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Is Latvia looking towards a forest-less future?

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Agricultural Situation

Agriculture in the News

Wood Products

Approved By:

Michael Henney

Prepared By:

Agata Kingsbury

Report Highlights:

Latvia, a small country, houses forests covering more than half its territory (3.49 million hectares). Through aggressive marketing of its forestry resources the Latvian wood industry has been able to remain competitive and weather the global economic downturn in recent years. However, controversy surrounds its forestry management practices despite the large positive contribution the forestry sector makes to Latvia economy.

General Information:

With forests covering 54 percent of its territory, Latvia is one of the most forested EU member states. Latvian State Forest Service (SFS) reports that over the last 70 years, forested area has nearly doubled while standing volume has increased 3.6 times, reaching 631 million cubic meters. About 50 percent of forests are owned by the state. Management of state forests is undertaken by the state stock company *Latvijas Valsts Meži* (LVM).

The forests of Latvia are dominated by three tree species: Scots pine, Norway spruce, and birch species (silver and downy birch). According to Latvian National Forest Inventory (NFI), all together the three species account for nearly 75 percent of the total forest area. SFS reports, however, that proportion of pine stands is nearly 47 percent, spruce 22 percent, birch stands 24 percent. The remaining forest areas are occupied by stands of black alder, grey alder, aspen, ash, and oak. Coniferous trees occupy 46 percent and deciduous trees 54 percent of total forest area. According to recent SFS's estimates, the annual increment in trees is 16.5 million cubic meters. According to the Wood Processing Department of the School of Forestry at the Latvian University of Agriculture, total timber in Latvia amounts to 633.5 million cubic meters.

Wood Industry

In 2008, the total volume of felling was 9 million cubic meters. The usual volume of timber harvested annually from Latvia's forests has remained stable at between 10 and 11 million cubic meters of timber. The sector has demonstrated its strategic importance to Latvia's national economy. According to the Investment and Development Agency of Latvia (IDAL) of all the companies registered in Latvia, 8 percent are linked to the forestry sector, which employs around 5 percent of the total labor force. The forestry sector's share of Latvia's gross domestic product is about 5 percent. IDAL reported that in 2009 the value of products turned out by the sector reached LVL 518 million (EUR 737 million). Swedbank and SEB Bank economists predict that 2011 will see a slowdown in the wood industry. However, 2011 should still show positive growth in the end. It is also worth mentioning that Latvian forests have a value of LVL 26 million when taking into account the services that they provide, of which 73 percent is derived from hunting related activity.

IDAL notes that the key advantages of Latvian wood industry are: strategic location, availability of vast domestic and imported wood resources, skilled and cost efficient labor force in a historically traditional industry and established timber-processing sector including proven research and development capability. According to the Agency, government policies aimed at achieving sustainable forestry development have supported the industry's success.

Controversial Behavior

As the global economy started its recovery in 2010, demand for Latvian timber started to expand. 2011 began with public questions and accusations over proper management of national forests and the increasing rate of harvest. In February 2011, the Baltic Times published an article "*Reckless clear-cutting laying Latvia's forests to waste*" based on an investigative report "*Latvia's pulp fiction*" by the London based Qatari news channel "Al Jazeera English" on rapid deforestation and irresponsible cutting

of the country's forests. According to the report Latvian State Forests harvested trees at an alarming rate to support Latvian economy and government goals. Media report that in 2010 Latvia's timber export increased by 53 percent with over a third exported to Great Britain. Many of the products, from furniture to wood pulp and paper, were sold in the United Kingdom under a labeling scheme run by the Forest Stewardship Council (FSC), an international NGO that certifies timber as being sustainably produced. A buyer who purchases a specific wood product with an FSC label is confident that the product did not contribute to the destruction of the world's forests. However, the executive director of the Latvian Forest Industry Federation believes that the "*FSC is just a marketing tool and nothing else.*" Efforts by reporters to learn official limits established for the 2011 harvest were unsuccessful. In lieu of official projections, they recorded their preliminary estimate as 15 million cubic meters. The Latvian State Forest representative advised reporters that the logging industry in Latvia was being administered responsibly. At the same time numbers of ornithologists pointed out that the controversial practice of clear-cutting land in Latvia can be seen clearly from satellite photographs. Despite the economic benefits derived from the timber harvest, a segment of society views this harvest practice as controversial.

The Director of the Forestry Department in Ministry of Agriculture is on record as noting the recent increase of Latvia's logging quota is a temporary measure due to the consequences of the economic crisis. The quota was increased to keep jobs within the Latvian logging industry.

Media report that logging quotas were initially increased for 2 years, but now those quota increases have been extended for another 3 years. At the same time Latvian State Forest Service which is in charge of controlling and monitoring the operation of Latvian State Forests, has had difficulty controlling the mode of forest harvest by the state-owned company, as Latvian courts have overruled petitions by the Forest Service and local governments to deny logging permits to Latvian State Forests in specific locations.

Despite the international success of Latvian timber, the management practices and policy decisions have been called into question with lines between public and private ownership obfuscated in the discussion. Due to reported rapid deforestation in Latvia the FSC conducted an audit in early 2011 and determined that the environmental impact of concentrated felling sites was not properly evaluated and that Latvian State Forests did not have a functional system for protecting key habitats of national and EU importance, thus logging levels were leading to a significant change in the country's eco-system. FSC revoked Latvia's certification as a sustainable wood supplier. Reporters have also contacted the EU Environment Commissioner and presented their findings of aggressive logging taking place in a protected nature area, which is against both Latvian and EU law. The Commissioner noted that European Union can issue a warning at first, but would have to turn later to the courts to issue Latvia a fine, if it determined EU regulations were broken.

Management

The Baltic Times ran an article that asked the rhetorical question "What is the best way for Latvian forests to be managed?" and went on to explain that the practices of forestry depend largely on ownership and practices of those owners. It noted the sustainability game becomes a showdown between state-owned forests and those which are privately owned. The Latvia State Forest Institute '*Silava*' positioned that since private ownership was only recently reinstated after 50 years of

government control the role of the private owner is still being defined. It noted that these new owners (who either inherited forest property or received it through the privatization process) may have increased application of clear cutting technology for fast profit not taking into account proper management considerations for income sustainability.

Certification – Market Value?

Another Baltic Times article quoted a Swedish forestry management consultant who pointed out that in terms of management, the key seems to be determining the market value of the sustainability certification. He noted that Latvia's certification was revoked by the FSC after a critical audit and corrective advice was not heeded. He advised the state-owned forest management to adopt measures necessary for the country to regain its FSC accreditation and suggested also that procedures, environmental and social issues need to be addressed and strengthened, as well as the need to develop bio-energy policies and regulations. However, he noted, the lack of European accreditation does not seem to have fazed Latvian state-owned forest managers or private owners. In fact, Latvian timber trade grew by over 50 percent in 2010 as compared to 2009, with exports of over 500 million LVL worth (714.2 million Euros), primarily to the UK, Sweden, and Germany. Further, buyers seem not to be bothered by lack of sustainability certificate so far which is causing alarm among locals and international conservationists. As a result of public attention, LVM announced that it would make a concerted effort to conform to sustainable practices, and plant new trees for those that have been cut down on State land.

According to Baltic Times analysis, the Latvian forestry industry has not seen much of a setback despite losing the FSC certificate. Instead, in late March 2011, the industry received a boost from the Program for the Endorsement of Forest Certification (PEFC), which approved the latest draft of the Latvian Forest Certification System. While the true impact of forest management or mismanagement is yet to be seen, it is clear to media and some experts that forest owners play a statistic game. The subject of forestry is statistically tricky since there is a difference between what the state counts as a tree, and what private owners classify as a tree.

Raw material

Round wood is mainly used to produce sawn wood, wood-based panels, turned and planed products, wood fuels and charcoal. Round wood is also exported as fuel or pulpwood. Wood is also used as an energy feedstock. The Investment and Development Agency of Latvia (IDAL) reported that wood products are very important local fuel sources with its fuel-balance proportion of 24 percent. Major consumers of wood-fueled products are households (nearly 50 percent), heat-supply companies (over 20 percent), industry (mainly woodworking enterprises), and other consumers (approximately 30 percent). The production of fuel from wood (pellets, fuel chips, fire wood, and briquettes) is gaining in importance; as they are also in demand as export commodities.

Due to new EU regulations Latvia's power industry's utilization of renewable resources is on the rise as newer technologies emerge: fuel from wood and chips are being replaced with fuel produced from biomass which is easy to use and incurs lower transport and storage costs. By finding an optimal usage level for local renewable resources, the share in the total energy balance of heat generated from wood could be increased by up to 35-40 percent.

Products with added value

Investment and Development Agency of Latvia (IDAL) reports that in recent years, the proportion of higher value-added products has grown rapidly with the diversity of products also increasing: furniture and furniture components, joinery and carpentry products, prefabricated wood constructions, garden furniture and fencing, wooden toys, and other products with high market demand. However, as a consequence of the global downturn in 2008, the demand for furniture declined both in domestic and foreign markets.

In March 2011, the Baltic Course released the 2011 projection for the Latvian furniture sector, showing 2-3 percent growth for the year. The Executive Director, *Latvijas Mebeles* (Latvian Furniture Association), was equally optimistic in an interview with the business portal Nozare.lv noting that while 2011 “will be pretty tough for furniture makers, already next year and in 2013, performance indexes could rise steeply.” He based his opinion on the increase in demand expected due to new startups of legal entities with their need to furnish offices. In 2010, furniture makers' output was valued at LVL75 million, slightly more than recorded in 2009 of LVL72.8 million.

The Executive Director, *Latvijas Mebeles*, noted that Latvian furniture was made of high quality wood, a main reason why Latvian furniture is in demand abroad. He also noted that following the rapid economic changes in global markets, Latvian furniture manufacturers remained quite flexible executing orders at prices suiting market conditions, offering furniture of non-standard dimensions, diversifying input materials, and executing orders in rather short period of time.

The IDAL reports that for several decades the woodworking industry as holding a key position in the national economy. Latvia has a long-standing tradition in furniture manufacturing and today the country has more than 400 active furniture manufacturers offering different styles of furniture made from a variety of materials and combinations thereof, across the range from mass-produced to custom-made. In recent years, Latvian furniture manufacturers have also progressed in the field of design. The Latvian Chamber of Crafts reported that there are around a thousand apprentices and master craftsmen manufacturing furniture registered with that organization. Latvian hand-crafted items can be seen in the offices of presidents and ministers, in embassies, in the apartments of the intelligentsia and artists, as well as in hunting lodges and farmhouses.

Wood packaging materials can be manufactured with comparatively small investment and simple technologies. In Latvia, such products are generally made by small and medium-size enterprises using mainly low-grade, sawn hardwood. About ten Latvian companies manufacture high-quality wood packaging materials that meet EU requirements.

The IDAL reported that a number of Latvian enterprises had invested significantly to develop modern carpentry products (wood window frames, doors, and construction materials). This development was, to a greater extent, promoted by the boom in domestic and European construction markets before the slowdown in 2008.

In 2007 sawn wood production decreased by 20 percent, as compared to 2006. Approximately 3.46 million cubic meters of sawn wood were produced and 2.1 million cubic meters exported. Mostly,

further processed sawn wood is used in construction and furniture making. Thanks to significant investment in modern production facilities, the output of higher value-added products (dried, sorted, planed, and impregnated sawn wood) has increased.

As a result of substantial investment, the production of wood based panels (especially plywood) has become one of Latvia's major woodworking branches. IDAL reported that Latvia is the largest plywood producer in Eastern Europe. The production of specific plywood products, for example, oversized plywood sheets, has been increasing.

Baltic Furniture trade show

Baltic Furniture is the major furniture fair in the Baltic countries. It is an excellent place to introduce company profile and find new trade partners from Baltic and Scandinavian countries, Germany and Russia. Baltic Furniture is organized by International Exhibition Company BT 1 that has been organizing high-level international, national, and regional exhibitions and trade fairs since 1994. In 2009, Baltic Furniture organizers worked closely with "*Latvijas Mebeles*," Estonian Furniture Industry Association "*Eesti puutöölid*," Latvian Designers Union, Lithuanian Design Forum, Estonian Designers Union, Riga City Council.

Trade

In the first seven months of 2011 Latvia's wood exports reached LVL 674.207 million, 19.3 percent higher in year-over-year trade comparison, against LVL 565.1 million. Sawn timber and round timber accounted for the largest share of Latvia's timber exports in during this period in 2011, with a total worth of LVL 166 million and LVL 104.73 million, respectively. The bulk of Latvia's wood export went to Sweden – 17.6 percent (LVL 118.75 million worth of wood products), Germany – 11.6 percent (LVL 78.171) and Great Britain – 11.6 percent (LVL 78.29 million) according to data released by the Agriculture Ministry's Forest Resource Department.

The Latvijas Mebeles (Latvian Furniture Association) informs that the key export destinations for Latvian furniture will likely change in the future. Until now, most Latvian furniture exports went to Denmark – 12 percent, but it appears that Great Britain will become the key foreign destination, although at the moment only 7 percent of Latvian furniture exports end there. If economic conditions strengthen, exports to Great Britain are expected to double, possibly triple, as theirs is the end-market for the furniture. Danish companies tend to be trans-shippers who re-export most of the product, a business more susceptible to variances in the global economy. Industry experts identify other potential markets for Latvian furniture as: Canada, United States, China, India, Pakistan, and Afghanistan.

The first half of 2011 saw Latvia import furniture valued at LVL 9.875 million, 27.9 percent less than in the corresponding period last year. In the first half-year, furniture imports constituted 6.8 percent of the total value of timber and products imported. Latvia's main suppliers of furniture were: Italy (17 percent), Poland (16.3 percent), and China (15.9 percent). Last year, Latvian furniture imports reached LVL 26.99 million.

Note: Current exchange rate: 1 LVL~ 1.88 US\$

In July 2011, Agricultural Attaché Michael Henney visited Riga Port which specializes in log exports. The amount of wood ready to be shipped seems to confirm reporter findings.



