FINNISH SAWMILLS
the Association of
Independent Sawmills

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THE MARKET CHANGE WILL TAKE PLACE WITHIN SHORTLY

Rawmaterial supply for sawmills is tightening before summer

The three big forestry enterprises (Stora Enso, UPM and Metsaliitto) accounts about 70 % of the logging activities in Finland. Due to crisis in paper and pulp market they less demand for pulp wood at the moment. Moreover, they have pulp wood stocks enough until autumn already. This means that most of the logging activities in Finland are or will be stopped temporarily. UPM stopped their loggings on March, 9th and could not say when they will re-start. Stora Enso will stop their loggings for April, May and June completely – not a single tree will be cut down. Metsaliitto has so far announced about 1 month break in logging. Stora Enso made a decision to stop their Enocell pulp mill in Uimaharju for the rest of 2009 due to problems in pulp & paper market. The published production curtailments and shutdowns of pulp- and paper mills mean a reduction of roughly 8.000.000 cbm in the consumption of pulpwood. This will have a major impact on the logging in Finland.

Independent sawmills have relatively better situation

The small and medium size sawmilling industries have less logging resources of our own. Complete stop in logging of the big companies will mean that sawmills do not get enough logs to keep up normal production of sawn goods during this spring and summer. We cannot utilize our own capacity properly because we should get rid of pulp wood at the same time. Our own loggings are thus limited because of this pulp wood dilemma. When you cut forest you will have plenty of pulpwood in addition to logs. Of course independent sawmills are relatively in a better situation thanks to their small log cutting capacities as certain part of the pulp wood can be used for sawn timber production. Also the forest owners are very much aware about the importance to assist sawmills to survive in the wood markets.

Production in sawmills are cut heavily

As a consequence sawmills must adapt themselves to this new situation. In addition to arising lack of timber we have record low market situation for sawn softwood. Temporary lay-offs will take place. It was announced last week that UPM Timber continues temporary lay-offs in Finland, also during the second quarter of the year. As a result of the negotiations UPM's Timber business will temporarily lay off its entire staff during April-June this year. Sawmills at Alholma, Heinola and Kajaani will cease the production for over two months. Other mills, production units and staff functions will have temporary lay-offs according to separate schedules and plans during the second quarter of this year. Bearing in

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mind the big actions taken by both Stora Enso and Finnforest the output in Finland will dramatically drop in 2009. Also family owned sawmills will and already have reduced the output.

The cumulative sawn timber production in Finland was 30 percent down in January-February 2009 over the previous year. This would indicate total annual output of about 7.0 Million m^3 in 2009 (2008: 9.8 Million m^3). This estimate does not include the fact that sawmills are forced to decrease their output because of this arising round wood problem. Output will dramatically collapse in April-June/July. The worst prediction is that we will cut about 6-7 Million m^3 in 2009 in Finland. At the same time the domestic market is still stronger that many of the export destinations. Domestic consumption can be around 3.0 Million m^3 in 2009. In the worst case exports can be decreased to 3-4 Million m^3 in 2009. In2008 we shipped abroad about 6 Million m^3. This will turn the sawn timber market upside down despite of the Swedish supply. The competitiveness created by weak currency will not be a long term competitive advantage.

Other main supply sources are also reducing their production

The news from Sweden also show that their logging volumes are coming down clearly. The Swedish production has begun to shrink during the first two months of the year. The production was down by 24 % compared to the previous year. Also the inventories in Sweden have begun to smelt with twofold numbers. Meanwhile the Finnish inventories are cut into half compared to the February previous year.

Russian softwood production has dropped heavily. This drop is concentrated to north-west sawmills which are main shippers to European markets and Far East sawmills which supply to the Japanese market. Also harvesting activity in Russia has collapsed. This will mean that Russian mills are not able to increase production heavily before winter 2010. Furthermore the economy of Russian mills is suffering from increased logistical and labour costs and the fact that continental buyers are no more financing the trade in advance. Lack of financing is affecting the Russian production more than other supply sources.

All in all this means that despite of heavily dropped demand there will be severe shortage of timber. This problem will start to appear in few months (even weeks) and the situation will get worse at least till spring 2010. We hope that main players in the market will buy based on their real needs and not continue to speculate with the inventory levels.

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