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## MARKET STATEMENT

### **1. General economic trends affecting the forest and forest industries sector<sup>11</sup>**

Regardless of the economic slowdown in the majority of Estonia's trade partners, Estonia's economic growth turned out relatively high in 2001 – 5,0%. The growth can be attributed to higher productivity, internal demand (remarkable was growth of investments - 17,2%) and the fact that internal risks did not increase in the Estonian economy. Growth rate of GDP remained in moderate level in 2002 Q1 (3,2%) and increased quickly in Q2 (6,5%), main driving engine of economy is internal demand that is supported by historically low interest rates, favorable loan conditions and expansive economic-political environment transferred from Europe. Domestic demand is mainly led by investment activities – enterprises have to continue restructuring of production to bring it in conformity with EU quality requirements. Forecasts for GDP growth in 2002 are around 4% and 5,5% in 2003.

The slowdown of world economic growth and decline of international goods flow brought about a considerable slowdown in the growth of Estonia's export (annual growth 7,4% in 2001). The worsening of external demand was most distinctively reflected in the declining volume of subcontracting while export of goods produced in Estonia remained stable. Direct export of main commodity groups increased in 2001. Only export of wood decreased in I half-year due to price-pressure from external markets, in II half-year situation stabilized. The share of timber products with higher value added (mostly furniture) increased remarkably in Estonia's export. The main export partners were Finland, Sweden and Germany; Latvia has grown to important export market. High growth-rates of import in I half-year of 2001 slowed down in II half-year (slowdown in world telecommunication sector decreased subcontracting) and total growth of import was only 4,0%. Near to 30% growth rates were in import of wood (mostly logs for sawmills from Russia and Latvia) and meat that indicate the shortage of raw material in internal market. The share of export of wood, pulp& paper and furniture products was 22% from total export in 2001, share from total import respectively 6,8%; wood and articles of wood have highest positive trade balance. Export and import remained at low levels in I half-year of 2002; forecasts for II-half-year are more optimistic due to expected growth in subcontracting. Forecast for growth of export in 2002 is 7,4% and for import 7,5%.

Sales of manufacturing industry increased 8% in 2001. Growth was led by food, textile, wood and furniture industry. Temporary decrease in growth of sales in September recovered quickly in following months. Deteriorating external demand reflected in the decrease of exports of subcontracting enterprises in II half-year of 2001. Sales of manufacturing industry grew 3,9 % in 1Q 2002 compared to 1Q 2001 (wood processing industry respectively 13,3%, pulp&paper industry 12,2 % and furniture industry 5,5%). Forecast for growth of manufacturing industry in 2002 is 6-7%. Growth of wood processing industry slowed down in 2001 (8,4 % compared to 2000) due to stabilization of felling volumes, decreased prices for sawnwood and increased prices for imported logs. Despite low growth figures wood industry was main driving engine in manufacturing sector. Growth of sales in paper industry was 5 times lower than in 2000. Sales of furniture industry showed stable growth throughout year 2001 (total growth 10,3%). 38% of all investments in manufacturing industry were made in wood, pulp&paper and furniture industry. Keyword for coming years in wood industry is quality – developments must focus on supply of value-added and finished goods of certain quality.

Unemployment rate was 12,6% in 2001 and is forecasted to decrease to 11,5% level in 2002. Consumer price index was at 5,8% level in 2001, forecast for 2002 is 3,8%.

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<sup>1</sup> Based on the reviews and forecasts by Ministry of Finance and Ministry of Economic Affairs

## **2. Developments in forest products markets sectors**

### **2.1 Certified forest products**

So far, there is no demand for certified forest products in domestic market. Growing interest in certifying is mainly driven by external markets and only in last year some major changes could be mentioned.

Development of Estonian Sustainable Forestry Standard (ESFS) started in 1998. Standard was elaborated in cooperation of all major forestry stakeholders and signed in December 2000. ESFS is voluntary agreement and consists of 10 sustainable forestry principles, criteria and indicators. Principles of ESFS form basis for development of national certification schemes. Different stakeholders established non-profit organization Estonian Forest Certification Council in October 2001 to develop National Forest Standard, which will be in compliance with PEFC requirements; certification scheme has been developed and tested in August 2002. Another non-profit organization – Estonian FSC Working Group – is responsible for adapting ESFS to FSC requirements.

Although the national certification schemes are still in development first certification assessment was carried out in summer 2000 and FSC forestry certificate was issued to owner of 600 ha private forest holding. Second FSC forestry certificate was issued to State Forest Management Center (SFMC). SFMC is state profit organization responsible for management of state forests, 35% of all forest area). Remarkable is fact that first time in history FSC forestry assessment and ISO 14001 standard assessment were carried out simultaneously, integrated assessment means that two systems will be controlled by same audit. In both FSC assessments the principles of ESFS were considered. Increased demand from external markets has forced Estonian companies to start with chain-of-custody certification. 8 FSC chain-of-custody certificates have been issued and some assessments are going on.

In future certification process in Estonia may be influenced by lack of interest of private forest owners. In the situation, where private forest holdings are relatively small (average forest area in private forest is 12 ha), only 1-2% of owners are members of forestry societies, industrial demand for certified raw material is low and no price bonuses for certified wood are available, it is hard to attract owners to certify their forests.

### **2.2 Sawn softwood**

944 000 m<sup>3</sup> of sawn softwood was exported from Estonia in 2001 (3,5% annual growth), 70% of that was spruce sawnwood. Sawn softwood was exported mainly to United Kingdom (22,5% of total volume), Germany (10,3%), France (9,0%), Egypt (8,9%), Netherlands (8,1%) and Ireland (5,5%). In 2002 export volume of sawn softwood is expected to increase 6%. 193 000 m<sup>3</sup> of sawn softwood was imported in 2001 (4,8% annual growth), 55% of that was pine sawnwood. Sawn softwood was imported mainly from Russia (91,9% of total volume), Latvia (3,2%), Finland (2,6%) and Sweden (1,5%). In 2002 import volume of sawn softwood is expected to increase to 300 000 m<sup>3</sup> level. Continuous rapid growth (which took place in 1995-2001) in production of sawn softwood will slow down (3% annual growth is expected in 2002) due to problems in raw material supply – relatively wet and mild winters may cause problems in logging and transport on wet sites, felling levels have reached possible levels, restitution and privatization is still going on (some 30% of forest land is out of active management). Dependency on imported raw material supply will grow. Investments for value-adding and further processing of sawn materials will grow as well.

### **2.3 Sawn hardwood**

141 000 m<sup>3</sup> of sawn hardwood was exported from Estonia in 2001 (11% annual growth), 94% of that was birch sawnwood. Sawn hardwood was exported mainly to United Kingdom (52,4% of total volume), Finland (9,8%), Sweden (4,0%) and Latvia (3,9%). In 2002 export volume of sawn hardwood is expected to increase 6,3%. 22 000 m<sup>3</sup> of sawn hardwood was imported in 2001 (47% annual growth). Sawn hardwood was imported mainly from Latvia (45%), Russia (32,3%), Ukraine (4,5%) and Lithuania (3,4%). In 2002 import volume of sawn hardwood is expected to grow 13%. Production of sawn hardwood will grow 12% in 2002. Investments in production of sawn hardwood have increased in recent years to use better hardwood resources. Due to inadequate silvicultural measures in past it is hard to provide continuous supply of hardwood raw material of good quality.

## 2.4 Wood-based panels

Production, import and export of veneer sheets in 2002 is expected to remain in year 2001 level (24000 m<sup>3</sup>, 4000 m<sup>3</sup> and 20000 m<sup>3</sup> respectively). Production of plywood increased 61% in 2001 (new plywood industry in South-Estonia) and will stay at same level in 2002. Import of plywood (66 000 m<sup>3</sup>, 11,9% annual growth in 2001) will grow slightly in 2002, export (55 000 m<sup>3</sup>, 41% annual growth in 2001) will stay at same level in 2002. Plywood was exported mainly to Germany (13,2%), United States (12,9%), Italy (11,6%) and Norway (11,6%) and imported from Russia (92,7%).

Production of particle board (190 000 m<sup>3</sup>) increased in 2001 8% and will stay in same level in 2002. Import and export decreased in 2001 39% and 17% respectively, trade of particle board is forecasted to stay in 2001 level. Particle board was exported mainly to Poland (31,1%), Sweden (28,6%) and Finland (15,6%) and imported from Finland (33,4%), Latvia (27,4%) and Poland (18,7%).

Production of fibreboard (180 000 m<sup>3</sup>, mainly hardboard) in 2001 was in year 2000 level and there is no change predicted for 2002. Import and export decreased in 2001 13% and 4% respectively, trade of fibreboard is forecasted to stay in 2001 level. Fibreboard was exported mainly to Netherlands (22,9%), Sweden (22,1%) and United Kingdom (10,0%) and imported from Belarus (38,1%), Russia (27,7%) and Germany (10,0%).

## 2.5 Pulp and paper

Production of wood pulp (52 000 MT) decreased slightly in 2001 and is expected increase to year 2000 level in 2002. Only 4000 MT of unbleached coniferous sulphate pulp import was registered (most of it from Russia). There are no major changes forecasted in trade of pulp.

Production of paper and paperboard (54 000 MT, most of it is unbleached sack Kraft paper) in 2001 was in year 2000 level and no change is expected in paper industry for 2002. Growth of export (7,5% in 2001, forecast for 2002 5%) will be moderate in comparison with import growth – 18,5% in 2001, 10,4% in 2002. Increase in import is led by growing domestic consumption (annual growth 12% in 2001).

## 2.6 Wood raw materials

3,5 million m<sup>3</sup> of roundwood was exported in 2001 which was 34% of roundwood removals. Historical drop in exports (18,3% in 2001) after continuous growth from 90-es put figure in the 1998 level. 10,4% of roundwood export volumes were logs and rest pulpwood, 43,7% of exports was non-coniferous roundwood (birch and aspen). Roundwood was exported mainly to Sweden (44,6%), Finland (28,6%), Norway (18,6%) and Germany (6,8%). Export will be in same level in year 2002 and is expected decrease slightly in 2003.

583 000 m<sup>3</sup> of roundwood was imported in 2001; 89% of that was coniferous logs. Roundwood was imported mainly from Russia (84,7,6%), Latvia (10,8%) and Belarus (3,3%) Import of coniferous roundwood is expected to grow 25,7% in 2002, high growth is induced by softwood log shortage in sawmills. Import of non-coniferous logs is expected to increase 21% in 2002.

Roundwood removals increased 14,7% in 2001 and are expected to remain at 10 000 m<sup>3</sup> level in year 2002 and 2003. In the 2-nd half of 90-es growth of removals was led by gradual entering of private forests into market and forests, which were temporary out of management, met high pressure from logging activities. 30% of forest land is still subject for restitution or privatization i.e. out of management and therefore there is no space for growth of felling volumes. If privatization space will slow down, then drop in felling volumes may be expected.

### 3. Tables

#### Manufacturing of wood, pulp and paper products in 1992–2001 Source: Statistical Office of

Toodang Production	Ühik Unit of measure	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Saematerjal Sawn timber	1000 m <sup>3</sup>	300	157	310	363,8	511,4	728,5	923,7	1200,2	1436,3	1118,8
Vineer Plywood	1000 m <sup>3</sup>	6,5	6,4	9,9	11,2	18,1	19,5	19,9	17,3	18,4	29,4
Puitkiudplaadid Fibreboard	1000 tingm <sup>2</sup> 1000 conventional m <sup>2</sup>	7777	7929	7849	10888	15100	16678	17700	17000	17800	17960
Puitlaastplaadid Particleboard	1000 tingm <sup>3</sup> 1000 conventional m <sup>3</sup>	85,0	60,6	64,6	154,7	143,0	179,4	176,6	169,0	175,8	189,8
Tselluloos Pulp	1000 t	35,0	0	0	6,7	20,7	35,5	44,1	49,5	54,4	51,6
Paber Paper	1000 t	33,4	0,6	0	5,9	19,5	34,6	42,6	47,7	52,3	53,2
Papp Paperboard	1000 t	1,1	0,4	0,3	0,4	0,9	0,8	0,6	0,4	0,5	0,5

\* esialgsed andmed preliminary data

Estonia

#### Main Economic Indicators 2001–2006 (%)

	2001	2002	2003	2004	2005	2006
GDP (billion EEK)	96.6	105.8	116.2	128.4	141.2	155.1
GDP real growth	5.0	4.3	5.5	6.0	6.0	6.0
GDP deflator	5.4	5.1	4.1	4.3	3.8	3.6
Consumer price index	5.8	4.3	3.5	4.2	3.5	3.5
Employment (thousand)	577.7	582.9	586.1	590.0	593.6	597.5
Growth of employment <sup>1)</sup>	0.9	0.9	0.5	0.7	0.6	0.7
Unemployment rate (ILO)	12.6	11.5	11.3	11.0	10.7	10.2
Real growth of wages	6.2	6.4	6.9	6.2	5.7	5.4
Investments (% of GDP)	26.1	27.4	27.5	28.1	28.5	29.0
Domestic saving (% of GDP)	21.6	20.1	22.4	22.6	23.4	23.9
Current account (% of GDP)	-6.1	-9.0	-6.9	-6.8	-6.4	-6.2
<b>Sources of growth</b>						
Private consumption	4.9	4.5	5.9	6.3	6.3	6.3
Government consumption	2.1	9.7	-2.8	3.4	2.6	2.8
Gross fixed capital formation	9.1	10.5	6.2	8.7	8.0	8.0
Change in inventories (% of GDP)	1.7	1.9	1.9	1.4	1.3	1.2
Export of goods and services	-0.2	7.4	10.0	10.3	10.2	10.2
Import of goods and services	2.1	10.4	7.5	10.6	10.5	10.5

1) 15–74 year old.

Source: Ministry of Finance