning of 2011 consumption of soft sawnwood was picking up globally along with the improved economic outlook. This helped also Finnish exporters to increase production, but the price development remained weak showing a decline of 4% at annual level. Overcapacity in the European markets has been one reason for the declining market prices. In recent years, weak price development of sawnwood and relatively high sawlog costs have weakened the profitability of sawnwood production in several West European, as well as in Finnish sawmills.

Global sawnwood demand continued to grow in the first months of 2012 but soon uncertainties in the euro area, already visible in the end of 2011, grew again. During the summer, expectations of slower GDP growth and slower residential construction activity have worsened the outlook for sawnwood demand especially in Europe. European economic situation hampers also the North African and Asian economic development, leading to lower economic growth and affecting their sawnwood demand. Lower demand for sawnwood in Europe during the rest of the year indicates lower quantities for Finnish exports for the year 2012 compared to 2011.

In 2011, Finnish sawnwood production went up together with increasing domestic and export demand. Production was rather high also at the end of the year. However, during the first half of 2012 production dropped lower than in the same period in 2011. Worsening outlook in the main export markets indicate less production for the rest of 2012. For the whole year 2012 Finnish sawnwood production is expected to end up to 9.5 million m³.

Expectations for the European economic development for the year 2013 are not much better than for the current year. In construction, the years 2012–2014 remain challenging ones. Little growth in output can be expected not earlier than in the second half of 2013. This provided that the euro area debt crisis does not turn into a major financial crisis. All this indicates, that the Finnish sawnwood export and production volumes in 2013 remain close to those of 2012.

In Finland, residential construction and renovation are the largest end-users of soft sawnwood. During the last 15 years, domestic sawnwood consumption per capita increased significantly, reaching 1 m³ per year. The economic recession of 2009, caused a large drop in the Finnish sawnwood consumption due to reduction of residential construction. Markets recovered during 2010–2011, but in the first five months of 2012, the number of housing permits was again about 18% lower compared to the same period last year. Worsening economic development indicates further decreases in sawnwood consumption, which the estimated 3% growth in residential renovation and modernization cannot compensate. No large recovery is expected for 2013, either. So, consumption figures for 2012 and 2013 will remain lower than in 2011.

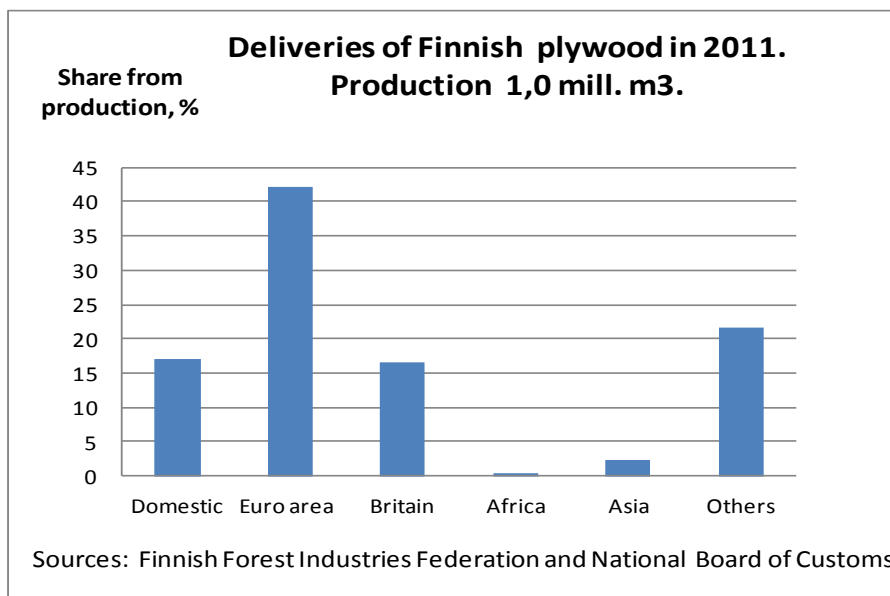
F. Sawn hardwood

Sawn hardwood is a marginal product in Finnish sawnwood industry with a share of less than 1% of the total sawnwood production.

G. Wood-based panels

Plywood is the largest product group in Finnish wood-based panels industry accounting for 87% of the export value of this industry in 2011. The rest is shared by particleboard and fibreboard. During the past decade, plywood industry has invested for new softwood capacity (mainly spruce) and the share of birch plywood has been decreasing. Birch plywood production in Finland has been largely dependent on birch logs imported from Russia, as domestic supply is scarce. Particleboard and fibreboard production has been about 300 000 m³ annually altogether during the recent years.

From plywood production about 85–90% is exported, the main export area being Europe. The largest importers from Finland are Britain and Germany. Particle board and fibreboard are more dependent on domestic demand, the share of exports from production has been about 50%.



Outlook for years 2012 and 2013

In Europe, Finland is the second largest producer of plywood, Russia being the largest. Contrary to sawnwood markets, Europe produces less plywood than it consumes, so there has not been as difficult oversupply situation as in the sawnwood markets. In 2011, consumption of wood based panels went up in Europe and North America with the improving economic outlook. Also Finnish exports and export unit prices to the main market, European Union, increased.

Positive price development continued in European markets during the first half of 2012. One reason for this has been the decrease in softwood plywood supply from Chile, where the fire at Paneles Arauco destroyed a plant in January 2012. In the Finnish exports, the unit prices of birch and softwood plywood were about 2% higher in the first half of 2012 compared with the same period in 2011.

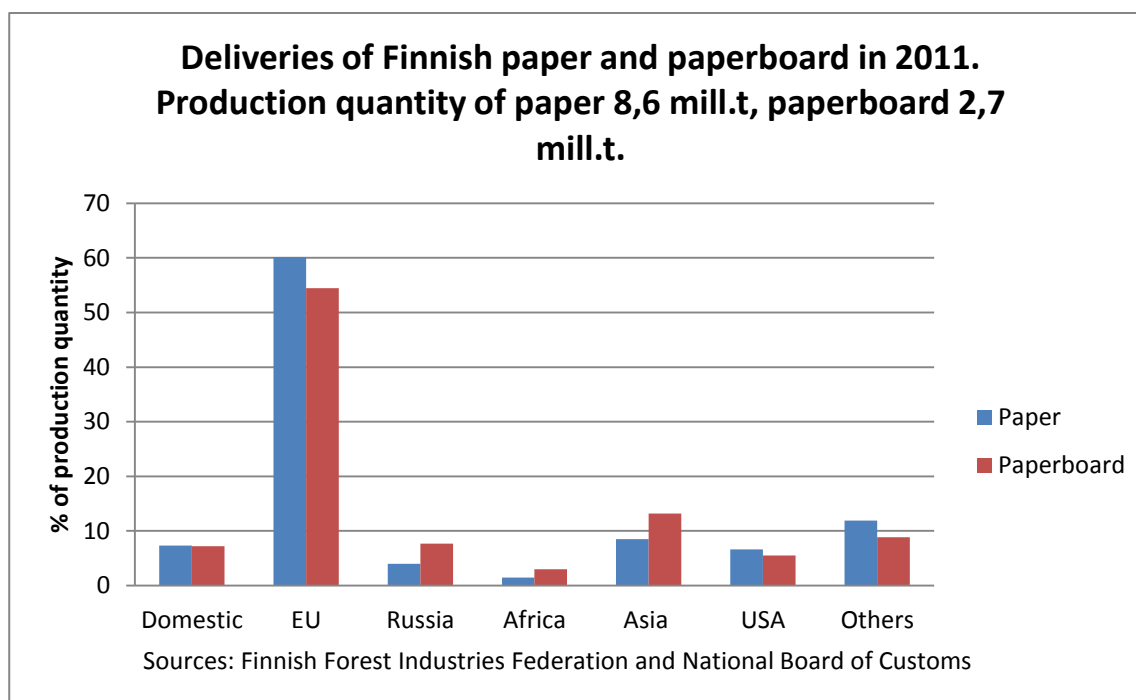
In spite of the positive price development, Finnish export volumes decreased during the first half of 2012 compared to the same period last year, as weakening construction activity in the European Union decreased softwood plywood demand. For example, the export decreases to the two largest export countries, Britain and Netherlands, were 12% and 7%, respectively. Finnish birch plywood exports decreased about 2% during the the first half of 2012 compared with the same period last year. The drop in case of the largest export country, Germany, was close to 7%.

Worsening economic outlook in the European Union after spring 2012 probably causes falls in the demand for plywood for the rest of the year. This indicates smaller export demand of wood-based panels also from Finland. Expectations for the year 2013 are not much better, as in construction the development will be weak. It is estimated, that Finnish plywood exports will be 0.8–0.9 million m³ both in 2012 and 2013. Production will be about 1.0 million m³ both in 2012 and 2013.

Weak economic development is visible also in the particle- and fibreboard exports and production. During the first half of 2012 particleboard exports dropped sharply compared to the previous year. Particleboard production is estimated to drop to 100 000 m³ in both 2012 and 2013. The fibreboard production keep up with the same 100 000 m³ in 2012 and 2013.

H. Pulp and paper

In 2010, when the Finnish pulp and paper industry recovered from the economic recession, the production and export increases were high. But then again in 2011, due to increased economic uncertainty and contracting demand in Europe, the production and exports turned downwards. The paper and paperboard production of 11.3 million tonnes in 2011 was 4 per cent lower than that of the previous year. Over 90 per cent of the production, 10.5 million tonnes (-3%), was exported, mostly to the European Union. The pulp production amounted to 10.4 million tonnes which was only one per cent less than in 2010. In spite of weak economic outlook during recent years, the export prices of paper and paperboard have been on the rise quite many years. In paper, overcapacity has been successfully cut in many paper grades. In paperboard, the demand has been keeping up better than in paper. Fluctuations in pulp prices can be great, and after sharp rise in 2010, prices have been gradually decreasing.



Outlook for years 2012 and 2013

Export market outlook continues being rather gloomy which, however, won't affect so much paperboard or pulp. Instead, the production and export of paper are forecast to fall 8–9 per cent in the current year. The corresponding figures for paperboard and pulp remain close to those of the previous year. The estimated paper and paperboard production is 10.5 million tonnes (-7%) in 2012. The export prices for paper are forecast to be still slightly on increase (+3%). Instead, the prices for paperboard and pulp are seen being slightly on decrease.

In 2013, the paper and paperboard production is forecast to amount to 10.2 million tonnes and the exports to 9.5 million tonnes, both being 3 per cent less than in 2012.

I. Carbon market

A. Economic indicators

Key economic indicators	2011	2012e	2013f
Gross domestic product growth, %	2.7	0.8	1.2
Consumer price index change, %	3.4	3.0	2.5
Wage and salary earnings change, %	2.7	3.5	3.0
Unemployment rate, %	7.8	7.7	8.0
Current account surplus/GDP, %	-1.1	-0.2	0.2
Industrial output change, %	0.9	-3.0	2.0
Three month EURIBOR, %	1.4	0.25	0.50

Source: Nordea, Economic Outlook 4.9.2012

B. Production and Trade

1. Forest industry production in Finland

Product	Unit 1000	2010	2011	2012e	2013f
Sawn softwood	cum	9 400	9 700	9 500	9 500
Plywood	cum	980	1 040	1 000	1 000
Particle board	cum	220	170	100	100
Fibreboard	cum	100	100	100	100
Mechanical pulp	tonnes	3 775	3 614	3 300	3 200
Chemical pulp	tonnes	6 733	6 748	6 800	6 800
Pulp, total	tonnes	10 508	10 362	10 100	10 000
Paper, total	tonnes	8 929	8 602	7 800	7500
Paperboard	tonnes	2 830	2 726	2 700	2700
Paper & Paperboard total	tonnes	11 759	11 329	10 500	10200

Sources: Finnish Forest Industries Federation (2010–2011; wood products 2012, 2013),
Finnish Forest Research Institute (pulp and paper 2012, 2013)

2. Exports of Finnish Forest Industry Products

Product	Unit 1000	2010	2011	2012e	2013f
Sawn softwood	cum	5 824	6 102	6 000	6 000
Plywood	cum	834	864	850	850
Particle board	cum	92	86	50	50
Fibreboard	cum	44	50	50	50
Mechanical pulp	tonnes	165	125	150	150
Chemical pulp	tonnes	1 994	2 350	2 400	2 500
Pulp, total	tonnes	2 159	2 475	2 550	2 650
Paper, total	tonnes	8 259	7 971	7 300	7 000
Paperboard	tonnes	2 545	2 529	2 500	2 500
Paper & Paperboard, total	tonnes	10 804	10 500	9 800	9 500

Sources: National Board of Customs (2010, 2011),
Finnish Forest Industries Federation (wood products 2012, 2013),
Finnish Forest Research Institute (pulp and paper 2012, 2013).

3. Imports of Forest Industry Products

Product	Unit 1000	2010	2011	2012e	2013f
Sawn softwood	cum	602	461	500	500
Plywood	cum	109	122	100	100
Particle board	cum	81	86	100	100
Fibreboard	cum	190	194	190	190
Pulp, total	tonnes	419	473	500	500
Paper, total	tonnes	221	239	250	250
Paperboard	tonnes	225	238	250	250
Paper & Paperboard, total	tonnes	446	477	500	500

Sources: National Board of Customs (2010, 2011),
 Finnish Forest Industries Federation (wood products 2012, 2013),
 Finnish Forest Research Institute (pulp and paper 2012, 2013).