USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

**Date:** 9/01/2005

**GAIN Report Number:** SW5012

# Sweden

# Solid Wood Products

# Annual Report

# 2005

**Approved by:**
Margaret E. Thursland
Agricultural Counselor
U.S. Embassy Stockholm

**Prepared by:**
Asa Lexmon
Agricultural Specialist

**Report Highlights:**
In January 2005, a severe storm, "Hurricane Gudrun," raged across southern Sweden causing major damage to forests. About 75 million cum of standing timber, nearly the total annual fellings for all of Sweden, was felled in the storm. In 2004, Swedish production of sawn timber reached its highest level ever at 16.9 million cum. Exports of Swedish sawn softwood increased by 2 percent to 11.2 million cum.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Stockholm [SW1]
[SW]

**TABLE OF CONTENTS**

## EXECUTIVE SUMMARY

Sweden is one of the most heavily forested countries in the world. Almost 70 percent of the total land area is covered with forests. The raw material base of 22.7 million hectares of productive forestry land consists mainly of softwood species. Total timber stocks are estimated at 3 billion cubic meters (cum), annual growth at 101 million cum and annual fellings average 83 million cum. Sweden is a major softwood lumber producer, supplying the European market with about 12 percent of its consumption. In 2004, Swedish production of sawn timber reached its highest level ever at 16.9 million cum, 1 percent more than in 2003. In recent years, Sweden has also increased its share of the Japanese market, thus competing with Finnish and U.S. softwood lumber. Sweden's main forest industry product, however, is pulp. In 2004, pulp production amounted to 12.1 million tons. Paper production totaled 11.6 million tons, including newspaper print, fine paper and board.

In January 2005, a severe storm, "Hurricane Gudrun," raged throughout southern Sweden causing major damage to forests. About 75 million cum of standing timber, nearly the total annual fellings for all of Sweden, was felled in the storm.

The total value of forestry exports in 2004 amounted to SEK 109.6 billion (USD 14.9 billion), compared to SEK 108.6 billion (USD 13.4 billion) in 2003. Imports of forest products amounted to SEK 24.1 billion (USD 3.3 billion). The forest sector accounted for 12 percent of Sweden's total exports in 2004.

Sweden expects non-European markets to hold the largest potential for export growth. While exports to Norway, Africa and North America increased in 2004, exports to Asia declined for the first time in many years. Swedish exports to Japan decreased by 3 percent to 881,000 cum. Swedish exports to Asian markets are meeting tough competition from Finland and the United States. Exports to non-European markets accounted for nearly 25 percent of total sawn timber exports. Just five years ago, non-European exports accounted for only 15 percent. Exports to the United States were facilitated by the strengthening of the U.S. dollar, increasing 17 percent to 472,000 cum.

Rates of exchange used in this report:
CY 2003: USD 1 equals SEK 8.09
CY 2004: USD 1 equals SEK 7.35

## PRODUCTION

### Forest Situation / Outlook

Virtually all forests in Sweden are re-growth. Small areas of virgin forests are protected in national parks and nature reserves. The raw material base of 22.7 million hectares of productive forestry land consists mainly of softwood species. Total stocks of timber are estimated at 3 billion cum, annual growth is estimated at 101 million cum and annual fellings average 83 million cum. There is a potential for annual fellings to increase by about 20 million cum. The composition of the present forests, with few species and uneven age distribution, makes imports a necessity.

In January 2005, a severe windstorm raged throughout southern Sweden causing major damage to forests. This was the worst storm in Sweden in 35 years and the worst in terms of damage in 100 years. About 75 million cubic meters of standing timber, valued at SEK 20-30 million (US$ 3-4 million), was felled in the storm. (GAIN Report SW5001).

Approximately 80% of the damaged trees were Norway spruce, 15% Scots pine and the remainder deciduous trees.

In order to prevent timber loss due to insect damage, various government measures were adopted soon after the storm. These included procedures for long-term storage, logistics, and tax breaks. Owners who cleared felled timber are entitled to a tax reduction of 50 SEK per cum (USD 6.8).

The Swedish government's request for grants from the EU Solidarity Fund was recently approved. Sweden will receive SEK 768 million (USD 105 million) for government expenditures related to emergency measures including clearing land, infrastructure restoration and rescue services. Measures taken by the Swedish government have proven to be most effective. Six months after the storm, approximately half of the affected timber (30 million cum) had been cleared, considerably more than expected. It is anticipated that an additional 11 million cum will be cleared during the third quarter of this year.

In 2004, 51 percent of Sweden's forest area was privately owned, 30 percent was company owned, and 19 percent was government owned (including national parks and reserves). The majority of private forest owners are members of regional associations of forest owners, many of which own sawmills, pulp mills, and processing and bioenergy plants. These regional associations are organized as a forest delegation within the Swedish Farmers Federation (LRF), the umbrella farmers' union.

The Swedish government decided in the early 90's that subsidies would not be provided to the commercial side of the Swedish forest industry. This reflected the GOS view that subsidies would be destructive to an industry whose ongoing operations and future development relied heavily on a strongly competitive international market. When Sweden joined the EU in 1995, it became party to Council Regulation (EEC) No. 867/90, which provides support to forest owners. However, due to the requirement that the GOS co-finance 50 percent of the subsidy, very few EU support payments have actually been made to Sweden's forest owners.

The only government assistance during the last ten-year period has been to forest owners of select high-value varieties of trees that are in short supply. This category includes indigenous tree species of elm, ash, hornbeam, beech, oak, wild cherry, linden/lime and maple. Government assistance has been granted to compensate farmers for the loss of harvest income while trees of these species mature. These trees generally take 200 years to mature— about twice as long as pine and spruce. Such subsidies amount to approximately SEK 18 million per year (USD 2.2 million) and are applied to areas that, in total, cover about 1 percent of Sweden's productive forests.

The Swedish government has adopted a national strategy for increasing the use of wood in housing construction. The government will support the education of builders, architects, technicians and others in the utilization of wood in modern housing construction. In addition, the Swedish government has granted SEK 4.2 million (USD 519,000) to support foreign investment in the Swedish processed wood industry.

The most recent Forestry Act became effective on January 1, 1994. It outlines strict forestry practices which must be adhered to by all forest owners at their own expense. The main provisions of the Act include requirements that: regeneration must be effected after final felling and/or severe damage to the stand; forest owners must inform forest authorities about planned final felling and how nature conservation and historical concerns are to be taken into consideration at the felling sites; insect damage must be prevented through proper management practices; and measures supporting nature conservation and historical concerns must be integrated into all kinds of forest management operations.

Nature conservation agreements between forest owners and the government have been established to protect and develop nature in certain areas. During the period January 1, 1994, through December 31, 2003, landowners were compensated a total of SEK 90.6 million (USD 11.2 million) under a total of 1,750 individual nature conservation agreements. During the same period, 3,525 protected forest habitats or key biotypes were established for which forest owners have been compensated SEK 462 million (USD 57 million). There is no formal felling ban on key biotypes, but there is great pressure on owners not to disturb them.

There are no special environmental requirements for wood processors. However, any industry discharges or emission releases must comply with strict municipal requirements. The major forest companies now publish annual environmental reports in addition to their annual reports.

In 2001, the European Commission decided to implement new EU regulations on softwood packing material. The new regulations (Directive 2000/29/EC), which came into force on October 1, 2001, include requirements for phytosanitary certificates and markings on packing material.

On October 5, 2004, the EU amended Directive 2000/29/EC, requiring that all wood packaging be made from debarked wood. This new debarking requirement was first scheduled to enter into force on March 1, 2005. In February 2005, however, the EU decided to delay implementation for one year due to concerns raised by the United States and many other WTO members.

**Solid Wood Products Situation/Outlook**

Sweden is, together with Germany, the largest producer of sawn softwood in Europe. Nearly all sawn timber is pine or spruce. Only very small quantities of birch are sawn. Swedish production of sawn timber reached its highest level ever in 2004 at 16.9 million cum, 1 percent more than in 2003. The rise in production is explained by increased demand for sawn timber domestically and in non-European markets due to high levels of housing construction. Housing construction in the Nordic countries is expected to remain high in 2005 while construction in other Western European countries is expected to decline somewhat.

Substantial growth of about 20 percent in the Swedish construction and furniture sectors, coupled with accelerated exports from Brazil (softwood plywood) and Russia (hardwood plywood), boosted Swedish imports of plywood in 2004. Imports of softwood plywood increased from 88,000 cum to 241,000 cum. Imports of hardwood plywood increased from 61,000 cum to 943,000 cum. Brazil and Russia alone were responsible for these increases. In 2005, the positive trend in the market for housing construction in Sweden is continuing as production is expected to increase further by 2 percent. Production figures for softwood veneer are not available. In 2004, production was estimated at 47,000 cum. Exports of Swedish veneer increased substantially in 2004, with most of the increase destined for Japan and Germany.

The Swedish forest industry has coordinated its resources to reduce the effects of Hurricane Gudrun, the horrific January 2005 windstorm previously discussed. Measures taken include reallocation of harvesting resources to the affected areas and transporting the wood to other markets within Sweden. Market effects of the storm have been mostly felt in the southern region of Sweden where the storm raged. In this area, prices for raw material declined about 20 percent during the first quarter of 2005. In addition, inventories of pulpwood are building up. With regard to softwood saw logs, the effects on trade are clear. During the first five months of 2005, Swedish exports of softwood saw logs increased by almost 35 percent. These "extra" exports were mainly destined for Germany, Finland and Estonia. At the same time, imports have been decreasing by half. The storm will most likely not have long-term effects on the Swedish forest industry, although it has caused huge financial problems for private forest owners.

The forest industry is highly integrated. The four major companies, StoraEnso, SCA, Holmen and Setra Group, own both forests and processing plants. Private forest owners cooperate through associations which either process timber themselves or sell large quantities to processing companies. The sawmilling industry is constantly restructuring. The ten largest companies now account for 60 percent of total production.

Swedish Industry Mills and Production Units

| **Paper** | **2000** | **2004** |
|---|---|---|
| Number of units | 48 | 46 |
| Total capacity, million tons | 11.1 | 11.9 |
| Production, million tons | 10.8 | 11.6 |
| Exports, million tons | 8.9 | 11.6 |
| Export value, SEK billion | 57.0 | 60.9 |
| **Pulp** | **2000** | **2004** |
| Number of mills | 45 | 44 |
| Total capacity, million tons | 11.7 | 12.8 |
| Production, million tons | 11.5 | 12.1 |
| Exports, million tons | 3.1 | 3.5 |
| Export value, SEK billion | 16.6 | 13.8 |
| **Lumber and processed wood** | **2000** | **2004** |
| Number of sawmills* | 207 | 180 |
| Production, million cum | 16.2 | 16.9 |
| Exports, million cum | 11.1 | 11.3 |
| Export value, SEK billion | 18.5 | 20.4 |

*>10,000 cum per year

Glulam production in Sweden is very limited and only a few sawmills produce this product. It appears that the market for glulam has reached its saturation point. After years of substantial increases, imports are now stabilizing at 45,000 tons. Swedish exports of glulam increased by 24 percent in 2004 to 20,000 tons.

The Nordic countries are working together on a strategy aimed at helping the sawmilling industry to structure their work in a way that contributes to increased demand for solid wood products. The strategy is based on the reports "Global Drivers and Megatrends in the Wood Products Industry to Year 2010" and "Solid Wood Products Threats and Possibilities."

## TRADE

### Overview / Outlook

The EU remains the most important market for Sweden's forestry products. Within the EU, the UK, Denmark, Netherlands and Germany are leading customers. However, Sweden sees the largest potential for growth to be in non-European markets. Exports to non-European markets accounted for almost 25 percent of total sawn timber exports in 2004. Five years ago, non-European exports accounted for about 15 percent. Japan, where demand for sawn timber has increased due to an improved economy and a rise in wooden housing construction, is considered as being one of the most important markets for Swedish sawn timber.

Total exports of Swedish sawn softwood increased by 2 percent to 11.2 million cum in 2004. The increase is explained by higher exports to the United States, which rose 17 percent to 472,000 cum due to the strengthening of the U.S. dollar against the Swedish krona. Exports to Asia decreased for the first time in many years. Swedish exports to Japan declined by 3 percent to 881,000 cum. Swedish exports to Asian markets are meeting tough competition from Finland and the United States. Exports to China, however, more than tripled in 2004 and totaled 83,468 cum.

The rise in exports to the United States and African countries is continuing this year. Total exports of softwood is expected to increase further by 1-2 percent due to the improved market for housing construction in the Nordic countries and non-European countries.

As a result of high domestic prices, the Swedish industry imports a large volume of raw material from Russia and the Baltic States. This material is processed in Sweden and exported to the United States and other countries at competitive prices. Swedish sawmills also produce more highly finished materials for both the domestic and export markets. Major competitors are Finland, Austria and Canada. Competition within the European market from Latvia and Estonia continues to increase.

Russia, Latvia and Estonia are the main suppliers of total raw material imports. As mentioned above, imports from these countries are declining due to the effects of Hurricane Gudran. In 2004, total imports of forest products amounted to 24.1 billion (USD 3.3 billion). Imports sourced from the United States were about 2% of total value (mainly hardwood lumber). Hardwood lumber for floors, joinery, doors and interior finishes presents the best opportunities for U.S. exports to Sweden.

**Competition**

Sweden competes within the European market with Finland, Canada, the United States, the Baltics and Russia. Competition from the Baltics and Russia has increased substantially during recent years. The Baltics have increased their export volumes to Europe by one third in four years -- and have quadrupled exports in the last eight years. The EU accession of the Baltics and other new member states is expected to increase their sales of softwood lumber to other EU members.

As mentioned earlier in this report, there are no significant government subsidies allocated for forestry and forestry products in the Swedish annual budget. The major companies invest in promotional efforts to meet competition from other countries. Globalization of the forest industry is a fact. The four major forest companies in Sweden all have large holdings in other countries.

The Nordic Timber Council (NTC), which has its main office in Stockholm, is the joint promotional association for Swedish, Finnish and Norwegian lumber producers. The Council has offices in Spain, the United Kingdom, France and the Netherlands. Major projects include: The wood for good campaign in the UK; The French cooperation campaign; the New Markets campaign; and the Pan European campaign. Financiers in the UK and France are co-sponsoring the campaigns in the UK and France. The French campaign started in 2004. Through the New Markets campaign, the NTC is trying to influence Japanese and Chinese industries to use wood in large-scale construction. In the Pan European campaign, the NTC is cooperating with other European promotional organizations. In addition, the NTC has started a campaign called “New European Countries – North.” NTC is starting cooperation with industrial manufactures and forest owners in the Baltic Sea region and in 2005, the focus is on developing a Cooperation and Action Plan for increasing cooperation and promotion in the Baltic Sea region.

Discussions related to the certification of forestry products produced according to environmentally sustainable standards, led in 1996 to the launching of a joint Nordic forestry certification project for Sweden, Norway and Finland. This project aims to achieve like standards and like market recognition for certified forestry in all three countries. Imported raw materials, such as logs from Russia, are not subject to these same standards.

Within Sweden there has been an ongoing debate regarding which certification system to adopt. The Swedish forest industries decided in 1998 to adopt the FSC (Forest Stewardship Council) system. The Forest Owners Association strongly opposed this decision and announced their decision to continue to work to find a Family Forestry Certification (FFC) system suitable for small forest owners as opposed to the FSC, which is geared towards large-scale forestry. The Forest Owners’ Association believes that both systems can be used within the market at the same time and that there is need for both of them. The large companies, however, maintain that there should be only one system in Sweden, and that system should be the FSC. Both systems are well-established in the country, which makes Sweden rather unique. Negotiations concerning mutual recognition of systems were finalized in December 2001, when the two certifying organizations, together with two environmental organizations, presented the mutually agreed document called "Skogsduvan" (the stock-dove) on ways in which to harmonize the two systems. In 2002, the Swedish Pan-European Forest Certification (PEFC) approved "Skogsduvan."

The EU PEFC, which aims to establish an internationally recognized framework for certification applicable to small-scale forestry, encompasses both the FFC and the FSC. There are now 25 countries which have subscribed to the PEFC

**PS&Ds**

# PSD Table

| Country | Sweden | | | | | |
|---|---|---|---|---|---|---|
| Commodity | Softwood Logs | | | | 1000 CUBIC METERS | |
| | 2004 | | 2005 | | 2006 | |
| | USDA Official [Old] | Revised Post Estimate [New] | USDA Official [Old] | Estimate Post Estimate [New] | USDA Official [Old] | Forecast Post Estimate [New] |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 |
| Production | 34500 | 34500 | 35000 | 36000 | 0 | 35000 |
| Imports | 2000 | 1540 | 2200 | 900 | 0 | 1300 |
| TOTAL SUPPLY | 36500 | 36040 | 37200 | 36900 | 0 | 36300 |
| Exports | 1300 | 792 | 1500 | 1100 | 0 | 1000 |
| Domestic Consumption | 35200 | 35248 | 35700 | 35800 | 0 | 35300 |
| TOTAL DISTRIBUTION | 36500 | 36040 | 37200 | 36900 | 0 | 36300 |

# PSD Table

| Country | Sweden | | | | | |
|---|---|---|---|---|---|---|
| Commodity | Softwood Lumber | | | | 1000 CUBIC METERS | |
| | 2004 | | 2005 | | 2006 | |
| | USDA Official [Old] | Revised Post Estimate [New] | USDA Official [Old] | Estimate Post Estimate [New] | USDA Official [Old] | Forecast Post Estimate [New] |
| **Market Year Begin** | | 01/2001 | | 01/2002 | | 01/2003 |
| Production | 17200 | 16900 | 17600 | 17200 | 0 | 17300 |
| Imports | 150 | 335 | 150 | 200 | 0 | 250 |
| TOTAL SUPPLY | 17350 | 17235 | 17750 | 17400 | 0 | 17550 |
| Exports | 11200 | 11247 | 11600 | 11400 | 0 | 11500 |
| Domestic Consumption | 6150 | 5988 | 6150 | 6000 | 0 | 6050 |
| TOTAL DISTRIBUTION | 17350 | 17235 | 17750 | 17400 | 0 | 17550 |

# PSD Table

| Country | Sweden | | | | | |
|---|---|---|---|---|---|---|
| Commodity | Softwood Plywood | | | | 1000 CUBIC METERS | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 |
| Production | 70 | 71 | 70 | 70 | 0 | 70 |
| Imports | 95 | 241 | 95 | 350 | 0 | 375 |
| TOTAL SUPPLY | 165 | 312 | 165 | 420 | 0 | 445 |
| Exports | 35 | 35 | 35 | 45 | 0 | 50 |
| Domestic Consumption | 130 | 277 | 130 | 375 | 0 | 395 |
| TOTAL DISTRIBUTION | 165 | 312 | 165 | 420 | 0 | 445 |

# PSD Table

| Country | Sweden | | | | | |
|---|---|---|---|---|---|---|
| Commodity | Hardwood Plywood | | | | 1000 CUBIC METERS | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 |
| Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Imports | 60 | 943 | 60 | 1100 | 0 | 1200 |
| TOTAL SUPPLY | 60 | 943 | 60 | 1100 | 0 | 1200 |
| Exports | 3 | 1 | 3 | 3 | 0 | 5 |
| Domestic Consumption | 57 | 942 | 57 | 1097 | 0 | 1195 |
| TOTAL DISTRIBUTION | 60 | 943 | 60 | 1100 | 0 | 1200 |

# PSD Table

| | | | | | | |
|---|---|---|---|---|---|---|
| **Country** | **Sweden** | | | | | |
| **Commodity** | **Softwood Veneer** | | | | 1000 CUBIC METERS | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 |
| Production | 2 | 47 | 0 | 50 | 0 | 50 |
| Imports | 20 | 21 | 0 | 20 | 0 | 20 |
| TOTAL SUPPLY | 22 | 68 | 0 | 70 | 0 | 70 |
| Exports | 15 | 62 | 0 | 65 | 0 | 65 |
| Domestic Consumption | 7 | 6 | 0 | 5 | 0 | 5 |
| TOTAL DISTRIBUTION | 22 | 68 | 0 | 70 | 0 | 70 |