

## ECE Timber Committee, Sixtieth session, 24-27 September 2002

*General economic trends according to the National Institute of Economic Research (NIER), in August 2002.*

The Swedish economy is beginning to improve. GDP growth is forecast to be 1.9 percent this year owing to a sluggish economy towards the end of 2001, inventory depletion lasting until summer and rising imports in the final months of this year. Swedish GDP growth bottomed out of the end of 2001 and is now on its way up due to rapid rising of household consumption, an expansionary fiscal policy and development of inventory.

Export of goods continued to rise in the second quarter after an unexpected surge in the first. Increased rate this year clearly exceeds market growth. Domestic consumption and export of goods contributed to increased demand, whereas investment was weak. Expansion was strongest in the Consumer goods industry, particularly in the pharmaceutical industry. Also sales of telecommunication products have risen from the very small volumes at the end of last year. One reason is continuing expansion of GSM networks in the United States.

<b>Selected economic indicators, Sweden</b>			
<b>(Change in percent)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP at market prices	1.2	1.9	2.7
Repo rate (At year-end)	3.75	4.25	4.50
Productivity in business sector	0.7	3.4	3.2
Consumer price index, year-on-year	2.4	2.0	2.2
UND1X, year-on-year	2.5	1.8	1.8
Construction volume, total, constant prices	2.0	4.5	5.6
of which			
-Dwelling (housing starts), self-contained	10.3	-6.8	6.8
Forest industry			
-Production, constant prices	-5.8	2.6	2.7
-Worked hours	0.0	0.4	0.9
-Productivity	-5.8	2.2	1.8
Export of forest industry products			
-Volume	-1.6	4.5	2.6
-Price index	4.0	-5.2	3.9
-Value, current prices	2.3	-1.0	6.6
Import of forest industry products			
-Volume	-4.2	1.0	1.0
-Price index	-1.7	-3.4	3.7
-Value, current prices	-5.8	-2.4	4.7

Preliminary data for the first half of the year show a considerably higher export of primary products than expected. This is true for wood products, pulp for sale, petroleum products, and foodstuffs, for example. Part of the reason for the success in exports has probably been the weakness of the krona. Exports of primary products are expected to increase by 2.8 percent in 2002 and to have a good year in 2003 that will continue, but with somewhat less buoyancy, into 2004. Exports of all major groups of primary products, as well as paper and steel, are expected to increase. The first half of this year was characterised by continuing international oversupply of primary products and depressed prices. However, international prices,

excluding petroleum, are expected to turn upward in the second half of this year. Prices are forecast to continue rising in 2003 and 2004.

A faster global growth in 2003 means a good basis for the Swedish export to grow, despite an expected appreciation of the Swedish krona. In view of this, together with investments in UMTS networks, the forecast is for Swedish GDP growth to rise to 2.7 percent in 2003. In 2004 the growth rate is expected to slacken somewhat to 2.4 percent, partly because of a less expansive economic policy. Next year and in 2004 the Swedish export is expected to grow with 6.9 respectively 6.7 percent.

The inflation rate has fallen by about 1 percentage point since the turn of the year. The decrease is predicted to continue as temporary effects on inflation subside, the Swedish krona strengthens, and the lower level of resource utilisation is fully reflected in the price level. Inflation is therefore expected to be in line with the target, i.e. increase in consumer price to 2 percent with a tolerance interval for deviations of 1 percentage point on either side, of the Riksbank (the Central Bank of Sweden) by the end of this year. In a longer-term perspective it is the judge that the inflation rate will be largely in line with Riksbank's target because of the smaller increase in prices of import-intensive goods and services, thanks primarily to the anticipated appreciation of the krona.

After a gradually strengthen of the Swedish krona since mid-May, the krona depreciated once again in July. It weakened both against the euro and dollar. The weak tendency of the krona is probably explainable in part by capital outflows after the extremely poor performance of the stock market in July. NIER's assessment is that the krona remains undervalued and that according to fundamental factors the krona should appreciate and reach SEK 8.80 to the euro and SEK 8.40 to the dollar at the end of 2004.

### ***Market effects on wood promotion***

Nordic Timber Council (NTC) is an organisation set up to promote the use of sawn wood from sustainable forests in Norway, Sweden and Finland. Financed by the sawmill industries in these three countries, NTC produces and distributes information about the nordic timber to the timber and joinery trades, furniture industry, architects, specifiers, builders and consumers. NTC seeks also to raise consumer awareness of the environmental and structural qualities of Nordic pine (redwood) and spruce (whitewood) through the Nordic brand marking program.

During the last years NTC has been involved in the campaign "Wood for good." The campaign is mostly directed to consumers in Great Britain and includes much advertising. TV-commercials has become very successful and customer-investigations have shown that people who have seen the commercials now have a more positive attitude to wood. They claim that they now understand the environmental benefits of using timber and that they probably will buy more wooden products from now.

Sales statistics also show that the campaign has been successful. The sale of wooden window frames in Great Britain has increased with 18 percent. The sale of complete wooden windows has increased with 100 percent. Also the demand for parquets, panels, decking, etc., has grown during the campaign. New demands for healthy indoors climate and low-energy houses are also increasing the interest of using wood in different building constructions.

The campaign has included participating in building fairs and conferences. They have also arranged exhibitions where companies have had the chance of showing their products for consumers.

One important factor behind the successful results of Wood for good is that different kinds of wood manufacturing industries have co-operated. They have agreed about the fact that the treat against increased use of wood is not from other wood industries but from steel-, aluminium-, concrete- and plastic industries. Different wood organisations in Sweden also have discovered the positive effects of working together marketing, influencing of public opinion, research and education.

### ***Woodpulp, paper and paperboard***

The production of woodpulp during 2001 was 11 million tons which were more than half a million tons less than during 2000. The reason for this decreased production was a reduced demand and not the loss of market shares. At the end of 2001 the market recovered a little bit just to slow down again in the beginning of 2002. During spring and this summer the demand for woodpulp has increased again and the total production for 2002 is expected to increase a bit compared to last year.

The export of wood pulp during 2001 was 3,1 million tons. Figures for the five first months this year show that the export has grown with an approximately 20 percent compared to the same period last year. This trend is expected to continue and the export in 2002 can be around 3.6 million tons.

The production of paper and paperboard in 2001 was 10,5 million tons. During 2002 the demand from Western Europe is still relatively low. Despite this the production is relatively high due to the increased export volumes to the North- America. For paper and paperboard the demand has been quit low, especially for news- and journal paper. Important reason for this is the weak development on the advertising markets and the reduced number of pages in newspapers. Sanitary paper markets are still quit strong.

The production of printing- and writing paper increased a little bit during the first six months and the total production of paper and paperboard is expected to be around 10.8 million tons this year.

Approximately 90 percent of all the paper and paperboard which is consumed in Sweden are recovered, 70 percent as raw material for the paper industry and 20 percent for the heating industry.

### ***Roundwood***

The removals of roundwood in 2001 was 63.7 million m<sup>3</sup> solid volume under bark. This was about the same as in 2000 even though the demand for wood from the industries was less during 2001 than 2000. The import of roundwood decreased dramatically during 2001.

Large areas of forest were injured by fungus (*Gremmeniella abietina*) during 2001 and several stands with forest not old enough for fellings had to be cut. This resulted in an increased volume of especially pine pulpwood but also pine sawlogs out on the market. The fungus problems are still highly actual but even worse problems were caused by storms during the

winter. Fortunately for the forest owners there are a quit strong demand for both pulpwood and timber right now. Pulpwood prices are going up just do secure the deliveries for the industry through the autumn.

After the record high import in 2000 of 11,8 million m<sup>3</sup> solid volume under bark the import decreased in 2001 to 9,5 million m<sup>3</sup>. During the first five months this year the import has continued to decrease and is expected to be around 7.5 million m<sup>3</sup> solid volume under bark in the end of the year. The reason for the lowered import levels are the weak Swedish krona and the increased industry capacity in the Baltic states and Russia.

The import from Russia and Estonia has been reduced with around 50 percent. The import from Latvia also has been reduced but not so much. Latvia is still the country from which we import the largest volumes.

To cope with the wood supply for the industries the removals has to increase this year with around 2 million m<sup>3</sup> solid volume under bark which means a total removal of 65.7 million m<sup>3</sup> solid volume under bark.

### ***Wood fuel***

The production of wood fuel was 32 TWh during 2000. Production increased during 2001. Of the total amount of wood fuel energy, firewood has 33 percent, processed fuel approximately 12 percent, sawdust and bark 27 percent and fuel chips and hogged fuel 28 percent. Harvesting of wood fuel is around 5.9 million m<sup>3</sup> solid volume and of logging residuals the volume is 3.4 - 4.3 million m<sup>3</sup> solid volume.

Since many years it has been difficult for companies within the branch of wood fuel to reach profitability. The price on logging residual has been low and in the second part of the 1990s the harvesting volume of wood fuel declined. With rising oil and electricity prices during recent years the demand of biofuel and by that also wood fuel has increased strongly. Many thermal power stations are built upon biofuel and needs heating the entire year. Logging conditions has been hard during the late winters and the stock of wood fuel small, which resulted in high marginal prices.

Stemwood is principally used within small-scale heating in small self-contained houses but also in medium size establishments and thermal power stations. In thermal power stations heating is foremost done with logging residuals but because of high demand the last year pulpwood has been an alternative and used more often.

The market for processed wood fuel is growing strongly. A particularly bright future is expected for pellets used for heating in one- or two dwelling buildings. Approximately 30,000 one- or two family houses are converting to pellet heating each year in Sweden. The production of pellets is closely to 700,000 tons per year in Sweden and the European market is expected to increase to 4-5 million tons of pellets within five years.

Right now an official energy tax inquiry is under way which could be decisive for the use of biofuel and therefore also for wood fuel in the future.

### ***Sawn softwood***

The production of sawn softwood was 16.2 million m<sup>3</sup> during 2000. The production dropped during 2001 to 16.0 million m<sup>3</sup> but have in the first half of this year increased again. For 2002 the production is expected to reach approx. 16.5 million m<sup>3</sup>. Production figures for 2000 are not corresponding with previous figures. During 2001 a sawmill inventory was carried out and one of the conclusions was that the inquiry that we earlier based data from consequently underestimated the production.

The sawmill inventory showed that 96 percent of the softwood production comes from sawmills with a production higher than 5,000 m<sup>3</sup> per year. 53 percent of the production comes from sawmills with a production higher than 100,000 m<sup>3</sup> per year. In 2000 there were totally 1,812 sawmills by which 312 with an annual production over 1,000 m<sup>3</sup> and 49 with a production over 100, 000 m<sup>3</sup> per year.

The sawmill inventory also showed that sawmills are getting more and more specialised. 279 sawmills were only sawing softwood, 20 sawmills were sawing both soft- and hardwood, and 13 sawmills were only sawing hardwood. Amongst the sawmills only sawing softwood the trend is also to concentrate on a special tree species.

The first half of 2002 has been positive for the sawmills. A favourable rate of exchange of the Swedish krona, good demand on sawnwood and wood residues and lastly falling stocks of sawn wood leads to a positive view towards the autumn amongst the sawmills. Nevertheless, a continuing appreciation of the krona can cause some problem for those who do business in Dollar, Euro and pound sterling.

The export of sawn softwood during 2001 was 10.9 million m<sup>3</sup>. This year the export will be larger, about 11.5 million m<sup>3</sup>.

The markets in Denmark, England, USA, Japan, France, Spain and Norway are doing well. Also export to Egypt has increased after being almost non-existent during the winter. The domestic market has been stable. However, the German market is still sluggish. Between 2000 and 2001 the Swedish export to USA increased from approximately 180,000 m<sup>3</sup> to 300, 000 m<sup>3</sup>. During January-May this year Sweden exported 239.000 m<sup>3</sup> to USA, that is almost 50,000 per month.

The cause of the strong Swedish export is not solely a favourable exchange rate of the Swedish krona and a good rumour of the sawn wood but to an extend also that the competition from Finland and Russia has been less.

Production during 2003 is expected to lie still at a high level or even increase somewhat. The export of softwood is also expected to increase. A bigger share of export will go to non-European markets.

### ***Sawn hardwood***

The production of sawn hardwood during 2000 was 217,000 m<sup>3</sup>. During 2001 and 2002 the production has dropped with about 10 percent. This is caused above all by low demand on sawn softwood of beech. The fashion trend right now when it comes to floors, furniture, etc., is dark tree species.

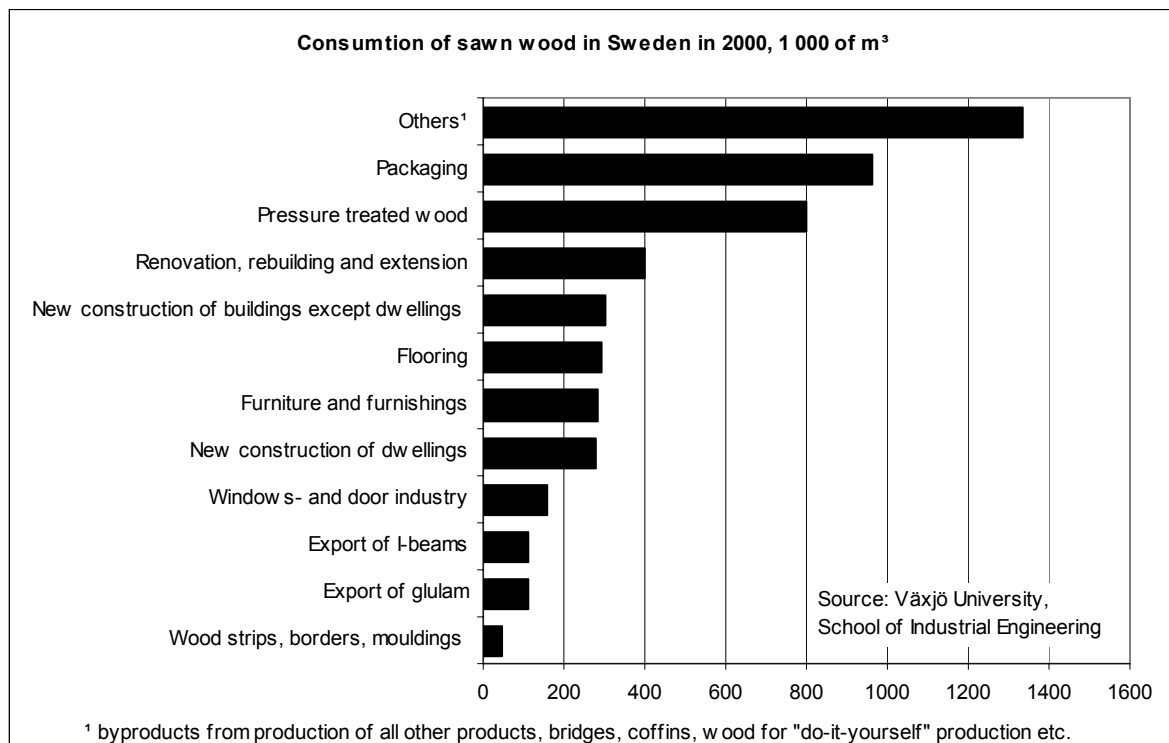
Except for beech the market is rather good. The export of for example oak parquet flooring to USA and Great Britain has increase during the last year

### *Wood-based panels*

The producers of particle board in Sweden have several years behind with very low profitability. One of the main causes is high prices on sawdust and low prices on particle board. The competition from the energy sector about the byproducts from the sawmills are hard. During this spring one factory had to close down and another one is closing down right now. Some of the production may be moved to one of the Baltic countries or Russia. During 2001 the production of particle board was 584, 000 m<sup>3</sup>, due to closing-downs the production is expected to fall this year and next year. According to the trade statistics the export of particle board has increased this year and may sum up to 130,000 m<sup>3</sup> this year. Imports of particle board is expected to be 370,000 m<sup>3</sup> which is less then last year.

Production and trade in other wood-based panels can be found in the attached table.

### *Value added forest products*



The domestic consumption of sawnwood in 2000 was 5.1 million m<sup>3</sup>. Since the beginning of 1990 the use of timber in new construction has dropped and is now not more than 580,000 m<sup>3</sup> compared to 1,330,000 m<sup>3</sup> in 1990. One major reason is that the number of new constructed dwellings has decreased dramatically but also that the share of timber or other wood products

in the construction sector has been reduced. The production of wooden windows, doors and different kinds of strips and mouldings have fallen.

Despite this the total use of sawnwood are now bigger than ten years ago. Especially the use of wood for packaging, pressure treatment and rebuilding, and renovation have increased a lot. Other wood products which have strengthened their position on the market during the last years are external cladding, flooring, furniture and glulam. The major part of these products are exported but the domestic consumption has also increased.

It seems as though the major part of the sawnwood which is consumed in Sweden are used for production of products which do not request the best qualities of wood.

### ***Certified forest products***

The environmental work has become increasingly important in wood promotion. One of the most important things is to convince the customer that wood is an environmental friendly material and that the use of wood in many products are the best environmental alternative.

Despite this the demand for certified forest products has not increased compared to last year. The strongest demand is still from retailers and industrial customers in Great Britain, the Netherlands and Germany.

At the end of 2001 approximately 12 million hectares of forest land were covered with certification in Sweden, slightly more than 10 million hectares according to FSC and 2 million hectares according to PEFC.

The share of certified paper and paperboard products and sawnwood is around 5 percent. This is also the certified products share of the total export of wood products from Sweden.

The chain of custody certificates are rather common but are not used very often. There are logistic problems with keeping apart the timber from forest owners certified according to different systems. Due to this only small volumes from the certified forest can be labelled as certified timber and certified forest products.

Therefore, in autumn 2000 the Federation of Swedish Farmers and Forest Owners, the Swedish Forest Industries Federation, the Swedish Society for Nature Conservation, and the World Wildlife Fund, Sweden, took the initiative in forming a committee to compile a bridge document between the Swedish FSC and PEFC standards. The objective was a document that clearly shows what is required of a forest owner who is currently applying one of the forest standards to achieve compliance with the other systems standard. This document is called the Stockdove and is right now evaluated by the two parts FSC and PEFC.

Product	Unit	2001	2002	2003
<b>SAWLOGS AND VENEER LOGS, CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	33 453	34 700	34 900
Imports	1000 m <sup>3</sup>	1 900	1 800	1 900
Exports	1000 m <sup>3</sup>	500	600	600
Apparent cons.	1000 m <sup>3</sup>	34 853	35 900	36 200
<b>SAWLOGS AND VENEER LOGS, NON-CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	350	350	350
Imports	1000 m <sup>3</sup>	60	50	50
Exports	1000 m <sup>3</sup>	15	10	10
Apparent cons.	1000 m <sup>3</sup>	395	390	390
<b>of which, tropical logs</b>				
Imports	1000 m <sup>3</sup>	2	2	2
Exports	1000 m <sup>3</sup>	0	0	0
Net Trade	1000 m <sup>3</sup>	2	2	2
<b>PULPWOOD (ROUND AND SPLIT), CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	20 688	21 250	21 750
Imports	1000 m <sup>3</sup>	3 747	3 300	3 900
Exports	1000 m <sup>3</sup>	773	550	800
Apparent cons.	1000 m <sup>3</sup>	23 662	24 000	24 850
<b>PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	2 820	2 900	2 950
Imports	1000 m <sup>3</sup>	3 796	3 420	3 440
Exports	1000 m <sup>3</sup>	14	15	20
Apparent cons.	1000 m <sup>3</sup>	6 602	6 305	6 370
<b>WOOD RESIDUES, CHIPS AND PARTICLES</b>				
Domestic supply	1000 m <sup>3</sup>	16 092	16 600	16 700
Imports	1000 m <sup>3</sup>	1 692	1 700	1 700
Exports	1000 m <sup>3</sup>	374	300	300
Apparent cons.	1000 m <sup>3</sup>	17 410	18 000	18 100
<b>OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	400	400	400
<b>OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	100	100	100
<b>WOOD FUEL, CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	2 950	2 950	2 950
<b>WOOD FUEL, NON-CONIFEROUS</b>				
Removals	1000 m <sup>3</sup>	2 950	2 950	2 950

Product	Unit	2001	2002	2003
<b>SAWNWOOD, CONIFEROUS</b>				
Production	1000 m <sup>3</sup>	16 000	16 500	16 600
Imports	1000 m <sup>3</sup>	155	200	200
Exports	1000 m <sup>3</sup>	10 900	11 500	11 600
Apparent cons.	1000 m <sup>3</sup>	5 255	5 200	5 200
<b>SAWNWOOD, NON-CONIFEROUS</b>				
Production	1000 m <sup>3</sup>	210	200	215
Imports	1000 m <sup>3</sup>	154	180	180
Exports	1000 m <sup>3</sup>	24	20	25
Apparent cons.	1000 m <sup>3</sup>	340	360	370
<b>of which, tropical sawnwood</b>				
Production	1000 m <sup>3</sup>	2	2	2
Imports	1000 m <sup>3</sup>	12	15	15
Exports	1000 m <sup>3</sup>	3	1	1
Apparent cons.	1000 m <sup>3</sup>	11	16	16
<b>VENEER SHEETS</b>				
Production	1000 m <sup>3</sup>	7	7	7
Imports	1000 m <sup>3</sup>	30	30	30
Exports	1000 m <sup>3</sup>	15	17	17
Apparent cons.	1000 m <sup>3</sup>	22	20	20
<b>of which, tropical veneer sheets</b>				
Production	1000 m <sup>3</sup>	1	1	1
Imports	1000 m <sup>3</sup>	2	2	2
Exports	1000 m <sup>3</sup>	0	0	0
Apparent cons.	1000 m <sup>3</sup>	2	3	3
<b>PLYWOOD</b>				
Production	1000 m <sup>3</sup>	106	100	100
Imports	1000 m <sup>3</sup>	157	140	140
Exports	1000 m <sup>3</sup>	55	40	40
Apparent cons.	1000 m <sup>3</sup>	208	200	200
<b>of which, tropical plywood</b>				
Production	1000 m <sup>3</sup>	0	0	0
Imports	1000 m <sup>3</sup>	5	5	5
Exports	1000 m <sup>3</sup>	1	1	1
Apparent cons.	1000 m <sup>3</sup>	4	4	4
<b>PARTICLE BOARD (including OSB)</b>				
Production	1000 m <sup>3</sup>	584	500	500
Imports	1000 m <sup>3</sup>	411	370	370
Exports	1000 m <sup>3</sup>	103	130	130
Apparent cons.	1000 m <sup>3</sup>	892	740	740
<b>of which, OSB</b>				
Production	1000 m <sup>3</sup>	0	0	0
Imports	1000 m <sup>3</sup>	21	..	..
Exports	1000 m <sup>3</sup>	5	..	..
Apparent cons.	1000 m <sup>3</sup>	15	..	..
<b>FIBREBOARD</b>				
Production	1000 m <sup>3</sup>	240	250	250
Imports	1000 m <sup>3</sup>	119	125	125
Exports	1000 m <sup>3</sup>	121	130	130
Apparent cons.	1000 m <sup>3</sup>	238	245	245
<b>Hardboard</b>				
Production	1000 m <sup>3</sup>	96	..	..
Imports	1000 m <sup>3</sup>	27	..	..
Exports	1000 m <sup>3</sup>	21	..	..
Apparent cons.	1000 m <sup>3</sup>	102	..	..
<b>MDF (Medium density)</b>				
Production	1000 m <sup>3</sup>	96	..	..
Imports	1000 m <sup>3</sup>	20	..	..
Exports	1000 m <sup>3</sup>	12	..	..
Apparent cons.	1000 m <sup>3</sup>	104	..	..
<b>Insulating board</b>				
Production	1000 m <sup>3</sup>	49	..	..
Imports	1000 m <sup>3</sup>	16	..	..
Exports	1000 m <sup>3</sup>	23	..	..
Apparent cons.	1000 m <sup>3</sup>	42	..	..
<b>WOOD PULP</b>				
Production	1000 mt	11 000	11 400	11 500
Imports	1000 mt	318	350	350
Exports	1000 mt	3 039	3 600	3 700
Apparent cons.	1000 mt	8 279	8 150	8 150
<b>PAPER &amp; PAPERBOARD</b>				
Production	1000 mt	10 535	10 800	10 900
Imports	1000 mt	617	700	700
Exports	1000 mt	8 733	9 100	9 200
Apparent cons.	1000 mt	2 419	2 400	2 400