

1/2008

Wood supply increases alone not enough to save the forest sector

Tightening competition for wood an obstacle to the forest sector renewal

Increased need to foresee new business opportunities

Competition for wood hinders the forest sector renewal

Ensuring the availability of domestic wood alone is not enough to solve the Finnish forest sector's problems. Even if the efforts to increase the use of domestic wood succeeded, reductions in production within the Finnish forest industry would still likely continue. Tightening competition for wood hinders the forest sector renewal. Wood will be an even more strategic resource in the future.

Wood supply increases alone not enough to save the forest sector

The decisions to close down the Kemijärvi Pulp Mill and the Summa Paper Mill in Finland are the most recent examples of the predicted structural reform within the forest industry. According to the surveys undertaken by the Future Forum on Forests, reductions in production within the forest industry can be forecasted to continue. The most immediate reason is Russia's decision to dramatically increase the customs tariffs for roundwood.

The forest industry's structural problems cannot be solved by improving the availability of domestic wood alone. For instance, the decreased competitiveness of magazine paper production, which is important to Finland, is not primarily caused by the availability of wood but rather by the overproduction of paper products, the slow increase in their consumption, the exports outside Europe becoming more complicated, and the faster increase in the production costs than in the paper product prices.

It is very important to the Finnish forest sector that new business activities be developed to compensate for the reducing paper production, for example in the fields of construction, energy production, liquid biofuels for traffic, tourism, nature services, and packaging. A more versatile economic structure in the forest sector would be less susceptible to risks caused by external factors, e.g. increases in the energy price or changes in consumers' reading habits, than the paper-led forest sector currently is.

Based on business executives' statements and enterprises' annual reports, it seems that at least large forest industry enterprises currently focus significantly

more on improving their cost-effectiveness than developing new business activities. In the Future Forum on Forests' press conference on the forum's outcomes held on 3 April 2008, forest industry representatives assured that increasing investments are being made in the development of new business models and products. These development activities, however, are often business secrets and thus not publicised. Nevertheless, positive messages on renewal processes would improve the field's image which is currently stained by negative messages.

Tightening competition for wood an obstacle to the forest sector renewal

According to a survey undertaken by the Future Forum on Forests, society and the forest sector's interest groups find it easier to accept investments in the forest sector's new economic structure than in the maintenance of the old activities. The working group addressing the improvement of operating conditions of forest industries and the forest sector, appointed by the Prime Minister's Office and chaired by Mr Esko Aho, faces the tremendous challenge of finding ways to renew the Finnish forest sector plausibly, effectively and in a way approved by the interest groups. The working group will submit its final report in June 2008.

The final report of the Future Forum on Forests to be published in May 2008 will hopefully provide the working group with ideas on the development of the forest sector and readiness to tear down the obstacles to the forest sector's structural renewal and new business activities. Tearing down the obstacles is at least as important as investments in the R&D of new products, because the

obstacles limit the development of new businesses within the forest sector.

According to the Future Forum on Forests surveys, one of the obstacles to the forest sector renewal is, rather surprisingly, the forest industry's need and ability to control the wood flows. For instance, the wood trade practices favour big wood buyers who have the possibility to buy all the timber grades on sale at the same time. This makes it difficult for small and medium-sized enterprises to organise their raw material supply already now, and this will be increasingly true in the future, as the competition for domestic wood continues to tighten.

Large forest industry enterprises will even be able to control the raw materials sold to their competitors, e.g. to private sawmills, by buying their wood processing by-products (woodchips, bark, sawdust). Small enterprises are often forced to settle for a low price for the by-products, because there are no competing markets for them. Enterprises that are dependant on the large forest industries will suffer from weakened profitability and decreased ability to invest in the increase of their products' value added.

Other obstacles to the forest sector renewal observed in the surveys were the low profitability of forest industry enterprises, high return requirements on invested capital, lack of large-scale product ideas, small number of medium-sized enterprises, and insufficient competition especially in forestry services. Tearing down the obstacles to the renewal calls for a more persistent development policy than currently executed by forest industry enterprises, as well as changes in forestry services for the private and the public sector. Forestry service providers should

be able to serve also other industries than the traditional forest industry.

It is important for the forest sector renewal that the development of new business activities is set as the most central development goal not only in forest industry enterprises but in other forest sector organisations as well. For example, the vision and emphasis of the National Forest Programme 2015 already highlights the target of diversifying the economic structure within the forest sector. How well the measures of the National Forest Programme will support the diversification of the economic structure in practice depends on how the programme's financing is targeted.

Increased need to foresee new business opportunities

The Future Forum on Forests will conclude its work in April 2008 and the final report will be published in May.

Nevertheless, foresight work within the forest sector will continue at the University of Joensuu: in future foresight work will be used to promote the establishment of new businesses exploiting forests and wood, and to support the renewal processes in the existing businesses. This emphasis is based on the Future Forum on Forests' most important recommendation: the forest sector's economic structure needs to be diversified.

Publications

Finland's National Forest Programme 2015 (in Finnish and in Swedish)
www.mmm.fi/fi/index/etusivu/metsat/kmo/ajankohtaista.html

Newsletter of the Future Forum on Forests

Publisher:
Future Forum on Forests
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Future Forum on Forests on the Internet:
<http://www.metsafoorumi.fi>

The newsletter of the Future Forum on Forests aims to provide updated information on the activities and results of the forum. This informal newsletter is produced and distributed electronically and you can find it on the Internet on <http://www.metsafoorumi.fi/news.htm>. You can also order it to your email address by sending an email to saija.miina@joensuu.fi



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