

Item 9. Country reports

AUSTRALIA

What are the emerging issues facing the industry in your country?

NATIONAL POLITICAL SITUATION

The Liberal/National Coalition (conservative) Australian Government has now been in office for more than 11 years. The next election is due before early 2008 and is likely to be called in the later part of 2007.

The Government is generally seen as good for business with a strong emphasis on low interest rates, low inflation and tax reform. Significant tax cuts were made in the 2006 Budget. The need for investment in infrastructure (particularly roads, railways and ports) and education and training is becoming of increasing importance as these two factors are perceived as acting as major constraints on the expansion of the Australian economy. The Government has also focused attention on reducing the regulatory burden on business.

Contrary to the situation at the national level, the Australian Labor Party continues to hold power in all the States and Territories. The States and Territories have primary responsibility for land management issues through regulation of private land uses and management of large areas of public forest (including plantation in most states). All States have implemented policies further restricting the harvesting of timber in public natural forests.

CLIMATE CHANGE

In the lead up to the election and with much of Australia in the grip of one of the worst droughts ever recorded, the Australian Governments' position on Climate Change has shifted. Although the position of non-ratification of the Kyoto Protocol has not changed, the Prime Minister has established a joint Government-Business Task Group to "advise on the nature and design of a workable global emissions trading system in which Australia would be able to participate. The Task Group will advise and report on additional steps that might be taken, in Australia, consistent with the goal of establishing such a system."

The Opposition (Australian Labor Party) has committed to ratification of the Kyoto Protocol, creation of a domestic emissions trading scheme and increasing the Mandatory Renewable Energy Target.

To maintain pressure on the national government the State Governments continue to talk-up the possibility of a State-based emissions trading system. The State Governments' National Emissions Trading Taskforce has conducted another round of consultation as they refine their emissions trading scheme model. They are now proposing accelerated coverage of the scheme, though still focussed on stationary energy. They are also looking at issues of detail such as how firm property rights are established and the structure of the penalty, make good provision, etc.

The Australian Government is investing significant funds through industry partnerships in low emissions technology, particularly carbon geo-sequestration. Recent political debate has also turned to the potential of nuclear energy including Australia's current role as a supplier of unprocessed uranium and possible expansion into enrichment, power generation and waste disposal/storage.

WATER

Much of Australia continues to be gripped by the worst drought on record which has provided increased impetus to moves to reform the system of water management and allocation in Australia. The Australian Government has allocated A\$10 billion over ten years to speed up the implementation of the National Water Initiative (NWI) with a particular focus on the Murray Darling Basin. The NWI

outlines a range of commitments to reform (reduce) water allocation for agriculture and return water for environmental flows. Most of the changes will be introduced via a regionally based planning and management approach.

The NWI identifies change of land use to industrial scale plantations as an example of a potential ‘significant water interception’ activity which may be subject to regulation depending on further consideration of significance and the level of commitment of water in the catchment concerned.

The State governments are now grappling with the implementation of the many complex aspects of the NWI. With the notable exception of one region, South East South Australia, the technical complications associated with quantifying plantation water interception appear to have delayed any precipitate action to regulate plantation expansion in most areas. The situation in South East SA is a major concern to the plantation industry as it is a major plantation growing region and it appears that the proposed water policy will have implications (water costs) for existing plantations areas not just new plantations, as had been previously anticipated.

ILLEGAL LOGGING

As part of its 2004 election policy the Australian Government made a commitment to investigate ways of preventing the importation of illegally harvested timber into Australia. In late 2006 the Government released a discussion paper on illegal logging, *“Bringing Down the Axe on Illegal Logging – A Practical Approach”*. The approach being pursued by the Government is relatively “hands-off” and focuses on education and helping importers of sawn timber from south east Asia to demonstrate the legality of their sources.

In a virtually unrelated decision the Australian Government has committed A\$200 million to combat illegal logging in Indonesia as part of its response to climate change.

A3P had developed and launch its own *“Member Guidelines – Stopping the Supply of Illegally Logged Forest Products to Australia”*. This is a proactive initiative by A3P to provide a practical framework for our members to demonstrate the legality and sustainability of their product. Two major outcomes can be reached by implementing these guidelines:

We can increase consumer confidence in the sustainability of forest products generally; and

We can assist the market to value the performance of companies in terms of their environmental management.

SFM CERTIFICATION

The past 12 months has seen continued activity in relation to Sustainable Forest Management (SFM) certification in Australia. Some ten major Australian forest owners are certified to either the Forest Stewardship Council (FSC) or Australian Forestry Standards (AFS). The FSC certified forests are virtually all privately owned plantations while the AFS certified areas include both public and private plantations and public native forest. Nearly two thirds of the Australian plantation resource now has SFM certification.

FSC Australia has been established and launched with its immediate priority being the development of an FSC National Initiative for Australia. Unlike in the previous attempt some five years ago, the ENGO’s have grudgingly changed their position by agreeing to at least consider the possibility of the FSC certification of native forest harvesting operations. The FSC process has not got off to a particularly promising start from an industry perspective given the refusal of the major labor representative body (the Construction, Forestry, Mining and Energy Union) to participate in the process. There are also some basic funding and administrative challenges.

The Australian Forestry Standard was approved as an Interim Standard by Standards Australia in 2004 with a requirement that it be reviewed in a two year time frame. That review by the Technical Reference Committee has been continuing for an extended period with the major issue of debate being

the way the standard deals with the conversion of native vegetation for plantation or other uses. This matter has to be resolved by a ballot process by August 2007.

The Australian Forestry Certification System (AFCS) is accredited under the Programme for the Endorsement of Forest Certification (PEFC) scheme. The changes made to the PEFC scheme have raised some challenges for the AFCS as making changes to the AFCS is not a simple process because of the consultation and approval processes required. The potential for the UK CPET process and other European Governments' purchasing policies discriminating adversely against the AFCS and has required significant effort from Australian industry and government and even delegations from Australia to Europe. This appears to have been successful so far.

Despite the progress outlined above there has been little change in market demand for certified wood products in Australia. Japanese woodchip customers continue to have a preference for certified wood and have been under pressure from ENGO's to request FSC certification only. The most significant development in the domestic market has been the decision by Australian Paper to market their Reflex brand photocopy paper with the FSC logo. A significant proportion of the fibre supply to Australian Paper is from FSC certified plantations managed by Hancock Victorian Plantations.

ENERGY MARKET REFORM

The process of reforming the Australian energy market from a publicly owned system with limited interconnection between State based systems into a fully integrated and market based system is continuing slowly. There are major concerns for energy users that the failure to invest in new infrastructure and undue influence exerted by the large electricity generators may result in significant cost increases and/or a deterioration in the reliability of supply in the future.

INDUSTRIAL RELATIONS & HUMAN RESOURCE SHORTAGES

Industrial relations is another key issue in the lead up to the election. The conservative government has introduced legislation giving employers and employees greater flexibility in employment contracts. The Labor Party opposition is committed to winding-back this system. The business community is generally very supportive of the flexibility provided by the changes that the Government has made.

More broadly, the strong Australia economy and demographics (ageing population), are leading to a significant shortage of employees with appropriate skills. This situation is accentuated for the wood product and paper industry because of its rural location and perceptions that the industry is dirty and dangerous.

What are the most important business developments within your industry over the last year?

ECONOMIC SITUATION

As a result of the international resources boom driven by Chinese demand, the Australian economy has remained relatively strong with low inflation, low interest rates and low unemployment. Interest rates have increased slightly recently as the Reserve Bank responds to the spending pressure of a strong economy. The sustained and increasingly high level of the Australian dollar, particularly against the US dollar, has presented significant challenges for exporters and import competing business including paper and woodpanels.

The new housing construction market, the primary driver for the sawntimber industry, which had been strong for an unusually long period finally began to soften in late 2004 and has continued to be very weak with significant implications for sawntimber demand particularly in the major Sydney and Melbourne markets.

INVESTMENTS IN WOOD AND PAPER MANUFACTURING

The past 5-10 years has seen continued investment in new processing capacity in the wood products (sawn timber and panels) and paper industry in Australia. Much of this expansion has been driven by the increased wood availability resulting from the maturing of the softwood plantation resources established in the 1960s and 70s. As a result of this expansion there is now relatively little uncommitted wood available in Australia unless new areas of plantation are established. The major exception is the large area of short rotation eucalypt plantations in SW Western Australia, Western Victoria and Tasmania which will be coming on-stream in the near future and are currently destined for export in chip form.

There are numerous proposals under consideration for the establishment of new pulp mills in Australia. Probably the most advanced of these is the Gunns Ltd proposal to build a A\$1 billion bleached eucalypt kraft mill in Tasmania. Gunns is currently the world's largest exporter of hardwood woodchips and the proposed mill would consume a significant proportion, but not all,

of Gunns' current export volume. The proposal continues to encounter significant opposition from local environmentalists.

Australian Paper is undertaking a major upgrading of pulping capacity at Australia's largest printing and writing paper making facility at Maryvale in Victoria. Visy Industries has announced that it will double the capacity of its Tumut mill. The mill produces packaging paper from plantation grown softwood and commenced operation in 2001. The Visy Tumut mill was the first greenfields pulpmill built in Australia since 1982.

REVIEW OF THE TAXATION OF PLANTATION FORESTRY

In May 2005 the Government announced a Review of the Taxation of Plantation Forestry. The current taxation arrangements have been a fundamental factor in the significant plantation expansion that has occurred over the last ten years or so. New plantation establishment has averaged around 80,000 ha per annum over that period. The majority of these plantations are short rotation hardwoods (*Eucalyptus globulus*) intended for the export pulpwood market.

The Review of taxation arrangements is at least partly in response to various objections to plantation expansion. These objections include economic arguments ("plantations should not be treated favourably", "plantations are not a good investment") and land use change arguments ("plantations are not a good use of productive land", "plantations are not good neighbours").

In December 2006 the Government announced that it would continue to provide tax deductibility for investments in plantation forestry but that this would be under a new forestry specific arrangement and would require the enactment of new tax legislation. In January 2007 the Government announced that it would move to stop investments in other agricultural projects (e.g. grapes, olives, almonds) claiming tax deductions.

A number of issues flowing from the announcement are worthy of note including:

- The Australian Government has again shown its support for the Plantations 2020 Vision and the benefits of continued expansion of plantation forestry.
- The plantation industry has been successful in convincing the Government of the social, environmental and economic benefits of the plantation timber industry.
- The distinction the Government has drawn between forestry and non-forestry investment does potentially expose the forestry investment sector to additional or renewed criticism from anti-forestry interests.
- Subject to the implementation of the Government's decisions about both forestry and non-forestry investments, there will potentially be additional funds available for investment in plantation forestry.

Neil Fisher

Chief Executive Officer

A3P – Australian Plantation Products and Paper Industry Council

BRAZIL

The economy and development plan

The GDP grew only 3.7% in 2006, very modest, when compared to the potential of the country and to a 5.1% growth in the world economy and the inflation rate was kept in a very low level of 3.1%.

Re-elected for his second four years mandate, President Lula indicated fast growth as his priority and presented the Growth Acceleration Programme (PAC).

The great merit of the plan is to establish goals and objectives. It is a plan that brings positive results, for defining what must be made and to prioritise the Investments in Infrastructure; Credit Encouragement; Improvement on the Investment Scenario; Lessening and Enhancement of the Tax System's Burden; and Long Term Fiscal Measures.

In spite of not having included specific measures for the forest products industry, the PAC presents signs of strong potential for expanding the performance of a productive and exporter sector such as pulp and paper. In that connection, mention should be made of government's commitment to invest in infrastructure, especially in energy generation, remodeling of seaports, airports and roads, essential for shipping export products.

PLANTED FORESTS

The planted forest market flourished this year with the growing investments not only in the pulp and paper industry, but also in the furniture and steel industry.

One of the Brazilian pulp and paper industry initiatives is forest fostering. This activity has been taking a growing role in the industries projects. Through this activity, industries offer to small and medium local farmers the opportunity of planting forest together with other plantations. In 2005, the sector fostering are was 219 thousand hectares involving around 10,4 thousand properties. The 2006 data is not available yet.

SUSTAINABILITY

Brazilian pulp and paper industry holds the biggest area of certified forests, among the country's basic forest industries, adopting the two criteria for forest certification: Forest Stewardship Council (FSC) and the Programme for Endorsement of Forest certification (PEFC), of which the Brazilian System of Forest Certification (Cerflor) is an affiliate.

In 2005, both systems certified around 1.6 million hectares of forests, including among them, the planted forests, the legal reserve and permanent preservation areas, managed buy the pulp and paper industry.

This certification guaranteed the use of criteria for sustainability in managing forest areas, so as to provide practices that are ecologically adequate, economically sustainable and social just.

The challenge of the century is to grow in a sustainable way. It is obvious that every company needs a business strategy that integrates environment practices, fair labor relations and effective social actions.

SOCIAL-ENVIRONMENTAL RESPONSIBILITY

Our companies demonstrate that they face the challenge with determination. In additional to generating 110 thousand direct jobs and thousands of indirect ones, the sector the sector has a history of social actions for employees and communities.

In 2005, the social/environmental responsibility survey, featured 544 actions carried out by the companies, in demands in health, economical development, professional qualification, education, sports and culture, community support, among others, totaling circa US\$ 150 million, involving 2.5 million people.

CANADA

What are the emerging issues facing the industry in your country?

SUSTAINABILITY AND CLIMATE CHANGE

The twin issues of sustainability and climate change have become a growing political preoccupation in Canada. The Canadian forest products industry has improved its practices in this area over the past two decades to the point that the industry is now a global leader in progressive forestry practices, wildlife conservation, climate change mitigation, waste paper recovery, and the efficient use of resources and raw materials. Since 1990, the pulp and paper sector has reduced its greenhouse gas emissions by 44% while increasing production by 20%, which positions the industry at 7 times the emissions reductions target set for Canada by the Kyoto Accord. This industry achievement came primarily through the large-scale shift from the use of fossil fuels to renewable biomass energy. Despite this excellent environmental record, however, environmental campaigns are still targeting Canadian industry customers, particularly in the print catalogue sphere. The issue has become how best to promote the industry's strong sustainable forest management performance, while at the same time continuing to improve that performance. In April of 2007, Canada's federal government announced a new regulatory framework for greenhouse and air emissions from the industrial sector. Under these proposals, Canadian pulp and paper facilities will face mandatory greenhouse gas emissions intensity targets for greenhouse gases beginning in 2010. Both solid wood and pulp and paper facilities will also face new regulations for a variety of air pollutants.

HUMAN RESOURCES/SKILL SHORTAGES

There is a growing view in the industry that skill shortages, training gaps, and other human resources challenges are becoming more urgent. The age profile of the industry is skewed towards older, male workers, and many of those workers will reach retirement age over the next five to ten years. Although the industry is currently undergoing a period of rationalization, which will cushion the short-term impact of demographic pressures, skill shortages are beginning to emerge in some regions and skill sets. Forest faculties in Canadian universities have experienced steadily declining enrollment since the 1990s and some programs are under threat. This is in part due to the economic boom in the oil and gas sector in the province of Alberta, which has drawn away many of the potential pool of candidates for enrollment in forest faculties. Also, while Aboriginal youth make up a growing proportion of the rural labour force, these youth are often not attaining the educational standards that would enable them to participate in an increasingly educated workforce. The forest industry, in partnership with the federal government, labour, educators and other stakeholders in the in the process of establishing a Human Resources Sector Council in order to examine longer – terms skills and demographic issues in the sector.

MOUNTAIN PINE BEETLE/FOREST HEALTH

Mountain Pine Beetle outbreaks in the provinces of British Columbia and Alberta could affect up to 18 million hectares of pine forest by 2018-2034. This beetle infestation has led to a short-term surplus of wood fibre in the region as beetle killed pine has a "shelf life" of 2-5 years before it becomes unsuitable for sawmilling. Within the decade, the pine beetle infestation will lead to substantial reduction in fibre supply from in the affected regions, possibly in the range of 35%-50% from current harvest levels. As the British Columbia Interior region produces about 18% of lumber consumed in North America, this decline will have a material impact on North American lumber markets. The beetle infestation has moved East over the Rocky mountains from British Columbia into Alberta. It is uncertain how much further East the infestation will spread and how much more of Canada's forest resource will be impacted.

While the pine beetle is indigenous to North American pine forests, the severity of the current outbreak is attributable to the fact that winter temperatures in the affected regions have been significantly higher than average. Cold weather during winter and early spring kills the beetle and has served to limit the severity of previous outbreaks.

What are the most important business developments within your industry over the last year?

SHARP DOWNTURN IN DEMAND AND PRICES FOR WOOD PRODUCTS

The sharp cyclical downturn in the U.S. housing market has led to a significant weakening in demand and prices for lumber and other wood building products in north America. Prior to this downturn which began in the spring of 2006, North American consumption of wood products had been at historic highs. While demographic and other long-term determinants of North American housing demand suggest that markets will strengthen in time, most analysts believe that a meaningful recovery in demand and prices for many wood products in North America will likely not be until 2008.

CONTINUING RATIONALIZATION AND CONSOLIDATION AS COMPANIES ADAPT TO MARKET CHALLENGES

Due to factors like the sharp appreciation in the value of the Canadian dollar against its US counterpart, and weak product prices and structural changes in North American graphic paper markets as a result of the proliferation of electronic media, the Canadian forest products industry is experiencing a significant amount of rationalization and consolidation. During the past two years, there have been over 100 instances of permanent or indefinite capacity closure within the Canadian forest products industry. These market pressures are also contributing to a significant amount of corporate restructuring and consolidation within the North American forest products industry. This includes two major mergers- one recently completed, the other still in progress- that would create two Canadian – based forest products firms considerably larger than any that had existed previously.

CHILE

What are the emerging issues facing the industry in your country?

At the beginning of this year, the Minister for the Environment was nominated, after the recent creation of this new Ministry. Through this institutional innovation, Chile is taking an important step by giving the highest political priority to environmental issues.

This new Ministry must reinforce policies supporting the development of regulations which adequately combine economic development and environmental protection, strengthening supervision on technical basis.

Private sector worries are centered mainly on whether authorities fully understand that such balance is possible, and whether they would be inclined to privilege protection beyond reasonable limits, since this might affect country development.

In January this year, the proposal for a law for natural forests was reactivated, after 15 years in Congress. On this occasion, Ministry of Agriculture officials simplified the project, eliminating from the text the conflicting issues which have been responsible for the delay in project approval. Such issues will be addressed in a complementary law, which should be submitted by the end of this year. This measure is expected to facilitate procedures and a law on promotion and improvement of natural forests can be expected during the coming year.

The country's concerns regarding improving electricity generation and the replacement of fossil energies with biofuels, has led to the submission of hydro electric projects on the Austral zone of the country on the one hand, and to the execution of several studies and analyses to determine the feasibility of biofuel production, on the other hand, all of which has attracted the attention of environmentalist groups towards these important issues. This has reduced the pressure on the cellulose industry, which has made huge technological improvements on environmental issues, limiting emissions to the minimum, thus more than complying with regulations.

What are the important business developments in your industry over the last year?

At the beginning of 2007, a period of enormous investment in wood processing industries was concluded, especially in last generation technology pulp factories, which will result in an increase of this commodity of 1.500.000 tons during 2007, (US\$ 4.700 millions in total exports of the forestry sector is foreseen).

Also, over and above the pulp plant investments, important investments have been made in plywood and fibre board factories, in sawmills and re-manufactures.

Total investment of the Chilean private forestry sector reached US\$4.000 millions in the 2000 – 2006 period.

With the above mentioned investments, industrial demand for radiata pine has adjusted to availability, so no large investment projects are expected during the next 15 years. Nevertheless, eucalyptus, the second most important species, has a greater margin, and a greater interest by foresters in planting this species is perceived, which would possibly allow for the development of important projects with this species in 10 to 12 years or more.

In accordance with the policy of reaching new commercial agreements, Chile has recently drawn up a free trade agreement with Japan, which will be very important for the expansion of our foreign trade.

Besides, several partial agreements with Central American countries have been thoroughly studied; a free trade agreement was reached with Colombia, whilst others with Australia, Viet Nam and other Asian countries are under study.

The American dollar in Chile, used as commercial exchange currency, has been systematically decreasing in value since 2003, when it reached the value of \$690, to only \$525 actually, that is, 24%, which has affected competitiveness our exports, forcing producer to make additional efforts to improve productivity, which is already proving difficult to maintain.

This situation is mainly due to the successful exports the country has had, especially during the last two years, because of the huge increase in the copper price, our main export item.

There is great concern in the export sector that this situation might continue for a long time, which would have a critical effect on the profitability of important export items.

During the last year, contacts with several environmental NGO's have intensified, aiming to draw positions closer together, and even to develop joint activities. Continuous dialogue has been maintained in order to draw up proposals on the proposed law on natural forests and to hasten its approval.

Regarding sustainable forestry plantation management, there is interest in certifying through Chilean certification scheme CERTFOR, which has been homologated with PEFC, incorporating chain of custody. There have also been certification activities through FSC.

COLOMBIA

Colombian economy has accelerated its growth rate. The country's GDP increased by 7% in 2006, a higher rate than any in the preceding 28 years; industrial GDP increased 11%, paper and carton apparent consumption grew by 10% (in volume), production 8% and exports 10%. Installed capacity for chemical pulp production is almost fully utilised, as it is also for printing and writing paper, and corrugated materials. This situation, along with currency revaluation, have resulted in an increasingly negative balance of trade, since exports grew only 2%, when the average for the previous 6 years was to close to 12% yearly.

Paper and carton apparent consumption

Yearly total

(Tons)

	Production		Imports		Exports		Apparent Consumption		Variation
	2005	2006	2005	2006	2005	2006	2005	2006	2006/2005
TOTAL PAPER AND CARTON	918.789	990.595	472.763	521.983	186.818	189.906	1.204.734	1.322.672	10%
News paper	0	0	75.513	81.011	0	6	75.513	81.005	7%
Other printing and writing paper	281.638	303.414	113.259	139.592	78.412	79.310	316.485	363.697	15%
Domestic and sanitary use papers	163.320	191.173	18.219	4.985	45.069	51.921	136.470	144.237	6%
Wrapping and packing papers	437.277	458.686	201.408	218.260	47.999	42.615	590.686	634.331	7%
Other papers and cartons	36.554	37.322	64.364	78.134	15.338	16.054	85.580	99.402	16%

Fiber apparent consumption

Yearly total

(Tons)

	Production		Imports		Exports		Apparent Consumption		Variation
	2005	2006	2005	2006	2005	2006	2005	2006	2006/2005
TOTAL CELLULOSE PULPS	385.185	387.019	113.955	147.674	1.127	95	498.013	534.598	7%
Word pulps	210.022	210.814	113.368	146.465	929	0	322.461	357.279	11%
Other fiber pulps	175.163	176.205	588	1.209	199	95	175.552	177.319	1%
WASTE PAPER	562.085	581.306	85.933	89.226	1.490	102	646.528	670.430	4%

Colombian peso has revaluated 7% compared to American dollar during 2007, and nearly 20% over the last three years. Even though inflation control and competitive earnings of the productive system have contributed to partially absorb this appreciation of the peso, if this tendency persists it could cause difficulties to sectors with intensive local expenses (labour, energy, transport, etc.), such as the forestry and paper sectors.

Cellulose imports increased nearly 30% to meet demand. Peso revaluation, scarcity and high prices of recycled materials in internal markets and costs associated with their processing, are contributing to a greater use of pulp in the fibre mix used by industries. The lower increase in recycled fibre consumption is also explained by an inventory reduction, which had grown the previous year.

Pulp and paper industries are making investments which allow them to increase production capacity, as well as reducing costs, especially energy supply. Several industries are modernizing their self-generation or co-generation systems. These achievements, along with efficiency improvements in fibre and water consumption, enable Colombia to compete with those countries with which trade agreements are being made.

On the commercial side, the retirement of Venezuela from the Andean Community Nations, has created some uncertainty, since it is one of Columbia's main export markets. Regarding trade agreements, the free trade agreement with the United States is being approved in Congress; the negotiation with Central America is in its final stage and before long negotiations with Canada and EFTA countries (Iceland, Liechtenstein, Norway and Switzerland) will begin. The Andean Community is exploring the possibility of a trade agreement with the European Union.

In the forestry sector, most of the industrial plantations are certified by the FSC. Nevertheless, some uneasiness has arisen since the new line of attack of environmentalists, and even guerrillas, is the use of water in plantations.

FINLAND

What are the emerging issues facing the industry in your country?

NEW INITIATIVES TO STRENGTHEN THE FOREST INDUSTRY FUTURE COMPETITIVENESS

The future of the Finnish forest industry can only be built on expertise, specialization, high productivity and a competitive business environment. In the long term, changes in production and product structure and the development of new, higher value added products will improve the competitiveness of the sector.

Maintaining the competitive edge in competence and technology will become more difficult in the future. Emerging markets such as Asia are fuelling the technological leadership with the new capacity they are building. Finland must develop completely new, customer-oriented products in order to be able to compete with the production of emerging markets in the future.

Investments in R&D, competence and competitiveness of the forest cluster calls for public R&D to be redirected on the needs of the customers and future markets.

European forest industry companies are already committed to R&D investment through their joined vision for 2030 and a joint research strategy to fulfil that vision. In Finland, the industry developed its national action plan to implement that vision and to maintain the leading position of the Finnish forest cluster globally.

In line with these actions, the Finnish forest industry established a new innovation company - Finnish Forest Cluster Ltd - to implement the targets and boost R&D and innovations of the Strategic Centre of Excellence for Science, Technology and Innovation in the end of March 2007. The new company has started its operation and research programmes during the first half of the year.

What are the most important business developments within your industry over the last year?

FINNISH FOREST INDUSTRY CONTINUES ACTIONS TO IMPROVE PROFITABILITY AND TO INTRODUCE MODERN WAYS TO OPERATE

In 2006, the Finnish forest industry continued to be affected by the worldwide transition in which the flows of capital, trade, technology and expertise in the industry are changing irrevocably. Emerging economies compete on the expanding market not only with their lower costs but also their rapidly advancing competence, high technology and innovations. Asia and South America are growing in importance, and this increases pressures for change in Finland.

The challenges faced by the Finnish forest industry were highlighted with particular clarity in the report of the paper industry future working group published in June 2006. Chaired by State Secretary Mr. Sailas and representing a wide range of views in society. The working group noted that competitive advantages in Finland are declining. The Forest Sector Future Review commissioned by the Finnish Ministry of Agriculture and Forestry presented a similar conclusion.

The earlier productivity advantage enjoyed by the Finnish forest industry was largely based on a high investment rate and the use of the latest technology, which translated into economies of scale in production. However, increasing investments and capacity are limited by the long distance from large and emerging markets and inadequate availability of competitively priced raw materials. Costs have also risen faster than those of our competitors which is why we have seen the competitiveness of Finnish companies declining.

Profitability challenges can be met by improving productivity and by addressing the unit costs of input. The forest industry must absolutely improve its productivity, which will involve introducing modern, flexible production concepts such as outsourcing and local bargaining in labour markets. These are already widely used in other industries competing on global markets.

Changing the way of functioning will require a revision of labour market agreements and genuine local survival strategies. Finnish Forest Industries Federation has initiated the implementation of the next negotiating round with the labour market unions in these issues.

Dr. Anne Brunila
President and CEO
Finnish Forest Industries Federation (FFIF)

FRANCE

General economic situation - 2006

After a sluggish year 2005, the French and European economies experienced a stronger activity in 2006. In France, the growth rate reached 2%, compared to 1.2% in 2005, as was mainly driven by the two following factors:

- the internal demand. The household consumption grew by 2.7% in 2006, as the unemployment rate decreased and the inflation rate eased down. The business investment remained strong and climbed by 3.8% in 2006.
- the international environment, despite the US economy slowdown. The exports grew by more than 6% in 2007.

However the weakness of the US Dollar had a major impact on the competitiveness of the French Industry and lead to an increase of more than 7% of the imports.

Key indicators (% change)

	2006
GDP	2.0
Household consumption	2.7
Business Investment	3.8
Consumer prices	1.7
Unemployment rate ²¹ (%)	8.5

Source : INSEE

Performance of the pulp and paper Industry- 2006

STRUCTURAL CHANGES IN 2006

Between 2001 and 2005, the general economy in France and Europe remained sluggish, leading to a poor paper and board demand. In conjunction with the weakness of the European currency and a tight competition on the market, this lead to a big pressure on the paper prices over the period. As a consequence, the global French paper price index declined by 17% between December 2001 and August 2005.

In the same time, the production costs rose for five consecutive year. This increase was particularly strong for the energy, transportation, chemical and wood costs.

This had a huge impact on the profitability of many mills and lead to closures and restructuring in 2006. 13 paper machines have been stopped, 10 mills closed, and the capacity has been reduced by around 600,000 tons (nearly 5% of the French paper production capacity).

PRODUCTION FIGURES REFLECT THESE CHANGES, BUT THE MARKET IS NOW STRONGER

Not surprisingly, the production level dropped by 3.1% in 2007, coming back to its 2000 level of 10 million tons. The first quarter was relatively strong, but the progressive closures in the following quarters lead to a decrease in the production. The pulp production, as the paper and board production, stepped back by 3.8% in 2006.

²¹ As of January 2007

On the market side, the general economy upswing in 2006 lead to a stronger paper and board demand. Whereas the French market declined by 2.3% in 2005, it grew by 0.7% in 2006, reaching 10.911 million tons. Moreover the global European market also firmly grew.

FINANCIAL PERFORMANCE

Whereas the paper prices have been increasing for the last 18 months, the level of this increase was still too low in 2006 to offset the drop of the previous years and to compensate for the big costs increases endured by the Industry. Moreover, big differences have been observed between the different grades.

On the cost side, big increases have still been experienced on the energy, wood and starch markets.

OUTLOOK FOR THE FUTURE

The first figures available for the beginning of the year 2007 indicate that the activity is on an upward trend. The supply / demand balance on the European markets is now more balanced leading to the continuation of the price increases. As a consequence, the French pulp and paper Industry is more confident for 2007.

Main pulp, paper and board figures - 2006

	2006 ('000 tons)	2006 / 2005 (%)
Paper and board production	10 006	-3.1
Paper and board consumption	10 911	0.7
Paper and board exports	5 499	-5.6
Paper and board imports	6 404	1.2
Pulp production	2 466	-3.8

Source: COPACEL

Main issues facing the French pulp, paper and board Industry

The French pulp, paper and board Industry is currently facing different challenges that could undermine its competitiveness. For all of these items the Industry strives to find efficient solutions.

The first challenge is the evolution of the energy prices. Over the last five years, the electricity prices in France more than doubled, the gas prices increased by more than 75%. This situation led this Industry to ask for regulatory solutions in order to enable the Industry to have access to competitive energy sources. As a consequence, two solutions were implemented. A consortium of energy intensive companies was created, which decided to launch a tender for long term electricity supplies at lower prices. As a second solution, the companies that decided to chose the open market over the last years where authorised to come back to regulated prices for two years, at certain conditions.

Linked to the question of the energy prices, is the question of the prices of wood. There is a strong debate in France about the utilisation of the wood, and of the recovered fibres, as bioenergy or as industrial raw material. The French pulp, paper and board Industry tries to convince the different stakeholders that the priority should be given to the industrial utilisation of the wood and the fibres, prior to the incineration. However, a strong increase in the wood prices has been observed in the last years due to the increased and subsidised use of wood as a source of energy.

The environment issues are also of a big interest for the French pulp, paper and board Industry. Different items were discussed in 2006, and are still in discussion. The preparation of the second phase of the European CO₂ Trading System (ETS) for the years 2008-2012 was at the core of the discussions during 2006. The Industry asked for sufficient allocations in order to avoid any constraint in its production. Other very important issues are currently discussed such as the level of the Industry effluents, the implementation of the REACH Directive, the Forest Certification Schemes... In order to assess its

involvement for a Sustainable Development of the Industry, a Sustainability report was released and presented to the stakeholders. It was made of 14 indicators proving the environmental respect, the social responsibility and the economic development of the French pulp, paper and board Industry.

Other issues directly related to the competitiveness of the Industry are currently at stake. The transport is a real challenge for the Industry, with difficulties for the companies to have a real and competitive choice between the different transport modes. The fiscal pressure on the company is still a real threat to their competitiveness and should be reduced. The international commercial negotiations held within the WTO are one the key issue facing the Industry. The level of the tariff and non tariff barriers in the world should be reduced in order to level the playing field. On the social side, the Industry strives to lighten the constraints. Research and development is also a key issue for the French pulp, paper and board and big efforts are currently done in order to help the companies to implement R&D strategies.

Lastly, the French pulp, paper and board Industry is facing a real challenge when it comes to its image. The “Paper destroying the forests” image is unfortunately deeply fixed in everybody’s mind. The Industry is then trying to change this image with long term communication policies.

GERMANY

General economic situation in Germany in 2006

The upswing in the German economy widened its base considerably in 2006. With a gross domestic product up to 2.7%, the highest growth has been achieved since the year 2000.

Growth impetus came from both inside and outside Germany. The crucial driver behind the increase in domestic demand was a robust rise in equipment spending. Exports, too, remained very dynamic. Finally, private consumption picked up again as well in 2006 after virtually stagnating in previous years.

The higher economic dynamism is increasingly benefiting Germany's labour market, too. Hence, the jobless rate fell significantly, while the number in work grew continuously in the course of the year.

All in all, the year 2006 took a much better course than had been expected. Both the German economy and the world economy showed considerable resilience, especially in face of the oil price rises, which continued until autumn.

Performance of the pulp and paper industries in 2006

Germany's production of paper-grade pulp grew by 4% to 1.5 million t in 2006, including 840,000 t going into exports. Most of the pulp used by German paper mills came from abroad, with some 4.0 million t of paper-grade pulp being imported.

As in previous years already, the German paper industry did better than the overall economy in 2006 as well. In quantity terms, it was a successful year. Manufacturers of paper and board in Germany posted a production record in 2006. Total output rose by over 4% to 22.6 million t, after climbing as much as 6% in 2005.

Since Germany's capacities have been built up by some 3% in 2006 – mainly by conversions and extensions to existing systems – the significant growth in output means higher utilization of paper machines. The utilization rate rose on average by 94 to 95%.

The long-term trend confirms that the paper industry is still a growth sector. The rise in output in Germany over the last six years averaged 3.7% annually – far more than it had still been predicted at the end of the 1990s.

With its record result in 2006, the German paper industry remains No. 4 in a worldwide comparison after the US, China and Japan, and No. 1 in Europe. Exports were once again the motor behind these positive developments. The sharp 6% rise to 13.4 million t is due above all to high growth rates in Eastern Europe.

With a growth of over 1%, domestic business, which is important for the German paper industry, was slightly above the previous year's level. With 6%, the calculated consumption increased to 20.8 million t. Since imports have been risen by 9% to 11.6 million t in Germany, stronger than consumption, the import rate was able to advance to 56%.

Despite good sales developments, the income situation in the German paper industry continues to be unsatisfactory. Although the erosion in paper prices came to a standstill in 2006, the difficult competitive situation and some serious hikes in the costs of raw materials, transport and, above all, energy, again brought the German paper industry a low cash flow of 8% and a pre-tax result of 2%. In 2001, cash flow had still been 18% and the result 11%. For the capital-intensive paper industry, income figures were not even adequate in 2006.

GERMANY
Fibres for the production of paper and board
(1.000 tons)

	2005	2006 (e)	2006 : 2005 in %
CHEMICAL Pulp for Paper Production	1.411	1.470	4,2
- Exports	791	842	6,4
+ Imports	4.073	4.043	0,7
= App. Consumption	4.693	4.671	0,5
MECHANICAL Pulp for Paper Production	1.468	1.468	-
- Exports	33	118	+
+ Imports	190	251	32,1
= App. Consumption	1.625	1.601	1,5
Recovered Paper Collection			
- Exports	15.077	15.546	3,1
+ Imports	3.413	3.354	1,7
= App. Consumption	2.749	3.052	11,0
	14.413	15.244	5,8
FIBRES in total App. Consumption	20.731	21.516	3,8

(e) = estimated

GERMANY
Paper and board
(1.000 tons)

	2005	2006 (e)	2006 : 2005 in %
Production	21.679	22.604	4,3
Exports	12.636	13.430	6,3
Imports	10.666	11.633	9,0
App. Consumption	19.709	20.807	5,6
Export Quota	58,3	59,4	
Import Quota	54,1	55,9	

(e) = estimated

HUNGARY

In 2006 the Hungarian economy expanded by 4% but the dynamism of the economic growth slowed down from quarter to quarter. The relatively moderate dynamics are primarily due to the lower intensity of state funded development projects and a decreasing consumption dynamics. In line with the earlier trends, export remained the driving force of the growth. Unemployment rate was at the highest level of last years reaching 7,5%. At the beginning of 2006 inflation was on an acceptable level (below 3%) but in the second half of the year it climbed to 6,5% (yearly average 3,9%).

PULP

In Hungary there is only one pulp mill with a capacity of approx. 30.000 tons. During the last years its owner changed and the new owner (Delfort Group) rebuilt the mill in order to make it suitable for flax production. 2006 was a starting year for the new production line.

Hungarian pulp production and consumption in 2006 are shown below:

Thousand metric tons				
	Production	Export	Import	Consumption
Chemical pulp	-	1	178	177
Other pulp	18	-	-	18
Total pulp	18	1	178	195

PAPER

Paper production fell by approx. 3%. The decline took place in the grades of printing-writing papers because Mondi Business Paper sold one of its 2 Hungarian paper machines to Delfort Group and the new owner made some rebuilds this year. The increased production volume of other mills could not counterbalance this fall.

Paper consumption and production developed in the last years as follows:

Thousand metric tons					
	2002	2003	2004	2005	2006
Production	517	546	579	571	553
Export	330	296	307	389	366
Import	586	634	659	697	758
Consumption	774	884	931	879	945

The breakdown of the paper production by main grades is shown in the next chart:

	2005 thousand tons	2006 thousand tons	2006/2005 %
Total paper and board	571	553	97
Newsprint	0	0	0
Printing-writing paper	242	187	77
Uncoated p-w paper	242	187	77
Coated p-w paper	0	0	0
Sanitary and household paper	34	30	88
Linerboard	73	92	126
Fluting medium	192	208	108
Kraft wrapping and packaging	18	12	66
Other paper and board	12	24	200

ITALY

General economic situation in Italy in 2006

After a long and difficult period, the Italian **GDP** finally started to grow: +1,7% in the first 9 months and +2,9% in 4th quarter. The annual growth was of +1,9% over 2005, the best result from 2000, but with a gap of 0,9 points respect to the Euro Area.

The Italian GDP growth in 2006 was determined by a good upswing of *gross fixed investments* (+2,3%) and *exports* (+5,3%) and by a certain speed up of *household consumption* (+1,5%). As for supply the *contribution of the industrial sector* was important (+2,5%).

Inflation rate was of 2,1% (+1,9% in 2005). Facing the generalized increases of raw materials prices and despite the progressive strengthening of the demand during the year, such result appears positive and shows that rises in production prices weren't charged on consumption ones.

THE PERFORMANCE OF THE PULP AND PAPER INDUSTRY IN 2006

In Italy, difficulties faced by the paper sector since 2001 increased during 2006 because of rises in energy costs - that reached top levels in 2006- and the restart of increases of fibrous raw materials prices. These developments determined a complex picture in which the process of reorganization and rationalization of industrial activity intensified during the year. This involved in some cases a definitive shutdown in production, continued during first months 2007.

As for 2006, period for which we have complete official data, **Paper and Board production** was 0,1% over 2005 volumes, but with diversified trends for different products.

Finally, reflecting a cautious restart in paper prices during the year, **turnover** rose by +2,6% (to 7,63 billions €) remaining below the record of 2000 level. As for the restart of paper prices, it wasn't uniform for the whole sector: no change or only modest changes for graphic paper, more important changes for case materials and tissue.

It should be remembered that between 2000 and 2006, while production grew by 9,6%, turnover decreased by 4,3%, in presence of production costs in continuous and sustained growth.

	12 months 2006 ¹ (in KT)	12 months 2005 (in KT)	Δ%
Pulp production (woodpulp)	516	502	-2.6
Paper and board production	10,008	9,999	+0,1
- Graphic papers	3,381	3,470	-2.6
- Packaging grades	4,661	4,541	+2,6
- Hygiene	1,411	1,440	-2.0
- Others	556	549	+1.3
Paper and board Exports	3,491	3,459	+0.9
Paper and board Imports	5,177	5,192	-0.3
Consumption	11,694	11,733	-0,3

As for *fibrous raw materials*, in 2006 the utilisation of recovered paper was over 5,5 million tons in 2006 (+1,6% respect to 2005) and another important result was in the internal recovery which reached to 6 million tons (+3,6% respect to 2005) with a recovery rate risen to 51,3% (49,4% in 2005). Year

by year, the growth in recovery is producing important increases in export volumes while limiting the import ones: since 2004 Italy has been a net exporter of this important raw material.

At the moment available figures for 2007 concern only production: during the first quarter of the year paper and board production showed a growth of 2.5-3% respect to good levels of the same period 2006. A recent study by Università Bocconi for Assocarta indicate a P&B production growth in 2007 among 1,3 and 2%, mainly due to the good performance of packaging sector (+2,7 - 3,3%).

Thanks to the improvement in the Italian economy (GDP is expected to grow by 1,9% in 2007), the demand of paper and board products is expected to grow moderately, *but concerns remain still very strong for:*

- the high levels of energy prices;
- the rising subsidies to production of energy from biomass
- the rises in prices of fibrous raw materials determined by the strong Chinese and Asian demand, in general, and for the further increases that may arise from the increasing European demand of wood for non paper uses, from a reduced availability of Canadian sawmill chips and from the recent Russian decision to double the customs on the exports of wood;
- heavy distortions produced by the EU Emissions Trading directive;
- recent decisions USA concerning countervailing duties (10,9-20,4%) on coated paper import from China.

JAPAN

Emerging issues facing the Japanese pulp and paper industry

Not only saturated growth on domestic shipments volume, but also increase in production costs, especially raw materials and energy costs, are significantly affecting companies' profits

The domestic shipment in 2006 increased by 1.0% from 2005. The volume didn't hit the previous highest record and the growth rate has continued to be less than the growth of GDP. Although companies have been making every effort to reduce production costs, their efforts are not adequate to cover the faster cost increase of raw materials, especially recovered paper, and energy. As a result, 12 listed paper and paperboard companies' sales for fiscal 2006 increased by 3.4%, while recurring profits dropped by 9.0%.

Increasingly intensified market competition at both home and abroad

Companies are being forced to make critical efforts to strengthen their profitability through further integrating production, improving productivity, reducing distribution costs, and developing high value-added products, etc. In 2006, some companies announced business alliances or merger and acquisitions (M&A) as a way to strengthen their competitiveness, which will continue in the industry for 2007. Major business alliances and M&A announced in 2006 are as follows:

-Business alliance

1. Daio Paper Corporation and Hokuetsu Paper Mills Ltd.
2. Nippon Paper Group Inc. and Hokuetsu Paper Mills Ltd.
3. Nippon Paper Group Inc., Rengo Co., Ltd. and Sumitomo Corporation

-M&A

1. Tokai Pulp & Paper Co., Ltd. and Tokushu Paper Mfg. Co., Ltd. (business integration under a joint holding company "Tokai Tokushu Holdings")

Global Warming is one of the most important issues for the industry in Japan

Under the Voluntary Action Plan for the Environment, JPA promotes the use of energy saving equipment and the conversion from fossil fuels to biomass, as well as the expansion of forest plantation areas for absorbing and fixing carbon dioxide. JPA is committed to reducing the unit consumption of fossil fuel energy by 13% from the 1990 level by 2010, to reducing the unit consumption of carbon dioxide emission by 10%, and to expanding the forest plantation area to 600,000 hectares by 2010. As of 2005, the fossil fuel unit consumption target had been achieved, and by 2006 the forest plantation target had also been achieved. As of 2005, the unit consumption of carbon dioxide emissions had been reduced by 9.2%.

Japanese pulp and paper industry's economic/business performance for 2006

JAPANESE ECONOMY IN 2006

- Real GDP grew by 2.2% from the previous year.

PERFORMANCE OF THE JAPANESE PULP AND PAPER INDUSTRY IN 2006 OVER THE PREVIOUS YEAR

- Paper and paperboard production inched up by 0.5% to 31,106 thousand tons.
- Domestic shipments of paper and paperboard increased by 1.0% to 30,186 thousand tons.
- Imports of paper and paperboard fell by 5.9% to 1,651 thousand tons.
- Exports of paper and paperboard decreased by 1.8% to 1,218 thousand tons.
- Recovered paper consumption increased by 1.1% with a utilization rate of 60.6%.
- Recovered paper exports rose by 4.8% to 3,887 thousand tons, 3,191 thousand tons of which were shipped to China accounting for 82.1%.
- 12 listed paper and paperboard companies' sales for fiscal 2006 ending March 31 2007, inched up by 0.5%, while recurring profits dropped by 14.7%.

MALAYSIA

The pulp and paper industry which had not seen any development of interest for a number of years ever since the abandonment of the proposed Borneo Pulp and Paper project in Sarawak suddenly took the headlines in the manufacturing and industry sectors at the beginning of this year for two major changes in the ownership of some significant plants producing pulp for its domestic raw material and the other was the sale of the Genting Sanyen (M) Sdn Bhd, a paper manufacturing company to a Fund holder company, The CVC Asia Pacific Ltd, a leading international private equity firm (reported to be managing over USD 24 billion in funds).

The plan of 2 decades ago towards self sufficiency especially in the industrial paper category is still on track could also make better progress with the input of some foreign investment into the industry backed by some years of experience and knowledge of the industry from the CVC Asia Pacific Funds Group with such related companies to include Smurfit Kappa, Lecta Laminex and Plantation Timber Products. The Sabah Forest Industries Sdn Bhd was officially taken over by the Ballarpur Industries Ltd (BILT) of India. The signing ceremony recently after a period of over 100 days of due diligence studies marks the participation of international interest in the industry. There is yet some prospect of the industry taking off in the near future to be once again active in this region that could spur the flagging interest in the new application of fibres utilizing the empty fruit bunches of the palm oil waste and the kenaf, non wood project for fine fibres for paper making, as well as other composites for light weight body parts of vehicles and aircrafts.

The problems facing the industry in the past could be summarized as follows:-

LOW RETURN ON INVESTMENT

- Slow growth of paper consumption due to poor local demand.
- Unable to achieve economy of scales and to compete externally.
- High capital investment and operating cost.

UNCERTAINTY OF FUTURE ECONOMIC CONDITIONS

- Migration of MNCs to lower cost producer countries such as the Republic of China, Vietnam, others.
- Shortage of recovered paper as raw material, partly due to illegal exports.

AMENDMENT TO GOVERNMENT POLICIES

- Uncertainty of the continuation of export ban on certain categories of wastepaper.
- Frequent approval for duty exemption on imports.
- Inconsistency of the effectiveness of custom enforcement.
- Changes tightening up in environmental and other laws.

INFLUX OF IMPORTS FROM LOW COST AND LOW QUALITY PRODUCTS FROM LARGER CAPACITY OVERSEAS PLANTS IN THE NEIGHBORING COUNTRIES

The three main industrial or brown paper manufacturers of the country until the end of 2006 had been the following :

- i) The Muda Group of Companies,
- ii) The Genting Sanyen Industrial Paper Sdn Bhd, and
- iii) The Pascorp Paper Industries Bhd.

The above three companies together with the Malaysian Newsprint Industries Sdn Bhd (producing newsprint) and the Nibong Tebal Paper Mill Sdn Bhd (producing tissue and hygiene paper) made up the total production capacity of slightly over 1 million metric tons per annum, while the remaining 12 other plants made up another total capacity of half a million metric tons. All the paper manufacturers

in Malaysia with the exception of the former Sabah Forest Industries Sdn Bhd and the Kimberly-Clark Trading Malaysia Sdn Bhd plant in the south of Peninsula Malaysia based for raw material on recovered paper utilizing a total of approximately 2 million metric tons per year. The industry has managed to obtain the concurrence of the government in imposing a ban of the export of selected category of waste paper to prevent the shortage of raw material for the local mills. In that way encouraging the initial growth of the industry and indirectly participating in the promotion of self sufficiency which in terms of the financial implication has reduced foreign exchange outflow estimated to be in the total of RM26 billion for the past decade, as well as providing employment opportunity. The industry currently employs 4,830 workers and has been involved in pioneering the recycling initiative of waste to include such material as plastic, metal, glass, etc.

Facing such stiff competition from cheaper imports, though some with poorer quality products, it was inadvertable that the Association had to act firmly in its effort in preventing the damage affecting the industry to stop any acts of the dumping of such products into the country under the provisions of the WTO in providing sufficient evidence for the government to proceed with the action under The Countervailing and Anti-Dumping Duties Act 1993 and The Countervailing and Anti-Dumping Regulations 1994, with regards to imports of corrugating medium paper from a total of nine countries or group of countries towards the end of 2006.

Another serious development affecting the industry and likely to be a long-term problem, has been the depletion on the supply of raw material from the local collection of recovered waste paper. It has become a profitable overnight business-ventures to export recovered waste paper to the fast growing region facing great shortage of such raw material in the country undergoing such rapid growth, by the smuggling "legal" and illegal means through the neighbouring countries of Malaysia in the Asean region. All the manufacturing plants of the industry with the exception of one are all located in the more developed part of the nation, which is West Malaysia. Being a Peninsula, it has to face the problem of smuggling including the free inflow of illegal immigrants and as such because of its large stretches of seashores, the smuggling of waste paper could not be an enterprising venture had there been not such a demand and therefore, the price for the product had risen so fast in the destination country and other countries along the way to that country. However, the waste being so bulky and formed such heavy loads, the more enterprising traders had resorted to other means of overcoming the total ban of the export of waste paper which had come into effect in the last few years. While on records of official government documents no export permit had ever been issued, the countries surrounding Peninsula Malaysia such as Singapore, Thailand and Indonesia had shown on their respective official statistical records the importation of large quantities of waste paper from Malaysia. For the year 2005, to give only one example; the imports from Malaysia into Thailand of such waste paper under the three categories of the Custom code referred to at the footnote, totaled 48.8 million kilograms to the value of approximately USD 7.2 million, and for the year 2006, the import into Thailand from Malaysia was 52.6 million kilograms to the approximate value of USD 8.4 million.

- 4707.100.002** Unbleached kraft paper or paperboard or corrugated paper or paperboard
- 4707.300.006** Paper or paperboard made mainly of mechanical pulp (for example, newspaper, journals and similar printed matter)
- 4707.900.007** Others, including unsorted waste and scrap

MÉXICO

Problems faced by the industry

IMPORTS

During 2006, imports of different paper grades and products continued to grow in conditions of disloyal and sometimes illegal competition, avoiding the payment of appropriate quotas or blatantly under-invoicing, resulting in significantly lower fiscal contribution than would be the case if the imports were declared as per the law.

The result is that pulp and paper plants in Mexico have seen a decrease in machine production and, in some cases, even closure of companies.

ENERGY

A subject that has been fundamental for the industry in Mexico is the high price and low quality of energy.

An example is electricity, for which 15 years ago a special rate was instituted for peak demand times. This could be considered justifiable when the electrical reserve was of the order of 6%; today the reserve is 40% but the additional cost scheme continues to be applied, thus adversely affecting in particular continuous processes.

In the case of fuel oil, this is sometimes exported at prices 30% below the domestic price, and in regards natural gas, the price is amongst the highest in the world.

WATER

The high cost of water extraction in Mexico has been aggravated significantly by the increase since 2007 of 41,2% in the price of the water for the cellulose and paper industries; this increase reinforces the ample competitive disadvantage of Mexico's industry in respect to other countries that have minimum costs or do not have costs by concept for water extraction rights.

POLITICAL SITUATION

In 2006, Mexico saw the most contested electoral process of its recent history, resulting in victory for one of the candidates by a small percentage margin and leaving the PRI as third political force within the legislative body.

This situation led to the elections being contested, as well as obliging the new president to include in government actions, his own campaign proposals and some of the losing candidate, in order to legitimize the government. For this reason, high taxation schemes have been promoted so as to ensure their financing.

The President of the Republic has demonstrated his ability to understand and conclude specific political agreements, which is why industrialists hope that shortly they will begin to see implemented specific the structural reforms in sectors that are so urgent for the country, such as the public prosecutor, power and labour, among others, creating in the meantime an promising atmosphere for investment.

As a result of the high costs of inputs (electricity, gas, fuel oil and water), the lack of demand derived from low growth of the Mexican economy and the significant increase in imports that have flooded the national market, as well as political uncertainty pending the structural reforms, margins and expectations of businesses have continued to deteriorate, which without a doubt has led to the cancellation of investment projects in paper manufacturing plants.

Business development

FORESTS

The setting up of the Enterprise Council of the Forest Sector, with the participation of the secretaries of the SEMARNAT and the SECRETARY OF ECONOMY has been of great importance for the forest production chain, as has the active participation of integral enterprise organizations of the productive chain, one of whose main objectives is acting as interlocutor of the governmental sector to stimulate necessary actions for industrial forest development in Mexico.

ENVIRONMENT

In September 2000, the environmental authorities and the Chamber of Paper signed an Agreement to reduce the levels of environmental contamination by paper-producing companies in the Metropolitan Zone of the Valley of Mexico, including 18 paper production plants. Nevertheless, as an example of the difficult business conditions described above, to date only 11 of the companies originally included now fall within this agreement.

As foreseen under this agreement, emissions into the atmosphere should be reduced by 30% through investment of \$60 million USD.

NEW ZEALAND

Emerging Issues

CLIMATE CHANGE POLICY

A key issue for the sector has been the slow emergence of clear and equitable climate change policy for the land-based sectors, notably forestry.

By comparison with other countries forestry is a crucial part of New Zealand meeting its Kyoto obligations. The New Zealand Government has claimed ownership of all sink credits and liabilities associated with Kyoto-compliant forests. A key part of the rationale for this is to utilize the sink credits to offset emissions from other parts of the economy including transport and agriculture. New Zealand is facing a carbon deficit of between 40 and 60 million tonnes depending on the level of deforestation that is used.

As well as sheltering the sectors the government has proposed that owners of non-Kyoto forests (which do not earn credits) will face some portion of the liability if they deforest (i.e. do not replant at harvest). Other proposals have been developed which would seek to encourage planting during the first commitment period. One such proposal is called the Permanent Forest Sink Initiative (PFSI). This provides carbon credit recognition for forests but under continuous cover forestry and limited harvesting is allowed only after 35 years. The policy applies from 1990 for native forest but only from 2002 for planted forest. For more information go to <http://www.maf.govt.nz/mafnet/press/190404climate-faq.htm>

A public discussion document was released for feedback with options proposed for dealing with forestry. See - <http://www.maf.govt.nz/climatechange/index.htm> for further information. The forest sector unanimously rejected the proposals and continues to press for changes that would allow forest owners to receive recognition for carbon sequestration. The policy proposals have also come under scrutiny from a range of other stakeholders and political parties. An OECD report endorsed the New Zealand forestry industry's position on the ownership of carbon credits. In its report, the OECD found that "*government retention of forestry carbon sink credits may have contributed to the weakening of incentives to expand plantations*" and recommended that the Government "*give consideration to allocating carbon sink credits and liabilities to forest owners*". Government has yet to respond to the consultation process. At the beginning of May the government announced that it supported an economy-wide carbon trading system. This offers the potential for forestry to be recognized. A revised policy approach is expected by September 2007.

SHRINKING FOREST ESTATE

New Zealand's commercial forested area declined for the second straight year during 2006 and 2007. This is the result of a continued decline in new planting combined with the more recent phenomenon of deforestation.

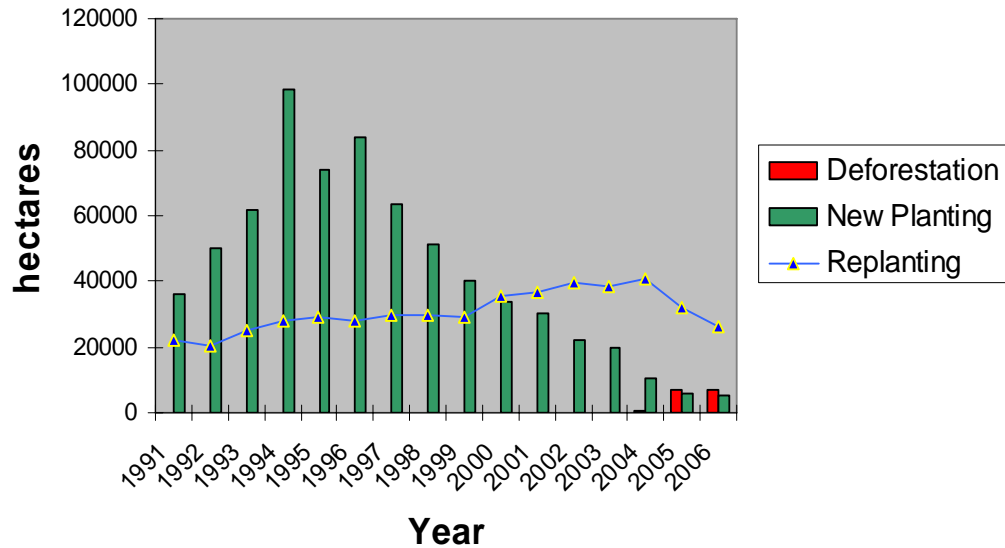
The average new planting rate was 45 000 hectares per year from 1990 to 2004 but dropped to 10,600 hectares in 2004, 6,000 hectares in 2005 and an estimated 5,000 ha in 2006. Such a low level has not occurred since 1959.

The low planting rates and the conversion of forestry land to pastoral land reflects low log prices and the fact that pastoral farmers are willing to pay higher prices for land, particularly for dairy farming, than commercial forest owners. Planting rates have also been negatively influenced by investor uncertainty about both future profitability and the government's deforestation policies.

The drop in new planting has been mirrored by drop in replanting. For the first time, in 2005, the amount of deforestation (7,000 ha) exceeded the level of new planting (6,000 ha). Replanting fell from 32,000 ha in 2005 to 26,000 ha in the current (2006) year. With 38,000 ha harvested this resulted in 12,800 hectares

deforested. Combined with a level of new planting that has not been so low since 1959 the overall impact was a net forest loss of around 8,000ha, similar to the previous year (see graph 1).

Graph 1
Planting, replanting and deforestation



Deforestation has been particularly acute in the central North Island and on the Canterbury plains (east coast South Island) forests are being converted to farm land, mainly for dairy farming.

The Ministry of Agriculture and Forestry has commissioned two surveys of forest owner deforestation intentions in 2005 and 2006. In total a further 100,000 hectares is expected to be deforested through to the year 2020. For further information refer – www.maf.govt.nz/climatechange/background-reports-and-analysis/2006-final-deforestation-intentions-report.pdf

BIOENERGY

The interest in the potential for forestry to benefit from using wood fibre for bioenergy in New Zealand is increasing. The government has also committed to increased use of biofuels – starting 2008 there will be a requirement for 3.4% of oil companies’ sales of solid fuel to be biofuel by 2012.

The impact of the increased demand for wood has already become a significant issue in places like Europe and the switch in land-use is affecting forestry. This can either be directly where land is switched from the production of timber to palm oil as is the case in Indonesia, or indirectly. In the United States, 20% of the corn crop is now used for ethanol production and this is projected to continue to increase significantly. As corn is the primary feed for egg and dairy products this has seen an increase in dairy prices which has had a flow-on effect to NZ land prices as discussed above.

The government has provided a modest amount of money for research into the potential for forest bioenergy in New Zealand. Further information is available at: <http://www.fida-bioenergy.org.nz/index.html>

Meanwhile the NZ forest research agency “Scion” and US based “ArborGen” have agreed a multi-million dollar partnership to focus on gene discovery and molecular breeding for forest trees. The research is aimed at improving tree growth and quality, which are key components of cultivating trees for renewable energy and biofuels, through faster identification of genes.

Business developments

THE MARKET

Returns to log exporters have improved by around 20% on the situation a year ago. This has resulted in a significant increase in production with ports around the country currently holding large stockpiles awaiting shipping. However, the bulk of the healthy lift in forest commodity prices internationally has been eroded in New Zealand by two key factors – the exchange rate and shipping costs - which have combined to reduce returns by around \$NZ10/tonne.

In April 2007 the NZ dollar reached a post-float high of just under US75c, its highest level since March 1985 when it was floated at US44.44c. Against other currencies the appreciation has been less but even against the Australian dollar the currency has risen around by 7% since this time last year. Key domestic influences on this rise are the maintenance of high interest rates to try to curb inflation, consumer spending and strong house price rises.

Ocean freight rates to Asian markets have seen a 300% increase since 2002 and are likely to hit record levels of \$US55 to \$US60 a metre to Asia and over \$US80 to India. A chronic shortage of appropriate “handy” sized boats, New Zealand’s unattractive, in-bound, out-bound trade imbalance which lessens the opportunities for back-filling and recent traffic jams at Australia coal exporting ports have all contributed to this.

Medium term, the prospects appear encouraging. Since its peak in April against the US dollar the exchange rate has fallen below the 20 day moving average. Meanwhile demand is expected to remain strong. The Russian decision to increase export duty on logs from 6.5 percent to 80% over 2 years will have a significant influence on the demand for New Zealand logs particularly in China, Korea and Japan. Indian demand is also expected to continue to increase.

Shipping costs on the other hand should drop. Large scale production of new shipping vessels, particularly in China, is expected to see freight rates cut by up to 40% by 2010 and already there are signs that shipping capacity constraints may be easing.

Domestic processors have fared even less well than log exporters in recent times. Some of the increase in offshore log volumes has come at the expense of supply to local processors. This is now being reflected in an increase in the price of local wood products as costs are passed on. The current environment is not conducive to additional investment in processing which has remained very subdued in recent years – both green-fields and brown-fields.

CHANGING OWNERSHIP PATTERNS

As with the last few years, there have been a number of significant changes to commercial planted forest ownership since 2004 and there are likely to be further changes during 2007. Forest sales are being driven by a range of factors. The largest sales have been publicly listed companies that have sold out of forest ownership because the returns on capital have been poorer than wood processing activities. Other owners with poorly performing forest assets are leaving the business either voluntarily or after going into receivership. There have also been sales between existing owners rationalising their forest resource.

The major news recently concerns New Zealand’s largest forestry company, Carter Holt Harvey (CHH), in a move that is likely to profoundly affect New Zealand forestry for some time. This was the sale of International Paper’s (IP) 50.5 percent shareholding in CHH to New Zealand-based Rank Group Investments Ltd. After acquiring IP’s holding, the Rank Group launched a full take-over offer for CHH. The outcome of this move is yet to be decided.

Other large purchasers of forests have been Timber Industry Management Organisations (TIMOs) and Pension Funds. TIMOs now own in excess of 30 percent of New Zealand’s commercial planted

forests. By way of example of this trend, the most recent significant change of ownership was the sale by Rank Group of the bulk of the Carter Holt Harvey forest estate (around 200,000ha) to the Hancock Timber Resource Group, a TIMO, in November 2006.

FOREST INDUSTRY REPRESENTATION

There have been significant changes to forest industry associations. The New Zealand Forest Industry Council (NZFIC) was dissolved and, in late 2005, the New Zealand Wood Council, commonly known as Woodco, was established. Current members of the Woodco board are drawn from the Forest Owners Association, Wood Processors Association, Farm Forestry Association, Forest Industry Contractors Association, and Pine Manufacturers Association.

Concurrently, a new processors association - the New Zealand Wood Processors Association (WPA) was formed in early 2006. The WPA represents companies responsible for the primary processing of more than 80 percent of New Zealand's wood production.

NZ WOOD CAMPAIGN

As in a number of other countries such as Australia, Canada and Europe a forest and wood products promotional campaign is being developed within NZ. The programme is a joint initiative between industry and government and is being managed through WoodCo on behalf of both growers and processors. The objective is to significantly increase domestic wood consumption in the domestic market, and particularly the non-residential market. It is also aimed at creating positive perceptions of planted forests and plantation grown wood.

David S. Rhodes
Chief Executive
New Zealand Forest Owner's Association

PORTUGAL

Introduction

The social and economic history of Portugal, a country of 10.4 million inhabitants, is strongly linked to the products yielded by the forest.

It has been so from the era of “the discoveries”, when Portuguese wooden vessels sailed the oceans to discover new lands and new worlds, to the present time, when national economic groups hold world leading positions in the manufacturing and trade of forest products – the Sonae Group in agglomerated wood panels, the Amorim Group in cork products, and at European level, the Portucel Soporcel Group in uncoated printing and writing paper made from eucalyptus pulp.

In modern times there has been increased focus on the manner in which the country’s 3.4 million hectares of forest (38% of its total area) are managed, with new legislation and management practices progressively changing, to the better, the quality of forest management in Portugal, despite the difficulties presented by the very small-scale and fragmented nature of the forest ownership pattern.

General economic situation

The Portuguese GDP grew by 1.2% in 2006, which, although largely surpassing its increase in 2005 (0.4%), still falls short of the Euro Area’s performance in these two years.

The budget deficit was brought to 3.9% in 2006 (0.7 percentage points lower than initially forecast), which is in line with the agreement reached with the European Union within the framework of the Stability and Growth Pact.

The best estimates point to 2008 as the year when the Portuguese GDP will finally come close to the average GDP in the Euro Area, and this should be followed by the resumption of the process of real convergence with the euro area, which had been interrupted at the beginning of the 2000 decade.

The inflation rate reached 3.0% in 2006, which is significantly higher than in 2005 (2.1%) and well above the estimates made by the Government in the course of the year.

Global investment in the Portuguese economy was still negative in 2006 (due to retrenchment in public spending in order to reduce the budget deficit down to the level agreed with the European Union) and should only become positive in 2008 (+3.9%).

Exports were the economy’s best performing component, rising by 12.4%, while imports, notwithstanding the weight of the oil bill, grew by 8.0% only.

In overall terms, the Portuguese economy grew in comparison to 2005, even surpassing expectations at the start of the year.

In 2005 the Portuguese exports of forest products reached euro 2,938 million euro (9.6% of total national exports), up by 7.1% on 2004.

In 2006 the national exports of forest products are thought to have risen by more than 10% in value.

Domestic imports of forest products totalled euro 1,869 million euro in 2005 (3.8% of total national imports), rising by 6.1% on 2004.

In 2006 these are estimated to have grown by 5% only.

Emerging issues

LEGISLATION

In August 2006 the Government officially approved a National Forest Strategy, which, among others, will permit to establish the reference framework of application to Portugal of the European Agricultural Fund for Rural Development (FEADER) in the period of 2007-2013.

The main relevant aspect is the focus given to areas most suitable for wood production.

In May 2006 the Government officially approved the National Plan for Forest Fire Prevention which defines a strategy and establish a set of proceedings to develop an efficient forestry management to create the conditions to progressively reduce the forest fires.

Water pricing mechanism is still under preparation. Industry still perceives a high risk for significant higher costs for water uptake, use and discharge. A need to link water pricing mechanism with IPPC's BATs is welcomed by industry.

WOOD AVAILABILITY

An update to the national forest inventory has been concluded in 2006. It showed that forest area increased 2% between 1995 and 2006 to a total of 3.4 million hectares and eucalyptus plantations decreased 4% to a total of 647 thousand hectares. The forest inventory also revealed 300 thousand hectares of young forest stands.

New studies on future wood availability are being prepared.

The National Forest Inventory provides the following data on the main forest raw materials and respective area of forest occupation:

Species	Area (thousand ha)	Volume (Million m ³)
Maritime pine (<i>Pinus pinaster</i>)	710.6	67.1
Cork oak (<i>Quercus suber</i>)	736.7	-
Eucalyptus (<i>Eucalyptus globulus</i>)	646.7	41.3
Other species	1,318.3	-
TOTAL	3,412.3	-

Industry is experiencing increasing difficulties in securing wood needs. Forest fires from previous years significantly affected annual allowable cut. Additionally increasingly higher export volumes (having reached the top volume of 1.4 million tonnes in 2006) both of round wood and wood chips for energy are adding further difficulties to domestic industrial wood supply. Portuguese pulp and paper industry is now importing wood, reducing pressure on existing forest resources. Sawmills are suffering from lack of suitable assortments.

ENERGY

In 2006 the Government launched a public tender to award 15 licences for biomass power stations with total capacity of 100 megawatts (MW), and announced the award of the first two licences (2 MW and 3 MW). Portugal has set a target to reach 150 MW of electric energy produced from biomass in 2010.

New biomass based energy facilities are under construction and concern for higher costs for raw materials exists. Energy policies providing subsidies for green KWh produced will further mobilize wood for energy production. Higher energy prices and climate change related policies are affecting competitiveness of industry.

In the meantime there has been considerable external demand (from Italy, Belgium and the UK) for forest biomass for energy production as a result of the existing differential in “green” electricity prices (106 euros/Mwh in Portugal, versus 170 euros/Mwh in Italy, 135 euros/Mwh in Belgium and 130 euros/Mwh in the UK).

Forest industries are further involved in activities along the wood for energy chain and energy production.

Performance of the paper and wood industry

In 2006 the incidence and gravity of forest fires were close to the average of the last twenty years. There were 21,681 fire events and a total burned area of 75,052 hectares, of which 36,521 ha corresponded to forest stands.

The chart below shows the production, imports and exports of the main wood raw materials in 2005 and 2006 (estimates):

		PRODUCTION	IMPORTS	EXPORTS
		thousand m³	thousand m³	thousand m³
Coniferous logs (maritime pine)	2005	2 111	3	22
	2006	2 100	7	51
Non – coniferous logs	2005	50	148 (1)	4
	2006	70	118 (1)	4
Eucalyptus pulpwood	2005	6 590	122	1 179 (2)
	2006	6 500	100	1 415 (2)

(1) 90%, on average, is tropical timber

(2) 90%, on average, to Spain

The sawmill industry has contracted sharply in recent years due to the reduction in the area and volume of maritime pine caused by forest fires. There are now an estimated 250 sawmills (versus 730 in 1998) employing around 5,000 people (10,700 in 1998).

Exports of sawn softwood – which once surpassed one million cubic metres, by the mid-eighties – have now fallen to some 340 thousand m³.

The chart below shows the production, imports and exports of wood boards in 2005 and 2006 (estimates):

		PRODUCTION	IMPORTS	EXPORTS
		thousand m³	thousand m³	thousand m³
Particle board	2005	850	60	502
	2006	800	72	473
Fibre board	2005	405 (1)	141	364 (2)
	2006	420 (1)	168	364 (2)

(1) 80% is MDF

(2) 75% is MDF

More than 95% of pulp and paper production in Portugal is currently concentrated in four companies. The consolidation process that occurred is now being implemented throughout the various organizations.

Increased pulp and paper capacities were announced and new developments are expected at any moment.

In 2006 the pulp industry worked at full capacity (99.5%). In the paper industry, the capacity utilisation rate was 97.5%.

Pulp production increased by 3.67% in 2006, compared to 2005. 49% of pulp produced was exported, an increase of 38% from the previous year.

Paper production increased by 3.74% in 2006, compared to 2005. 94% of paper produced was exported, an increase of 24% from the previous year.

The chart below shows the production, imports and exports of wood pulp, and paper and board from 2004 to 2006:

(1000 ton)	Year	Production	Imports	Exports
Woodpulp	2004	1949	110	1009
	2005	1990	47	735
	2006	2063	40	1018
Paper and Board	2004	1664	840	1234
	2005	1577	830	1234
	2006	1636 (*)	934 (*)	1539 (*)

(*) preliminary data

Forest Certification Systems in Portugal

The PEFC Council certification system was adopted by the Portuguese Forestry Sector Council (CFFP)²² which conducted a process compatible with the PEFC framework and established the reference framework for supervision, control and revision of the Portuguese Forest Certification System - PEFC Portugal.

Following the publication of the “Portuguese Standard for Sustainable Forest Management Systems, application of the pan-european criteria for sustainable forest management” (NP 4406:2003), the CFFP submitted the Portuguese Forest Certification System to the PEFC Council, for assessment, which approved it on 16 March 2004.

The Portuguese standard created in accordance with the rules of the Portuguese Quality System is based on the Pan-European Sustainable Forest Management criteria and indicators subscribed by the 3rd Interministerial Conference on European Forest Protection (MCPFE, Lisbon 1998) and on ISO1401. Certification of forest management units under this standard can be individual, grouped or regional.

The Forest Stewardship Council (FSC) forest certification system has since 2005 been promoted in Portugal through the WWF Mediterranean Cork Oak Forest Programme (WWF Med PO). One of this programme’s objectives is to create an FSC-Portugal standard and promote the sustainable management of the cork oak forest through practices based on the FSC system.

The certification approach under the FSC system considers individual forest operations. Each forest operation is audited on an annual basis. To allow small companies (with less than 100 ha) to bear the costs of certification, a group certification scheme (Small and Low Intensity Managed Forests) is

²² Conselho da Fileira Florestal Portuguesa

being developed. This is particularly important for Portugal, where the small forest property predominates (with more than 300 thousand forest owners).

Following the initiative's launch on 6 December 2006, the applications process for the FSC Contact Person for Portugal is under way and should be concluded before the end of the year.

There are around 73 thousand hectares certified under the FSC system and another 50 thousand under the PEFC system. There are also some twenty certifications of chain of custody under both systems.

Luís Deslandes
Member of the Board, Portucel Soporcel Group

RUSSIA

In 2006 and the first part of 2007, Russia continued to experience robust economic growth, reflected by continued growth in Russian pulp and paper output (Tables 1, 2, fig. 1). The growth in Russia's paper and paperboard output was 2.8% in 2006, (1.7% in 2005, 6.8% in 2004).

The important forest sector policy developments of 2004-2007 in Russia were as follows: the Kyoto Protocol ratification by Russia (and its coming into effect in spring of 2005 with new efforts to monitor carbon emissions),

- new alliance formation between “**International Paper**” and “**Ilim Pulp Enterprise**”,
- new Forest Code to be adopted,
- the use of space satellite monitoring for preventing illegal timber cuttings,
- new level of export tax on round wood in 2007-2009-2011 (Fig.6),
- Giprobum-Engineering's (the Russian major designing and engineering company) share purchase (70%) by the Pöyry company, Finland.

Both demand and output of pulp and paper products increased in Russia through 2004-2006 and into the first half of 2007. Owing to relative economic and political stability established in the country since the major currency revaluation of 1998 and more expansionary macroeconomic policy under President Putin since 1999, there has been a continuous increase in output of pulp, paper and paperboard in Russia, more than doubling since 1996, although output has yet to reach previous record levels of 1988-1989 pre-transition periods (in the late Soviet era).

In 2005-2006, the Russian pulp and paper sector continued to expand production of pulp, paper and paperboard, particularly the output of paperboard for packaging. During 2006, Russia's total output of pulp (both pulp for paper and paperboard and market pulp) increased by 0.1%, the output of market pulp increased by 0.4%, and the output of paper and paperboard increased by 2.7%, including a 4.2% increase in output of paperboard.

Exports of pulp and paper products hold a dominant position in the total Russian exports of forest-based products, and the overall structure of forest product exports still has a pronounced raw material character. In terms of round wood equivalents, round wood timber exports and sawn wood exports accounted for 82% of Russia's exports in 2005, while pulp and paper accounted for only 17.8% of exports (Table 2).

In 2005, exports of pulp and paper products continued to increase. Exports of pulp, paper and paperboard progressively increased from 1990 and reached a peak level in 2005. However, Russian exports as a percentage of production have remained largely unchanged since 1996, with exports comprising about 80% of output for market pulp, and around 40% for paper and paperboard. (Table 3, fig. 2, 3). Major export destinations for these Russian products are China (market pulp, kraft linerboard), Ireland (market pulp, kraft linerboard), India (newsprint), and Turkey (newsprint).

Although the tonnage of Russian paper and paperboard exports greatly exceeds the tonnage of imports, the trade balance in value has continued to deteriorate, as Russia has expanded imports of higher value paper products. The annual trade deficit in paper and paperboard has been negative since 2001, and in 2005 it was more than a 0.87 billion USD (Table 4, fig. 4). The higher value of imports of paper and paperboard as compared to their exports is mainly due to the fact that Russia is importing rather expensive products such as high quality materials for container and packaging, coated paper, and tissue, whereas less expensive commodity products such as newsprint and kraft linerboard are being exported.

Table 1
Output of pulp, paper and paperboard in the Russian Federation in 1995 – 2006
 (thousand metric tons)

Products	1988 (89)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2006/ 2005,%
Chemical pulp total:	8331	4151	3028	3170	3205	4225	4960	5272	5568	5764	5922	5933	6005	100.1
Market pulp	3076	1743	1144	1169	1320	1722	2018	2136	2233	2311	2409	2419	2380	97.9
Paper and paperboard	8632	3956	3236	3269	3426	4535	5300	5595	5921	6227	6619	6800	7145	102.8
Paper total including:	5465	2760	2274	2179	2325	2966	3320	3415	3524	3682	3903	3969	4004	100.1
Newsprint	1693	1457	1243	1201	1386	1622	1694	1732	1713	1814	1978	2007	1993	100.4
Offset paper	396	346	349	337	399	485	461	465	491	449	469	452	466	103.2
Paperboard total:	3167	1196	962	1090	1102	1569	1980	2180	2397	2545	2716	2830	3141	106.6
Corrugated board	1639	814	610	775	760	1080	1356	1530	1711	1882	2090	2102	2332	109.4

SOURCES: GOSCOMSTAT OF THE RUSSIAN FEDERATION; PPB-EXPRESS, AUTHOR'S DATA HANDLING

Table 2
Structure of Russian exports of forest-based products in 1990 – 2005

	1990	1998	1999	2000	2001	2002	2003	2004	2005
Round wood, million m ³	31,4	20,0	27,6	31,3	31,7	36,5	37,6	41,5	48,0
Sawn wood, million m ³	15,7	4,6	6,4	7,9	7,7	8,9	11,0	13,1	15,4
In terms of round wood ¹ , million m ³	25,1	7,36	10,2	12,6	12,3	14,2	17,6	20,96	24,64
Market pulp, million metric tons	0,993	1,056	1,373	1,600	1,758	1,885	1,905	1,866	1,952
Paper and paperboard, million metric tons	2,761	1,767	2,048	2,309	2,353	2,500	2,550	2,590	2,700
Pulp, paper and paperboard, million metric tons	3,74	2,823	3,421	3,909	4,111	4,385	4,455	4,456	4,652
In terms of round wood ² , million m ³	12,7	9,57	11,6	13,3	13,94	14,87	15,10	15,11	15,77
Total exports of forest and paper products in terms of round wood, million m ³	69,2	36,9	49,4	57,2	58,0	65,6	70,30	77,57	88,41
Percentage of round wood exports	45%	54%	56%	55%	55%	56%	53%	53.5%	54.3%

¹ The factor 1,6 is used - source: UN FAO

² The factor 3,39 is used - source: UN FAO

Table 3
Exports of market pulp, paper and paperboard from the USSR (1980 – 1990) and from Russia
(1993 – 2004), thousand metric tons

Year	Market pulp			Paper and paperboard		
	Output	Exports	Percentage of exports	Output	Exports	Percentage of exports
1980	2457	821	33.5	8688	1018	11.7
1983	2840	1012	35.6	9556	1034	10.8
1986	3233	1105	34.1	10395	1188	11.4
1987	3371	1088	32.3	10566	1252	11.9
1990	3255	600	18.4	8325	900	10.8
1992	2109	856	40.6	5750	1568	27.3
1993	1682	1077	64.0	4462	1418	31.8
1994	1328	1028	77.4	3410	1264	37.1
1995	1736	1362	78.5	4070	1690	41.5
1996	1267	1095	85.7	3220	1380	42.9
1997	1193	1008	82.8	3331	1507	45.2
1998	1311	1056	75.8	3540	1783	50.4
1999	1725	1350	78.3	4467	2019	45.2
2000	2000	1635	81.8	5239	2355	45.0
2001	2136	1753	82.1	5595	2350	42.0
2002	2233	1866	83.6	5921	2453	41.4
2003	2301	1905	82.8	6174	2550	41.3
2004	2404	1866	77.6	6653	2590	38.9
2005	2429	1952	80.4	6948	2700	38.9
2006	2379			7145		

Sources: Goscomstat of the USSR, Goscomstat of the Russian Federation, PPB-express, Moscow, author's data handling

Fig. 1

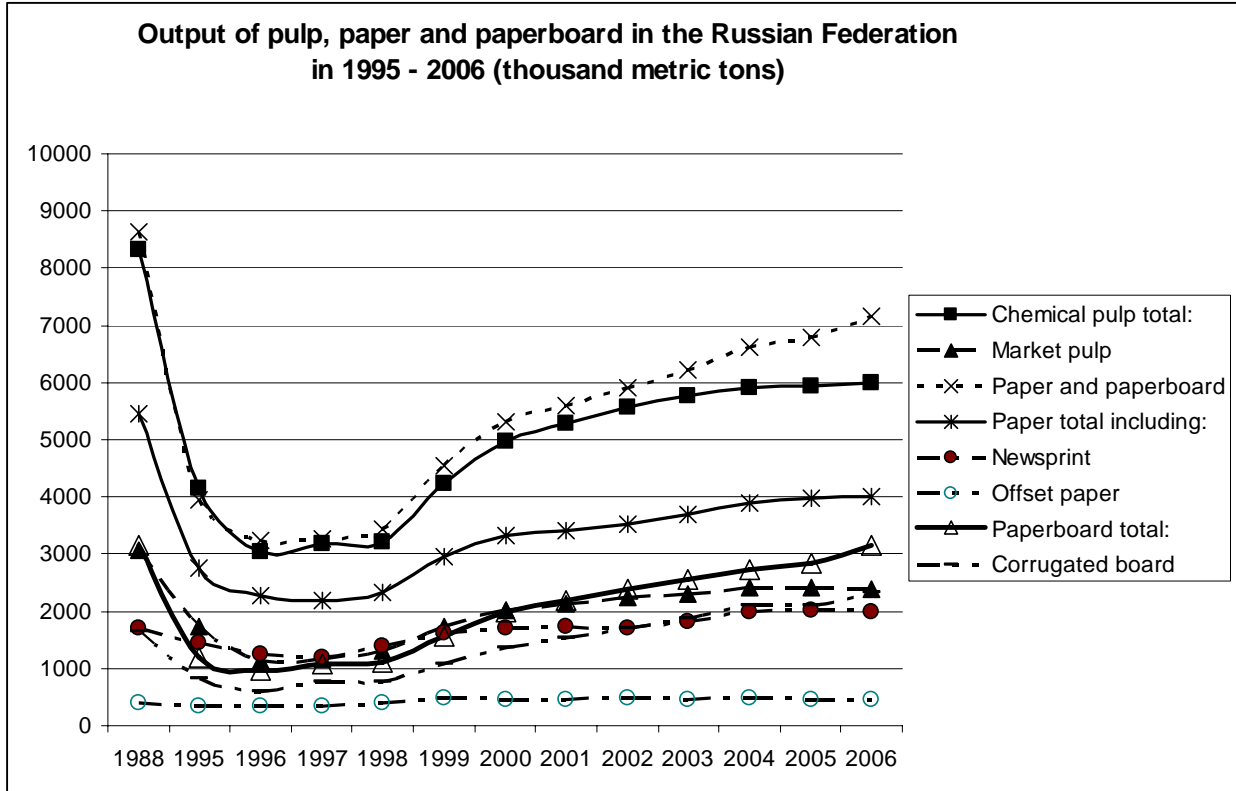
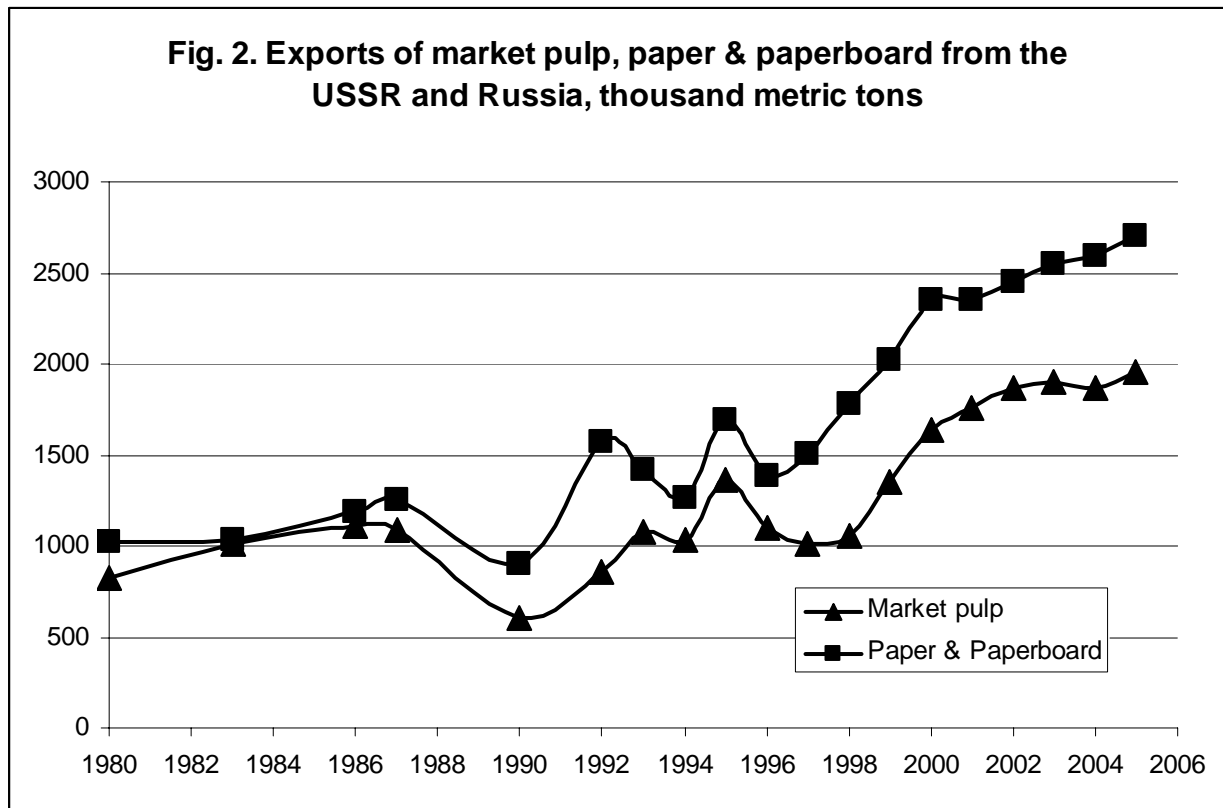


Fig. 2. Exports of market pulp, paper & paperboard from the USSR and Russia, thousand metric tons



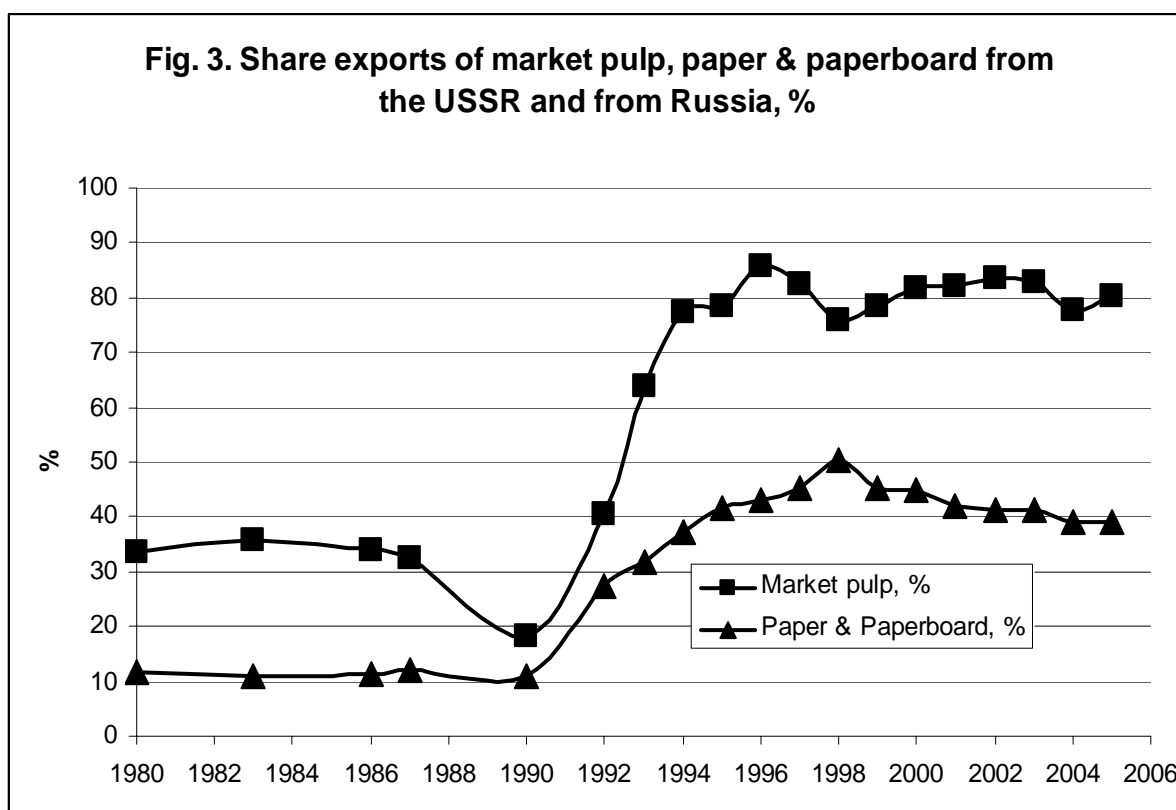


Table 4
Russian exports and imports of paper and paperboard in 2000–2005 (million USD)

	Exports	Imports	Trade balance
2000	920	731	+189
2001	927	1012	-85
2002	887	1200	-313
2003	967	1465	-498
2004	1184	1774	-590
2005	1331	2107	-876

Sources: State Customs Committee, Pulp. Paper. Board Magazine, PPB-express, PPB Exports, PPB Imports, author's data handling

In present time the biggest Russian Enterprise produced 75% market pulp, 80% paper and 50% paperboard (Table 5). 25.10. 2006 was announced new alliance formation between "International Paper" and "Ilim Pulp Enterprise"(Fig. 5).

Reconstruction and restructuring of the Russian pulp and paper industry is continuing, with some progress being made towards higher value products with better processing of wood raw material. As an example, International Paper Company announced recently plans to speed up an uncoated free-sheet machine and add 50,000 tons per year of production capacity at the paper mill in Svetogorsk (about 140 km from St Petersburg). The mill is also reportedly installing a coater on a liquid packaging machine to add 15,000 tons/year of capacity. More than 200 million USD have been put into reconstruction of the mill in recent years. Office paper produced by the mill supplies presently more than 60% of the Russian market demand. In addition, a new 200,000 tons per year aspen-based BCTMP pulp line is planned in 2007, according to International Paper, which will supply pulp to paper mills in Europe and elsewhere.



Sources: State Customs Committee, Pulp. Paper. Board Magazine, PPB-express, PPB Exports, PPB Imports and author's data interpretation, 2006.

It can be noted that future development of Russia's pulp and paper sector is linked to expanded production of more technologically advanced products (such as coated printing and writing paper rather than newsprint for example), and also more integrated utilization of forest resources.

Implementation of important environmental projects provides examples of steps being taken towards applying the new Russian environmental laws adopted in late 2002 (based on comparison of environmental indices of individual mills and those of "best available technology", or BAT). For instance, new systems of wastewater local treatment with the use of KWI floatators were constructed at the Syassky pulp and paper mill, SCA *Huygens Product*, etc. Furthermore, in connection with ratification of the Kyoto Protocol, a number of mills (the Arkhangelsky pulp and paper mill, for example) initiated work on inventorying of greenhouse gas emissions. Such accounting for carbon and greenhouse gas emissions is being done at the Arkhangelsky mill and elsewhere to prepare for limits on emissions and perhaps trading in carbon emissions.

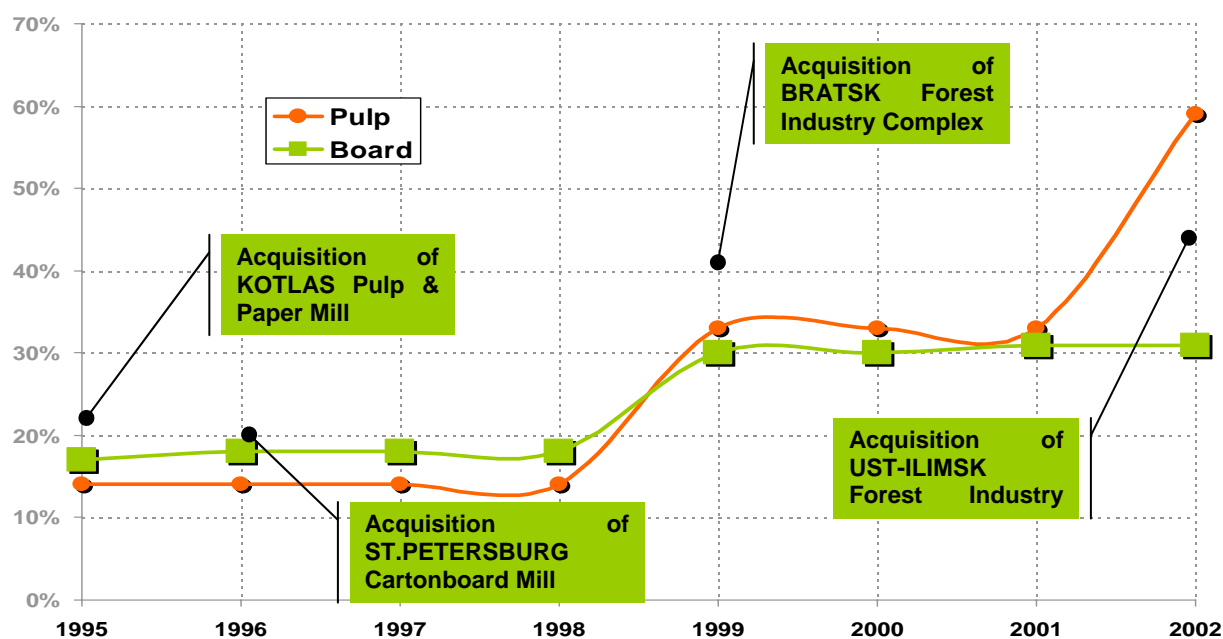
The forest sector of the Russian Federation has a staggering potential for further development. Russian forest sector has excellent opportunities for rapidly increasing exports of forest products. The growing stock amounts to 81.9 billion m³ with an annual increment exceeding 900 million m³. (Table 6, Fig.6). These resources represent over 20 % of the global total and the single largest national forest resource. The potential for increasing felling in the framework of sustainable forest management is clear. Further, Russia has the benefit of rather well educated, low-cost, labour resources. Both factors could attract investments into the Russian forest sector.

Table 5
Major Russian Pulp, Paper & Board Producers (2006)

	Total Output, x 000 t	Market Pulp, x 000 t	Paper, x 000 t	Board, x 000 t
Ilim Pulp	2582	1516	262	804
• Kotlas	945	350	262	333
• Bratsk	737	506		231
• Ust-Ilimsk	660	660		
• St.Petersburg	240			240
Arkhangelsk	804	236	82	486
Syktvkar	813	12	595	206
Kondopoga	741		741	
Volga	551		551	
Solikamskumprom	456		456	
Svetogorsk	406		324	82
Segezha	220		220	

Sources: State Customs Committee, Pulp, Paper, Board Magazine, PPB-express

Fig. 5. Ilim Pulp Growth (share of total Russian production)



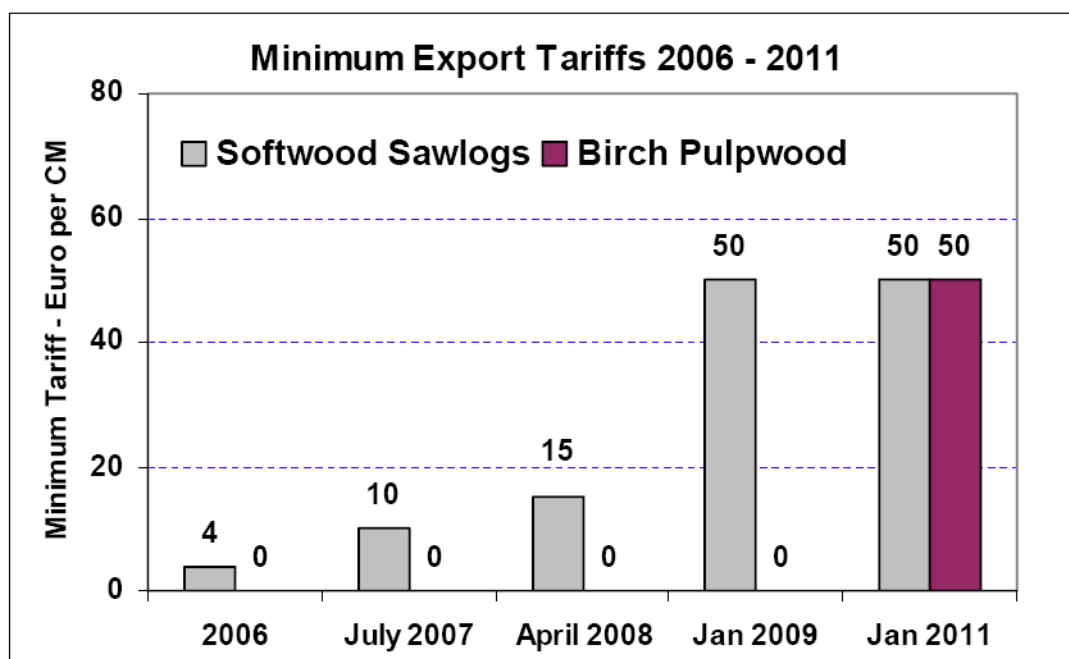
Sources: Frank Graves, ILIM PULP, 7th Annual ASI Conference
The Pulp & Paper Industry in Russia, the CIS and the Baltics

Table 6
General indices of forest resources of the Russian Federation

	Unit	Russian Federation, total	European part	%	Asian part	%
Forest land area	million ha	882.0	173.7	19.6	708.3	80.4
Stocked area	million ha	774.2	168.7	21.8	605.5	78.2
Growing stock, total	billion m ³	81.9	22.1	27.0	59.8	73.0
Mature and over mature of which:	billion m ³	44.1	9.7	22.0	34.4	78.0
- Coniferous	billion m ³	34.6	6.4	18.5	28.2	81.5
- Non-coniferous	billion m ³	9.5	3.3	34.7	6.2	65.3
Total average annual increment	million m ³	970.4	359.4	37.0	611.0	63.0
Annual allowable cut	million m ³	551.0	213.0		338.0	

Sources: Russian Federation forest sector outlook study. *UNECE - FAO UN, ECE/TIM/DP/27* Geneva, 2003

Fig.6. New Russian Wood Tax (Resolution # 75, February 2007).



SOUTH AFRICA

The South African economy 2006/07

Stable political and economic conditions have prevailed with growth in G.D.P. over the period coming in at almost 5.0%. Major growth sectors have been manufacturing, retail, construction and tourism, with mining having remained static and agriculture declining. Despite significant increase in oil prices, inflation has been contained to just over 5.0%. During the year lending rates have increased by 2.0% to stand at 12,5% p.a., and the exchange rate (R to US\$) has remained stable at R7.06 to US\$1.00. Of major concern however is the widening trade deficit which is now in negative territory due to a surge in imports.

Through the Governments expanded public works programme focussing on infrastructure development and its Accelerated and Shared Growth Initiative (ASGISA) as well as capital expenditure programmes associated with the 2010 Soccer World Cup which is to be held in South Africa, it is anticipated that over the next 3 years, G.D.P. growth could well exceed 6.0%. Whilst positive for the overall economy and in particular job creation prospects, this is likely to put significant stresses and strains on the country's ability to supply required resources and services, including timber products, which will result in a higher level of imports, a widening trade deficit, accelerated inflation and a further hike in interest rates.

Generally, as a developing nation and being part of the emerging markets segment, South Africa's economic fundamentals are sound, and the economy is being well managed.

The forestry and forest products sector in relation to the economy

Given the growth dynamics inherent in the overall South African economy the Forest Sector has likewise experienced growth, although the strength of the Rand has impacted on exports so that growth in export volumes has not been matched by growth in value terms. To meet the demands of the growing domestic economy and to maintain its exports position some R5 billion is being invested to expand manufacturing capacity in the forest products sector. Unfortunately however investment and expansion in the Forestry sector has not kept pace, which is placing huge constraints on sector growth. Currently the demand for roundwood amounts to 22 million m³/p.a. whereas the forests can only supply 20 million m³/p.a. on a sustainable basis. The average net increase in planted area over the last 5 years has amounted to no more than 500 hectares p.a. leading to an ever widening supply deficit. To meet current and anticipated growth over the next 25 to 30 years we should be increasing our planted area by a minimum of 25,000 hectares p.a. South Africa therefore faces a serious timber availability outlook which is going to necessitate a dramatic escalation in imports in coming years. This unfavourable timber supply position is unfortunately being exacerbated by a noticeable increase in plantation losses being caused by fires and pest and diseases amongst others.

Whilst timber growers are therefore benefiting from considerably improved roundwood prices (up to 60% in instances) buyers or timber processors are being negatively impacted and the cost of wood is becoming a major threat to their competitiveness.

Emerging issues facing the industry

Paragraph (2) above alludes to the emerging issues of importance facing the Industry, namely timber supplies, fires, pest and disease and competitiveness.

TIMBER SUPPLIES

Shortages of roundwood supplies into all market segments is a reality with Sawlogs being the major concern. Increased imports, improved yields, better utilisation of logs, lower plantation losses, and

more, will all be necessary, but the critical ingredient regardless, has to be an increase in the rate of new afforestation. Although the target should be 25,000 hectares p.a. in reality given water, environmental, climatic and agricultural constraints, a target of 10,000 hectares p.a. is more realistic. The chances of achieving this are however not that good as South Africa's Water stress situation makes it extremely difficult to obtain authority to plant trees through the acquisition of mandatory afforestation water use licences. Forestry is the only dry-land cropping activity subject to such licensing requirements and the Industry is making huge efforts to change Governments perspectives on this. Broad misconceptions on forestry's water use exist, despite scientific evidence and global experience dictating otherwise.

Through statutory black economic empowerment initiatives and a strong land reform and redistribution drive at least 40% of the current forestry estate will be transferred to new ownership over the next 10 years. Whilst fully supported, the industry is concerned that this could result in transferred land being converted out of Forestry to other uses and innovative mechanisms will have to be found to avoid such a situation arising.

FOREST FIRES

Over the last 2 years fires have destroyed over 60,000 hectares of plantations. Stringent forest protection and fire fighting strategies have been put in place to reduce these losses, however considerably more needs to be done. Changing climatic conditions, population pressures and rural socio-economic conditions amongst others also need to be given greater focus.

PEST AND DISEASES

Amongst Pine plantations serious problems have arisen due to infestations by the Sirex Woodwasp, which in certain Forestry areas has reached epidemic proportions (60% infestation levels). Biological control strategies, modelled on global best practices, have been implemented but to date success levels have been significantly lower than achieved in other countries. Fusarium or Pitch Canker is again becoming a big problem, with mortality arising therefrom for the first time being seen in older age class compartments of Pine.

Serious problems are also being encountered in stands of Eucalyptus throughout the country as a result of infestation by *Thaumastocoris peregrinus*. Cold tolerant *Euc. Nitens* is also being attacked by the Cossid Moth. In all, 15 – 20% of the entire Forestry state is being impacted upon by various pests and diseases resulting in unaffordable timber losses. The industry is negotiating with the Government for increase levels of support to help counteract these problems.

COMPETITIVENESS

For a long time the advantages of plantation forestry have enabled the Industry to remain globally competitive. With increasing timber shortages however, rapidly escalating timber prices are beginning to have an impact on competitiveness, leading to the Industry paying much greater attention to productivity both in terms of tree and human capital. It has also resulted in greater emphasis being placed on mechanization of operations. This latter issue is being supported by the HIV/Aids epidemic currently being experienced in sub-Saharan Africa.

OTHER EMERGING ISSUES

(i) HIV/AIDS

The HIV/Aids prevalence rate amongst the population ranges between 11% and 20% depending on age category, with infections having increased by almost 50% since the year 2000. 362,000 people are predicated to die from HIV/Aids during 2007, almost 1000 people per day. The epidemic is already having a catastrophic effect on the population. In the Forestry Industry the effect is particularly severe, given the rural nature of the business, with up to 40% of its labour force in areas being infected. The cost in lives, in human misery, in productivity and on competitiveness are huge. Major efforts by the Government and business are being made to combat the scourge although it is going to take super-

human efforts by all to be successful. The cost to business of managing this situation are becoming massive.

(ii) Climate Change

Only now is business beginning to take the issue of global warming seriously. Already some of the effects of this are being felt by the Forestry Industry with plantation yields dropping in specific areas and mortality as a result of fires and pests and diseases increasing. Extensive research on its impacts is now being undertaken by the Industry with attention being focused on greater site: specie matching and the variation in genus and specie being planted, amongst others. Opportunities for tree planting activities under the C.D.M. are also being investigated.

(iii) Sustainable Forest Management-Forest Certification

Even through 85% of South African Timber plantations are already certified under the FSC, much attention is now being put on making certification much more accessible to small plantation owners. Currently 20,000 plus small black emerging growers are being assisted in this regard through the development of a small grower FSC certification programme commonly referred to as the SLIMF programme (small and low intensity Managed Forests). As part of this South Africa is currently developing its own National Certification Standard.

(iv) Profile of Plantation Forestry

South Africa is no exception when it comes to the profile of plantations and a lot needs to be done to improve this. Misunderstanding and misrepresentation of the facts about tree plantations is more often the norm than the exception. The industry is working hard to remedy this, and the Code for Planted Forests being developed by the FAO in this regard is being of great assistance.

Business developments during the previous year

FOREST SECTOR TRANSFORMATION CHARTER

The most significant development during the last year has been the drafting of a Broad Based Black Economic Empowerment Transformation Charter by the Forest Sector. This is required in terms of the Broad Based Black Economic Empowerment Act and the Forest Sector Charter once published in the Government Gazette (probably July 2007) will become binding on all participants in the Industry, both growers and processors. The objectives of this Charter are to

- promote meaningful participation of black people in the entire forestry value chain;
- achieve sustainable change in the racial and gender composition of ownership, management and control structures and in the skilled positions of existing and new forest enterprises;
- increase the extent to which black men and women, workers and cooperatives own and manage existing and new forest enterprises;
- use the forest industry as a catalyst for empowering rural and local black communities to access economic activities, land and infrastructure.

To achieve these objectives Industry participants will have to comply with a transformation scorecard which comprises 7 elements. Briefly these are:

(i) Ownership

25 +1% of Industry to be owned by black people within a period of 10 years.

(ii) Management Control

50% of management (Board level, Executive and Senior) to be in control of black people within 10 years;

(iii) Employment Equity

75% to 80% of all employees, by grading, to be black people within 10 years;

(iv) Skills Development

4% of total annual payroll to be spent on skills development for black people within 10 years.

(v) Preferential Procurement

70% of total procurement spend to be spent on black owned or black empowered business within 10 years.

(vi) Enterprise Development

3% of entities net profit after tax to be spent on enterprise development for black people and communities within 10 years;

(vii) Socio-Economic Development

1% of entities net profit after tax to be spent on socio-economic development activities for black people and communities within 10 years;

Whilst the abovementioned will place enormous responsibility on the Industry to achieve, and will come at a high cost, all Industry participants have accepted the challenge and have committed themselves to implementation. Of major concern, as already mentioned, is how to ensure that ownership transfer will not result in existing timber plantations being converted to other land uses. Even a small change could have significant implications for the future sustainability of the Industry, given the current and future timber supply situation.

PRIVATISATION OF STATE FORESTS

The Privatisation or restructuring of state forests has been ongoing for almost 9 years, and in the process has created considerable investment uncertainty. During 2006 the last, but biggest portion of State Forests was successfully bid for, but then stopped by the Competition Authorities. Resulting from this the Government then announced that it would retain ownership and control. More recently however the Government has changed its mind and is now proceeding with the sale. This has created confusion and uncertainty, particularly in the Sawlog markets, and could result in legal proceedings. As this remaining unsold portion contains the countries largest and most productive pine Sawlog plantation it is hoped that a successful outcome will be achieved.

GROWTH AND DEVELOPMENT STRATEGY FOR THE FOREST SECTOR

Flowing from a report prepared by the consulting firm Genesis Analytics in 2005, entitled “The Contribution, Cost and Development Opportunities of the Forestry, Timber and Pulp and Paper Industries in South Africa”, the South African Department of Trade and Industry in collaboration with the Sector itself has recently completed a sector growth and development strategy which has been submitted to the Cabinet for approval. Once approved it is hoped that this will provide the impetus and resource to enable the Industry to significantly raise its growth and development tempo.

M.B.P. EDWARDS
J. HUNT

Synopsis of industry profile – 2000 vs 2006

FORESTRY SECTOR

Criteria	Unit	2000	2005/6	Change
Planted area	Ha	1,330,944	1,333,563	0,2%
Roundwood Production	m ³ /p.a.	16,7 million	20,3 million	21,6%
Value of Roundwood Sales	Rand	2,6 billion	4,2 billion	61,5%
Contribution to Agric. G.D.P.	%	8,7%	9,8%	12,6%
Plantation losses (fires, Pests & Dis)	ha	23,000	42,000	82,6%

FOREST PRODUCTS SECTORS (ALL SECTORS EXCLUDING PAPER)

Criteria	Unit	2000	2005/6	Change
No. of Plants	-	167	211	26,4%
Roundwood Intake	m ³	17,1 million	22,6 million	32,2%
Value of Sales	Rand	12,9 billion	15,0 billion	16,3%
Contribution to Mnfg. G.D.P.	%	8,6%	8,6%	NIL
Foreign trade balance	Rand	4,6 billion	3,5 billion	(23,9%)

PULP, PAPER AND BOARD SECTOR

Criteria	Unit	2000	2005/6	Change
No. of Plants	-	23	33	43,5%
Pulp Capacity	tons	2,6 million	2,7 million	3,8%
Paper and Board Capacity	tons	2,6 million	2,9 million	11,5%
Per Capita consumption	kg	42,0	45,7	8,8%
Production				
- Pulp	tons	2,2 million	2,3 million	4,6%
- Paper and Board	tons	2,1 million	2,5 billion	19,1%
Value of Exports	Rand	6,3 billion	8,4 billion	33,3%

SWEDEN

New center-right government

After the general elections for Parliament in the autumn 2006, a coalition of center-right parties formed a majority government. Improving the functioning of the labour market and job creation are high on their agenda.

Wage negotiations

Wage negotiations have been settled within the industry. They concluded in a three-year agreement with estimated labour cost (including wage) increases of 10,2 percent over the three years.

Restructuring

Restructuring continues within the industry. High input costs and in particular increased energy prices have caused the companies to perform programs to increase efficiency and reduce costs. This has implied lay-off of personnel and mill closures. M-real has decided to close its Wifsta fine paper mill, and the Rottneros Group is planning to close down the Utansjö CTMP mill and move the mill to a country with more favourable electricity prices.

Investments

Investments in the pulp, paper, sawmilling and wood products industry amounted to 1 billion euros in 2006. They are expected to increase 1,1 billion in 2007. Many investment projects are energy and/or efficiency related.

Forest raw materials and bioenergy

Increased interest in the forest resources from the fuel and energy sectors has sharpened the competition for forest raw material. There is room for increased use of biofuels from the forest, both from present and new types of forest fuels. However, industry roundwood should first be used for industry production.

The Government has reported its inquiry on forest policy. The guiding principle also for the future is that environmental and production goals rank equal. The potential to increase wood growth has been highlighted, and wood production can be increased by 25 – 50 percent in 10 – 60 years. Several methods to achieve this goal are advised: utilisation of farm land, increased fertilising, better plant material, better clearing methods.

Sustainability and climate change

To reduce and preferably get away from the dependence on oil is a general political goal for economic, political and climate change reasons. Increased wood resources can be used to replace fossil fuels, and research and development programs are carried out to find the most efficient use of wood resources for transport and heating purposes. The forest industry points out that the forest resources are not enough to phase out the fossil fuels consumption, but contribution from other energy sources are necessary.

A Commission on climate vulnerability studies the possible consequences of increased global temperature. It will report in the autumn 2007.

Energy

A Commission on Oil Independence has presented a report with proposals how to reduce the use of oil in the Swedish economy. The report is reviewed during the spring. The forest industry supports the Commission's goal to reduce the dependency on oil, but is concerned about how the proposed actions will influence the wood market.

A support system for renewable electricity production was introduced in 2003. It has been prolonged till 2030.

Timber Construction Strategy

The timber construction strategy aiming to foster increased use of wood in construction is beginning to show results. Many multi-storeyed buildings and public buildings with wood structures have been erected, resulting in better image and in regional development. Efforts to increase the knowledge of building with wood are also made. The government has decided to prolong the strategy.

Export duty on wood imported from Russia

The industry is very concerned about the increased levies and restrictions on wood exported from Russia. According to industry view the Russian exports to the Baltic area of 20 million cubic meters will disappear. The forest industry is in close contacts with the government to relieve the situation.

Item 10. Recommendations of the Committee to FAO for 2007-2008

The Committee agreed on the following recommendations to FAO:

Propose corrective measures on the perceived negative relation between the forest products industry and deforestation, in the context of the climate change debate. In particular:

Jointly organize a side event at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP 13), to be held in Nusa Dua, Bali, Indonesia, from 3 to 14 December 2007;

Further document the social contribution of the forest products industry;
Contribute to clarifying UNFCCC accounting rules for carbon sequestration by forests;
Actively promote understanding of the causes of deforestation.

Undertake an analysis of the relationship between water and forestry, in the context of the increasing scarcity of water.

Expand work on public perception of forest industries and the environment, based on the initial work presented at the Shanghai meeting.

Continue to work on the nexus of forests and energy, building on the results of the IEA-FAO-ICFPA energy conference in Rome, October 2006.

Item 11. Date and place of next session

The Committee proposed to hold its 49th Session in South Africa on 10 June 2008.