3 Forestry in Finland

3.1 Utilisation of Wood Resources

In recent years, almost a quarter of the Finnish forest industry’s roundwood procurement has consisted of imported roundwood, even though Finland has abundant forest resources. This situation is now changing, because roundwood imports are forecast to drop dramatically. If there is a substantial decrease in birch imports, it will not be possible to compensate for this by procuring similar volumes domestically. In 2005–2007, the industry used an average of 73 million m$^3$ of roundwood annually, of which 55 million m$^3$ was domestic roundwood. The industry’s roundwood consumption in both 2008 and 2009 will be significantly less than this.

Finland has almost 23 million ha of forest, and the total volume of growing stock is approximately 2200 million m$^3$. Pine accounts for 50% of this, spruce for 30%, birch for 17% and other broad-leaved species for 3%. The annual increment in the growing stock is about 99 million m$^3$. Some 1.8 million ha of forest, mainly in Northern Finland, is excluded from commercial roundwood production. Forestry can thus be practised across an area of about 21 million ha, containing a growing stock of almost 2100 million m$^3$ with an annual increment of approximately 96 million m$^3$ (or 4.6%). Growing stock drain amounts to about 68 million m$^3$ p.a. (or 3.3%), and so roundwood reserves are increasing by a small amount each year.

The maximum sustainable removal is approximately 71 million m$^3$ of useful wood per year, while the maximum justifiable in silvicultural terms (maximum potential removal) is as much as 98 million m$^3$, taking account of all tree species. The annual removal of roundwood meeting the dimensional requirements for industrial wood in recent years (see figure) has been about 56 million m$^3$, or 79% of the calculated maximum sustainable removal. In non-industrial private forests, the proportion of the maximum sustainable removal harvested is slightly higher.

Some 61% of Finland’s commercial forests are in the possession of non-industrial private owners, 24% are owned by the state (Metsohällitus), 9% by companies and 6% by other groups of owners. The state’s forest ownership is concentrated in Northern Finland, which is why the average increment in the growing
stock for the state’s holdings is low compared with forests in other ownership. Forests in non-industrial private ownership account for 68% of the growing stock increment, state-owned forests for 15%, company-owned forests for 11% and the rest for 6%. The non-industrial private forests are of crucial importance for the industry’s roundwood procurement, as about 80% of the domestic roundwood (and almost 60% of all roundwood, both domestic and imported) consumed by the forest industry is from such forests. The volume of imported roundwood has risen and now accounts for 25% of the total.

The accompanying table shows the Finnish forest industry’s consumption of roundwood, and compares these figures with the maximum sustainable removal estimated for Finnish forests. The calculation of maximum sustainable removal is based on information about the amount, composition and annual increment of the growing stock and assumes that the standard of silviculture will remain unchanged. The calculation indicates the level to which fellings could rise without prejudicing the size of future removals.

Felling in excess of the maximum sustainable removal on a temporary basis only will not jeopardise future harvests. Flexibility of this kind, which is justifiable in silvicultural terms, is widespread in Finnish forests. Spruce harvests, for example, have been very high in recent years, and spruce reserves have decreased slightly since 2000.

Due to high export charges, the import of Russian softwood, plywood birch and aspen will cease in 2009, and imports of Russian birch pulpwood in 2011. Though Finnish roundwood resources are easily sufficient to replace imported Russian pine, there will be a scarcity of spruce, and domestic birch will only be sufficient to replace a proportion of imported Russian birch. As part of its process of adjustment, the industry has begun to replace birch with pine.

Non-industrial use of roundwood – principally household firewood – is also of importance in forest management terms, but its main significance is in terms of energy use. In the tending of young stands, an increasing volume of small-sized trees are chipped into energy wood. The tax exemption granted on sales from first commercial thinnings in April–August 2008, which was granted in order to reduce the backlog of such thinnings, has increased sales and resulted in more of this wood being despatched for industrial use.

The aims of the newly published National Forest Programme 2015 include an increase in the use of domestic industrial wood and energy wood. This aim has now risen in prominence considerably, as the prospect of a collapse of roundwood imports from Russia is now clear. The National Forest Programme states that this aim will require forest owners to engage more actively in advisory services on the potential of their holdings.

Overall use of domestic industrial wood has not grown since 2000, although it did increase to a record level in 2007 (59 mill. m³), falling again during 2008 with the decline in the industry’s production at a time when there is still a plentiful supply of imported wood. By contrast, the use of wood chips (mainly felling residues from clear cutting) for energy purposes has risen rapidly in the current decade. In recent years, approximately 3 mil. m³ in wood chips has been used annually in thermal and other power plants. Such use of wood material unfit for industrial products is very high: wood-based energy accounts for about 20% of all energy consumed in Finland and about 60% of the Finnish forest industry’s energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.).

<table>
<thead>
<tr>
<th>Tree species</th>
<th>Consumption 2005–2007, mill. m³/yr</th>
<th>% of maximum sustainable removal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic wood</td>
<td>Wood total</td>
<td>Domestic wood</td>
</tr>
<tr>
<td>Pine</td>
<td>24.6</td>
<td>27.7</td>
</tr>
<tr>
<td>Spruce</td>
<td>23.3</td>
<td>27.2</td>
</tr>
<tr>
<td>Birch</td>
<td>6.8</td>
<td>14.4</td>
</tr>
<tr>
<td>Total</td>
<td>54.7</td>
<td>69.3</td>
</tr>
</tbody>
</table>

In addition, the industry consumed 3.6 mill. m³/yr of aspen and unspecified imported wood.

Source: Finnish Forest Research Institute
3.2 Roundwood Markets

Total commercial fellings in Finland in 2008 will amount to 51 mill. m$^3$, a reduction on the previous year’s total due to the decrease in sawnwood and paper production. Commercial fellings in non-industrial private forests are down by 13%, whereas fellings in company-owned forests and in forests owned by Metsähallitus are down by about 5%. Imports of roundwood are expected to be approximately the same as in 2007, at just over 18 mill. m$^3$. Despite the reduction in fellings, stocks of harvested wood are up considerably.

The rapid drop in the demand for sawnwood was already having an adverse effect on softwood sawlog stumpage prices in 2007. The decrease in sawnwood production will mean a reduction in softwood sawlog demand in 2008 too, and the nominal stumpage prices of softwood sawlogs are expected to be some 12–15% below the average for 2007. By contrast, the stumpage price of birch sawlogs will be up by 3% due to the favourable state of the market for birch plywood and the scarcity of birch sawlogs. The stumpage prices of pine and birch pulpwood are rising slightly as a result of the increase in pulp demand and export prices in the first half of 2008 in comparison with the previous year’s figures. Pulpwood prices will also be affected by the drop in sawmilling production, as this means that the reduced volume of sawmill chips will be partially replaced by pulpwood removals. The price of spruce pulpwood has fallen due to lower demand as magazine paper production has been cut, and further cuts are expected.

In 2009, forest industry production will decline further, reducing the industry’s demand for roundwood. Commercial fellings will be up slightly, however, as the increase in Russia’s roundwood export duties will mean an end to imports of Russian roundwood (excluding birch pulpwood and chips). With the drop in sawnwood production, the nominal stumpage prices of softwood sawlogs are forecast to continue to decline slightly, and at the same time the tax relief on roundwood sales revenue will boost the supply of roundwood. The birch sawlog stumpage price is expected to be at the 2008 level. Although birch plywood production is expected to decrease, the demand for domestic birch sawlogs will be up because of the almost complete cessation of imports. Stumpage prices of softwood pulpwood will remain at close to their 2008 levels, when the reduced volumes of imported roundwood and sawmill chips are replaced in the paper industry with domestic pulpwood. The stumpage price of birch pulpwood is expected to be up by about 5%. The total volume of roundwood imported from all sources is forecast to be down in 2009 by at least 40%, to about 11 mill. m$^3$.

Strong Demand for Pulpwood in 2008

During 2008 a key characteristic of the roundwood market has been the reduction in demand for softwood sawlogs as sawmilling production has fallen and the forest industry has introduced capacity cuts as part of its preparations for the substantial reduction in roundwood imports when Russia’s forthcoming roundwood export duties take effect. Exceptional features of the market have been the stronger position of delivery sales and the Finnish Government’s use of the tax instrument to stimulate roundwood sales.

The substantial increase in demand for softwood sawlogs reached a peak in June 2007, after which it began to tail off in the autumn, when sawnwood prices and production began to decline sharply. With pulp and paper production remaining high, pulpwood demand was also high, boosted by the need to replace the reduced volume of sawmill chips with pulpwood. A very challenging situation has arisen on the roundwood market during 2008 as a result of the second successive mild winter (2007/08) for roundwood harvesting and the wet summer of 2008 that followed: there has been a scarcity of thinning stands with summer access or good access under wet, unfrozen ground conditions, and there has also been a shortage of suitable harvesting equipment and capacity.
Given these circumstances, the volume of pulpwood delivery sales has increased considerably, and delivery sale prices of pulpwood have strengthened in relation to the corresponding stumpage prices. In January–August 2008, pulpwood delivery sales were up by 43–81% on the previous year’s figures, the percentage varying according to the tree species in question. Such delivery sales are very important in thinning removals. The responsibility for organising roundwood harvesting under these conditions, and for any harvesting damage, rest with the forest owner. In addition, the forest corporations also harvested more of their own wood during summer 2008 than would normally be the case.

The exceptional nature of the roundwood market can be illustrated by comparing the volumes of sawlog and pulpwood sales in non-industrial private forests. Whereas monthly sales volumes of domestic sawlogs and pulpwood are normally at similar levels, in November 2007 the volume of pulpwood sales began to climb in relation to sawlogs. In January 2008, the volume of pulpwood sales was already double that of sawlogs. This is the first time that there has been such a pulpwood-dominated sales structure since monthly records were first kept in 1986. As it is impossible to obtain pulpwood without purchasing a certain amount of sawlogs, the industry is also having to buy sawlogs. Roundwood sales are expected to return towards normal in the latter part of 2008, when pulpwood sales will only be slightly above sawlogs sales.

Stumpage prices of softwood sawlogs are expected to be significantly down on the 2007 level on account of the drop in sawnwood production and prices. The price of pine sawlogs will be down by 12% and spruce sawlogs by 15%. The drop in the volume of softwood sawlog roundwood sales was even greater than this until the Government’s forest taxation decision on 23 July 2008, which has increased sales volumes. In the plywood industry, the market for birch plywood in particular has been good, which has served to raise the demand for birch sawlogs. The 2008 stumpage price of birch sawlogs is expected to be up by about 3%, aided in part by the reduction in birch sawlog imports from Russia following the substantial increase in import prices.

The end of the tax exemption on first thinnings in August 2008 brought a record amount of pulpwood onto the market. The last week of August was particularly noteworthy, as roundwood sales rose to 2.6 mill. m³. In September, roundwood sales were reasonably high given the gloomy economic news for the forest industry. The difference in the structure of roundwood demand and supply will, however, mean a reduction in the level of sales. The demand for stands with good access under wet, unfrozen ground conditions is high but the supply of such stands is low, whereas the mild winters have led to low


<table>
<thead>
<tr>
<th>Roundwood type/Ownership group</th>
<th>2007 mill. m³</th>
<th>2008 mill. m³</th>
<th>Change %</th>
<th>2009 mill. m³</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial fellings, total</td>
<td>57.7</td>
<td>51.1</td>
<td>−12</td>
<td>51.6</td>
<td>1</td>
</tr>
<tr>
<td>Non-industrial private forests¹</td>
<td>46.4</td>
<td>40.3</td>
<td>−13</td>
<td>40.6</td>
<td>1</td>
</tr>
<tr>
<td>Company and state-owned forests²</td>
<td>11.4</td>
<td>10.8</td>
<td>−5</td>
<td>10.9</td>
<td>1</td>
</tr>
<tr>
<td>Sawlogs</td>
<td>28.0</td>
<td>22.1</td>
<td>−21</td>
<td>22.9</td>
<td>3</td>
</tr>
<tr>
<td>Pulpwood</td>
<td>29.7</td>
<td>28.9</td>
<td>−3</td>
<td>28.7</td>
<td>−1</td>
</tr>
<tr>
<td>Roundwood imports</td>
<td>18.0</td>
<td>18.7</td>
<td>4</td>
<td>11.2</td>
<td>−40</td>
</tr>
<tr>
<td>Commercial fellings and roundwood imports, total</td>
<td>75.7</td>
<td>69.8</td>
<td>−8</td>
<td>62.8</td>
<td>−10</td>
</tr>
<tr>
<td>Stocks of harvested roundwood</td>
<td>7.7</td>
<td>12.9</td>
<td>68</td>
<td>12.0</td>
<td>−7</td>
</tr>
</tbody>
</table>

¹ Includes municipalities, parishes, etc.
² Metsähallitus manages state-owned forests

Sources: Finnish Forest Research Institute and National Board of Customs.
demand for winter stands but at the same time a plentiful supply of these. Many companies’ reserves of winter stands marked for cutting are already good due to previous roundwood sales. Fellings have not slowed by as much as roundwood sales, and so reserves of marked stands have decreased.

The decrease in paper production during 2008 has reduced the need for pulpwood. This demand varies from one tree species to another, however, and the trend in pulpwood prices is expected to be divided into two categories. The prices of pine and birch pulpwood are expected to be up by about 2% for 2008 as a whole, as the demand for pulp and fine paper has remained at a reasonable level. This demand has also been boosted by the drop in sawmill production, because the reduced amount of sawmill chips has been replaced with pulpwood. The fall in magazine paper production capacity has reduced the demand for spruce pulpwood, however, and further capacity closures are anticipated. UPM, for instance, plans to close its Kajaani mills before the end of 2008. The 2008 stumpage price of spruce pulpwood is expected to be about 9% below the 2007 figure.

Prices of imported roundwood have risen substantially since the early part of 2007, and have remained high during 2008. In January–June 2008 softwood sawlog prices were up by around 20%, and softwood pulpwood prices by 34–38%, in comparison with the first half of 2007. The price rise for imported birch was much greater still: 69% for sawlogs and 57% for pulpwood. Contributory factors in this have been not only the export duties on Russian roundwood but also the higher cost of roundwood imported from elsewhere. The prices of imported softwood sawlogs in the first half of 2008 were only slightly up in comparison with prices of domestically procured sawlogs. By contrast, import prices of birch sawlogs and all pulpwood types were about 50% higher than their domestic equivalents.

Given these circumstances, imports of softwood pulpwood from Sweden, which has had to store significant volumes of storm-damaged wood, were up in the first half of 2008 to about 25% of all imported softwood pulpwood and more than 10% of all imported roundwood. At the same time, competition for Finnish roundwood resources has increased, because the forest industry corporations have expanded their roundwood procurement in Finland. There is also a new company procuring Finnish roundwood: Harvestia Oy, jointly owned by Myllykoski and Powerflute, which began operating in July 2008; the roundwood procurement of these two companies was previously conducted by Metsäliitto.

Total commercial fellings in 2008 will be down by 12% to 51 mill. m³ as a result of the reduction in forest industry production. Commercial fellings in non-industrial private forests are down by 13%, whereas the combined total of fellings in company-owned forests and in forests owned by Metsähallitus is down by 5%. Commercial fellings of sawlogs are down by 21% on account of the weak sawnwood demand and drop in production.

Paper production is also down in 2008, but pulpwood fellings will be decreased to a lesser extent, by only 3%, to 29 mill. m³. The availability of Russian roundwood has been good, with imports up by an overall 4% on the 2007 total. Despite the reduction in commercial fellings, imports are almost unchanged, with stocks of harvested roundwood expected to be up by almost 70%, to 13 mill. m³. This indicates the industry’s preparation for an uncertain market in 2009. This level of stocks is exceptional, as such a high level has not been seen since 1995.
Roundwood Imports from Russia Remain High Prior to Collapse

The Finnish forest industry’s increased roundwood consumption has relied heavily on imported roundwood since the 1990s. Imports peaked in 2005, when the forest industry imported a total of 21.5 mill. m$^3$ of wood, of which 17 mill. m$^3$ was from Russia. Sawlogs accounted for 5 mill. m$^3$ of this total. In 2005 and 2006, imported roundwood accounted for more than a quarter of all roundwood consumed by the Finnish forest industry.

The decision to introduce a programme to raise roundwood export duties was made by the Russian government in early 2007, and the result of these increases is that it will no longer be financially viable to import Russian roundwood. The aim of the export duty increases is to allow Russia’s own forest industry to develop and to raise the proportion of value added products in Russia’s exports. In recent years, Russia’s total annual exports of roundwood have amounted to approximately 50 mill. m$^3$. The main importers of Russian roundwood have been China (20−25 mill. m$^3$), Finland (10−17 mill. m$^3$) and Japan (5 mill. m$^3$). Exports to China have been increasing in particular, and Russia’s share of China’s total roundwood imports is very considerable.

In Finland, the forest industry corporations began to reduce their dependence on increasingly expensive roundwood imports in 2007, and to prepare themselves for the increase in Russia’s export duties. The forest industry corporations have sought to adapt to the coming circumstances through various means including strengthening Finnish roundwood procurement organisations, switching from birch to pine in pulp making at selected mills, and closing production lines.

In 2007, the proportion of imported roundwood in the forest industry’s roundwood consumption was 22%, down by 4% on the previous year’s figure, and Russian roundwood accounted for 66% of this, compared with 78% the previous year. Sawlog imports accounted for less than half of their peak-year levels, totalling 2.3 mill. m$^3$. Imports of Russian roundwood in the first half of 2007 were adversely affected by the ground conditions for roundwood harvesting and transportation, which partly explained the reduction in imports in the first six months of the year.

Roundwood imports have nevertheless continued to be high in 2008, and by the end of July a total of 11.6 mill. m$^3$ of roundwood had been imported. This increase was in pine and birch pulpwod and chips, whereas softwood sawlog imports were down by about 45%. A clear majority of the roundwood imports were again from Russia, but this proportion was continuing to decline, accounting for 63% in the first half of 2008. Imports are expected to fall slightly in the second half of the year, as purchasers of Russian wood will be seeking to avoid the possibility of felled roundwood remaining behind and thus being subject to the new export duties. It is estimated that roundwood imports for the full year 2008 will be just below 19 mill. m$^3$.

In 2009, roundwood imports from Russia will collapse when the roundwood export duty

<table>
<thead>
<tr>
<th>Date</th>
<th>Softwood</th>
<th>Birch, over 15 cm</th>
<th>Birch, under 15 cm</th>
<th>Aspen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>€/m³</td>
<td>%</td>
<td>€/m³</td>
</tr>
<tr>
<td>1.7.2007</td>
<td>20</td>
<td>10</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>1.4.2008</td>
<td>25</td>
<td>15</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>1.1.2009*</td>
<td>80</td>
<td>50</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>1.1.2011</td>
<td>80</td>
<td>50</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

* On 12 November 2008 it was announced that these export duty increases will be postponed by 9–12 months.

Source: www.idanmetsatieto.info
Forestry in Finland

The declining price trend for softwood sawlogs will continue in 2009 as the sawnwood market remains weak and production decreases. A revival in sawnwood demand will not be seen before the latter part of 2009, and so sawlog demand will remain low. By contrast, there will be a plentiful supply of sawlogs because forest taxation policy will give greater emphasis to final cutting in roundwood sales. To ensure that half of the revenue from roundwood sales is eligible for tax exemption, forest owners must conduct their roundwood sales in the period 1 April 2008 to 31 December 2009. The tax relief on roundwood sales in 2010 will be 25%.

The roundwood market is suffering from oversupply of winter stands, while at the same time there is a shortage of stands with summer access and especially of stands with good access under wet, unfrozen ground conditions. This is because of the harvesting limitations associated with the terrain and the residual growing stock. According to information collected by Metsäteho, about 10% of the volume of roundwood in non-industrial private forest stands can be harvested when there are wet, unfrozen ground conditions, about 40% during summer and about 50% when the ground is frozen.

A normal winter will use up the oversupply of winter stands marked for cutting and reduce stumpage prices. Most winter stands are thinning stands in which the stumpage price will be lower than in final cutting stands. In 2009, softwood sawlog stumpage prices are expected to be 4–5% down on the level for 2008. Due to the reduction in birch plywood production, the stumpage price of birch sawlogs is barely expected to be up at all in comparison with the 2008 level.

Sawlog commercial fellings are forecast to be up in 2009 by about 3%, to almost 23 mill. m³. The almost complete cessation of softwood sawlog imports and the need for top pulpwood and sawmill chips in pulp and paper production will mean an increase in fellings, even though sawnwood production will be down slightly on the 2008 figure.

The decrease in production and exports in the paper industry will reduce the need for pulpwood. Softwood pulpwood prices are forecast to be down only a little for the year as a whole, however, as domestic demand will be maintained by the drop in import volumes and the poorer availability of sawmill chips. In the case of birch pulpwood, the industry is adjusting to using domestically procured wood and smaller volumes of imported wood.
For example, any production shutdowns at the smaller line in Stora Enso’s Enocell pulp mill and at the Sunila pulp mill jointly owned with Myllykoski will depend on the availability of birch pulpwood.

The average 2009 stumpage price of birch pulpwood will be up by 6% on the 2008 figure on account of the scarcity of birch, but at the same time the industry’s consumption of birch pulpwood will decrease. The partial replacement of birch sulphate pulp with imported hardwood sulphate will continue. Imports of hardwood sulphate pulp in the first half of 2008 were running at 30–35 tonnes per month, which is equivalent to a monthly felling of approximately 150 000 mill. m³ of birch pulpwood.

Total commercial fellings of pulpwood in 2009 are forecast to be unchanged from 2008, at 29 mill. m³, whereas import volumes will be down. In total, commercial fellings from non-industrial private forests and from company-owned forests and forests owned by Metsähallitus are forecast to be up by 1%, to almost 52 mill. m³.

The combined total of commercial fellings and imported roundwood in 2009 will be about 63 mill. m³, representing a drop of 13 mill. m³ on the total two years earlier, in 2007. The most significant of the other changes anticipated include an increase in the industry’s stocks of harvested roundwood and an increase in the volume of wood from delivery fellings. By importing a steady volume of roundwood it has been possible to reduce the need for domestic stocks of roundwood, as the need for future stocks on account of seasonal fluctuation in domestic roundwood harvesting has been relatively small.

The previously weak demand for roundwood from delivery fellings has meant that it has not been worthwhile for forest owners to maintain machinery needed in thinnings, which has in turn reduced the amount of wood from delivery fellings brought to market. This has also been exacerbated by the ageing of the forest-owning population, which has been accelerated by postponements in the generational transfer of ownership: according to the Work Efficiency Institute, the number of forest owners conducting delivery fellings is about 50 000–70 000, compared with about 100 000 forest owners at the end of the 1990s. However, the supply of roundwood from delivery fellings has grown in the case of contractors offering delivery felling services.

Although roundwood imports are set to be down by at least 40%, or by 50–60% in the worst-case scenario for birch pulpwood imports, this change is occurring at a time when the forest industry’s end-product markets are weakening. The increase in the demand for domestic roundwood will not be great enough to raise prices. This is supported by the fact that despite a significant reduction in imports, the industry’s stocks of harvested roundwood are forecast to be down by only 7% by the end of 2009, and will again be at a high level compared with previous years.
3.3 Investment and Profitability in Non-Industrial Private Forestry

Total investment in timber production in Finnish non-industrial private forestry for the full year 2008 will rise to over EUR 200 mill. As a result of the increase in the surface area for forest regeneration, investment in 2009 will climb further to about EUR 210 million, of which almost one third will be financed using the support available for financing sustainable forestry. Stumpage earnings in 2008 will be just below EUR 1.6 billion, or about 25% below the record level of 2007. In 2009, stumpage earnings will be down slightly on the 2008 figure.

The decrease in activity on the sawnwood market is clearly visible in the operating profit in non-industrial private forestry, which will be down on the peak level reached in 2007, to below EUR 100/ha in both 2008 and 2009. Due to the drop in stumpage prices, the real return on assets in timber production in 2008 will be minus 10%.

Regeneration Relies on Self-Financing by Private Forest Owners

Total investment in timber production in Finnish non-industrial private forestry for the full year 2008 will rise to over EUR 200 mill. Investment in 2009 will increase further, to about EUR 210 mill. The level of EUR 200 mill. has only been reached in real terms in 2001 and in the early years of the 1990s.

The amount of financing and work input by private forest owners in timber production investments in 2008 amounts to more than EUR 140 mill., which is about 9% of the stumpage earnings in non-industrial private forestry. In 2009, the corresponding figure will rise to almost EUR 150 mill.

The level of public financing used in non-industrial private forestry during 2008 totals almost EUR 64 mill., up about EUR 4 mill. on the 2007 total. Including financing by the forest owners themselves, this brings the total input in state-supported silvicultural and forest-improvement works to approximately EUR 100 mill.

National Forest Programme 2015 Raises Performance Targets

In spring 2008, the Government adopted the National Forest Programme 2015 and the related Forest Biodiversity Programme for Southern Finland (METSO). A key target of the National Forest Programme is to raise annual felling volumes permanently by 10–15 mill. m$^3$. The METSO programme is intended to bring a halt to the adverse trends in forested ecosystems and forest species and to establish a favourable trend in natural biodiversity by the year 2016. Both programmes require a considerable increase in funding for their successful implementation.

Achievement of the National Forest Programme targets will require an increase in the amount of silvicultural and forest-improvement works in all forest ownership categories. The greatest targets for additional input in relative terms are in ditch cleaning and supplementary ditching and in forest fertilisation.
Half of Subsidies Go to Tending of Young Stands

The Government’s budget proposal for 2009 includes a total of about EUR 66 mill. in grants and loans for securing the sustainability of wood production. The most important funding target is still the tending of young stands and the closely related job of harvesting fuelwood. The funds available for these will be increased by EUR 2 mill. on the 2008 level.

The 2009 budget proposal includes an allocation of nearly EUR 43 mill. for forestry organisations that promote and monitor forestry, which is almost EUR 5 mill. more than in 2008. The justification given for this is the targeted increase in fellings outlined in the National Forest Programme 2015, which calls for an immediate increase in the use of advisory services by forest owners, and for more efficient collection and use of forest resource data.

The new METSO programme is evident in the efforts to promote management of the forest environment. In the 2009 budget proposal, a sum of about EUR 8 mill. is reserved for management of the forest environment, which represents an increase of EUR 1 mill. on the 2008 total. Almost EUR 5 mill. of the budget allocation will be used for environmental support and support for sites with notable natural value, thus ensuring retention of biodiversity across about 8 000 ha of forest habitat by the end of 2009.

Stumpage Earnings Falling Sharply

High stumpage prices and record fellings combined to boost gross stumpage earnings in non-industrial private forestry to a record EUR 2.05 billion in 2007. However, in 2008 the stumpage prices of pine and spruce sawlogs in particular have fallen significantly on the previous year. Commercial fellings have also decreased significantly since 2007. Gross stumpage earnings of private forest owners in 2008 will amount to almost EUR 1.6 billion, down about 25% on the accrued earnings for 2007. A further small reduction in stumpage earnings is anticipated in 2009.


Total annual investment in timber production in non-industrial private forestry in 2007 amounted to about 9% of gross stumpage earnings. The corresponding investment rate for 2008 will rise to just over 13%, largely due to the drop in stumpage earnings. In 2009, investment in non-industrial private forestry will be up and forest earnings will be down, pushing the investment rate up to about 13.5%.
Operating Profit from Timber Production Less Than EUR 100/ha

Per-hectare gross stumpage earnings for 2008 will be down to less than EUR 120, more than EUR 30 below the 2007 peak, thanks to the fall in stumpage prices, the reduction in fellings and the greater emphasis on pulpwood. In 2009, earnings will be down slightly on account of the fall in stumpage prices.

The increase in forest management work and the rising costs in 2008 will mean that the per-hectare costs of timber production are up by about EUR 2 on the 2007 total of EUR 24/ha. In Southern Finland costs have risen to EUR 30/ha, and in Northern Finland to EUR 17/ha.

The pre-tax operating profit in non-industrial private forestry for the full year 2008 will be EUR 95/ha, which is significantly below the average for the previous five years (EUR 104/ha), and EUR 40 below the peak of 2007. In 2009, the tax reduction is expected to maintain roundwood sales at a high level, and so fellings will be up slightly despite the drop in stumpage prices. The operating profit will be down a little in 2009 due to the drop in stumpage prices for different roundwood categories, and because of the increased pulpwood emphasis in fellings. The Government’s 2008 decision on a 50% tax reduction will increase the net income for forest owners by approximately EUR 14/ha.

Negative Return on Timber Production

In 2007, the sharp rise in prices for softwood sawlogs led to a rise in the real return on assets in timber production, to a record 26%. A boom in the economy is normally followed by a downturn, and in 2008 stumpage prices will be down by an average of over 10% on the previous year’s figure. The real return on investment will be down to minus 10%, because of the fall in stumpage prices and the relatively high inflation. In 2009, the return will still be negative, at about minus 2%, on account of the lacklustre stumpage price trend.