

## PAPERS PRESENTED

### ITEM 5. The Impacts of the Financial Crisis on Forest Industry

Mr. Jukka Tissari

#### INTRODUCTION

During the 19th session of the Committee on Forestry (COFO) in March 2009, FAO member countries debated the impacts of economic turbulence on the forest sector. The result underlined the need for countries to breakaway from the “real economy” crisis now affecting the forest sector. The need to raise FAO’s responsiveness in advising members was also highlighted.

Almost all countries have been affected by the economic down-turn, but while some economies are projecting early signs of recovery, in other regions the crisis has not bottomed out yet. The situation is genuinely imbalanced as regards the pursuit of global economic recovery. But what is common to many countries is that the forest sector figures high on the political agenda which aims to overcome some of the unprecedented challenges at national and even global level.

Governments and central banks have swung into action to counter the crisis in a coordinated manner. Almost all countries are currently implementing financial packages to increase credit availability, boost growth and increase consumer demand. Yet considerable uncertainty exists regarding when the decline will bottom out and how soon markets and consumer confidence will return to the pre-crisis situation, enabling the reversal of real economy back into black. The best case scenario is a recovery within the next couple of years, while the worst case situation implies further decline and a prolonged period of gradual recovery.

This paper looks at the impacts of the economic crisis on forest industries in the major producing and consuming regions of the world. Some solutions are proposed to ride out of the crisis, and these will be a major theme for discussion at ACPWP-50.

#### POTENTIAL IMPACTS ON FOREST INDUSTRIES

##### Exposure to globalization and trade finance

Being an integral part of the larger economy, the forest sector will not remain immune to the overall economic slump and the different segments will be affected in varying degrees depending on the extent of their linkages with sectors impacted by the crisis. Forest sector has opened up significantly in the past two decades as global supply chains, outsourcing and expansion of foreign trade have enabled inter-continental operations. Now the fast-declining demand for forest products coupled with the credit crunch is having a chilling impact on new investments in all wood industries. As existing capacities remain under-utilized and closed down, investments in new capacities are being deferred or dropped. The current crisis has restricted also trade finance flows into the sector. Asian buyers of logs, for instance, have reported serious problems in obtaining letters-of-credit (L/C). Also Latin American companies are suffering from shortages of trade finance.

The crunch in international trade finance will be addressed through the April 2009 G-20 agreement to ensure the availability of at least US\$250 billion of trade finance over the next two years through export credit and investment agencies, and through the multilateral development banks, including up to US\$50 billion of trade liquidity support over the next three years through the IFC’s Global Trade Liquidity Pool. (IMF, 2009)

##### Declining demand for wood products and scaling down of production

The collapse of the housing sector, which has been at the epicentre of the current crisis, is a major blow to the wood industries sector. Annual rate of new housing starts in the United States has declined from about 2.1 million in 2005 to an estimated 432,000 in 2009 (Figure 1). A slow bettering to 553,000 units in 2010, reaching the one-million mark by 2012, is projected by the Western Wood Products Association (WWPA). Although not of the same magnitude, there has also been a similar contraction of the housing sector in several other countries, especially in Western Europe.

## Impacts on mechanical wood industries

As today's crisis has once again demonstrated, the demand for sawnwood and wood-based panels is strongly correlated with housing sector activity, igniting immediate and strong fluctuations in building product markets. The resulting scenario is declining prices of wood products, mill downtime and closures of excess capacity. Jobs will be permanently lost and shift of production capacity to lower-cost regions will continue.

## Country news

Building and construction, both residential and non-residential, consumes most mechanical forest products (75% of sawn softwood, OSB and plywood in the US). The decline in **North America's** consumption started already in 2006, while it spread into Europe later during 2007-2008. Consumption declines in nearly every segment of the U.S. wood products industry have been significant:

- Softwood lumber demand down 50% since 2005;
- Hardwood lumber down 35+%;
- Structural panels down 37% since 2005; and
- Engineered wood products (EWP) down 30%.

Since January 2006 job losses in wood products manufacturing have totaled 126,000 (22% of the total industry employment). Log demand in the U.S. in 2009 will slide to the lowest level in modern history. A slow recovery is expected for 2010, according to the Western Wood Products Association (WWPA). It predicts U.S. lumber demand in 2009 coming down almost 30% from 2008 totals and lower by more than 55% since the peak in 2005.

In **Canada's** sawmilling, total softwood lumber production declined 20% in 2007-2008. Exports to the U.S. show a record fall of nearly two-thirds between 2005-2009. An annual 35% drop is projected in 2008-2009 alone. Five major Canadian sawmilling companies (2 in Quebec, 1 in Ontario and 2 in B.C.) reduced their 2008 output by one-third or more. The forest industries in the Province of British Columbia have laid off 20,000 workers since 2004 (20% of workforce).

Sawmilling output in **New Zealand** contracted 26.7% between Q4/2008 and Q4/2007. Export earnings stayed higher than in 2007, mainly thanks to the steady depreciation of the NZ dollar. Supply of domestic logs is adequate, but uncertain demand for the processed product causes problems. 24 sawmills closed operations in 2008. Radiata pine log exports have resumed to Japan and China, aided by the weaker NZ dollar.

**Chile's** export earnings from sawnwood and mouldings declined about 10% in 2008, which led to closures or reduced operating levels on sawmills. 4,000 jobs were cut in the last quarter of 2008. Direct employment in Chile's forest-based industries was 125,000 people in 2008 (CORMA, 2009).

**Russia's** plans to impose the prohibitive EUR 50/m<sup>3</sup> log export tax have resulted in lower purchases of unprocessed roundwood by Finland (-24% Q4-08/Q4-07) and China (-32%). But the policy has failed so far to attract significant investment projects to ramp up domestic processing. A plan to impose the taxes is on hold until the late 2009, and may be abandoned due to massive downsizing of forestry and industry output in Russia. Sawnwood production went down 24% and plywood 40% from Q1-09 to Q1-08. Fibreboard and particleboard plummeted 43% and 29%, respectively.

**Indonesia's** plywood industry is facing the prospect of a further 40% drop in exports, because the major importing companies of the US, the EU and Japan have yet to place any orders with Indonesian plywood manufacturers for 2009. Plywood exports from **Brazil's** Pará state dropped 41.4% in volume in 2008, compared to 2007, according to the Timber Exporting Companies Association of Pará (AIMEX) (Wood-based Panels International, 2009).

In **Europe's** sawmilling industry, a heavy overcapacity and challenging raw material supply balances, both in Baltic Sea area and in Central Europe, have led to mill downsizing by the big players like StoraEnso (at mills in Finland, Poland, Austria). UPM is re-organizing its plywood mills. Finland's sawnwood output went down by 20% in Q4-08/Q4-07.

## Impacts on pulp and paper industries

Today's global fibre flows are a result of a strategic model whereby:

1. Pulp is produced next to fast-growing plantations to exploit the low-cost production factors (raw material, labour, energy, chemicals) at maximum size new mills.
2. Paper is produced as close as possible to the markets, to minimize transportation costs to final customer.
3. As a result of the above, international trade in market pulp has expanded, and mixing of different pulps to optimize paper processing and paper grade quality is a common practice.

FAO estimates that world’s plantation forests can presently contribute up to 66% of global industrial wood supply, depending on region and harvesting rotations. Forest plantations in China will help provide most of the needed pulpwood resources for domestic chemical pulp demand, but a shortfall will be met by imports of market pulp from Brazil, Russia and Indonesia. Latin America harbours large areas suitable for planted forests, but the credit crunch is currently affecting expansion plans (see Box 1).

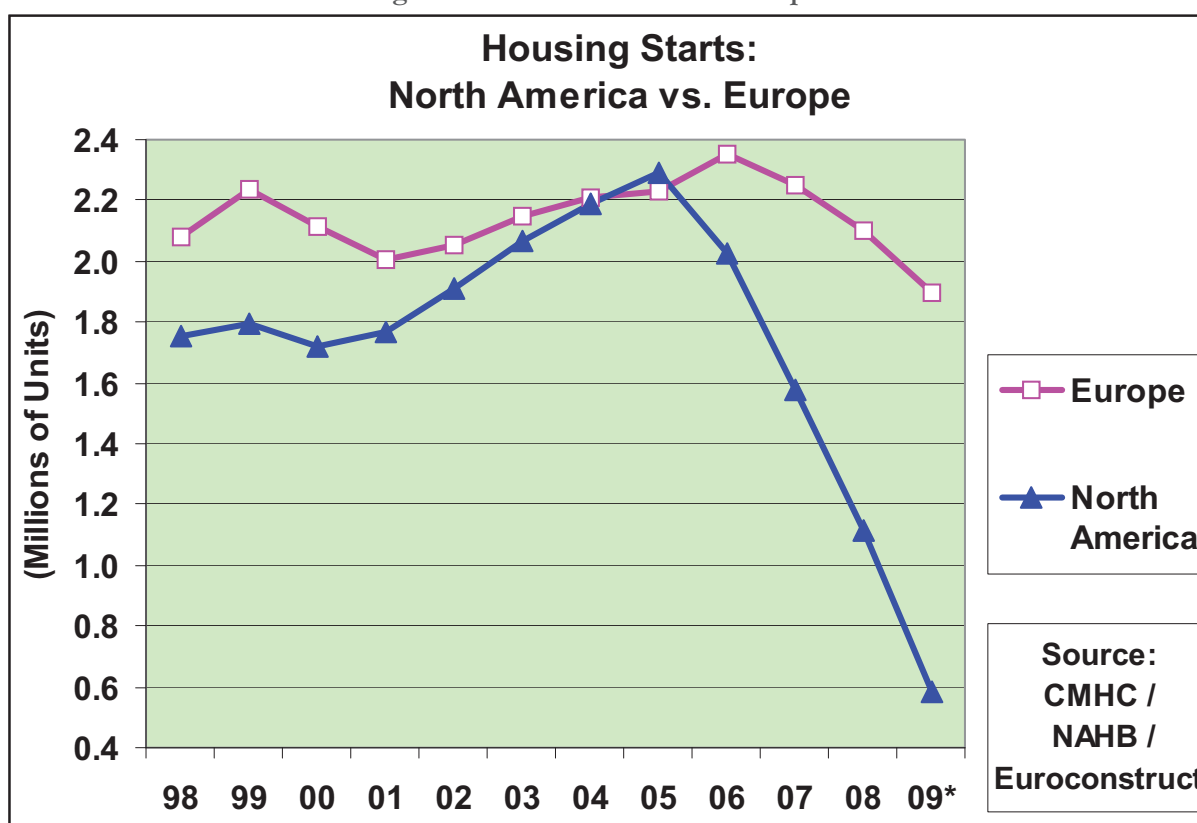
**BOX 1. Less available capital to support a new mill in Uruguay**

The Spanish paper company ENCE is planning a pulp mill southwest of Montevideo, designed to produce about one million tons of Eucalyptus pulp. The company is currently in negotiation with a number of investors regarding the financing of the mill, but this process has slowed as the result of the financial crisis. ENCE currently manages about 170,000 hectares of plantations in Southern Uruguay, which will be the main supply source for the plant.

Moreover, Soporcel of Portugal and StoraEnso of Finland have developed plantations and carried out studies on sites of pulp mills in Uruguay.

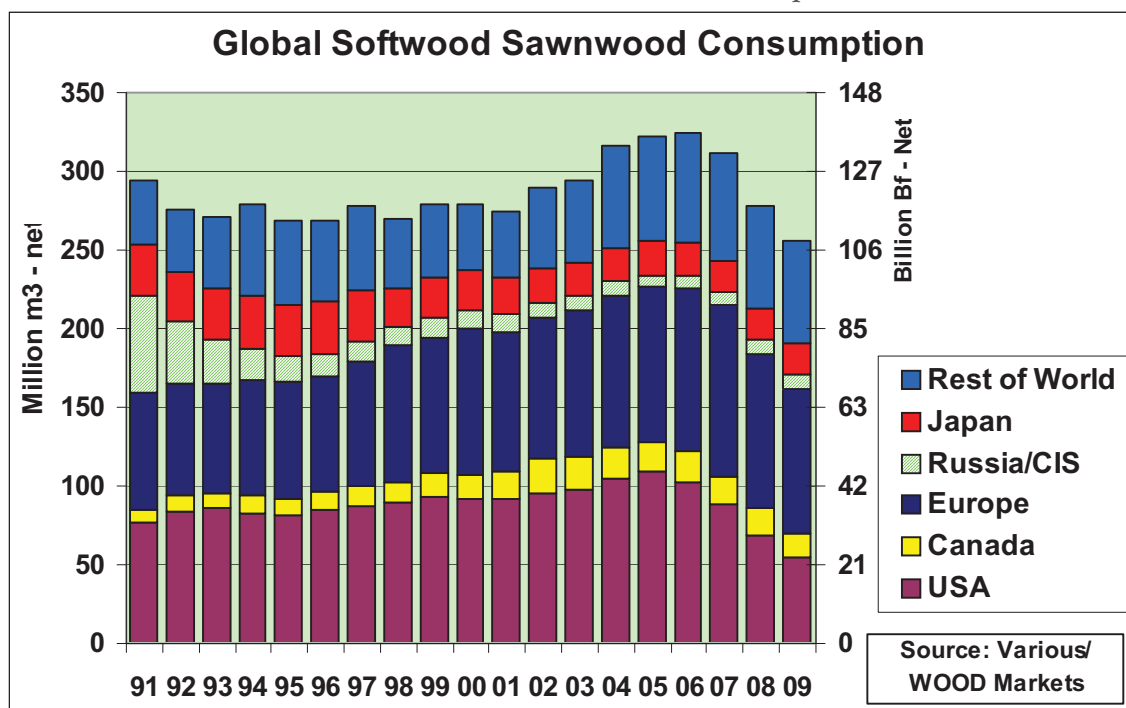
Source: Wood Resources International LLC, March 2009

**FIGURE 1. Decline in Housing Starts North America vs. Europe**



Source: International Wood Markets Group Inc. 2009

FIGURE 2. Trends in the World Softwood Sawwood Consumption



Source: International Wood Markets Group Inc. 2009

Pulp business is vulnerable to currency fluctuations, stock/capacity changes between integrated and market pulp, competition over fibre from bio-energy industries, energy/transportation costs, and future policies on energy and climate change. Pulp export prices lost 3% of their value between mid-2008 to Q1/2009. In May 2008, NBSK price was up at US\$906/ton, but it went down to US\$615/ton in January 2009.

In the paper and paperboard sector, the long-term growth drivers have been:

- Packaging demand growth in export-oriented manufacturing industries, especially in Asia.
- Wider use of communication, packaging and personal care papers in the emerging and developing countries, where per capita consumption is still very low.
- Information and communication technologies (ICT) and home office working development, which used to spur printing and writing paper use.
- Intelligent papers and packaging products being developed (RFID, nanotechnology, etc.).

Growth prospects were perceived to be high, which led to a structural overcapacity, in particular as regards printing & writing papers. Several of the world's largest pulp and paper mills were built in the emerging countries with immediate access to high-growth plantation forests. But saturation in the market demand lowered growth rates, especially in North America, where the rise of electronic media penalised printed media. This has resulted in lowering of per capita consumption of printing and writing papers and newsprint in the U.S. Newsprint is expected to continue declining as digital information carries on reducing the demand for printed media.

CEPIFINE statistics indicate a 20% fall in European demand for coated woodfree papers, and -16% for uncoated woodfree papers Feb.09/Feb.08.

CEPIPRINT data show that in newsprint, a 8.5% decline occurred in the European demand, March 09/March 08. In SC papers, the market bounced back with a 3.7% growth over same period. The decline recorded in March 2009 was significantly smaller than in the previous two months.

Future demand growth for pulp and paper consumption will remain strongest in Asia as the region's per capita income rises, so too will their demand for paper and paperboard products. Europe and North America will see their share of global production decline as capacity expansion for pulp and paper production is focused in China, Russia and Brazil. Packaging grades are expected to perform better, thanks to Asia's manufacturing exports.

## Pulp and paper industry restructuring

The pulp and paper industry in “the old world” had already embarked on a restructuring before the financial and real-economy crises unfolded. There has been an on-going shift in global paper and paperboard production, away from the US, Japan and Canada, being offset by fast rising production in China, and to a lesser degree in SE Asia and Latin America. The relatively older capital stock has made these industries less competitive in North America and Russia than in other major regions. The newest stock of mills is in China, Finland and Germany. Rationalizing production capacity by closing down inefficient units and focusing on the more energy and material efficient ones will be an important stepping stone to greener industry by the pulp and paper industry.

The European pulp & paper industry held on to its shares of the world output until recently. A major restructuring in pulp and paper industries in Europe has now started. It has led to permanent closures of the oldest pulp and paper mills in Central Europe and in the Nordic region. StoraEnso is slashing its production bases in Finland. The devaluation of the Swedish *krona* makes mills in Sweden more competitive. UPM and M-Real have both closed several mills.

The financial turmoil and falling orders have accelerated the cost competition between companies and individual paper mills. Even within a corporation, mills in different countries are benchmarked against each other and orders are transferred to the lowest-cost units.

The on-going is a correction move to erase overcapacity and lower finished products inventories. It will allow fast up-turn once the real economy springs up again. Most likely mergers and acquisitions will accelerate only after a cyclical turn for the better is confirmed in the major markets.

## Country news

According to the American Forest & Paper Association, total printing-writing paper shipments decreased 21.9% in March 2009 against 03/2008. Uncoated free sheet paper (UFS) shipments were 16.0% below last year. Coated free sheet (CFS) shipments posted a 37% decline and coated mechanical (CM) plummeted by 40%.

Wood fibre demand in North America alone is projected to fall by more than 20 million tonnes by 2009 (RISI, 2008). The most prominent closure is AbitibiBowater, the world’s largest newsprint producer, which filed for Chapter 11 of the United States Bankruptcy Code.

**Canada** plummeted into a forest industry crisis early due to its dependence on the US market. The Canadian forest, paper and packaging industry shows extremely poor financial results Net earnings (in Cdn \$ millions):

<u>Year</u>	<u>Canada West</u>	<u>Canada East</u>	<u>Canada</u>
2007	-\$386	-\$106	-\$492
2008	-\$641	-\$954	-\$1,595

The Conference Board of Canada predicts that the forest products industry in Canada will to lose another \$750 million to \$1 billion dollars in 2009 (*Source: International Wood Markets, 2009*).

In Asia, **China** continues to increase its pulp and paper output, albeit at a lower 7-8% annual growth rate. This is well below the two-digit growth rates recorded in the height of the global economy in 2006-2007. China’s paper industry may overtake the United States in total output within the next five years if current rate of expansion continues. India too is continuing to grow, even though the volumes are much lower than in China. Both countries have large domestic markets to sustain growth when export markets are in the doldrums.

In **Japan**, Nippon Paper Group (NPG) is taking unprecedented action to adjust to prevailing market situation. It is shutting permanently 15 paper and board machines and coaters by the end of September 2009. The closures are expected to reduce output by 875,000 tonnes/yr, over 10% of NPG’s total capacity. Extended downtime and service breaks are added to lower output, as well as temporarily halting production on other machines at its mills in Japan.

In **Finland**, paper and paperboard production declined 18% in Q4-08/Q4-07. Stora Enso is planning to reorganise its operations and it has closed down several mills. The aim is to reduce annual costs by EUR 250 million by the end of 2010. Up to 2,000 employees will be affected, mainly as a result of the leaner management

structures. Furthermore, the company is ceding the buildings and most of the Summa pulp mill site in Finland to the Google Group of Companies for approximately EUR 40 million. The company has decided to defer its final decision regarding the proposed pulp and paper mill project at Nizhny Novgorod in Russia to a later stage. UPM is restructuring its supply chain operations in Northern and Central Europe to facilitate centralised steering of operations. Technical innovations of UPM concentrate on integrating RFID tags and inlays into printed media, which will help bridge the divide between traditional print and online magazines.

Finally, **Russia's** wood pulp production went down 26% and paper 12% from Q1-09 to Q1-08. Paperboard declined 20% in the same period. Russia's experimental export tax on roundwood has been a negative incentive (i.e. discourages exports of unprocessed products rather than encourages exports of processed products). It has produced a reverse result and may be revoked. At a high-level seminar in Pushkino (November 2008), both the Russian logging companies and pulp and paper industries expressed their frustration about the negative impacts of log export taxes on their businesses.

Despite Russia's commanding share of the world's forest resources (22%), it is not in a position to quickly take over a proportionate share of the global forest products industry. It has to become competitive compared to other regions, many of which have much more favourable physical, operational and legal conditions for forest industry. Foreign investors like IP have shown that they may also shut down plants in Russia if operations run into trouble due to policy or governance failures.

## **WAY OUT: FROM RESTRUCTURING TO LOW-CARBON ECONOMY**

### **Green building**

Increased building with wood and development of wooden building systems are both strongly encouraged in many European countries. Governments and wood industry associations are looking seriously at fighting climate change and substituting wood for non-renewable building materials. UK's Wood for Good campaign, for example, is communicating technical facts about the CO<sub>2</sub> footprints of wood products, carbon storage in harvested wood products and the positive substitution effects of replacing other building materials with wood. The Forest Industries Federation of Finland has embarked on a similar science-based promotion of wood-frame building. Several similar moves are taking place in other countries. Higher-storey and larger dwellings and public buildings are allowed for by relaxing some of the building and fire codes.

While mechanical industries of Europe have turned to survival mode, the IIASA of Austria is predicting that the green building movement could support the renaissance of Europe's sawmilling and woodworking industries. This is based on the assumption that a strong climate policy backing is given to carbon contained in harvested wood products, energy efficiency targets and materials substitution in building and construction. They would put wood as a material in a favourable position over concrete, plastic, gypsum and steel.

In Canada, FPInnovations - Forintek has launched analysis of so-called displacement factors of wood product use. This quantifies the amount of CO<sub>2</sub> emission reduction achieved per unit of wood use, in comparison to using non-wood material (in Sathre, R. and J. O'Connor. 2008). This can be a potentially strong tool in communicating the carbon-savings and influencing individual consumer's decisions.

### **Closer integration of biofuels and green chemicals with forest industries**

Increasing oil prices and the growing concern about climate change have led to an unprecedented investment boom in biofuel production during the last few years. A sharp decline in oil prices and the deceleration of economic growth have cast considerable uncertainty on investments in bioenergy. This will particularly affect the development of more efficient second and third generation technologies and the persistence of less efficient biofuel production that to some extent have added to land use conflicts and diversion of food crops to energy production.

Global overall energy sector development and especially global bio-energy development will be crucial for the development of the conventional forest industry in Europe. Land politics, climate policies, and energy policies are likely to be conducive to the implementation of a substantial bio-energy sector in Europe (IIASA, 2009).

Some of the leading international forest corporations have nevertheless announced their intention to integrate biofuel production. Two of the leading Nordic companies, UPM and StoraEnso, have both decided to invest in liquid biofuels, albeit on different product platforms:

- UPM is conducting trials to produce biodiesel, bioethanol and heavy fuel oils from forest residual biomass like bark, stumps, branches, etc.
- StoraEnso has formed an alliance with Neste Oil of Finland for developing a new gas purification technology related to generation of clean synthesis gas from wood and use of the Fischer-Tropsch process to produce crude biodiesel from the syngas.

Integration of such biofuel and chemical extraction methods into pulp mill processes is a major target in revamping the competitiveness of chemical forest industries. There are far-advanced research groups in North America and Europe developing the biorefinery concept into industrial scale. The goal is to **increase dramatically the total value of wood fibre**. There are two possible technology platforms:

1. The sugar platform: fractionation of woody biomass into sugar components followed by fermentation.
2. The thermo-chemical platform: thermo-chemical conversion of wood into synthetic gases (syngas), which are either burned to generate electricity and steam or further processed into other chemicals such as liquid fuels.

On the traditional **wood energy market**, wood pellet production worldwide has climbed to 10 million tons. It is expected to double in the next 4-5 years. The current downturn has brought down the costs of wood and residues considerably, which bodes well for pellet manufacturing. Pellet factories in some sites compete directly for roundwood and residues with pulp and wood-based panel mills.

Europe has been the frontrunner in pellet consumption, especially Sweden, Germany, Benelux and Finland. Canada (British Columbia) is the prime exporter. The new U.S. administration is expected to lend clear-cut support to renewable energies, which would open up markets for Canadian pellets across the border. This may open up opportunities for large-scale production in Latin America, Russia, Asia and Africa (Wood Resources International LLC, 2009).

## ISSUES FOR DISCUSSION: WEATHERING THE ECONOMIC STORM

1. Is the on-going financial and real-economy crisis an opportunity to undertake the long overdue restructuring of the forest industry?
2. How can the world's forest industry best adjust to a fundamental geographical shift of demand and production into the emerging economies?
3. Can such a restructuring lead to a wider perception that forest industry and the green cluster around it can become important stepping stones into a low-carbon economy?
4. What are the crucial steps in product and process development to steer the industry into the next level of development?
5. How can wood industry best tap the opportunities of the green building movement: what type of incentives must be provided to consumers/builders who select materials?
6. How can the paper industry rejuvenate by connecting traditional and new media?
7. How can the forest industry best integrate bio-energy and renewable fuels into its strategies?
8. How can the forest industry provide an optimal impact on the mitigation of climate change?
9. Will there be more or less room for promoting SMEs as "local green alternatives" *vis-à-vis* a consolidated production structure of multi-nationals?
10. Finally, how can FAO raise its responsiveness in advising countries on how to ride out of the economic storm into a new growth in low-carbon economy?

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## ITEM 7. Summary - Country Reports

The following is a summary of the main emerging issues and business developments that the wood and paper industry is facing around the world, as described in the country briefs prepared by ACPWP members.

The country reports mostly focus on the economic situation of the industry for the year 2008, but also cast light on national and regional policy developments and trends, as well as social aspects. Some country reports also cover environmental impacts of the industry.

The ACPWP members were asked to report on the following questions:

1. What are the emerging issues facing the industry in your country (e.g. national political situation, climate change, water, illegal logging, SFM certification, energy market reform, etc.)?
2. What are the most important business developments within your industry over the last year (economic situation, legal developments, investments etc.)?
3. What new information do you have on the socio-economic contributions of the forest industry in your country (formal and informal employment generated by the forest industry, contribution to rural and urban development, health, education, poverty alleviation, etc.)?

Most of the country reports reply to the three questions and provide important information, which is briefly summarized below.

## EMERGING ISSUES FACING THE INDUSTRY

The global financial crisis, which had been threatening for a while, really started to make itself felt in the middle of 2007 and into 2008. Around the world, stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. The impact of the global financial crisis on the forest industry is analysed in depth under Agenda Item 5.



In addition to economic challenges, during 2008 most countries faced challenges relating to climate change, emissions trading schemes, water, certification/codes of conduct, energy markets and corporate social responsibility.

### **Climate Change**

Awareness of the significance of climate change within the industry and the general public is reported as increasing in all member countries. The European forest based industry will need to conform to an action plan released by the European Commission in 2007, requesting ambitious and binding targets for the reduction of GHG emissions, energy efficiency gains, a 20% share of renewable energies and a 10% bio-fuels target, to be accomplished by the year 2020. Moreover, Japan and some other countries are committed to achieve challenging targets, and are promoting the use of (more) wood in construction, through the implementation of green building codes.

On a five-year averaged basis from fiscal year 2008 to fiscal year 2012, fossil energy consumption per unit and CO<sub>2</sub> emissions per unit derived from fossil energy should be reduced by 20% and 16% respectively, compared to 1990 levels. Industry's forest plantation should be expanded by 700,000 hectares by 2012 in order to absorb or fix carbon dioxide (Japan). New Zealand reports a target of additional 250 thousand hectares of plantations to be established by 2020. Argentina, Chile and India also reported an expansion of their plantation area during 2008.

### **Emission Trading Schemes**

Closely related to climate change issues are the concerns of the European pulp and paper industry and of some countries regarding large scale auctioning of emission credits, planned by 2013 in the EU. Some countries and regional organizations predict that this could lead to market imbalances. Nevertheless, the political framework on the Emissions Trading Scheme (ETS) has been set by the governments from end of December 2008. For the years 2009 and 2010 countries and industry have to be prepared to develop implementation strategies. Up to now it is not clear whether the European paper industry will be able to meet carbon linkage criteria.

### **Water**

Some countries are facing their worst droughts in recent years, which is having significant impact on water allocation, forest fires and forest plantations. Even in countries with sufficient or increasing water supply, the debate on industry's impact on water quality is emerging. In particular, intensive farming operations with their high nitrogen discharge levels are held responsible for negative impacts on the water quality. Already, New Zealand is discussing a system to establish a nitrogen trading system for nitrogen runoff for non-forested land, so as to force the main polluters to pay.

Swedish commitments on reduction of emissions of nutrients to the Baltic Sea will be costly for the industry. Implementation of the Water Framework Directive is stricter in Swedish legislation than in other European states.

### **Certification**

Independent, third-party certification has continued to grow in many countries. New Zealand reported that over 55% of the country's forest plantations are now certified. Germany reported 100% of the wood supply and 85% of the pulp supply as having proofs of origin, documenting that the resources are from sustainably managed forests. It is hoped that this positive trend will improve the image of the industry, convincing the general public that industry is managing and using the forest resources in a responsible and environmentally friendly manner.

In Argentina, around 30% of the forested land is certified by some environmental, labour or sustainable standard (ISO 14000; OSHA 18000, FSC). Accordingly, in 2008 progress was made on a federal rule on forest certification which may be approved by PEFC as well as on establishing a FSC National Initiative. It is expected that the two programmes will be operating in 2009.

India has reported difficulties faced by industry relating to forest certification. The bulk of the raw material is obtained from small farm and agro-forestry holdings, with tens of thousands of private owners, and it seems to be practically impossible at present to get these smallholdings certified.

## **Energy market**

Due to high energy costs and political directives at national and regional (EU) level, growing competition between use of wood for industrial processing and for energy, the share of renewable energy is targeted to be 20% of the total energy consumption in the EU by 2020. The 20% target raises concern about availability and accessibility of wood at reasonable market prices. It is estimated that in the EU alone an annual gap in the supply of wood could amount to 260 million cubic metres of roundwood by the year 2020.

Industry therefore proposes mobilization of all wood resources available and, in addition, the establishment of fuelwood plantations for energy generation. To ensure that sufficient wood resources are at the disposal of the processing industry, some countries now request codified priority settings in favour of wood for the production of wood based products.

During 2008, in many countries progress was made in investments related to bio energy. Pellet-production increased and cogeneration systems have been installed for the production of energy from waste.

## **Corporate Social Responsibility**

Corporate social responsibility has been defined as the ethical behaviour of a company towards society, in recognition of the fact that not only shareholders, but multiple stakeholders, have a legitimate interest in the activities and performance of a business and that companies need to be responsive to their concerns.

This public interest is increasing and is being addressed by certification schemes and national initiatives. Important steps forward have been made in many countries, in particular those countries with a significant indigenous population, in order to increase involvement in the forest industries sector. This includes changes in land ownership and business and employment opportunities.

## **BUSINESS DEVELOPMENTS**

### **Economic situation**

The rapid deterioration in the business situation has negatively affected profitability in all main sectors. The downturn in the global economy in the latter part of 2008 and during the first part of 2009 substantially weakened the demand for nearly all paper and wood products, on a global scale. The current economic crisis has already led to insolvency of several companies and closing of small and isolated operations. In the long run, this could help to reduce overcapacity and thus allow for consolidation.

Some countries are trying to establish comprehensive development programmes for their forest sector. Among these, Finland has chosen three priority sectors to further develop its forest industry: development and utilization of forest resources; increase in the added value of wood products; and the creation of operating conditions conducive to competitiveness. In Argentina, companies are redesigning their strategies to overcome this situation, which is estimated to show the worst scenario in 2009. The sector has sought to reduce costs and improve productivity.

The European pulp and paper industry has been hit very severely by the economic and financial crisis. This is reflected in several ways:

- Loans are more difficult to obtain, despite interest rates cuts
- No economic recovery is foreseen before end-2009, or even beginning 2010
- Retail sales, as well as consumer confidence, have plunged
- Advertising expenditures are expected to decrease by at least 1% in EU in 2009
- At the end of 2008, the paper industry recorded a real decline in its activity
- Most pulp and paper grades have seen their markets deteriorating, despite downtimes taken by companies
- Decreasing production costs and raw material prices is a relief
- Freight rates have substantially decreased, making competition even tighter

Still, some investments planned before the crisis are going on (in Portugal and UK), but many others have been suspended or delayed. On the raw material side, Russia has announced the postponing of the tax on roundwood exports that was supposed to rise to 50EUR/m<sup>3</sup> as of January 2009. This delay will not impact

significantly on imports of Russian wood by the Nordic companies, since they had already adapted their procurement policy in anticipation.

The Confederation of Finnish Industries EK's Business Tendency Survey, conducted in January 2009, revealed a dramatic weakening in the business situation of Finnish companies at the end of 2008. The current situation is characterised in almost all sectors as significantly weaker than normal.

Expectations for the first half of the coming year are also dismal. A very pessimistic outlook faces us. Declines in production volumes are expected across the board in different sectors. The exceptionally uncertain economic situation calls for a rapid ability to adjust, as well as for measures to improve productivity and competitiveness. As export demand wanes, the significance of cost competitiveness is further emphasised.

## **THE SOCIO-ECONOMIC CONTRIBUTIONS OF THE FOREST INDUSTRY**

In the current context of lay-offs, closures (temporary or definitive), depressed wood prices, etc., it is difficult to deliver positive information on the socio-economic contribution of the industry during 2008 and first part of 2009.

The U.S. forest products industry faced strong headwinds from a weak economy during 2008, which affected both the paper and wood products sectors. The wood products sector had been in decline since mid-2006, while the paper business held up relatively well until mid-to-late 2008, when it contracted sharply.

Argentina reports that the development of forest services and professionalization of rural workers have continued, leading to progress in the measures taken for social and environmental sustainability. The forest industry in Argentina generates direct and indirect employment for over 500,000 people. According to AFoA estimates, foresting generates one job every two planted hectares and one job in the industry per every harvested hectare.

Forest-based Chilean industry employed more than 125.000 people in 2008, and a similar number of indirect jobs is estimated. The livelihood of more than a million people in Chile depends on forests, taking into account both the workers and their families.

South Africa reported on significant developments during 2008 leading towards the Gazetting of the Broad Based Black Economic Empowerment Transformation Charter for the Forest Sector. This Charter, called for under the terms of the Broad Based Black Economic Empowerment Act, seeks to bring about socio-economic transformation in the forestry sector which will facilitate greater participation of previously disadvantaged people in South Africa as well as growth in the forestry sector. A key challenge will be to ensure that ownership transfer will not result in existing timber plantations being converted to other land uses.

The financial crisis hit the Swedish forest industry quite severely through decreased demand and decreased production. This resulted in a fall in exports and in an annual drop of GDP of 0,2 percent 2008 over 2007. The number of people given notice increased sharply as the labour market weakened. Some of the decline was due to mills being closed down.

## **ITEM 8a. Participation in the XIII World Forestry Congress**

### **FORESTRY AND CLIMATE CHANGE – TO COPENHAGEN AND BEYOND**

#### **Background**

Forests are linked with climate change in various ways - they are affected by climate change, when degraded or removed, they contribute to climate change through greenhouse gas (GHG) emissions, and they contribute to climate change mitigation by sequestering carbon dioxide from the atmosphere during afforestation and reforestation. Furthermore, the use of wood for products and fuel reduces GHG emissions from competing, more carbon-intensive products.

At the 13th Conference of Parties in Bali in December 2007, Parties to the UNFCCC included in their Bali Action Plan the reduction of emissions from deforestation and forest degradation in developing countries, conservation, sustainable forest management and enhancement of forest carbon stocks in developing

countries. A decision for both Annex I and Annex II countries on whether and how forestry will be dealt with in the post 2012 climate arrangement is expected to be taken at the UNFCCC COP 15 scheduled for early December 2009 in Copenhagen, Denmark..

The WFC represents an excellent opportunity for the global forest community to discuss advances on technical aspects related to questions such as: how forests can contribute to mitigating climate change and how the impacts of climate change on forests and people can be addressed. The Roundtable on Forestry and Climate Change session aims to develop a recommendation on how to include forests in the 2012 regime in an effective way; the recommendation will be presented to the world forestry community at COP 15 (latest information is available at: [www.cfm2009.org](http://www.cfm2009.org)).

### Objectives

- Views on the challenges and opportunities for forestry in the context of climate change are shared;
- The knowledge of WFC participants on issues related to forestry and climate change is strengthened.
- Interchange of different views on the role of forestry and climate change in post-2012 regime to be negotiated in COP 15 takes place.

### Outcomes

- A shared understanding of the challenges and opportunities for the forestry sector in the climate negotiations;
- Recommendations on technical issues of the global forestry sector to UNFCCC COP 15 at Copenhagen.

## ITEM 8b. Participation in the XIII World Forestry Congress

### FORESTS AND ENERGY - BALANCING RISKS AND OPPORTUNITIES

#### Background

Interest in bioenergy has increased over the last decade, due to factors such as: high oil prices; concerns about energy security; and commitments to reduce carbon emissions. The use of wood for energy is an important component of the bioenergy sector and includes both the use of wood for heat and power production as well as the use of wood to produce liquid biofuels.

In many developed countries, advanced bioenergy production systems have been used to produce heat and power from wood for many years. In most developing countries, the use of wood for energy is very important, but is currently dominated by traditional uses of fuelwood and charcoal. However, some of the larger developing countries also have ambitions to increase bioenergy production using modern technologies.

Most recently, the production of liquid biofuels has rapidly increased. Almost all of this production is currently derived from agricultural crops, but the technology to produce liquid biofuels from wood is improving and production is expected to increase greatly in the future.

The above developments present both opportunities and challenges for the forestry sector. For example, liquid biofuel production will increase the demand to convert forest land to biofuel crops. However, the use of wood for energy production will also increase demand for roundwood and wood residues. These new demands will not only affect the forestry sector, but will have a wider impact on the environment and the people living in and around forests.

The economic, social and environmental impacts of increased bioenergy production on forests are complicated and will be strongly affected by the policies and mechanisms used in countries to influence these developments. These policies are currently at an early stage of development in many countries and forestry policy makers may not have a good understanding of many of the issues at present. Therefore, a *Roundtable on Forests and Energy* will be organized during the 13th World Forestry Congress, with the following objectives:

- to assess and share the current state of knowledge about the risks and opportunities for forestry in future bioenergy markets; and

- to assist forestry policy makers to provide informed inputs into national and international policy discussions on bioenergy.

The outcome of the roundtable will be a better understanding of the issues and impacts related to forests and bioenergy development so that policy makers can identify suitable policies and measures that will balance the risks and opportunities in the sector (latest information is available at: [www.cfm2009.org](http://www.cfm2009.org)).

## **ITEM 8c. Participation in the XIII World Forestry Congress**

### **SPECIAL EVENT 1: XIII WFC SPECIAL EVENTS FOR THE PRIVATE SECTOR Business networking day**

#### **Theme**

Strengthen your global business networks in this major international forestry event.

#### **Background**

As today's forest products trade is increasingly global, the XIII WFC offers a unique platform for intensified networking on technical and commercial interests to participants from all over the world. The host country, Argentina, and Latin America as a whole, represent an attractive and dynamic forest and industry base for the rest of the world to engage with.

This innovative platform is the Business Networking Day, which will be organized within the programme of the World Forestry Congress. A proven methodology and software developed by trade promotion organizations will be applied to match forest products companies from different countries, and to set up a schedule of one-to-one meetings.

#### **Objective**

XIII WFC will offer a vivid networking environment to connect Latin American and African wood industries with Asian, North American and European buyers, investors, technical experts and out-sourcing industries. The range of business opportunities will range from concessions to planted forests, from wood and non-wood forest products into pulp and paper, not forgetting forest-based carbon and other ecosystem services.

The event will be organized in a format that fosters sustainable business relations and builds up a sense of community among private sector participants as key forest stakeholders. The combination of bilateral talks with the rich technical content of the XIII WFC thematic presentations will assist to private sector participants strengthen their business networks and stay one step ahead of emerging challenges and business opportunities. Their voices will also be heard in the broader context of the Congress, helping to make the event truly representative of the forest industry and trade.

#### **Format**

During the opening, a short summary of global market trends affecting forest industry and trade will be presented. The Working Rules of the Business Networking Day will be pre-distributed to all participants, but a short re-cap of modus operandi will be announced. All one-to-one meetings will be pre-arranged using a time chart and numbered tables. Each meeting will last 20-30 min. depending on the number of participants. The activity may run until 8.00 p.m. A nominal charge of \$100 is payable by each participant in the event. No translation services will be provided.

#### **Target Group**

- Managers of natural and planted forests;
- Producers and traders of solid wood, wood-based panels, components and value-added products, pulp and paper;
- Investors, technical experts, non-wood forest product suppliers, forest carbon project developers;
- Business delegations from all over the world.

#### **Partners**

- Export promotion organizations of Latin America;
- Import promotion organizations of Asia, Europe and North America;

- Industry associations and forest products trade networks;
- International organizations working on trade promotion.

## **ITEM 8d. Participation in the XIII World Forestry Congress**

### **SPECIAL EVENT 2: XIII WFC SPECIAL EVENTS FOR THE PRIVATE SECTOR Investment and financing forum**

#### **Theme**

Breakaway strategies from credit crunch to low-carbon green growth in the future.

#### **Background**

During the World Forest Week in March 2009, the international community debated about the impacts of economic turbulence on the forest sector. It endorsed the need for countries to breakaway from the “real economy” crisis affecting the forest sector. While some economies are projecting early signs of recovery, in some regions the crisis has not bottomed out yet. The situation is genuinely imbalanced as regards the pursuit of global economic recovery. But common to many countries is the priority being given to the forest sector on the political agenda so as to overcome some of the unprecedented challenges at national and even global level.

In response to this, the XIII WFC is organizing an investment and financing forum, carrying forward change-oriented thinking and demonstrating how forest-based industries can show leadership in fostering green growth for economic rebound. The event will focus on private sector solutions, including corporate strategy turnarounds, new business line development, innovative investments and financing for restructuring the sector for a sustained future. Considering the forest-dependent business cluster in a wider context may provide important stepping stones into a low-carbon economy. The host country, Argentina, and Latin America as a whole, represent an important base of forest resources and industries for the rest of the world to engage with.

#### **Objective**

This Special Event will build on a dynamic dialogue between the producers and the financing community. It will compare the survival strategies of large forest industries, and debate with other business sectors operating in and around forests (renewable energy, bio-tech, forest-based carbon, ecosystem services). A necessary catalyst is the financing community, which can steer change through its evolving criteria by supporting industry restructuring, green growth, and promotion of a low-carbon economy.

The ultimate objective is a revised vision of forest-dependent business clusters in the new economic era, and a roadmap out of the crisis. Novel financing criteria and instruments are coupled with restructuring needs to provide a realistic path into a truly sustainable business model on forests.

#### **Target Group**

- Large forest corporations, bio-energy, bio-tech & pharma, forest-based carbon, ecosystem services firms;
- TIMOs, forest and investment funds, private equity funds, banks, government/state investment bureau;
- National and international paper and forest based industry associations;
- Financial and development institutions.

#### **Format**

A web tool will involve stakeholders in a moderated debate, as a preparatory discussion before the event. During the event, two experienced moderators will lead the debate, strive for solution models and summarize results. Working languages will be English and Spanish, with simultaneous interpretation provided. The tentative programme outline is below. Presentation details will be added as registrations proceed.

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## **1. Morning Session: New Strategies, Restructuring and Investments**

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- Introduction and keynote speech;
- Corporate strategy turnarounds, new business line development, restructuring and innovative investments;
- Experiences from forestry industry:
  - Pulp & paper industry: North American/European integrated bio-refinery and bio-fuel concepts, green chemicals, positions of the industry associations;
  - Wood products industry: energy efficiency, green competitiveness, materials substitution;
  - Forest-based carbon trade and forest-based renewable energy;
- Experiences from other sectors: presentations on liquid/solid bio-fuels, bio-tech & pharma, payments for ecosystem services, alliances between banks and green construction.

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## **2. Afternoon Session led by Moderator 2: Financing for Change**

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- Introduction and keynote speech;
- The financing community's criteria for supporting innovative forest-based investments, new business models and industry restructuring;
- Presentations by multi-lateral financing institutions, regional and national development banks, large private banks with forest industry portfolios, institutional investors
- New financing instruments, forest bonds, TIMOs, carbon financing;
- Views of insurance companies, pension funds, sovereign wealth funds, SRI funds.

By the end of the Forum, participants will have received an overview of unfolding recovery strategies. Closed-doors meetings of smaller groupings will be encouraged and facilitated.