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 economic growth slowed considerably in 2001 to 0, 7 %. It was largely due to the world economic recession that hit the Finnish export and industrial sectors, first of all electronics and forest industry. The industrial production as a whole was down by almost 1 % from previous year and export volume was cut by almost 2 %. Export prices also were down last year.

While imports were stable almost unchanged by volume, and import prices were down with the same 2 % rate as export prices, the trade balance worsened slightly. In spite of this, the current account surplus was still high, 6,8 % of GDP.

Inflation was 2,6 % in 2001 and this year it is anticipated to drop to under 2 percent . The unemployment rate on the other hand was still rather high last year in 9,1 % and seems to stay on that level also this year.

In 2001 the domestic demand - private consumption and investments - were the driving forces of the economy. This year the exports are expected to recover towards the end of the year especially in the electronics industry and play the active role together with the private consumption. Increasing demand is giving speed also to industrial production, which is expected to grow 2 % this year. However, due to slowdown on the first quarter the GDP growth this year may not exceed 2 %.

2 DEVELOPMENTS IN FOREST PRODUCTS MARKETS SECTORS

2.1 Pulp and paper

Due to the economic recession, the demand for pulp and paper was weak all over the world in 2001. Lack of demand pressed down the production, too, which was cut by 2 % globally.

In Finland, the pulp and paper industry was also suffering of the weak demand in the marketplace. Output of paper and paperboard was down by 1 million tonnes or 7,4 % compared with the previous year totalling 12.5 million tonnes. For the whole year of 2001 the average operating rate in paper production was 88 % compared with 95 % in 2000.

Production of printing and writing papers decreased by 9 % while newsprint production decreased by 7 %. Chemical pulp output was down by 8 % in line with the paper production. Of the total amount of chemical pulp produced, 1.6 million tonnes were market pulp exported abroad.

Majority of the paper and paperboard production in Finland is annually exported. Naturally, in the first place the export was affected by the recession. Thus the volume of the paper and paperboard export from Finland decreased by 7 % also.

During 2001, pulp price dropped dramatically from 700 USD down to 470 USD at the end of the year. Most paper prices also experienced a slowdown in 2001. However, despite the weak demand the fall in paper prices was much slighter than in pulp sector during the year. Thus the brisk rise in paper prices during 2000 was not totally offset by the milder fall in 2001. On the average, the paper prices remained some 3-4 % higher than in 2000. Due to lower volumes, the export income of the pulp and paper industry as whole went down by 5 % totalling EUR 9,7 billion for 2001.

Due to weak demand and low operating rates, profitability of the forest industry companies weakened globally in 2001. The result before extraordinary items of the Finnish companies was close to 8 per cent of turnover on the average (11,5 per cent in 2000).

In 2002, the slowdown of the world economy has been continuing. Consequently, paper demand has been weak in the main market areas, which has caused most producers to take further downtime in the first half of this year.

In Finland, the average operating rate in paper industry was relatively low 88 per cent in the first eight months, compared with 89 per cent last year. Respectively, in January-August the total paper and paperboard production volumes were slightly less than last year.

During this period the weakest development was seen in newsprint, where the drop in production was significant. As to the other graphic grades, also uncoated woodfree and coated magazine papers experienced a fall in production. All other grades showed a somewhat growing production compared with eight months in 2001.

In the first six months of 2002, the volume of paper exports from Finland were slightly down by 2 % on average compared with the same period last year. The prices , on the other hand were some 6 % lower than year before.

As a result of the low operating rates and mild slowdown of paper prices the profitability of the forest industry companies continued to worsen in the first half of 2002.

2.2 Roundwood

In 2001, the raw material consumption of the Finnish forest industry was on a level of 79 million m^3 (domestic roundwood 54 mill. m^3, imported roundwood 13 mill.m^3 and wood residues 12 mill.m^3). The volume decreased by 5 million m^3 over previous year 2000 due to lower operation rates.

In 2002, the wood raw material consumption is estimated to increase to a level of 82 million m^3. New investments have brought more capacity to the market, but due to lower demand the production will still stay below the record year of 2000.

The domestic roundwood sales activity has recovered since the spring. This will mean that as whole the sales activity will be on a satisfactory level and industry will be able to fulfil its needs. The wood imports are expected to stay on a level of year 2001, i.e. 15 million m^3.

The wood raw material consumption in 2003 is expected to rise approx. 3 % to 84 million m^3.

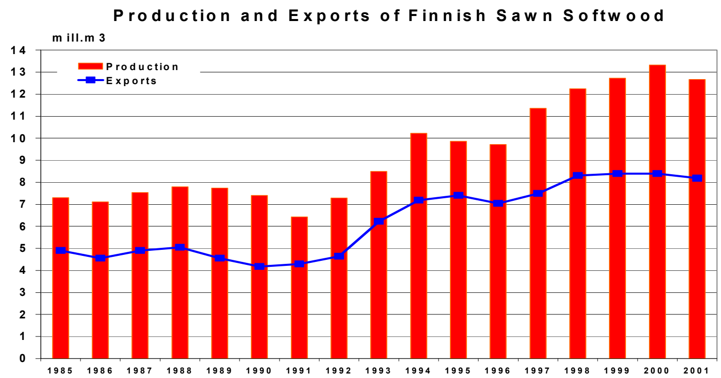
In January-September 2002, roundwood prices have been on a level of year 2001 respectively. Prices have revived since the summer due to tighter market situation.

Finland suffered unusual storms in late 2001 and summer 2002. The storms felled approx. 8 million m^3 (15 % of annual market fellings). However, the storms had no negative impacts on roundwood markets and storm wood have been already harvested.

2.3 Sawn softwood

Output in 2001

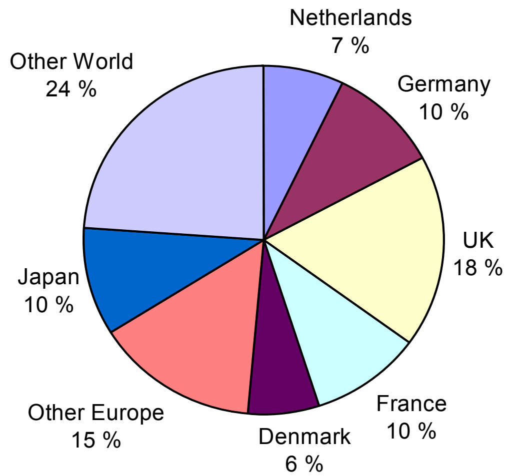
The production of sawn softwood in Finland decreased about 5 percent last year to 12.7 million m^3 of which 49 percent redwood and 51 percent whitewood.



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 4.9 million m^3 of sawn softwood materials.

Export deliveries totalled 8.2 million m^3 of which 43 percent sawn redwood, 44 percent sawn whitewood and 13 percent further processed goods (planed and finger-jointed). Exports to countries outside Europe remained almost unchanged but deliveries to Japan reached an all time high, about 0.81 million m^3. Deliveries to Europe declined by about 4 percent compared to 2000.

Exports of Finnish Sawn and Planed Softwood in 2001
total. 8,2 mill. m3



Outlook for 2002

By the end of August the production of sawn goods increased 1,4 percent over the previous year. In general, whitewood production has come down and redwood production has increased. Sawn softwood inventories are 14 percent lower than year before. On the average the operating income of the sawmill industry is negative after the first half of 2002. The main reason for unsatisfactory development is the gap between raw material and sawn timber prices. Total production is expected to be around 12.9 million m^3 this year. Preliminary outlook for 2003 is also around 12,9 million m3.

During January-June some 4,2 million m^3 of sawn goods (incl. planed goods) were exported of which 2,8 million m^3 to Europe and 1,4 million m^3 outside Europe. Total exports decreased about 1,2 percent over the previous year. Further processed goods are gaining increasing importance also in sales to countries outside Europe (especially Japan and the USA). 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-June exports of further processed goods rose by 7,5 percent, whereas exports of rough sawn goods declined by 2,4 percent.

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

	1-6/2001	1-6/2002	Change, %
Belgium	93 542	80 201	-14
Denmark	300 508	239 145	-20
France	449 973	447 297	-1
Germany	413 733	372 800	-10
Italy	134 493	148 877	+11
The Netherlands	345 581	298 099	-14
Spain	125 704	149 309	+19
United Kingdom	747 082	793 485	+6
Total 8 countries	**2 610 616**	**2 529 213**	**-3**
Total Europe	**2 953 431**	**2 849 692**	**-3**
Japan	444 556	423 759	-5
Others	930 379	1 004 812	+8
Total	**4 328 366**	**4 278 263**	**-1**

2.4 Wood-based panels products

The production of plywood decreased slightly in 2001 to 1,14 mill. m3 (- 3 %). Despite of the new capacity introduced in 2002, the production will hardly exceed last year's level. The market conditions for birch plywood have constantly deteriorated during the last years due to the growing capacity in East-European countries. Softwood plywood production in Finland has grown as a result of growing capacity.

Particle board production is relatively stable, although volumes remain under 0.5 mill. m3. There is no change in production capacity in the foreseeable future. Exports have suffered from the poor market in Europe and that has been reflected on the price level. Domestic consumption has declined. The sales of fibre board follow the poor domestic demand as well as the difficult export market.

2.5 Certified forest products

About 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation.

In the PEFC system a chain-of-custody certificate is a necessity in order to gain a PEFC-logo usage right. Certified chain-of-custody systems cover major share of Finnish wood procurement, sawnwood and wood-based panels production. Also several pulp and paper mills have been granted chain-of-custody certificates.

There are over 50 PEFC logo licence holders among Finnish forest industries. These licenses cover the major share of wood procurement (53 mill. m^3), sawngood (10 mill. m^3) and panels (2 mill. m^3) production. Furthermore, 3 mill. tons of pulp, 1.1 mill. tons of paper and 0.25 mill. tons of paper board production have been granted the PEFC-logo usage right.

Several mills deliver PEFC-labelled products frequently to the market place. There's been recently many signs, that demand for PEFC-labelled products is increasing.

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 consider mutual recognition (MR) as very important. There's a fear that without MR forest-based products will lose market shares to competitors made out of non-renewable raw materials.

3 TABLES

3.1 Economic indicators

KEY ESTIMATES

	2000	2001	2002e	2003e
Gross domestic product growth, %	6.1	0.7	1.9	3.7
Consumer price index change, %	3.3	2.6	1.7	1.7
Wage level change, %	3.8	4.5	3.4	3.7
Unemployment rate, %	9.8	9.1	9.2	9.0
Current account surplus/GDP, %	7.2	6.9	7.6	8.4
Industrial output change, %	11.2	-0.5	1.8	5.7
Three month EURIBOR, %	4.4	4.3	3.4	3.7

Source: The Research Institute of the Finnish Economy (ETLA); September 2002

3.2 Forest industry production and exports in 1997-2001

1. Forest Industry Production in Finland

Source: Finnish Forest Industries Federation

	Unit 1000	1997	1998	1999	2000	2001	*Change 2001/2000*
Sawn softwood	cum	11 355	12 237	12 708	13 320	12 670	*-5*
Plywood	cum	987	992	1 076	1 170	1 140	*-3*
Particle board	cum	475	455	439	460	430	*-7*
Fibreboard	tons	88	100	96	100	109	*9*
Mechanical pulp 1)	tons	4 469	4 637	4 613	4 819	4 621	*-4*
Semi-chemical pulp 1)	tons						
Chemical pulp (sulphate)	tons	6 620	6 718	6 977	7 101	6 548	*-8*
Total pulp	tons	11 089	11 355	11 590	11 920	11 169	*-6*
Paper	tons	9 543	10 116	10 324	10 758	9 902	*-8*
Newsprint	tons	1 470	1 483	1 490	1 394	1 296	*-7*
Printing & Writing paper	tons	7 121	7 700	7 832	8 354	7 592	*-9*
Mechanical P&W	tons	4 649	5 032	4 902	5 348	5 062	*-5*
- Uncoated	tons	1 837	1 886	1 870	1 976	2 039	*3*
- Coated	tons	2 812	3 146	3 032	3 372	3 022	*-10*
Woodfree P&W	tons	2 472	2 668	2 929	3 005	2 530	*-16*
- Uncoated	tons	1 458	1 457	1 550	1 559	1 231	*-21*
- Coated	tons	1 014	1 211	1 379	1 447	1 300	*-10*
Kraft paper	tons	474	451	504	528	494	*-6*
Other paper	tons	478	482	498	483	520	*8*
Paperboard	tons	2 606	2 586	2 623	2 751	2 601	*-5*
Paper and paperboard total	tons	12 149	12 703	12 947	13 509	12 503	*-7*

2. Volume of Exports of Finnish Forest Industry Products

Source: National Board of Customs

	Unit 1000	1997	1998	1999	2000	2001	*Change 2001/2000, %*
WOOD PRODUCTS INDUSTRY							
Sawn and planed goods	cum	7 556	8 330	8 408	8 413	8 197	*-3*
- Coniferous	cum	7 530	8 306	8 385	8 390	8 176	*-3*
Plywood	cum	879	832	939	988	992	*0*
Veneers	cum	..	..	..	..	..	*0*
Particle board	cum	197	184	183	203	217	*7*
Fibreboard	tons	56	64	62	68	72	*6*
PULP AND PAPER INDUSTRY							
Mechanical pulp	tons	90	88	98	91	86	*-5*
Chemical pulp	tons	1 665	1 556	1 791	1 586	1 601	*1*
Sulphate	tons	1 665	1 556	1 790	1 585	1 601	*1*
Sulphite	tons	0	0	0	0	0	
Wood pulp, total	*tons*	1 755	1 644	1 889	1 677	1 687	*1*
Wastepaper	tons	49	76	93	111	100	*-10*
Other than woodpulp	tons	2	0	0	0	0	
Paper	tons	8 707	9 229	9 359	9 702	8 892	*-8*
Newsprint	tons	1 211	1 199	1 223	1 144	1 041	*-9*
Printing & Writing paper	tons	6 799	7 361	7 478	7 896	7 024	*-11*
Mechanical P&W	tons	4 499	4 874	4 733	5 095	4 710	*-8*
- Uncoated	tons	1 823	1 893	1 842	1 929	1 814	*-6*
- Coated	tons	2 676	2 981	2 891	3 166	2 896	*-9*
Woodfree P&W	tons	2 300	2 487	2 745	2 801	2 314	*-17*
- Uncoated	tons	1 359	1 342	1 441	1 443	1 157	*-20*
- Coated	tons	941	1 145	1 304	1 359	1 157	*-15*
Kraft paper	tons	351	312	361	375	460	*23*
Other paper	tons	346	357	298	287	367	*28*
Paperboard	tons	2 094	2 118	2 215	2 310	2 200	*-5*
Converted paper and paperboard products	tons	445	408	386	391	427	*9*
Paper, paperboard and converted products total	*tons*	*11 246*	*11 755*	*11 960*	*12 402*	*11 520*	*-7*