European Hardwood Market Developments

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INTERNATIONAL YEAR OF FORESTS • 2011

International Hardwood Conference
Brasov, Romania, 23 September 2011

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Welcome to Brasov!

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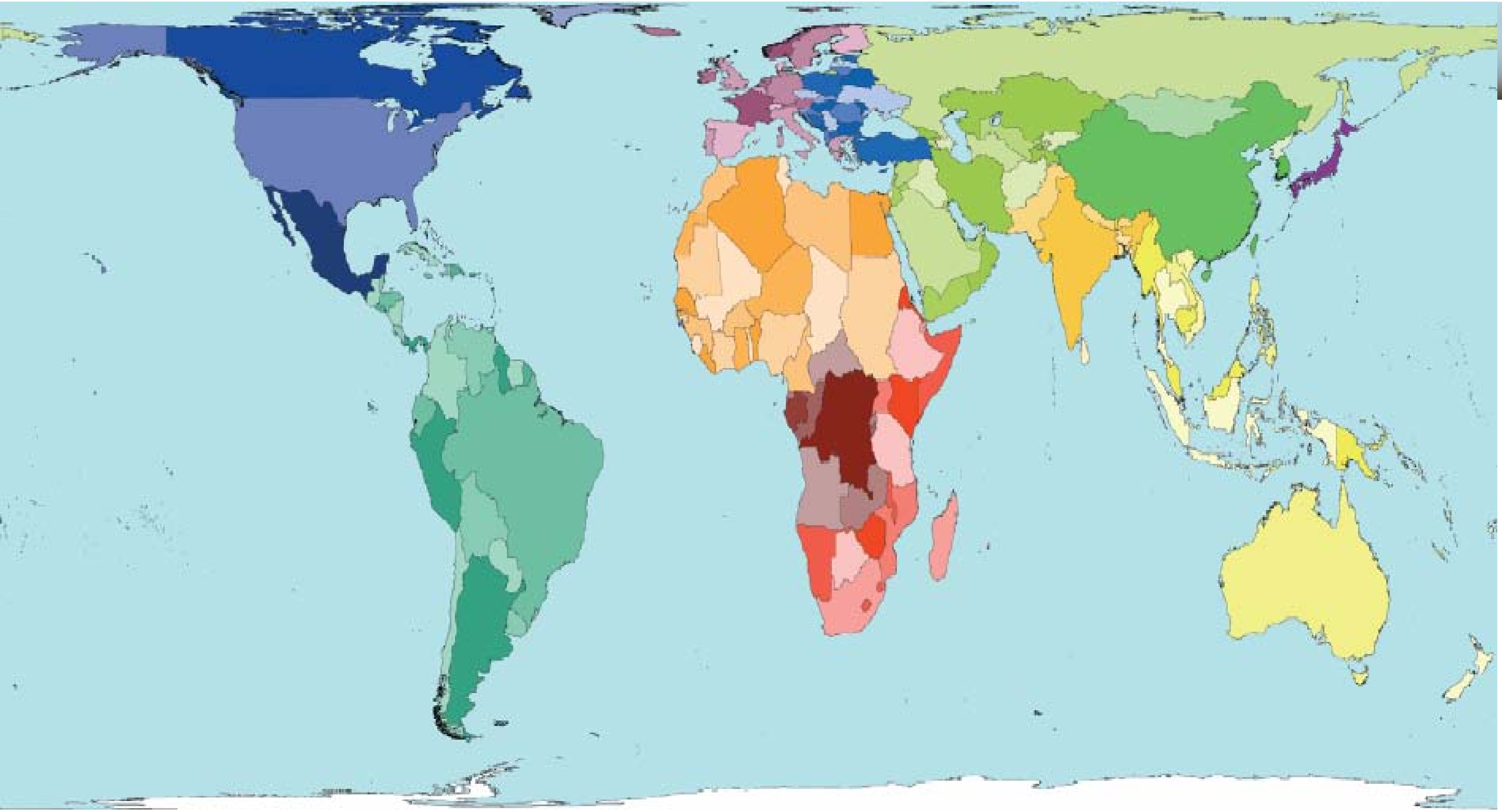
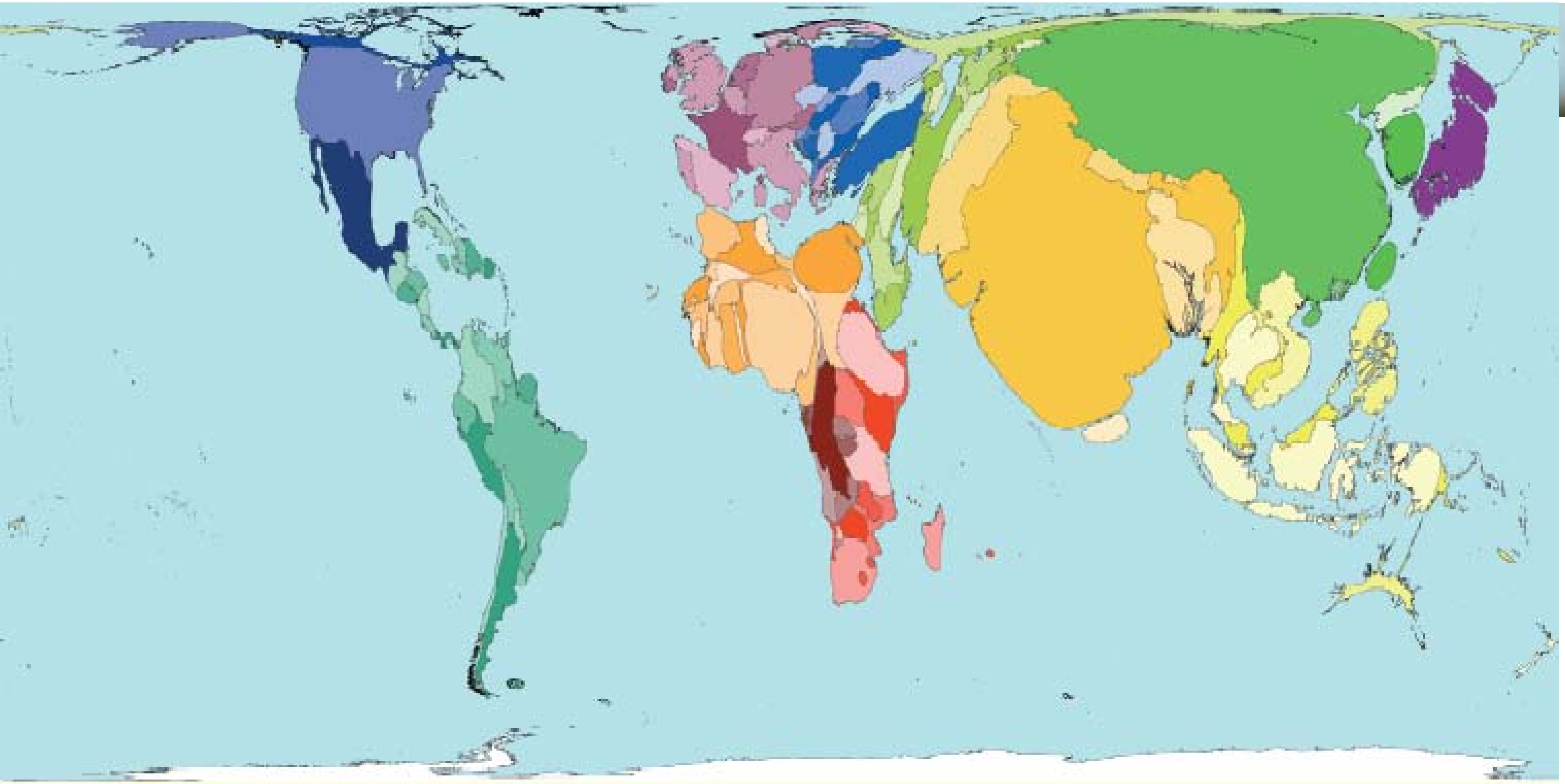
World shaped by political boundaries



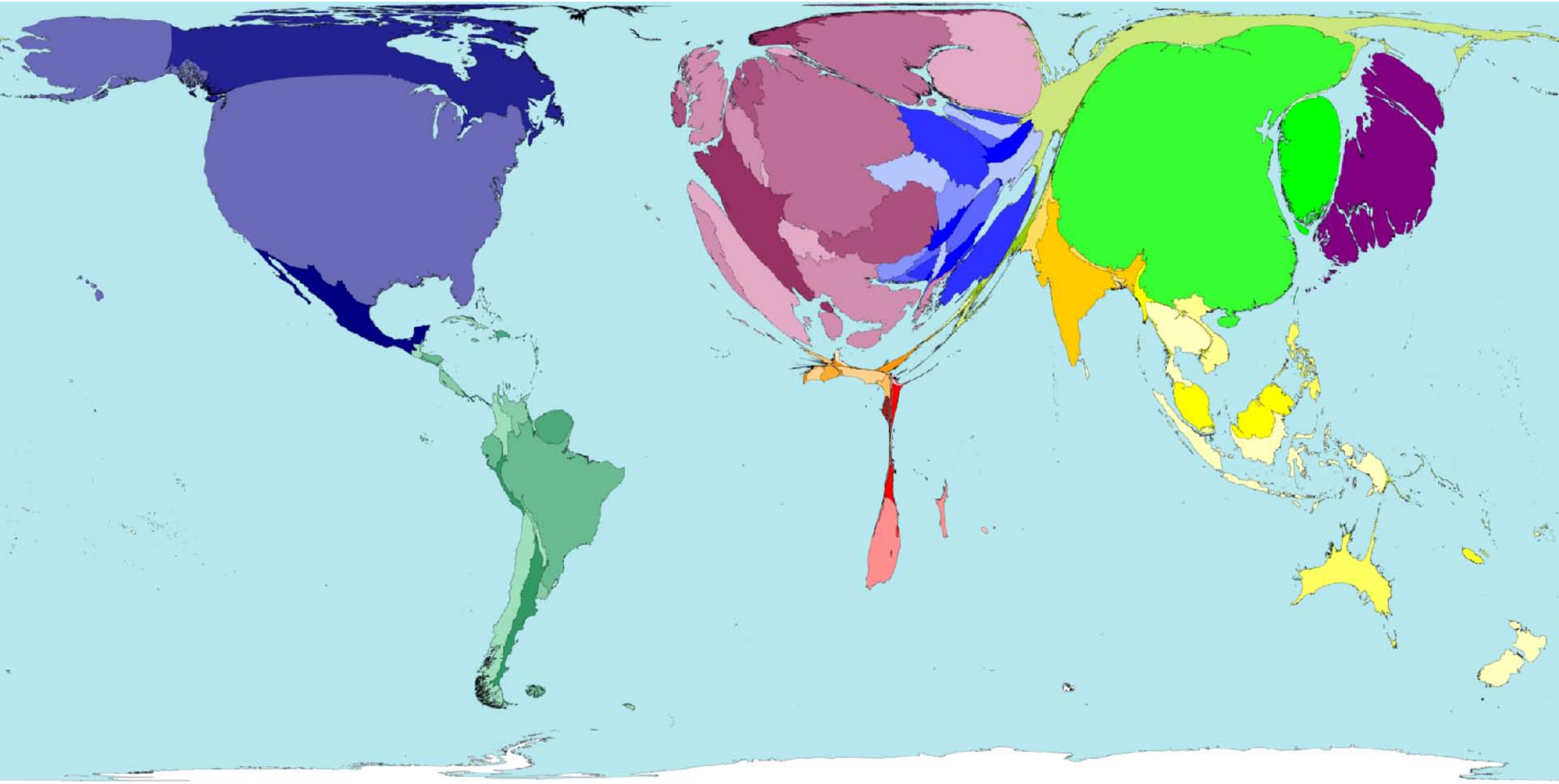
Source: Worldmapper, 2009

World shaped by population



Source: Worldmapper, 2009

As shaped by forest products production



Sources: Worldmapper & FAOStat, 2009

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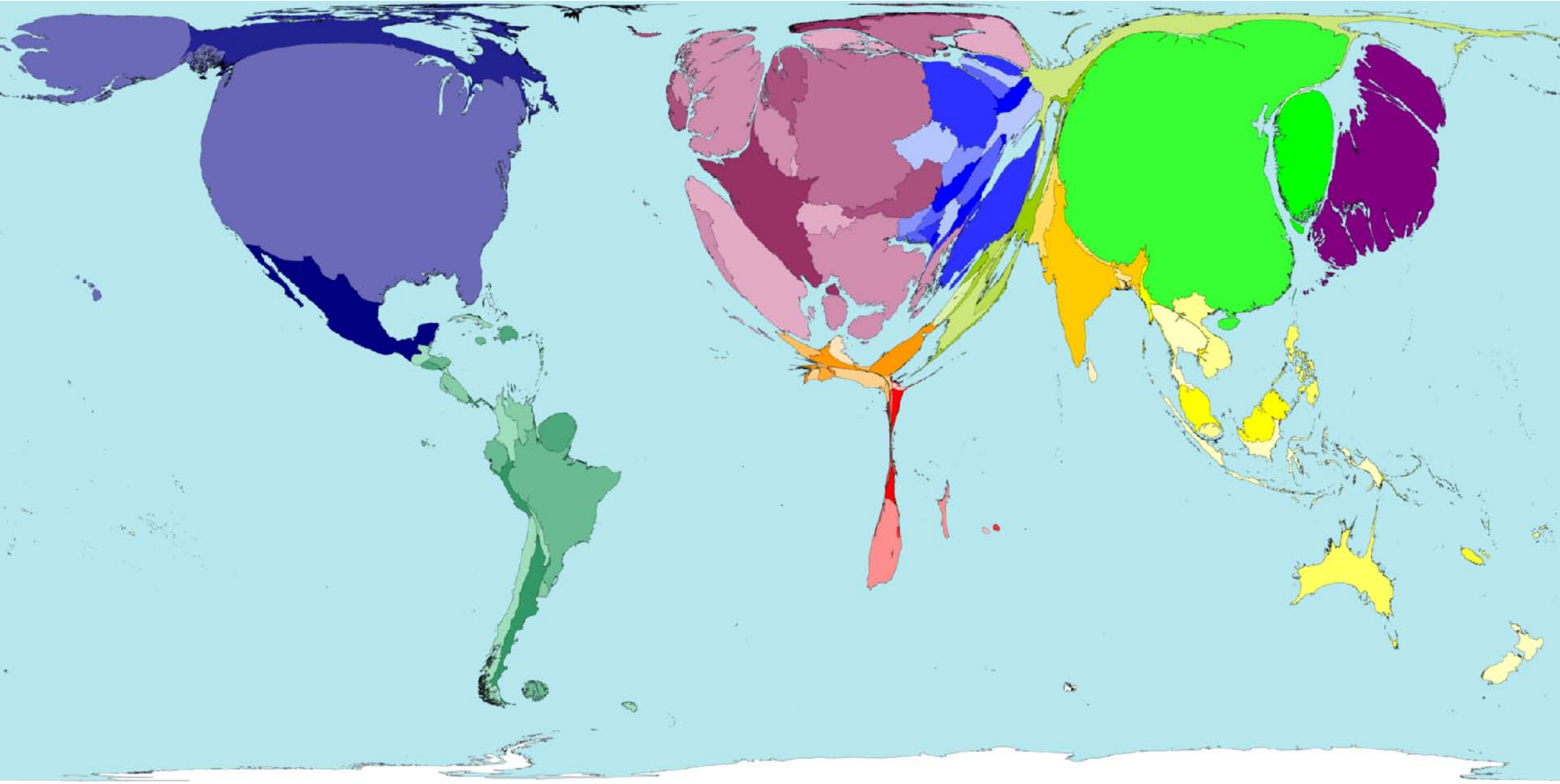
Shaped by wood and paper consumption



Sources: Worldmapper & FAOStat, 2009

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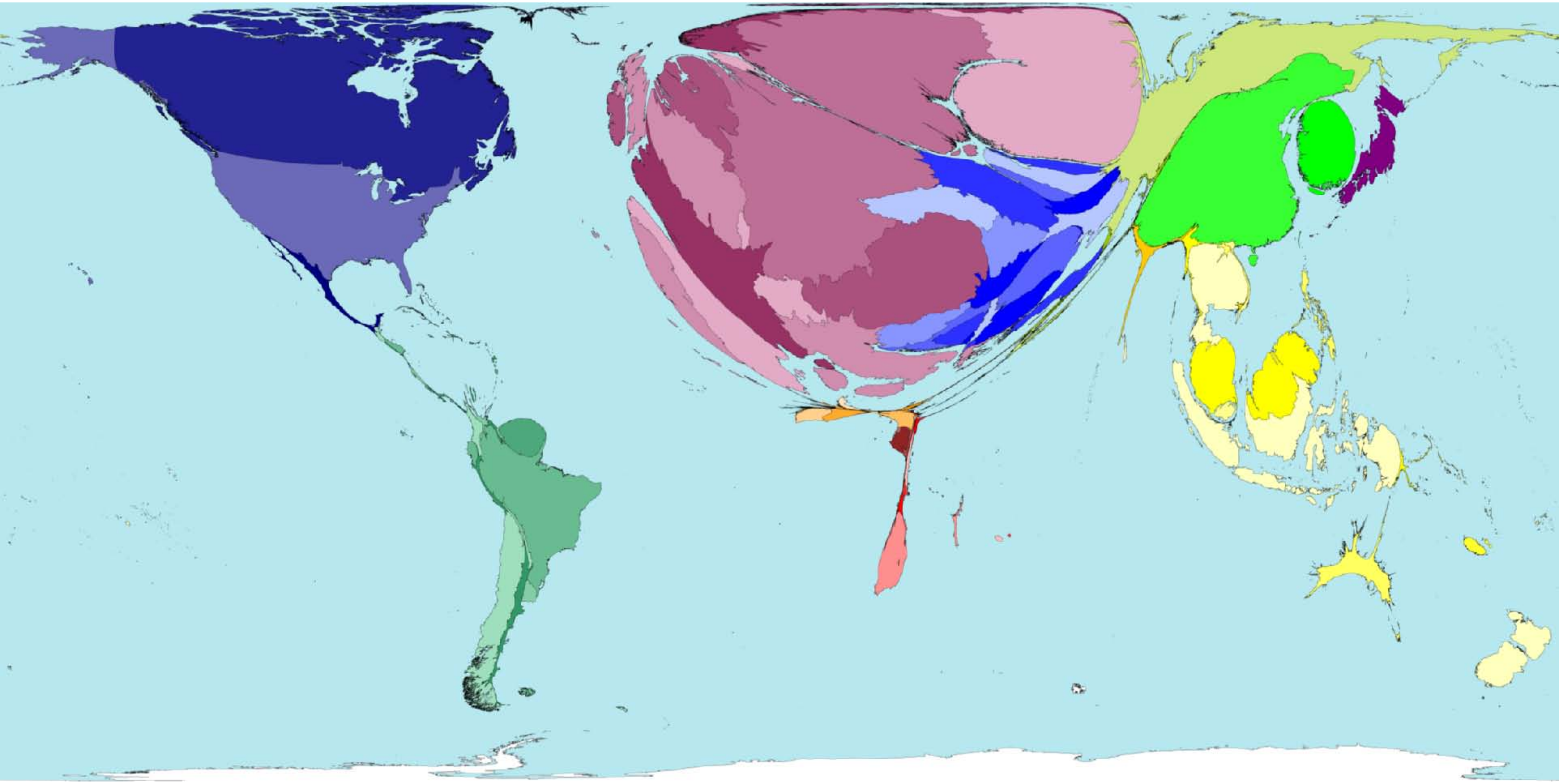
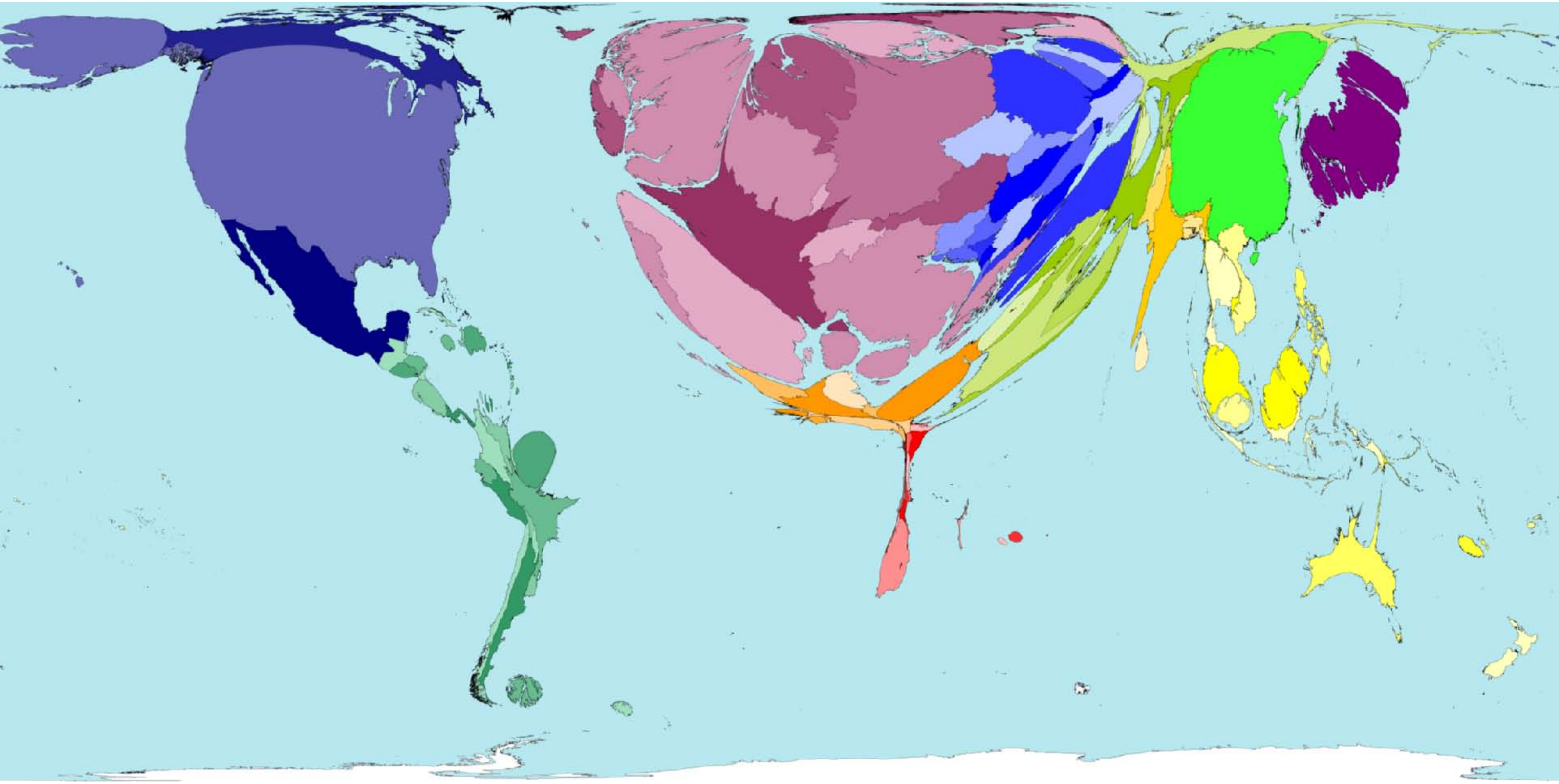
As shaped by forest products exports



Sources: Worldmapper & FAOStat, 2009

As shaped by forest products imports



Sources: Worldmapper & FAOStat, 2009

II. Structural change in the forest sector

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"Innovation for structural change recovery"

Main finding

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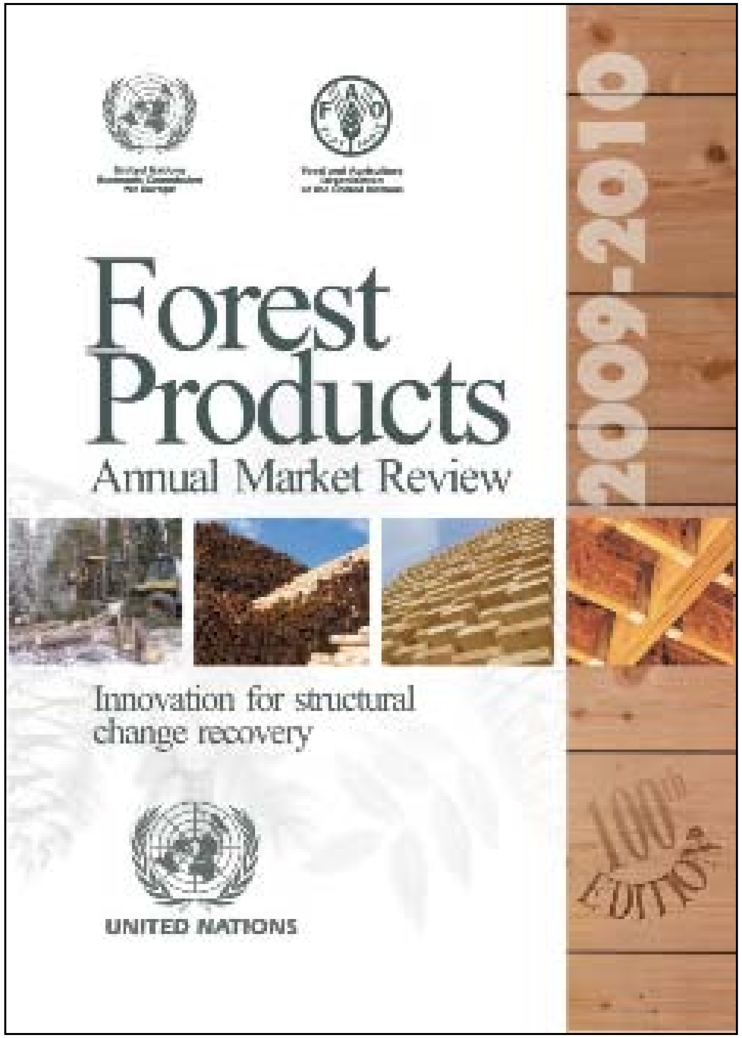

Structural change in forest sector – 4 underlying reasons

1. Downturn in demand forcing rationalization of production capacity
2. Globalization of forest products markets, e.g. China's rise as a major provider of forest products in the global markets
3. Climate change policies: escalation of wood energy production, consumption and trade
4. International control of origins of wood to ensure sustainable and legal production.

III. Economic situation

1st reason for structural change:
Downturn in demand forcing
rationalization of production capacity

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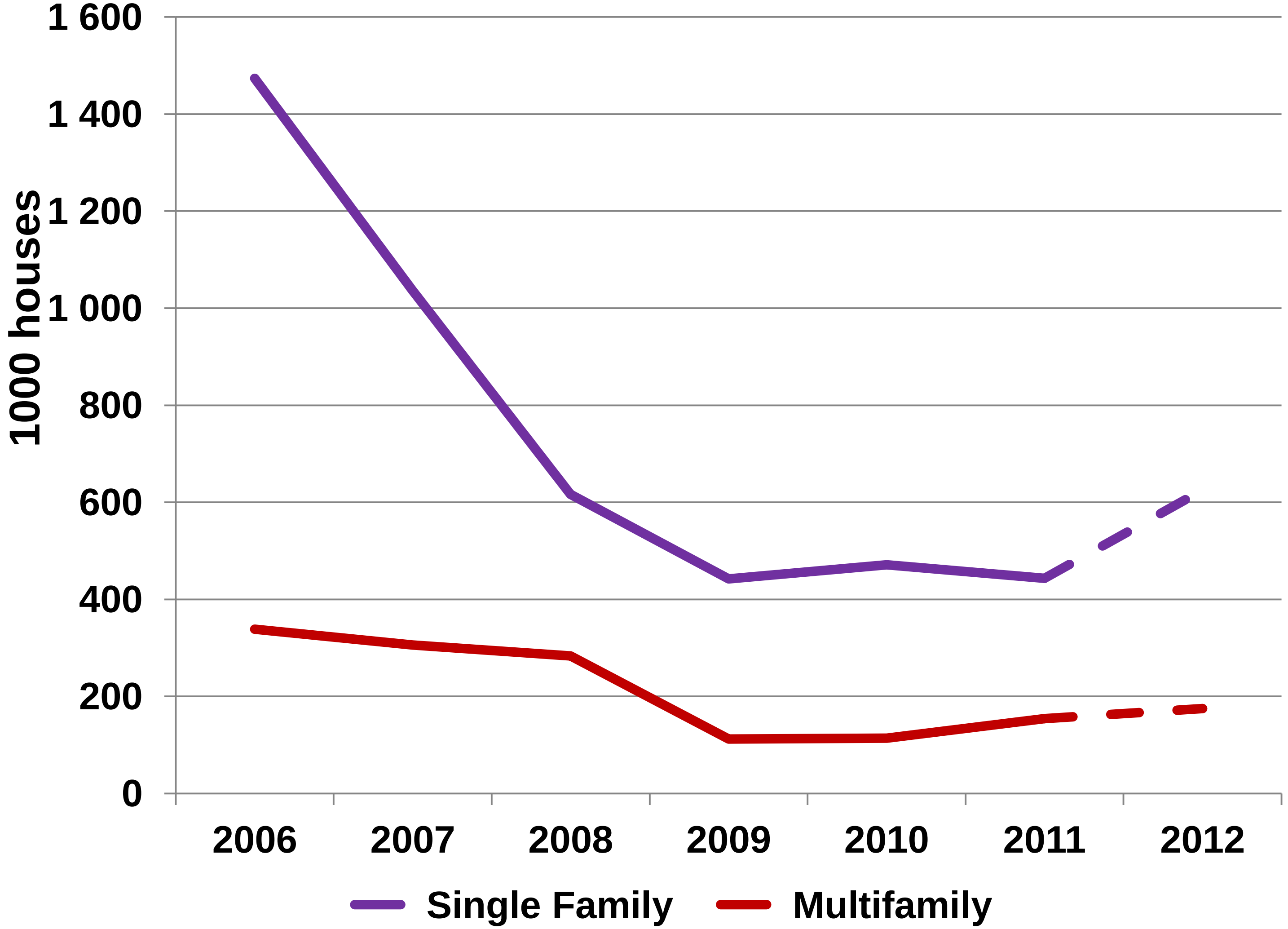
- 2008-2009 global crisis
  - Begin in United States
  - Tremendous impact on housing construction, wood and paper demand
  - Spread to Europe, Asia
- 2010 end of recessions
- 2011 markets rebound, but don't recover

- Recovering from the most severe financial shock since the Great Depression
- Deepest economic downturn since World War II
- Debt crisis continues in the Euro-zone
- Sluggish recovery despite massive intervention
- High unemployment restrains recovery

United States housing starts, 2006-2012



Source: National Association of Home Builders, 2011.

United States housing starts, 2006-2012

- Peak 2.2 million new houses per year in 2005
- But 2010: 580,000 new houses; 2011 600,000 forecast
- Huge inventory unsold new and used homes +
- “Shadow homes” (owned by banks, not on market)
- House prices down at 2003 levels
- Problems grew
  - Sub-prime mortgages with little down payment
  - Mortgage value greater than house value
  - Economic downturn → foreclosures
- Source of problem / source of recovery

IV. Market developments

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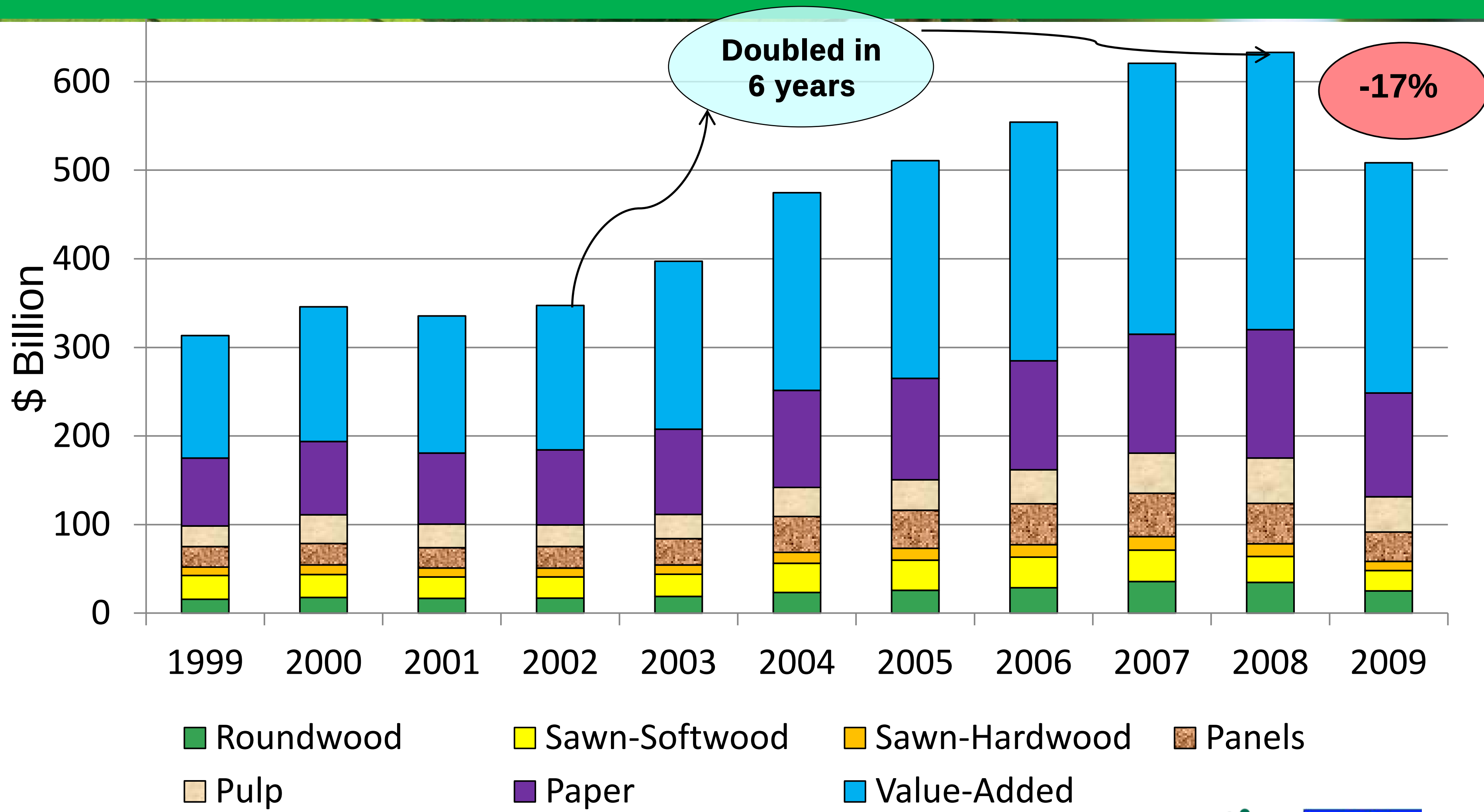
2^{nd} reason for structural change: Globalization of forest products markets

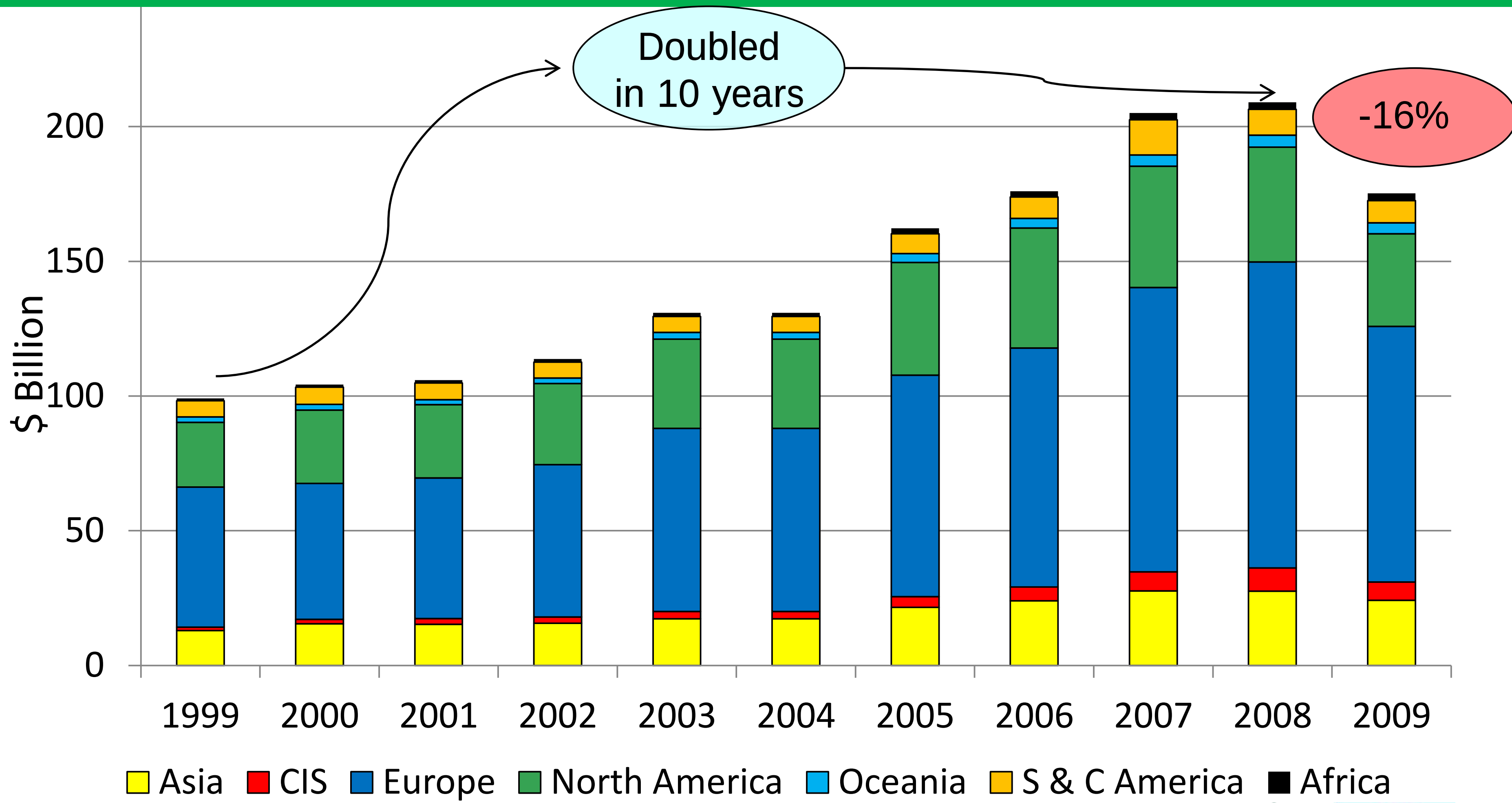
- International trade doubled in last 10 years
- China's domestic consumption doubled over last 10 years for sawnwood, panels, paper and paperboard
- Developing countries' consumption increasing with improved standards of living, in part due to international trade

Global trade of all forest products



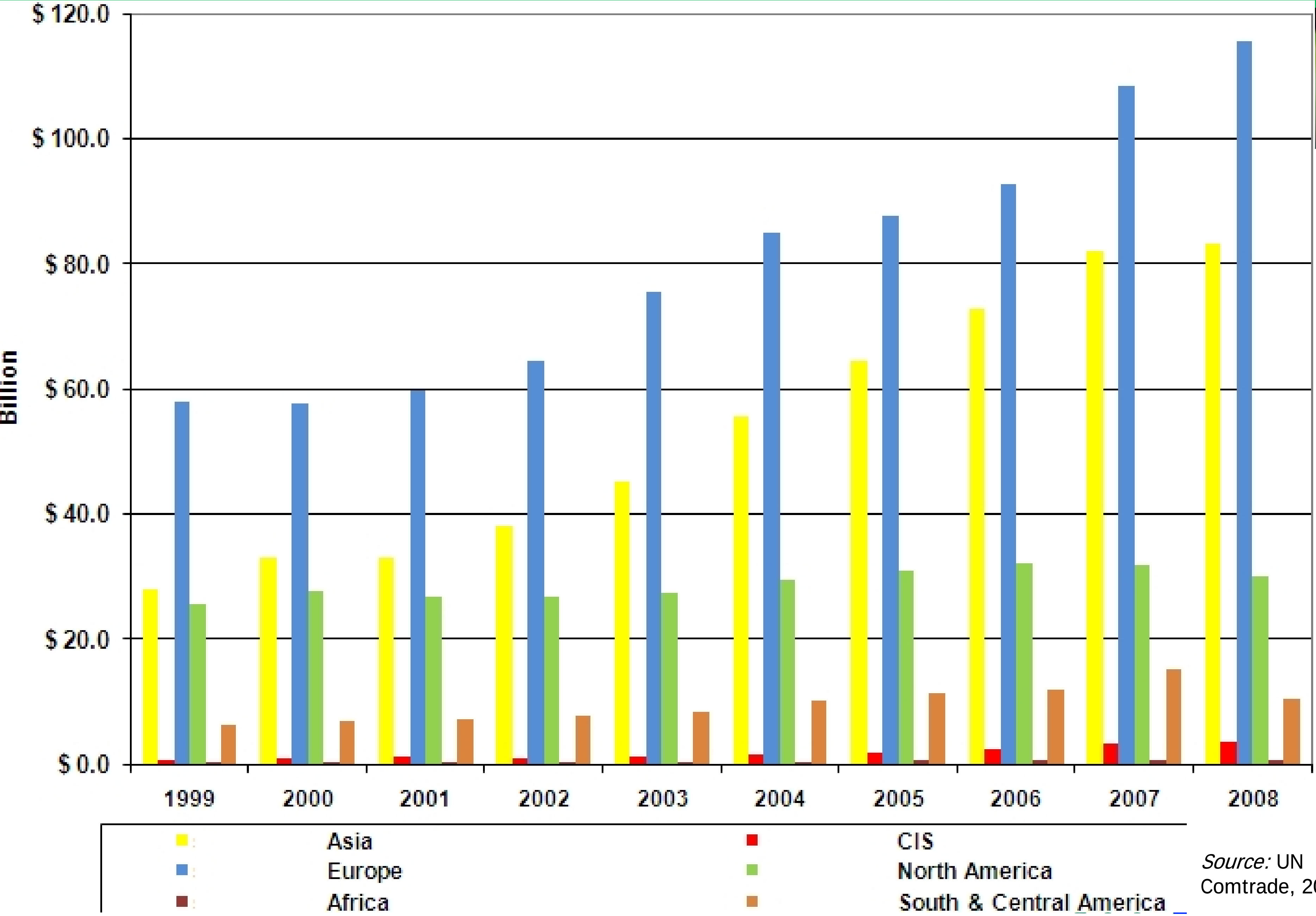
Source: UN Comtrade, 2011.

Global value-added imports



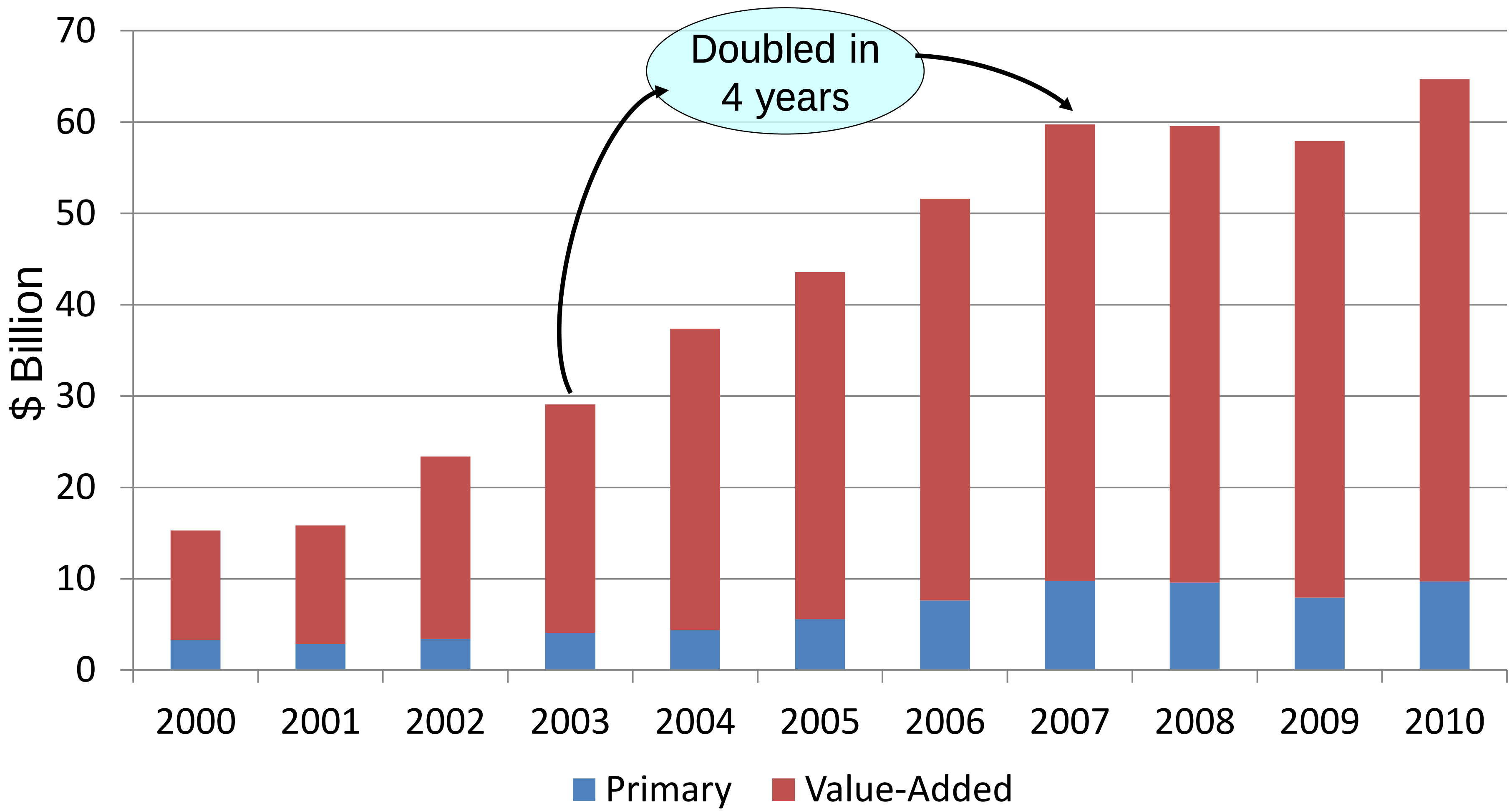
Source: UN Comtrade, 2011.

Value-added forest products exports



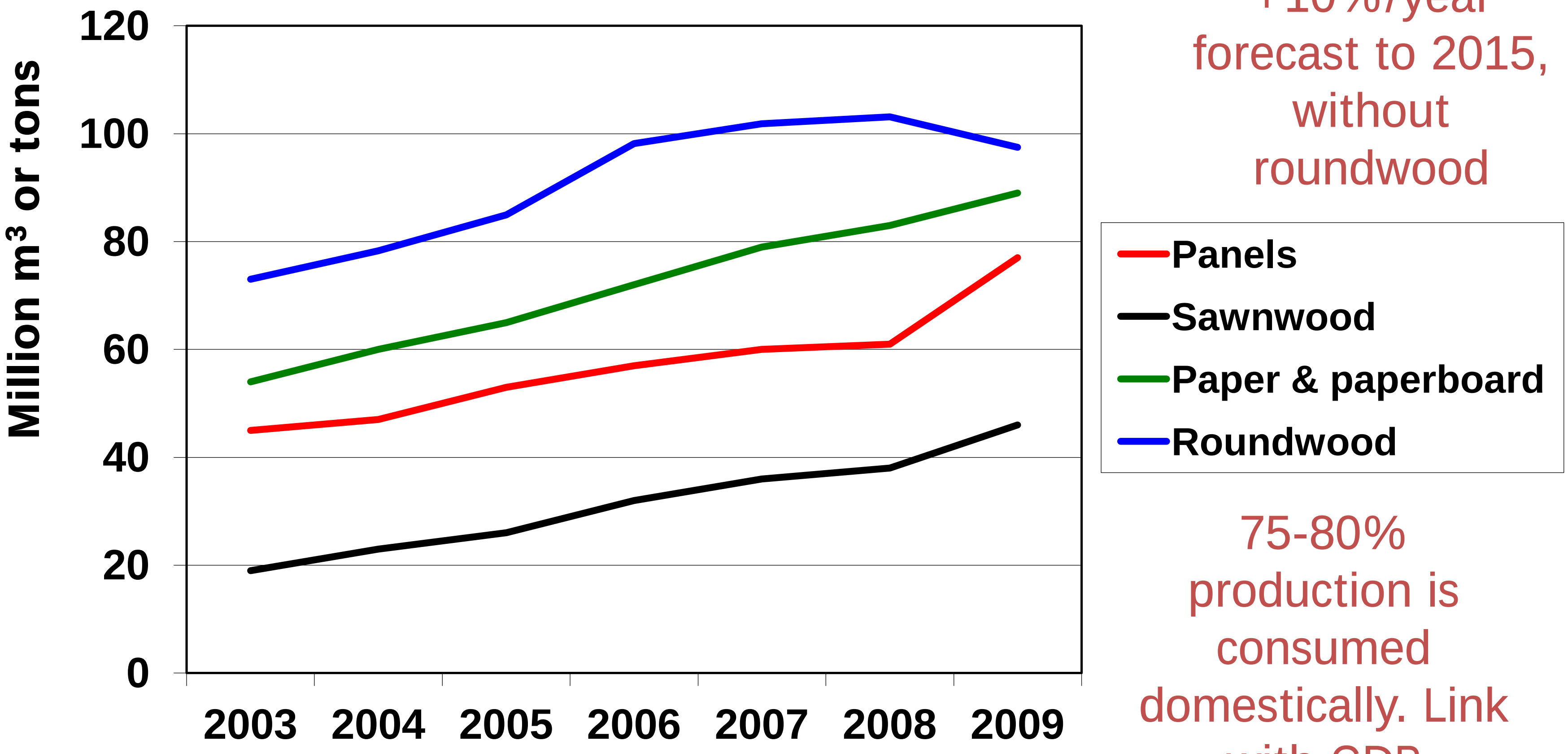
Source: UN Comtrade, 2010.

Chinese forest products exports



Note: 2010 value-added estimated.
Source: UN Comtrade, 2011.

Chinese consumption of wood & paper products

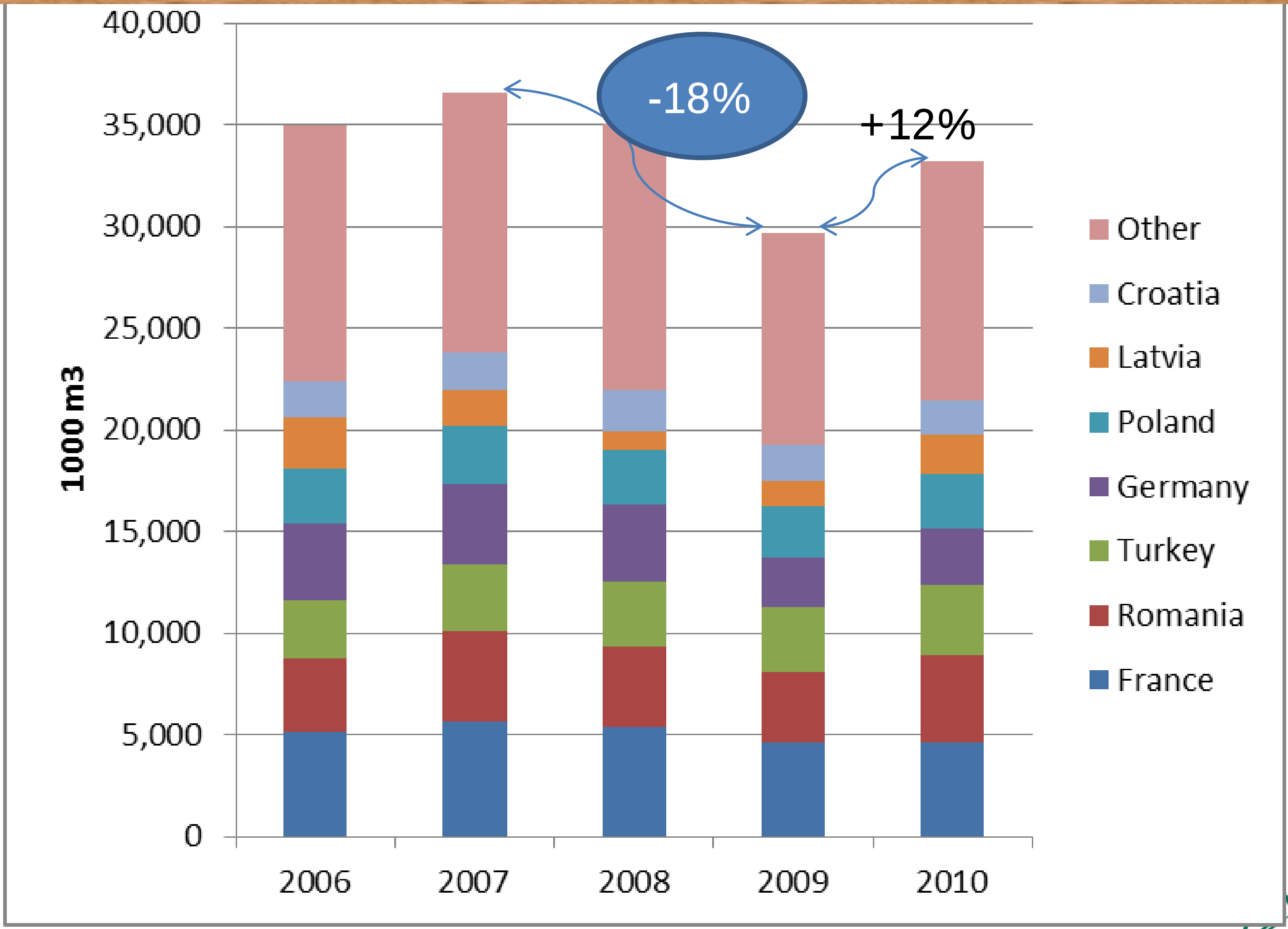


+10%/year forecast to 2015, without roundwood

75-80% production is consumed domestically. Link with GDP

Note: Forecast by Wood Markets International, 2010.
Sources: FAOStat, UNECE/FAO estimates, 2010.

Hardwood sawlog & veneer log production in Europe



Source: Forest Intelligence Ltd, 2011.

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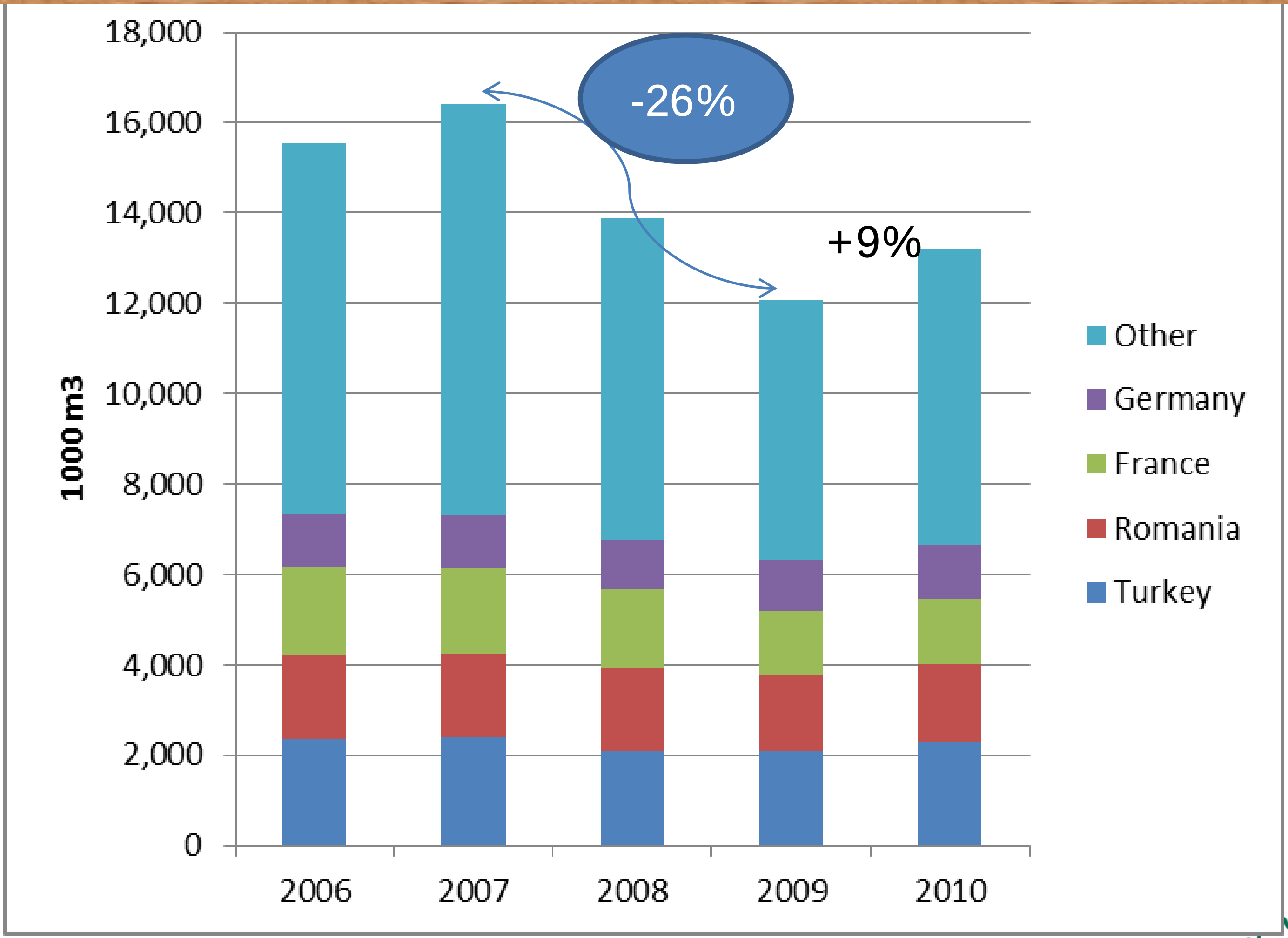
Sawn hardwood production in Europe



Source: Forest Intelligence Ltd, 2011.

Sawn hardwood balance in EU-27

	2008	2009	2010	% change 2009-2010
Production	9.9	8.6	9.5	10.7
Exports	4.7	5.8	4.5	18.3
Imports	6.6	4.7	5.3	12.0
Consumption	11.8	9.4	10.2	8.3

Source: UNECE/FAO, 2011.

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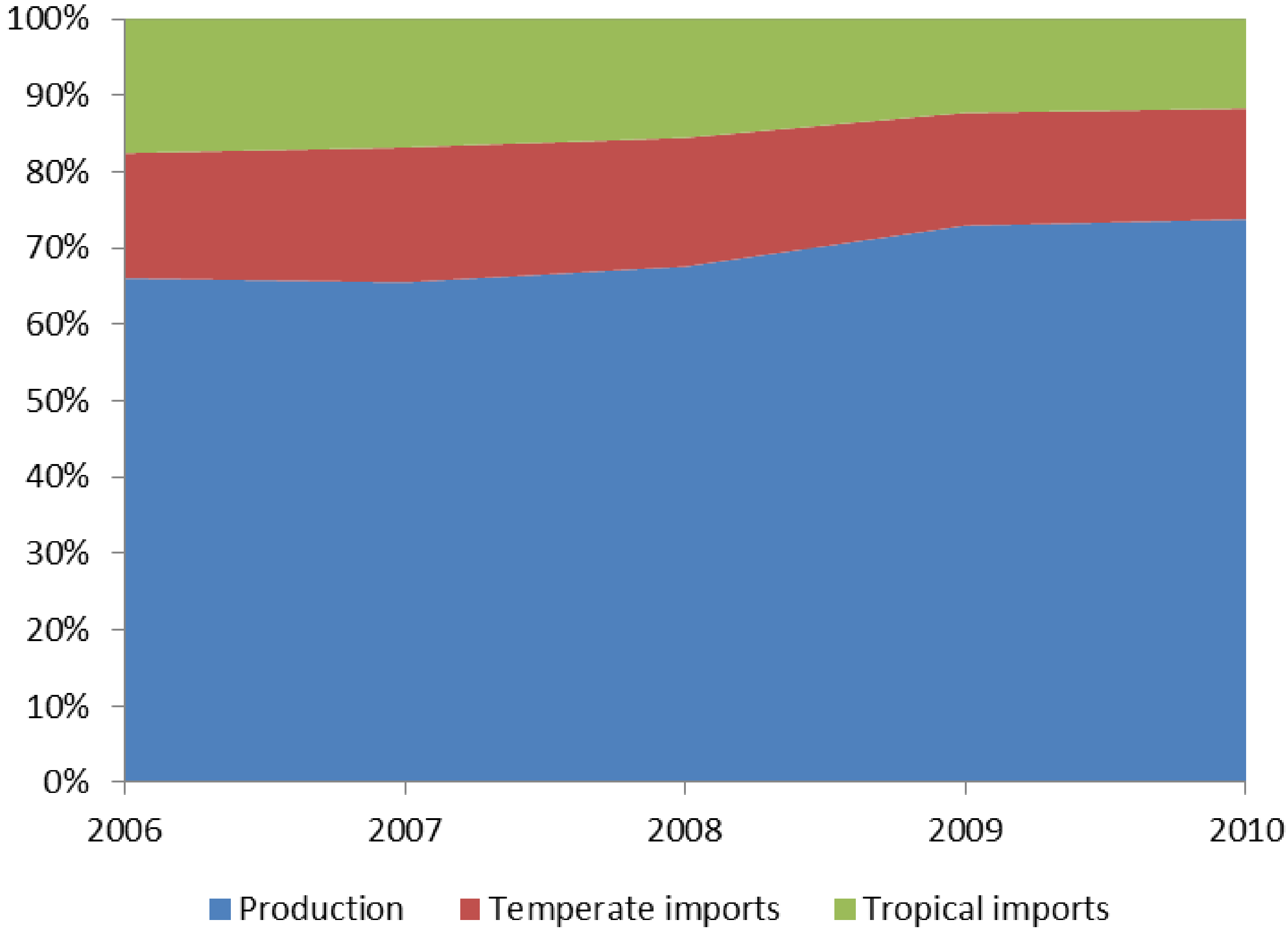
Sawn hardwood supply in Europe

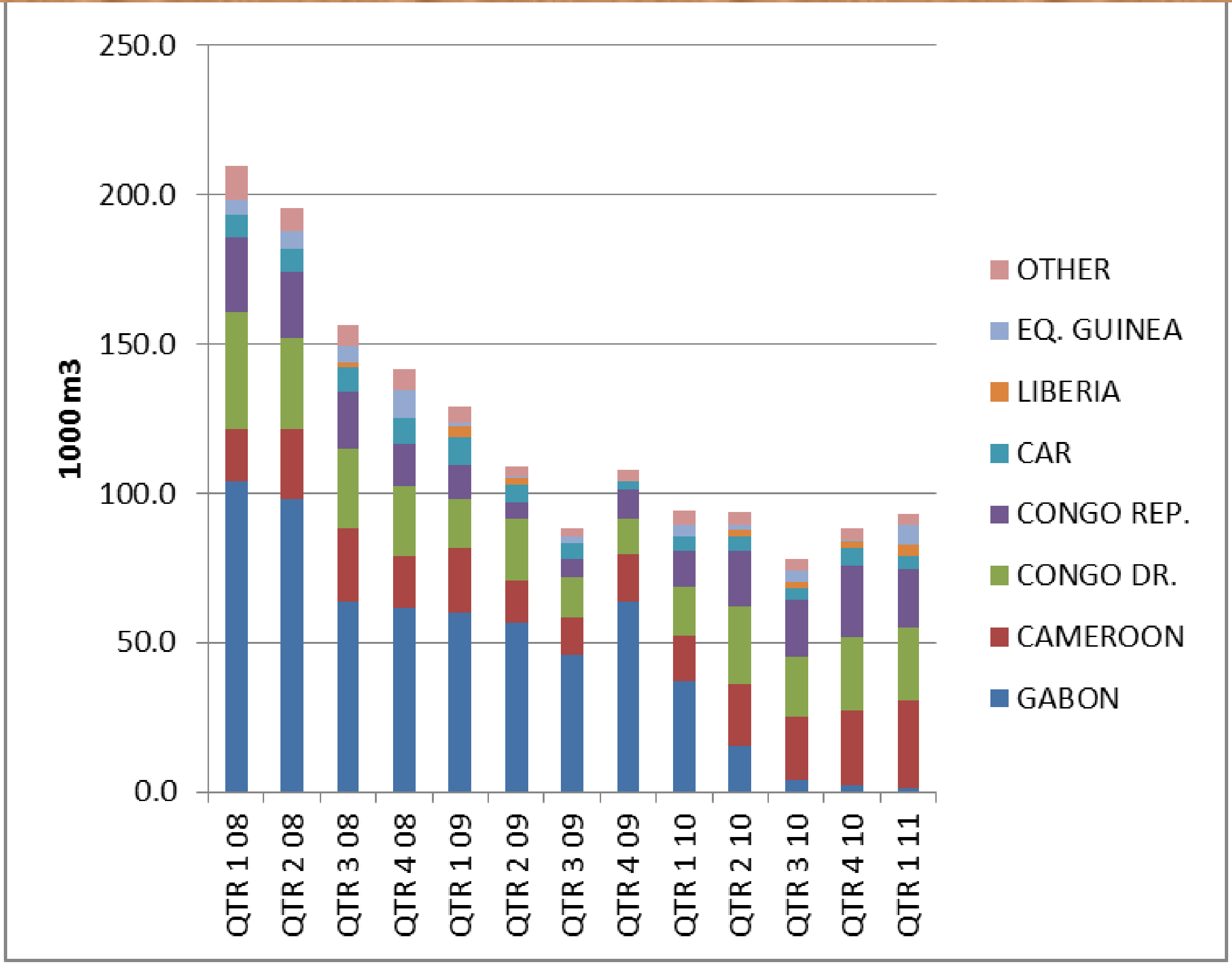


Shift in supply
•Tropical falls to 12%
•Supply shift to China
•Just-in-time, smaller stock
•Strong oak fashion
•New exterior uses
•Environmental consciousness (B2B) for certified

•In US, phone appl for construction uses

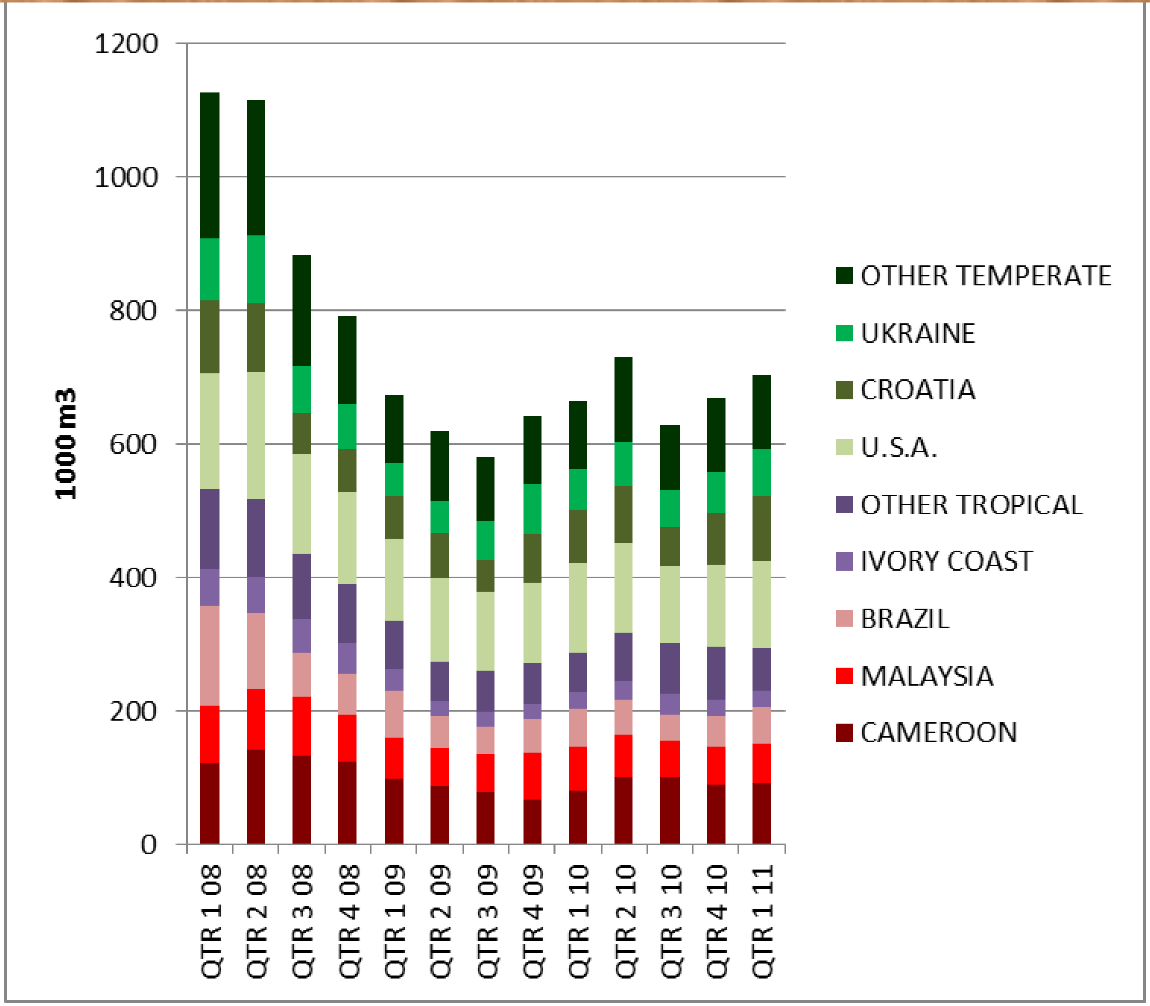
Source: Forest Intelligence Ltd, 2011.

Tropical hardwood log imports by Europe



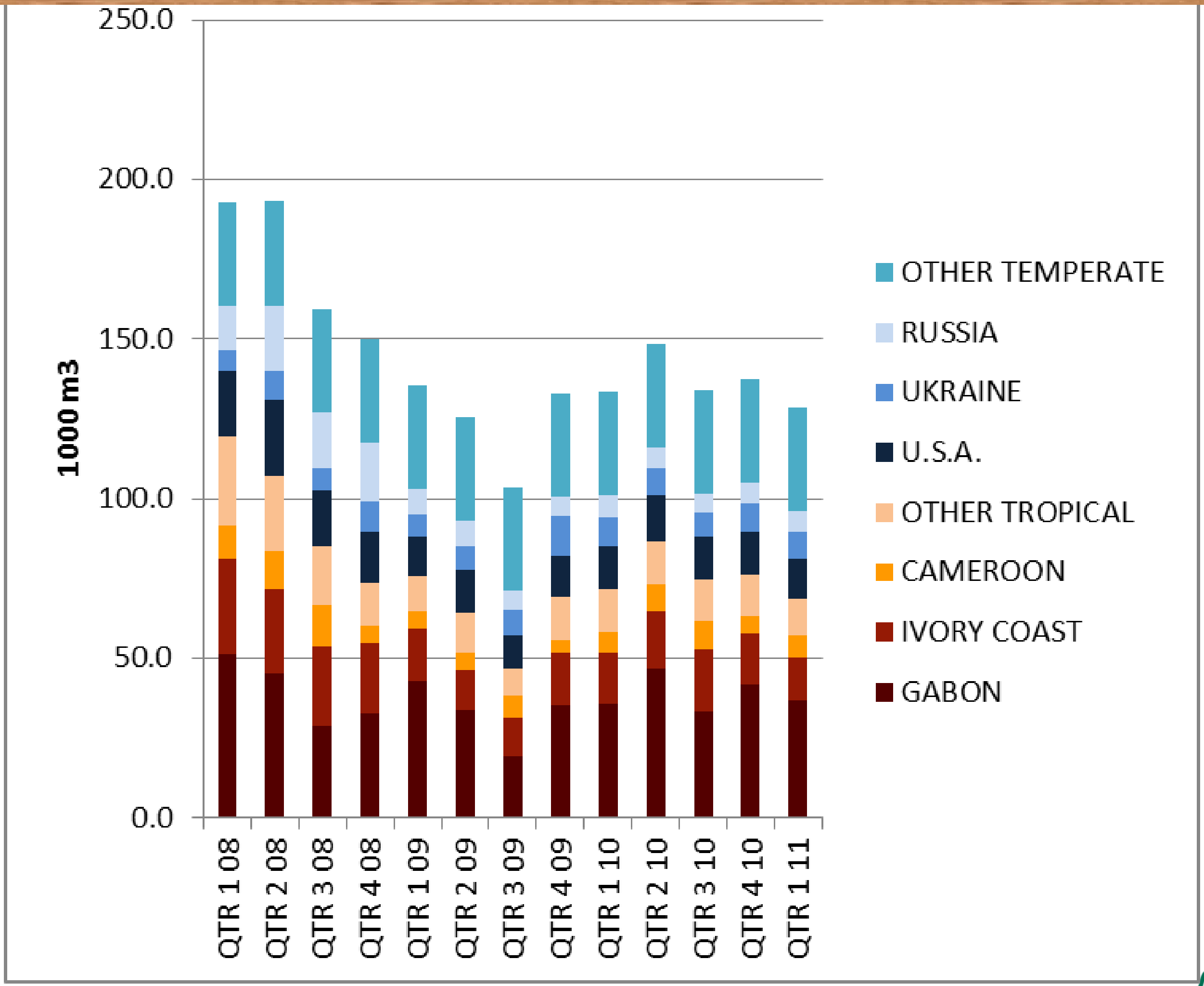
Source: Forest Intelligence Ltd, 2011.

Sawn hardwood imports by Europe



Source: Forest Intelligence Ltd, 2011.

Hardwood veneer imports by Europe



Source: Forest Intelligence Ltd, 2011.

3rd reason for structural change: Climate change

- Main effect: Escalation of wood energy
  - Policies → demand, short- and long-term
  - Production
  - Trade


Photo: Metsaliitto.

Wood energy

The only market sector that grew during the 2008-2009 economic crisis

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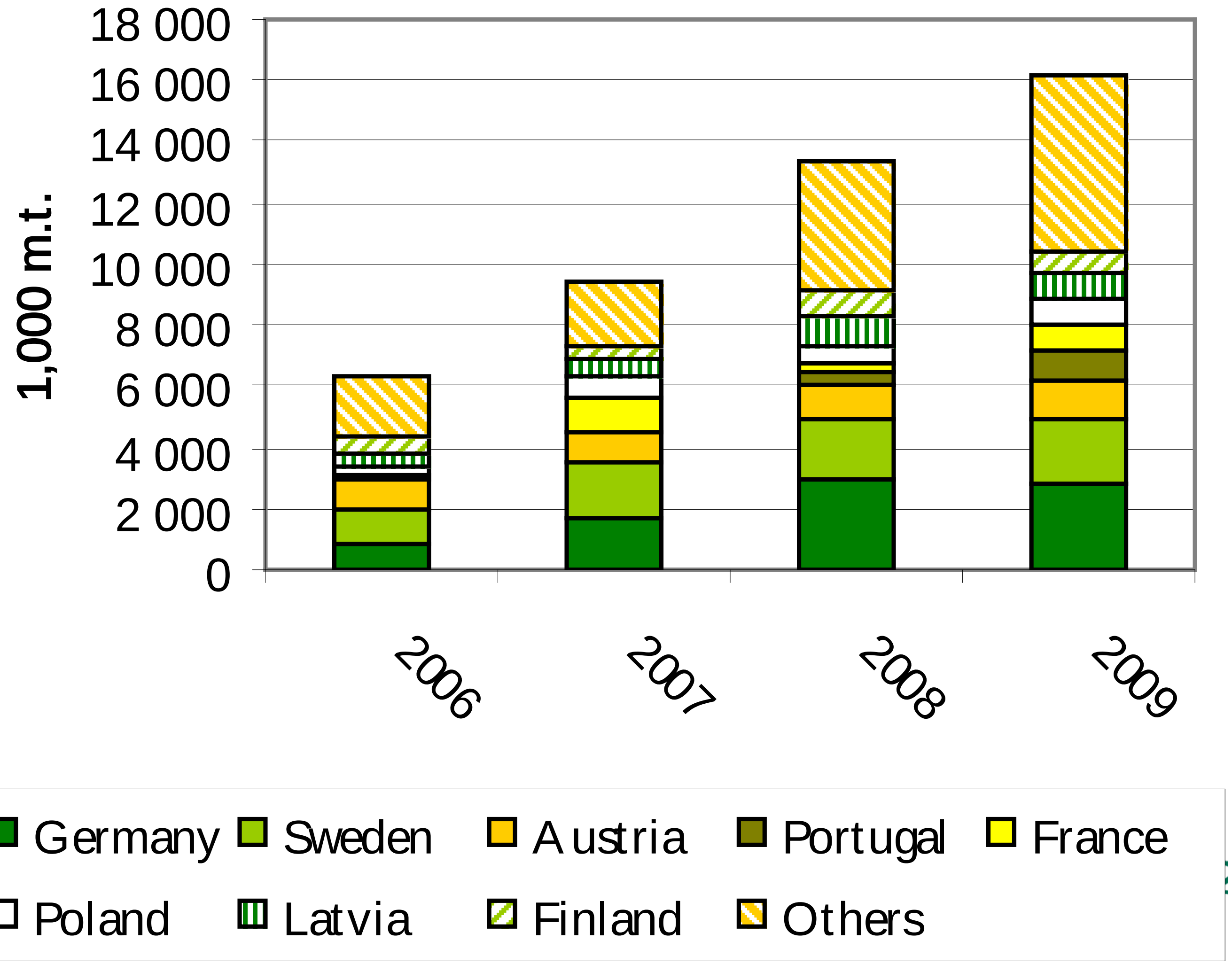
Wood energy drivers

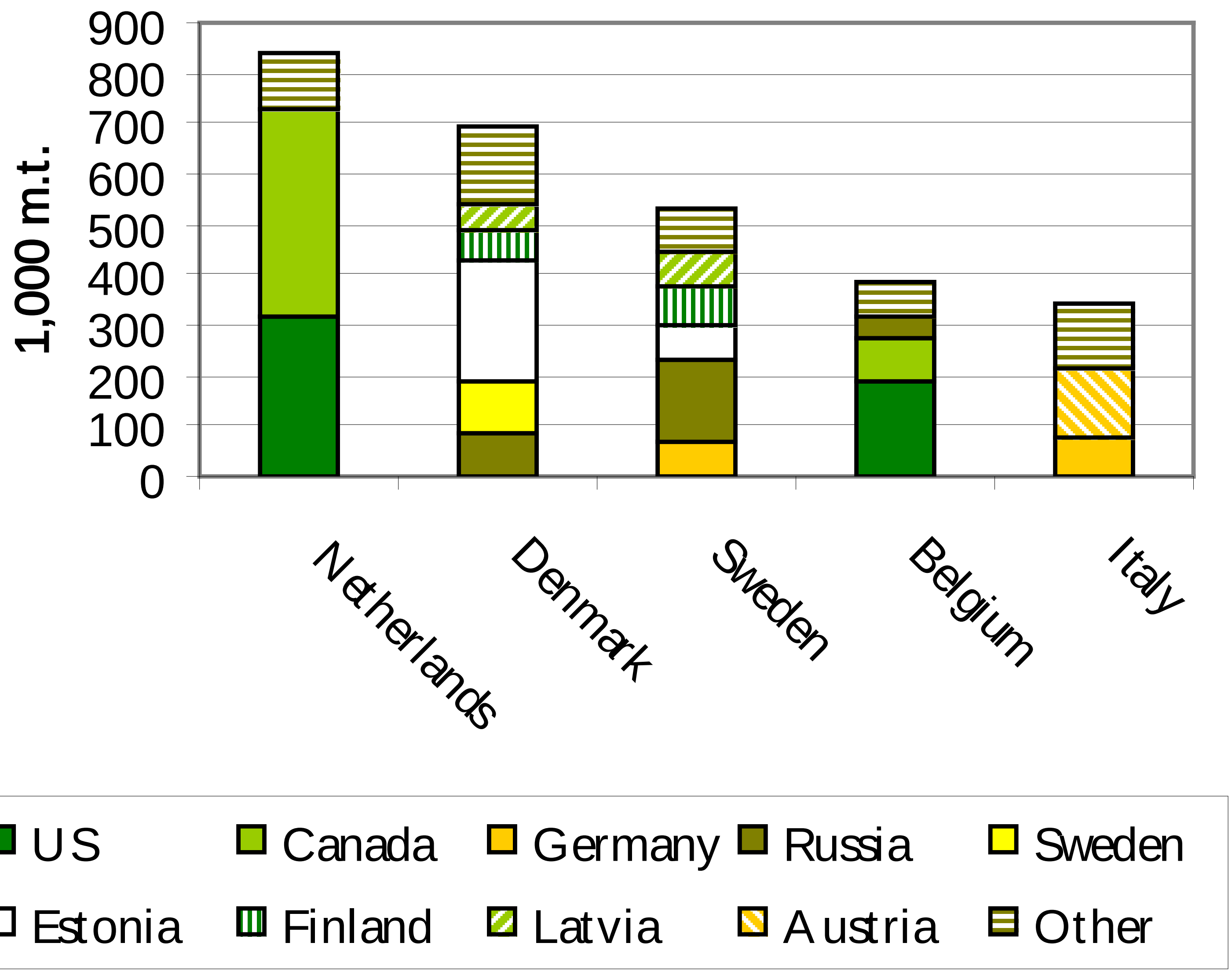
- European Union renewable energy targets: 20% renewables by 2020
- Rising fossil fuel costs
- Energy security – independence from imports
- Environmental concerns with fossil fuels
- Countries phasing out nuclear energy
- Forest sector development by governments and industry
- Industry-driven diversification (bio-refineries)

European wood pellet production capacity



Source:
Ljungblom,
2010.

Major European pellet importing countries and their suppliers, 2009



Source: Eurostat, 2010.

Modern wood energy

- Production is efficient, economical and environmentally sound
- Beneficial for *some parts* of the forest sector
- Presents competition for low-grade, small-diameter timber with other parts of the sector
- Generated global trade of low unit-value wood.

Photo source: M. Fonseca.

V. Preliminary indications of hardwood markets in 2011

Sawn hardwood forecasts, 2011 and 2012
Top European producers

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
Turkey	2,259	2,300	1.8	2,225	-3.3
Romania	1,610	1,650	2.5	1,700	3.0
France	1,500	1,600	6.7	1,650	3.1
Germany	914	1,000	9.4	1,070	7.0
Slovakia	797	850	6.6	870	2.4
Croatia	584	562	-3.8	550	-2.1
Poland	455	470	3.3	480	2.1

Production forecast generally to increase in 2012

Sources: EOS & UNECE/FAO, 2011.

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Sawn hardwood forecasts, 2011 and 2012
Top European exporters

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
Romania	652	700	7.4	750	7.1
Germany	553	650	17.5	710	9.2
France	390	310	-20.5	350	12.9
Croatia	527	490	-7.0	440	-10.2
Slovakia	359	380	5.8	400	5.3
Lithuania	194	205	5.7	210	2.4

Exports forecast generally to increase in 2011 and 2012

Sources: EOS & UNECE/FAO, 2011.

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Sawn hardwood forecasts, 2011 and 2012 Top European importers

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
UK	469	430	-8.3	430	0.0
Germany	444	550	23.9	580	5.5
France	160	150	-6.3	150	0.0
Belgium	420	440	4.8	440	0.0
Czech Rep.	335	320	-4.5	340	6.3

Small changes in European imports mean reliance on export markets in 2011 and 2012

Sources: EOS & UNECE/FAO, 2011.

Sawn hardwood forecasts, 2011 and 2012
Top European consumers

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
Turkey	2,333	2,377	1.9	2,297	-3.4
France	1,270	1,440	13.4	1,450	0.7
Germany	805	900	11.8	940	4.4
Romania	991	985	-0.6	990	0.5
Poland	581	600	3.2	615	2.5
UK	486	450	-7.4	450	0.0

Generally increasing European consumption in 2011 and 2012

Sources: EOS & UNECE/FAO, 2011.

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VI. Controlling sources of wood and paper products

4th reason for structural change

- EU Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT)
  - Reduction of illegal logging and trade
  - Improving governance in forest sector
  - Voluntary partnership agreements with tropical timber exporters
- US Lacey Act Amendment

EU FLEGT & EU REDD Facilities

Hosted by European Forest Institute

EU FLEGT Facility

• Started in 2007, now 20+ staff members
• Includes FLEGT Asia programme,
• Funding: 80% from EuropeAid, 20% from EU member states: Finland, France, Netherlands, UK, in-kind support from Germany

EU Reducing Emissions from Deforestation and forest Degradation (REDD) Facility

• Just starting. EuropeAid contract signed in 2010

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EU FLEGT Facility

- The EU FLEGT Facility supports the EU, Member States and partner countries in implementing the EU FLEGT Action Plan.

- The EU FLEGT Action Plan provides a number of measures to exclude illegal timber from markets, to improve the supply of legal timber and to increase the demand for responsible wood products

- The Facility provides country support, analytical studies and communication and facilitation services

EU REDD Facility

- REDD: key international programme under development to combat climate change in the forest sector

- The EU REDD Facility helps developing countries build capacity and improve forest governance

- More information about the Facilities at website

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EU Timber Regulation

- Obliges wood importers and traders to know
  - source of all wood and paper products
  - that it is legally compliant
- All operators must exercise "due diligence" in their buying policies
- (US Lacey Act Amendment, others coming)

VII. Other market drivers

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- Green building (with wood!)
- Demand for certified paper and wood products
- Public (and private) procurement policies
- Japan recovery from earthquake

VIII. Summary

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Summary (1 of 3)

- Structural change in forest sector – requires innovation in products, processing and marketing
- Global trade
  - Doubled in years preceding 2008-2009 economic crisis
  - Now rebounding with increasing demand
- Recovery dependent on US housing market, remains weak
- China suffered less than other countries, in part from increasing domestic consumption

Summary (2 of 3)

- Positive hardwood market movements in 2010 through 2012
  - Production recovering in Europe, not US
  - Active trading in EU and outside EU
  - Consumption increasing
- Forest sector negatively effected by illegal logging and trade
- FLEGT, EU Timber Regulation, US Lacey Act Amendment to ensure legality, sustainability

Summary (3 of 3)

- Other market demand drivers
  - Certified paper and wood products
  - Public procurement policies
  - Green building
  - Wood energy
  - Japanese recovery

EU FLEGT FACILITY
IMPLEMENTING THE EU FOREST LAW ENFORCEMENT, GOVERNANCE AND TRADE (FLEGT) ACTION PLAN

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Thank you!

Discussion?

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