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Financial meltdown and the future of the forest products industry

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Some observations on the challenges and opportunities presented by the financial crisis – an industry viewpoint.

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The perfect storm seems to be upon the world. The forest industries are not sheltered from it; they are only too aware of it. But the current recession creates opportunities as well as threats for the forest product industries.

In 2008, the World Bank forecasted that by 2030, global gross domestic product (GDP) could more than double to US\$73 trillion, largely as a result of economic growth in developing nations. Such economic growth would have translated into extra demand for forest products. But given the current situation, that growth will most probably be delayed.

The effects are already evident. From October 2008 to March 2009, demand for wood and paper products declined profoundly. New housing starts and home repairs have dropped. Paper markets are suffering from a drop in advertising and the reduced production of many newspapers and magazines. With trade slowed, less packaging is needed.

Curtaiment in the forest products sector is evident around the world, especially in rural areas, where the sector is often one of the only employers.

Cutbacks in manufacturing of all kinds of products across all sectors could mean the return of workers to rural areas. In some parts of the world the result could be increased attention to sustainable forest management, particularly by small forest owners. In other parts of the world, however, reverse migration could result in increased smallholder agriculture on forest land.

A time for change

As dramatic as the current situation may sound, this is also the moment for industry

With curtailment in the forest products sector evident around the world, now is a time for industry to focus on efficiency, for better positioning when the crisis ends (wood industry workers, Egypt, Bolivia, Gabon)

to restructure, focusing on efficiency across all aspects of operations – from raw material mobilization to product design to production – and ensuring the right products for the market. The crisis will be over one day, and when that happens, the most efficient players will still be in the game.

Temporary unemployment is an occasion for governments to work with industry to invest in training and education to prepare the workforce for the future. The industry needs skilled people and knowledgeable employees.

One forecast that is not likely to prove wrong is the projected increase of the Earth’s population by 1 billion every 15 years. Population growth has typically been one of the primary drivers of demand for forest products. Although that link is likely to be less linear than it has been in the past, with economic recovery a rapid expansion of demand for forest products can be expected in the future, particularly for tissue, packaging and solid wood.

Challenge of competition for land

As food demand grows, more land is being turned over to agriculture. This trend is intensified by the increasing demand for agricultural land to produce energy crops (such as corn or sugar cane for ethanol, or soybean for biodiesel), often driven by government

policies to increase the supply of renewable energy to mitigate climate change and ensure energy supplies.

Competition between food demand and energy demand puts increasing pressure on land use. In many regions forest land is also suitable for agriculture or energy crops. In New Zealand, for example, expansion of agriculture has resulted in a net decrease in forest cover over the past three years, reversing the previously established trend of steady increase in forest land.

Competition for land may provide strong incentives to increase productivity on the existing land base. The comparative advantage in wood production is already shifting back to regions where land is abundant or relatively unattractive for other uses, such as large South American countries (e.g. Chile) and northern boreal forest regions.

Opportunities in bioenergy

Climate change and energy security priorities will continue to drive innovation in the forest products sector as industries seek to increase the use of bioenergy in production processes and to find other ways of reducing energy consumption and CO₂ emissions. Governments around the world are putting incentives in place to expand bioenergy production, exploring ways to make better use of forest waste, to mobilize more wood in a sustainable way and in some cases to develop direct forest-to-fuel bioenergy products (whether through fuelwood or biomass plantations or through biorefineries to create ethanol from cellulose). The promise of cellulosic ethanol with its high fuel efficiency has yet to be realized in a commercial setting, but governments and industry will continue to invest in the development of the needed technology.

This is a huge opportunity for the forest products sector, provided there is enough access to raw material for different uses – and provided the sector is able to drive the process and not leave it to the energy or chemical companies. The sector is in a good position to take the lead, having knowledge of the material, the infrastructure to move around large volumes of wood, a tradition of sourcing from a multitude of small suppliers

and an existing use of biomass-based energy as some of the sector's major assets.

Climate change concerns

Actions to minimize the effects of climate change are being implemented in an uneven way around the world. Companies operating in countries with strong climate change policies (e.g. in the European Union) are subject to extra taxation and thus disadvantaged from a cost perspective. There is also a risk that some countries or regions may attempt to counterbalance this disadvantage with protectionist trade measures.

It is imperative that the successor to the Kyoto Protocol be transparent and equitable at the global level to ensure that companies operating in each of the major trading areas are subject to the same rules.

There is a risk that the current economic situation could slow down the pace of efforts to regulate climate change. Public priority has shifted to the economy, and short-term risks to economic well-being and employment may not be tolerated. A global climate change agreement rests on financing, as does reversing deforestation and forest degradation. Under today's conditions, the billions of dollars needed for these are competing with national recovery plans.

Growing public consciousness of climate change could have a positive impact on demand for forest products, as their low lifetime carbon footprint relative to alternative materials becomes more widely recognized. Public recognition is needed of the fact that harvesting trees does not add to CO₂ emissions – that the carbon remains stored in harvested wood products. Increasingly, sustainable forest management certification is seen by buyers as a minimum requirement to ensure that products have been produced sustainably. Forest land may become more valued for its environmental services such as biodiversity and carbon storage, and as a source of renewable fuel.

New impetus for sustainability

The global recession might provide an opportunity to reinforce the concept of sustainability in the economy. World leaders have a

challenging time ahead. They must develop policies that not only create jobs and stimulate economic growth, but also reduce carbon emissions and achieve energy independence. In many countries, the huge plans announced to address the economic situation will provide the forest sector with great opportunities. The Republic of Korea has announced a Green New Deal plan to invest US\$38 billion over the next four years to create almost 1 million jobs. Japan has plans to expand its green business sector to US\$1 trillion by 2020, creating 800 000 new jobs. China has allocated around a third of its US\$580 billion recovery plan to green measures. The Canadian Government is investing US\$170 million to build up green innovation and green products. Apart from the Canadian example not all of these investments are in forests, but many can be.

Investments, environmental values, public behaviour, new business opportunities – all these will help society survive today's perfect storm. The forest industries are in a better position than most. The sector already focuses on the sustainability dimension and on enabling climate change mitigation. The economics of sustainability as a key asset of the sector must be proved at a large scale as reliance on renewable energy increases and carbon neutrality becomes more imperative.

It is likely that the global recession will alter the structure of the global forest products industry and bring about different business models. Now is the time to prepare for these changes and to undertake the reforms that are needed, at both the business and policy levels.