SPAIN MARKET REPORT 2017

1. – GENERAL ECONOMIC TRENDS: OVERVIEW

Spanish economy's had in 2016 a growth rate of 3,3%, according to GDP data (updated in September 2017). This value confirms the upward trend, started in 2013 with the upturn after the economic crisis. These numbers were accompanied by improvement in job creation figures. Data available for 2017 confirm this trend. GDP increased 0,8% in 1st quarter 2017, and 0,9% in the 2nd quarter (chart 1).

According to official estimations for 2017, the buoyant upturn is expected to continue, though a more contained path. The final forecast for GDP 2017 would be 3,1%, and it would decelerate to 2,5 % in 2018 and to 2,2 % in 2019.

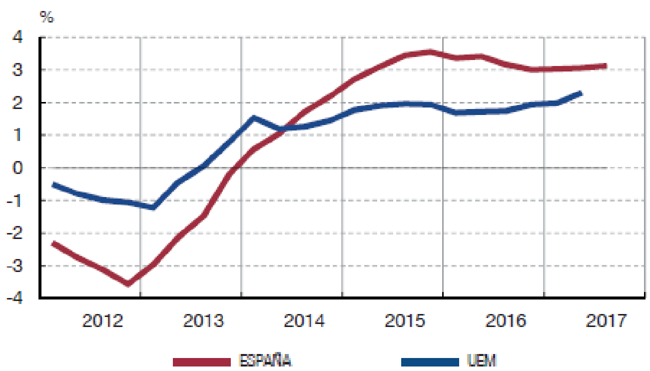

Chart 1: Gross Domestic Product, Spain/Euro Zone.
(Source: Banco de España, Eurostat, National Statistics Institute)

Inflation rate remained in negative values in 2015 (-0,5%) and 2016 (-0,2%). After becoming to positive values in June 2016, inflation has increased to reach a maximum (3%) in February 2017, due to the energy component of the prices. After that, it has decreased to 1,9% in May 2017. The projections for the rate of change of inflation are estimated to stand at 1,9% on average in 2017, decreasing to 1,3% in 2018 and 1,6% in 2019 (chart 2).

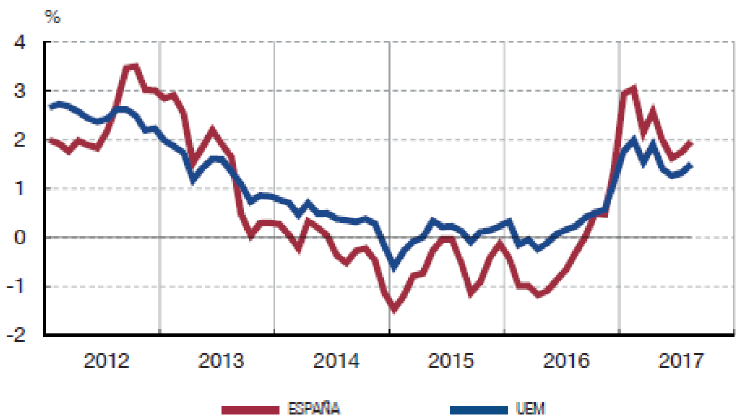

Chart 2: Index of Consumer Prices
(Source: Banco de España, Eurostat, National Statistics Institute)

As regards the risks surrounding the GDP growth projections, at the domestic level, political tensions in Catalonia could eventually affect the confidence of agents and their spending decisions and financing conditions. At the external level, there are certain sources of geopolitical risk that may pose a threat to the recovery of the global economy, together with uncertainties about the development of the BREXIT process and policies in some advanced economies, such as doubts about the future course of US fiscal policy. In the financial markets, the abundant liquidity environment and low levels of volatility may lead to situations of abrupt adjustment in the prices of some assets, with negative effects on the financing conditions of agents. Also, given the high uncertainty surrounding the evolution of the euro exchange rate and its determinants, as well as its final impact on the Spanish economy, it is not ruled out that the effect of this variable on the projections for this year is greater than considered in the central scenario. In general, the downward risks related to the external context of the Spanish economy that have been described tend to form a risk environment for the evolution of prices in the same direction.

2. – POLICY MEASURES TAKEN OVER THE PAST 18 MONTHS

The Spanish political and administrative system establishes that the Autonomous Communities (Regional Governments) are competent for most of the forest issues, being the Government of Spain in charge of establishing the common basis for forestry and forest sector. 17 Regional governments exist in Spain, and they legislate on forest and forest product aspects.

Regarding the regulations developed by the **Government of Spain** in recent years in relation to trade and the market of forest products and that are being enforced in 2016 and 2017:

a) Forest Law 21/2015, modifying the previous existing Forest Law 43/2003. It regulates different aspects, of timber and forest product purchasing processes for public administrations, as well as minor changes in forest harvesting:

  - Certification: public administration will promote the development of voluntary & transparent forest certification systems (51, changing previous art. 35).
  - Responsible purchase of forest products: public administrations could exclude from public purchase those forest products which could not credit the fulfillment in origin

of legality. Forest management certification is accepted as one of the systems to guarantee the legality in origin (52, changing previous Art 35 bis).

- Forest harvesting: establishing changes in forest timber and non-timber products harvesting, property and management (53&54, changing previous Art.36&37).
- The system of penalties for infringements of the rules set European Union Timber Regulation and a statement of responsability for operators who exercise due diligence for products placed in EU market.

b) Royal decree 1088/2015, to ensure the legality of the placing on the market of the timber and timber products. This decree establish at national level the necessary regulation to combat the placing illegal timber products on the on the market, according to of EU Regulations 2173/2005 and 1024/2008 on the establishment of a FLEGT licensing scheme for imports of timber into the European Community, and the EU Regulation 995/2010 laying down the obligations of operators who place timber and timber products on the market.

c) Also some legal initiatives to reduce differences on general trade requisites inside Spain have been taken, among them, the law 20/2013, of December 9, for guaranteeing market unity has been approved to harmonize the different situation with basic standards.

d) Order PRE/2788/2015, modifying the IX annex of the Vehicles General Regulation. This modification allows for permitting, in certain cases, the circulation of vehicles with maximum authorized weight up to 60 tonnes.

The National Plan on the legality control of timber placed on the market has been approved by the Sectorial Conference on Agriculture and Rural Development (February 2015) and extended until 2018. It lay down criteria for distribution among competent authorities in autonomous communities of the 500 controls to be carried out on the operators that shall exercise due diligence according to EUTR. It has been established a working group by the Sectorial Conference to analyse and design the Forest Products National Information System and prepare the new Plan on the legality control of timber on the basis of the best available information.

3. – MARKET DRIVERS

Construction plays a key role in the Spanish forest product demand and is the key market driver for sawnwood, added-value goods, fibreboard, particleboard, plywood and veneer sheets.

The investment in construction is expected to continue the recovering trend (table 1).

	2016	2017 (est)	2018 (est)
Investment in construction	2,4	3,6	4,7
Investment in capital goods	4,9	5,4	4,8

Table 1. Spanish economy´s variables on construction (annual rate of change)

(Source: Banco de España, NSI)

4. – DEVELOPMENT IN FOREST PRODUCTS MARKET SECTOR

4.1 WOOD RAW MATERIAL

Note: figures for roundwood production are estimates, for both 2016 and 2017 years. Official data from Autonomous Communities are only available for 2015.

In 2016 the roundwood production in Spain reached 20,9 million m^3 ob (17,8 million m^3 ub, table 3). This represents around 40% of the total annual growth (approx. 52 million m^3 ob) and proves the nonexistence of any overharvesting risk.

The total offer of roundwood in Spain will probably remain at similar levels for 2017.

Removals	*Million m^3 ub*	2016	2017
Roundwood		17,8	17,8
	Industrial roundwood	13,3	13,3
	Coniferous	*6,1*	*6,2*
	Non-coniferous	*7,2*	*7,2*
	Fuelwood	4,5	4,5
	Coniferous	*2,9*	*2,9*
	Non-coniferous	*1,6*	*1,6*

Table 3: Removals of industrial roundwood and fuelwood (Million m3 ub)
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente)

Coniferous represented, in 2016, 51% of the total harvested volume, while non-coniferous reached 49%. The split softwood/hardwood is balanced for roundwood in general (considering the sum of industrial use and energy use).

Removals	*1000 m^3 ub*	2016	% of total	2017
Industrial roundwood		13.325	100	13.340
	Sawmilling and Plywood/Veneer	3.874	29%	3.900
	Pulp & Boards (particle board, fibre board)	9.167	69%	9.150
	Other industrial uses	284	2%	290

Table 4: Industrial end uses for the total industrial roundwood removals (1000 m^3 ub)
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente)

In 2016, 69% of the total felling ended up in pulpwood, while 29% was used for sawmilling and plywood/veneer industries (table 4). The weight of pulpwood has increased regularly in the last 5 years, though previously it represented around 60% of the total felling. Most of the sawngoods produced are coniferous species.

In 2016 trade has shown positive balance in roundwood, as exports have increased while imports decreased (table 5). The trade of roundwood in Spain reflects a dominant regular flow of eucalyptus imports since the late seventies. The tropical roundwood imports are very much reduced. Finally, around 0,3 million m^3 of coniferous logs were imported and around 0,7 million exported.

Roundwood trade	*1000 m^3*	2016	2017
Roundwood imports		572	617
	Non-coniferous (incl. tropical)	*219*	*202*
	Tropical	*4*	*5*
	Coniferous	*349*	*410*
Roundwood exports		1.966	1.586
	Non-coniferous (incl. tropical)	*1.246*	*959*
	Tropical	*0*	*0*
	Coniferous	*721*	*627*

Table 5: Roundwood trade by species (1000 m3)
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente)

4.2 WOOD ENERGY

Both wood fuel and wood pellet market showed increases in 2016 (table 6). And also the demand of roundwood for fuel competing with industrial uses (pulp & board) was significant. The wood energy market in 2016 & 2017 has kept positive fundamentals both in demand and price.

WOOD ENERGY		2016	2017
Wood fuel *(1000 m^3)*	Production	4.523	4.500
	Coniferous	*2.896*	*2.800*

	Non-coniferous	*1.627*	*1.700*
Wood pellets (*1000 t*)	Production	428	500
	Imports	26	53
	Exports	84	197

Table 6: Figures for wood fuel production (1000 m^3) and wood pellets production and trade (1000 t).
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente)

4.3 SAWNWOOD

Spanish sawmills produced in 2016 near 2 millions cubic meters of sawnwood, being 82% coniferous and 18% non-coniferous (table 7).

Regarding trade, the sawnwood market in Spain shows a traditional dependence on softwood imports. The dominant origins for better qualities have been Sweden & Finland. But in the last decade, also Central European countries have played a significant role

SAWNWOOD (1000 m3)	2016		2017	
Production	1.737		1.920	
Coniferous		*1.425*		*1.600*
Non-coniferous		*313*		*320*
Imports	1.157		1.180	
Coniferous		*918*		*930*
Non-coniferous		*164*		*181*
of wich Tropical		*74*		*69*
Exports	219		244	
Coniferous		*180*		*192*
Non-coniferous		*34*		*44*
of wich Tropical		*6*		*8*

Table 7: Sawnwood market in Spain (1000 m^3)
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente)

Flooring, paneling and other similar products were being used in an increasing way during the building boom that ended in 2007; after that, a regular demand exists but on much smaller basis.

4.4 CERTIFIED FOREST PRODUCTS

Two forest certification systems are followed in the Spanish forest:

- PEFC (Program for the Endorsement of Forest Certification)

- FSC (Forest Stewardship Council).

The market for certified forest products also demands mainly these two schemes, as most of the commerce has origin and destiny in UE countries.

PEFC is leading the certified forest area in Spain, with more than 2 million ha. 860 Chain of Custody Certificates have been issued so far for 1321 certified installations (updated July 2017)

Sector	Number of Installations/Companies
Timber & construction	423
Sawmilling	485
Graphic industry	156
Pulp & paper	139
Other	118
Total	**1321**

Table 8: PEFC Chain of custody Certificates by type of company (updated July 2017)
(Source: PEFC España)

FSC Certified forests in Spain reach 269.315 ha (updated June 2017) and have issued around 893 Chain of Custody Certificates.

4.5 PASTA Y PAPEL

The recovery of the pulp and paper sector, which started in 205, shows certain fragility within a context of uncertainty and is still suffering from the loss of competitiveness due to energy reform. Within this scenario, 2016 for the Spanish paper industry was characterised by a slowdown in production growth, a drop in domestic demand and a re-activation of exports.

The 2016 consumption of pulplogs in Spain to produce virgin fibre pulp was 5,2 million m^3 ub. The composition by species indicates that 79% (4,1 million m^3 ub) was Eucalyptus sp and 21% (1,1 million m^3 ub) was Pinus sp.

Pulp consumption of logs	2015	2016
Eucalyptus	3.912,0	4.123,7
Domestic	*3.747,9*	*4.012,3*
Imported	*164,0*	*111,4*
Pine	1.153,0	1.114,5
Domestic	*5.093,9*	*1.114,5*
Imported	*0,0*	*0,0*
TOTAL	5.093,9	5.238,2

Table 9: Pulp consumption of logs in Spain (1000 m^3 ub)
(Source: ASPAPEL)

The total production of virgin fibre pulp in 2016 reached 1,7 million tons, slightly more than in previous years. 54% of this amount was exported, mainly to UE countries.

1000 t	Paper and paperboard		Pulp	
	2016	2017	2016	2017
Production	6.219	6.220	1.677	1.750
Imports	3.128	3.048	1.128	1.101
Exports	2.688	2.642	907	1.028

Consumption	6.658	6.626	1.897	1.823

Table 10: Main figures for pulp & paper production in Spain (thousands tons)
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente, ASPAPEL)

4.6 WOOD BASED PANELS

Wood based panel also had good activity in 2016. The 2016 production of particleboard has been lower than expected (according to forescasting made one year before). The main reason is that some factories were temporary closed while their production-lines were being extended. Main customers for the board manufacturers in Spain are furniture and components, door factories, construction and flooring.

WOOD BASED PANELS	1000 m3	2016	2017
Particleboard			
	Production	1.755	1.855
	Imports	499	576
	Exports	599	646
Fibreboard			
MDF	Production	*1.520*	*1.580*
	Imports	*380*	*385*
	Exports	*1.139*	*1.231*
Hardboard & others	Production	*109*	*125*
	Imports	*56*	*47*
	Exports	*94*	*78*
Plywood			
	Production	379	380
	Imports	154	163
	Exports	252	283
Veneer			
	Production	187	190
	Imports	138	128
	Exports	39	42

Table 11: Principal figures for the wood based panel market in Spain
(Source: Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente)