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Wood Sector in Latvia

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Wood Products

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Report Highlights:
Latvia’s wood and wood products sector has slowly recovered from the economic recession experienced before 2010. In 2014 the total volume of timber harvested remained at the level of previous year amounting to 11.7 million m3. Intensive changes are noticed in the prefabricated wood (panel) modular house production industry. Production capacities are focusing on growing demand in North European countries. Prefabricated house production expansion also is a positive influence for the carpentry industry. In 2015 Latvia imported U.S. $ 771.79 million worth of forestry products.

General Information:

Role of the agricultural and forestry sector in the economy

Latvia's wood and wood products sector has slowly recovered from the economic recession experienced before 2010. After a significant decrease in volume during the crisis, the wood and wood products sectors recovered due to competitiveness improvements and export opportunities. From 2011 to 2014, relatively fast growth rates were observed in construction, which experienced the biggest drop during the crisis. In the second half of 2014 Latvia's agriculture industry was affected by Russia's restrictions on food imports. In 2015 despite Russia's restrictions on food imports, growth continued in the agriculture and forestry industries, but the pace of growth was much smaller than before the ban. At the beginning of 2015 the slow growth in the agriculture and forestry sector was mostly brought on by the difficult situation in forestry. The relatively warm weather at the beginning of the year restricted the possibility of taking timber out from felling areas. Much higher growth was observed in the agriculture and forestry sector in the second part of the year. It was largely facilitated by a record-high yield of grain, as well as the growth of the wood processing sector and the steady demand for timber.

Share of Agriculture and Forestry in the Economy by Value Added and Dynamics of GDP

Agriculture and Forestry	% Share in the Economy	Dynamics of GDP (% changes to the previous year)
2011	4.4	-1.7
2012	3.7	7.4
2013	3.4	1.2
2014	3.3	1.6

Source: Report on Economic Development of Latvia 2015, Ministry of Economics of Latvia

Structure of Manufacturing in 2015 (%)

	By output	Share of exports in the sales of the sector
Manufacturing total	100	64.0
Food and beverage production	23.5	34.4
Wood processing	27.1	74.7

Source: Report on Economic Development of Latvia 2015, Ministry of Economics of Latvia

Changes in the Production Volume of Manufacturing,
% in relation to the previous year

	Manufacturing total	Food and beverage production	Wood processing
2010	16.5	-0.1	33.0
2011	11.7	-0.2	12.6
2012	9.3	2.5	5.4
2013	0.1	6.0	2.7
2014	-0.3	0.1	6.9
2015 (Jan – Nov.)	4.1	-5.0	6.3

Source: Report on Economic Development of Latvia 2015, Ministry of Economics of Latvia

Timber Supply

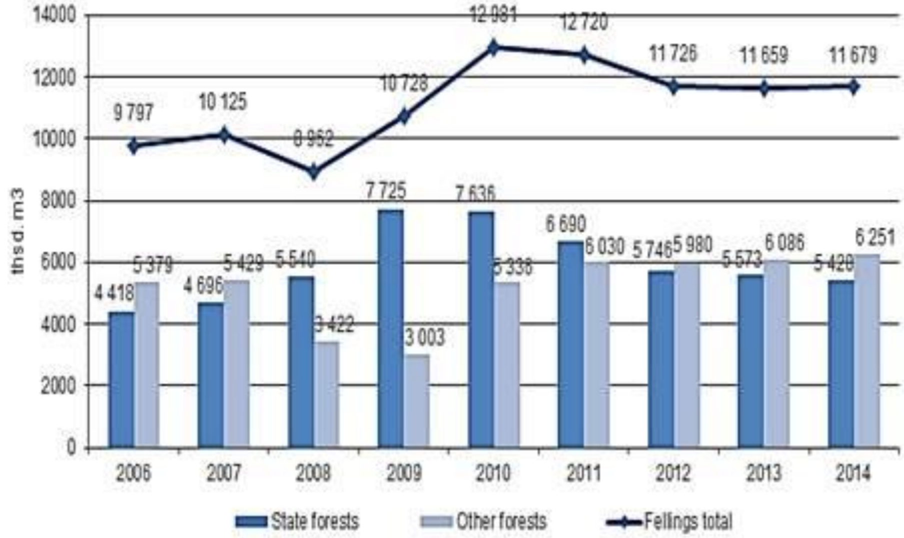
Latvia's forests cover 3.35 million hectares, 52 percent of the country's territory. Latvia is the fourth most forested country in Europe after Finland, Sweden and Slovenia.

54 % of all trees in Latvian forests are deciduous trees, and they dominate the amount of stock volume. The number of stands of young birch trees and white alder has increased rapidly in the past few years. The predominant forest species in Latvia are:
Pine 34.3%, Birch 30.8%, Spruce 18%, Grey Alder 7.4%, Aspen 5.4%, Black Alder 3%, Ash 0.5%, Oak 0.3%, Other Species 0.3%.

The Latvian state owns 49 % of the forests in the country. Local governments own one percent of forest land. The rest of forested land is owned privately by about 133,000 owners. The ownership structure is highly dispersed, and 92 % of private owners hold less than 20 hectares. The average forest property area amounts to 10.6 hectares.

The volume of timber harvested annually from Latvia's forests up to 2009 was fairly stable – between 10 and 11 million m3 of timber. In 2010 felling increased to the highest level in the past ten years amounting to almost 13 million m3. In 2014 the total volume of timber harvested remained at the level of the previous year amounting to 11.7 million m3.

Volume of Felling by Ownership



Source: Central Statistical Bureau of Latvia

Production of Wood Products

Production of selected Wood Products in Latvia (000 m3)

Production	**2014**	**2015 estimate**	**2016 forecast**
Sawn wood, coniferous	2,768	2,832	2750
Sawn wood, non-coniferous	890	890	550
Plywood	250	240	250
Particle board (including OSB)	882	926	972
of which OSB	570	599	627
Paper and paperboard	40	40	40
Wood pellets (000 MT)	1,280	1,500	1,550

Source: Ministry of Agriculture of Latvia

Birch plywood production and softwood wood-panel production remains at high levels. For export markets a positive trend is the pellet production segment. According to annual biomass market research produced by Forest and Wood Products Research and Development Institute of Latvia, pellet production will continue moderate expansion in 2015-2016 as two new large scale pellet mills will start operating during the next 12 months. Semi-finished wood products and high value added wood products exports are the drivers for the wood processing sector.

Intensive changes are noticed in the prefabricated wood (panel) modular house production industry. Production capacities are focusing on the growing demand in North European countries. Prefabricated house production expansion also is a positive influence for the carpentry industry, including wood door/window production and glue-laminate timber production. Investments were made in large scale structural wood products, namely cross laminated timber (CLT) and glue laminated timber (GLT) production units.

Trade

Since 2010 exports of Latvian goods and services have been the main drivers behind economic development. Latvian exports of goods grew very intensively from 2010 to 2012, with the growth rate at current prices exceeding 20 percent a year. During this time wood and wood products dominated export growth. According to the Ministry of Economics in Latvia, during 2012-2013 the weaker economic growth in the EU affected Latvian wood exports due to a significant reduction in external demand. Export growth was mainly driven by an increase in competitiveness these years, resulting from decreased labor costs. At the same time, the increase in the exports of goods in 2014-2015 was mainly driven by external demand while the role of competitiveness in export growth became less significant.

Exports by Main Commodity Goods (%, at current FOB prices)

	2014		**2015 (Jan – Nov.)**
	Structure	**Changes 2014/13**	**Changes to the same period of 2014**
Total	100	2.3	1.2
Agriculture and food products	19.3	-3.3	-3.3
Wood and wood products	16.6	6.7	2.4

Source: Report on Economic Development of Latvia 2015, Ministry of Economics of Latvia

The small increase in imports of goods in 2014 was positively influenced mostly by the growth of imports of wood and its products.

Imports by Main Commodity Goods (%, at current CIF prices)

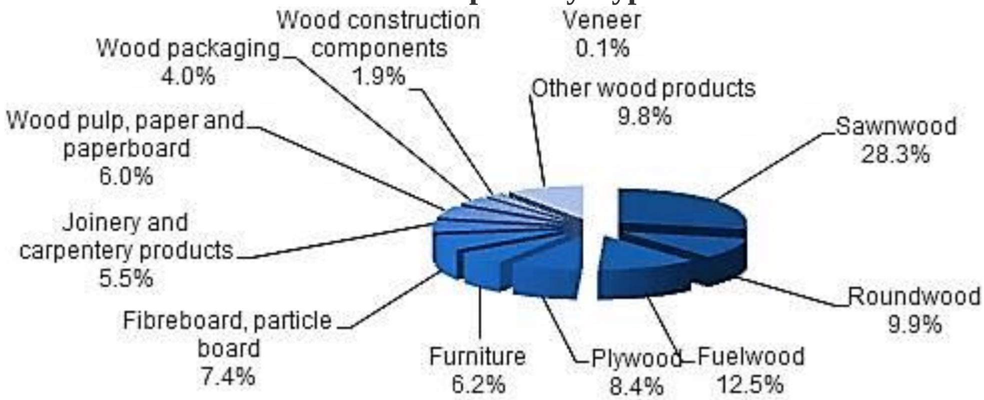
	2014		**2015 (Jan – Nov.)**
	Structure	**Changes 2014/13**	**Changes to the same period of 2014**
Total	100	0.2	-0.5
Agriculture and food products	15.8	-0.4	-3.4
Wood and wood products	2.6	33.3	13.8

Source: Report on Economic Development of Latvia 2015, Ministry of Economics of Latvia

According to the Latvian Ministry of Agriculture, Latvia is a net exporter of forestry industry products. In 2015 Latvia exported EUR 2.04 billion (U.S. $ 2.23 billion) worth of forest industry products, which was 3.1 % more than in 2014 when exports amounted to EUR 1.98 billion (U.S. $ 2.41 billion). In 2015 Latvia exported EUR 1.74 billion (U.S. $ 1.90 billion) worth of timber and timber products, 2 percent up from EUR 1.70 billion (U.S. $ 2.07 billion) exported in 2014.

The EU is the main trading partner for the Latvian wood sector with an almost 90 percent share of the total Latvian wood export volume. Traditionally, Latvia's largest forestry export markets are the UK, Germany and Sweden. In 2015 Latvia supplied its forestry products mainly to the UK (18.9% of total exports), Germany (10.5%) and Sweden (9.5%). Forestry industry exports to the UK have shown the highest dynamic of growth in the past few years. In 2015 exports to the UK increased to EUR 386.0 million (U.S. $ 422.0 million), by 17.2 % in comparison with 2014. In 2015exports to Germany increased by 2 percent and amounted to EUR 213.3 million (U.S. $ 233.2 million), and exports to Sweden increased by 20.4 percent to EUR 193.3 million (U.S. $ 211.34 million).

Wood Product Exports by Type in 2014



Source: Central Statistical Bureau of Latvia

Latvia imported EUR 705.9 million (U.S. $ 771.79 million) worth of forestry products in 2015. In 2015 imports of these products increased by 4.3 % up from EUR 676.7 million (U.S. $ 739.87 million) in 2014. Lithuania traditionally is the main supplier of forestry industry products to Latvia. In 2015 Latvia sourced from Lithuania 17.6 percent of total forestry industry imports, worth EUR 123.89 million (USD 135.45 million). The value of imported forestry products from Estonia amounted to EUR 90.38 million (USD 98.82 million), 12.8 percent of total forestry sector imports. Imports from Poland valued EUR 90.13 million (U.S.$ 98.54 million) (12.8 percent).

According to USDA BICO statistics, the U.S. trade balance in forestry products with Latvia has been negative for the last few years. In 2015 Latvia's exports to the U.S. exceeded imports by U.S. $ 14 million.

The total forestry products trade between Latvia and the U.S. has been growing for the last few years, reaching U.S. $15.4 million in 2015.

U.S. exports of forest products to Latvia, Calendar Years January-December.
(U.S. $ million)

	2012	2013	2014	2015	% change 2014-15

Total Agricultural Fish&Forest Products	109.2	74.5	95.5	67.2	-29.6
Forest Products	0.8	1.6	1.5	0.7	-52

Source: BICO

U.S. imports of forest products from Latvia, Calendar Years January-December.
(U.S. $ million)

	2012	2013	2014	2015	% change 2014-15
Total Agricultural Fish&Forest Products	9.0	15.0	17.5	24.1	38.1
Forest Products	5.5	9.0	11.3	14.7	30.4
of which:					
Logs &Chips	0.0	0.0	0.1	0.1	72.7
Hardwood Lumber	1.2	1.4	1.2	2.1	72.5
Softwood&Treated Lumber	0.6	0.7	0.8	3.0	290.9
Panel Products	2.1	3.1	4.4	3.9	-12.7
Other Value Agdded Wood Products	1.6	3.6	4.8	5.7	18.3

Source: BICO

According to Eurostat statistics the main wood products exported from the U.S. to Latvia is wood sawn or chipped (code 4407) followed by wood continuously shaped (4409). Their value amounted to U.S. $ 484,000. Major products exported in this group are: non coniferous wood, oak wood and maple sawn or chipped. The U.S. is the 6th supplier of these products for Latvia after Ukraine, Russia, Germany, Estonia and Belarus. Latvian wood and wood product imports from the U.S. are very unstable and show sudden ups and downs. It is strongly dependent on currency index, EUR versus U.S. $. In 2014 imports from the U.S. dynamically increased due to the higher price competitiveness of the U.S. wood. Lower pace of China export made more space for other suppliers to the European market. The most important factors influencing buying decisions of the Baltic importers are logistic costs and the risk related to currency volatility. The most promising U.S. wood product which has shown increases in recent years is hardwood lumber. Import of U.S. panel products diminished due to larger volumes of imports from Belarus, Scandinavian countries and some Western European sellers like the United Kingdom, France, Italy.

Latvia's imports of selected Wood &Wood Products from U.S., January-December, U.S. $ (000)

Commodity Code	Commodity	2013	2014	2015	% Share in 2015	% Change 2015/14
Wood&Wood Products		500	777	396	100	-48.99
4407	Wood Sawn or Chipped	199	484	246	62.18	-49.07
4409	Wood Continuously Shaped	162	216	115	29.05	-46.59
4408	Veneer Sheets	106	64	29	7.29	-54.96

4420	Wood Marquetry, Jewel Case etc.	2	2	5	1.32	191.33

Source:Eurostat

Latvia's Imports of Logs & Chips per countries of origin, January-December

Partner Country	U.S. $ (000)			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	88716	124495	111031	100.00	100.00	100.00	- 10.82
Lithuania	60615	75803	52945	68.32	60.89	47.68	- 30.15
Belarus	13413	15591	32212	15.12	12.52	29.01	106.60
Estonia	10763	10681	10877	12.13	8.58	9.80	1.83
Russia	2308	7758	5860	2.60	6.23	5.28	- 24.46
Norway	37	11580	4650	0.04	9.30	4.19	- 59.85
Sweden	229	1890	2931	0.26	1.52	2.64	55.07
Belgium	675	595	563	0.76	0.48	0.51	- 5.33
Poland	37	118	391	0.04	0.09	0.35	232.67
Germany	287	150	261	0.32	0.12	0.23	74.29
Ukraine	112	235	210	0.13	0.19	0.19	- 10.60
Bosnia & Herzegovina	0	15	65	0.00	0.01	0.06	337.15
Denmark	80	35	30	0.09	0.03	0.03	- 14.08
United States	0	0	21	0.00	0.00	0.02	0.00

Source:Eurostat

Latvia's Imports of Panel Products (incl. Plywood) per countries of origin, Calendar Years January-December

Partner Country	U.S. $ (000)			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	94250	108928	99332	100.00	100.00	100.00	- 8.81
Russia	34704	39003	39211	36.82	35.81	39.47	0.53
Lithuania	17186	16776	13729	18.23	15.40	13.82	- 18.17
Poland	15702	16989	12851	16.66	15.60	12.94	- 24.36
Estonia	9610	12442	11693	10.20	11.42	11.77	- 6.01
Germany	7195	10459	5758	7.63	9.60	5.80	- 44.95
Belarus	573	812	2247	0.61	0.75	2.26	176.60
Finland	317	2344	2236	0.34	2.15	2.25	- 4.60
United Kingdom	112	11	2131	0.12	0.01	2.15	∞
Romania	1454	1085	1175	1.54	1.00	1.18	8.25
Czech Republic	949	1250	1130	1.01	1.15	1.14	- 9.60
Austria	1500	1280	1058	1.59	1.18	1.07	- 17.37
Slovenia	628	1068	1012	0.67	0.98	1.02	- 5.25
France	237	258	820	0.25	0.24	0.83	218.12

China	1088	1062	810	1.15	0.97	0.82	- 23.70
Turkey	5	394	497	0.01	0.36	0.50	26.14
Belgium	199	198	495	0.21	0.18	0.50	150.45
Italy	498	367	446	0.53	0.34	0.45	21.60
Ireland	373	330	387	0.40	0.30	0.39	17.30
Sweden	198	219	383	0.21	0.20	0.39	74.57
Netherlands	277	318	371	0.29	0.29	0.37	16.49
Malaysia	87	512	245	0.09	0.47	0.25	- 52.18
Cyprus	352	884	212	0.37	0.81	0.21	- 75.97
Chile	90	154	79	0.10	0.14	0.08	- 48.56
Norway	68	35	75	0.07	0.03	0.08	116.74
Slovakia	416	226	57	0.44	0.21	0.06	- 74.78
Spain	6	211	40	0.01	0.19	0.04	- 81.04
Hungary	0	88	39	0.00	0.08	0.04	- 55.31
Brazil	0	19	32	0.00	0.02	0.03	69.17
Denmark	51	40	29	0.05	0.04	0.03	- 27.12
United States	128	74	29	0.14	0.07	0.03	- 61.18

Source:Eurostat

Latvia's Imports of Softwood and Treated Lumber per countries of origin, January-December

Partner Country	U.S. $ (000)			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	65382	112810	98187	100.00	100.00	100.00	- 12.96
Estonia	25927	39517	35923	39.65	35.03	36.59	- 9.09
Russia	10396	19226	28028	15.90	17.04	28.55	45.78
Belarus	8873	23251	18609	13.57	20.61	18.95	- 19.96
Finland	9322	14833	8593	14.26	13.15	8.75	- 42.07
Lithuania	8880	12045	4264	13.58	10.68	4.34	- 64.60
Sweden	1111	2073	1586	1.70	1.84	1.62	- 23.47

Source:Eurostat

Latvia's Imports of Hardwood Lumber per countries of origin, January-December

Partner Country	U.S. $ (000)			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	5007	7658	8180	100.00	100.00	100.00	6.82
Ukraine	1667	2340	1679	33.30	30.55	20.52	- 28.25
Russia	281	531	1663	5.62	6.93	20.33	213.14
Germany	1379	1433	1651	27.54	18.72	20.18	15.17
Estonia	315	889	1379	6.29	11.61	16.86	55.08
Belarus	46	208	573	0.92	2.72	7.01	175.49
United States	199	484	246	3.98	6.32	3.01	- 49.07

Source: Eurostat

Trends in wood industry – demand from construction industry and wood energy sector.

Latvia has one of the highest investment rates in Europe in wood and wood products and the most competitive labor force. Within the subsector, wood construction has the highest investment rate. Recently, significant investments have also been made in the production of particle board, OSB.

According to the Ministry of Economy in Latvia, the growth of construction is largely related to public procurements and projects originating from EU funds. After a rapid increase in construction volume in the first half of 2014, the growth rate of the sector slowed down at the end of the year. In total, the growth of construction reached 8.1% in 2014. Construction volume of both residential and non-residential buildings had an equally rapid increase in 2014 (31.1% and 34.6% respectively). In the category of non-residential buildings, the construction volume of hotels and buildings of similar usage experienced the most rapid increase. In 2014 a moderate increase in volume could be observed in the construction of industrial buildings and warehouses. Construction volume of duplexes experienced the most rapid growth in the category of residential housing.

In the first three quarters of 2015 the volume of building construction was 5.8% lower than the year before. In the category of residential buildings, the construction volume of single-apartment houses grew, while the volume of construction of apartment houses decreased significantly. By contrast, in the construction of non-residential buildings, a reduction in volume was mainly driven by a decrease in construction volume of wholesale and retail trade buildings, educational institutions, as well as administrative buildings, partly compensated by an increase in the construction volume of hotels, sports facilities, museums, as well as industrial buildings and warehouses.

According to the European Economic Commission of the Organization of United Nations, the Latvian local market for forest products is influenced by a significant increase of solid wood biomass consumption in wood energy production and consumption sectors. Wood biomass demand was one of the main forest product market drivers in 2014 and continued to increase in 2015.

In 2014 large scale heating and new cogeneration CHP plants increased wood consumption to 1,657 million m 3. Starting from 2016 a similar rapid wood consumption increase implemented in Lithuania, increased solid wood biomass consumption in all Baltic countries. Wood biomass products production also is impacting the forest industry strongly, increasing demand for premium and industrial pellets in EU increases pellet production activities in Latvia.

Policy

The forest sector in Latvia is supervised by the Ministry of Agriculture. Together with stakeholders it drafts forest policy and development strategy, the use of forest resources, and hunting, and environment protection www.zm.gov.lv The agency responsible for supervising the implementation of legal provisions in forest management is the State Forest Service www.vmd.gov.lv State-owned forests are managed by the Latvian State Forests Stock Company which secures the state's interest in terms of preserving and increasing the value of the forests and its' value to the economy, www.lvm.lv

All forests managed by Latvian State Forests (Latvijas Valsts Meži) are certified in accordance with internationally approved FSC® Principles and Criteria. Since 2011 Latvian State Forests are also certified according to the PEFC scheme. PEFC certificates have been granted to all 8 of LVM forest management regions. The PEFC forest management certification is provided by leading certification bodies within Latvia: BM Trada Latvija and SIA SGS Latvija Ltd. Certified areas in private forests are increasing, but at a slow pace.

Latvian timber industry associations

Association Latvijas Mēbeles (Latvian Furniture)
Skaistkalnes iela 1, Zemgales priekšpilsēta, Rīga, LV-1004, Latvia
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Latvian Wood Construction Cluster
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LV – 1012, Rīga, Latvia
Telephone: 26611663
e-mail: gatis@woodhouses.lv

Latvian Forest Owner's Association
Republikas Laukums 2-601, Roga, LV -1981 Latvia
Phone: +371 67027079
e-mail: info@mezaipasnieki.lv

Latvian Forest Industry Federation
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Phone +371 67067368
office@latvianwood.lv

Latvian Forest Industry Federation works to develop Latvia's forest sector together with other stakeholders. The main goal of the Federation is to meet different needs of the stakeholders, to establish a sustainable and stable economic environment for the sector, coordinate the stakeholders' activity in creating forest and wood industry policy.

End of Report.