ECONOMIC COMMISSION FOR EUROPE

Timber Committee

FINLAND

October 2014

MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS

Along with the weak economic performance and sluggish demand in the euro area, the main market for Finnish exports, Finnish economy was declining as much as 1.2 percent in 2013. Although there were some signs of recovery in the late last year, the economy began to decline again before the New Year. The first quarter of 2014 showed 0.3 percent decline of GDP with respect to previous quarter. Even though there was 0.2 percent growth in the second quarter of this year, the value of exports continued to decline due to the slower-than-anticipated recovery of the eurozone together with the weakened demand in Russia. Also, the escalation of the crisis in Ukraine, the European Union's economic sanctions against Russia, Russian countersanctions as well as high value of euro and low competitiveness of industry have limited the recovery of Finnish exports.

According to the most recent statistics and economic surveys, Finland's economic outlook will not improve during the rest of the year 2014. The growth of private consumption and investments are restricted by increasing unemployment, poor development of private earnings and increasing general uncertainty. The government debt burden prevents the accommodative finance policy. The recent consumer confidence indicators, released by Statistics Finland, reveal that consumer's confidence is weak and much lower than the long-term average. Also, the Finnish business tendency survey, released by Confederation of Finnish Industries, indicates decreasing confidence for economic circumstances and performance for the rest of this year. Especially, the construction activity remains extremely low and far below from its long-term average. For Finland, the current year is the third consecutive year of economic contraction. In 2014, the Finnish economy is expected to contract close to 0.5 percent.

The outlook of Finnish economy is highly dependent on the development of international demand and, especially, on the recovery of the euro area. The general consensus and agreement among the economic forecasters is that the demand in euro area will slightly recover in 2015, which, along with the anticipated weakening of euro, helps Finnish exports to grow about 2 percent. The domestic economic activity typically follows the development of exports with a lag. Thus, there are no signs for private consumption and investments to recover rapidly until the end of 2015. The government consumption will remain at current year level. Overall, Finnish economy is projected to grow by roughly 0.5 percent in 2015.

2 RECENT POLICY MEASURES

The new Forest Act came into force on 1.1.2014. This act provides more freedom for the forest owners to decide practical issues concerning fellings and regeneration of stands. For example, under the new Forest Act it is possible to regenerate forests by so called continuous cover silviculture, that is, by thinning forests by single tree fellings of uneven ages. Also, the regeneration fellings are not any more subject to such former legal restrictions as stand age or mean diameter of trees. To paraphrase the spirit of the present act, the new act forces to create new forest stands after the regeneration fellings as well, but it allows more freedom and alternatives for implementation.

Along with the new Forest Act, the changes in act concerning the operation of the Forest Management Associations will come into force on 1.1.2015. According to the updated act, the special status of Forest Management Associations as forest management fee collector is removed and the membership of forest owners to local Forest Management Association becomes voluntary. Otherwise, Forest Management Associations are able to provide, as now, forest management services related to the exercising of forestry for the forest owners. Restrictions on further business or commercial activities of Associations are removed, although according to the Act they should be organised in a separate company. This separation is seen to be necessary for the management of business and financial risks and transparency of operations. The right of the Forest Management Association to collect forest management fee from the forest owners was technically removed from 1.1.2014 due to a one year delay in fee collection. The last fee from year 2013 will be collected in December 2014. The majority of Forest Management Associations are seeking for the direct membership in the Central Union of Agricultural Producers and Forest Owners (MTK), which is reorganised in order to adopt the new members.

In July 2014 the European Union published its new Guidelines for State Aid in the Agricultural and Forestry Sectors and in Rural Areas 2014 to 2020. Accordingly, the Finnish government has in this autumn given its consultation document for the new Act on the Financing of Sustainable Forestry. Finland finances private forestry from the national budget sources and this baseline as well as most of the forestry financing targets will remain the same also in the future. The financing of collection of energy wood has been one of the disputable objectives of the present act. To continue the energy wood collection, a respective state aid will be either included areal based in the previously mentioned new act or cubic meter based in a separate small-diameter energy wood collection act, depending on the respective evaluation by the European Commission.

In January 2013, tax for the peat fuel increased from 1.9€ to 4.9€ per megawatt hour. The European Union regulations, which require equal energy treatment for renewable energy sources, however, had the effect that the subsidy for woodchips was decreased at the same time. The last mentioned actions together with low prices of coal and emission allowances have increased remarkably the use of coal in combined heat and power plants (CHP). In order to promote the use of domestic energy, Finnish government made a policy decision in October 2014 to reduce the taxation for the peat fuel together with an increase for woodchips subsidies. However, the time schedule and exact magnitudes of taxes and subsidies are not yet decided.

In 2012, the ministry of the Employment and the Economy launched the new strategic Programme for the Bioeconomy. This Programme has been approved by the Finnish Government during the spring of 2014. The purpose of the Programme is to promote the conditions for the development of bioeconomy and remove the potential obstacles. Also, the strategic process aims at finding the bioeconomy sector priorities, targeting the research and development funding, creating the conditions for new business, as well as ensuring expert knowledge in the field by developing training programmes.

In February 2014, the Finnish Government submitted to Parliament a forest policy report, which aims to set goals for the use of forests by the year 2050. As the next step, by the end of 2014, National Forest Strategy 2025 is prepared to replace and continue the work of National Forest Programme 2015 (NFP 2015). In future, the National Forest Strategy 2025 will act as Finland's national forest programme. The forest strategy priorities shorter-term objectives and gives more detailed measures for the long-term goals. The vision of the strategy is that the sustainable forest management is the source of increasing welfare including the following objectives:

1) Finland is a competitive operating environment for forest-based businesses.
2) The forest sector and its structures become more regenerated and diversified.
3) Forests are in active, sustainable and versatile use.

The specific goals related to the forest biodiversity safeguarding are stated in the Forest Biodiversity Programme for Southern Finland, METSO 2008–2016. In METSO Programme, biodiversity conservation is based on voluntariness and compensation payments for landowners who will give their lands for protection.

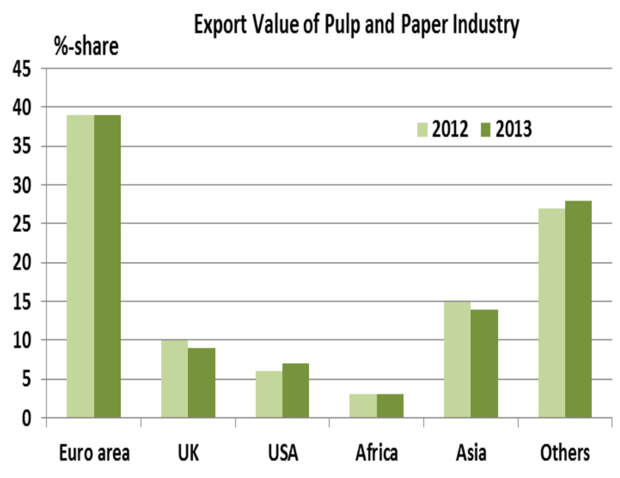
MTT Agrifood Research Finland, the Finnish Forest Research Institute (Metla), the Finnish Game and Fisheries Research Institute (RKTL), and the statistical services of the Information Centre of the Ministry of Agriculture and Forestry (Tike) are to be merged under a new entity called Natural Resources Institute Finland (Luke) as of 1.1.2015. Natural Resources Institute Finland will be the second largest research institution in Finland and one of the biggest clusters of bioeconomy expertise in Europe. In 2012, the total output of the institutions was more than 1 700 person-years, and their combined turnover was approximately EUR 140 million.

3 MARKET DRIVERS

While most of the products manufactured by the Finnish forest industry are exported, the industry is highly dependent on the development and changes in international trade and demand in the main export markets. Also, the development of exchange rates (USD, CAD, SEK, GBP, JPY, RUB) with respect to euro is important for competitiveness not only outside Europe to promote exports but also inside the euro area when competing against the imports from outside the euro area. In paper industry, about 90 percent of production is exported, while in wood products industry the corresponding share is close to 70 percent. The most important export destinations are Europe, Asia, Near East and North Africa.

Overall, but with the exception of paper, the production, exports and the export unit prices of the Finnish forest industry are increasing in 2014 thanks to the positive development in the euro area in the beginning of the year. As the year draws to a close the demand for forest industry products is expected to slightly decrease due to the once-again economic slowdown and problems in euro area together with diminishing demand in Asia. In 2015, the growth of the production and exports of the Finnish forest industry will increase but much slower than in the current year.

In the wood products industry, due to the moderate performance and increase in demand in the main markets in the beginning of this year, the exported volumes and export unit prices of both sawnwood and plywood are increasing causing also an increase in sawnwood and plywood production in 2014. The demand for pulp on the global market as well as the growth in demand for packaging materials is increasing the production and export of paperboard and pulp. The export unit prices are also slightly increasing. In contrast, the demand for paper in the main market area, the euro area, continues to fall, causing a decline in Finnish paper production, exports and export prices.



Sources: National Board of Customs and FFRI

In 2015, the growth rates of production and exports of sawnwood are likely to be slower than in current year because of the slow recovery of construction in euro area. The production and exports of plywood, paperboard and pulp will also increase slightly. In paper markets, the demand continues to decrease and Finnish production and exports of paper will go down also in 2015.

However, the reduction rates of production and exports as well as export prices are projected to be slower with relation to current year.

The main uncertainties concerning the outlook and projections for the Finnish forest industry, its production and exports in 2015 are related to changes in consumer behaviour, attitudes and moods in the main markets. These, in turn, are closely related to escalation of the crisis in Ukraine, the European Union's economic sanctions against Russia and Russian countersanctions.

4. DEVELOPMENT IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2013, due to increase in production and exports of Finnish forest industries, the total drain from forests reached the all-time record. The commercial roundwood removals increased by 11 percent compared to previous year and were 50 million cubic meters (under bark, hereafter u.b.). Log and pulpwood removals increased by 10 and 11 percent, respectively. The increase in removals compared to previous year originated from the private, non-industrial forests, whereas company and state forests supplied slightly less roundwood to markets. Roundwood and sawmill chip imports were 9 million m^3 u.b. Thus, commercial removals and imports totaled 59 million m^3 u.b.

The nominal roundwood stumpage prices in 2013 were up back to slightly higher than 2011 level, after a temporary fall in year 2012. The stumpage price increase in softwood logs was 3–5 percent and in pulpwood the increase was 1–2 percent. Birch log prices remained on previous year level.

In 2014, the development in roundwood markets has been polarized. During January-July 2014 the demand for saw and veneer logs increased by 3 percent when measured by commercial removals, whereas the demand for pulpwood decreased by 5 percent. Overall, the demand for domestic roundwood decreased by 2 percent.

Polarized development is also forecast to reflect the full year 2014, although in pulpwood markets the downward trend is estimated to become more moderate. For the full year 2014, the overall removals are projected to decrease by one percent, totaling 49 million m^3 u.b. The supply of roundwood is estimated to remain rather stable resulting in an unchanged roundwood price development, compared to whole year average of 2013. The roundwood and sawmill chip imports are expected to decrease by 11 percent, down to 8 million m^3 u.b. Totally, the commercial removals and imports are expected to decrease to 58 million m^3 u.b.

Domestic roundwood markets are forecast to grow in 2015 by one percent up to 50 million m^3 u.b. Saw and veneer log quantities and prices will be up by 2 percent, whereas pulpwood quantities are forecast to remain in 2014 level. Pine pulpwood prices are forecast to rise by 2 percent, whereas spruce and birch pulpwood prices will remain approximately on year 2014 levels. Roundwood imports will continue in a decreasing trend, by 6 percent down to below 8 million m^3 u.b. The overall total of commercial roundwood removals and imports are forecast to remain at 58 million m^3 u.b.

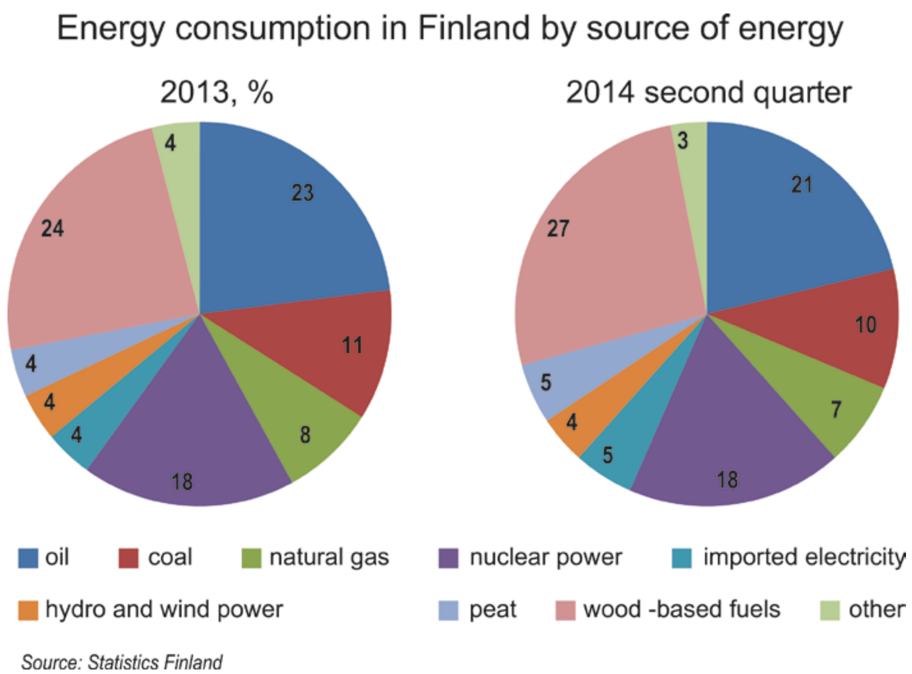
B. Wood energy

According to the decision of the European Commission, Finland should produce 38 percent of its consumed energy from renewable sources by 2020. In this respect, the role of forests is important as currently about 80 percent of the bioenergy production in Finland is based on wood. Wood based energy accounts for 23 percent of all energy consumed in Finland and 80 percent of the Finnish forest industry´s energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.). Meeting the 2020 goals depends much on the development of wood processing industry.

The target for 2020 in Finland is to use 13.5 million cubic meters (m^3) of forest chips annually. In 2013, the use of forest chips was 8.7 million m^3 of which 8.0 million m^3 was used in heating and power plants. The use of forest chips amount increased by 5 percent from 2012. Small diameter trees are by far the most important raw material source for forest chips in Finland (45 percent of forest chips in 2013), logging residues accounted for 35 percent of raw material, stumps 15 percent and stem wood 6 percent. The use of forest chips is estimated to remain at the same level also in 2014 and 2015. However, the incoming change in taxation for the peat fuel together with an increase of subsidies for wood chips, as declared by Finnish government in October 2014, may increase the use of forest chips in 2015. However, the time schedule and exact magnitudes of taxes and subsidies are not yet decided.

In the second quarter of 2014, the plant price of forest chips was EUR 21.35 per megawatt hour, which was nearly four percent higher than the year before. In 2015, the average plant prices of wood chips are expected to rise to EUR 21.5 per megawatt hour.

Domestic production of wood pellets in Finland is about 270 000 tons annually, and the production is anticipated to increase to 330 000 tons in 2015 due to new domestic production investments. Domestic consumption was 220 000 tons in 2013 and it is estimated to increase remarkably in 2015–2016.



The emission trading has a strong influence on the competitiveness of wood-based fuels and their use in energy plants. Increasing the proportion of wood-based fuels is very difficult at the current price level of the EU emission allowances (around 5 €/t CO_2). A strong increase in the use of wood-based fuels would require a price level of over 25 €/t CO_2 of emission allowances, until the forest biomass can compete with coal. Also, the very cheap world market price of coal has created the situation, where forest biomass is not competitive in some cases.

In bioenergy markets, changes in taxes, subsides and regulations have fast and strong influence on the use of renewable energy sources. In the European Union, there are several directives concerning the usage of solid and gaseous biomass in energy production under construction. Uncertainty with emission trading together with different directives are postponing investments decisions and making future planning difficult and challenging. However, there are few new investments and plans of new biofuel plants in Finland. In 2013, several large scale CHP plants using forest biomass have been launched in Finland, and in addition there have been reconstructions in old plants in able to use more forest biomass.

C. Certified forest products

About 95 percent of Finnish forests, that is, 20.62 million hectares are certified under the system endorsed by international Programme for the Endorsement of Forest Certification schemes (PEFC). Certificate holders are 13 regional forest owner associations. After introducing the Finnish certification standard in 2011, the forest area certified under Forest Stewardship Council (FSC) scheme has already increased to 461 thousand hectares. This is mostly due to one certificate holder; the Finnish based forest company UPM, which has certified about half of its current holdings in Finland. Anyhow, a number of forest management companies have made FSC group certificates open for all forest owners. Taking account the wide coverage of PEFC certification, the introduction of FSC certificate entails double certification.

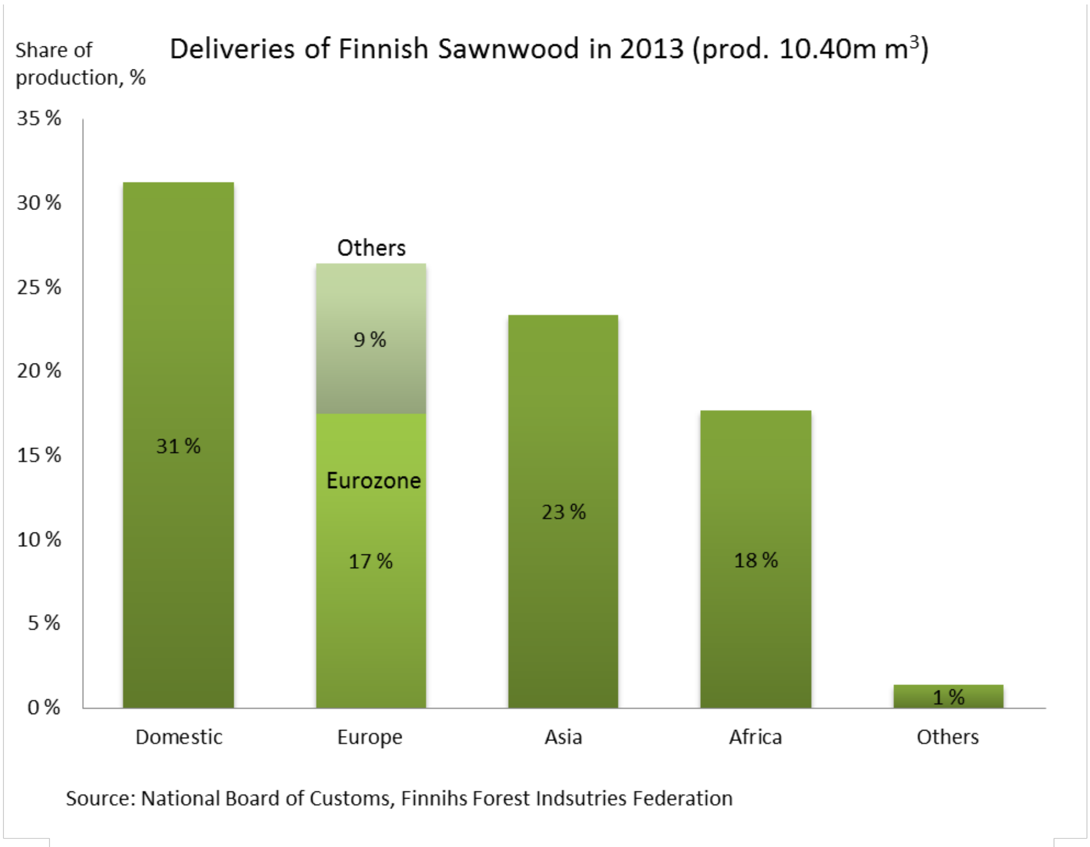
The use of forest certification labels in forest products has experienced just modest changes over the last year. PEFC Finland has granted the Chain of Custody (CoC) certificate for 341 Finnish companies and their plants. The number of certified companies is about 200. The respective number of FSC CoC certificates is 102. In PEFC primary wood companies are more widely presented. The numbers of certified products is far higher, but they are distributed similarly in both certification schemes; about half of the certificated products are directly connected to pulp and paper or printing. End user oriented wood manufacturing and construction play still a minor role in CoC certificates.

D. Value-added wood products

E. Sawn softwood

In 2013, the production of coniferous sawnwood grew by 11 percent from the previous year. The production volume of 10.40 million m^3 was the highest since 2007 and the beginning of global economic crisis. Traditionally, the Finnish sawmilling industry has been highly export oriented, and the importance of exports has grown until recently. During the three years of economic contraction, construction volumes have dropped drastically in Finland and the share of domestic markets of the sawnwood deliveries has decreased accordingly. However in 2013, the fall in the share of domestic markets steadied to the level of previous year, 31 percent.

Finnish sawnwood exports grew to 7.15 million m^3 in 2013 showing a year-over-year growth rate of 11 percent. The export volume was the highest since 2006, the beginning of sawnwood boom in Europe. Due to sluggish demand for and occasional oversupply of sawnwood especially in the euro area, Finnish producers have sought for new market opportunities outside Europe in North Africa, Middle East and Asia since 2008. Year 2013 was probably the culmination point of this development, as the share of Europe of the total Finnish sawnwood exports dropped to 38 percent. Exports grew most rapidly to China and Japan, 137 and 28 percent, respectively. In terms of export volumes, Japan won from Egypt the position of being the largest destination country of Finnish sawnwood exports. The increase in exports to Japan was attributable to expansionary Japanese finance policy as well as preparation for the increase in consumption tax coming into force in the spring of 2014.



Outlook for years 2014 and 2015

After the fashion of 2013, also the first half of 2014 was relatively brisk in the Finnish sawmilling industry. The production of sawnwood grew by 4 percent and exports by 6 percent in year-over-year terms. Differently from several previous years, in 2014, the increase in the total export volumes was due to the growth in exports to Europe, where economy and construction showed signs of recovery in several countries. Also exports to North Africa, especially to Egypt, were showing promising growth rates. However, exports to Japan dropped by 23 percent during the first half of 2014, which was, however, almost as expected due to the increase in the consumption tax.

In the early autumn of 2014, uncertainty has increased in several export markets of Finnish sawnwood. Against expectations, construction is on a downturn throughout the European Union, dampening the market outlook for the wood product industry over the coming months. Thanks to healthy development at the beginning of the year, sawnwood exports are expected to grow by 3 percent in 2014. The unit price of sawnwood exports will rise by four percent from 2013. The construction activity is not expected to recover in Finland in 2014, and thus domestic consumption of sawnwood will remain at a historically low level in 2014. However, due to the increase in export volumes, the total sawnwood production will increase by 2 percent to 10.6 million m^3 in 2014.

Finnish sawnwood exports by 10 largest destination countries in 2013

Country	1000 m^3	Share of total exports	Change in export volume 2012/2013
Japan	1097	15 %	28 %
Egypt	1005	14 %	-1 %
the UK	692	10 %	5 %
France	548	8 %	-4 %
Algeria	497	7 %	8 %
Germany	495	7 %	8 %
China	405	6 %	137 %
Saudi-Arabia	400	6 %	14 %
Israel	390	5 %	-8 %
Morocco	234	3 %	-5 %
Others	1390	19 %	-1 %
Total	7154	100 %	11 %

Source: National Board of Customs

In 2015, the darkening outlook for construction in Europe will affect the demand for coniferous sawnwood with growth in Finland's exports slowing compared to 2014. In Finland, growth in construction is expected to be only modest in 2015. With regard to the markets outside Europe, growth is also slowing in Asia. However, there is growth potential for exports in North Africa, where the longer-term requirement for the renovation of the building stock, new construction, and improvements to infrastructure will also increase demand for sawnwood in 2015. Thus, in 2015, the growth in Finnish sawnwood exports is forecast to slow down to only one percent. Export prices are expected to increase slightly compared to 2014, yet the entry into force of the sulphur directive will put pressure on freight costs.

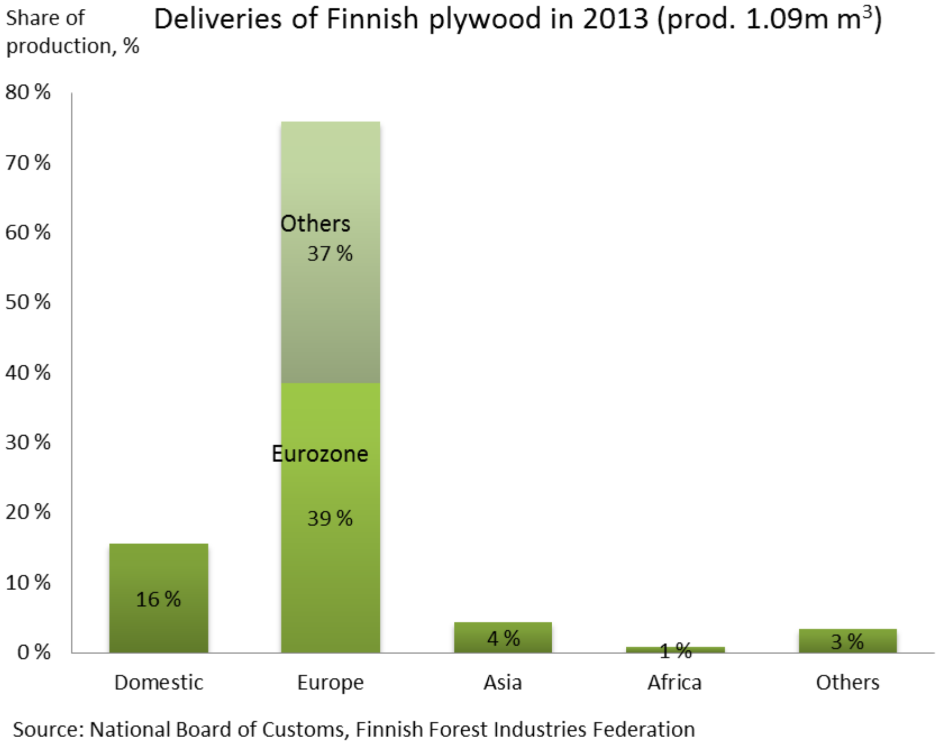
F. Sawn hardwood

Coniferous sawnwood currently accounts for over 99.5 percent of the sawnwood production in Finland. Sawn hardwood (mainly birch) is a marginal product with the production volume of 40 000 m^3 in 2013. The annual production of sawn hardwood has been declining continuously from the level of 100 000 m^3 in the early 2000’s.

G. Wood-based panels

In Finland, the production of wood-based panels is dominated by plywood. In 2012, the year of the latest comprehensive production statistics, plywood accounted for 85 percent of the production and over 90 percent of the exports of wood-based panels. The remaining 15 percent of total production was divided in half between particle board and fibreboard, the production of which was predominantly directed to domestic market. In the case of particle board, the production has been declining rapidly, and only one mill is currently operational. Due to privacy reasons, official statistics on particle board production are no longer available.

In 2013, 1.09 million m^3 of plywood was produced. Of the total production, 70 percent was softwood plywood (incl. LVL) and the remaining 30 percent hardwood (birch) plywood (at least the surface veneers hardwood). 84 percent of the plywood production was exported and the main export market area was Europe. The markets outside Europe are still rather insignificant, especially in the case of softwood. In the case of value added birch plywood assortments markets in Asia and especially in South Korea are promising. In 2013, plywood exports to South Korea grew by 53 percent from the previous year. In South Korea, the main customer is shipbuilding industry and the construction of LNG vessels. In 2013, the total plywood exports grew by 7 percent year-over-year and the export prices remained at the previous years' level.



Outlook for years 2014 and 2015

The first half of 2014 was positive in plywood industry. The production of plywood grew 9 percent and exports by 16 percent year-over-year. The nascent recovery of construction in several European countries boosted the exports of softwood plywood, while the exports of hardwood plywood were promoted by the demand in industrial applications, especially in transport industry. As the economic outlook has worsened in Europe towards the end of 2014, the growth in plywood exports is expected to slow down. Thus, for the whole year of 2014, the production of plywood is expected to grow by 5 percent and the exports by 4 percent. Due to the more diverse uses, the outlook for hardwood plywood is somewhat brighter than for coniferous plywood. In 2015, the uncertainty of economic development will continue in Europe and the growth in Finnish plywood production and exports will slow down. However, the growth rates remain positive as production of plywood is expected to grow by 3 percent and exports by 2 percent in 2015.

Finnish plywood exports by 10 largest destination countries in 2013

Country	1000 m^3	Share of total exports	Change in export volume 2012/2013
Germany	182	20 %	2 %
the UK	161	17 %	7 %
the Netherlands	105	11 %	-2 %
Sweden	79	9 %	22 %
Denmark	59	6 %	34 %
France	39	4 %	-38 %
Norway	38	4 %	7 %
Italy	36	4 %	-11 %
the USA	29	3 %	29 %
South Korea	27	3 %	52 %
Others	166	18 %	19 %
Total	920	100 %	8 %

Source: National Board of Customs

H. Pulp and paper

Paper production continues declining in Finland. In 2013, 7.65 million tonnes of paper was produced, which is roughly 4 percent less than previous year's production. Paper exports also declined by 3 percent in comparison to 2012. These declines are caused by the poor demand for paper in the world market and, especially, in the euro area. The trends are quite different for pulp and paperboard. In Finland, the production of pulp in 2013 was 10.5 million tonnes, of which two thirds was chemical pulp. Overall, pulp production in 2013 increased by 3 percent with relation to 2012 because of the increase in production of both chemical and mechanical pulp. Pulp exports increased by an impressive 14 percent in 2013 to reach 3.1 million tonnes. Most of the increase was caused by the 13 percent increase in exports of chemical pulp. Production of paperboard was 2.9 million tonnes in 2013, that is, 7 percent more than in 2012. Exports of paperboard increased strongly by 8 percent to reach 2.8 million tonnes. Overall, most of the Finnish pulp and paper industry's production is exported, with the exception of pulp of which 62 percent is used domestically. About 93 percent of paper production and 94 percent of paperboard production are exported, mostly within the European Union.

The export prices followed similar trends as the production and exports. In 2013, the export price of pulp rose by 1 percent, while the export price of paper decreased by 2 percent. These developments were the opposite of what happened in 2012. The export price of paperboard remained at the same level in 2013 with respect to 2012. The continuing decline of paper prices indicates that there still exists overcapacity in the world in relation to the steadily declining paper demand.

Sources: Finnish Forest Industries Federation and National Board of Customs

Finnish pulp, paper and paperboard consumption in 2013, 1000 ton

	Pulp	% of prod.	Paper	% of prod.	Paperboard	% of prod.
Production	7 070	100	7 650	100	2 950	100
Domestic use*	4 372	62	498	7	183	6
Exports:	2 698	38	7 152	93	2 767	94
EU	1 555	22	4 248	56	1 539	52
Other Europe	154	2	775	10	427	14
Asia	881	12	708	9	366	12
North America	10	0	581	8	218	7
Africa	37	1	213	3	108	4
Others	31	0	627	8	108	4

*Domestic use = Production - Exports
Sources: National Board of Customs and Finnish Forest Industries Federation

Outlook for 2014 and 2015

The outlook for Finnish pulp and paperboard for 2014 and 2015 looks rather positive. The production of pulp is anticipated to increase by a slightly more than 1 percent in 2014 and by a slightly less than 1 percent in 2015. Both in 2014 and 2015, the export volumes and export prices of pulp are projected to increase by 2 and 1 percent, respectively. The export prices remain on an upward trend largely because the market price of softwood pulp, which is the main pulp assortment produced in Finland, is higher than the price of hardwood pulp. Although there is a strong demand for pulp in international markets, the current production capacity in Finland is almost fully utilised, which limits the potential to increase production volumes and exports. Also, the worldwide demand for paperboard is increasing strongly, resulting in a positive outlook for Finnish paperboard industry. Paperboard production is estimated to increase by 4 percent in 2014 and by further 2 percent in 2015 to reach 3.1 million tonnes. Along with the increase in production the exports of paperboard is projected to increase by 3 percent in both 2014 and 2015, driven by international demand. The export prices of paperboard will increase more moderately, by 1 percent in both 2013 and 2014. Short time increases in paperboard production is also curtailed by the current production capacity. The positive outlook of Finnish pulp and paperboard is supported by the announced investments into pulp and paperboard production. Some of these capacity enlargements will increase production as soon as in 2015, while the impact of other investments will be felt later. This signifies the trust that the large Finnish forestry companies have in the markets of pulp and paperboard.

By contrast, the outlook for paper industry looks bleak. The international demand, particularly in the key European markets, will decrease further, as electronic media gains in popularity. Paper exports from Finland will decrease due to decreasing demand by 3 percent in 2014 and by 2 percent in 2015. The exports in 2015 will be around 6.8 million tonnes. The outlook for paper export prices looks a little more positive, as they should only decrease by 2 percent in 2014 and by 1 percent in 2015. This is the result of numerous capacity closures in the important European market, which will reduce overcapacity. In order to adjust the decreasing export demand, paper production in Finland will decrease in 2014 by 3 percent and in 2015 by 2 percent to reach 7.3 million tonnes.

I. Innovative wood products

In order to challenge the imports of Cross Laminated Timber (CLT), CrossLam Kuhmo Ltd is opening the first CLT factory in Finland and in the Nordic countries. In October 2014, the CLT factory building and auditing of the factory were nearing completion and certification process of the product was finalised. In the beginning of commercial production, the envisaged annual production capacity is 10 000 cubic meters. After the transition to three shifts of production, the annual production volume is planned to be 35 000–40 000 cubic meters. Also, Stora Enso is heavily promoting the use of CLT in construction in Finland. However, the CLT products marketed by Stora Enso are currently imported from the mills in Austria. The company has stated that if the wood construction increases in multi-storey housing as expected, building a CLT mill in Finland is an option. The competing product for CLT in large-scale wood construction is the system based on LVL-pillars and -beams manufactured in Finland by Metsä Wood.

Activity around biorefineries is gaining momentum in Finland. The production of wood-based bio-oil in industrial scale started in the Fortum CHP plant in Joensuu in the end of 2013. The UPM’s biorefinery in Lappeenranta producing wood-based biodiesel is to enter production in last quarter of 2014. The value of the investment is EUR 179 million and the annual production capacity 100 000 tons of diesel oil. Investment decision to build a biorefinery in Kajaani was made by energy company ST1 in 2014. The main product will be bioethanol from sawdust. The planned annual production volume is 10 million liters of biofuel. Biorefinery producing wood-based biogas is been planned in cooperation by Gasum, Helsingin Energia, and Metsä Fibre. The plant with power output of 200 MW would be located in Joutseno in Eastern Finland. Necessary information needed for investment decision is to be compiled in 2014.

Metsä Fibre is planning a bio product factory of “new generation” in Äänekoski in the Middle of Finland. The main product would be wood pulp (1.3 million tons annually), yet other biomaterials and bioenergy would also be produced. The investment decision is to be made in 2015. It is envisioned that the new plant, although being basically a modern pulp mill, will create new bio-based business opportunities and growth.

Promoting of wood construction is one goal mentioned in the Finnish government programme. In the National Wood Construction Programme (2011–2015), an aim of increasing the share of wooden buildings in production of new multi-storey housing from approximately one per cent is set. In the Finnish Bioeconomy Strategy, growth potential is seen in large-scale constructions for housing as well as commercial and industrial purposes. Despite the strategies and aims, large-scale wood construction has not increased as expected in Finland. However, it seems that a change is to occur. Wood products industries as well as the state authorities have invested in development and production of multi-storey timber frame buildings in Finland. Thus, it seems that in 2014 the market share of wood is to reach 5 percent in new residential building with more than two storeys.

J. Housing and construction

According to the most recent outlook by the Confederation of Finnish Construction Industries RT, the total construction in Finland is projected to decrease by 2 percent in this year, and further 0.5 percent in 2015. The Research Institute of the Finnish Economy, however, estimated the total construction investments to grow by 1.5 percent in 2015, with the emphasis of residential construction growth of 1.8 percent. In spite of the slightly different projections, the activity in construction markets in Finland remains weak, with the exception of renovation construction. This insight is also supported by the recent indicators of consumers and industries which show weak confidence for the general economic development.

Construction in Finland 2013–2015f

	2013	2014e	2015f
Construction, change in volume, %	-2.3	-2	-0.5
Renovation construction	2.5	3	2.5
Construction investments, change in volume, %	-3.6	-2	-0.5
Building construction	-4.8	-2.2	-0.2
Land and water construction	3.1	-1	-2
Starting up of building construction production, mill. m^3	30.9	29	29
Residential buildings	10.6	9.1	8.9
Free-time residential buildings	0.8	0.7	0.7
Commercial and office buildings	4.1	4.7	5
Public service buildings	3	2.4	2.6
Industrial and warehouse buildings	6.4	6.4	6.7
Agricultural buildings	3.8	3.4	2.7
Other buildings	2.2	2.1	2.2
Number of housing production start-ups	27 900	25 000	24 500
Non-subsidised	21 500	18 500	17 500
State-subsidised housing	6 400	6 500	7 000

Source: Confederation of Finnish Construction Industries RT, 21.10.2014

As long as the economic situation of consumers remain poor, the unemployment rate is high and the economic performance in Finland has not any sign of recovery, the household spending remains only moderate and the acquisition of durable goods as well as housing investments are postponed to future. The recent outlooks project that such economic turn in Finnish economy is not happen until the end of 2015, if even then.

5. TABLES

A. Economic Indicators

Key economic indicators	2013	2014f	2015f
Gross domestic product growth, %	-1.2	-0.4	0.8
Consumer price index change, %	1.5	1.1	1.3
Wage and salary earnings change, %	2.4	1.3	1.1
Unemployment rate, %	8.2	8.7	8.7
Current account surplus/GDP, %	-2.0	-1.3	-1.6
Industrial output change, %	-3.0	-0.9	2.3
Three month EURIBOR, %	0.2	0.2	0.2

Source: The Research Institute of the Finnish Economy 25.9.2014

B. Production and Trade

1. Forest Industry Production in Finland

Product	Unit 1000	2012	2013	2014e	2015f
Sawn softwood	m^3	9 400	10 400	10 600	10 700
Plywood	m^3	1 020	1 090	1 146	1 180
Particle board	m^3	100	105	105	105
Fibreboard	m^3	89	66	69	70
Mechanical pulp	ton	3 409	3 450	3 469	3 488
Chemical pulp	ton	6 820	7 070	7 210	7 280
Pulp, total	ton	10 229	10 520	10 679	10 768
Paper, total	ton	7 940	7 650	7 420	7 270
Paperboard	ton	2 760	2 950	3 070	3 130
Paper & Paperboard total	ton	10 700	10 600	10 490	10 400

Sources: Finnish Forest Industries Federation (2012–2013)
Finnish Forest Research Institute (wood products, pulp and paper 2014–2015)

2. Exports of Finnish Forest Industry Products

Product	Unit 1000	2012	2013	2014e	2015f
Sawn softwood	m^3	6 509	7 140	7 350	7 400
Plywood	m^3	855	920	960	980
Particle board	m^3	26	24	25	26
Fibreboard	m^3	49	45	50	50
Mechanical pulp	ton	229	374	385	388
Chemical pulp	ton	2 387	2 700	2 750	2 810
Pulp, total	ton	2 616	3 074	3 135	3 198
Paper, total	ton	7 377	7 150	6 940	6 800
Paperboard	ton	2 555	2 770	2 880	2 940
Paper & Paperboard, total	ton	9 932	9 920	9 820	9 740

Sources: National Board of Customs and Finnish Forest Industries Federation (2012, 2013),
Finnish Forest Research Institute (wood products, pulp and paper 2014–2015).

3. Imports of Forest Industry Products

Product	Unit 1000	2012	2013	2014e	2015f
Sawn softwood	m^3	458	356	350	380
Plywood	m^3	111	92	92	92
Particle board	m^3	91	98	91	92
Fibreboard	m^3	171	154	160	162
Pulp, total	ton	553	414	418	422
Paper, total	ton	226	188	189	189
Paperboard	ton	232	260	261	263
Paper & Paperboard, total	ton	458	448	450	452

Sources: National Board of Customs and Finnish Forest Industries Federation (2012, 2013),
Finnish Forest Research Institute (wood products, pulp and paper 2014–2015).