LATVIA

MARKET STATEMENT 2005

1. GENERAL ECONOMIC TRENDS

Reforms accomplished in Latvia and integration in the European Union have left a positive impact on economic development of the country. **Gross domestic product (GDP) growth** in Latvia in 2004 was 8.5% (in the period from 2001 to 2003 the average GDP growth was 7.3% a year).

High growth rates are due to stable domestic demand dynamics and expansion of export markets. **Growth has been observed in all major branches of economy.** In 2004 output in manufacturing grew by 7.9%. In recent years wood industry, machine building and metalwork production have contributed most to the industrial growth in Latvia.

Construction industry keeps showing dynamic growth, rising by 13% in 2004. The construction industry is expected to maintain high growth rates also in future in relation to development of mortgage loans, increased economic activity and investments as well as implementation of projects financed from the EU funds. Sawnwood is mainly used for building components (doors, windows and their frames, stairs), also in finishing materials.

The dynamics of domestic demand is stable and ensured by the growth of income, stability of the financial system, widening of credit opportunities, accession to NATO and the EU. It is expected that increasing household income and consumer loans will foster further growth of domestic trade (especially non-food consumer goods) and other market services but the growth rates will be slower than up to now because of the market saturation.

The EU is the main trading partner of Latvia. **Trade with the EU member states** has been constantly expanding since restoration of Latvia's independence and currently as many as 70% of total exports and imports are linked with the EU, including also the new EU member states. Most of Latvia's foreign trade turnover in ten months of 2004 was made up by trade with Germany (14% of the total), Lithuania (11%), Sweden (8%), Russia (8%) and Estonia (8%). The biggest growth in export to the EU countries was constituted by metal and metalwork production (23% from the total increase of export to EU-25) and wood industry export (18%).

The economic growth potential is best characterised by **growth of investments**. From 2000 till 2004 the total fixed capital formation annually increased by 1,6 times. The growth in investment and GDP is one of the most significant in the EU. There are several factors that promote the investment: the stable macroeconomic environment, inflow of foreign investment, lowering of credit interest rate and stabilizing of the banking sector, increase of economic activities and formation of positive future perspectives, etc.

There has been a stable growth **in industry** in last three years (2002-2004), and average annual growth has been 8.6% or well above the average growth in the economy.

Wood processing is the sector that can boast the fastest growth since restoration of Latvia's independence, almost tripling its output over the period. The sector has shown dynamic growth also in last three years (2002-2004), growing by 9.1% on average annually. Almost 70% of the forest sector production is exported.

Rapid economic growth continues also in 2005. Compared to the first quarter of 2004, GDP in the 1st quarter this year rose by 7.4%. The increase in the 1st quarter was attained mainly on account of the strong domestic demand and the high investment level. Trade and construction continued to grow vigorously and transport indicators also improved. Mainly due to the negative after-effects caused by the storm in January, growth in the manufacture of wood and articles of wood, the largest exporting sector, decelerated. It is expected that in the second half of 2005 growth rates in industry will accelerate. A forecast of the Ministry of Economics puts the GDP increase in 2005 in Latvia at 7.5%.

2. POLICY MEASURES

On 17 August 2004, the Cabinet of Ministers accepted **the Single Strategy of National Economy**, that has become a basis for development of Latvian economy. The strategy defines the state policy to ensure stable, balanced and sustainable development by unifying long-term economic objectives and priorities (for 10-30 years) with middle-term (5-10 years) and short-term (1-3 years) objectives and measures.

The following strategic planning documents have been adopted in 2004:

1. Macroeconomic Development and Fiscal Policy Guidelines (2004 - 2008);
2. Programme for Development of Small and Medium-Sized Enterprises (2004 – 2006);
3. Industrial Development Guidelines of Latvia (2004 - 2013);
4. National Environmental Policy Plan for Latvia (2004 - 2008).

In accordance with the conception **Latvian National Forest and Related Sectors Programme, the Guidelines of the Forest and Related Sectors Industries** have been elaborated. The Guidelines define the basic principles of the development policy, strategic goals of the forest sector development, problems that impede the acomplishment of the goals, and directions of actions to implement the strategic goals. The following long-term strategic objectives of the Forest Sector have been set:

1. Management of Latvian forests is sustainable and internationally acknowledged.
2. Production of Latvian Forest industry if competitive, with high value added and it meets the customers requirements.
3. Human resources capacity and scientific potential is sufficient to implement forest sector objectives.

Forest sector will elaborate the Latvian National Forest and Related Sectors Programme taking the guidelines approved by the government as basis.

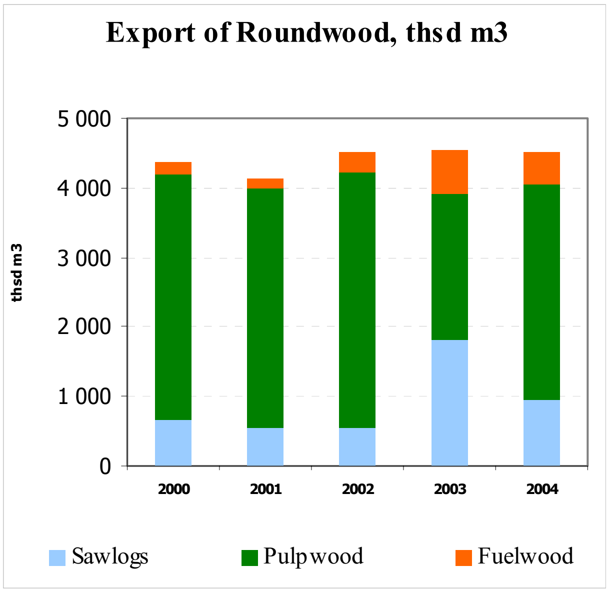
3. DEVELOPMENTS INFOREST PRODUCTS MARKETS SECTORS

A. Wood raw materials

Over the last years the timber harvesting volumes in Latvia's forests have stabilized. In 2004 the harvested timber was 12.4 million cubic metres, 4 mln of which (33 % of the total harvested timber) have been harvested in the state forests and 8.4 mln (67 %) in private, local municipalities and other owners' forests.

During the first six months of 2005, in comparison with the same period of 2004, the envisaged total harvesting volume in the country has increased. Mostly it can be observed in the state forests, due to the salvage operations to eliminate the damage inflicted by the storm in January 2005, the intensive logging of wind-thrown and broken trees.

In roundwood utilization in 2004 the most considerable share is constituted by the roundwood export (fuelwood, pulpwood) (38,3%), production of sawnwood (36,3%), as well as production of plywood, matches, log houses, piles, poles, wood charcoal, etc.



Roundwood export in 2004, in comparison with 2003, has increased by 5,4% (by value - 37,3%) and constitutes 4.1 million cubic metres (76,3% of which – pulpwood, 23,7% - sawlogs). Pulpwood is mainly exported to Sweden, Finland, Norway. There has been a rapid growth in export of pulpwood to Estonia in 2004.

In 2004 in the import of roundwood the biggest share was constituted by sawlogs that were processed into products with higher value added. When compared with 2003, roundwood import in 2004 rose by 74,3% (85,9% by value) and it constitues 800,5 thousand cubic metres, mainly imported from Russia, Lithuania and Belarus.

In the first half of 2005 (in comparison with the first half of 2004), roundwood export has decreased by 0,9% (by volume). By value the roundwood export has increased by 10,1%, that was promoted by the increase of pulpwood prices in the Scandinavian countries and Estonia.

Also the import in the first half of 2005 (in comparison with the respective period in 2004) has grown – it constitutes 74,5% (78,9% by value).

B. Wood energy

In Latvia the coal used as the solid fuel is imported from the Commonwealth of Independent States. The local solid fuel is fuelwood and peat. In the fuel balance there is a significant share of fuelwood, reaching 25-30% in the primary heating energy. The largest consumers are household ~39%, heat supply enterprises ~25%, industry (mainly woodworking enterprises) and other consumers ~36%. Fuelwood ie the main product used indomestic heating systems.

In order to ensure the technological process and the necessary heat supply, about 25% of wood processing byproducts (bark, sawdust, chips and particles, wood residues) are used by the industry, mainly woodworking enterprises. There is a gradual increase also in the use of briquettes and pellets.

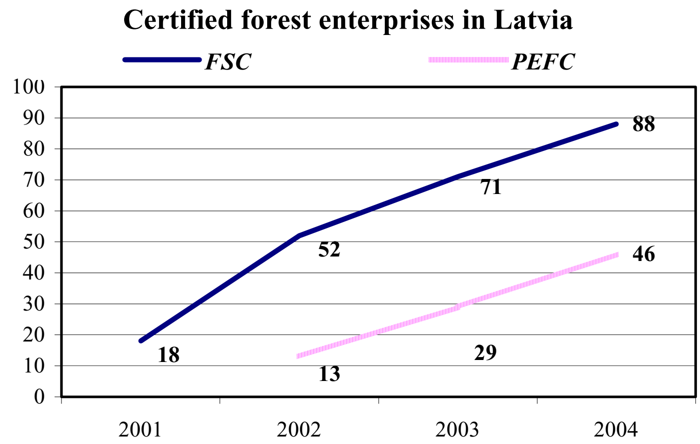
Both in 2004 and in the first half of 2005, there has been a sharp growth in the import of fuelwood (especially chips and particles) both by volume and value. In Latvia there were 7400 tons of fuelwood imported in 2004, which is by 23,7% more than in 2003. The value of the fuelwood has increased by 22,9%, reaching 192,4 thousand LVL. The amount of the imported fuelwood both by volume (10300 tons) and value (386,3 thousand LVL) in the first half of 2005, was bigger than the import in 2004 taken altogether. Fuelwood was mainly imported from Lithuania, Belarus, Germany and Poland.

Fuelwood export volume in 2004 has decreased by 0,8%, it has increased by value (12,5%). There has been an increase of the price of the exported chips and particles. In the first half of 2005 export of fuelwood has decreased both by volume (26,5%) and by value (7,4%).

C. Forest certification

In Latvia forest management and timber chain-of-custody certification are performed under Forest Stewardship Council (FSC) and Pan European Forest Certification (PEFC) schemes.

All state owned forests in the country (total area - 1,62 mln hectares) have been certified according to the **FSC** scheme. FSC certificate has been also granted to Riga City forests in the area of 57000 ha and to more than 3000 ha of private forests. 88 Latvian forest sector enterprises have certified their timber chain-of-custory systems, as to 1 January 2005.



PEFC Latvian scheme has been evaluated as complying with the PEFC provisions and demands, wherewith all the PEFC certified forests in Latvia have been acknowledged as sustainably managed. The management conforms to the criteria, indicators and strategy guidelines accepted in the Ministerial Conference on the Protection of Forests in Europe (MCPFE). According to the PEFC Latvian scheme, private forest owners are granted "Confirmation'' for entering the PEFC system and "Logo Licence" for their forests.

In 2004, according to the PEFC scheme, 98580 ha of forests were managed (20000 ha in 2003), but the number of the enterprises that have received the PEFC timber chain-of-custody certificates has grown from 29 to 46 enterprises.

D. Value-added wood products

In Latvia the manufacturing and trade of high value added woodworking products (furniture, furniture components, joinery and carpentry production) develops rapidly, due to the introduction of new technologies in Latvian forest industry, thus increasing the value of the production.

Furniture constitutes a substantial part (36%) in the group of high value added products. There are well-grounded opportunities for the development of furniture manufacturing, the main priorities for realization of these opportunities are the investment in human resources development, technologies and design. There are approximately 12 900 people employed in 200 furniture manifacturing companies, that mainly are small and medium-sized.

When compared with 2003, export of furniture by value has increased by 9,8%, import by 5,7%. Furniture is mainly exported to Germany, Denmark and another EU countries, but imported from Poland, Lithuania and Italy.

Over the last 5 years there has been a rapid growth of joinery and carpentry production (wooden window frames, doors, building materials, glue laminated timber). Export and import value of this production has risen. Due to the rapid development of building volumes, the amount of domestic consumption of joinery and carpentry production has grown.

Wood packaging materials are manufactured with comparatively small investment and simple techologies. They are mainly manufactured by small or micro sized companies, basically using non-coniferous sawnwood of low or average quality, inapplicable for another production, therefore, the manufacturing of wood packaging does not compete in forest resources market. Import of wood packaging materials in 2004 has increased by 26,8%, export volume has decreased by 4,3%.

There has been a growth in production of further processed sawnwood and prefabricated wooden constructions in 2004. Export volume of further processed sawnwood has increased by 100%.

E. /F. Sawnwood

Over the last 5 years, approximately 3,9 mln cubic metres of sawnwood are produced annually, 75% of which are exported. The domestic consumption of sawnwood has increased – in 2004 the consumption of sawnwood was 0,73 cubic metres/per capita, that is a 70% increase, in comparison with 2000.

The major areas for consumption of sawnwood for the domestic use are manufacturers of furniture and furniture panels - 32%, producers of building materials (windows, doors and their frames, flooring, etc.) - 46%, producers of carpentry and household products, including packaging materials - 22%.

In 2004, in comparison with 2003, total export volume has decreased by 7,6%, while there is 4,1% increase by value. This trend especially applies to coniferous sawnwood, since a certain amount of sawnwood is not exported, but rather used for production and export of more expensive wood products.

In the first half-year of 2005, Latvia exported 1.3 million cubic metres of sawnwood, that is by 17,2% less than during the respective period of the last year, when 1.6 million cubic metres of sawnwood were exported. In total, the export of coniferous sawnwood has decreased by 10,4%, but non-coniferous sawnwood – by 44,8%. The storm of 8 January, 2005 had an impact to the forest industry and caused the lack of qualitative timber. As there was a more intensive logging of the wind-thrown coniferous trees, there was a significant decrease regarding non-coniferous logging. This fact can be testified by the amount of non-coniferous trees imported in the first half of 2005, that has increased by 171,2% in comparison with the respective period of last year.

The major export markets of sawnwood are Great Britain, Germany, Japan, Ireland. There has been a considerable growth in export of coniferous sawnwood to Sweden – by 47,7%, Japan - by 39,7% and Ireland – by 22,2%. Latvia imports sawnwood mainly from Russia, Belarus, Estonia and Ukraine.

G. Wood-based panels

Plywood production volumes in 2004, in comparison with 2003, have increased by 10,6%, plywood export by 11,2% and import by 53,2%.

During the first six months of 2005, in comparison with the same period of last year, plywood export by volume has decreased by 1,3%, but by value has increased by 12 %. The volume and value of the imported plywood has increased considerably – by 42,9% and 86,6% respectively.

The biggest purchasers of the Latvian plywood are Germany, Great Britain and Italy. Latvia imports plywood from Russia, Belarus and Lithuania. During the first half-year of 2005, the value of plywood imported from China was 13.9 million LVL.

In 2004, as well as during the first half-year of 2005, production of wood particle boards has increased by 10 %, also the domestic consumption and export have increased. A large part of these boards are surfaced, thus increasing the value of the boards. It is envisaged, that in future the production of surfaced boards and the components produced of them will increase.

H. Paper and articles of paper

In Latvia 38,000 tons of articles of paper have been manufactured in 2004, that equals to the same amount in 2003. The use of paper and cardboard has increased by 11%.

In 2004 the import and export of paper and articles of paper have increased, the import of pulp and recycled waste paper has trippled. In the first half of 2005, this production was imported into Latvia from Sweden, Finland, Germany, Poland and Lithuania.

4. TABLES

Economic indicators

Latvia: Key Indicators of Economic Development

	2001	2002	2003	2004	2005 f
Gross domestic product	8.0	6.4	7.5	8.5	7.5
Private consumption	7.3	7.4	8.6	8.9	7.0
Public consumption	2.8	2.2	1.9	2.3	2.5
Exports	7.5	5.2	5.0	9.3	5,7
Imports	14.5	4.6	13.0	15,6	4,1
Consumer prices	2.5	1.9	2.9	6.2	5.5
Foreign direct investments (flows)	1.6	2.8	2.7	4.8	5,0
Share of job seekers (% of economically active population, 15-74 years old)	13.1	12.0	10.6	10.4	10,0

f – forecast Source: *Ministry of Economics*

Forest sector production export from Latvia

HS code	Production	units.	2003.		2004.	
			1000 (units)	1000 (LVL)	1000 (units)	1000 (LVL)
3605	**Matches**		**-**	**1763,9**	**-**	**1440,6**
44	**Wood and articles of wood**		**-**	**581785,7**	**-**	**636582,1**
4401	**Fuelwood:**	**(t)**	**2170,5**	**49049,7**	**2153,3**	**55166,2**
44011	Fuelwood (round)	(t)	405,5	8017,9	293,2	5421,5
44012	Chips	(t)	1306,5	26179,4	1403,3	33653,8
44013	Sawdust and other wood residues	(t)	458,5	14852,4	456,8	16090,8
4403	**Roundwood:**	**(m^3)**	**3922,1**	**72279,4**	**4135,7**	**99257,8**
44032	Coniferous	(m^3)	1764,5	34010,9	1853,4	47663,2
44033…	Non-coniferous	(m^3)	2157,6	38268,5	1397,1	51594,6
4407	**Sawnwood:**	**(m^3)**	**3233,9**	**288409,7**	**2988,4**	**300300,4**
44071	Coniferous	(m^3)	2 607,5	240484,8	2425,8	252486,3
44072…	Non-coniferous	(m^3)	626,5	47924,9	562,7	47814,1
4408	**Veneer sheets**	**(m^3)**	**14,2**	**9666,4**	**14,7**	**9117,4**
4409	**Further processed sawnwood**	**(m^3)**	**18,8**	**4365,6**	**37,8**	**6497,4**
44091	Coniferous	(m^3)	13,7	2778,9	26,2	4170,2
44092	Non-coniferous	(m^3)	5,1	1586,7	11,6	2327,2
4410	**Particle board**	**(m^3)**	**129,5**	**8944,5**	**141,3**	**11491,6**
4411	**Fibreboard**	**(m^2)**	**30,2**	**35,5**	**252,3**	**522,6**
4412	**Plywood**	**(m^3)**	**147,2**	**47154,4**	**163,6**	**55630,0**
4415,(16)	**Wooden wrapping and packing equipment**	**(t)**	**163,5**	**22661,1**	**156,5**	**20560,5**
4418	**Joinery and carpentry**	**(t)**	**89,5**	**43546,4**	**90,8**	**52160,3**
44…	**Other articles of wood**	**(t)**	**168,3**	**35673,0**	**89,3**	**25877,9**
47	**Pulp of wood, recovered paper**	**(t)**	**35,9**	**1538,3**	**45,8**	**1748,7**
48	**Paper and paperboard, articles of paper**	**(t)**	**35,4**	**20410,8**	**56,0**	**34785,6**
94…	**Furniture**		**-**	**72396,6**	**-**	**79525,5**
94…, 95	**Prefabricated buildings and toys of wood**	**(t)**	**10,7**	**4901,4**	**7,6**	**3711,1**
	Total			**682796,7**		**757793,4**

Source: *Central Statistical Board*

Forest sector production import to Latvia

HS code	Production	units.	2003.		2004.	
			1000 (units)	1000 (LVL)	1000 (units)	1000 (LVL)
3605	**Matches**		**-**	**36,2**	**-**	**125,4**
44	**Wood and articles of wood**		**-**	**69 492,6**	**-**	**113076,5**
4401	**Fuelwood:**	**(t)**	**6,0**	**156,6**	**7,4**	**192,4**
44011	Fuelwood (round)	(t)	4,4	65,3	3,8	65,7
44012	Chips	(t)	0,9	25,7	2,8	53,1
44013	Sawdust and other wood residues	(t)	0,8	65,6	0,7	73,7
4403	**Roundwood:**	**(m^3)**	**459,2**	**14 255,3**	**800,5**	**16505,0**
44032	Coniferous	(m^3)	279,3	7 015,6	534,4	17171,8
44033…	Non-coniferous	(m^3)	179,9	7 239,7	266,1	9333,2
4407	**Sawnwood:**	**(m^3)**	**457,0**	**29 172,8**	**688,0**	**54272,1**
44071	Coniferous	(m^3)	377,0	27 941,7	674,8	52355,3
44072…	Non-coniferous	(m^3)	80,0	1 231,1	13,3	1916,8
4408	**Veneer sheets**	**(m^3)**	**1,1**	**854,8**	**1,2**	**955,9**
4409	**Further processed sawnwood**	**(m^3)**	**3,1**	**810,6**	**5,9**	**1115,8**
44091	Coniferous	(m^3)	2,7	499,8	5,2	782,5
44092	Non-coniferous	(m^3)	0,4	310,8	0,7	333,4
4410	**Particle board**	**(m^3)**	**50,2**	**7 091,0**	**55,1**	**9094,4**
4411	**Fibreboard**	**(m^2)**	**3 582,0**	**5 548,0**	**4478,8**	**7090,8**
4412	**Plywood**	**(m^3)**	**6,9**	**1 131,8**	**10,5**	**1929,7**
4415,(16)	**Wooden wrapping and packing equipment**	**(t)**	**7,6**	**1 598,7**	**9,7**	**2170,8**
4418	**Joinery and carpentry**	**(t)**	**4,0**	**4 267,4**	**6,5**	**6507,7**
44…	**Other articles of wood**	**(t)**	**29,6**	**4 605,6**	**17,7**	**3241,8**
47	**Pulp of wood, recovered paper**	**(t)**	**2,4**	**264,6**	**8,3**	**442,4**
48	**Paper and paperboard, articles of paper**	**(t)**	**143,1**	**94 859,8**	**182,9**	**108332,0**
94…	**Furniture**		**-**	**23 358,6**	**-**	**27445,0**
94…, 95	**Prefabricated buildings and toys of wood**	**(t)**	**1,4**	**782,6**	**1,6**	**937,2**
	Total			**188 794,4**		**250358,4**

Source: *Central Statistical Board*