



Weekly Briefing

**Latvia external relations briefing:
Latvian forests – Latvian Green Gold**
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Latvian forests – Latvian Green Gold

More than half of Latvia's territory is taken by Latvian forests, making Latvia one of the greenest countries in the world.¹ For this reason, wood processing plays an important role in Latvia's economy, compiling approximately 20% of total exports in 2018.² Currently, there is a growing trend in Latvian tree exports: businesses offer new ways for efficient timber use and produce products with high added value. Overall wood-processing industries such as manufacturing of wood, cork products, manufacturing of paper and paper products, printing and reproduction of recordings, manufacturing of furniture are the common wood sub-industries in Latvia.

As most of the products produced by wood processing industry in Latvia are exported to other countries, various wood products form a significant part of Latvia's exports. In general, Latvia's wood export production can be divided into 2 large groups – raw materials and processed products. Analyzing the data since the beginning of 2000, it can be concluded that the proportion of processed wood production in Latvian timber exports is increasing. Producers appear to be offering customers higher value-added products.³ Mostly Latvian timber products are exported to European countries as well as to Asia.⁴ In 2019 around 40% of total exports of sawn timber materials were shipped to the UK. To countries such as South Korea, China, Germany, the Netherlands were exported around 5% materials of the total exports of the industry to each trading partner.

In the wood products sector, over the years, a bigger share of wood furniture in the total export of Latvia has emerged. The data shows that this production sector has been rising already for several years. The value of exported wooden furniture in 2018 reached about 170 million Euro.⁵ Most wood furniture produced in Latvia is exported to Scandinavian countries – Sweden, Denmark. Exports of wooden furniture to Denmark reached around 23% of all but to Sweden about 10% of the total exports of wooden furniture. About 13% were transported to Germany.

¹<https://data.worldbank.org/indicator/AG.LND.FRST.ZS?view=map>

²https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=2ahUKEwjGubX12NPmAhUIxaYKHcm8DgEQFjABegQIAxAC&url=https%3A%2F%2Fwww.zm.gov.lv%2Fpublic%2Fck%2Ffiles%2Fskaitlifakti_LV_2018web.pdf&usg=AOvVaw32IPEukzXwpgPrUxVxY5o2

³Central Statistical Bureau of Latvia

⁴https://eksports.csb.gov.lv/lv/products-selected/export/2019/sp_83/TOTAL

⁵<https://www.diena.lv/raksts/latvija/zinas/koka-mebel-export-pern-increased-by-03-14214525>

In total, approximately 40-50 thousand inhabitants of Latvia work in the forest and wood processing industry. Forest industry workers represent approximately 7% of non-budget jobs in Latvia, and the taxes paid by them provide approximately 1/12 of the state's economy. Timber is an important source of income for many residents of Latvia, particularly in rural areas – more than half of the wood processing industries are located outside cities, and by that this economic sector is stimulating and employing citizens living in the rural areas of Latvia.⁶ As the wood processing industry is one of the most strategically important regional manufacturing in Latvia, many other industries, such as retail, transport are gaining more demand. Because of the timber processing sector, it is estimated to have resulted in an additional 30-40 thousand job places that are not related to the timber sector in Latvia.⁷

In the last 100 years, the total area of Latvian forests has risen almost four times, so Latvia has become one of the most forested countries, both in Europe and in the world.⁸ In order to prevent forest pollution in Latvia, there is also a common forest clean-up every year, when thousands of people go to clean up the surrounding forests. Latvian forests mostly consist of trees such as spruce, pines, and birch. Property rights to forests in Latvia are distributed proportionally to the public and private sectors. 49% of all Latvian forests belong to Latvia's state, while 48% belong to the private sector. Remaining of the share belongs to Latvian municipalities. Similarly, resource extraction from forests of Latvia is proportionally distributed – approximately half is gotten from the private sector and the other half from state-owned forests.

The attraction of investments in the timber production sector in Latvia is mainly driven by 4 factors – easy access to raw materials, average salary levels and foreign language skills of employed personnel, as well as attractive geographical location. About half of Latvia's territory is covered by forests of various trees, mainly pines, spruce, as well as birch. Access to forests is very convenient, so raw materials are very easily available for the businesses.

Besides, different methods of transportation of the products are easily available in Latvia. Latvia is a suitable place for organizing transit and logistics between the European Union and Asian markets. Ports, railways, road transport operators, customs warehouses, logistic centers, and ship agents provide efficient and competitive services. The transit and logistics sector forms

⁶Research on employed staff cost and foreign language skills in most competitive sectors of economy in Latvia by “Institute of Economics of the Latvian Academy of Sciences and CREATURA”

⁷<https://www.lvm.lv/sabiedribai/meza-management/latvia-meza-sector>

⁸Latvian State Forest Service

about a quarter of service exports in the Latvian economy.⁹ Therefore particular attention at both national and business levels is paid to the transit sector and the major investments in transport infrastructure – ports, railways, and roads – are first invested directly in transit directions. In particular, rail and road transport services are most commonly used for products such as sawn timber, while ships or road transport services are used for the export of finished products such as furniture.

Latvia has one of the lowest salary levels in the European Union.¹⁰ Despite this, approximately 96% of the population aged 25-64 have indicated that they know at least one or more foreign languages, which is the second-highest level in the European Union. For these reasons, Latvia is very attractive to investors because it has educated but at the same time cheap workforce. Cheap labor costs allow businesses in Latvia to spend more costs on upgrading manufactures, thereby increasing the efficiency of the company. Data shows that on average, one manufacture worker costs employers around 750-1000 EUR per month in cities, while around 500-750 EUR per month in rural areas.¹¹ Latvia offers many programs in the forest and wood processing industries at different levels of education – both professional and higher as well.

In recent years, the Latvian economy, including wood processing, has seen a more rapid increase in the share of production with higher added value than the average level in the EU countries.¹² For this reason, Latvia has a high potential for attracting investment and profitability, which is an important aspect of global competition for attracting new investments.

The manufacturing of timber furniture, as well as the manufacturing of paper and its products, currently has one of the biggest potentials for development in the wood-processing industries in Latvia. Approximately 20% of timber-processing companies in Latvia specialize directly in the manufacture of furniture, which is considered to be relatively high because the proportion of products produced on the Latvian market does not correspond to the possibilities for competitiveness in Latvia.¹³ Therefore, the production of wood furniture is one of the sectors that both local and foreign investors' eyes, to invest money in goods to increase export.

⁹<http://www.sam.gov.lv/satmin/preview/?cat=112&action=print&>

¹⁰https://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs

¹¹Research on employed staff cost and foreign language skills in most competitive sectors of economy in Latvia

¹²Research on employed staff cost and foreign language skills in most competitive sectors of economy in Latvia

¹³Research on employed staff cost and foreign language skills in most competitive sectors of economy in Latvia by “Institute of Economics of the Latvian Academy of Sciences and CREATURA”

The smallest number of companies in wood processing is currently in the paper and its products industry.¹⁴ As the availability of wood raw materials is very convenient in Latvia, and there is an increase in demand for different various timber products worldwide, the interest in the development of paper production manufactures is still ongoing among investors.

The amount of investments in the wood processing sector is increasing and new, large-scale investment projects are being developed. Most recently, the most ambitious investment project in the wood processing sector in Latvia took place in 2018, when one of the forest industry's leaders “Kronospan Riga” invested around €100 million in the development of production.¹⁵

The purpose of this investment project was to increase the company's competitiveness on the global market by increasing the availability of raw materials and by modernizing production techniques, thereby increasing existing production capacity, and increasing the efficiency of production processes. In addition, the company intends to invest in the development of more environmentally friendly technologies. As a result, the company will be able to use recyclable wood during the manufacturing process, which is an alternative and more efficient raw material. As well as the company intends to make significant investments in the development of the production process for wooden boards, thereby ensuring an increase in production capacity, the efficiency of the production process and improving the overall performance of the company.

The Latvian government was supportive of this investment project. The government plans to give the company a \$20 million corporate earnings tax benefits after implementing the project to raise the company's opportunities to compete globally.

“Wood-processing is the main engine of the manufacturing industry. Recent data also shows a continuation of the trend at the beginning of this year. In the past year, timber companies have made investments in the development of the sector, planning to invest also this year. This increases the share of high value-added products in the sub-sector,” stresses Finance Minister Janis Reirs.

¹⁴Lursoft

¹⁵ <https://www.lsm.lv/raksts/zinas/ekonomika/kronospan-riga-100-miljonu-eiro-investiciju-projekts-sanems-uin-atlaidi.a283301/>