

UNITED STATES

by
American Forest & Paper Association

General economic situation

Macroeconomic conditions are having a major influence on the performance of the U.S. forest products industry. The housing boom that took place from 2003 through early 2006 has given way to a bust that may reduce new housing starts to about one million units this year, which would represent a 55 percent decline relative to their 2005 annual peak level of 2.2 million units. Only a modest recovery in housing starts of 10 percent-15 percent is expected in 2009.

Moreover, the housing sector weakness and attendant credit crunch caused U.S. GDP growth to slow to just 0.6 percent (annual rate) in the final quarter of 2007 and to expand by a sluggish 0.9 percent in the first quarter of 2008. The slowdown in economic growth and declines in employment and manufacturing output are likely to temper domestic paper and paperboard consumption this year. However, export growth has been brisk during the past year or so, owing in part to the weaker dollar and to continued paper and paperboard demand gains abroad.

Paper Sector Performance

U.S. apparent consumption of paper and paperboard (domestic production plus imports less exports) has been trending downwards, declining 7.7 percent since 1999 to a 2007 level of 86.5 million metric tons. During the same eight-year period, U.S. production of paper and paperboard contracted 5.8 percent to 82.9 million metric tons.

U.S. apparent consumption of paper and paperboard trailed its year-earlier level by 0.2 percent in the first quarter of 2008, while U.S. production strengthened 1.4 percent. The comparatively strong performance on the part of production reflected an improvement in the U.S. paper and paperboard trade balance since early 2007.

Recent declines in consumption have been most notable with respect to newsprint and uncoated wood free paper, both of which have been affected by electronic substitution, and also with respect to packaging materials, which has lost domestic market due to increased U.S. imports of consumer goods from China and elsewhere. On the other hand, mills producing uncoated and coated mechanical papers have enjoyed strong demand for their products during 2007 and the first quarter of this year. Linerboard demand for domestic use has been flat-to-slightly down over the past year, but production levels have benefited from strong export growth and from some inventory accumulation.

After edging down by 0.6 percent in 2006, U.S. exports of paper and paperboard rose 9.2 percent in 2007 to 13.2 million metric tons. Solid gains were reported almost across the board and were particularly strong with respect to exports of paper and paperboard to Europe, South and Central America, and the Far East including China. Viewed by broad product sector, 2007 exports were up 28.0 percent for printing-writing papers, 14.3 percent for kraft linerboard, 40.5 percent for unbleached kraft paperboard, and 3.8 percent for bleached board. Wood pulp exports advanced 3.4 percent in 2007. Building on last year's strong performance, U.S. exports of paper, paperboard and converted products exceeded their year-ago level by 9.3 percent during the first three months of 2008.

U.S. imports of paper, paperboard, and converted products declined 8.2 percent in 2007 to 16.9 million metric tons. Notably, imports from Western Europe fell 13.2 percent and imports from Canada declined 9.0 percent. By contrast, imports from China rose 15.3 percent, with much of the gain accounted for by coated mechanical papers, which rose 18-fold. U.S. imports of printing-writing

papers declined 6.4 percent last year, with particularly large declines recorded by the coated and uncoated free sheet grades. U.S. imports of newsprint, almost all of which comes from Canada, declined 15.9 percent, reflecting falling U.S. demand for newsprint as well as the considerable strengthening of the Canadian dollar relative to the U.S. dollar. U.S. imports of paper, paperboard and converted products were lower than their year-ago level by 3.9 percent during the first three months of 2008.

Early indications are that U.S. paper and paperboard consumption will be flat-to-down in 2008 but that strong export growth and reduced imports will lead to 1 percent-2 percent gain in domestic production of paper and paperboard.

Lumber and Wood Products Sector Performance

The wood side of the U.S. forest products industry has been severely hurt by the slowdown in housing. Approximately 40 percent of U.S. softwood lumber consumption goes to residential construction and another 25 percent of lumber is used for repairs and remodeling. The use of structural panels -- plywood and oriented strand board (OSB) -- is also heavily weighted towards residential construction.

U.S. softwood lumber consumption declined 20 percent during the past two years from a recent high of 151.3 million cubic meters (64.1 billion board feet) in 2005 to 121.8 million cubic meters (51.6 billion board feet) in 2007. Further sharp declines are anticipated this year, followed by a levelling off, or perhaps even a small increase, in softwood lumber consumption next year as housing stabilizes. Current indications are that a significant firming in housing and lumber demand may not take place until 2010.

Exports of wood products have been expanding, while import levels have been moderating as the result of lower domestic consumption and the strong U.S. dollar. U.S. imports of softwood lumber declined 19.6 percent in 2007 to 43 million cubic meters, while imports from Canada fell 17 percent to 39 million cubic meters. Concurrently, U.S. OSB imports fell 33 percent to 6 million cubic meters in 2007.

The import share of U.S. softwood lumber consumption edged down from 38.4 percent in 2004 to 36.1 percent in 2007, with the Canadian share declining from 33.3 percent to 32.9 percent. Imports as a share of U.S. OSB consumption declined from 25.6 percent in 2005 to 20.3 percent in 2007.

The dollar value of U.S. wood product exports increased by over 4 percent in 2007, benefiting from a weaker currency and pockets of strong demand for wood products in other consuming countries.

U.S. Forest Products Industry Initiatives

Paper Recovery Goal: Since 1990, the U.S. paper industry has voluntarily set and exceeded increasingly aggressive goals for paper recovery, including a goal set in 2003 to recover 55 percent of the paper used in America by 2012. The 55 percent recovery goal has been achieved a full five years ahead of the target.

In early April 2008, the U.S. industry raised the stakes by establishing a new goal of 60 percent recovery by 2012. The objective of the new goal is to keep even more paper out of landfills, while at the same time increasing supplies of recovered paper at a time of strong demand, part of which is attributable to increasing export demand, particularly from China.

Environmental Responsibility: Members of AF&PA are committed to the goals of sustainability and have undertaken a number of programs designed to meet that objective, including working cooperatively with the U.S. Department of Energy through the Agenda 2020 program to develop technologies that improve energy efficiency and environmental performance; protecting forests with exceptional conservation value and joining the movement to end illegal logging; promoting

sustainable forest management and protecting wildlife biodiversity while ensuring long term forest productivity.

The SFI® program alone, of which all AF&PA members are participants, plants about 1.7 million trees per day – more than 620 million trees every year. Over six billion trees have been planted since the inception of the SFI program in 1995. The United States Forest Service estimates an average of 1.74 billion trees are planted in America every year. In the U.S., more wood fiber is being grown (i.e., trees) than is being harvested in large part because growing trees is economically attractive.

Illegal Logging: In May 2008, the U.S. Congress passed The Food, Conservation and Energy Act, also known as the Farm Bill. One provision of particular interest to the global forest products industry is language developed to address the world-wide issue of illegal logging. Over the past year, the U.S. forest products industry has worked with a coalition of industry and conservation allies to draft legislation that avoids onerous restrictions on legal trade but provides the U.S. government with the tools necessary to block trade in illegal forest products. The illegal logging provisions in the Farm Bill make it a federal crime to import into the U.S. any plant or plant product where the plant was harvested in violation of specified laws of a foreign country or a state.

As specified by the new law, all plant or plant product imports, which include wood and paper products, must be accompanied by a declaration specifying the plant species and the country of origin from where the plant was taken. If a plant species or country of origin cannot be determined, the plant declaration is to include a list of possible plant species that could be found in the product or a list of possible countries from which the plant originated. An exclusion is provided for plants used exclusively as packaging materials that support other items. In the case of recycled products, the declaration is to specify the average percent of the recycled content of the product, without regard to the species or country of origin of the plant.