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Finland

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 2004, the output from Finnish sawmills amounted to 13.5 million cum, 1 percent less than in 2003. Total exports of sawn softwood increased by 2 percent to 8.2 million cum. Exports to the European market remained stable, while exports to markets outside Europe increased by almost 6 percent.

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EXECUTIVE SUMMARY

In 2004, the Finnish forest industry increased overall production by 6 percent as compared to the previous year. Total stocks of timber are estimated at 2 billion cubic meters (cum), of which 47 percent is pine, 34 percent spruce, 15 percent birch and 4 percent other broad-leaved species.

In 2004, the output from Finnish sawmills amounted to 13.5 million cum, 1 percent less than in 2003. 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 2004, total Finnish exports of sawn softwood increased by 2 percent. Exports to the European market remained stable, while exports to markets outside of Europe increased by nearly 6 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 2004 amounted to Euro 11.7 billion (USD 11.0 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 2003: USD 1.00 equals Euro 0.88
CY 2004: USD 1.00 equals Euro 1.06

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 83 million cum.

Based on calculations made by the Finnish Forest Research Institute, roundwood harvesting should not exceed 67 million cum per year up to the year 2005 in order to sustain production. After 2005, this amount is expected to rise to 69 million cum and then gradually increase to 74 million cum by the year 2030. If harvesting volumes are kept at these rates, the growing stock should remain at its present level until the year 2020, after which a small increase would occur. The annual increment would rise to 77 million cum by 2010 and to 90 million cum by 2030.

Forest ownership in Finland is rather unique in that 61 percent of total forest area, or more than 12 million hectares, belongs to private owners with a total of 440,000 holdings. Of the remaining area, the state owns 24 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.

Altogether, private families own 61 percent of the total forest area, 68 percent of the growing stock and 70 percent of the annual growth increment.

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, and 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 2003, the costs of silviculture and forest improvement works totaled Euro 215 million (USD 244 million). State grants to private forest owners totaled Euro 68 million (USD 77million).

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 increase the annual use of wood for energy to 5 million cum. Currently, the annual total use of solid wood fuel amounts to about 2.5 million cum.

Since 1982, when the Pinewood Nematode (PWN) was discovered in Finland in a shipment from the United States containing pine chip packing material, imports of pine chips from the United States have been banned. On May 31, 2000, a Decree regulating the movement of coniferous wood packing material originating in Canada, China, Japan, Korea, Mexico, Taiwan and the United States into Finland came into force (Ministry of Agriculture and Forestry Regulation No. 53/00). The regulation establishes further measures to prevent the Pinewood Nematode (PWN) from spreading through imported coniferous wood packing material. Softwood packing material from the above-mentioned countries must be accompanied with a phytosanitary certificate.

Finland pushed for similar regulations to be established in all EU Member States. As a result, 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 this Directive with the specific requirement that all wood packaging be made from debarked wood as of March 1, 2005. In February 2005, however, the EU delayed implementation of the debarking requirement for one year due to concerns raised by the United States and many other WTO members.

Under Finland's National Forest Program 2010, government subsidies to private forest owners amounted to Euro 68.5 million (USD 78 million) in 2003. In addition, the government subsidizes promotional and supervisory forestry organizations at around Euro 250 million (USD 39 million) annually to cover increased forest planning needs and extra administrative data communication expenses.

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 southwestern 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.

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 2004, 13.5 million cum of sawn timber was produced, 1 percent less than in 2003.

While prices on the European market were low, high prices in non-European markets kept the production level relatively stable. Early this year, a labor dispute developed within the Finnish paper industry resulting in Finnish saw mills closing down operations for several weeks. Sawn softwood production fell by 14% to 6 million cum during the first six months of 2005 as a consequence of lost sales of wood chips and wood residue to the paper industry. Paper and paperboard production fell by 23% to 5.2 million tons. Nevertheless, Finnish production of sawn softwood is expected to remain relatively stable in 2005 and 2006 due to the fact that housing construction in the Nordic countries is expected to remain at a high level.

Paper and paperboard production in 2004 increased by 7 percent to 14.0 million tons; pulp production increased by 6 percent. The production of plywood increased by 4 percent to 1.35 million cum.

Production and export volumes for the major forestry products in Finland are given below:

	Finnish Forest Products Industry 2004				
Product	Volume	Production	Exports	Share of exports in production %	Number of production plants
Paper Industry	Million tons	11.2	10.3	92	28
Paper Board Industry	Million tons	2.8	2.5	89	14
Pulp Industry	Million tons	12.6	2.3	18	43
Sawmill Industry	Million tons	13.5	8.4	62	170
Plywood Industry	Million tons	1.4	1.2	86	15
Particle Board Industry	Million tons	0.4	0.2	50	3
Fiber Board Industry	Million tons	0.1	0.06	60	2

Source: The Finnish Forest Industries Federation

The use of birch raw material, traditionally used by the Finnish plywood industry, is now being supplemented to a growing extent by spruce. Capacity has increased substantially with the addition of new softwood mills during the 1990's. 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.

A growing proportion of the mechanical wood processing industry's sawn timber and panel products is further processed to varying degrees, yielding articles for use in building and renovation as well as by the construction products, joinery and furniture industries in Finland and abroad. Wooden buildings and wooden building components are either prefabricated in factories or manufactured directly on site. With the exception of saw millers and panel producers, the wood products industry in Finland is highly dependent on the small domestic market and exports in this category are insignificant.

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.

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. Strategy development 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 main market for the Finnish sawmill industry is the European Union, which accounted for 62 percent of exports in 2004. There was no growth in sawn wood exports because of the weak construction sector in Europe. Finnish exporters to Western Europe are confronted with increased competition from exporters in Russia and the Baltics. With their low production costs, these countries are able to increase their sawn wood capacity yearly. 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, where consumption of forest products is relatively low but rising faster than in other markets. Good economic growth in Asia has boosted exports there, which increased by 8 percent in 2004. The Finnish industry sees huge potential for growth in the Chinese market. While actual exports to China are still small, they increased by 7.2 percent to 55,422 cum in 2004. Exports to the European market remained stable. Finnish exports to Japan increased by 13 percent to 1.165 million cum. Exports to the United States increased by 57 percent to 55,000 cum due to the stronger dollar and increased housing construction. As a result of the continued oversupply situation amongst Finland’s most important export markets within Europe, export prices are down and export volumes are expected to decline somewhat in 2005 and 2006.

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. In 2004, imports of softwood logs amounted to 7.1 million cum. The EU's new debarking requirement, now scheduled for implementation as of March 1, 2006, might affect Russian exports to Finland since the Russian industry will reportedly face problems meeting this regulation.

Finland also imports raw material from Sweden and Estonia. This year, however, Sweden is taking over Estonia's market share due to Hurricane Gudran, 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 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. In 2004, the import value of U.S. hardwood lumber to Finland increased by 18 percent to USD 5.7 million as compared to the year before. Imports of panel products increased by 14 percent and amounted to USD 671,000.

Competition

Finland competes within the European market with Sweden, Canada, the United States, the Baltic States and Russia. The 2005 accession of New Member States to the EU is expected to increase the supply of softwood lumber. The level of supply in Europe from the Baltics and Russia continues to increase. With their low production costs, these countries are in a favorable position to increase their sawn wood capacity yearly.

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.

As a result of discussions related to certifying forestry products produced according to environmentally sustainable standards, a joint Nordic forestry certification project between Sweden, Norway and Finland was launched in 1996. This project aims to achieve like standards and like market recognition for certified forestry in all three countries. 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. There are now 25 countries participating in the PEFC.

The Nordic Timber Council (NTC), which is headquartered 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 co-sponsor 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 initiating cooperation with industrial manufacturers and forest owners in the Baltic Sea region. For 2005, the focus is on developing a Cooperation and Action Plan for increasing cooperation and promotion within the Baltic Sea region.

PSDs

PSD Table

Country	**Finland**					
Commodity	**Softwood Logs**				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	25700	25400	26000	26000	0	26000
Imports	5500	4052	5600	4000	0	4000
TOTAL SUPPLY	31200	29452	31600	30000	0	30000
Exports	370	179	370	200	0	200
Domestic Consumption	30830	29273	31230	29800	0	29800
TOTAL DISTRIBUTION	31200	29452	31600	30000	0	30000

PSD Table

Country	**Finland**					
Commodity	**Softwood Lumber**				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	13900	13460	14200	13600	0	13500
Imports	250	336	250	250	0	250
TOTAL SUPPLY	14150	13796	14450	13850	0	13750
Exports	8300	8209	8600	8000	0	7900
Domestic Consumption	5850	5587	5850	5850	0	5850
TOTAL DISTRIBUTION	14150	13796	14450	13850	0	13750

PSD Table

Country	Finland					
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	740	810	740	790	0	790
Imports	5	6	5	10	0	10
TOTAL SUPPLY	745	816	745	800	0	800
Exports	580	586	580	565	0	570
Domestic Consumption	165	230	165	235	0	230
TOTAL DISTRIBUTION	745	816	745	800	0	800

PSD Table

Country	Finland					
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		03/2004		03/2005		03/2006
Production	600	540	600	525	0	520
Imports	60	66	60	70	0	75
TOTAL SUPPLY	660	606	660	595	0	595
Exports	490	519	490	500	0	500
Domestic Consumption	170	87	170	95	0	95
TOTAL DISTRIBUTION	660	606	660	595	0	595

PSD Table

Country	Finland					
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	100	100	0	100	0	100
Imports	0	0	0	0	0	0
TOTAL SUPPLY	100	100	0	100	0	100
Exports	70	58	0	65	0	65
Domestic Consumption	30	42	0	35	0	35
TOTAL DISTRIBUTION	100	100	0	100	0	100

PSD Table

Country Finland

Commodity Hardwood 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	25	25	25	25	0	25
Imports	10	8	10	10	0	10
TOTAL SUPPLY	35	33	35	35	0	35
Exports	15	17	15	15	0	15
Domestic Consumption	20	16	20	20	0	20
TOTAL DISTRIBUTION	35	33	35	35	0	35