ECONOMIC COMMISSION FOR EUROPE
Timber committee

FINLAND

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MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS AFFECTING THE FOREST AND FOREST INDUSTRIES SECTOR*)

The Finnish economy posted strong growth of 5.7 percent last year. It was largely due to the strong 18 percent export growth by volume. As export prices also developed favourably, especially those of forest industry products, the economy got a big boost. Imports also increased a significant 13 percent. Since exports exceeded imports, the trade balance developed positively. This year's fore-casts for GDP growth, which recently have been lowered somewhat, are around 2.0 percent. Thus, the growth will decelerate clearly from last year.

The development of trade balance this year is predicted to be opposite to last year. Exports are expected to decrease about 2.0 percent. Simultaneously imports are expected to grow by about 1.0 percent.

Last year the Finnish industrial production grew quite rapidly. The overall industrial volume increased 11 percent. The metal industry, of which the electronics industry is a part, grew 21 percent. The industrial confidence indicator has declined rapidly since early 2001. The indicator sup-ports the assessment that industrial production is not increasing this year. According to the latest official forecasts industrial output will remain in the same level as last year.

Consumer confidence is still at a reasonable level although a downward turn is imminent. Consumers still intend to borrow as much as before, but are slightly less inclined to buy dwellings. The prices of existing dwellings, which rose for long, dipped towards the end of 2000 in the most of the country. However, the latest data suggest stable development. Home sales have picked up along with lower interest rates. Demand for non-subsidised new homes in growth centres is good. Private consumption is expected to show a stable annual development during the next few years.

Inflation is anticipated to drop to under 3.0 percent this year and to under 2.0 percent in 2002. The unemployment rate will decline from 9.8 percent in 2000 to 8.9 percent by the year 2003. This year, the unemployment rate is projected to fall to 9.2 percent.

The economic outlook still provides a reasonable basis for construction. The growth that continued for six years will slow down, may even stop, but not collapse. The housing starts are forecasted to be around 35 000 in 2001-2002 and about 34 000 in 2003. Last year the number of housing starts was about 32 000. According to consumer barometers people intend to renovate dwellings at a clearly increasing rate. Annual growth of renovations is likely to be 3-4 per-cent over the next few years. (Euroconstruct 2001)

*\) *Based on the latest forecast by The Research Institute of the Finnish Economy (ETLA)*

2 DEVELOPMENTS IN FOREST PRODUCTS MARKETS SECTORS

2.1 Pulp and paper

In 2000, output of paper and paperboard in Finland totalled 13.5 million tonnes, 4 % or 0.6 million tonnes more than in 1999. For the whole year of 2000 the average operating rate was 95 % compared with 94 % in 1999. Production of printing and writing papers increased by 7 %. Newsprint production decreased by 6 %. Chemical pulp output increased by 2 % to 7.1 million tonnes. Of this total chemical pulp, 1.8 million tonnes were market pulp. Market pulp operating rate averaged 91 %.

In 2000, the volume of the paper and paperboard exports from Finland increased by 4 %. The average export prices were about 11 % higher than in 1999. In the pulp and paper industry, the export income increased by 18 % totalling FIM 61 billion for 2000.

Currently, paper demand is hit by the economic slowdown in the main market areas, which has caused most producers to take downtime in the first half of this year.

In Finland, the average operating rate in paper industry was 89 per cent in the first eight months, compared with 94 per cent a year ago. Respectively, in January-August the production volumes were 4 per cent less than last year.

By grade, the weakest development was in fine papers where production fell by 16 per cent. Also coated magazine papers experienced a drop in production. On the other hand, newsprint, uncoated magazine papers and some speciality papers showed growing production.

During the last four months, i.e. May-August, the situation has deteriorated in relation to the first quarter. The average operating rate of the whole paper industry in Finland dropped as low as 86 per cent, causing the production volumes to come down by 10 per cent compared with the same period last year.

Although paper prices have remained rather unchanged, the average profitability of the companies weakened in the first half of 2001, due to the lower operating rates. In January-June, the result before extraordinary items was 8 per cent of turnover on the average (last year 12 per cent).

2.2 Roundwood

In 2000 the raw material consumption of the Finnish forest industry was on a new record level of 84 million m^3 (domestic roundwood 58 mill. m^3, imported roundwood 13 mill.m^3 and wood residues 13 mill.m^3). The volume increased by 2 million m^3 over previous year 1999.

In 2001 the wood raw material consumption is estimated to decrease to a level of 82 million m^3 due to the weakened market situation. However, this level is still high, approx. 7 million m^3 more than the annual average of the period 1995-99. The higher production capacity will compensate partly downward operation rates.

The domestic roundwood sales activity has decreased, specially in the third quarter of 2001. This will mean higher imports volumes for this year than in 2000.

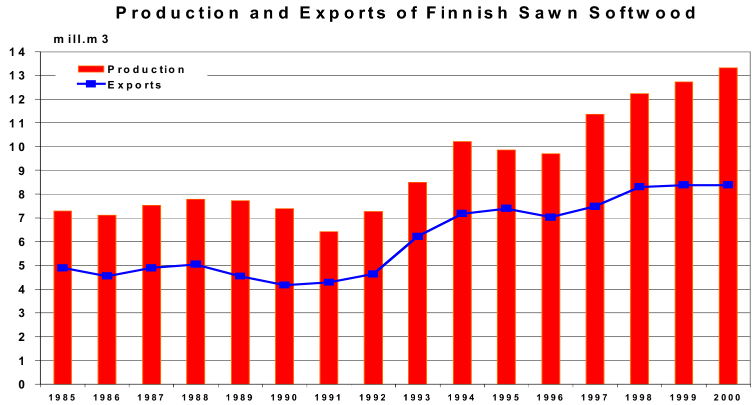
The wood raw material consumption in 2002 is expected to stay at least on the same level as in 2001.The first half of 2002 is expected to be at present level, but on the second half the pace is expected to accelerate somewhat.

In January-September 2001 the prices for softwood sawlogs have been stable and for pulpwood prices have dropped by 2-4 % compared to same period in 2000. The decline in prices occurred especially during the summer. However, the prices are still historically on a relatively high level.

2.3 Sawn softwood

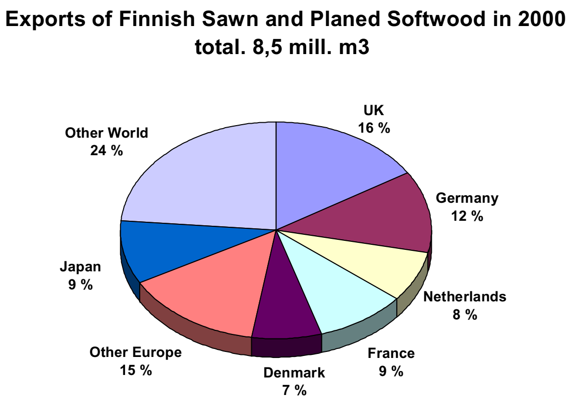
Output in year 2000

The production of sawn softwood in Finland grew about 5 percent last year and reached an all time high, 13.3 million m^3 of which 47 percent redwood and 53 percent whitewood. The profitability of the mills has been unsatisfactory since the second half of last year.



The growth in the consumption of sawn goods was clearly higher in the domestic market than the growth in exports of sawn goods. The domestic market consumed about 4.8 million m^3 of sawn softwood materials.

Export deliveries totalled 8.5 million m^3 of which 42 percent sawn redwood, 47 percent sawn whitewood and 11 percent further processed goods (planed and finger-jointed). Exports to countries outside Europe increased about 5.5 percent and deliveries to Japan reached an all time high, nearly 0.8 million m^3. Deliveries to Europe declined by about 2.5 percent compared to 1999.



Outlook for year 2001

By the end of July the production of sawn goods increased about 1 percent over the previous year. In general, whitewood production has come down and redwood production has increased. Inventories of the both articles are at the normal controlled level. Due to unstable market situation the Finnish sawmills have had significant production cutbacks since vacation period. In July the production declined by 19 percent over the previous year. It has been said that further cutbacks will take place if the gap between input and output prices will not develop favourably during the autumn. Profitability has weakened strongly due to increased raw material prices and decreased sawn timber prices. On the average the operating income of the sawmill industry is negative after the first half of 2001. It is inevitable that the production of sawn timber will go strongly down during the second half of the year. Total production is expected to be around 12.6 million m^3 this year.

The Finnish sawmill industry has continued investing in further processing capacity. The production and exports of planed timber and other further processed goods like finger-jointed materials has grown faster than those of sawn goods. During January-May exports of further processed goods rose by 21 percent, whereas exports of rough sawn goods have remained almost unaltered. Last year some 0.9 million m^3 further processed goods were exported. This year exports will exceed 1.0 million m^3.

During January-May some 3.6 million m^3 of sawn goods were exported of which 2.5 million m^3 to Europe and 1.1 million m^3 outside Europe. Further processed goods are gaining increasing importance also in sales to countries outside Europe (especially Japan and the USA).

Table 1. ***Sawn and planed softwood exports from Finland (m^3)***

	1-5/2000	1-5/2001	Change, %
Belgium	53 689	84 819	+ 58
Denmark	271 080	253 803	- 6
France	363 373	374 983	+ 3
Germany	445 539	340 274	- 24
Italy	113 166	114 616	+ 1
The Netherlands	323 108	306 659	- 5
Spain	83 525	98 239	+ 18
United Kingdom	590 197	615 695	+ 4
Total 8 countries	**2 243 677**	**2 189 088**	**- 2**
Total Europe	**2 536 619**	**2 473 560**	**- 2**
Japan	319 517	368 376	+ 15
Others	764 544	768 363	± 0
Total	**3 620 680**	**3 610 299**	**± 0**

FORECAST 2001-2002

Sawn and Planed Softwood Balance in Finland (1 000 m^3)

	1999	2000	2001e	2002e
Opening stock	1 010	1 046	1 270	1 100
(+) Production	12 710	13 320	12 600	12 900
Sub-total	13 720	14 366	13 870	14 000
(-) Closing stock	1 046	1 270	1 100	1 200
Availability	12 674	13 096	12 770	12 800
(-) Exports	8 385	8 535	8 370	8 450
Domestic use	4 289	4 561	4 400	4 350
(+) Imports	222	263	250	200
Domestic consumption	4 511	4 824	4 650	4 550

2.4 Wood-based panels products

The production of plywood reached once again a new record level 1.2 mill. m^3. Plywood production capacity is growing with some new investments, but the year 2001 production is still estimated to remain on the same level and the increase will only be seen in 2002. The market situation for birch plywood has deteriorated during the last years due to increasing competition from Eastern-European countries. Softwood plywood has been stable.

Particle board production is stable, less than 0.5 mill. m^3 and there is no change in production capacity in the foreseeable future. Falling prices and still high costs as well as the poor market situation make the expectations gloomy. The only fibre board producer has a stable capacity utilisation as well.

2.5 Certified forest products

The demand for certified products comes from export markets. So far, there’s no demand in the domestic market.

A start was made on the development of Finland's national forest certification system in 1996. In 1999 and 2000 the system was adopted throughout the country. All the country's 13 Forestry

Centre regions now possess a certificate for sustainable forest management according to the requirements of Finland's national FFCS (Finnish Forest Certification System) –system which means that certified wood is available for the industries in the whole country. There are 21.9 million forest hectares now under the FFCS. That represents 95 per cent of forests in Finland. These forests are owned by a total of 311,500 forest owners.

Finnish Forest Certification System (FFCS) was approved among the first schemes as part of the international PEFC (Pan European Forest Certification) system in May, 2000. Also the Dutch Keurhout foundation has approved certificates, which meet the requirements of the Finnish Forest Certification System.

Certified chain-of-custody systems cover major share of Finnish wood procurement. Also several production units have been granted chain-of-custody certificates.

In the PEFC-system a chain-of-custody certificate is a necessity in order to gain a PEFC-logo usage right. Finnish companies have been active in acquiring PEFC-logo licenses. More than 20 companies now have the PEFC logo usage rights. These licenses cover the majority of wood procurement (45 mill. m^3) and sawngood production (8 mill. m^3). Furthermore 2 mill. tons of pulp and 0.25 mill. tons of paper board production have been granted the PEFC-logo usage right. Preparations are already under way for introducing these systems also at Finnish paper mills.

So far usage of PEFC-logo has been relatively modest in the marketplace. However, it is assumed that the logo will be more visible on the European market in the next few months.

The international co-operation network for forest industries IFIR (International Forest Industry Roundtable), acting as a catalyst, has proposed the establishment of an International Mutual Recognition Framework for Forest Certification, open to all systems that can meet high credibility standards. One aim among others is to significantly expand the availability of certified wood products in the market. Finnish forest industries has been active in the IFIR's mutual recognition –initiative.

3 TABLES

3.1 Economic indicators

KEY ESTIMATES

	1999	2000	2001e	2002e
Gross domestic product growth, %	3.5	5.7	1.8	2.5
Consumer price index change, %	1.2	3.4	2.6	1.5
Wage level change, %	2.8	4.1	4.4	3.2
Unemployment rate, %	10.2	9.8	9.2	8.9
Current account surplus/GDP, %	6.0	7.4	5.0	4.3
Industrial output change, %	6.6	11.2	0.0	2.5
Three month EURIBOR, %	3.0	4.4	4.5	3.9

Source: The Research Institute of the Finnish Economy (ETLA); September 2001

3.2 Forest products production and exports in 1996-2000

1. Forest Industry Production in Finland

Source: Finnish Forest Industries Federation

	Unit 1000	1996	1997	1998	1999	2000	Change, % 2000/1999
Sawn softwood	cum	9 710	11 355	12 237	12 708	13 320	*5*
Plywood	cum	869	987	992	1 076	1 167	*8*
Particle board	cum	498	475	455	439	462	*5*
Fibreboard	tons	77	88	100	96	100	*4*
Mechanical pulp	tons	3 957	4 469	4 637	4 604	4 810	*4*
Chemical pulp	tons	5 736	6 620	6 718	6 977	7 101	*2*
Total pulp	tons	9 693	11 089	11 355	11 581	11 910	*3*
Paper	tons	8 023	9 543	10 116	10 324	10 758	*4*
Newsprint	tons	1 327	1 470	1 483	1 490	1 394	*-6*
Printing & Writing paper	tons	5 837	7 121	7 700	7 832	8 354	*7*
Kraft paper	tons	462	474	451	504	528	*5*
Other paper	tons	397	478	482	498	483	*-3*
Paperboard	tons	2 419	2 606	2 586	2 623	2 751	*5*
Paper and paperboard total	tons	10 442	12 149	12 703	12 947	13 509	*4*

2. Volume of Exports of Finnish Forest Industry Products

Source: National Board of Customs

	Unit 1000	1996	1997	1998	1999	2000	Change, % 2000/1999
WOOD PRODUCTS INDUSTRY							
Sawn and planed goods	cum	7 059	7 556	8 330	8 408	8 413	0
- Coniferous	cum	7 031	7 530	8 306	8 385	8 390	0
Plywood	cum	795	879	832	939	988	5
Veneers	cum	..	..	..	..	..	0
Particle board	cum	238	197	184	183	203	11
Fibreboard	tons	55	56	64	62	68	10
PULP AND PAPER INDUSTRY							
Mechanical pulp	tons	69	90	88	98	91	-7
Chemical pulp	tons	1 482	1 665	1 556	1 791	1 586	-11
Wood pulp, total	tons	1 551	1 755	1 644	1 889	1 677	-11
Wastepaper	tons	40	49	76	93	111	19
Paper	tons	7 120	8 707	9 229	9 359	9 702	4
Newsprint	tons	1 051	1 211	1 199	1 223	1 144	-6
Printing & Writing paper	tons	5 498	6 799	7 361	7 478	7 896	6
Kraft paper	tons	279	351	312	361	375	4
Other paper	tons	293	346	357	298	287	-4
Paperboard	tons	1 942	2 094	2 118	2 215	2 310	4
Converted paper and paperboard products	tons	415	445	408	386	391	1
Paper, paperboard and converted products total	tons	9 477	11 246	11 755	11 960	12 402	4