

## FINLAND ICFPA

In 2008, the Finnish forest industry has been forced to adjust its operations level to the raising energy and raw material costs, weakened market situation, and reduced use of Russian wood due to the unprofitability of the import and the export tariffs Russia has announced.

*Emerging issues facing the industry in Finland (e.g. national political situation, climate change, water, illegal logging, SFM certification, energy market reform etc.)*

### **EU's renewable energy and climate targets increase competition of wood**

The EU set a target for Finland in which 38% of all energy must be derived from renewable sources by 2020. The present level of renewable energy in Finland is 28.5%.

The Finnish forest industry can contribute to reaching the target by tripling the use of forest residues (branches, tree tops and stumps). This would form a significant share of the needed increase in renewable energy. The increase is a challenging, yet still attainable objective.

Direct subsidies to the energy use of wood would distort the raw material markets. Safeguarding the raw material use of wood supports the goal of increasing the share of renewable energy as the forest industry is by far the largest producer and consumer of renewable energy in Finland. Nearly 70% of Finland's renewable energy is generated by the forest industry. Harvesting residue, wood bark and other wood unsuitable for processing is used to produce more than 20% of all the energy produced in Finland; this figure is more than five times the EU average.

To attain the overall EU energy and climate targets, however, all renewable and low-emission energy sources need to be developed further.

### **More domestic wood needed on the market in the long run**

Annual growth in Finland's forests is almost 100 million cubic metres. Finnish Forest Research Institute calculations show that 72 million cubic metres of wood per year could be harvested without jeopardizing sustainability. The actual amount harvested in 2008 was about 53.5 million cubic metres.

In Finland, forest industry production is based on the domestic supply of a raw material coming from sustainably managed forests. Over 80% of the wood raw material that the industry uses is procured from privately-owned forests, most of which are the property of ordinary families.

Close to 90% of Finland's forests are certified, which means that practically all forests outside conservation areas are certified. Finland mainly uses the PEFC but FSC system is also used. The Finnish PEFC-standards are being updated in 2008-2009. The Finnish FSC-standard is presently being updated.

Finnish forest industry companies have reduced the share of imported timber in their raw material supply in preparation for increased Russian roundwood export duties. It is not possible to replace all imported



timber with domestically sourced raw materials, however, because sufficient quantities of birch, for example, are not available in Finland. Companies have been forced to look for substitute raw materials and, in some cases, to switch the raw material used in their production lines from birch to softwood species.

For many years, Finland's forest industry has been an important partner for Russia in the development of the Russian forest sector.

*The most important business developments within the Finnish forest industry over the last year (e.g. economic situation, legal developments, investments etc.)*

### **Overall deterioration in industry business cycle in Finland**

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. The most pessimistic outlook is in construction. Declines in production volumes are expected across the board in different sectors.

The rapid deterioration in the business situation has been negatively affecting profitability in all main sectors.

### **Global economic slump effects on forest industry - Production contracted towards end of 2008**

The downturn in the global economy in the latter part of the year 2008 substantially weakened demand for all Finnish export industry products. Forest industry companies had to cut production in several countries. The weakening export demand has serious impact on Finland especially as some 90% of the domestic paper and paperboard production is exported. The sawmilling and wood products industries export 60% of their production.

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.

Because the greater part of the forest industry's production inputs are sourced in Finland, it is vital for the industry's competitiveness to keep domestic cost developments under control.



## **Gross value of Finnish forest industry production was €20 billion in 2008**

In the fourth quarter of 2008, the volume of forest industry production in Finland was about 15% lower than in the corresponding period of 2007. Total forest industry production in 2008 fell by about 10% compared to the previous year.

The gross value of forest industry production fell by about 12% to slightly less than €20 billion. The industry's exports fell by more than 10% from the corresponding period of the previous year. The value of the Finnish forest industry exports was estimated to decline to €11 billion euro in 2008.

## **Reduction in operations, intensified efforts in R&D and innovations**

Finnish forest industry is going through a structural change and is seeking new strengths through research and innovation with simultaneous efforts to improve the cost competitiveness of the current products. The development of new manufacturing technologies, new products and new ways to organize production are all necessary forms of innovation.

In spring 2007, the forest industry together with equipment and chemical manufacturers, two research institutions and four universities launched a strategic centre of expertise, Forest Cluster Ltd. The new innovation boosting company has launched its first research programs comprising of projects related to resource efficient production technologies and development of biorefinery concept.

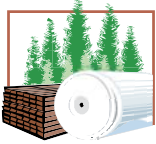
The wood products industry published a common research strategy in late 2008. With the help of a common strategy and by establishing a joint R&D organization the companies aim to create a broader, competence-based foundation for the sector as well as to provide support for the generation of new, robust business activities for the industry in Finland.

## **High level working group to prepare measures to improve the long-term operating conditions of the forest industries in Finland**

In the end of 2007, the Prime Minister appointed a working group to prepare proposals for measures to improve the long-term operating conditions of the Finnish forest industries and the forest sector, including proposals for immediate action to secure the supply of timber in Finland.

According to the working group's vision wood is a valuable, renewable and recyclable material that is suitable for a wide range of various uses. In the global economy, wood represents a significant national source of added value and its sustainable utilization will contribute toward solving the climate, environmental and energy challenges.

The working group proposed a comprehensive development program covering the entire forest sector. Three priorities were chosen: the development and utilization of forest resources; an increase in the added value available from wood; and the creation of operating conditions conducive to competitiveness. The point of departure in the development program was that the success of the Finnish forest sector will be based on a high level of competence, technology, innovations and the competitive edge provided by the forest cluster. Global demand for wood-based materials, now intensified by climate, environmental and energy concerns, will create favorable conditions for the implementation of such a strategy.



*New information on socio-economic contributions of the forest industry in Finland (e.g. formal and informal employment, health, education, poverty alleviation etc.)*

## **Active support to areas of structural changes**

The production of Finland's forest industry rests on a domestic supply of renewable raw material. The industry uses a higher percentage of domestic production inputs than any other sector, which highlights its importance for the national economy. Forestry and the forest industry are especially important for sparsely populated rural areas by offering jobs and income.

Decisions to adjust operating capacity to the changes in demand have affected several locations in Finland where the forest industry has been one of the most important industrial employers. These areas which have faced significant regional economic effects have been named "areas of structural changes" by the Finnish government. These areas are entitled to well-targeted support and actions aiming to recovery of the local economic activities and creation of new jobs.

## **New basic qualification for the process industry to be introduced in autumn 2010**

The new educational basic qualifications for the process industry that has been introduced in Finland will unite the earlier vocational basic diplomas of the paper, panel, sawmilling and chemical industries. The new qualifications will be taken into use in August 2010 in all secondary level institutions that provide education in the above mentioned fields.

The new qualifications have the aim of promoting the development of versatile skills and this will make graduates more prepared for work in the different tasks and competence requirements of the forest industry than earlier training programmes did. The first graduates will be leaving school in 2013.