Timber markets – current and future

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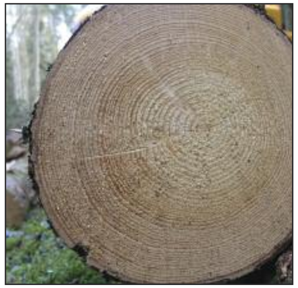
The total forest production for Ireland – north and south – in 2007 was over 3.5 million m³.

Irish timber growers enjoy a number of marketing advantages when their forests reach the production stage. Irish wood processors have consistently processed all the available logs over the past two decades, so there is a ready market for thinnings and clearfells. In addition, conifer log prices in Ireland have consistently been more than double the prices achieved by British growers. They also compare favourably with international prices even with countries where log quality is very high such as Sweden and Finland.

The recession throughout 2008 has slowed the market down but historically, there have been numerous peaks and troughs in production and price trends, and there is every reason to believe that the forestry and forest products industry will go through the same cyclical pattern in the future. Growers have an option of holding back log sales during periods of poor prices as they have done in the past.

In 2008, COFORD – the National Council for Forest Research and Development – released data to show that the Irish forest products sector experienced significant growth in 2007. In the Republic, a record 3.1 million cubic metres (m^3) of roundwood were harvested from Irish forests, supplying the sawmilling, panel board and energy sectors. The total for Ireland – north and south – was over 3.5 million m^3. Not only did Irish wood processors – north and south – purchase and sell these logs, they even imported a further 200,000 m^3 to make up the shortfall.



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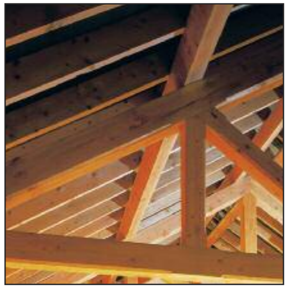
In the Republic, Coillte supplied 87% of log production, with the balance coming from an expanding private forest estate. COFORD maintains that harvest levels in private sector forests are increasing significantly with the potential to grow ten-fold over the coming decade.

Log sale revenue received by Coillte for the year ending December 2007 for standing and roadside timber was €100 million for the sale of 2.6 million m^3. This averages €38.46/m^3 for standing and roadside sales. While revenue figures are not available for the private sector it is likely that the balance of



Irish conifers dominate the pallet and fencing timber market and compete well with imports as a structural material in areas such as floor joists, timber studding, cut-roof construction and farm buildings. Imports also compete with Irish timber in the pallet, fencing and garden timber product sectors.

400,000 m^3 of logs produced would have earned growers around €15 million based on prices received by Coillte. To date the average log prices received by Coillte and private growers in the Republic are broadly the same based on data from the Irish Timber Growers Association (see Statistics or www.itga.ie).

Contrast this with revenue received by the Forest Service, Northern Ireland and the news is encouraging for growers in the Republic. The Forest Service received revenue of £5.9 million for 402,000 m^3 for the year up to 31 March 2007. Based on average currency exchange rates during this period (£0.67 - €1.00), this equates to £8.8 million or €21.90/m^3, around 66% of Republic prices.

Exports
Because of the decline in the building industry in 2007, processors turned their attention to export markets and made considerable gains compared with 2006. Irish forest product exports for 2007 were worth over €333 million to the economy, an increase of 14% on 2006.

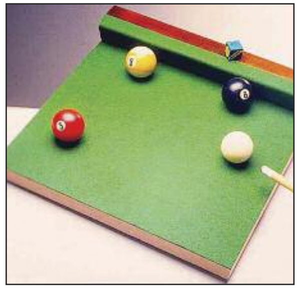
COFORD's analysis also shows that sawn timber imports declined significantly in 2007, reflecting the downturn in house construction compared with 2006. Irish mills held market share and this is likely to continue which is important especially for Irish sawmills who depend mainly on the domestic market, especially for construction timber. Therefore, Irish sawmills will need to continue to fight for increased market share in the UK while the panel board mills will explore other European markets.

The species, markets and challenges
The Irish forestry and forest products sector has an annual value of €1.2 billion. The forest industry in Ireland is vastly different from the sector throughout Europe. Forest cover is less than one third the EU average. Production is largely based on non-native conifers and production and board mill processing is controlled by the State. The following is a summary of the industry.

Growing
- The national estate is dominated by Sitka spruce probably the most versatile species growing in Europe in terms of site adaptation, growth rates and end uses.
- Over 40% of Irish fencing and pallet timber is exported to Britain and almost 90% of reconstituted board products – made from spruce and pine thinning and residue – are exported to Britain and Europe.
- Irish conifers dominate the pallet and fencing timber market and compete well with imports as a structural material in areas such as floor joists, timber studding, cut-roof construction and farm buildings. Imports also compete with Irish timber in the pallet, fencing and garden timber product sectors.
- Close to 95% of productive forests are sustainably managed and have internationally recognised certification.
- To date, Irish grown conifers have made little impact in high added value products. Ireland relies heavily on imported wood in the machined timber including flooring and joinery.
- Irish forests produce little hardwoods and specialist conifers to compete against imports of quality spruce and pine, European and American oak, ash, beech, maple and cherry along with tropical hardwoods.

VALUE OF IRISH FOREST SECTOR EXPORTS IN 2007	
Sector	Value (million €)
Sawmills	71
Coillte Panel Products	190
Other panel board mills	72
TOTAL	333

Source: COFORD, Coillte, Magner (2008)



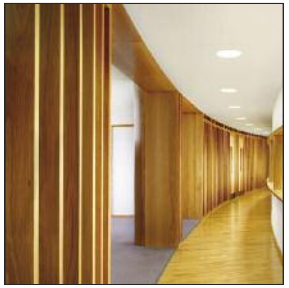
A big plus for growers is the availability of markets for first and second thinning of pulpwood material. This material combined with wood chips and sawdust is processed to manufacture a range of panel board products such as MDF, OSB and chip board. MDF for example is reprocessed to manufacture flooring, skirting boards, furniture, shop fronts and products ranging from panelling to pool tables.

However, as international markets are experiencing serious downturns and the euro shows no sign of weakening against sterling, the UK is going to be a difficult place to maintain let alone increase market share in 2008-09. Figures from the National House Building Council in the UK show that there were less than half new house starts in the second quarter of 2008 compared with the same period in 2007.

The panel board mills have a better market spread than the sawmills and are in a position to look not only beyond domestic markets but beyond UK markets. Coillte, owners of Medite Europe and SmartPly export 75% of all processed wood products. In 2007 the two companies exported €190

Processing
- Irish sawmills and panel board plants are capable of processing all available logs.
- Wood processors have exhibited considerable innovation in primary and secondary processing.
- Major investments in processing facilities were made in recent years. The efficiencies of Irish mills are now on par with the best in Europe.
- Sawmilling and board mill capacity is expected to keep pace with increased forest output.

Areas that need to be addressed
- There is little compatibility between growers and end users – the needs of the market place have to be reflected in species selection and silvicultural practices.
- Strong R&D programmes needed to add value to existing species – some sawmills are already doing this by producing planed high quality spruce suitable for timber frame construction and research being carried out in areas such as heat treatment to provide durability.
- Need for strategic national species selection on key minor species with markets in added value applications such as furniture, joinery, flooring, and panelling.
- Need to limit the broadleaf or hardwood specie menu to proven indigenous species suitable for Irish growing conditions such as oak, ash, sweet chestnut and beech.
- Forest stands should be of sufficient scale and size to render them commercially viable.
- Regional strategies should be developed and implemented to create supply scale to sustain primary and secondary processing for the added value market.
- Need for a national forecast oriented inventory to assess the need of all sectors from growers to end users.



Irish forests as yet produce little hardwoods and specialist conifers to compete against imports such as Norway spruce, Scots pine, European and American oak, ash, beech, maple and cherry along with tropical hardwoods.

million worth of board products amounting to 57% of all Irish processed wood exports which illustrates the major expansion of Coillte in domestic and export markets in the past few years (see table). Exports comprised €108 million to the UK and €51 million elsewhere, mainly Europe.

There are major marketing challenges facing Irish wood processors in 2009. Coillte log production will not increase so private growers should at least have a market for their logs although the prices achieved in 2007 will not be achieved.

Wood processing

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A welcome market for growers has been the burgeoning wood energy sector which should absorb the increased supply of small logs from early thinnings. By early 2009 there will be three major wood pellet plants in Ireland, along projects delivering wood chips for small scale wood energy initiatives.

Production from Irish forests will increase from 3.4 m^3 to 4.9 million m^3 during the period 2005 to 2015 and the existing mills are capable of processing all this material. Current markets for sawn timber are construction, pallet, fencing, garden/leisure products, decking and flooring while residue (woodchips, sawdust and bark) is converted into panelboard products and outlets such as wood energy and horticulture.

Irish log production is processed into a range of products suited to a fast growing medium quality coniferous resource. Ireland relies heavily on imported timber in the machined timber value-added end of the market including flooring, joinery and furniture as well as prefabricated roof truss manufacture.

Conifers – especially Sitka spruce – have been the backbone of an industry now worth €1.2 billion annually. It is likely and desirable therefore that Sitka spruce should remain the core specie in Irish forestry. However, because of the availability of better quality land for afforestation, there are opportunities to diversify to high quality species especially broadleaves to meet markets in furniture, joinery and other high added value end uses.