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Sweden

Solid Wood Products

Annual Report

2006

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Report Highlights:
The situation for Swedish sawmills is very favorable. In 2005, Swedish production of sawn softwood reached its highest level ever at 17.8 million cum, 1 percent more than in 2004. Total exports increased by 7 percent to 12 million cum. U.S. exports of hardwood lumber to Sweden rose by 9 percent in 2005 valued at USD 2.9 billion. U.S. exports of hardwood lumber in 2005 increased by 9%, valued at USD 19.2 million.

Includes PSD Changes: No
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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 23 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 105 million cum and annual fellings average 85 million cum. Sweden is a major softwood lumber producer, supplying the European market with about 12 percent of its consumption. In 2005, Swedish production of sawn timber reached its highest level ever at 17.8 million cum, 1 percent more than in 2004. 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 2005, pulp production amounted to 12.1 million tons. Paper production totaled 11.7 million tons, including newspaper print, fine paper and board.

The total value of Swedish forestry exports in 2005 amounted to SEK 114 billion (USD 15.2 billion), compared to SEK 109.6 billion (USD 14.9 billion) in 2004. Imports of forest products amounted to SEK 27.2 billion (USD 3.6 billion). The forest sector accounted for 12 percent of Sweden's total exports in 2005.

The importance of non-European markets has been steadily increasing over the past ten years. In 2005, these markets accounted for nearly 25 percent of total sawn timber exports. Swedish exports to the United States increased by 40% to 670,000 cum, a result of the strengthening of the U.S. dollar against the Swedish krona and an improved market for housing construction in the United States. Exports to Japan increased by 2 percent to 900,000 cum. Swedish exports to Asian markets are meeting tough competition from Finland and the United States.

Rates of exchange used in this report:
CY 2005: USD 1 equals SEK 7.48
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 23 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 105 million cum and annual fellings average 85 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% Scotch pine and the remainder deciduous trees. Due to the storm, removals of softwood logs increased by 60% in 2005, from 35.6 million cum in 2004 to 56.6 million cum in 2005. As a result, large stocks of softwood timber have built up in southern Sweden. On September 30, 2005, stocks amounted to 16.7 million cubic meters. Due to these stocks, removals of softwood timber is expected to decline substantially in 2006, especially in southern Sweden.

In 2005, 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 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.

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.

Nature conservation agreements between forest owners and the government have been established to protect and develop nature in certain areas. In 2005, landowners were compensated a total of SEK 25.8 million (USD 3.5 million) under a total of 397 individual nature conservation agreements. In addition, 601 protected forest habitats or key biotypes were established for which forest owners have been compensated SEK 111.6 million (USD 14.9 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. The EU has, however, decided to delay implementation until January 1, 2009 due to concerns raised by the United States and many other WTO members. The delay will be reevaluated in September 2007.

The Swedish government has decided to initiate a national forest and wood research program aimed at increasing competitiveness, growth and employment in the Swedish forest industry. The program will be a joint project among government, industry, research institutes and academia, with government and industry financing (SEK 250 million each for the next five years).

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 2005 at 17.8 million cum, 1 percent more than in 2004. The storm felling only had limited effects on sawn softwood production since Swedish sawmills were already running at high capacity utilization before the storm. Production is expected to increase somewhat further in 2006 due to the raw material stocks built up after the storm but is expected to return to normal levels in 2007.

The financial situation for Swedish sawn softwood producers is rather favorable with relatively low prices for raw material and higher prices on sawn softwood on the domestic market as well as on export markets. Although housing construction starts are slowing down, increased use of wood in housing construction and housing renovation is holding up the market.

The favorable situation has made it possible for the Swedish industry to invest more in research, e.g., the joint forest research program mentioned above.

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**	**2005**
Number of units	48	46
Total capacity, million tons	11.1	12.1
Production, million tons	10.8	11.7
Exports, million tons	8.9	10.1
Export value, SEK billion	57.0	62.9

Pulp	2000	2005
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	13.2
Lumber and processed wood	**2000**	**2005**
Number of sawmills*	207	175
Production, million cum	16.2	17.8
Exports, million cum	11.1	12.0
Export value, SEK billion	18.5	21.4

*>10,000 cum per year

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. Exports to non-European markets have increased dramatically over the past ten years. Non-European markets accounted for almost 25 percent of total sawn timber exports in 2005. The US and Japan are the most important non-European export markets for Sweden, but exports to North African countries are increasing steadily and have become an important export market for Sweden.

The market situation for sawn softwood in Swedish export markets is extremely good. Prices on the European market have been low in recent years due to oversupply. In 2005, however, lower exports from Finland and the Baltic countries to Europe improved the balance and, hence, prices increased. In 2005, total exports of Swedish sawn softwood increased by 7 percent to 12 million cum. Exports to the United States rose by 40 percent to 670,000 cum while exports to Japan increased by 2 percent to 900,000 cum. Prospects for further export increases 2006 and 2007 look good thanks to the favorable market situation in Europe as well as third countries. During the period January to June 2006, Swedish exports of sawn softwood increased 12 percent while prices increased by 3.4 percent.

As a result of high domestic prices, the Swedish industry imports a large volume of raw material from Russia and the Baltic States. In 2005, however, imports were extremely low due to increased domestic supply after the storm felling. 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.

In 2005, total imports of forest products amounted to SEK 832 billion (USD 110 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. In 2005, U.S. exports of hardwood lumber increased by 9 percent, valued at USD 19.2 million.

Competition

Sweden competes within the European market with Finland, Canada, the United States, the Baltics and Russia. Swedish exporters are gaining from the fact that other European countries, e.g., Finland and the Baltic countries, have declining raw material supplies and thereby need to decrease their exports. After years of steadily increased exports, and thus increased competition, from the Baltic countries, exports from these countries are now decreasing. In addition, Russia's increased concentration in the Chinese market, and less towards the European market, is beneficial for Swedish exporters.

As mentioned earlier in this report, there are no significant government subsidies allocated for forestry and forest 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. www.nordictimber.org

There are two well-established certification systems for forest products in Sweden, FSC (Forest Stewardship Council) and FFC (Family Forestry Certification). The FFC system is suitable for small forest owners as opposed to the FSC, which is geared towards large-scale forestry. 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.