

Background Information

HD Forest – the leader in Baltic Forestry

Information for forestry investors in the Baltics



Introduction and facts

Of the three Baltic States, Estonia and Latvia are more than 50 % forested, with Lithuania being around 33 % forested. All three Baltic States declared their independence in 1918, before being occupied by the Soviet Union until 1941. Germany took control between 1941 and 1944, before reoccupation by the Soviet Union. All three Baltic States regained their independence from the Soviet Union in 1991, joining NATO and the EU in 2004.

Background Information

HD Forest – the leader in Baltic Forestry

Facts

Estonia:	Latvia:	Lithuania:
Area: 54,226 sq. km	Area: 64,589 sq. km	Area: 65,200 sq. km
Population: 1.26 million	Population: 1.97 million	Population: 2.85 million
Capital city: Tallinn (391,000)	Capital city: Riga (701,000)	Capital city: Vilnius (539,000)
Language: Uralic language, closely related to Finnish	Language: Latvian belongs to the Indo-European language family	Language: Lithuanian belongs to Indo-European language family
Ethnic groups: Estonian 68.7 %, Russian 24.8 %, Ukrainian 1.7 %, Belarusian 1%	Ethnic groups: Latvian 61.1 %, Russian 26.2 %, Belarusian 3.5 %, Ukrainian 2.3 %, Polish 2.2 %	Ethnic groups: Lithuanian 84.1 %, Polish 6.6 %, Russian 5.8 %, Belarusian 1.2 %

Source: <https://www.cia.gov/library/publications/the-world-factbook/>

Background Information

HD Forest – the leader in Baltic Forestry

World-class forestland are available to buy at about a third of the price in neighbouring Scandinavia. The Baltics are also an excellent place to do business for the following reasons:

- Safe land registration system
- Well educated, hard-working workforce
- Excellent, modern infrastructure
- Political stability
- Economic strength
- Established forest industry based on a plentiful forest resource

Safe land registration system

Each of the Baltic States has a robust state-managed land registration system, which provides completely secure ownership. Land transactions are notarised and sent to the state, where the land register is updated. Any claim based on an issue against a property that is not recorded in the property register is invalid. HD Forest has organised thousands of transactions without any problems.

Workforce

The Baltic States have high standards of education and the Baltic people have a northern European attitude to work, being keen to succeed. Estonia was ranked second out of 76 countries in a recent OECD study of maths and science skills.

Infrastructure

The Baltic States have an advanced infrastructure, which enables timber and wood products to be transported swiftly and efficiently to domestic and foreign markets. Timber is exported by excellent road, rail and sea networks. The many ports including Tallinn (Estonia), Riga (Latvia) and Klaipeda (Lithuania) are used to ship roundwood to Scandinavia for pulp markets and sawn timber globally.

Background Information

HD Forest – the leader in Baltic Forestry

Political stability

All three Baltic States are members of the European Union and the Eurozone. They are also all members of NATO. All three states are parliamentary democracies and generally right of centre, politically. They all rank high on the anti-corruption index <https://www.transparency.org/>, and they all rank higher than some other Western European countries, including Italy, and are pegged at a similar rank to France and Spain.

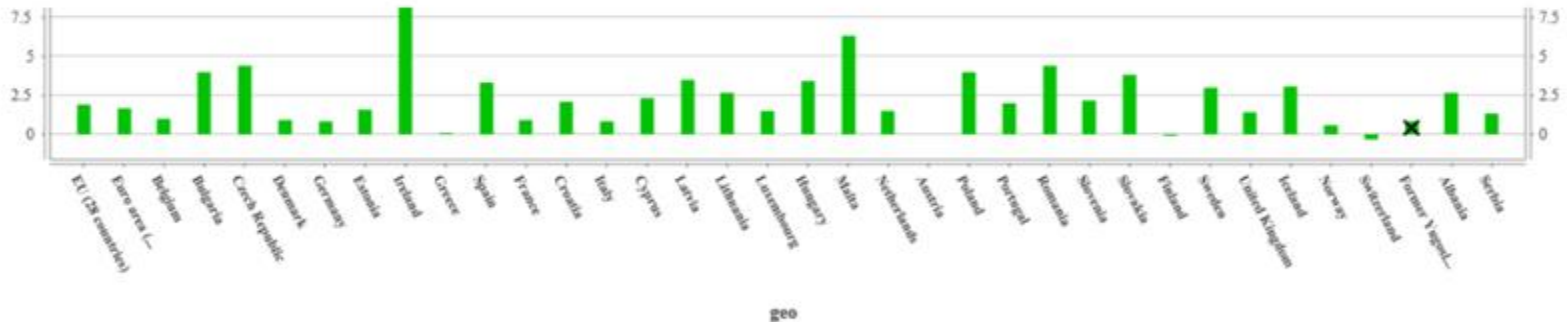
Rankings in 2016:

- Estonia 22 out of 176
- Lithuania 38 out of 176
- Latvia 44 out of 176

Economic strength

The Baltic States have recovered well since the economic crisis. The growth of Latvia and Lithuania is ranked among the top half of all EU members.

GDP growth as a percentage on the previous year (2015) <http://ec.europa.eu/eurostat/>



Background Information

HD Forest – the leader in Baltic Forestry

Taxes

Estonia:	Latvia:	Lithuania:
<p>There is no corporation tax in Estonia, so annual profits are not taxed as long as they stay in the company. However, there is a 20 % distribution tax on the capital gain, which is payable when funds are paid to investors or the company is liquidated. VAT is 20 %.</p>	<p>Corporate income tax is 15 %, VAT is 22%. Land tax: there is no tax for forests that are younger than 20 years. The rate is 1.5 % from the cadastral value for forests that are over 20 years.</p>	<p>Corporate income tax is 15 %. There is no land tax for forest land. For agriculture, the small land tax ranges from 0.01 % to 4 % of rateable values. There is a 5 % tax on gross income from timber sales. There is no capital gains tax for selling properties. There is no VAT on forest and agriculture properties, only for commercial land.</p>

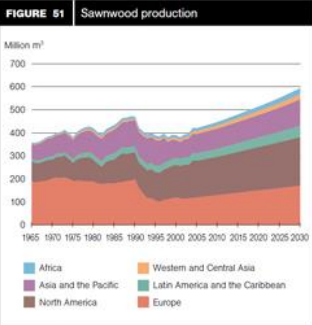
VAT is usually recoverable for all three states. It is recommended to take specialist tax advice.

Global timber demand

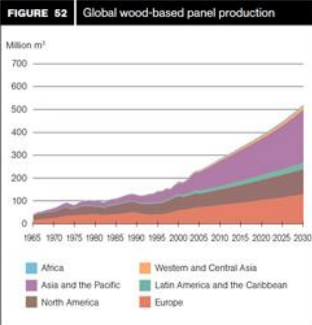
There is an ever-increasing global demand for wood, which keeps timber prices strong. If timber prices drop, then harvesting can be delayed without losing timber value.

Background Information

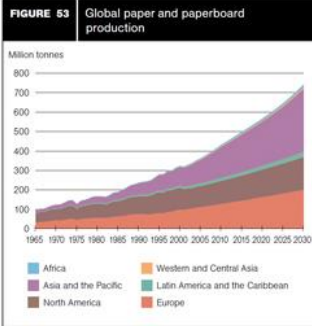
HD Forest – the leader in Baltic Forestry



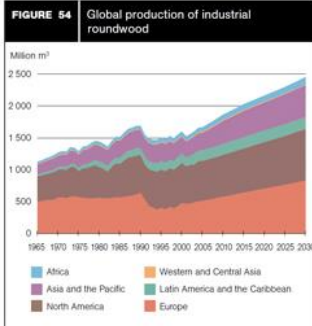
SOURCES: FAO, 2008a, 2008c.



SOURCES: FAO, 2008a, 2008c.



SOURCES: FAO, 2008a, 2008c.



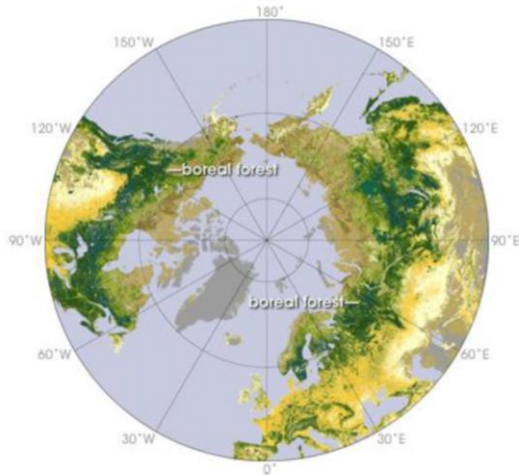
SOURCES: FAO, 2008a, 2008c.

Background Information

HD Forest – the leader in Baltic Forestry

The Baltic forest resource

The Baltics are part of the Boreal forest, which circles the globe, below the Arctic.



The total forest area in the Baltics is in the region of 7,750,000 hectares, with 4.07 million hectares being state owned and 3.2 million hectares privately owned. (The remainder is in the process of restitution). The total fellings are around 28 million m³ per annum. Forestry is sustainably managed in the Baltics by each state's forest laws. Because the forest is essentially semi-natural, harvesting is carefully controlled and afforestation, usually by natural regeneration, is mandatory. An additional positive fact – forest management and responsible use of timber contribute to carbon emissions' mitigation.

Background Information

HD Forest – the leader in Baltic Forestry

The Baltic forest resource

The Baltics are part of the Boreal forest, which circles the globe, below the Arctic.

- Total roundwood consumption in the Baltic States is 21.5 million m³
- Total roundwood exports: 7.5 million m³
- Total roundwood imports: 950,000 m³

Sources FAO stat, www.estoniantimber.ee, www.zm.gov.lv, www.amvmt.lt

Timber industry

The timber industry is among the most modern in the world. Swedes, Finns, Germans and Norwegians have invested in large timber-processing industries, as well as considerable domestic enterprises. Increasingly, much of the sawn timber is sold locally and creating added value before exporting.

Industry leader

Latvijas Finieris was established in 1873. It is the largest plywood manufacturer and one of the leading birch plywood manufacturers in the world. Latvijas Finieris operates three plants in Latvia, one in Estonia, one in Lithuania and one in Finland. The plywood is used in construction (for example interior and exterior walls), transport industry (for example floors, walls of trailers, buses, vans) and for ramps; also used to make the luge at the 2006 Winter Olympics.

Biomass production

The Baltics are a hub of woody biomass production from sustainable sources. Biomass is a renewable source of energy leading to a range of benefits. Graanul Invest, (an Estonian company), is the largest producer of wood pellets in the region, generating more than 1 million tonnes per annum.

Background Information

HD Forest – the leader in Baltic Forestry

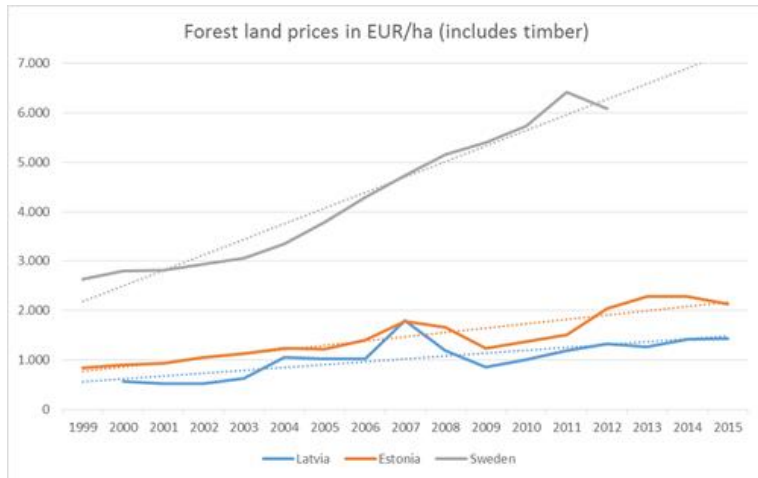


Background Information

HD Forest – the leader in Baltic Forestry

Forestland values

Forestland values continue to rise across all three Baltic States, generating opportunities for capital growth on investments.



Sources:

- www.maaamet.ee/kinnisvara/htraru/start.aspx
- Skogsstyrelsen
- Latvia State Statistics Department