UNITED STATES

Introduction

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. While the outlook remains murky, most economists believe that the overall economy and the housing sector will stop declining by mid-2009 and, perhaps, start on a gradual recovery either later this year or in early 2010.

Paper and Paperboard Consumption and Production

Following a 3.4% decline in 2007, U.S. apparent consumption (production plus imports minus exports) of paper and paperboard contracted another 6.7% in 2008 to 81 million metric tons, marking one of the largest two-year declines ever recorded. Production of paper and paperboard registered somewhat smaller declines than consumption, dropping 0.6% in 2007 and 4.3% last year, to 79.6 million metric tons. Production held up better than consumption during the past two years because exports rose and imports declined.

The production declines for 2008 ranged from 7.5% for printing-writing papers and 6.1% for newsprint to 3.8% for containerboard and 3.1% for boxboard. Tissue production held stable in 2008. Total U.S. paper and paperboard production was especially weak towards the end of 2008, trailing year-ago levels by 12% in November and 19% in December.

Long-term production declines (from 2000 through 2008) have been particularly sharp for newsprint (-36%) and uncoated woodfree paper (-21%). Even after last year's drop-off, containerboard production was up 2% since 2000 and tissue paper production was up 6%.

Total U.S. exports of wood pulp and paper and paperboard exceeded 18.8 million metric tons in 2008, a 9.4% year-over-year increase. However, the positive trade picture began to deteriorate in the last months of the year as export demand began to decline due to the severe global economic downturn. Exports of recovered paper edged up to a record 17.7 million metric tons in 2008.

Leading these increases were exports of wood pulp, up 14% to 7.07 million metric tons, kraft linerboard, up 5.3% to 3.77 metric tons, and bleached kraft paperboard, up 9% to 1.77 million metric tons. Exports of printing and writing paper were practically unchanged in 2008, up 0.5% to 2.2 million metric tons.

The paper industry is unlikely to recover until the economy improves, and the outlook for the economy is extremely cloudy. U.S. GDP began contracting during the second half of 2008, posting annualized declines of 0.5% in the third quarter and 3.8% in the final quarter of the year. Most economists expect that GDP will decline in the 4-5% range during the first quarter of 2008 and 1-2% in the second quarter, followed by a slow rebound in the second half of this year. GDP is projected to decline by about 1% for full-year 2009, following a 0.2% decline in 2008.

Those economists who expect GDP to begin to expand in the second half of this year point to the large economic stimulus package recently enacted by the U.S. Congress. However, a minority of economists believe that the economy will contract through 2010 because consumers need to work off a lot of personal debt and the banking system will remain fragile for several years to come.

Wood Product Shipments

In a typical year, more than three-quarters of U.S. lumber and panel consumption goes into new residential construction or residential repairs and remodeling. Hence, it is not surprising that the wood products sector has been hurt by the sharpest housing downturn in decades.

Total U.S. new housing starts contracted from 2.07 million units in 2005 to 903,000 units last year. Moreover, starts weakened throughout 2008, falling to a seasonally-adjusted annual rate of 560,000 units in December and just 466,000 units in January 2009, marking their lowest level since the series began in 1959.

Wood products production, as measured by the Federal Reserve Board, declined 22% between 2005 and 2008 and was off 38% relative to 2005 levels by the end of 2008.

A number of factors are working against the housing sector. Falling prices encourage prospective buyers to wait in anticipation that prices may decline further. Many families are concerned about job security and will, therefore, postpone buying a new home until labor markets improve. Finally, credit standards have been tightened making it more difficult to qualify for a mortgage.

On the other hand, the easing of mortgage rates and lower home prices make homes more affordable than they were two or three years ago. All in all, many economists anticipate a very gradual recovery in new home construction beginning in the second half of this year or in early 2010. The consensus view points to 2010 housing starts of about one million units.

U.S. wood product exports were off slightly on a value basis, down 0.9% in 2008 to $6.78 billion, as the weakening international business environment constrained demand in many markets. U.S. imports of wood products declined 24% to $14.1 billion, as imports from Canada and Brazil each dropped by about 30%.

United States Policy Initiatives

ILLEGAL LOGGING

The United States enacted a law in May 2008 that makes it a federal crime to import into the U.S. plants or plant products – including all wood and paper products – where the plant was illegally harvested in its country of origin. Known as the Lacey Act Amendments, the new law also requires a declaration from importers for certain plant and plant products they bring into the U.S. In a notice published on February 3, 2009, the U.S. government announced a phase-in schedule for the declaration requirement and provided a list of products that fall within the phase-in schedule. The following are the proposed dates, although some slippage may occur in the schedule as the U.S. government sets up a system for the electronic filing of the declaration form:

- Lumber and certain primary wood products will be subject to the declaration requirements effective April 1, 2009.
- Plywood and other more processed wood products will be subject to the declaration requirements effective October 1, 2009.
- Wood pulp and other pulps will be subject to the declaration requirements effective October 1, 2009.
- Primary paper and paperboard products will be subject to the declaration requirements effective April 1, 2010.
- Certain articles of wood and certain wooden furniture will be subject to the declaration requirements effective April 1, 2010.

The declaration must contain, among other information, the scientific name of the plant, value of the importation, quantity of the plant, and name of the country where the plant was harvested. For paper and paperboard products containing recycled fiber, the declaration also must include the average percent of recycled content without regard for species or country of harvest. Finally, packaging materials used for the transport of other goods (pallets, for example) and sundries that ordinarily accompany the product (tags, labels, manuals, for example) will not require a declaration.

The American Forest & Paper Association (AF&PA) has supported the implementation of the amended Lacey Act as a tool for fighting illegal logging. AF&PA worked with U.S. government agencies to ensure that the provisions of the amendment do not pose undue burden on companies engaged in legal trade. For more details on the Lacey Act, please visit www.aphis.usda.gov/plant_health/lacey_act/index.shtml.

Role of Forests in Carbon Policy

AF&PA serves as the Secretariat for the development of a new consensus U.S.-Canadian standard on measurement and accounting for carbon in forests and forest products, using procedures accredited by the American National Standards Institute (ANSI). Once developed, the standard will be available for adoption by governments, carbon traders, and markets, as well as by other private and public groups. The Forest Carbon Standards Committee (FCSC), which will be responsible for developing the bi-national standard (or standards), consists of approximately 45 individuals representing a balance of interests and expertise in existing protocols.

AF&PA also is participating in the development of and has endorsed the Forest Climate Working Group (FCWG) policy platform. FCWG is a broad coalition formed to develop consensus positions on the inclusion of forests in U.S. federal climate policy. FCWG includes participants from a variety of environmental organizations, forest industry/landowner interests, and others. The FCWG has held numerous discussions focused on elements of forest carbon offset projects, the role of other policy mechanisms in promoting forest carbon sequestration, and forest adaptation efforts. The outcome of each discussion was a set of “consensus principles” outlining areas of agreement, which formed the basis for the FCWG policy platform.

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