Market analysis
Availability of forest products and by-products
Latvia

Client:

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1. Introduction

SGS has been assigned by Electrabel to analyse the market availability of the feedstock used to produce wood pellets in Latvia, in order to assess to what extent the use of those materials for energy purpose might compete with the industrial use of those resources both locally and internationally. The wood energy subsector is very developed in Latvia. This country is ranked 4th in the European Union in terms of wood pellets production capacity.

This report will cover the following wood resources used as raw material by pellet producers in Latvia:

- Wood processing residues
- Round from forest thinning & harvesting
- Residues of forest exploitation

The industrial activities concerned by those materials are:

- pulp and paper
- wood panels production

The geographic range covered by the analysis includes the state of Latvia.

2. Production volumes

According to the most recent statistics available from the FAO to data[1] (Figure 1) the production of round wood from forest's Latvia had been fairly stable since 2009, between 10 and 15 million m³ of timber. In 2015, this production was 12 million m³. The general trend of the production of round wood shows a constant increase from 1991 (Soviet Union's dissolution and Latvia independence) to 1999 and then a stabilisation of the production since 1999 with a substantial decrease in 2008 and the return to the same production from 2010. The best production level was reached in 2000 with 14,3 million m³. The diminution in 2008 – 2009 could be explained by the global economic crisis that caused a fall in roundwood prices. The drastic reduction of timber harvested from privately owned forests has then been compensated by the increase of the volume of timber harvested from state owned forests in 2009 and 2010.

Figure 1 : production of round wood in Latvia (1992-2015)
(source : FAOstat)

[1] http://faostat3.fao.org/faostat-gateway/go/to/browse/F/*/E

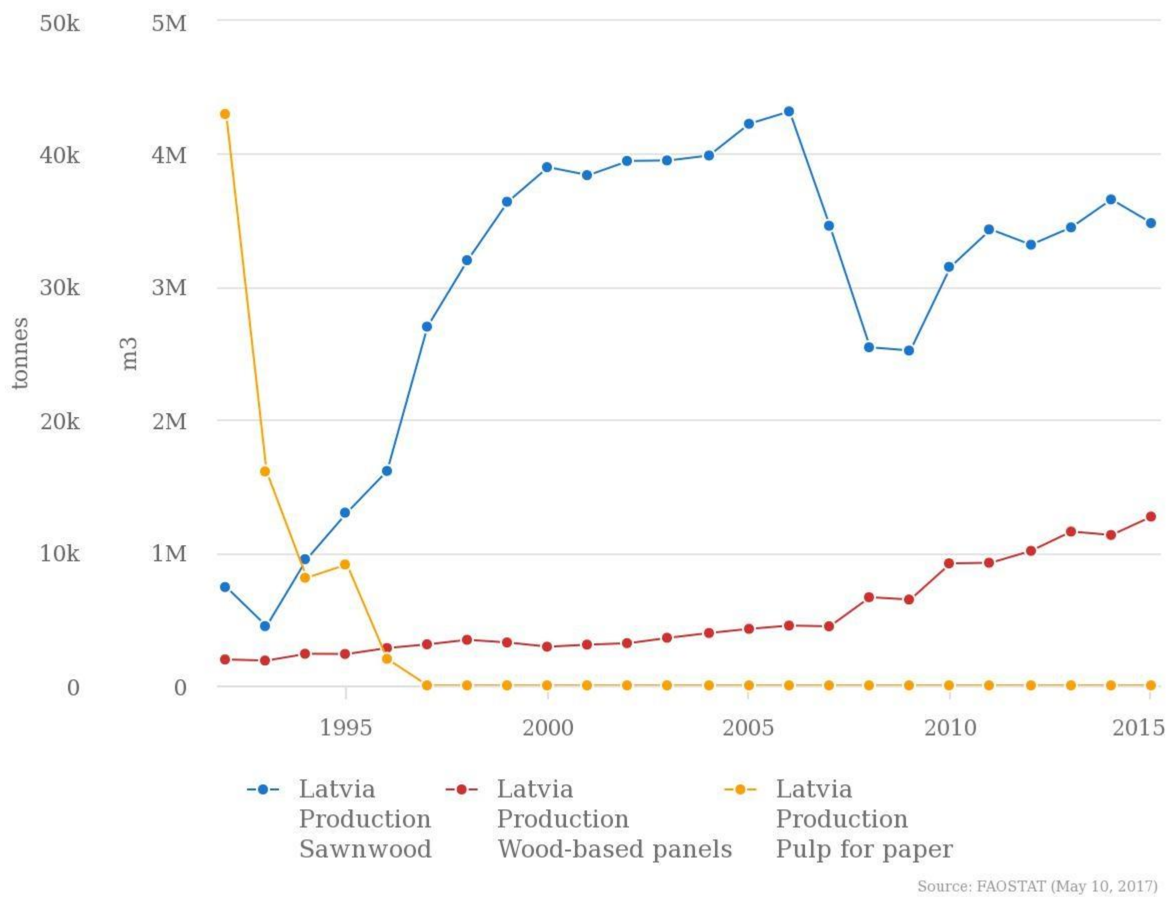

Figure 2 : production levels of pulp for paper (tonnes), sawnwood (m³) and wood-based panels (m³) in Latvia between 1990 and 2015
(source : FAOstat)

Sawnwood is largely the main source of pellet production. In 2013, about 3 million m³ in of sawnwood were produced of which 2,5 million were exported. The production of wood-based panels has become one of Latvia's major woodworking branches, this result of recent substantial investments. The production of wood-based panels has increased gradually over recent year to reach 1,27 million of m³ in 2015. Concerning the production of pulp for paper, since 1997, the production could be considered as null, despite several attempts to revitalize it and attract investment for a new modern pulp mill[2].

[2] http://www.liaa.gov.lv/files/liaa/attachments/k_2014_forest_industry_in_latvia_1.pdf

Table 1 : Production of wood products (source : Ministry of agriculture of Latvia[3])

3. Production	4. 2014	5. 2015
Sawn wood	3.658.000 m³	3.722.000 m³
Polywood	250.000 m³	240.000 m³
Particle board (including OSB)	882.000 m³	926.000 m³
Of which OSB	570.000 m³	599.000 m³
Paper and paperboard	40.000 m³	40.000 m³

6. Forest exploitation levels

The volume of timber harvested annually from Latvia's forests had been stable up to 2009, between 10 and 11 million of m³ of timber. The global economic crisis caused a fall in Roundwood prices. This led to a drastic reduction of timber harvested from privately owned forests and, in compensation, the increase of timber harvested from state owned forests. After these crisis years, the wood and wood products sectors recovered due to competitiveness improvements and export opportunities[4]. In 2014, the total volume of timber harvested remained at the same level than previously years, ie 11,7 million m³.

The comparison between the volumes of annual fellings and the annual net growth is described in more details in SGS's report on forest sustainability. The most recent trends show that the annual fellings are equivalent to about 60% of the annual net increment in terms of living wood volume. This is considerably lower than in the early years 2000, when it was above 90% of the annual increment at some stage. All in all the volume of growing stock keeps on increasing in Latvia, which reflects moderate levels of harvesting on national scale, more mature tree stands and sufficient supply for years to come.

[3]https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wood%20Sector%20in%20Latvia_Warsaw_Latvia_12-12-2016.pdf

[4] http://www.liaa.gov.lv/files/liaa/attachments/k_2014_forest_industry_in_latvia_1.pdf

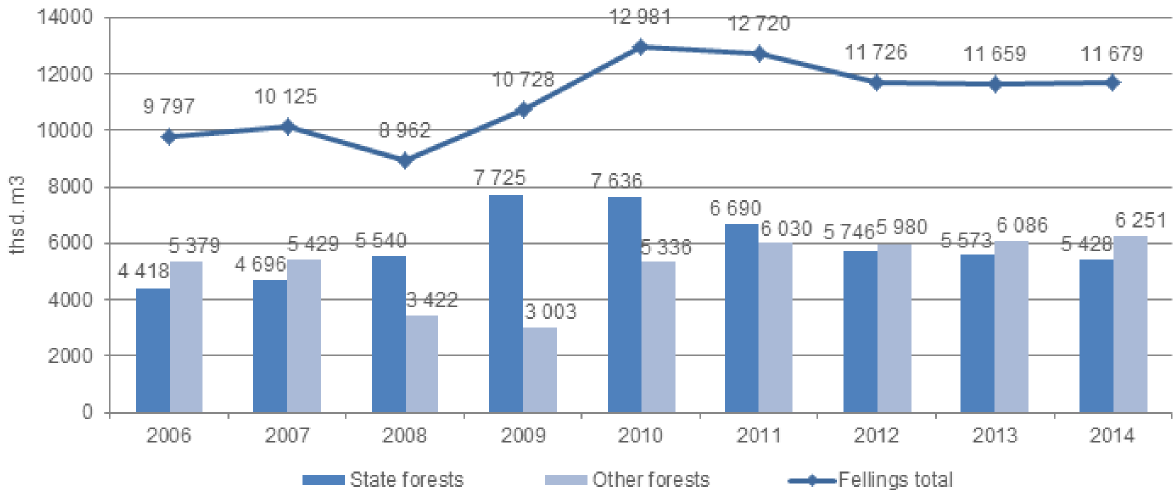

Figure 3 : Volume of felling by ownership between 2006 and 2014
source : Central statistical Bureau of Latvia, in http://www.liaa.gov.lv/en/trade/industry-profiles/forest-industry

7. Price of wood resources

Timber prices in Latvia have fallen between 2008 and 2009 in relationship with the global economic crisis. Even though they have not yet recovered up to the levels of 2007, the trend since shows a relative stabilisation of prices between 2011 and 2014 for most species. Since 2014, the prices seem to show a slight decreasing trend[5].

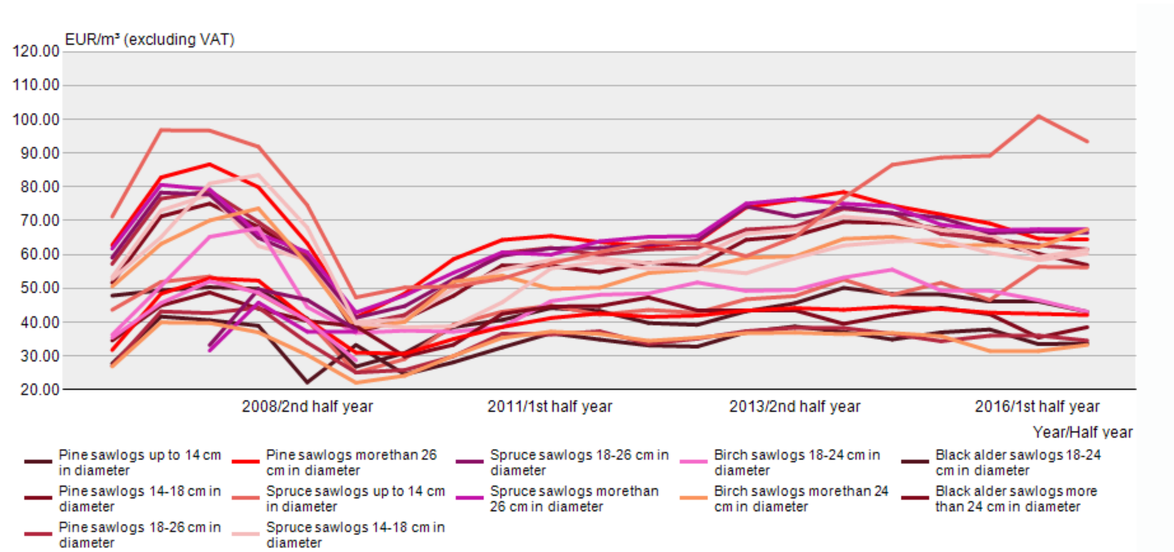

Figure 4 : Average purchase prices of wood by species between 2006 and 2017 (EUR/m³ excluding VAT)
(source : Central Statistical Bureau of Latvia : http://www.csb.gov.lv/en/dati/statistics-database-30501.html)

[5] http://bnn-news.com/csb-round-timber-prices-continue-to-decline-in-latvia-163565

8. Import and export of wood resources

In this section, imports and exports are taken into account to assess the availability of the different kind of materials.

The imports of round wood are very low compared to the production. The exports are more important compared to the local production. We can conclude that the domestic production allows to meet the local demand and allows to generate significant exports.

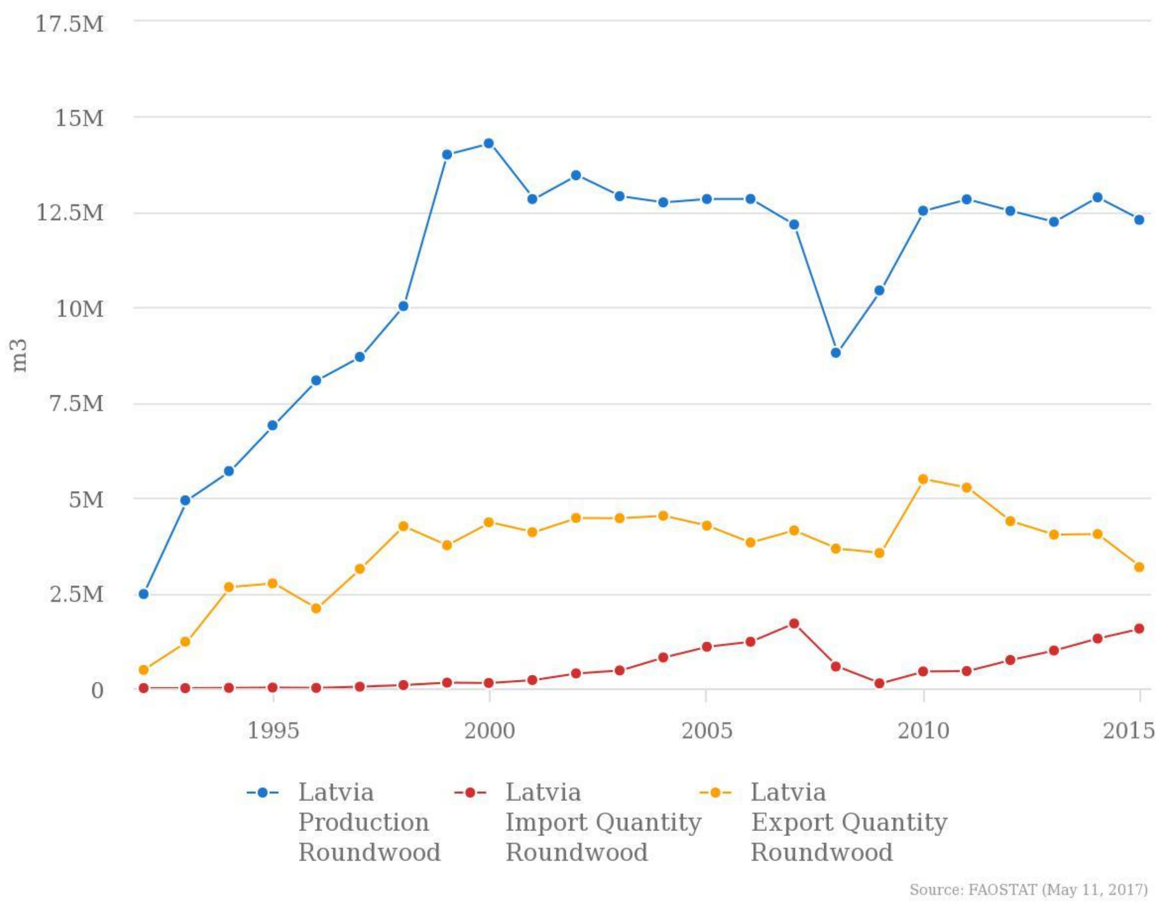

Figure 5 : imports, exports and production of round wood in Latvia (1992-2015)
(source : FAOstat)

In 2015, the production of round wood was 12,8 million m³, of which 4 million m³ for exports. The imports were of 1,3 million m³. We also see on the figure above that production had decreased during the crisis in 2008 and that the exports stayed constant during the same period. The imports had decreased during the same period and became negligible in 2009 and then to increase again until 2014.

The forestry industry has always been Latvia's export leader. Exports of wood and its products was the most significant export sector in 2013, comprising 19% of total value export. About 75% of forestry-sector output is exported [6].

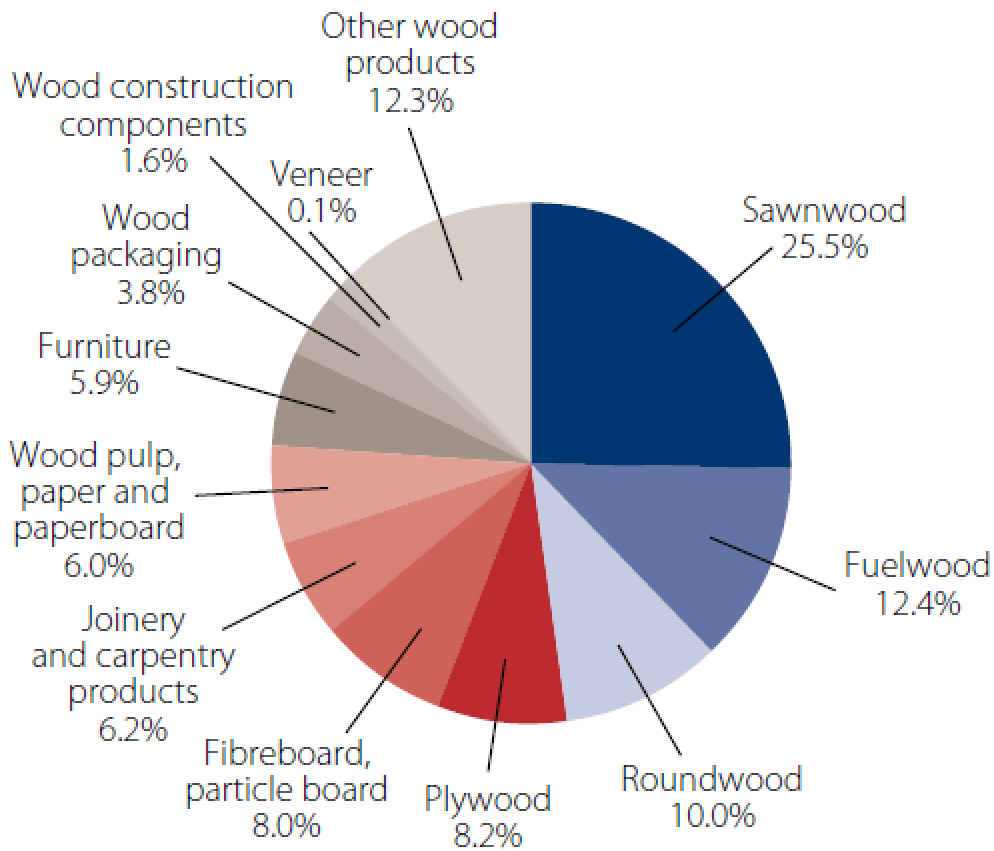

Figure 6 : Woodworking product export by type of product in 2013
(source : Central Statistical Bureau of Latvia)

Even though Latvia is a very large exporter of wood, the main exported products are sawnwood, fuelwood and roundwood. The main export destinations traditional are United Kingdom, Sweden and Germany. In 2013, the round wood exports represent 10% of Latvia's round wood production.

We do notice that the exports of roundwood didn't suffer during the economic crisis, certainly due to government decision to increase the volume of timber harvested from state owned forests.

Since 1996, le pulp for paper subsector is almost negligible, despite several attempts to revitalize it and attract investment for a new modern pulp mill. The main markets for this product are Lithuania and Estonia.

[6] http://www.liaa.gov.lv/files/liaa/attachments/k_2014_forest_industry_in_latvia_1.pdf

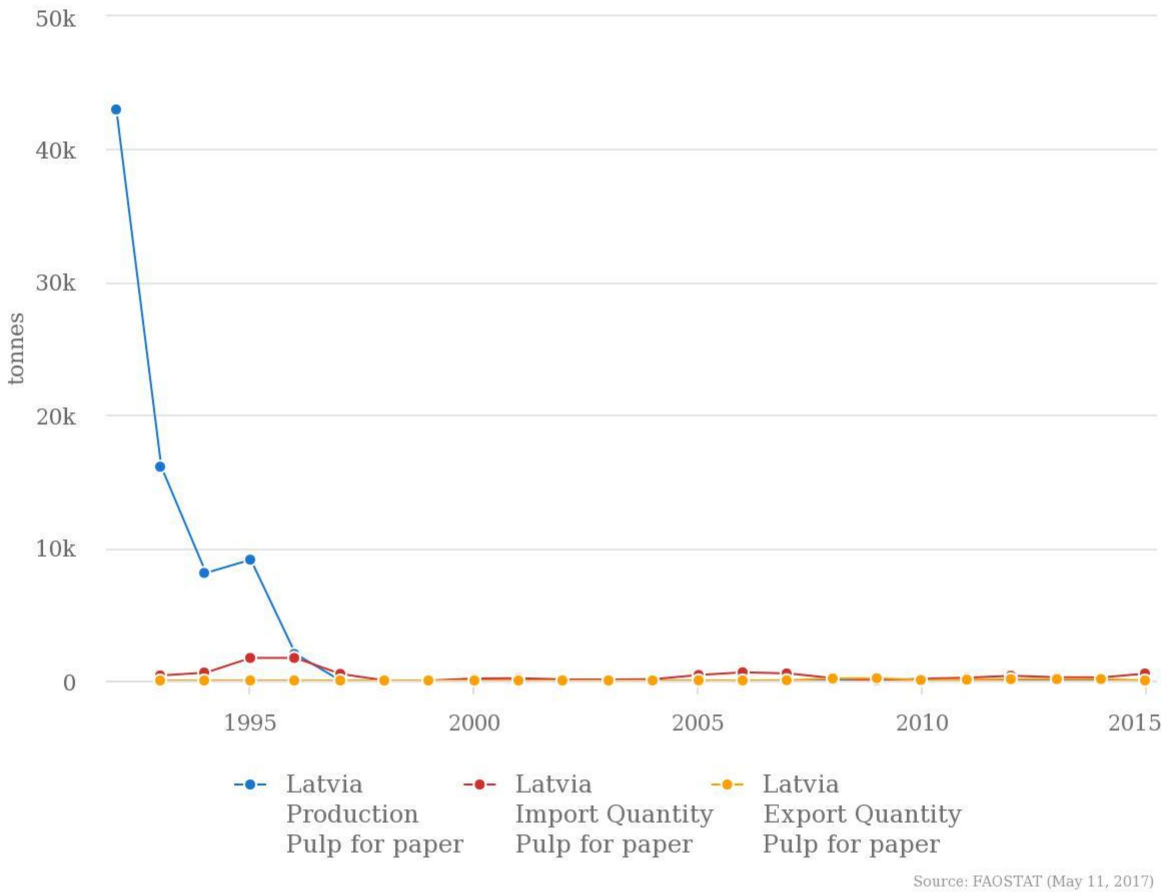

Figure 7 : Production, imports and exports of pulp and paper in Latvia (1992-2015)
(source : FAOstat)

The produced and exported volumes of wood-based panels have gradually increased these recent years and particularly since 2007. This is the result of substantial investment in the production of wood-based panels, and plywood in particular. Indeed, wood-based panels accounted for 16% of total export value of woodworking sector in 2013[7]. Still in 2013, the plywood exports accounted for 8,2% versus 8% for fibreboard and particle board. Plywood is exported mainly in Germany, the United-Kingdom, France and the Netherlands. To note that recently, the production of OSB from small-size softwood timber has commenced in Latvia.

[7] http://www.liaa.gov.lv/files/liaa/attachments/k_2014_forest_industry_in_latvia_1.pdf

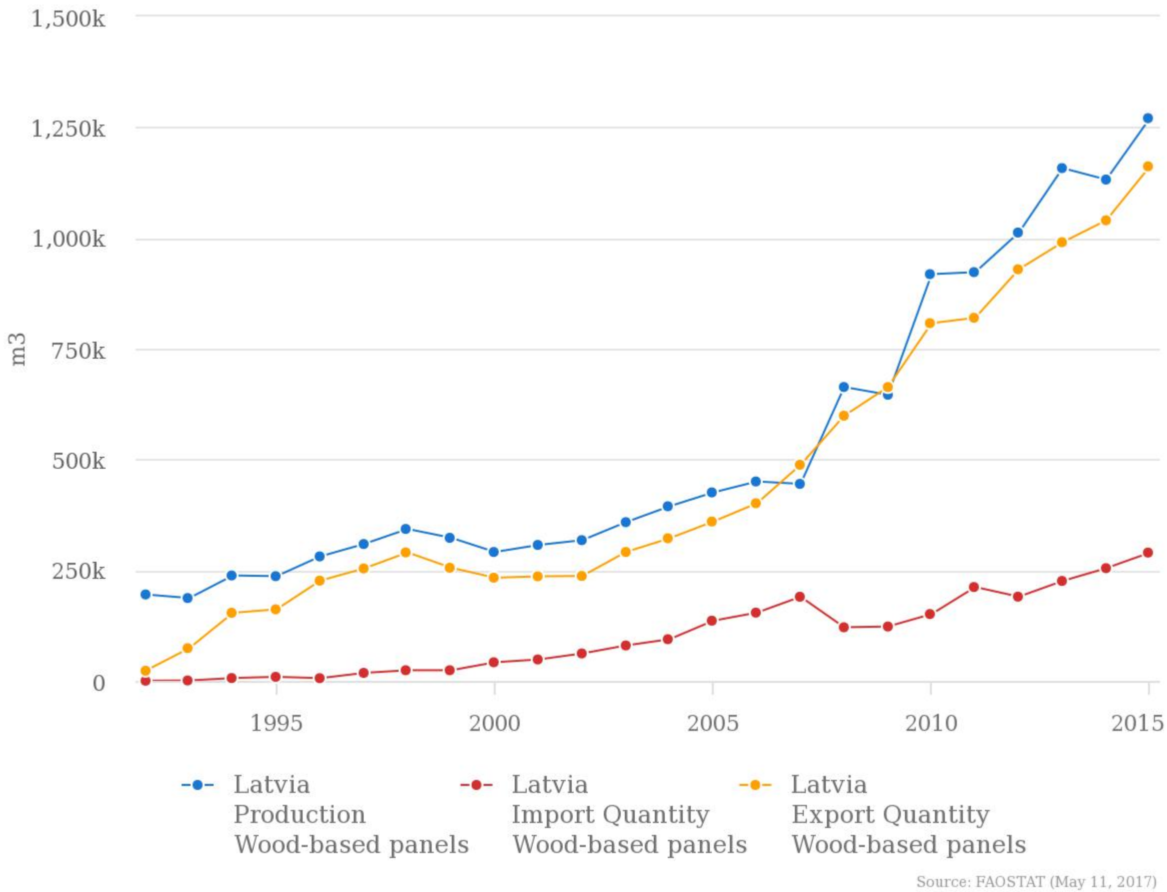

Figure 8 : Production, imports and exports of wood-based panels in Latvia (1992-2015) (source : FAOstat)

After a sharp decrease of sawnwood production and exports between 2006 and 2009, the exports have started increasing again after 2009 , thanks to significant investment in modern production of facilities, the output of higher value-added products (dried, sorted, planed, and impregnated sawn wood) has increased. In 2013, about 3 million m³ of sawnwood were produced with 2,5 million³ exported, mostly for use in the construction, furniture making or for manufacturing a variety of products in other sectors. The major market for Latvia's export sawnwood is the United-Kingdom, with 28 % of total sawnwood exports in 2013.

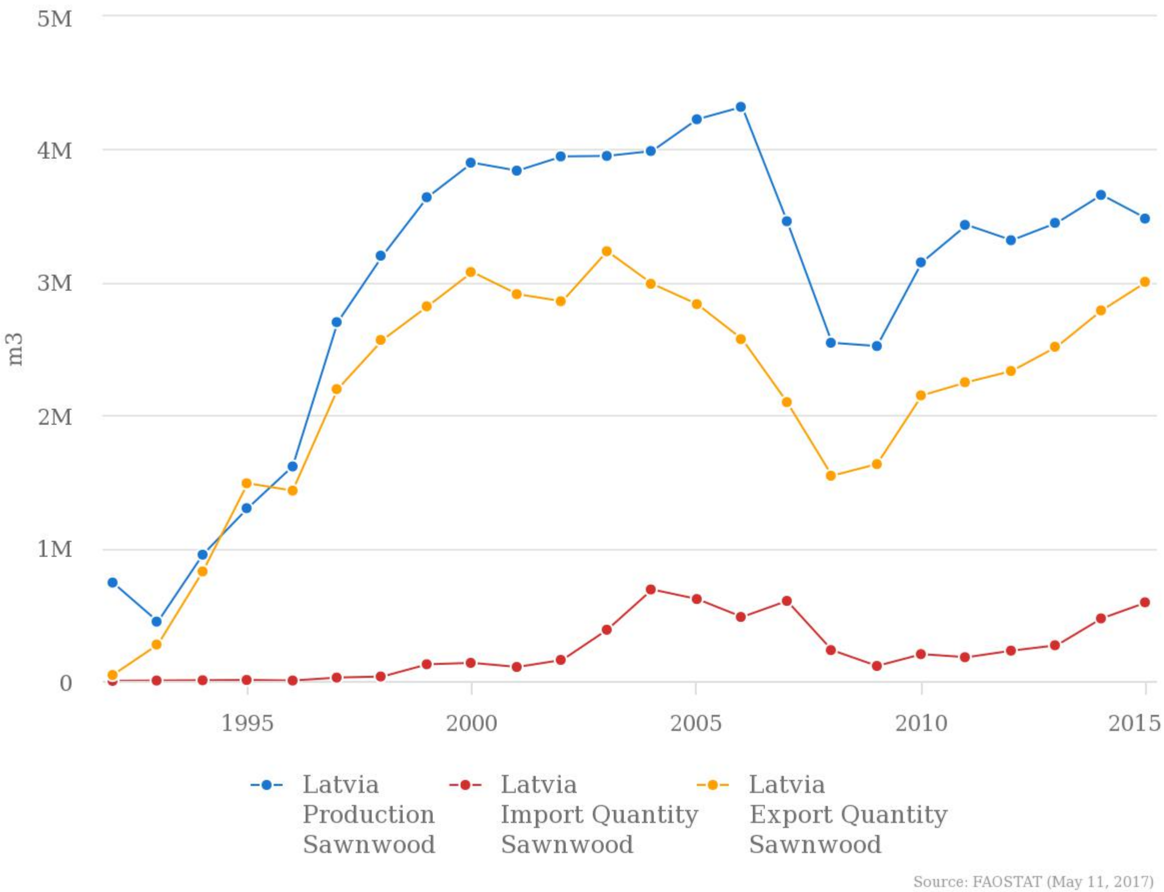

Figure 9 : Production, imports and exports of sawnwood in Latvia (1992-2013)
(source : FAOstat)

9. Conclusion

Latvia has a forest industry essentially oriented to the export markets. The exported products are mostly sanwood, fuelwood and roundwood. The main export destinations traditionally are EU countries: the United-Kingdom, Sweden, Germany.

Wood-based panels (mainly plywood) accounted for 16% of the total export value of the woodworking sector in 2013, which makes Latvia one of largest plywood producers in Eastern Europe. This is thanks to major investment in the sector and the manufacture of high value-added products. The production and export have wood-based panels have increased gradually over recent years.

The analysis of the wood market in Latvia, shows that a major decrease of round wood production was triggered by the global economic crisis in 2008 and 2009. The exports didn't suffer much of this decrease, thanks to a government decision that did a great deal to save the timber sector. Indeed, to rescue this economic sector, the Latvian government took the decision to increase the volume harvested from state owned forests in 2009 and 2010. The production levels have partially recovered afterwards, with fast growth rates observed in the construction. This production levels stay growing until now, despite the Russia's restrictions imposed on food imports since 2015, but the growth rate is much smaller than before these restrictions[8].

Concerning the production of pulp for paper, this subsector is extremely small in Latvia, despite several attempts to revitalize it.

Large amounts of round wood are available for harvesting and the recent years the stock in forests gradually grows with 670 million m^3 in 2015[9].

The partial recovery of sawmill activity after 2009 means that larger amounts of sawmill residues are available again for panels and bioenergy. The wood energy subsector is very developed in Latvia, that is ranked 4th in the European Union in terms of wood-pellet production capacity, even though there is a local demand of this product.

[8] https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wood%20Sector%20in%20Latvia_Warsaw_Latvia_12-12-2016.pdf
[9] Source : Forest Fund, the state forest service (SFS), NFI

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