

Speech by Björn Andrén at the 2007 Marcus Wallenberg symposium

## The future of the Nordic Forest Production Industry

I have passed the age of 60 years. My perspective backwards of the opportunities for Swedish, and at the same time Nordic, forestry and forest industry is 40 years.

There have been bad times and good times. It has been heaven or hell for the first 25 of these 40 years and then more stability.

Belief in the future for Nordic forest industry has varied much, because memory often is short and we allow ourselves to be strongly influenced by the current situation.

When thinking about the future, looking backwards is a good base to start with.

I will give You some comments about the past, about today and my thoughts about the future for the Nordic Forest Product Industry and for forestry depending on that industry.

### **Forty years ago**

When I was a student 40 years ago in the late 60ies the times for Nordic forest industry were poor. There was a pessimistic view towards forest industry. I got the advice not to study forestry, working with computers was said to be the future for young people, not forestry.

We knew, at that time, that in Brazil they could produce 15, 20 maybe 25 m<sup>3</sup>/ha and year. Compared with our forest production and costs, some said that the end for Nordic forest industry would come before the millennium shift.

There were highly respected persons with a clear opinion to cut down all the wood that was possible in Sweden before the values totally would disappear, and at the latest the finishing cuttings of all forests had to be done around 1990.

Nevertheless, the forest sector was essential for our economy.

We were proud in the forest sector; forest industry was the number one producing a surplus of net export incomes. Export of forest industry products paid the whole bill for import of oil at that time, and that bill was expansive.

### **1970- and 1980ies**

The 1970ies were a disaster in many ways. Raised oil prices, inflation, bad economy, several depreciations of the Swedish currency, subsidiary to storages of pulp and paper, politics turning left. The politicians thought they could solve the market problems.

The future seemed to be tough, very tough for forest industry. In 1972 the prices we could pay for wood were so low that calculations on standing forest ended up in a zero value.

Many looked at Brazil, and the company I worked in, it was named MoDo at that time, made a little investment in forest land there. The thought was right but a little bit too early and MoDo never made anything out of it.

The 1980ies started with a big depreciation in Sweden, the Finnish forest industry were not happy about that. The politicians once again rescued Swedish industry. Future prospects looked better. To me the returning big problems for the company when market went down, was a normal situation.

In late 1980ies many could see that Sweden came closer to a big crises but it was not much discussed. The economic politic was too expansive. Just one leader for the political parties said, before the election in 1988, that we could not afford the expenditures that the government suggested.

### **1990- and 2000ies**

The 1990ies started with a big crisis in industry and in the economy for the society, the reality had reach Sweden. The company I work for were in really great trouble.

Everything looked black.

The time had come to do what should have been done during the preceding two decades. Modernise economic politics, raise the efficiency in industry and let the market system work without politics.

Now it was focus on efficiency and profitability. We laid the ground for a better future in society and in forest industry as well as in other sectors.

After hard rationalisation and reduction of employees came depreciation of the Swedish currency and after that we had a boom in the market. That was a three step rocket for the companies. Empty coffins of the forest industry were filled with gold 1995. After just a few years, problems were forgotten and belief in the future came back.

The focus in forestry turned to discussions around certification and nature consideration.

Many had the opinion that there were more forest resources than needed and that we could, and should, set aside big areas for environmental reasons.

The new millennium came, the IT-revolution came, and once again many thought that “time was out” for old fashion forestry and forest industry. It was as if the Information Technology was the only thing and a phenomenon just by itself.

The main owner of the Holmen-company was said to be completely “out” when not investing in spectacular IT-companies.

The IT-balloon in the stock markets soon exploded, some were winners, and many lost.

Back to basics again for secure investments and the main owner of Holmen was now held as the most clever investor, in the same newspapers that two years earlier had said that he had not understood “the new economy”.

The old fashion industries had their homework done going into the new millennium.

### **Impressive development in 40 years**

Competiveness in the Nordic forest industry is good. The corpse from 1970 is still alive.

Compared to 1970 forestry and forest industry has really improved. Forest industry is still the base for welfare in Sweden and Finland.

Long terms of ambitious silviculture has given result, cuttings has increased much.

Investments in industry for efficiency, raised product value, better environment have also given results.

This is the development: (OH-picture)

- Standing volume in Swedish forest are up 30%
- Cuttings has at the same time become 40% higher
- Saw mill production is up 50%
- Pulp and paper production has added value to the export and increased 300%
- The net export value for Sweden is 150 billion SKR; 2/3 is from the forest sector

Not bad for an old fashion industry that was said to have no future!

### **New challenges**

But, the circumstances, for forestry and forest industry in Scandinavia, have changed much during the last years.

- The dollar has a low value but that might change.
- The energy costs have also increased, partly as a result of political decisions. And energy mills can now pay just as much for forest fibre as we can. We have got a new competitor partly doped by political decisions. This will not change.
- There is a lack of fibre for forest industry in Scandinavia that makes prices go up after having been flat for 10 years. This will not change.  
Investments in new and raised production capability cannot be done without having some industry turned off. A new industry structure has to come to maintain competitiveness.
- The climate change issue will result in political decisions that will really influence the market system. This will not change.
- In Brazil, it is no longer 25m<sup>3</sup>/ha of Eucalyptus production yearly, it is 50 and might in the future be 60 or 70. We will never come closer to the production capability in Brazil.

Have we come closer to the time when we no longer can compete? Will those, who 40 years ago thought they could predict the end of Scandinavian forest industry; will they be right at the end?

My answer is no.

### **There is a future**

There will always be a future for forest-based industry. I have listed four reasons.

- First we have a market system. According to the circumstances some industry will expand some will disappear. If industry is not enough competitive, prices on wood will go down, some industries will have to put down, and the strongest will survive. There will be a new market balance. We will always have a market that will pay, maybe less, maybe more but always something for forest products.
- Second, forests and forestland cannot move to China, it is here and it is close to industry with good infrastructure, close to the west and east European market. Labour-costs are not the big thing in large-scale process industry. So, the industry will stay too.
- Third, we have a future of big and growing demands in the world. We have all recognized that when welfare now is spread to the big populations, in China, south-east Asia and India, prices on all kinds of raw material and energy goes up. And forests are both, both raw material for traditional forest based products and for energy. It will not in the long run be a surplus of wood and wood products in the world and therefore closing down of Nordic forest industry. Investigations show that there will be a lack of fibre.  
Demand will increase for wood products. Not for all traditional forest products and not everywhere, but as a whole.
- Fourth, renewable resources like forests are focused as a part of the solution to the climate change issue. The challenge is really big. To reach the goal of balance, according to emission of climate gases, biomass has a central part. Renewable

products that will end up as energy, in some way or another, must be a product with secured value.

But, at the same time, political ambitions according to climate change puts more fuel to the energy price fire and that is a threat towards our forest industry. Political decisions are not always based on an overall perspective, analyse of consequences for forest industry must be considered before the political decisions are taken. This is today the most unpredictable influence of the future for European forest industry.

What will happen with recovered paper? Will it be burned directly after just one time used or after 6-7 times used? Some industries have 100% recovered paper as raw material and the price is already too high.

Are we going to burn our wood directly, for heating and electricity, or make ethanol of it, instead of first using it for several purposes and then use it as energy? Is it well known that a tree, already after processing in a pulp-mill and a saw-mill, ends up as 50% energy? And, that the paper and wood products still can be energy when used for the last time.

### **Summary**

Deforestation must stop. Afforestation should be on top of the agenda in many countries. The more biomass we can produce on suitable land the better. And that goes for the whole world.

More sustainable forest management, more forest production and more forest-based products are an essential key to a better world.

Research will be needed, i.e. research to make us produce more volume and more of the “right quality” according to what we want to get out of the trees.

Let us give the most brilliant forest researchers all the necessary requirements to find solutions; for a better world.