5 Sawn softwood markets, 2011-2012

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Highlights

- Sawn softwood consumption increased in all UNECE subregions: in North America by 1.0%, in Europe by 2.8% and in the CIS by 5.8%.
- Even though consumption of sawn softwood increased modestly in Europe and North America in 2011, it is still far below the level of 2007.
- The short-term outlook in Europe is bleak, as fundamental drivers lack strength, which in turn is a factor of the weak economy.
- The European sawmill sector continues to be squeezed between a persistently high raw-material cost and globally depressed market prices.
- Growing demand for bioenergy continues to cause disturbances of long-term established fibre-market behaviour, with a clear possibility of an inherent upward push on fibre prices which normally develop in tandem with the demand development for sawn wood.
- Exports of Russian sawn softwood increased by 10.1% between 2010 and 2011 to 18.9 million m^3. Exports to China accounted for 37% of Russian exports and increased by 39%.
- US consumption recovered steadily in 2011, rising by 4.8% to 58.1 million m^3, driven by a modest housing recovery, as well as an improved repair and remodelling market.
- Canadian and US sawmills benefited from increased exports, especially to China, reflecting highly competitive costs, coupled with favourable exchange rates; with west coast exporters reaping the greatest rewards.
- US production is expected to increase substantially in 2012, while sawmills in eastern Canada face lower output and weaker margins; and western Canada will be affected by dwindling fibre supply from the mountain pine beetle outbreak.

5.1 Introduction

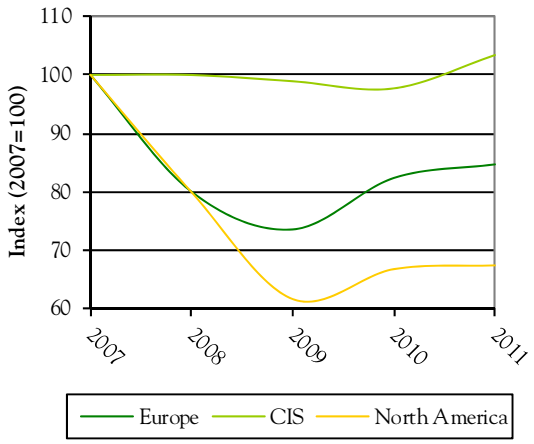
In line with the general global economic recovery, 2011 was characterized by increases in consumption of sawn softwood in most UNECE subregions, with the main exception being Canada, which incurred a temporary slowdown. Recovering trends in consumption of sawn softwood (+2.3%) occurred in most UNECE subregions, and were replicated in terms of production and trade (graph 5.1.1). Consumption in North America and Europe increased by 1.0% and 2.8%, with the largest increase occurring in the CIS (+5.8%). The positive development of demand for sawn softwood resulted in increases in terms of production and trade – with increases in North America (+4.4%), Europe (+3.7%) and the CIS subregion (+9.1%).

Against the background of softer demand, an over-abundance of sawmilling capacity and the resulting financial challenges faced by producers; timber-processing investment projects continue to be a major challenge for the sawmilling sector. While demand and prices continued to pick up slowly and steadily in the first half of 2012, raw material costs pose a threat to the profitability of sawmills in much of Europe as well as the west coast of the US (where competition for logs from China occurs). In the following sections, we will analyse the drivers behind these trends.

After the sharp fall in demand for sawn softwood – from 2005 in North America and since late 2007 in Europe – sawmills have responded positively to the gradually improving domestic demand as well as to stronger export markets since 2009. But in most markets they have had to restrict production to match consumption.

GRAPH 5.1.1

Consumption of sawnwood in the UNECE region, 2007-2011



Source: UNECE/FAO TIMBER database, 2012.

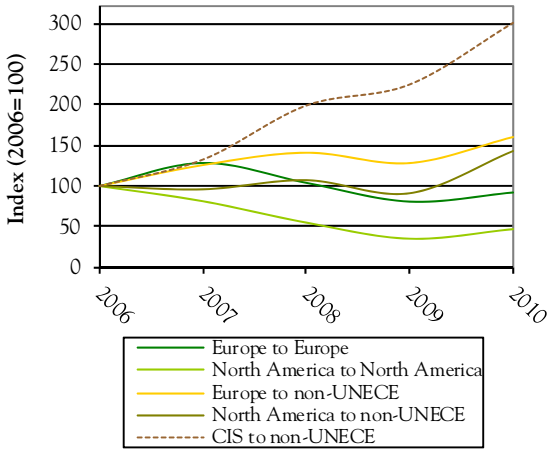
In Europe, production increased by 3.7% to over 102.4 million m^3. This compared closely with a 4.4% improvement in North America to 83.4 million m^3. Increased demand for sawn softwood also increased the demand and prices for logs in many regions, which tended to erode sawmill margins. Sawmill earnings in many UNECE countries, and especially Europe and the CIS, remained close to zero by the end of 2011 and into 2012, with many mills experiening small losses. Improved building activity in key markets allowed some exporters to divert production to the highest margin markets throughout the year. However, mills remained cautious about bringing any new production online, with expensive log prices continuing to be a major negative force throughout Europe as demand remains fragile.

North American mills benefited from improving consumption and steady gains in housing starts. Cost pressures with global market uncertainty prevented many mills from adding extra capacity, although announcements of mill openings more than offset any scheduled cutbacks in capacity. In the second half of 2011, demand from China weakened, but recovered in the first half of 2012, allowing west coast producers to take advantage of more overall orders that, in turn, helped to support firmer domestic market prices.

Sawn softwood trade flows continued to improve (graph 5.1.2). Producers in all three subregions saw continued growth in exports, especially to Asian and Middle East markets.

GRAPH 5.1.2

Top five global trade flows of sawn softwood by value, 2006-2010



Note: Total value of world imports for 2009-2010 was $35.7 billion.

Source: UN COMTRADE, 2012.

5.2 Europe subregion

5.2.1 *Market overview*

Europe's softwood sawmillers faced another challenging year in 2011. With domestic demand almost flat and no buoyant offshore market that might have offered a much-needed outlet, most mills saw operating margins shrink to low levels. Persistent high sawlog prices, in many parts of Europe, aggravated the situation. This marks the fourth year in a row of poor markets, with no immediate relief in sight.

A large part of the European softwood sawmilling industry ticked off another year with little or negative profitability. If 2012 proves to be yet another difficult year, as seems likely, there is a strong possibility that it will lead to some consolidation and significant change in the sawn softwood sector.

Both production and consumption increased in 2011, but only marginally, with imports being the main casualty (table 5.2.1).

TABLE 5.2.1

Sawn softwood balance in Europe, 2010-2011

(1,000 m³)

	2010	*2011*	*Change %*
Production	98 742	102 416	3.7
Imports	35 475	34 384	-3.1
Exports	44 853	44 897	0.1
Net trade	9 378	10 512	
Apparent consumption	89 364	91 904	2.8

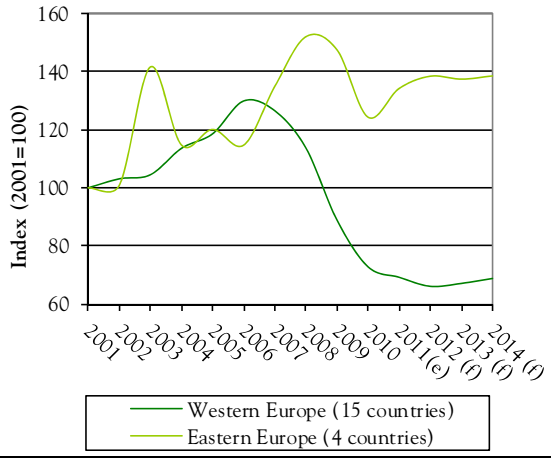
Source: UNECE/FAO Database, 2012.

Even though the 3.7% growth in production and 2.8% increase in apparent consumption were welcome developments, the volumes are still below the 2007 peak – -10% for production and -15% for consumption. This underlines the seriousness of the challenge faced by Europe's softwood sawmillers and sets the scene for the following analysis of the underlying causes.

New residential housing is the key driver of demand, even though the average dwelling uses less than 1 m³ of sawn softwood in its structure. Activity in repair, modification and improvement (RMI) typically increases as new residential construction declines. RMI uses less sawn softwood than new construction, so its mitigating effect on overall demand is minimal.

GRAPH 5.2.1

Housing start index for Europe, 2001-2014



Notes: e = estimate, f = forecast.

Source: Euroconstruct, November 2011.

Western Europe, in the wake of the global financial crisis, has seen its 2011 average housing completions decline by 50% from 2006 peak. But the decline was not consistent throughout that region. In Spain, the housing market dropped from 866,000 starts in 2006 to an estimated 76,000 in 2011 – a 91% drop (graph 5.2.1).

There are many reasons that will likely restrict the building of more housing, the key ones being: (a) affordability; (b) banks' unwillingness to expand loans against new regulations about increasing capital coverage ratio and (c) availability of land.

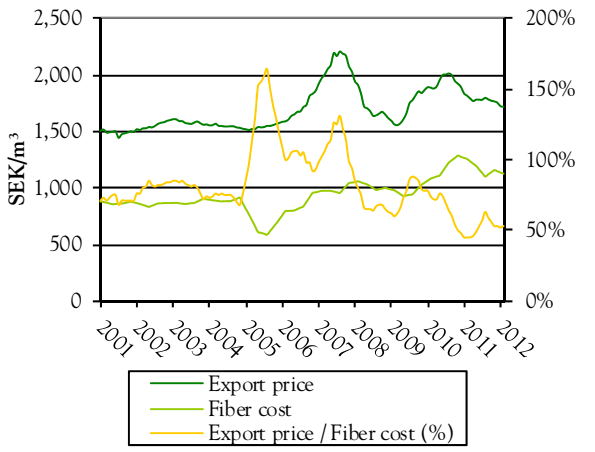
Although eastern Europe is doing better than western Europe, the absolute size of the former market is not sufficient to cover the lost sawn softwood markets in western Europe.

A number of facts support a negative near-term housing starts development, e.g. (a) the euro crisis, (b) lack of consumer confidence, (c) high unemployment, (d) unsustainable sovereign debt levels and budget deficits, (e) recent forecast for EU-27 GDP growth hinting at 0% for 2012 and a meagre 1.5% for 2013 and (f) lacklustre demand in other key global markets.

The near collapse of the western European construction market since 2007 has translated into significantly lower-than-average demand; and with that, a downward pressure on prices for sawn softwood.

GRAPH 5.2.2

Swedish export price for sawn softwood and softwood sawlog cost per cubic metre of sawnwood, 2001-2012



Notes: Sawlog prices are reported at the roadside. The export price to fibre cost series measures the percentage by which the export price exceeds the fibre cost.

Source: Statistics Sweden, Swedish Forest Agency, 2012.

Although the situation with sawmilling in Sweden is not exactly reflective of the average for the rest of Europe, the figures in the chart are generally indicative of the European situation. Thus, from the chart we can see that:

- 2005 and 2007 were particularly good earning years.
- The earnings potential trend – expressed as the difference between export price and fibre cost, divided by fibre cost – has been below past averages and declining over the last four years (graph 5.2.2).

The increasing trend for fibre cost (70%-80% of a sawmill's operating expenses), despite weaker sawnwood prices, results in a margin squeeze that principally can be explained by three factors:

1. "Last man standing strategy" (the stronger mills continue and outlast their weaker competitors).
2. Structure of forest ownership.
3. Competition from other sectors.

The first factor has a detrimental effect on the industry's earnings potential. In order to come out on top of this competitive business, the most important factor to control is to reduce the overhead and manufacturing unit costs per m^3 sawnwood.

From the perspective of the European softwood sawmilling sector, there are indications both for and against the idea of continued high prices. In support of continued high prices are:

- Sawmills do not "die" easily. They may curtail production, or can be mothballed for a while, but rarely does a mill disappear from the market.
- The structure of the European sawmilling industry is largely small-scale. Coupled with relatively low costs of entry into the business – in comparison with other industrial uses of wood fibre – it is improbable that the industry would ever assume collective responsibility for rationalizing capacity by removing excess capacity in any coordinated or strategic way.

We see this phenomenon clearly in the 2011 European capacity changes. Despite a poor financial year, capacity additions exceeded removals. Sweden led the game by announcing about 2.9 million m^3 of new installed capacity during 2011-2012 (although this remains to be seen due to current worsening market conditions), while only a handful of smaller sawmills closed down in 2011. Germany and Austria also saw fewer additions, restart of mills and productivity increasing refurbishment – again without any significant capacity removal. Increased pressure on the removal of uncompetitive capacity will occur in 2012.

The inelasticity of European sawlog prices may be explained in part by the fact that a major proportion of Europe's forests are owned by families and private individuals. As the trend towards urbanization continues, increasingly fewer forest owners are dependent on the income from their forest assets. And with certification, forest owners have faced rising labour, energy and compliance costs. Unless market prices cover the increased costs, owners will not be able to afford to harvest the timber. If prices fail to compensate them adequately, owners are likely to leave the trees standing until markets improve. And unlike many other commodities, there are not many negative consequences from waiting for better markets, as the forest will continue to grow.

The EU push for renewable energy, increased competition for wood fibre. Although the bioenergy sector business model does not include sawlogs as a raw material for power and heat generation, it is impossible to isolate a new demand for a certain part of the quality gradient of the fibre resource, simply because it causes a chain reaction that ripples through the total wood supply system (BBC Business News, 2011). For example: when tree stems are processed into the end-use assortments (generally driven by diameter), a certain amount of the higher assortment is often sacrificed into the lower assortments in order to facilitate harvest and hauling.

This scenario does not take into account the effect of transport cost, controlled by distance to the facility, which can easily be tipped in favour of one user over another via subsidies. The result, which is visible upon inspection of raw material utilization, is that pulp logs find their way into energy wood assortments and sawlogs find their way into pulp log assortments. In Sweden and

elsewhere, pulpwood has been used for feeding heat and power plants along with pellet production, and given the current appetite for renewable energy, this trend will have implications for other forest industries (Hawkins Wright, 2009). These implications were duly noted by the EESC (European Economic and Social Committee) in "Opportunities and challenges for a more competitive European woodworking and furniture sector" (EU, 2012).

The most obvious short-term factor in favour of reduced sawlog costs is the Russian Federation's entry into WTO, and with that an expected agreement to partly reduce the export taxes on logs. With export duties for spruce and pine expected to drop from 25% to 13%-15%, this should eventually have some lowering effect on the average European softwood sawlog price. Sawmills in Finland and the Baltic States will enjoy the largest benefits simply because of their proximity to Russian forests.

Source: Raunion Saha, 2012.

The final driver of European sawn softwood production is the export trade. Seeing no great improvement in domestic demand, European sawmillers have increasingly turned their attention to the export market. Simultaneously, non-European sawn softwood suppliers find it difficult to successfully compete in the European market, which is strongly characterized by intense competition, long-established relationships, timely deliveries, and high-quality fibre manufactured into consistently high-quality products.

GRAPH 5.2.3

EU-27 trade of sawn softwood with non-EU-27 partners, 2007-2011

Source: Eurostat, 2012.

A closer look at EU-27 exports to offshore markets shows that the effects of the so-called "Arab Spring" took a toll. North Africa is an important export destination for European producers, and while exports to the region fell by 14% between 2010 and 2011, this was less severe than was initially expected (table 5.2.3).

TABLE 5.2.3

EU-27 sawn softwood exports by principal importers, 2010-2011

(1,000 m³)

Destination	*2010*	*2011*	*Change %*
North Africa	6 059	5 220	-14
Middle East	3 197	3 383	6
Japan	2 677	2 519	-6
China	347	442	27
US	345	296	-14
Other non-Europe	1 258	1 172	-7

Sources: UNCOMTRADE, EuroStat 2012.

Middle Eastern markets, fuelled by relatively high oil prices, continue to consume sawn softwood at an increasing pace. The US is a mere shadow of its 2007 peak of 1.9 million m³.

5.2.2 *Upcoming legislation*

The industry is heading towards the implementation of the EU Timber Regulation, scheduled for 3 March 2013. As from this date, market players in the EU are officially prohibited from placing illegally harvested roundwood and wood products on the market. The legislation will require that due diligence be applied to all wood first placed on the EU market. Traders further down the supply chain will also be required to keep track of who they bought roundwood or wood products from, and where applicable, who they sold them to.

The promoters of the legislation firmly believe that it will have a positive effect on fighting illegal and unsustainable harvesting. However, the forest products industry is less enthusiastic, as the legislation may simply add to the cost and complexity of doing business for those abiding by the law, without stemming the flow of illegally harvested and traded wood, which could continue to exist elsewhere.

Looking ahead, another legislative change is expected to affect the forest products sector, though perhaps to a lesser extent. CE marking of sawn softwood, which was introduced under the Construction Products Directive 89/106/EEC in 1989, is to become compulsory for all sawnwood sold within the EU from 1 July 2013, in accordance with the new directive: "Construction Product Regulation (EU) 305/2011."

5.2.3 *Outside influences affecting the European subregion*

Recovering export markets in the important North African and Middle Eastern regions and growing exports to new markets in China – and most recently, India – provide a welcome opportunity; as does the declining availability of tropical hardwood and the growing awareness and tighter regulations supporting the use of wood from sustainably managed sources.

These trends may have a pronounced impact on specific companies or minor sub-sectors of the market. But for the industry as a whole, they are dwarfed by the significance of a sputtering European construction market and low GDP growth.

5.3 Commonwealth of Independent States, focusing on the Russian Federation

5.3.1 *Market overview*

In 2011, apparent sawn softwood consumption in the CIS increased by 5.8% from 2010. Led by the Russian Federation, production in the CIS increased by 9.1% to almost 33 million m^3 (table 5.3.1).

TABLE 5.3.1

Sawn softwood balance in the CIS, 2010-2011

(1,000 m^3)

	2010	*2011*	*Change %*
Production	30 188	32 949	9.1
Imports	3 064	3 071	0.3
Exports	18 208	20 102	10.4
Net trade	15 145	17 031	
Apparent consumption	15 043	15 918	5.8

Source: UNECE/FAO Database, 2012.

The official data for Russian sawn softwood production seem to underestimate considerably actual production. Using these official data would have resulted in negative apparent consumption for the Russian Federation. Therefore, following the practice adopted in the 2009-2010 *Review* (page 58), the secretariat has estimated sawn softwood consumption based on the annual percentage change in Russian residential construction. Using 2004 as a base year, production data have been estimated to match this increased consumption. The secretariat will work to resolve these differences but will continue to use this approach until the underlying cause is better understood.

Russian production of sawn softwood has been estimated at 29.1 million m^3 in 2011 (10.0% above 2010). Over the 12 months from February 2010 to February 2011, the growth rate reached 16.5%. Apparent consumption increased by 9.8% in 2011 to reach 10.2 million m^3 (table 5.3.2).

TABLE 5.3.2

Sawn softwood balance in the Russian Federation, 2010-2011

(1,000 m^3)

	2010	*2011*	*Change %*
Production	26 412	29 055	10.0
Imports	17	15	-11.8
Exports	17 118	18 846	10.1
Net trade	17 101	18 831	
Apparent consumption	9 311	10 224	9.8

Source: UNECE/FAO Database, 2012.

In 2011, exports of Russian sawn softwood amounted to 18.9 million m^3, a gain of 10.1% over 2010.

In 2011, the Russian Federation exported almost 7 million m^3 to China, an increase of 39% in one year. Exports to China accounted for 37% of all Russian exports of sawnwood, compared with 29% in 2010. Also, sawnwood exports to Uzbekistan increased by 21% and deliveries to Tajikistan grew by 26% while sawnwood

exports to the Islamic Republic of Iran grew by 20%. Decreases in sawn softwood exports were recorded in Egypt (-17%); Finland (-16%); France (-12%); Syria (-28%); the UK (- 15%) and Italy (-8%), all a result of weaker economic conditions or political unrest (Lesprom, 2012).

The Russian Federation's accession to the WTO should result in the reduction of export duties on sawlogs. Lower duties were scheduled to take place effective 30 days after the Duma's final reading of its acceptance into law (July 2012) where the log export tax was to be reduced from 25% to 15% on pine and 13% on spruce.

The reduced rates apply to annual quotas that are set at 6.25 million m³ for spruce logs and 16.04 million m³ for pine. Once the quotas have been exceeded, the current 25% duty rates will apply. This will benefit log exporters but may cause difficulties for Russian wood processors, who may find logs could be in short supply in the short term, with a knock-on effect on exports of sawnwood.

5.3.2 *Housing construction in 2011*

Russian construction of low-rise buildings showed steady growth in 2011. The numbers of individual wooden houses had almost reached the numbers recorded before the economic crisis began (at 94% of 2008 level). The share of low-rise buildings (1-2 floors) in total construction exceeded 43% in 2011, only 4% lower than the 2008 figure (graph 5.2.4).

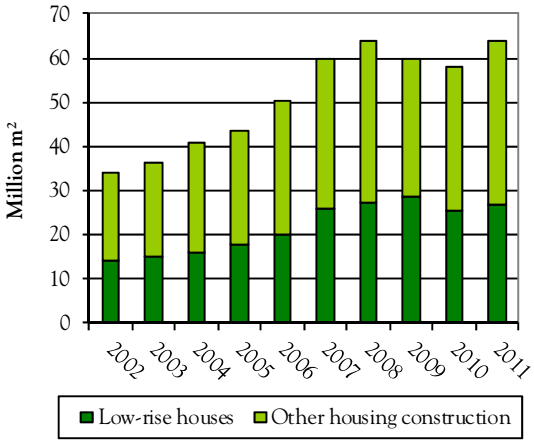
There appears to be a swing towards demand for wooden houses, with some reports indicating that the number of houses built in wood has exceeded the number built with brick (graph 5.2.5). Market analysts in all regions of the Russian Federation have commented that the growth rate in new wooden house construction is above average.

Siberia, followed by the Volga and Ural Federal Districts, have traditionally been the areas with the highest demand for wooden buildings. In absolute numbers, more wooden houses were built in the Republic of Bashkortostan (the Volga Federal District) than in any other part of the country. The area where wooden construction accounts for the largest proportion of all house construction is the Republic of Buryatia (Siberian Federal District), where almost 96% of houses are built from wood.

Moscow and Leningrad have the highest standard of living and are regions where most private building takes place. There is not a consistent picture in terms of building with wood. The Moscow region built fewer wooden houses in 2011 than in 2010, recording a fall of 626 units. By contrast, the Leningrad region recorded an increase of 455 units over the same period.

GRAPH 5.3.1

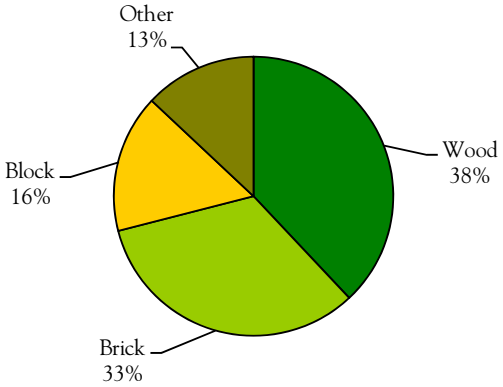
Housing construction in the Russian Federation, 2002-2011



Source: Russian Association of Wood Housing, 2012.

GRAPH 5.3.2

Shares of individual houses for walling in the Russian Federation, 2011



Source: Russian Association of Wood Housing, 2012.

5.4 North America subregion

5.4.1 *Market overview*

Following positive growth in North American consumption in 2010, the sawn softwood market showed only modest signs of continued recovery. Consumption in 2011 rose by only 1% to 73 million m³. The continuing global economic uncertainty leaves North American producers understandably nervous about a loss of market momentum, despite what now appears to be a potential recovery in housing starts taking hold in the US. However, with exports to Asia accounting for the majority of the increase in North American production, what happens in Asia, Europe and the Middle East is certain to affect producers.

For the second consecutive year, US housing starts made positive gains, climbing to 609,000 units in 2011 (+3.7% over 2010 (US Department of Census 2012). However, US economic growth in 2011 slowed to 1.7% (down from 3.0% in 2010) and unemployment, while improving (8.1% in April 2012 vs. 9.0% in April 2011), remained well above historical norms of between 5% and 6%.

With the house-building sector in 2011 at only 30% of the 2005 peak level of over 2 million starts, residential repair and remodelling continues to be the largest end-use segment of sawn softwood, accounting for 41% of consumption in 2011 compared with less than 30% in 2005. Residential construction's share over the same period plunged from 44% to 22%.

A weaker US dollar and lower sawnwood prices in 2011 discouraged exporters from shipping to North America, resulting in a small decline in imports. North American producers increased exports by just over 10% and, combined with improved domestic consumption, supported an increase in production in 2011 of 3.5 million m^3 (table 5.4.1).

TABLE 5.4.1

Sawn softwood balance in North America, 2010-2011

(1,000 m^3)

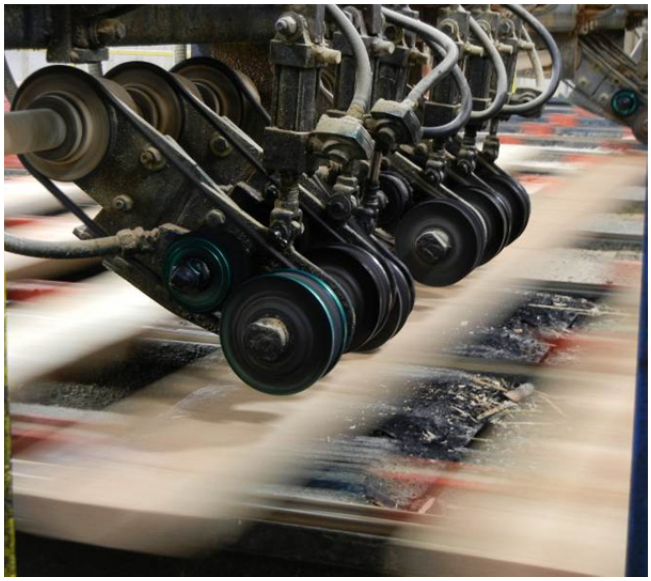
	2010	*2011*	*Change %*
Production	79 875	83 402	4.4
Imports	16 729	16 380	-2.1
Exports	24 282	26 755	10.2
Net trade	7 553	10 375	
Apparent consumption	72 322	73 027	1.0

Source: UNECE/FAO Database, 2012.

A rise in new housing construction in 2011 helped to lift US apparent consumption by 2.4 million m^3 (i.e. by 4.8%) to 58.1 million m^3. Canada, by contrast saw its domestic consumption slowing down in 2011, falling by just over 10% from 2010. To counter the falling consumption, not helped by a 2% decline in exports to the US, Canadian producers aggressively pursued export opportunities to China, Japan, the Middle East, Asia and Oceania.

US sawn softwood output in 2011 was 45.4 million m^3 (+7.7%) compared with 42.2 million m^3 in 2010 – production gains in the south slightly outpacing those of the west (+8.8% and +6.3%, respectively). Stable sawnwood demand among pressure treaters and DIY retailers kept sawmills in the south running at levels slightly above those of 2010. In contrast, rising log costs driven by log exports to China, coupled with weak domestic sawnwood prices, forced a number of sawmills in the Pacific Northwest to curtail production or to take extended downtime.

US exports represent a minor component of total production (6.5%), yet export volumes in 2010 did rise by 540,000 m^3 to 3.0 million m^3 (+22.4%) as US producers took advantage of a weaker dollar and rising demand in markets such as China, the Middle East, and southeast Asia. In 2011, China overtook Canada as the US's largest export market (27.6% and 21.7% of exports respectively); these two countries were followed by Mexico (13.2%), Japan (11.2%), and Central America and the Caribbean (10.5%).



Source: M. Fonseca, 2012.

Canada's sawn softwood production rose slightly in 2011 to 38.0 million m^3 from 37.7 million m^3 (+0.7%) in 2010, but was still well below the 2004 peak of 62.2 million m^3. Export opportunities and proactive efforts to process dead standing beetle-killed timber (from the interior of British Columbia and some from Alberta) enabled western Canada to increase its production by 6.1%. Eastern Canada, though, has seen a 4.8% reduction in production due to poor sawmilling margins that forced some sawmills to take extended downtime.

The margin squeeze for sawmills was the result of a number of recent pulp mill closures that have put a glut of chips on the market, which drove down chip prices and reduced sawmill revenues. Another challenge for Quebec producers has been the provincial reductions in the Quebec harvest, with further reductions of an estimated 8% scheduled for 2012 or 2013 (WOOD Markets Monthly 2012).

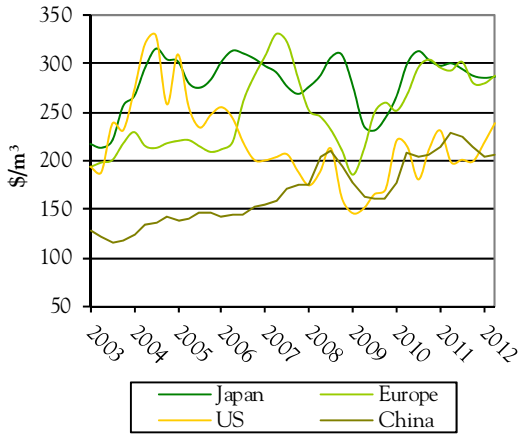
Canadian exports to the US were down by 180,000 m^3 (-2%) in 2011 to 14.2 million m^3 (WOOD Markets Monthly 2012). Most notable has been the rocketing rise in Canadian sawn softwood exports to China (almost

exclusively from British Columbia), which climbed to 5.1 million m^3 in 2011 compared with 3.2 million m^3 in 2010, representing more than 25% of BC's total output.

Since hitting a low in the first quarter of 2009, North American sawnwood prices have trended higher but remain much below prices during the housing boom (graph 5.4.1). After a seasonal rise in prices in the spring of 2011, coupled with strong export demand in markets such as China and Japan, summer building activity has declined more sharply than expected. This caused supply-chain inventory levels to rise, which led to weaker prices later in the year. In the second quarter of 2012, this trend reversed, with prices rising from stronger demand and lean inventories in the market.

GRAPH 5.4.1

Sawn softwood quarterly prices in Japan, Europe, US and China, 2003-2012



Notes: JAPAN: BC W-SPF 2x4, J-Grade, C&F. EUROPE: Swedish Spruce 47x100mm, C&F. US: BC W-SPF #2&Btr, 2x4 Delivered to Chicago. CHINA: SPF/Hem-Fir, Green, #3&Btr 1-7/8x4-12 C&F.

Sources: WOOD MARKETS Monthly International Report and China Bulletin, 2012.

In Europe, following the market drop in 2007 through 2009, reduced supply helped to lift prices in 2010. However, further economic weakness caused prices to trend lower in 2011 and they now appear to be languishing, waiting for a recovery to take hold.

Following the tsunami in 2010, Japanese prices spiked for about three months and then eased off as post-tsunami replacement inventory exceeded consumption. In 2011, prices declined, reconstruction efforts being impeded by delays in implementing new building code regulations and slow pay-outs on insurance claims. Nevertheless, indications are that the reconstruction activity in 2012 is gaining momentum, with sawn softwood prices expected to trend higher as a result.

China has become a key alternative market for North American producers, especially west coast producers in British Columbia and the US. However, in the last three months of 2011, the market in China for sawn softwood slowed as the government of China tried to respond to potential overbuilding in the residential construction sector by tightening financial policies. These measures, in turn, slowed demand and reduced sawnwood imports. In recent months, an easing of credit policies may have helped North American exporters, who are reporting improved but stable volumes with prices inching upwards.

The long-term trend in China is for rising dependence on imported sawn softwood from North America, despite the temporary dip in late 2011. This trend should support stable to higher prices going forward (WOOD MARKETS Monthly International Report 2012).

British Columbia's interior region continues to salvage timber from trees killed by the mountain pine beetle. In some areas, sawmills are processing logs that have been standing dead for 8 to 10 years (International WOOD MARKETS Group, 2012a). Anther emerging alternative uses for the dead timber is as wood pellets. The growth in pellet manufacturing for export and for generating power for the BC provincial power grid is viewed by government as a sustainable energy initiative and the industry sees pellets as an increasing revenue stream to sawmilling or logging in beetle-killed areas.

The Southern Pine Inspection Bureau (SPIB) issued new design values effective 1 June 2012 for visually graded Southern Pine and Mixed Southern Pine for narrow dimension sawnwood(2x2s through 4x4s) in No. 2 and lower grades. Design values for all other grades and sizes of visually graded Southern Pine remain the same, pending results of testing scheduled for completion later this year. Truss manufacturers have had to adjust their roof systems to include more bracing or more machine stress rated (MSR) sawnwood to comply with the new span ratings. MSR production and investment in MSR machinery in the US south is expected to rise due to higher MSR sawnwood usage by the truss manufacturers and the reduced availability of MSR lumber from Western Canada brought on by the mountain pine beetle epidemic.

The US-Canada Softwood Lumber Agreement signed in 2006 was extended in early 2012 and will remain in effect until 12 October 2015. For 2011, Canadian exporters to the US paid the maximum export duty (15% in BC and Alberta and 5% in the rest of Canada) as the Random Lengths Framing Composite Index price remained below $315 per thousand board feet (mbf; or approximately $197/$m^3$ – net) threshold. However, starting in June 2012, lower export taxes were assessed when sawnwood prices surpassed the threshold and duties were reduced – only the second time that the duties have

not been at their maximum since the agreement was signed. If the index price rises above $355/mbf the duties fall to zero for all Canadian exporters to the US.

The London Court of International Arbitrations considered the US claim that the province of BC breached the Softwood Lumber Agreement through making changes to the system by which logs are graded. The changes led to a significant increase in the volume of logs from the BC interior being priced at the lowest permissible stumpage (Grade 4). Canada asserted that the rise in Grade 4 timber was the result of the mountain pine beetle infestation. In July 2012, the London Court of International Arbitration ruled there was no contravention of the Agreement.

Under the Softwood Lumber Agreement, the US and Canadian governments have agreed to establish a fund through the Bi-National Softwood Lumber Council (BSLC) to support the promotion of sawn softwood and defend and grow wood's market share against steel, concrete, plastics and composites. In residential construction, the Council supports efforts to foster new product or building-system development such as cross-laminated timber technology and raised floor systems.

In non-residential light commercial construction, it sponsors programmes to provide technical support and continuing education for architects, engineers, building officials and others who make decisions about building materials. It also supports efforts to strengthen the acceptance of solid wood by green building certification bodies.

The outlook for 2012 appears to be for a gradual improvement in North American sawn softwood consumption, led by US residential new construction. Further growth may come from resurgence in demand from China and other Asian markets, as well as from the Middle East or North Africa.

Source: Metsägroup, 2012.

5.5 References

Note: The *Review* has a statistical annex, which is available at: www.unece.org/fpamr2012

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