

GREAT INTEREST in the forest properties in the BALTIC STATES

Owning forest in the Baltic countries has many similarities with owning forest in Sweden... but there are also differences. Some of the forests have not been used as productive forests for many years, the properties are much smaller, and there are more details to consider in terms of legislative and regulatory frameworks.

TEXT: Malin von Essen PHOTO: Johnér, Hans Berggren TRANSLATION: Leslie Walke

THERE ARE FINE opportunities for investing in practical forestry in all three Baltic countries. "It's a matter of finding the right properties, complying with the forestry legislation specific to each country, and trying to work as rationally as possible," says Carl Kling, Forestry Manager for Skogssällskapet in the Baltic countries.

According to Carl Kling, one of the challenges facing forestry in the Baltic countries is to practice what we in Sweden regard as rational forestry.



Difficulties include the fragmented ownership, where the privately-owned forest land is divided into many small properties. Many forest owners have only become landowners in the past 20 years, after regaining the land owned by their families that had been nationalised during the Second World War. The level of knowledge about and motivation for active forestry varies greatly between forest owners.

Skogssällskapet helps investors who see the potential in owning forest in the Baltic countries. The concept is to help



The trend is towards more aggregated holdings in the Baltic States.

them acquire suitable forest properties, and then provide management services so that the opportunities afforded by forestry can be realised, even if the customer lives far away, for example in Sweden, Finland, or Denmark.

ACCORDING TO CARL KLING, good business opportunities are vital for long-term sustainable use of the Baltic forests.

"Investments bring knowledge and capital. Demand rises for forestry plans and practical silvicultural measures such as scarification, planting and pre-commercial thinning of young forest,

which realise the production potential of the land, which in turn creates healthy forests and jobs. In the long term, industries based on wood also benefit, because more timber is produced."

SKOGSSÄLLSKAPET HAS BEEN running management companies in Latvia since 2002, and in Estonia and Lithuania since the start of 2015.

Carl Kling sees a trend whereby foreign-owned, forest-owning companies that have been active in the Baltic countries a number of years are creating a more aggregated ownership pattern. This is helping the market develop in all three Baltic countries. The trend is most noticeable in Estonia and Latvia.

"The value of owning forest in the Baltic countries can increase greatly if

"The value of owning forest in the Baltic countries can increase greatly if the properties are consolidated into larger units."

the properties are consolidated into larger units. Consequently, our customers often buy several properties close to one another so they can work the properties more rationally. Where Skogssällskapet is commissioned to manage the forest, this generates more economies of scale, because we can manage the land as if it were part of a larger unit."

Forest conditions vary between the Baltic countries, but what they have in common is that the properties are much smaller than in Sweden, timber production is high, and there is often a need to work with regeneration and management of young forests.

"IN LATVIA, THE large proportion of young to middle-aged forest offers great potential. In Estonia, the forests can generate larger and short-term yields, because the average age is higher and timber supply greater than in Latvia. In Estonia, the forest industry is also more developed than in Latvia, so property prices are higher."

In Lithuania, the properties in general have a higher standing volume than in Estonia and Latvia, and the properties are smaller, on average 3-4 hectares. Property prices are also lower, but Carl Kling points out that anyone wanting to own a larger property in Lithuania must be more active when building a portfolio than in Latvia and Estonia.

"In Lithuania, you have to buy properties on an individual basis, so costs are higher because of the

EU SUPPORT UNDER REVISION

Skogssällskapet helps its customers make use of the EU grants for forestry in the Baltic countries. Up to now, financial support has been provided for reforestation, pre-commercial thinning, and forestation projects, in addition to the support available in Sweden. New regulations come into effect in the autumn.

"The levels of grants, and exactly which grants will be available, are under revision, but all indications suggest that funding to promote the work already under way in Estonia, Latvia and Lithuania will continue," says Carl Kling.



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number of transactions involved. At the same time, you can create a very fine holding if you have time on your side.”

Anyone looking to invest in forest land in the Baltic States must be aware of a number of factors that affect the price.

PROXIMITY TO MILLS and ports, relative proportions of forest land and agricultural land, relative proportions of pine, spruce and birch, standing volume, soil fertility, and whether the trees can be felled within a ten-year period are very important. Prices vary greatly, and it is important to verify in the field what you are buying.

Furthermore, anyone investing in forest land in the Baltic States should build an overall impression of the market.

“The property market in the Baltic States is not as open as it is in Sweden, so it’s hard to get an overview of what is for sale. Here, I’m convinced that our long experience and good knowledge of the Baltic markets can be of great help.”



Proximity to ports is very important for Baltic forest prices.

“IN SWEDEN, WE’VE had several hundred years of industrialisation and developing private industry. This has created a market with successful market forces and great transparency. In the Baltic countries, without a contact network, it’s harder to find good properties and to know you are paying the right price.” *

HIGHLY REGULATED

The overall objective of forestry legislation in Estonia, Latvia and Lithuania is to ensure sustainable forestry and to protect the forest as an ecosystem. The forestry legislation in the three Baltic countries controls forestry in great detail, but there are similarities with Sweden.

- Forestry measures must be notified and permits must be obtained.
- The lowest permitted final felling age is considerably higher than in Sweden.
- The largest permitted area for final felling is more limited than in Sweden.
- The obligation to regenerate applies.

Source: Petersson and Åkesson, 2013. Swedish Forest Investments, 2013. Degree project at Linnaeus University.

Björn Sprängare wants to develop

DOMESTIC FOREST OWNERSHIP

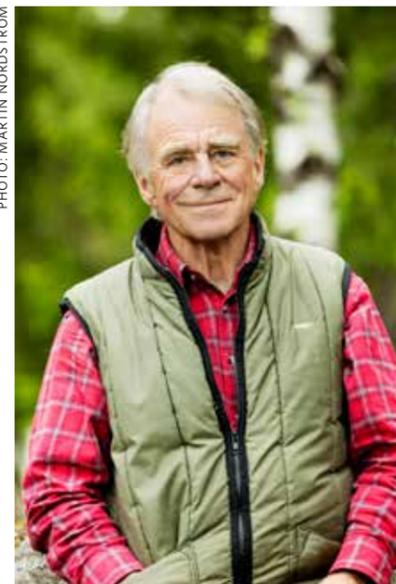
For over ten years, Skogssällskapet has been helping Swedes buy and manage forest in Latvia, and is now also active in Estonia and Lithuania. However, according to Björn Sprängare, domestic ownership of forest must be increased and developed.

TEXT: Malin von Essen PHOTO: Jan Töve/Johnér, Scanpix, Skogssällskapet

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PHOTO: MARTIN NORDSTRÖM



Björn Sprängare.

BJÖRN SPRÄNGARE IS chairman of the Swedish Forest Society Foundation, Skogssällskapet. He is convinced that foreign capital invested in the Baltic States strengthens the region.

“But not sufficiently in the long term,” he says. “Even local owners must want to use their land if the development is to be socially sustainable.”

Björn Sprängare says that private forest owners in all three Baltic countries are still very interested in selling their properties to foreign investors. His explanation is that many holdings are small and isolated, so can be difficult to use productively in the long term. But he also sees cultural differences in why many Baltic landowners are choosing to sell their forest land.

“MANY PEOPLE DON’T regard land as an asset, which is not surprising since the land ownership tradition ended when the entire business sector, including forestry, was nationalised by the Soviet

military occupation at the end of the Second World War.”

In terms of the attitude to forest and forestry, Björn Sprängare draws parallels between the Baltic countries today and the situation in Sweden when the Skogssällskapet Foundation was founded in 1912. The original idea was to reforest the south Swedish heathlands after sawmills had cleared forests, leaving the clear-cuts to regenerate naturally, but with poor results.

“IN SWEDEN TODAY, there is a national awareness that forestry is a long-term enterprise, i.e. what we plant today will be harvested by future generations. But we only need to go back a hundred years to see how sawmills exploited the Swedish forests for short-term gain. The awareness we now take for granted in Sweden is based on forestry policy and a long-term accumulation of knowledge and skills. For natural reason, this national awareness is lacking in the Baltic States.”



“Politicians in the Baltic countries must dare to believe that the forest is important,” says Björn Sprängare.



Investments in forest and the forest industry benefit the whole of society.

IN THE BALTIC countries, land was privatised at the start of the 1990s, when Estonia, Latvia and Lithuania regained their independence. The properties that were returned often comprised cleared and young forests, and large areas of forest had grown through natural regeneration on the former agricultural land. Björn Sprängare sees it as one of the Foundation’s tasks to restore productivity to the privately owned Baltic forest land.

“**SKOGSSÄLLSKAPET IS NOT** in the Baltic countries to exploit. The countries are facing a gigantic restoration project, just as we did in Sweden at the start of the 20th century. We have knowledge and skills when it comes to building up sustainable use and helping to preserve

the major natural values. It’s vital to help increase knowledge among landowners about how to use the forest land in a way that utilises its different values.”

For those who criticise the Skogssällskapet Foundation for helping foreign

investors to exploit forest resources in the Baltic countries, Björn Sprängare reiterates that, since its establishment in 1912, the objective of the Foundation has been to promote forest management and natural values.

EARMARKED FUNDS TO THE BALTIC STATES

The Skogssällskapet Foundation allocates approximately SEK 15 million per year to knowledge development relating to forest management and nature conservation in Sweden. The ambition is to start earmarking funds for knowledge development also in the Baltic countries.

“We’re now considering how we should direct our resources so that the money we invest can bring maximum return,” says Björn Sprängare. “Our basic concept is to stimulate sustainable development of forest and land by financing research and development projects and communications initiatives. We also want to work like this in the Baltic countries, but the exact details have yet to be decided.”

“At that time, we did so by regenerating the heathlands in southeast Sweden. Today it is done through knowledge development and objective-oriented forest management in our own and other people’s forests in Sweden, the Baltic countries, Finland and Norway.”

IF THE FOUNDATION’S ideas are also to come to fruition in the Baltic countries, a clear political ambition is needed – an intention that shows that governments want the forest to contribute to the local economy and society as a whole.

“I want to encourage the politicians in the Baltic countries to analyse the potential of forestry, and dare to believe that the forest is important.

“It’s vital to help increase knowledge among landowners.”

Major and long-term forest initiatives from central level would encourage industrial investors to take more risks than is the case today.

“IT WOULD BENEFIT not only the investors but also society as a whole, by generating more jobs, greater tax revenues, and higher values for forest assets. With its experience and expertise, Skogssällskapet can be an asset for governments in such a process.” *



Forest land was nationalised by the Soviet military occupation during the Second World War.