forest sector 2012 in Latvia
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Introduction

Ask any 100 Latvians about what the forest means to them, and you will probably receive 100 different answers. For some people, the forest is a major source of revenues, others see it as a place to spend free time, a place to go hunting or, on the contrary, a place that must be watched with full respect from the sidelines so as to see environmental processes in the woods. Some people pick mushrooms and berries in the forest, while others visit it to breathe in fresh air and to find new and creative ideas. For many people in Latvia, the forest and its products are a part of everyday life and work. Surely there will also be those who remind us of the fact that the forest is Latvia’s “green gold.” But, however, there will be a unifying factor in all of the responses – no one is apathetic about the forest in our country.

Of course, that’s no surprise at all. The forest is deeply rooted in the cultural traditions of the Latvian nation, and since the restoration of the country’s independence, the forest sector has become one of the main cornerstones of Latvia’s economy. This was seen in the ability of the sector to overcome the consequences of the global economic crisis quickly and successfully. 2010 still was a year of stabilisation, but 2011 and 2012 can surely be considered as time of growth. This was mostly down to the ability of all representatives of the sector to come together in pursuit of unified solutions to important problems.

In 2012, so as to maintain the pace of development, the forest sector actively worked on a developmental strategy. The long-term tactical goals are defined by Latvia’s Forest Policy, which is based on the principles of sustainable forest management. The main challenge in the short term is increasing productivity and labour output. This can only be achieved via investments in competitive technologies, new products, and the knowledge and skills of professionals in the sector. Also of major importance for the further development of the sector is a new co-operative movement among private owners of forestland. The average size of plots of forestland owned by private individuals is no greater than eight hectares, and not all of these areas are managed in a professional way. Merging into co-operatives will make it possible to manage the forest more effectively, thus ensuring a more stable flow of timber resources to the wood processing industry, as well as providing solutions to socio-economic questions.

Of particular importance is the successful dialogue between people from the forest industry and the agricultural sector on the productive management of land and on aid from the European Union during the next planning period that will be used to attain common goals in the sectors. Forest owners and farmers do not compete in Latvia. On the contrary, both sectors have the same goal of ensuring more effective and profitable use of land.

Although the forest is close to every resident of Latvia, it is very important for everyone in the country to be aware of the investment which the forest sector makes in the national economy, as well as of processes in forest sector. A great deal has been achieved in this regard. One of the most visible examples was the opening of the first forest sector exhibition “Say Hello: Timber!”. This was a major contribution toward enhancing people’s understanding about the importance of the forest in terms of landscapes and biological diversity, as well as its invaluable contributions toward the Latvian economy and the nation as a whole.
Latvia’s forests have undergone substantial changes during the past century, both in qualitative and in quantitative terms. Historical sources tell us that in the late 19th and early 20th century, there was a rapid increase in demand for timber as a building material and as easily available resource for the manufacturing of various everyday products. For that reason, only a bit more than 20% of Latvia’s territory was covered by forests. During the first period of Latvia’s independence, too, the forest was one of the main pillars of the national economy. Intensive use of timber continued and began to ebb only in the late 1930s. After World War II, forests took over abandoned farmland, and the total area of forest increased.

The process continued after the restoration of Latvia’s independence. Partly still continued natural colonization of non-forest land, but increasingly the land not used for agricultural purposes has been afforested in a targeted way. Many private landowners and a number of wood processing companies which own real estate have understood that high-quality forest stands are a stable investment for the future. Over the past few years, European financing has been used to afforest land that is not used for farming, and government support has also been made available. The result has been that the forest covers 3.354 million hectares of land in Latvia, or 52% of the country’s territory. Latvia is the fourth highest forest cover among all EU countries.
surpassed only by Finland (77%), Sweden (76%) and Slovenia (63%). In order to understand the true value of Latvia’s green gold, however, we must look at another indicator – the amount of timber that is available in the forest, or the growing stock volume. It has increased year by year, and three times more quickly than is the case with areas of forestland. That proves that the size of Latvia’s forestland is not increasing because of shrubbery. On the contrary, there is targeted forestry work throughout the country. Selection of plants, tending of young stand, and care for forest amelioration systems – all of this has ensured higher output from the forest. Much more useful timber can now be produced from each hectare of forestland.

Another key indicator of the condition of Latvia’s forest is the age structure. The proportion of mature forest stands, as well as stands at or above harvesting age over the years has slowly increased. This is in part due to the previously made amendments to the Forest Law which has led to a reduction in final felling age of several species of trees. It is also true that stands of birch, aspen and white alder trees which grew on farmland no longer used after World War II are reaching harvesting age. The same is true of stands of pine planted in areas cleared during World War I. In the same time the amount of young forest stands has remained virtually unchanged, and that clearly shows that a new tree is planted for each one that is felled down.

But what exactly grows in Latvia’s forests? To answer that question, the Latvian State Forestry Institute “Silava” conducts ongoing monitoring of the forest. Data from 2011 show that the most common kind of tree in Latvia is the pine, followed by the birch, the fir and the white alder. 54% of all trees in the forest are deciduous trees, and they also dominate in the amount of growing stock volume. It is likely that this situation will not change in the foreseeable future, because the number of stands of young birch trees has increased rapidly over the past few years. The white alder is among the top four species of trees in Latvia mostly because it was...
among the first to take root on unfarmed land. As forest owners increasingly understand the value of high-quality trees, they are becoming more purposeful in tending of white alder stands, because they offers excellent timber for wood packaging, and grows very quickly, indeed.

**Environmental Values in Latvia’s Forests**

The intensive use of the forest for economic purposes began comparatively later in Latvia than was the case in many other European countries, and this has ensured the preservation of biological diversity in our country. Although nine trees dominate the forest in Latvia, there are more than 50 species of trees and bushes therein. Research shows that the genetic diversity of the main species of trees is sufficient to ensure that Latvia’s forest will successfully adapt to climate change. Because of global warming, this characteristic is becoming more important, and those who work on the development of the forest sector in Latvia are very well aware of this.

It is not just trees, however, which make up the ecosystem of a forest. There are some 27,700 known species of plants, animals and insects in Latvia. Environmental researchers are sure that the true number might be higher by several thousands. Among those species and biotopes that are listed in the European Union’s Bird and Biotope Directive, Latvia has and protects 20 types of plants, 20 kinds of invertebrates, five species of mammals, three kinds of reptiles, 11 types of fish, 70 species of birds, and 60 types of biotopes. Several species of birds and mammals that are endangered at the global level are commonly found in Latvia’s forests and make up a substantial proportion of the overall range of species. The most visible examples include the black stork, the lesser eagle, the white-backed woodpecker, the corn-crake, the crane, the beaver, the otter, the wolf and the lynx. The fact that several of these species are not just common in Latvia, but are also on the list of animals that can be hunted clearly shows the great meaning of Latvia’s environmental treasures in the European context.

**Forest Ownership**

The Latvian state owns a bit less than one-half of Latvia’s forests, or 1.583 million hectares. Most of these were state-owned during the first period of Latvia’s independence, and wide tracts of forest-land have been afforested by hand. That is why state-owned forests are dominated by coniferous trees such as firs and pines, and in terms of the use of timber they have the highest capital value. Because many of the state-owned forests are very ancient, we find the highest level of biological diversity there. Another major value is that because state-owned forests essentially belong to the people of Latvia, everyone is free to visit the forest for leisure, berry-picking or mushroom hunting.

All of this means that state-owned forests must be managed with particular wisdom, striking a balance among economic, environmental and social interests. The stock company Latvian State Forests (LVM), which was established in 1999, does wonderfully well with this job, and specialists from many European countries have visited Latvia to examine the company’s approach toward sustainable forest management. Even more, the amount of land managed by LVM has increased more and more. In 2012, the company renewed the practice of purchasing privately owned forestland from owners who, for one reason or another, have decided to sell it.

Most of the rest of the forest in Latvia is owned privately by approximately 144,000 owners. According to the 2010 national census, Latvia has 2.07 million residents, and that means that private owners of forests make up a fairly large social group. At the same time, however, the area of land which they own is small in most cases, with 92% of private owners holding no more than 20 hectares of land. The result is that some private owners do not manage their forestland at all, while others manage it inefficiently.
There may be various reasons for this inactivity, but certainly much about this situation can be changed in future. In the autumn of 2012, Parliament approved amendments to the law on co-operatives, thus creating a new form of co-operatives – forestry service co-operatives which, like agricultural service co-operatives, can apply for discounts on the corporate income tax. Forest owners who join together in co-operatives now have a greater opportunity to manage their forests sustainably and to achieve higher profits from them. In the long term, this may also help to improve the flow of resources to wood processing companies. Several new support instruments are being planned for the next planning period for the EU’s Structural Funds, beginning in 2014, and these will seek to facilitate the process of co-operation whilst also motivating private forest owners to become involved therein.

Although there are still a lot of people in Latvia who own forestland, there has been consolidation of properties over the past several years, particularly in terms of smaller tracts of forestland. This is largely down to the inflow of foreign capital. However, that does not in and of itself create any great risks for the country or for the sector. Most foreigners purchase forestland in Latvia as a long term investment, which means that they are not interested in cutting down all of the trees so as to earn a quick profit.

**Oversight of the Forest**

Various violations of rules in Latvia’s forests were nothing uncommon in the 1990s, but the situation has rapidly improved during the subsequent 15 years. Illegal forestry work is something that has all but disappeared, and that has been achieved by strictly monitoring everything that happens in the forest. The norms which are enshrined in laws and Cabinet of Ministers regulations apply to all types of forest ownership, and the responsible agency for monitoring this process is the State Forest Service (VMD), which operates under the aegis of the Latvian Ministry of Agriculture.

At the beginning of 2012, hoping to optimise its operations, the VMD introduced a new structure therein, focusing on communications with forest owners and entrusting the taking of decisions related to their lawful desires and interests to foresters who are most familiar with the situation in situ. This process was widely debated at first, but it is evident that one result has been that foresters have access to much better technologies. All foresters have received new vehicles with modern GPS systems and personal computers – nothing of the sort has ever happened at the VMD before. The result has been a higher quality in the work that is done, as well as more efficient use of the time of the relevant employees. Fire-fighting equipment was also very much updated in 2011 and 2012 with several new fire trucks and the installation of modern pumps on existing VMD vehicles.

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Forestry

Although the forest is an automatic part of Latvia’s landscape and hides major environmental values therein, the main pillar for sustainable forestry, however, is economic advantage that can only be ensured by the regular extraction of timber and its processing into products which have as much added value as possible. The wood processing industries and forestry have always been like two sides of the same coin. Unless there are finished products that can be exported, it is not possible to receive high-quality financing for the restoration, nurturing, selection and environmental protection in the forest, while sustainable forest management that does not denude the woods, the wood processing industry cannot survive in the long term. This means that the overall development of the sector has historically been closely linked to the amount of timber that is removed from the forest every year. Since the restoration of independence, only part of the annual increase in the amount of timber is provided for the forest industry, and that means that the amount of growing stock volume increases all the time. This ensures the sustainability of the country’s forests, ensuring that they will remain available for our children and our grandchildren.

Timber production

Approximately 12 million m³ of roundwood have been harvested from Latvia’s forests each year during the past decade. Prior to 2007, the average amount of timber harvested from state-owned forests was lower than the amount of timber harvested from private forests, but the situation changed rapidly under the influence of the economic crisis. As the price of roundwood declined, private owners were no longer interested in harvesting and selling timber. Wood processing companies needed stable availability
of resources, and that was ensured by the government's decision to increase the amount of timber harvested from state-owned forests in 2009 and 2010 by two million cubic metres. This was an historical step which saved many exporting companies from bankruptcy and allowed countless numbers of people in Latvia to keep their jobs.

Starting from 2011, the amount of harvested wood from state-owned forests began to decline. Compensation for this involves an increased amount of harvested timber from privately owned forests. People have come to understand that under stable economic situations, there is no reason to expect any rapid increase in the price of roundwood, and that has meant that they have returned to the purposeful and planned economic activities in their forests.

In order to ensure that the processing of timber resources in Latvia provides a maximum contribution to the national economy, each cubic metre of timber harvested from the forest must be used to create as much added value as possible, doing so in Latvia. The added value begins during the logging, with each log being prepared in exact assortments. This can be done most economically and effectively by using forestry machinery – harvesters and forwarders. Such equipment is used to handle approximately 70% of the trees that are felled in Latvia at this time.

In 2011, 35% of the area in which timber was harvested involved final felling areas, while in other cases this related to thinning, reconstructive or sanitary felling on a selecting basis. There have been large territories in which windfalls and snow broken trees have been cleaned up, but the amount of timber received that way was not particularly significant in 2011 or 2012.

Forest infrastructure

A high-quality forest infrastructure is needed to ensure effective forestry work. The density of forest roads is one issue in this regard. In Northern European countries with developed forestry operations, the average is up to 3 km per 100 hectares, while in Latvia the average is just one km per 100 hectares. This includes state and local government roads which pass through forested areas. Because co-operation among private owners of forestland has not yet reached a level at which agreement could be made on the creation of joint infrastructure projects, most of the work is done in state-owned forests. LVM specialists are convinced that the optimal density of forest roads would be 1.5 km/100 ha so as to strike an optimal balance between lower costs in the delivery of roundwood and the everyday cost of maintaining forest roads. Right now the average density in state-owned forests is 1.28 km/100 ha. The LVM built 4,800 km of forest roads up to the end of 2012, and that means that another 3,300 km of forest roads must be built to achieve the aforementioned goal.

Even if that were to happen, however, there would still be places in which the undergrowth of the forest makes it difficult or even impossible to access potential cutting areas. Forestry machinery would create serious damage to topsoil in such areas. In 2011, LVM addressed the issue by installing multi-use wooden roads to transport wood from areas that are difficult to access.

The LVM also invests a lot of work each year in the reconstruction and renovation of amelioration systems in the forest – 22,265 hectares in 2012 and a forecast of 10,000 hectares in 2013.
**Carbon Accumulation**

Over the past decades, the concept of “global warming” has been discussed very frequently in terms of environmental processes in the world. This refers to the rapid increase in the average temperature of air and water – a more rapid increase than at any time since the mid-20th century. Greenhouse gases are always mentioned as one of the main causative factors in global warming. They have increased in amount very substantially over the past century.

The main greenhouse gas in terms of affecting the climate is unquestionably carbon dioxide, or CO₂. It enters the atmosphere thanks to the burning of fossil fuels – oil, coal and natural gas. Other greenhouse gases are emitted into the atmosphere, as well, but CO₂ is the only one which is accumulated, and forests have an enormously important role to play in this. It is no accident that forests are known as the lungs of the globe, because photosynthesis processes mean that trees attract and accumulate CO₂ while, at the same time, freeing up the oxygen that is so very much needed for every living thing. This means that it is of critical importance to maintain a high proportion of trees in Latvia which are of medium age, because such trees are the ones which attract the most CO₂. Any increase in the proportion of mature and overly mature trees in future may reduce the potential for accumulating the gas.

Latvia has satisfied the Kyoto Protocol requirement of reducing the amount of harmful emissions by 8% in 2012, as against 1990. Because of a stable increase of forest area and available timber, the absorption of CO₂ in the forest at this time exceeds all emissions in the country, thus ensuring a positive greenhouse gas balance in this regard. What’s more, Latvia is one of the few countries in the world in which the forestry sector accumulates more CO₂ than gases are emitted.
Restocking of forest

One of the main principles for sustainable forestry operations is to replace all of the trees that are cut down. Depending on the choice made by the owner of the forest, this can be done artificially by seeding and planting trees, or by allowing the forest to regenerate on its own. In both cases it is important to ensure that there are appropriate growth conditions for selected species of trees.

All felled areas are replanted in Latvia, irrespective of the type of ownership, but in order to compare areas that have been harvested and those that have been restored, one cannot just look at the process from the perspective of a single year. From the perspective of forestry operations, it is not advisable to replant trees artificially in harvested areas during the same year that the felling has been done, this so that young stands of trees do not attract too much attention from pests. In most cases, restocking is done one or even two years later.

The idea of “you reap what you sow” is usually related to agriculture, but it absolutely relates to the forest, as well. The forest that our children and grandchildren will have depends on the young stand that are planted today. The forest basically belongs to the public, and so one of the strategic goals for the LVM is to increase the future value of areas of the forest which it operates. Thanks to a close partnership with scientists at the “Silava” forestry institute, specifically selected reproductive materials are used in restocking of forest. Such trees will provide more timber in future, and, importantly enough given present-day circumstances, they will also accumulate more CO₂. For example, in 2012, 17,300 hectares of forestland were restocked in state owned forests, 11,400 of them artificially. A total of 33 million new trees were planted.

Also the private owners of forestland are increasingly understanding the value of a higher-quality forest in future, and the area of artificially planted trees has increased in this segment, as well. Of great importance here is the JSC “Latvijas Finieris” plywood company, which has worked since 1996 with the “Silava” institute to ensure the long-term growing of high-quality birch trees. This is also known as the “Birch Programme”. Farmers are offered birch saplings from the “Zābaki” tree nursery of “Latvijas Finieris” at a 90% discount, and as of the end of 2012, this has ensured the planting of approximately 10 million new birch trees in Latvia. The project is to be continued in future, the emphasis being on tending to new stands of birch trees and on transforming overgrown areas of land.
Preserving Environmental Values

Of course, not all of Latvia’s forest is open to forestry activity. Latvia distinguishes itself against the background of other European countries when it comes to comparatively strict environmental protection rules – issues which many countries leave in the hands of forest owners on a voluntary basis. One of the most evident examples is the requirement in the law than when final felling is conducted, between 5 and 10 ecological trees be left standing on each hectare. Forest owners are perfectly aware of why this is important and necessary, and more than 2 million m³ of timber have been left in cut areas since 2000 as ecological trees. In cash terms, this means an investment of more than EUR 64 million in environmental protection.

Various limitations on economic activities apply to 12% of Latvia’s forests, and most of that area belongs to the state. Special areas of conservation have been set up to preserve environmental values – 674 in all. There are four nature reserves (the Teiči, Krustkalni, Grīni and Moricsala reserves), along with four national parks (the Gauja, Silttere, Kemeru and Rāzna parks), nine protected landscape areas (for example: Vorclaicene, Augšdaugava, Vecpiebalga), one biosphere reserve (Northern Vidzeme), 42 nature parks (for example: Gaizinkalns, Ancient Abava River Valley, Curves of the Daugava), 259 restricted areas, and 335 natural monuments which are individual objects such as protected trees, dendrological plantings, alleys, as well as geological or geomorphologic objects. Some of these territories are a part of the Natura 2000 network of protected territories in the EU.

The fact that a territory is protected does not mean, however, that no economic activities can be pursued there. To be sure, there are places where no intervention with environmental processes are permitted, but there are territories in which the final felling is banned, but forestry activity still goes on. In those cases, the aim is often to protect the value of the local environment, as opposed to timber production.

In 2011, the LVM set up the so-called Eco-Forest Network to integrate environmental protection plans with economic activity. 60% of the network is made up of existing protected areas, while the rest are areas which the LVM has released for economic purposes. These are areas in which high concentrations of environmental values are found. The Eco-Forest Network covers a bit more than 15% of all state owned forests. In 2011, the LVM also launched a major
environmental preservation programme to protect the lives and habitats of the wood grouse. The project entered its active phase in 2012 with an inventory of the places where the large birds mate. The aim is to ensure management of the areas where the wood grouse mates and areas around them so as to take the needs of the birds specifically into account.

There are several internationally recognised certification systems which confirm environmentally friendly and sustainable forest management systems. More than one-half of Latvia’s forestland, including all of the forests which are state owned, have been certified in accordance with the world’s two leading certification systems – that of the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification Schemes (PEFC). These certificates offer excellent confirmation of the fact that forest management in Latvia has struck a balance among economic, ecological and social needs. In recent years, recommendations related to the certification standards have meant substantial work in protecting environmental values in particular. Before logging is begun, each forest stand is evaluated very carefully so as to preserve environmental structures, select the ecological trees, and deciding on how much to leave behind in terms of fallen deadwood. Soil damage has also been significantly reduced.
The Timber Industry

Latvia has a wealth of forests, but without a developed wood processing industry, its economic value would not be particularly great. Latvia has an ancient history in this regard. The wood processing industry was a cornerstone for the Latvian economy during the first period of independence, and in some years it represented nearly one-half of export growth. True most of the exports at that time had a low level of value – mostly damp and unsorted sawnwood, also roundwood.

More than 22 years have passed since the restoration of Latvia’s independence, and the wood processing industry in Latvia has undergone very dynamic change. This has largely facilitated the ability of businesspeople in the sector to think in the long term. Timber is in limited supply as a resource, and people must remember that it takes a long time for a tree to mature. This can require more than just a few years or even generations. This means that survival and successful development are only possible for those companies which can add as much value as possible to each cubic metre of wood, exporting finished products and not raw materials for processing abroad. To achieve this and to compete successfully with the manufacturers of timber products in other countries, businesspeople have constantly invested major resources to develop technologies and improve their knowledge. Many wood processing companies in Latvia are not lagging behind or are even ahead of competitors in the old countries of Europe. For a long time now, computerised equipment which is run by highly trained specialists, are common in Latvia’s woodworking companies.

The global economic crisis which had a seriously damaging effect on all of Latvia’s economy also had a serious influence on wood processing companies. Sadly, this most applied to manufacturers of further processed products, and the exports from the sector shrank substantially. Producers of sawnwood did comparatively better, because their products in most cases were not linked to specific buyers or groups of consumers, and that made it easier to find new partners and markets.

Although the crisis forced a number of companies to halt operations, those which maintained their position in the market have said that the crisis taught them good lessons. They were forced to optimise operations, improve their successes, and find new niches for their products. This allowed Latvian wood processing companies to become more competitive and more successful in finding niche markets in not just classic export destinations such as the UK and Germany, but also in far more distant lands such as Japan.

This has been seen very clearly in export indicators. In 2011, the forest sector achieved the highest export volume since the restoration of Latvia’s independence, with a total value of EUR 1.672 billion. This record soon fell, however. In 2012, according to the Forest Department of the Agriculture Ministry, exports continued to increase by 4%, reaching a level of EUR 1.72 billion. It has to be noted that the import of forestry products also increased in 2012, but most of that related to paper and paper products, hardly any of which are manufactured in Latvia. It is also true that despite the growth, imports remain approximately four times lower than exports. The result is that the foreign trade balance for Latvia’s forest sector has remained stable and positive.

Contributions to the Economy

Although the forest sector remains to be one of the main pillars for Latvian exports, its proportion in the overall export balance has declined. In 2011, forestry, wood processing and furniture making represented 6% of Latvia’s GDP. That is far less than back in the 1990s, but it does not mean that the amount of wood processing has declined. The simple fact is that other sectors in the economy have developed and become stronger. Still, there is not a single parish in Latvia where one cannot find a larger or smaller wood processing company. Often these are the most important employers in the region, and that means that they are the main pillar for the local economy and for local residents.
One of the main characteristics and decisive success factor for Latvia’s forest sector has been the ability to reach agreement on areas of development. There are successfully working several associations of businesspeople in the sector, and its interests at the national level are handled by the Latvian Forest Industry Federation (LKF). Sustainable thinking has been seen in planning in terms of available resources and in the development of human resources, with increasing amount of money, including funding from the European Union, being invested in the training of employees. There are very close partnerships between forest owners and wood processing companies which are very interested in a stable and predictable flow of resources from the forest over a longer period of time. Because of the great biological value of Latvia’s forests, ecological issues are also not forgotten. Organisations in the sector support sensible environmental standards and laws. Many wood processing companies, moreover, have received FSC and PEFC certification for their supply chains.

Export of Processed Wood

Sawnwood continues to dominate in forest-related exports. Over the past 10 years, there has been the emergence of a stable range of companies which engage in preliminary processing of wood, and in terms of output capacity and modernisation of technologies, they are at the top of their field in the Baltic region. Given Latvia’s limited timber resources, however, increased output capacity at the expense of processing volumes is no longer really possible. For that reason, sawmills in Latvia are increasingly focused on the more in-depth processing of timber. In most cases, sawnwood which is exported does not involve unprocessed boards. Instead the exports involve dried, planed and impregnated building materials. Often those are end products which the client at the other end of the export chain saws to the necessary size for walls, floors or terraces. What is more, the search for resources has also led companies to accept ever thinner trees which previously were seen as useful only for pulpwood and were always exported.

The proportion of more processed timber...
products has increased in exports over the last several years. The value of Latvian particle board and plywood in 2012 rose by a bit more than 13%. Latvia’s leading manufacturer of particle board and OSB is “Bolderāja LTD”. In 2011, it increased revenues by 7.5% to nearly EUR 128 million. The lion’s share of plywood comes from “Latvijas Finieris”, which is Latvia’s largest wood processing company and also one of the leading manufacturers and suppliers of birch plywood in the world. The company expanded operations in 2012 at the Baltic level, establishing a subsidiary and a new veneer sheet manufacturing plant in Estonia.

The economic crisis hit the furniture industry most heavily in Latvia’s forest sector, but over the past few years it has started to recover. There are several new manufacturers of curved and glued furniture, and several closed factories have been brought back online. Manufacturing of upholstered furniture has also increased, particularly thanks to increased sales in China. The furniture sector in that country has focused on the domestic market, and European manufacturers can again start to dominate in Europe.

As the construction market in Europe gradually comes back to life, there has been an increasing demand for building and carpentry products. The export value of wood frames, doors and finishing materials has increased. Manufacturers of wood homes joined together in the Latvian Wood Construction Cluster in 2012, and its key priority is to develop business operations and exports, find new markets, and also new clients. Another major innovation in this sector has involved the “Cross Timber Systems” company, which was the first in Latvia to build a large factory to manufacture cross laminated timber boards. This is a product in the world which makes it possible to build skyscrapers out of wood which are as much as 16 stories high. Right now wood buildings of such a height are banned in Latvia, but people are increasingly coming to understand the great prospects of these types of structures, and so the situation should certainly change in future, particularly in the sector of public buildings.
Wooden toys from Latvia have also won increasing recognition at international exhibitions or product competitions. Greater numbers of companies are manufacturing such toys, and there is greater demand for them. This shows that increasing numbers of children in the world are learning about the natural advantages and special aura of wood.

There are also several large and lots of small manufacturers of wood packaging materials and products, but given the small size of the domestic market, this process is closely linked to demand in Europe. That demand, in turn, is directly dependent on the economic situation that exists in EU member states. Consumption of goods drops when there is a recession, and that means that there is less of a need for packaging materials made of wood. As the economy recovers, manufacturers of packaging can breathe in relief. The only problem at this time is availability of resources – the manufacturers of energy wood are competing for them.

As the demand for environmentally friendly and renewable energy resources has increased rapidly in Europe and the rest of the world, sales of wood chips, pellets, briquettes and firewood have also increased. In reaction to positive trends in the market, this particular sector has undergone substantial development in Latvia during the last several years. The biggest investments have been made in the area of pellet manufacturing, and that has facilitated the local processing of pulpwood.

There has also been an increase in the domestic use of wood as an energy resource. Renewable resources make up 32% of overall energy consumption in Latvia, which is an excellent level and means that Latvia is the second greenest country in the EU after Sweden. A European directive says that by 2020, however, Latvia must increase the proportion of renewable resources in the overall energy system to 40%, and the use of energy wood is one way of achieving that goal. Individual households remain the leading consumers of firewood at this time, but there has been a stable increase in the use of energy wood in manufacturing industries. That is the area
in which there is the greatest potential in this regard, because many manufacturing companies, including some in the timber industry, are increasingly choosing to replace gas-fired boilers with wood biomass cogeneration plants. This means that they can produce heat for their own purposes and for the relevant local government, and they also produce electricity from the same raw materials.

Export of Roundwood

In an ideal situation each tree that is cut down should be used to create as much added value as possible here in Latvia, but from the economic perspective, that is not always all that advantageous. Exports of roundwood have declined year by year, particularly in the sector of sawn logs. Besides, most exports go to countries in Latvia’s immediate proximity. This has to do with logistics issues and price policies. Sometimes it is more advantageous for forest owners to sell their sawn logs to companies in Lithuania or Estonia. At the same time, however, there is also an opposite process here – in 2012, the value of imported roundwood increased by more than 50% as against 2011. That means that Latvian companies, too, are increasingly purchasing sawnwood from neighbouring countries. Also, because Russia joined the World Trade Organisation in 2012, companies in Latvia and other EU member states can import fir and pine logs with lower export tariff rates. Before Russia raised its export tariffs, Latvia’s wood processing sector was one of the largest importers of coniferous roundwood in the EU (in 2nd place only behind Finland, representing 15% of all Russian exports in this area). This means that Latvia’s wood processing companies have essential and historical interest in the importation of roundwood from Russia.

Pulpwood has always represented the largest share of roundwood exports from Latvia, and that continues to be so. Loads of such wood at ports have created a public stereotype about Latvia’s forests being denuded and trees being exported without any processing. The truth is, however, that the export of pulpwood is declining, largely because of an increase in local processing capacities. It used to be the case that virtually the only product made of pulpwood was cellulose, and it is not manufactured at industrial levels in Latvia. The raw material, however, is successfully used by local companies which manufacture wood products for energy sector or particle boards. That is particularly the case of “Bolderāja LTD”. There have been occasional discussions about the opening of a pulp factory in Latvia, most recently in 2012, but it is likely that this scenario will not be implemented. Global trends show that the manufacturing paper is increasingly moving from the Northern to the Southern Hemisphere, where warmer weather conditions mean much quicker circulation of trees in forests, as well as lower costs in the relevant process.
Export Markets for the Main Products of the Forest Sector, By Country, 2012

Source: CSP

Wooden furniture

Estonia
Sweden
Denmark
Other countries

Sawnwood

Estonia
Sweden
Finland
Other countries

Packaging products

Belgium
France
Denmark
Finland
Norway
Other countries

Energy wood

Finland
Estonia
Sweden
Norway
Denmark
Other countries

Joinery and carpentry products

England
Germany
Poland
Italy
Switzerland
Other countries

Pulpwood

Finland
Estonia
Lithuania
Norway
Denmark
Other countries

Export Markets for the Main Products of the Forest Sector, By Country, 2012

Packaging products

Belgium
France
Denmark
Lithuania
Other countries

Energy wood

Finland
Estonia
Lithuania
Norway
Denmark
Other countries

Joinery and carpentry products

England
Germany
Poland
Italy
Switzerland
Other countries

Pulpwood

Finland
Estonia
Lithuania
Norway
Denmark
Other countries

Source: CSP
**Science**

Scientific organisations in Latvia’s forest sector are of key importance in its development and in raising its international competitiveness. One of the leading research centres in this area is “Silava”, which studies forest ecosystems and their components and also prepares recommendations as to how good practices can be implemented in the management of the forest and how forest resources and products can be utilised in a rational and effective way.

The development of scientifically based, environmentally friendly and low-waste technologies for the manufacturing of competitive materials and products that are based on timber and other biomass, in turn, is the job for the Latvian State Wood Chemistry Institute, which seeks to facilitate knowledge-based and sustainable use of Latvia’s timber resources for economic, social and ecological benefits.

The fact that when it comes to innovation in the forest sector, industry, science and education work hand in hand is vividly seen in the “Forest and Timber Product Research and Development Institute”, Ltd (MeKA), which was established in December 2004 by the Latvian Agricultural University (LLU), the LVM, and the LKF. The institute brings together university representatives and businesspeople from the sector to create competent and responsible solutions related to the development of forest and timber products, as well as to improve professional education in this area. The LLU Forestry Faculty and its senior scientists have made a great investment
in the development of ideas, methodologies and technologies in the forest industry.

In order to bring together the competence of all of the aforementioned scientific institutions and to engage in market-oriented research, the Forest Sector Competence Centre (MNKC) was established in 2011. Its aim is to conduct scholarly research so as to create intellectual property objects that can be used to create new and commercial products. Co-financing from the European Union’s Structural Funds was used to establish six competence centres of this kind – one in each manufacturing sector that is seen as a priority in Latvia.

There are two major trends of MNKC projects – creating new timber products with improved and innovative properties, as well as developing and managing forest-related capital. These areas are vividly representing overall trends related to science and innovations in the forest sector.

With the aim of maximising added value to each tree felled down in the forest, many companies have particularly focused on ways of using secondary wood products. Much research has been conducted in the search for new and improved composite materials such as plywood products which dampen electromagnetic waves or sound and are more durable against biological effects in natural environments.

Major financing and work have been invested in improving methods and technologies so as to increase the capital value of the forest. Initiators and major supporters in this area include the LVM, “Latvijas Finieris”, and “Rīgas meži”, Ltd. Research is being done in a variety of areas, but the overall goal is to increase the value of the forest in future, also offering raw materials with predictable levels of quality to the wood processing industry. This will potentially serve the interests of the forest sector and of the public at large in Latvia. Because timber is increasingly used in the world as an environmentally friendly source of heating fuel, another major area of research focuses on energy wood and how it can better be produced and utilised in Latvia.
Governance of the Forest Sector

Latvia’s forest industry operates under the aegis of the Agriculture Ministry. It works together with interest groups in the sector to draft forest policies, a development strategy and set of programmes for the sector, as well as draft normative acts related to management of the forest, use of forest resources, environmental protection and hunting. The ministry assesses and analyses the condition of forest resources, always drafting proposals on how productivity and use can be improved in this regard. The Agriculture Ministry also offers education about the country’s forest sector. It represents the sector at international organisations and processes, co-ordinates international co-operation, and also drafts international agreements.

Sustainable development of the forest sector requires a balance among all relevant economic, ecological, and social factors. Participants in the sector reach agreement on long-term development goals, and this means that Latvia’s is a carefully considered forest sector policy, its primary aim being to ensure the sustainable management of forests and forestland, the sustainable availability of timber resources, and a predictable environment for developing the processing of forest products. At the national level, these processes are governed by Latvia’s Forest Law, which defines the obligations of forest owners when managing their forestland. Hoping to reduce the scope of administrative burdens and bureaucratic procedures in the forestry sector, Parliament approved major amendments to the Forest Law, Protected Zone Law, Species and Biotope Protection Law, and Agriculture and Rural Development Law, all of those changes taking effect on January 1, 2012.

Development Funds

Latvia’s Forest Development Fund (MAF) was established in 2001 to provide financing for programmes aimed at developing the sector, supporting scholarly research, and also financing public information and education campaigns. The fund receives money from the national budget, general revenues, compensation for transformation of forestland, donations from individuals and legal entities, as well as foreign assistance. The fund is controlled by the Agriculture Ministry and its Forest Development Fund Council, and the finances are administered by the Rural Support Service.
Because hunting is a major part of Latvia’s forest sector, the Agriculture Ministry set up a Hunting Development Fund in 2004. The money is used each year to monitor animals, to protect populations, to conduct scholarly research related to hunted animals and their populations, to take part in international hunting organisations, as well as to educate hunters.
The Forest and Society

According to Latvia’s Central Statistical Board, 45,000 people were employed by the forest, forestry, timber and wood product, and furniture making industry in 2011. Secondary jobs are provided for about 40,000 representatives of related industries. A comparatively large social group is made up by private owners of forestland, while surveys show that 80% of the people of Latvia regularly use the forest for recreation, berry picking or mushroom hunting. And it is unlikely that there is anyone in Latvia who does not appreciate the role of the forest in Latvia’s rural landscape.

At the same time, however, there are numerous false and even negative views about certain processes related to forestry and wood processing. People often lack a complete comprehension of the full circulation of timber. Each year the forest sector organises a series of educational events so as to ensure that public opinion is based on objective information. The most extensive of these is the Forest Days event, which has been organised each spring in Latvia for more than 80 years now. People are asked to take part in work bees to make Latvia more ornate with trees, to improve or create new leisure areas in the forest, and to attract more attention to the broader use of timber in construction, interior design, and improvement of households. President of Latvija Andris Bērziņš is patron of the Forest Days event, which is a tradition.

In 2012 the motto for the Forest Days event was “Say Hello: Timber!”. An exhibition about the forest sector with the same name was opened at the beginning of the year on the big stage in Mežaparks. The aim is to show a cross-section of Latvia’s forest sector, focusing on each phase – growing trees, protecting them, harvesting them and then processing the timber. Because various species of trees are used for different economic purposes, the exhibition is split up to a certain extent in terms of each specific species, showing how it is grown, tended and then processed into products. Because of shifting demand, companies are constantly investing in new manufacturing lines, and that means that the exhibition is not complete; each participant in the sector can supplement it with new information. It is important that in addition to the achievements of the country’s forest sector, the exhibition also demonstrates synergy in the sector. It was developed in close partnership among leading forest sector organisations, the Agriculture Ministry, and a series of wood processing companies. Several thousand people toured the exhibition during the course of the year.

The forest sector organises many informational events for schoolchildren and very young kids. A tradition each year that is organised by the Agriculture Ministry is “Our Little Hike.” Students from general and professional schools, interest groups and other children’s organisations are invited to take part so as to enhance knowledge and understanding about the many different ways in which timber can be used in Latvia. The LVM is also actively involved in education for young people. In partnership with the Environmental Education Fund it organises the programme “Learn About the Forest,” as well as the “Mama Nature” project, which has been implemented and constantly improved over the last several years. There has also been an active campaign in recent years to keep the forest clean, and its best known representative is “Pigman”. We must also mention a night-time mushroom picking competition which the Latvia’s World
Wildlife Fund organises each year. In 2012, it was held for the 10th time.

There are also new traditions in this area. During the summer of 212, forest sector employees, forest owners, representatives of local governments and non-governmental organisations, students from professional schools and universities, and veterans from these sectors gathered together in Mežaparks for an event organised by the Agriculture Ministry – “Orient Yourself in the Forest!” This is an excellent opportunity for students to get a better sense of the forest sector and to meet experienced employees therein.

After all, daily information about forest management and wood processing in Latvia and abroad is the best way of ensuring that people understand the great role which the forest sector plays in the national economy and in human lives. Anyone who is interested in the forest sector can visit various Internet portals which are devoted to this theme. The most popular ones are “Latvianwood.lv”, “Latforin.lv”, and “Mezi.lv”. Analytical information is also available in various monthly publications, including “Meža avize” and the magazine “Baltijas Koks”. The Forest Consultation Services Centre (MKPC) publishes a magazine for forest owners, “Pinecone”, four times a year. It is a subsidiary of the limited liability company Latvian Rural Consultation and Education Centre (LLKC), and it works to inform, consult and train forest owners and members of the public in the area of forest management, also providing services throughout Latvia in relation to these processes. Many seminars about forest management the MKPC organises at the “Pakalnieši” training centre, which offers extensive opportunities for leisure and informal education to families, schoolchildren and young people.

Recreation and Leisure in the Forest

There are very few areas of forest in Latvia which are not open to the public. In nearly all forests, people are free to hike or to pick mushrooms or berries. The number of recreational facilities in Latvia’s forests has increased year by year, as has the number of territories in which recreation is one of the main goals of forest management. Such areas take up around 8% of all forestland in Latvia. Viewing
platforms, information trails, cultural and historical objects, areas of picnics – those are just a few of the infrastructural objects that are available in the forest free of charge for one and all. This has been a particularly important issue for state-owned forests.

The emotional satisfaction that one gets from leisure in the forest is invaluable. For most people, finding non-wood products in the forest (mushrooms, berries, nuts) is a free time activity or hobby, as opposed to a source of income. The government does not count up the amount of gifts from nature that are picked each year, and that would be quite impossible in objective terms. At the same time, however, the value can theoretically be stated in cash terms. The Agriculture Ministry conducted a study to find that the value of non-wood products and services from Latvia’s forests in 2010 amounted to EUR 138 million. It goes without saying that very little of these products were actually sold, so these numbers cannot in any way be compared to revenues from forestry activity. This is just a bit of information which once again proves the great social importance of Latvia’s forests in numerical terms.

The Value of Forest-related Services

<table>
<thead>
<tr>
<th>Service</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental services</td>
<td>5%</td>
</tr>
<tr>
<td>Sports and other activities in the forest</td>
<td>1%</td>
</tr>
<tr>
<td>Other recreational services</td>
<td>21%</td>
</tr>
<tr>
<td>Other plant products</td>
<td>22%</td>
</tr>
<tr>
<td>Fruit, berries and nuts</td>
<td>17%</td>
</tr>
<tr>
<td>Other plant products</td>
<td>22%</td>
</tr>
<tr>
<td>Honey and beeswax</td>
<td>1%</td>
</tr>
<tr>
<td>Mushrooms</td>
<td>50%</td>
</tr>
<tr>
<td>Wild game skins and trophies</td>
<td>0.04%</td>
</tr>
<tr>
<td>Christmas trees</td>
<td>4%</td>
</tr>
<tr>
<td>Wild game meat</td>
<td>6%</td>
</tr>
<tr>
<td>Non-wood products</td>
<td>73%</td>
</tr>
</tbody>
</table>

Source: The study “Evaluating the Contribution of Non-Wood Forest Products and Services to Latvia’s Economy” as part of Project No. LV0081, “Development of Integrated Environmental and Forest-Related Economic Accounts in Latvia.”

Education in the Forest Sector

No area of the economy can compete at the international level without educated specialists. The forest sector is successful in this regard, because education in this field has a very long history, indeed. This has meant the transfer of knowledge from generation to generation, and this has also helped to develop new competences. An education in the area of the forest sector can be obtained at 22 professional educational institutions, the Forest Faculty of the Latvian Agriculture Institute, and the Institute for Textile Technologies and Design of the Riga Technical University’s Faculty of Material Science and Applied Chemistry.
During the Soviet era, the emphasis in these educational processes was on the planting and growing of trees, but as the wood processing industry has developed in Latvia over the past 20 years, there has been great importance in the quality of trade school and higher education programmes which relate to wood processing. This has happened in close partnership with businesses and leading institutions in the sector.

One example of this is a partnership agreement that was concluded in 2011 by “Latvijas Finieris” and the Wood Processing Department of the LLU Forest Faculty, the aim being to improve the content of education in line with the development of modern technologies in this area. The LVM concluded a partnership agreement in 2012 with the Forest Faculty of the LLU to continue existing and successful co-operation in terms of educational content, the ongoing education of academic personnel, modernisation of material and technical aspects of the educational process, involvement of experts from the forest sector in drafting methodological materials and evaluating bachelor’s theses, as well as joint projects in these areas.

In 2010, the Ogre Forestry Technical School (now the Ogre State Technical School) established two training programmes for operators of forest machinery. This was done thanks to the initiative of businesses in the sector and to support from the European Social Fund. One programme lasts for 18 months, and the other lasts for four years. Prior to that, education in this area of specialisation was not available.

Also companies in the forest sector actively train their employees so as to improve their qualification, and co-financing from the European Union’s Structural Funds is often available for such purposes. The MeKA is one institution which organises ongoing education for forest sector professionals, regularly organising various seminars and training courses for directors and employees of wood processing companies, specialists from the sector, and representatives of related sectors, as well.

**The Annual Forest Sector Award**

Since 2004, the “Golden Pine Cone” award has been presented each year for major achievements and investments in the forest sector. In 2012, the awards ceremony was held for the first time in the facilities of the Mežaparks stage, which is where the “Say Hello: Timber!” exhibition has also been organised. An innovation that year was the award called “Little Golden Pine Cone,” and it was presented to those who did not win the main prizes. In the category of public education, the big “Golden Pine Cone” was received by forest owner Aivars Bergmanis, while “Little Golden Pine Cones” went to Mairita Bondare, director of the Madona and Cēsis branch of the Forest Consultation Service Centre, and Anda Būmane, personnel director for “Latvijas Finieris”. In the category of sustainable management, the “Golden Pine Cone” was won by forest owner Jānis Kebbe from Vidzeme, while the “Little Golden Pine Cone” went to forest owners Guntis Ezis and Raimonds Mežaks. In the category of innovative business operations, the winners were “Ošukalns”, Ltd, but the “Little Golden Pine Cones” got company “Krauzers” and “Valmieras Mēbeles”, Ltd. The lifetime achievement “Golden Pine Cone” was presented, as has been traditional, to five veterans who have devoted their lives to the forest sector – Luciāns Vuguls, Pēteris Zālītis, Ansis Gertners, Viesturs Bahs, and Uldis Georgs Gavrilovs.
**Future Prospects**

Land is one of the decisive factors in the existence of the state of Latvia, and another is the extent to which we can manage it in an effective way. When it comes to the potential of timber production in forests which are open to economic activities, the capital value of Latvian forestland is thought to be at a level of around EUR 4.27 billion. Effective management can increase the value by as much as 2.5 times over. Mature forest stands and stands at or above harvesting age of soft deciduous trees can gradually be replaced with types of trees that are of greater economic advantage, and farmland that for one reason or another is not being used for farming can be afforested with high-quality reproductive materials. In those areas where afforestation has occurred naturally, there must be a greater focus on the management of the relevant forest stands.

Most cutting in privately owned forests involves natural regeneration processes. Here, too, there can be major increases in the capital value of the forest. If forest owners were to merge into co-operatives, that would encourage them to focus on artificial restocking of forests. In order to facilitate this, a new programme in support of co-operation among private forest owners is planned to be implemented once the new EU planning period begins after 2013.

This will also help to deal with unemployment problems in various regions of Latvia. The Agrarian Economics Institute has studied employment in rural areas and specifically in relation to the forest sector, finding that the artificial afforestation of 10,000 hectares of free land would create 496 full time jobs during a season of three months. Three is also enormous potential in tending young forest stands. There are approximately 130,000 hectares of young stands in Latvia at this time, and they require specific handling. This could create another 1,400 seasonal jobs for periods of nine months.

Scientists have an important role to play in ensuring the quality of the forest in future. Their job is to ensure genetic improvements to reproductive materials so that trees which are planted today will survive the consequences of global warming 50 or 100 years from now. Much has been done in this area already, and the “Silava” institute is developing a set of laboratories with climate regulation options. This means that there will soon be an opportunity in Latvia to conduct experiments related to the growth of trees under the auspices of changing weather conditions.

When it comes to the wood processing industry, the amount of harvesting of coniferous trees so as to preserve the sustainability of forest stands should not be increased. But in mature and overly mature areas of the forest, there is a huge amount of soft coniferous timber, and this means that there will have to be a search for increasing ways of processing this resource in a more economically advantageous way. Manufacturing of energy resources has much potential, and this should be a process which goes hand in hand with ever-increasing consumption of renewable energy resources in the domestic market.

Given limited resources, other areas of wood...
processing can be developed further only if products involving further processing are developed. Before they can be successfully and competitively sold in foreign markets, however, there is a great need for domestic consumption, because only the testing of products locally will allow businesspeople to create a sufficiently stable platform for exports. This means that timber products must become better known and more used right here at home. An increase in the proportion of timber products in state and local government procurements would be of great importance here, as would improvements in the investment environments that large foreign wood processing companies can enter the country.

It is no secret that many people of working age have emigrated from Latvia and the other Baltic States. If Latvian companies want to be successful and competitive not just in the market for global goods, but also in the labour market, they must face the challenge of raising productivity and the scope and value of finished products per each working person. Only then will it be possible to raise wages in this area.

We live in an age of information, when there is much greater value for human knowledge, skills and education. This means that a great role in future will be performed by the development of professional and higher education institutions in Latvia. The sector requires highly qualified specialists, and with the help of European co-financing, much money is and will continue to be invested in ways of improving educational programmes and improving the material and technical infrastructure of the relevant schools. Smart and well-paid people in combination with ongoing investments in the latest wood processing technologies – these are the main driving forces behind the development of the forest sector.

Finally in the area of education, the forest sector must continue to educate and inform the public about forestry issues and the great role which the forest sector plays in the national economy. It must also demonstrate the extensive opportunities for utilising timber, thus encouraging people to use finished products from the renewable resource that is timber in Latvia in their homes and their everyday lives.
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