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Finland

Solid Wood Products

Annual Report

2006

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Report Highlights:
Finnish production of sawn softwood has been increasing to record levels over the past decade. While the domestic market for sawn softwood is still strong, future expansion in production is highly dependent on raw material prices and export growth. In 2005, the Finnish forest industry reduced overall production by 12 percent due to a labor dispute that developed within the Finnish paper industry resulting in the shutdown of Finnish saw mill operations for several weeks.

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EXECUTIVE SUMMARY

In 2005, the Finnish forest industry reduced overall production by 12 percent as compared to the previous year. The drop in production is explained by a labor dispute that developed within the Finnish paper industry resulting in the shutdown of Finnish saw mill operations for several weeks.

In 2005, output from Finnish sawmills amounted to 12.2 million cum, 9 percent less than in 2004. More than 60 percent of the output from Finnish sawmills is destined for Europe. Finland supplies the European Union market with approximately 10 percent of its demand. In 2005, total Finnish exports of sawn softwood decreased by 7 percent, which was to a large extent due to the decline in production. Exports to the European market dropped by 13 percent while exports to markets outside of Europe increased by 3 percent. Domestic consumption of sawn softwood is still high due to the continued upward trend in Finnish housing construction coupled with an increase in added-value processed wood.

The total value of forestry exports in 2005 amounted to Euro 10.5 billion (USD 130 billion). The forest industry accounts for approximately one quarter (25%) of all Finnish exports. When calculated on a per capita basis, the forestry sector's share of Finland's total exports is greater than that sector's contribution in any other country worldwide.

Rates of exchange used in this report are:
CY 2005: USD 1.00 equals Euro 0.80
CY 2004: USD 1.00 equals Euro 0.80

PRODUCTION

Forest Situation/Outlook

Finland has abundant forest resources which are all a part of the boreal coniferous zone. The growing stock comprises 2,000 million cum, of which 47 percent is pine, 34 percent spruce, 15 percent birch and 4 percent other broad-leaved species. The annual increment in growing stock is about 87 million cum.

Forest ownership in Finland is rather unique in that 60 percent of total forest area, or more than 12 million hectares, belongs to private owners. Of the remaining area, the state owns 26 percent, forest companies 9 percent, and the balance is owned by municipalities, parishes and other collective bodies. About 80 percent of the domestic wood purchased by industry is sourced from small-scale wood lots which on average total 30-40 hectares.

Finnish forest legislation was reformed in 1997. The most important laws are:

- The 1996 Act on Regional Forestry Centers and the Forestry Development Center
- The Forest Act of 1997
- The 1997 Act on Financing of Sustainable Forestry
- The Environmental Protection Act of 1997

The purpose of the Forest Act is to promote the management and use of forests in a manner that is economically, ecologically and socially sustainable, and ensures continuity of good yields at the same time as biodiversity of the environment is preserved. The requirement that biodiversity be safeguarded is the main change from earlier legislation. The Act lists habitats that are considered particularly important in this respect.

The Finnish government provides funding to silviculture and forest road building/ maintenance. After Finland joined the EU in 1995, the government increased these subsidies by about FIM 50 million (USD 7 million), in order to match the EU subsidy for reforestation of arable land and silvicultural measures. In 2004, the costs of silviculture and forest improvement works totaled Euro 218 million (USD 270 million). State grants to private forest owners totaled Euro 65 million (USD 80 million).

In early 1999, a new forest program - Finland's National Forest Program 2010 - was launched. The goal of the program is to increase the industry's annual consumption of domestic wood by 5-10 cum by 2010 in such a way that the high level of silviculture and ecosystem management are sustained. Other goals are to double the wood processing industry's export value and to increase the annual use of wood for energy. An interim evaluation of the program can be found at:

http://wwwb.mmm.fi/kmo/english/

At the end of 2002, the Finnish government launched an action program to protect the biodiversity of forests in southern Finland, western parts of the Province Oulu and south-western Lapland (METSO) as part of the National Forest Program. The program focuses on restoration and management of nature conservation areas, management of nature in commercial forests and related research. Euro 62 million (USD 54.5 million) has been allocated to the program for 2003-2007.

In spring 2001, the European Commission implemented 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.

Solid Wood Products Situation/Outlook

Finland ranks fourth in Europe--after Sweden, Germany and Russia-- as a producer of sawn softwood. Almost all of the timber sawn is pine or spruce, some of which is planed or otherwise made into higher value products. Only very small quantities of birch are sawn. In 2005, 12.2 million cum of sawn timber was produced, 9 percent less than in 2004. The production of plywood decreased by 3 percent to 1.3 million cum. The drop in production is explained by a labor dispute that developed within the Finnish paper industry resulting in Finnish saw mills closing down operations for several weeks. Paper and paperboard production fell by 12% to 12.4 million tons. Pulp production decreased by 12 percent.

Finnish production of sawn softwood has been increasing to record levels over the past decade. Although the domestic market for sawn softwood is still strong, future expansion in production is highly dependent on raw material prices and export growth. Currently, the financial situation for Finnish sawmills is rather bad. Sawmills are closing down and cutting production due to low profitability. In 2006, however, production of sawn softwood is expected to increase somewhat, from the extremely low level of 2005. The Finnish forest industry is facing tough competition from countries like Russia and the Baltic states where the costs for logistics, labor and raw material are lower.

The industry's main products are birch and softwood plywood in addition to a variety of combi plywoods, for which the surface layer is birch. The plywood industry also manufactures block boards and a product for which softwood veneers are glued together to create panels 27-75 mm thick.

The Finnish forest industry is highly integrated. There are only three major companies: Stora-Enso; UPM-Kymmene; and Metsaliitto. They all have their own sales offices in Finland and in their major European markets. In addition, they are strengthening their position beyond, especially in the Baltics and Russia, through investments in forest product operations. They have also strengthened their position via mergers and cooperative agreements with enterprises outside of Finland.

TRADE

Overview/Outlook

The main market for the Finnish sawmill industry is Europe, which accounted for 60 percent of exports in 2005. Currently, Finland supplies the EU market with about 10 percent of its demand. While the Finnish sawmill industry's investment in Eastern Europe has a positive impact on market share, it has resulted in lower Finnish export volumes as Eastern European product replaces exports originating in Finland.

Within the EU, the UK, France and Germany are leading customers. However, Finland sees the largest potential for growth to be in the Asian markets. Good economic growth in Asia has boosted exports there. While total exports of sawn softwood decreased by 7 percent in 2005 due to low domestic supply, exports to Asia only dropped by 1 percent. Exports to the European market decreased by 13 percent. Exports to the United States increased by 20 percent to 66,000 cum due to the stronger dollar and increased housing construction. When it comes to the European market, any export growth is reliant on housing renovation rather than housing construction.

In spite of the large volume of available stocks, Finnish imports of wood raw material are high. The high level of imports is explained by the relatively high prices of domestic raw material. Russia is the main supplier of total raw material imports.

Finland also imports raw material from Sweden and Estonia. Last year, however, Sweden took over Estonia's market share due to Hurricane Gudrun, a highly destructive windstorm that raged through southern Sweden in January 2005. A temporary oversupply of raw material resulted in Sweden due to the widespread fellings.

The import value of U.S. product amounted to about USD 7 million. Hardwood lumber for floors, joinery, doors and interior finishes and panel products continue to present the best opportunities for U.S. exports to Finland, although the import value of U.S. hardwood lumber to Finland decreased by 10 percent to USD 3.9 million as compared to the year before. Imports of panel products increased by 29 percent and amounted to USD 765,000.

Competition

Finland competes within the European market with Sweden, Canada, the United States, the Baltic States and Russia. After years of a steadily increased level of supply in Europe from the Baltics and Russia, exports from these countries are now on the decline. In addition, Russia's increased concentration towards the Chinese market, and less towards the European market, eases Russia's pressure on the European market.

As the only EU member state bordering Russia, Finland is a vital transit channel to the Russian market. Finns know how to do business in Russia and the Baltic States. Many foreign and U.S. companies are using Finland as a base for establishing their transportation and marketing activities with the former Soviet Union.

The Finnish Forest Certification System (FFCS) is based on the reality that forestry in Finland, unlike most countries, is largely a family business. The FFCS encompasses legislation related to forest renewal and nature conservation as well as the expansion of conservation areas in old forests. The industry fully supports the FFCS. The EU Pan European Forest Certification (PEFC), which aims to establish an internationally credible framework for forest certification applicable to small-scale forestry, embraces the FFCS.

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