The Finnish Forest Industry

2.1 Production and Exports in the Sawmilling and Plywood Industries

An increase in demand on the export markets for Finnish wood products in the early part of 2010 resulted in a growth in Finland’s exports to Europe and Africa. The profitability of exports improved through higher market prices, while a weakening of the euro enhanced price competitiveness outside the euro area. In Finland, demand was boosted by the growth in detached housing construction in particular. The growth in sawnwood demand will slacken in the latter part of 2010 and in early 2011 as a result of construction slowing for the winter season in both the domestic and export markets. The rise in sawnwood market prices will also tail off. The average export price of Finnish sawnwood in 2010 is expected to be up by about 13% year on year. The increase in domestic consumption and in exports will boost production to approximately 9.4 mill. m$^3$. Construction growth in Europe in 2011 will increase sawnwood consumption. However, tougher competition will inhibit the rise in market prices as production expands in Europe. The average price of Finnish sawnwood exports is forecast to rise in 2011 by about 3%. The increase in domestic consumption and in exports will boost production in 2011 to approximately 9.8 mill. m$^3$.

Plywood export prices have begun to rise slowly in 2010, and this trend is expected to continue in the latter part of the year. For the full year, the average price of plywood exports is expected to be up by about 1%. Rising demand in Germany and the United Kingdom in particular has boosted the total volume of Finnish plywood exports, which will be up by about one fifth on the 2009 figure. In 2011, plywood consumption will increase on Europe’s construction and housing markets and in the transportation equipment industry. However, the improving price level will also lead to an increase in plywood supply and tougher competition. The average price of Finnish plywood exports is expected to be up by about 4%. The growth in demand on the export markets and in Finland will boost total annual plywood production for 2010 and 2011 to close to 1 mill. m$^3$. Birch plywood is expected to account for about one third of plywood production.

Construction Starting to Grow Slowly in Europe After the Downturn

Residential construction in Western Europe shrank by 13% in 2009, according to figures from Euroconstruct. At the same time sawnwood consumption fell by about 6%. The slow recovery in GDP growth in the first half of 2010 led to an increase in the demand for wood products. Euroconstruct’s assessment is that residential construction will still be down slightly in 2010, and so significant growth in sawnwood consumption cannot be expected until 2011. There are nevertheless wide differences between the construction trend in each of the Finnish forest industry’s different export markets in Europe. Among Finland’s key export markets, forecasts indicate that new housing construction has begun to grow already in Germany and the United Kingdom, and growth is expected to continue in these countries in 2011, reaching 6–8%. In
Sweden, a key competitor country for Finland, new housing construction will be up in 2011 by one fifth on the 2010 level.

The aim of Russia’s national housing programme is to double housing construction from present levels over the next few years. It is believed that this programme will boost wood-based construction and the demand for wood products, even if the targets are not reached in full (see Featured Topic, p. 34).

In Africa, where GDP growth has been recovering following a downswing, rising incomes are expected to boost construction and the demand for construction materials in 2011. The planned infrastructure investments in the export markets of North Africa will, when under way, add to the need for wood products in the coming years. In 2007–2009, deliveries to Africa grew from 12% to almost one fifth of Finland’s entire sawnwood production.

In Asia, China’s growing sawnwood demand for construction, for manufacture of building products and for the furniture industry has had an impact on the trade flows of sawn softwood. China’s total imports are expected to rise to 9 mill. m³ in 2010 from about 6 mill. m³ in 2009, and to grow to as much as 21 mill. m³ by 2015. By contrast, the construction slump in Japan has continued. New starts of timber-framed housing, which is important for sawnwood demand, are up, however. A reversal of the downward trend in construction in 2011 will require that Japan’s economy starts to pick up.

North America’s consumption of sawn softwood has fallen by about 55 mill. m³ in 2006–2009 as housing construction has declined. Uncertainty is continuing on the US housing market, though the fall in housing construction is believed to have levelled off already. In 2011, housing construction in the United States is forecast to be up by 2–3%, but the volume will nevertheless be far short of the pre-downturn years.

Construction in both Europe and North America in 2011 will be significantly below the level seen before the downturn, despite a year on year increase. Interest rates in Europe are still low, but the discontinuation of the stimulus packages may further slow the emergence of growth in construction.

Slowing of Rapid Rise in Sawnwood Prices

The rise in sawnwood prices in Europe in the first half of 2010 also pushed up the average price of Finnish sawnwood exports in January–June by 20% from the same period in 2009. The higher market prices were due to the demand growth from buyers replenishing stocks that they had run down in the uncertain economic climate. Sawnwood supply in Europe has been low following the major production cuts of 2009, and the market has even experienced scarcity on occasion. Despite housing construction starting to grow in some European countries, no distinct growth in Europe’s sawnwood consumption is yet evident in 2010.

The uncertainty on the market looks like continuing in the latter part of 2010 and into the start of 2011, when construction will slow for the winter period and the government stimulus packages in Europe will be at an end. Although the increase in sawnwood market prices is tailing off towards the end of 2010, the price of Finnish sawnwood exports for the full year will have risen by 13% on the 2009 figure. Construction growth in Europe will still be slow in 2011. The higher prices can also be expected to boost production in export countries as well as supply from Russia and the Baltic countries. The increase in supply will contribute to inhibiting the rise in sawnwood market prices. The average price of Finnish sawnwood exports is forecast to rise in 2011 by about 3% on the 2010 figure.
Price Competitiveness of Exports Boosted by Favourable Exchange Rates in Early 2010

About half of Finland’s sawnwood and plywood production in 2009 was delivered to countries outside the euro area, which indicates the importance of exchange rate movements to the price competitiveness and profitability of the industry. The price competitiveness of exports in the first part of 2010 was improved by the weakening of the euro against key currencies. However, during September and October the euro has once again strengthened.

Sweden has lost some of its price competitiveness due to the krona strengthening by 8% against the euro in the January–August period. Production costs have also risen as a result of the rise in roadside prices for softwood sawlogs. Pressures for further price rises are continuing as sawmilling capacity grows, especially in Southern Sweden. Sweden’s exports fell by a total of about 10% in January–May compared with the same period in 2009, whereas Finland’s exports were up by 12%. As construction in Europe slows for the winter and the demand for sawnwood falls, Finland’s export growth will also tail off in the latter part of 2010. Exports for the full year are expected to be up by about 14%.

Exchange rate movements are expected to have a favourable impact on Finland’s competitiveness in the euro area in 2011, too, when the hopes are that the Swedish krona will strengthen a little rather than weaken against the euro. Sweden’s exports may also be limited in 2011 by a strong rise in domestic housing construction. Competition on Europe’s sawnwood market is nevertheless expected to grow, as the rise in sawnwood prices has boosted the profitability of production in Europe. Europe’s sawmilling capacity has been expanded considerably since 2000, with production in Germany, for example, growing by approximately 60%. If the recovery in the United States economy begins more slowly than in the euro area, the US dollar can be expected to weaken further against the euro. This would weaken the price competitiveness of the euro area’s exports in markets beyond Europe. In 2011, Finnish sawnwood exports are forecast to be up by about 3% in comparison with the 2010 figure.

An uncertainty that could alter the sawnwood market in Europe, too, in the near future is the question of China’s growing sawnwood demand in the wake of a possible increase in Russia’s roundwood export duties. With Chinese demand starting gradually to include grades that are more expensive than construction sawnwood, the profitability of European exports to China will improve. This would increase deliveries to China, partially reducing the present overcapacity dominating the sawnwood market, and raise the price level for sawnwood in Europe. Sweden is among the countries exporting sawnwood to China, and Finnish exports to the Chinese market have also increased, mainly in spruce sawnwood. In January–June 2010, China’s share of Finland’s exports to Asia rose to about 7%. Sawnwood exports to China from Russia and from Canada have also grown during 2010.

Domestic Sawnwood Production Growing Rapidly

The economic downturn reduced construction in Finland by about 13% in 2009, according to figures from the Confederation of Finnish Construction Industries. The largest drop was in detached housing construction, a big user of sawnwood. As a consequence, domestic sawnwood consumption fell by about one fifth. New housing starts are nevertheless up significantly in 2010. Growth will continue in 2011, but at a
slower rate. Growth in building renovations has picked up and will be about 2% for both 2010 and 2011.

The growth in exports and domestic consumption at the start of 2010 led to a rapid growth in sawn softwood production. In January–June, production was up year on year by 27%. Growth in the latter part of 2010 will tail off, however, as construction slows on export markets. The sawnwood production volume for the full year 2010 is expected to be approximately 9.4 mill. m\(^3\). There is uncertainty attached to this figure due to the already year-long rise in sawlog prices and the planned sawmill shutdowns in the latter part of 2010 on account of the seasonal slowdown in construction. In 2011, domestic demand growth and a gradual recovery in consumption on export markets will raise sawnwood production to the 2008 level of about 9.8 mill. m\(^3\).

The economic downturn led to production unit closures in Finland’s sawmilling industry. Permanent capacity closures since 2004 have amounted to approximately 1 mill. m\(^3\), and some sawmills are still under threat of closure.

**Plywood Demand Begun to Grow Since Downturn**

The economic downturn began to affect the plywood export market later than the sawnwood market, with the biggest drop in Finnish plywood export volumes coming in 2009. Plywood prices fell during the downturn years, leading to a general decline in production in Europe, and supply from outside Europe (e.g. from China) was down, too.

However, Europe’s demand for plywood began to grow and the price level started to strengthen in the first half of 2010. Contributing to the rise in softwood plywood prices has been the reduced supply as a result of the February earthquake in Chile. The price trend for hardwood plywood in the early part of 2010 was weaker than for softwood plywood. With growing demand, the price of hardwood plywood is also expected to rise in Europe in the latter part of 2010. A further factor helping to push up the price may also be a reduction in the supply of Russian birch plywood following the late summer forest fires and the impact on wood raw material availability in Russia.

Higher demand boosted Finnish exports of softwood plywood in January–June 2010 by about half, and exports of hardwood plywood by about one third, in comparison with the same period in 2009. The biggest growth in exports has been to the largest export markets, namely Germany and the United Kingdom. In Germany, Finland’s share of the country’s imports in January–June 2010 was 11% for both plywood grades. China increased its exports by the greatest margin in the early part of 2010, raising its share of Germany’s hardwood plywood imports to about 20%. Russia accounted for 23%. In the latter half of 2010, exports of Finnish plywood are expected to grow more slowly than in the early part of the year, the full year’s growth levelling out at about 20%.

In 2009 the price trend for Finnish plywood exports was downwards, but export prices started to rise in the early part of 2010. In January–June 2010, average prices of birch plywood exports were nevertheless significantly lower than a year earlier. The rise in plywood prices is expected to continue in the latter part of 2010, bringing the average price of all Finnish plywood exports up by about 1% for the full year.
In 2011, plywood consumption is expected to grow on Europe’s construction and housing markets as well as in the transportation equipment industry, as international trade increases. However, the rate of increase in plywood prices will slow down as the increase in supply intensifies competition. The rising prices will prompt producers in Chile, the Baltic countries, Russia and China to increase their supply to the European market. The supply of higher grade plywoods from Indonesia and Malaysia to Europe will probably also increase as the monitoring of timber origin becomes more effective. In 2011, the price of Finnish plywood exports is forecast to be up by about 4%, and export volumes by about the same proportion.

The particularly large drop in birch plywood production in Finland in 2009 was attributable not only to the fall in exports but also raw material availability, as imports of birch sawlogs decreased considerably with the rise in import prices. Imports of birch sawlogs in 2005–2007 averaged 0.8 mill. m³, most of this being from Russia. Closures of birch plywood production capacity have been announced at Heinola and Lappeenranta, though investment in new production is being made at Savonlinna. The growth in exports and domestic demand will boost total annual plywood production for 2010 and 2011 to about 1 mill. m³. It is estimated that birch plywood will account for about one third of total production.

2.2 Production and Exports in the Pulp and Paper Industry

With the recovery in the world economy, the global consumption for paper and paperboard began to rise in the latter part of 2009, and consumption growth in all paper and paperboard products began to pick up especially in China and the United States, but also in Europe. Export volumes of Finnish paper and paperboard grew significantly in the second quarter of 2010. As demand continues to grow in the latter part of the year, production and exports of Finnish paper for the full year 2010 are expected to be up by 12% and paperboard by 20%. Prices of paper and especially paperboard products have also risen. The average price of paper exports in 2010 is forecast to be up by 3%, and of paperboard exports by 5%, in comparison with 2009.

The growth in paper demand in Europe will level off in 2011, and the increase in market prices will also slow down as GDP growth in general slackens off. The price of pulp has already begun to fall. Production and exports of Finnish paper will grow at a slower rate than in 2010. The overcapacity affecting Europe’s paper market and the slow growth in demand will limit any significant price rises. In 2011, the average price of Finnish paper and paperboard exports is forecast to rise by about 2%. The production volume of paper and paperboard is forecast to grow to 12.7 mill. tonnes, or by about 5% on the 2010 figure.

World Demand for Paper and Paperboard Growing Since Downturn

As a consequence of the economic downturn the world consumption of paper collapsed in late 2008, and the decline continued in early 2009. According to figures from the Association of European Publication Paper Producers (Cepiprint) and the European Association
The consumption of paper and paperboard in the member countries of the Confederation of European Paper Industries (CEPI) fell by 10% in 2009. The drop in the consumption of paperboard products was less than for paper products. In 2009, newsprint consumption fell by 14%, magazine paper by 20% and fine paper by 15%, compared with 2008.

In the CEPI countries almost 4% of paper production capacity was closed in 2009. Paper and paperboard production volumes fell by 10% in Europe, to 97 mill. tonnes. This pushed down the capacity utilisation rate in the CEPI countries to 85% in 2009, which is the lowest rate since 1991, the year CEPI began collecting statistics. Despite the drop, the production volume was 6% greater than consumption (92 mill. tonnes). The plentiful supply in relation to the decreased demand ensured that the weak trend in paper prices continued in 2009.

In North America, overall consumption and production of paper and paperboard shrank by 12% in 2009. The biggest drop was in the consumption of printing and writing papers, which plummeted by 20%. The consumption of packaging paper and paperboard fell by 10%. In the five years since 2005, printing and writing paper consumption the United States has fallen by 25%, and newsprint by 50%. Spending on newspaper advertising has halved because advertising has switched increasingly to electronic media. In Russia and the CIS countries, the economic downturn reduced the consumption of paper and paperboard in 2009, although export volumes were up. Russia’s consumption and production of paper and paperboard have been slowly growing in the period since 2000.

In contrast to other countries, China’s consumption and production of paper and paperboard products continued to grow during the downturn in the world economy. In the years 2008–2009, China’s consumption of paper and paperboard grew by 8–9%. During the downturn the paper and paperboard industry adjusted its production in line with movements in domestic demand, through shutdowns and by closing old paper mills that were not based on wood fibre. The utilisation rate of China’s paper and paperboard industry was 92% in 2009.

Prices for paper and paperboard products on the Chinese market experienced a decline in the first half of 2009, as in other market areas. The greatest decline was in the prices of printing and writing papers. In 2010, China’s consumption and production of paper and paperboard products have continued to grow and prices have risen.

While consumption and production in the United States fell sharply during the years of the downturn, China rose to become the world’s largest producer and consumer of paper and paperboard in 2009. China has been a net exporter of paper and paperboard since 2007. Most of its consumption and production of paper and paperboard consists of packaging board and packaging paper. In 2009, China’s consumption and production of packaging board and paper amounted to approximately 50 mill.

<table>
<thead>
<tr>
<th>The Finnish pulp and paper industry, 2009, 1000 tonnes.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chemical pulp</strong></td>
</tr>
<tr>
<td>Production</td>
</tr>
<tr>
<td>Domestic use*</td>
</tr>
<tr>
<td>Exports:</td>
</tr>
<tr>
<td>EU</td>
</tr>
<tr>
<td>Russia</td>
</tr>
<tr>
<td>Other Europe</td>
</tr>
<tr>
<td>Asia</td>
</tr>
<tr>
<td>Africa</td>
</tr>
<tr>
<td>United States</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

* Estimated domestic use = production – exports
Sources: Finnish Forest Industries Federation and National Board of Customs.
tonnes, compared with US consumption of 36 mill. tonnes and production of 41 mill. tonnes. However, a significant proportion of the packaging paper and paperboard used in China ends up in the United States and other industrial countries that import packaged goods from China.

With the exception of newsprint, consumption of paper and paperboard products in Europe has grown during 2010 as the economy has picked up. The demand for magazine paper in January–August 2010 grew by 10% and fine paper by 6% year on year. The biggest growth in paper and paperboard demand in the first part of the year was in China, though. Newsprint consumption in North America has declined further, although consumption of other printing and writing papers has already begun to grow slightly. The growth in packaging paper and paperboard consumption has picked up during 2010, boosted by the increase in industrial production and trade. In the United States, production of packaging boards was up by over 13% in the first quarter of 2010 compared with the same quarter a year earlier, and the capacity utilisation rate rose to 95%.

Production and Exports of Paper and Paperboard Up in 2010, but Price Trend Still Weak

Finland’s paper exports fell in 2009 more steeply than the drop in Europe’s consumption. Exports of newsprint fell by 74% and magazine paper by 24%, and production and exports of fine paper decreased by about 10%. The forest industry further reduced its paper production capacity in Finland during 2010. Stora Enso closed a fine paper machine at Imatra in March and discontinued its newsprint and catalogue paper production at Varkaus at the end of September. The closures reduce newsprint and catalogue paper production capacity by 290 000 tonnes and fine paper by 210 000 tonnes. Due to the sharp fall in demand for paper products, the Finnish paper industry also experienced long production shutdowns. The newsprint and magazine paper production cuts in Finland have generally been larger in relative terms than those elsewhere in Europe. In the CEPI countries, paper and paperboard production in 2009 shrank by 10%, whereas in Finland paper production fell by 20% and paperboard production by 13%.

Demand on export markets began to grow in the first half of 2010, boosting export volumes of Finnish magazine and fine papers in January–June by 15%, newsprint by 30% and other papers by 40% year on year. Half of Finland’s paper exports are still comprised of magazine paper, even though its share of exports has fallen by 6 percentage points since 2008. Fine paper has correspondingly accounted for a growing share, rising to almost 40%, while newsprint has shrunk to 1% of all paper exports.

The decline in paper prices on the European market that began in 2009 continued during the early part of 2010. By the end of March, the price of newsprint had fallen by almost 20%, coated magazine paper by 7% and coated fine
paper by 3%. Only the price of paperboard products rose, by 6–7%, due to the improved market environment. Starting in May 2010, however, the monthly price trend indicates that paper prices, too, have begun to show a distinct strengthening as demand grows.

Forest industry companies have announced new price rises in the second half of 2010. Moderate price increases can indeed be expected, and the average price of paper exports for the full year 2010 is forecast to be up by 3% and paperboard by 5%. With paper demand growing in Europe and other market areas, Finnish production and exports are forecast to be up by 12% for the full year 2010. Exports of packaging papers and paperboard products are expected to be up by 20%, due to the heightened demand for packaging products as a result of the growth in international trade.

Pulp Price Dependent on Demand from China

In China, consumption of wood fibre and fibre from recovered paper has tripled since 2000, whereas production and consumption of other fibres has fallen. China’s use of recovered paper fibre grew by 11% and imports of it by 14% in 2009. No more recovered paper was in fact available on the world market due to the decrease in paper consumption, and so the use of wood fibre grew by 25%. Since China’s own wood pulp production covers about 40% of its total use of wood pulp and because production growth is limited by the scarcity of roundwood, China has to satisfy its wood fibre need through increased imports. Softwood pulp imports grew by 35% and hardwood pulp imports by as much as 60% in 2009. Pulp imports have also grown during 2010. The rapid growth in China’s pulp imports has raised prices on the world market, and pulp mills that were closed have been reopened for production in order to satisfy the growth in demand. Exports of Finnish bleached softwood pulp to China also grew in 2009, by 60%, pushing up China’s share of Finnish bleached softwood pulp exports to almost one third.

The dollar price of pulp on the Chinese market rose rapidly in the first half of 2010, continuing the brisk rise that began in the first quarter of 2009. The FOEX PIX index of the market price of hardwood pulp in dollars rose by 120% between March 2009 and May 2010. After this the price began to fall slightly and by the end of September it had decreased by about 10%.

In Europe, the decline in paper industry production has reduced wood pulp consumption, with the production of wood pulp falling in 2009 in the CEPI countries to its lowest point since 1996. By mid-June 2010, the euro PIX price of softwood pulp had risen by 45% and hardwood pulp by 55% since the start of the year. Since June, however, the euro PIX price of both softwood and hardwood pulp has begun to fall.

In Canada and the United States, the production and consumption of wood pulp fell in the period 2005–2009, due to the decline in paper production. By contrast, the use of recycled fibre has grown, accounting for a record 63% of paper production in the United States in 2009 as against the previous year’s 57%.

In the first half of 2010, the growth in pulp demand and increase in pulp prices prompted Finnish exports of bleached softwood sulphate pulp to grow by over 80% on the 2009 figure. Pulp was also need as a raw material for Finland’s own paper and paperboard production, which began to grow. In January–June 2010 pulp production was almost 30% above the previous year’s figure. In 2010, Finnish pulp production is expected to be up by about 25% and pulp exports by 50% year on year. With PIX prices

---

**Volume and unit value of pulp exports, 1999–2011 at 2009 prices (wholesale price index).**

Source: National Board of Customs
starting to decline in summer 2010, a downward movement in the export price of Finnish pulp is also foreseeable. Nevertheless the average export price for 2010 is expected to be up by 50% on the average price for 2009.

**Finnish Exports Boosted in 2011 by Growth in Paper Demand**

GDP growth on the European market is forecast to slow during the latter part of 2010 and in the first months of 2011. The growth in paper and paperboard consumption was at a low level for a considerable period even before the economic crisis. Some assessments also indicate that European consumption of printing papers, and especially of newspaper, will no longer return to the pre-downturn level, as printed products have lost market share to electronic media. Hence the demand for paper products in Europe in 2011 is forecast to grow at a slower rate than in 2010.

The profitability of the paper industry in Finland has improved during 2010 but is a long way from the profitability figures of the early years after 2000. Production costs are high in comparison with competitor countries and in relation to end-product prices. In hardwood pulp production, Finland is not competitive against the new pulp mills of South America, for example, because the wood raw material costs are significantly lower there. Moreover, Finland's competitiveness in magazine paper production is weaker than that of Central and Western European producers, because they use recycled fibre, which is a lot cheaper than roundwood.

A continuing problem for Finland’s competitiveness in relation to, for instance, European competitor countries is the high transportation costs incurred due to the large distances to the main markets. To improve its profitability the Finnish paper and paperboard industry has sought to lower production costs and to reduce production in Finland by cutting production capacity.

The capacity cuts in Finland and elsewhere in Europe are reducing overcapacity and creating the conditions for a rise in prices and an improvement in profitability. However, it will not be possible to benefit fully from this scope for price rises due to the slow growth in paper demand in the industry’s main export markets. Indeed, average export prices of paper and paperboard in 2011 are forecast to rise by 2%, whereas the average export price of pulp is expected to remain unchanged from 2010. Production and exports of Finnish paper and paperboard are forecast to grow in 2011 by about 5%. Pulp production is forecast to be up by 3% on the 2010 figure.

<table>
<thead>
<tr>
<th>Forecasts of production and exports in the pulp and paper industry (1000 tonnes); percentage changes from previous year are shown below the respective volumes.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>Chemical pulp</td>
</tr>
<tr>
<td>Paper</td>
</tr>
<tr>
<td>Paperboard</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Forecasts of export prices for pulp and paper products (as percentage change from previous year).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>Chemical pulp</td>
</tr>
<tr>
<td>Paper</td>
</tr>
<tr>
<td>Paperboard</td>
</tr>
</tbody>
</table>

Export prices are nominal unit values.
The Finnish forest industry’s profitability plummeted to rock bottom in 2009. However, the decline in profitability was not as steep as the gloomiest predictions had envisaged, and the profitability trend for 2010 has been positive, especially in the wood products industry. A major factor in this has been the sharp rise in sawnwood export prices and volumes. Pulp and paper industry profitability has also risen, supported particularly by the increase in world market prices of pulp. By contrast, the price trend for some paper grades has been weak, as the market is still affected by overcapacity.

The uncertainty surrounding economic trends in Finland and on export markets makes it difficult to assess the forest industry’s profitability outlook for 2011. The improvement in the wood products industry’s profitability will slow down in the latter part of 2010 and in 2011, as sawnwood price rises level off and raw material costs grow. Profitability is nevertheless not expected to fall, but will remain a little above the post-2000 average. Profitability in the pulp and paper industry is likely to continue rising in 2011, due to the capacity cuts in the industry, the continued economic recovery on the main export markets, and the moderate trend in costs.

Rapid Profitability Improvement in Wood Products Industry

Profitability in the wood products industry collapsed in 2008 as a result of the economic slump on the sawnwood market. The gloomiest year was 2009, when the loss made by the wood products industry in relation to its turnover was at a post-2000 high (see figure), according to the financial statements of the major Finnish forest industry corporations. The industry’s profitability improved quickly during the first six months of 2010, due to the rapid recovery in sawnwood exports and a year-on-year rise of about 20% in sawnwood export prices.

However, the profitability trend for the wood products industry masks variation within the industry. On the plywood market the cyclical swing occurred later than on the sawnwood market. The continued drop in plywood export prices in the first half of 2010 has meant the profitability of plywood production has remained weak. The scale of the losses has been less severe than in 2009, however.

Profitability in the wood products industry and especially in sawmilling has been supported by the moderate trend in domestic wood raw material costs in late 2009 and the first months of 2010. Wood raw material costs account for almost one third of all costs in the wood products industry, on average, whereas in sawnwood production the proportion is more than half, making wood raw material the single most important cost item in the industry. In the summer months roundwood sales picked up as sawmilling production grew, and the rise in stumpage prices began to accelerate. Average stumpage prices for softwood sawlogs in 2010 are expected to be almost 17–18% above the previous year’s level. A growth in wood raw material costs is currently seen as a threat to the positive profitability trend in the wood products industry. The industry’s profitability for the full year 2010 looks like falling short of what was expected on the basis on the figures for the early part of the year. Measured in terms of the operating result as a percentage of turnover, the industry’s profitability will nevertheless be significantly higher than the previous two years, and will be above the post-2000 average.

In 2011, the rise in sawnwood and plywood production and in export volumes and export prices is expected to continue. However, export prices may be up by only about 3–4% year on year. The greatest upward pressure on costs in the industry concerns wood raw materials. Sawlog stumpage prices are expected to be up by 6–8% in 2011. Among the other major cost items, the trend in labour costs in 2011 will be moderate on the basis of the pay increases agreed in the industry. Although the profitability trend in the wood products industry, and especially in
sawmilling, will slacken in 2011 in comparison with 2010, no significant weakening is anticipated, but, rather, the industry’s profitability is likely to remain at almost the 2010 level.

**Significant Profitability Differences Inside the Pulp and Paper Industry**

Interim reports published by the major Finnish forest industry corporations show that the pulp and paper industry’s profitability declined in 2009 to its lowest point since 2000. By contrast, the industry’s profitability has risen significantly during 2010. Although the year’s profitability trend in the industry has, on average, been positive and it has been above the pre-downturn level in terms of the operating result as a percentage of turnover, the differences within the industry are quite considerable. Profitability is also far short of the early years of the decade.

Common to all parts of the pulp and paper industry, however, is a clear growth in delivery volumes in the early part of 2010 as export demand gradually picked up. There are nevertheless differences in the price trend for different products. The world market price for pulp began to rise sharply in mid-2009, and this did not tail off until June 2010. Finnish Forest industry corporations are not typically producers of market pulp, as most Finnish pulp production is used as a raw material in the corporations’ own paper and paperboard production.

The price trend for paperboard in the first half of 2010 has been positive compared with many paper grades. The profitability of paperboard production has risen further since 2009, when the paperboard industry was already among the most profitable parts of the pulp and paper industry. The growth in paperboard demand is associated with the recovery in industrial production and in the need for packaging materials in Europe, the main market.

The weakest trend among papers is in newsprint. In Europe, in particular, the demand for newsprint has fallen, as has its price level. This, together with the rise in raw material costs, has significantly weakened the profitability of newsprint production. The profitability trend in magazine paper production has also been slow in 2010 compared with, for instance, fine paper. Indeed, the capacity cuts made in Finland have specifically affected newsprint and magazine paper production. As a consequence, fine paper’s share of paper exports has now risen to about 40%.

The cost trend in the pulp and paper industry has been quite moderate in 2010. The rapid rise in the world market price of pulp has not affected domestic pulpwood stumpage prices as strongly as the effect of rising sawnwood demand and prices on sawlog stumpage prices. However, in Finland production of market pulp is only minor compared with the main products of the pulp and paper industry. For many paper grades, the price trend and the profitability of production...
The Finnish Forest Industry have been weak during 2010, which has affected the ability to purchase roundwood. Wood raw material costs in the industry account for an average of about 17% of total costs, and within this figure the following all account for about equal proportions: stumpage costs, roundwood harvesting and transportation costs, chips and sawdust, and imported roundwood. Although a rise in pulpwood stumpage prices, for example by about 10% as forecast by the Finnish Forest Research Institute, would not significantly increase the industry’s total costs, the rise in roundwood costs would be detrimental for other industry products whose production is already struggling to be profitable.

The Finnish pulp and paper industry is fundamentally an export industry, and the distances to its main markets are great. Sea freight charges (BDI) have fluctuated widely during 2010: a peak was reached at the end of May, after which charges have fallen – this decrease already amounted to about 30% by the end of September. The price trend for crude oil has also fluctuated during 2010. The oil price rose until the end of April but has since fallen by about 20% and then levelled off. The oil price has a direct impact on fuel costs in the pulp and paper industry, and also has an impact on prices of other energy sources. Although the pulp and paper industry has a high level of self-sufficiency in energy, the proportion of energy acquired from outside the industry represents almost 10% of total costs. More significant than the direct impact, however, are the indirect effects of the oil price fluctuations on, for instance, roundwood harvesting and transportation costs, freight costs for finished products, and prices of the chemicals and minerals used by the pulp and paper industry. The oil price forecasts for 2011 have been revised downwards due to the slower growth in developed economies: an increase of 5–10% on the autumn 2010 level is expected, and the average price for 2011 is expected to be close to the 2010 average.

A key factor in the pulp and paper industry’s profitability in 2011 will be whether or not the corporations’ planned price increases can be put into effect. Due to the capacity cuts and the steadily improving demand for the industry’s products, the prospects for introducing price

rises look good. However, demand growth in Europe – the main market – is slow, and so the price increases for paper and paperboard are expected to be only moderate in 2011. On the other hand, it seems likely there will be no major pressures on the industry’s costs. The improvement in the pulp and paper industry’s profitability will thus continue in 2011, though at a slower rate than in 2010.