



Finnish roundwood markets and Private Forestry

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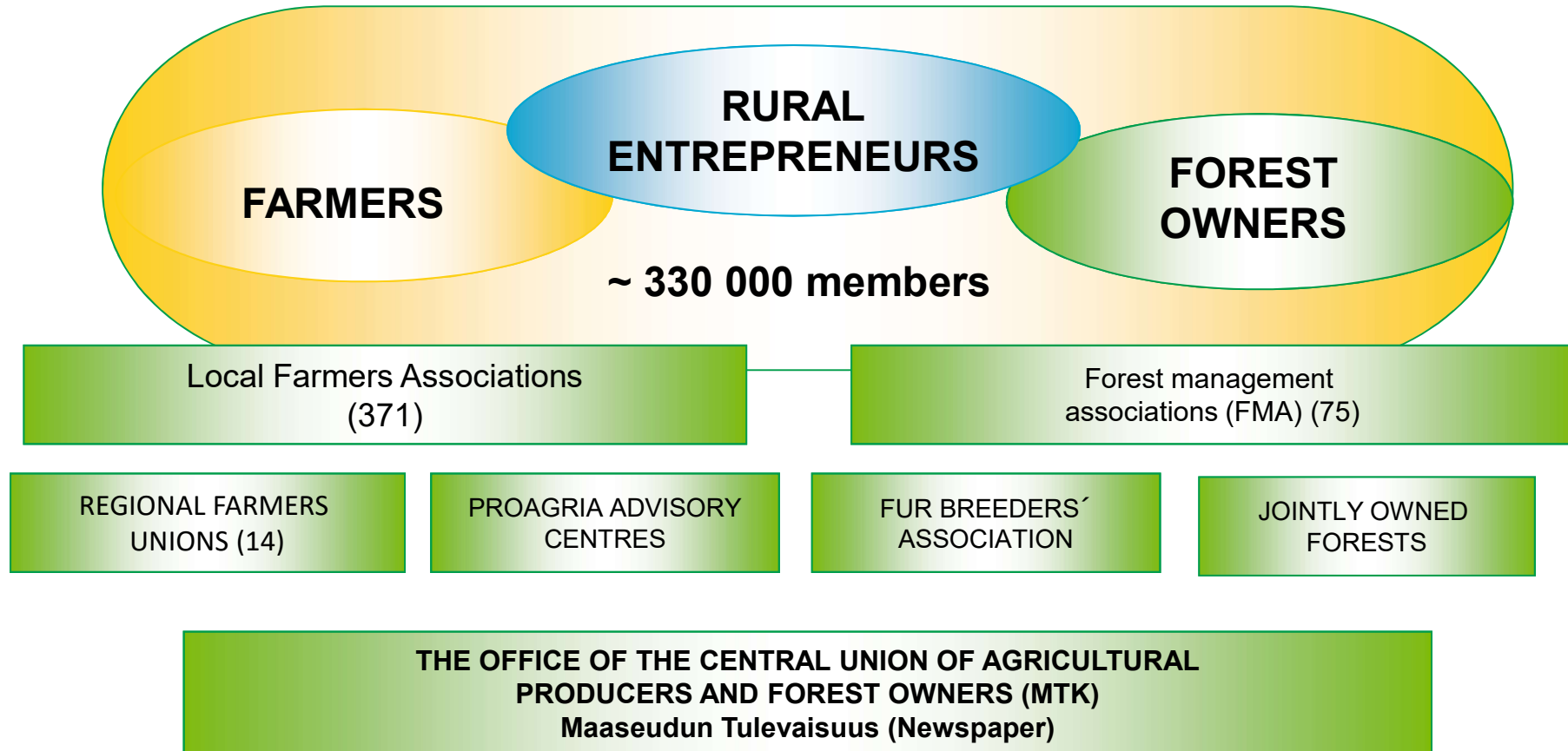
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MTK Organisation



MTK - the Central Union of Agricultural Producers and Forest Owners

It...

- was founded in 1917 under Russian rule
- supervises the interests of farmers, forest owners and rural entrepreneurs at local, national, EU and global level;
- represents its members and related industries that use renewable natural resources in a sustainable way; and
- has ca. 350 000 members in total, 211 000 forest owner, >80 % of forest area owned by private persons.



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Role of MTK

- MTK monitors the agricultural, forest, environment etc policies of the EU and turns the needs and wishes of its members into proposals
- The interests are managed at the national level
 - Markets for farm production
 - Environmental and agricultural policy
 - Forest policy
 - Timber markets
 - Taxation
 - Financing
 - Social policy
 - Regional policy



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The role of Forest Management Associations



Forest owners' service organisation on local level:

- FMAs are working in a close co-operation with the forest owners in all matters related to forests:
 - forest management services (harvesting, regeneration, ditching etc.)
 - training and planning services
 - timber sales services
- 80% of the forest management activities in private forests are carried out by FMAs
- 70% of preliminary planning of timber sales
- Employ 1000 officials and 620 permanent forest workers
- Employ also high number of contractors and entrepreneurs
- Enables new models of cooperation between FMAs and forest industry

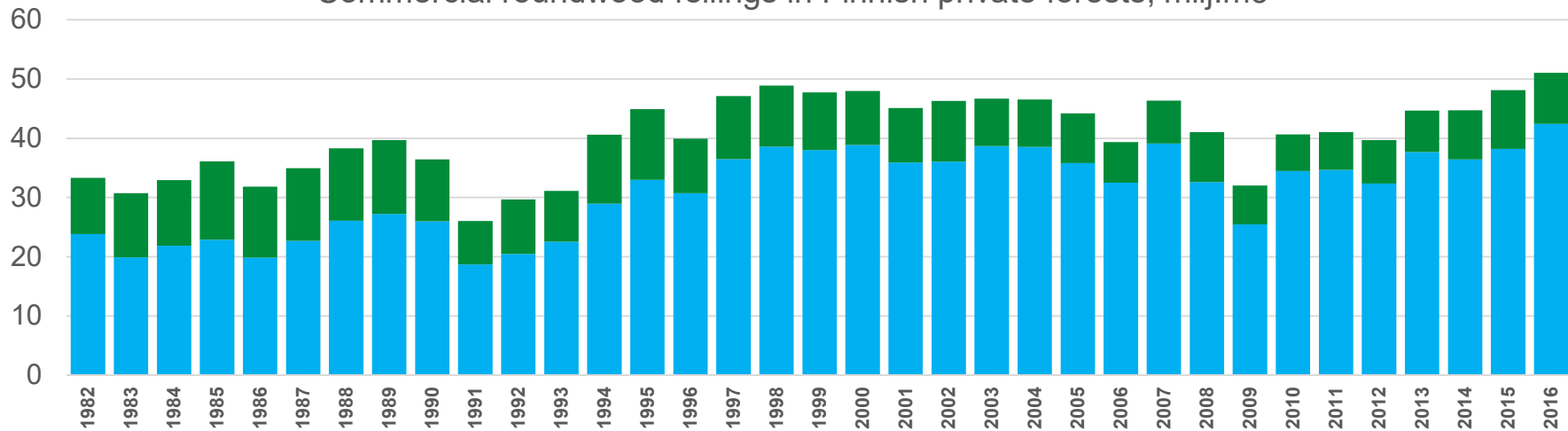


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In Finland wood is mainly procured by stumpage sales

Commercial roundwood fellings in Finnish private forests, milj.m3



■ Stumpage sales ■ Delivery sales

Source: Natural Resources Institute Finland

Stumpage sales: Wood is measured in the forest and the final price is agreed upon before harvesting. Buyer takes care of harvesting (usually in 1-2 years) and transportation in the forests and to the mill.

Delivery sales: Seller and buyer agree on a price to be applied in the transaction. The seller is responsible for harvesting and delivery of the timber at the road side. The buyer usually transports the wood to the mill.



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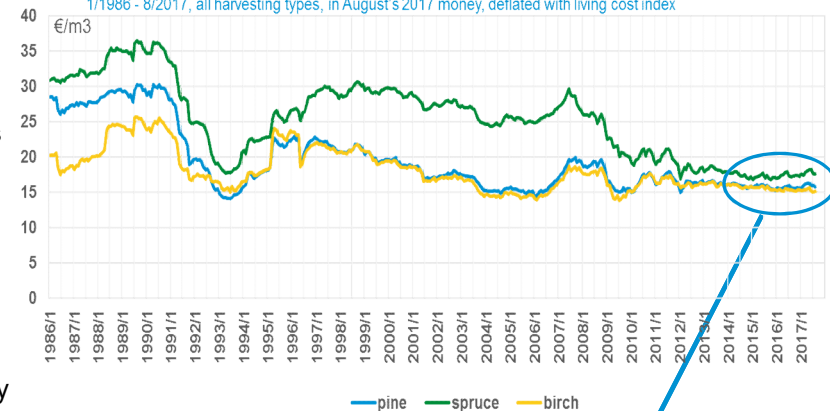
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How Finnish roundwood markets function?

- The main suppliers on the Finnish roundwood markets are private forest owners. Around 80 percent of the Finnish harvests are implemented in private forests. Private forest owners main incentive for selling roundwood relate to silvicultural needs.
- Roundwood is mainly sold as a stumpage sale, i.e. buyer takes care of harvesting operations and transport to the mill.
- During the last years price and volume volatility in Finnish roundwood markets has clearly reduced (see adjacent figure).
- Price volatility in Finland is smaller than in other countries
- In Finland the forest industry companies has less own forests in comparison to forest industry companies e.g. in Sweden.
- Instead of that imported volumes of roundwood have substituted for the domestic supply in Finland. This has had a stabilizing effect on the Finnish roundwood markets.
- Considering the current Finnish roundwood market structure (oligopsonistic: few buyers vs. several hundreds of thousands of sellers) the markets perform perfectly according to expectations.
- According to econometric roundwood market studies Finnish log markets are functioning better than pulpwood markets. The main reason is that there are more buyers and more competition for logs than for pulpwood (there are currently only four pulpwood buyers in Finland).
- There is no more common roundwood negotiation system between forest industry and forest owners, prices and volumes are agreed trade by trade.

REAL STUMPAGE PRICES OF PULPWOOD

1/1986 - 8/2017, all harvesting types, in August's 2017 money, deflated with living cost index



Price volatility has clearly reduced during the last years



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Sources: Natural Resources Institute Finland,
Statistics Finland

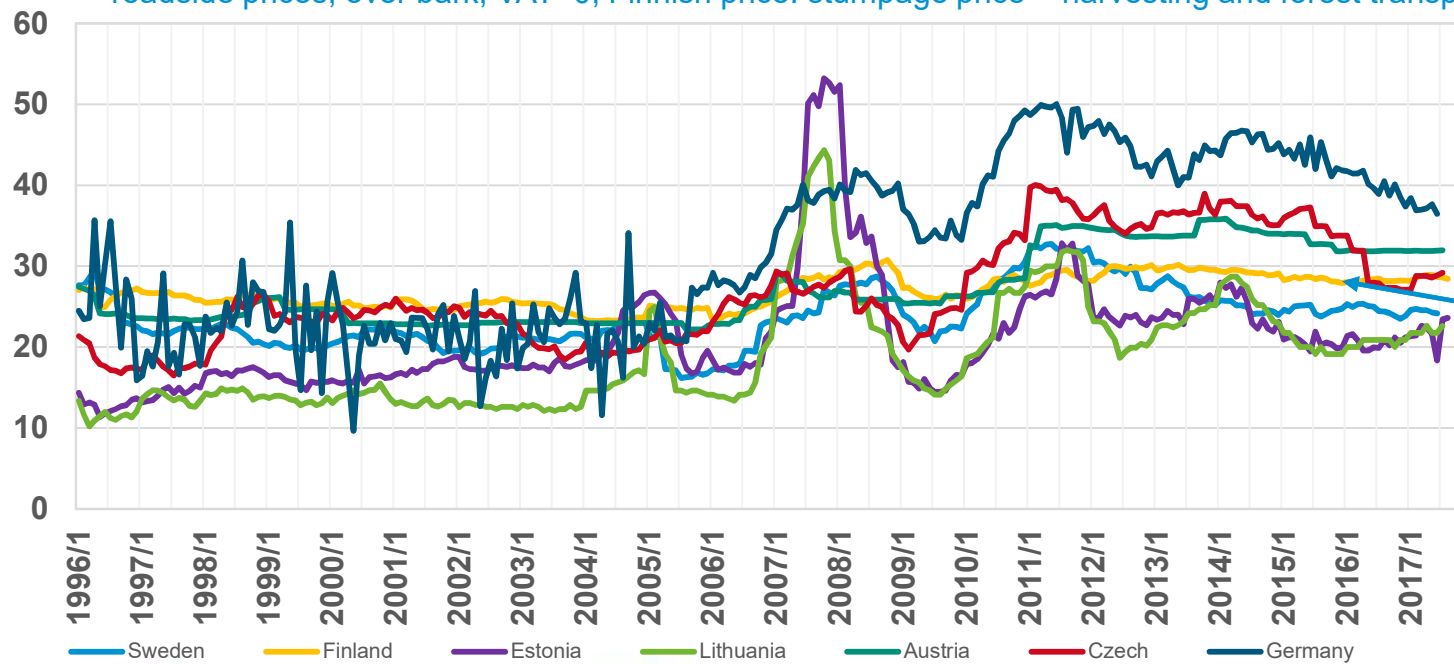


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Pine pulpwood

roadside prices, over bark, VAT=0, Finnish price: stumpage price + harvesting and forest transportation costs*



Price volatility in Finland is smaller than in any other country -> roundwood market's predictability is very good



Sources: LUKE (Finland, Lithuania), Skogsstyrelsen (Sverige), Statistik Austria (Austria), Statistisches Bundesamt (Germany), State Forest Management Centre (Estonia), Czech Statistical Office (Czech), *Metsäteho



Benefits and future of electronic roundwood market place

- Cost savings for forest owners and roundwood buyers. (The transaction costs are estimated to be around 250 million euros annually.)
- Improve transparency of the Finnish roundwood market
- Improve functioning of the roundwood market as well as operational environment of the Finnish forest sector
- Puumarkkinat.fi has been a very first step towards electronic roundwood trading
- Future development plans with forest industry → real market place
- New company Suomen Puumarkkinat Oy was established by forest owners and roundwood buyers 11/2015
- New forum was opened for all buyers and sellers at the Q2 of 2017



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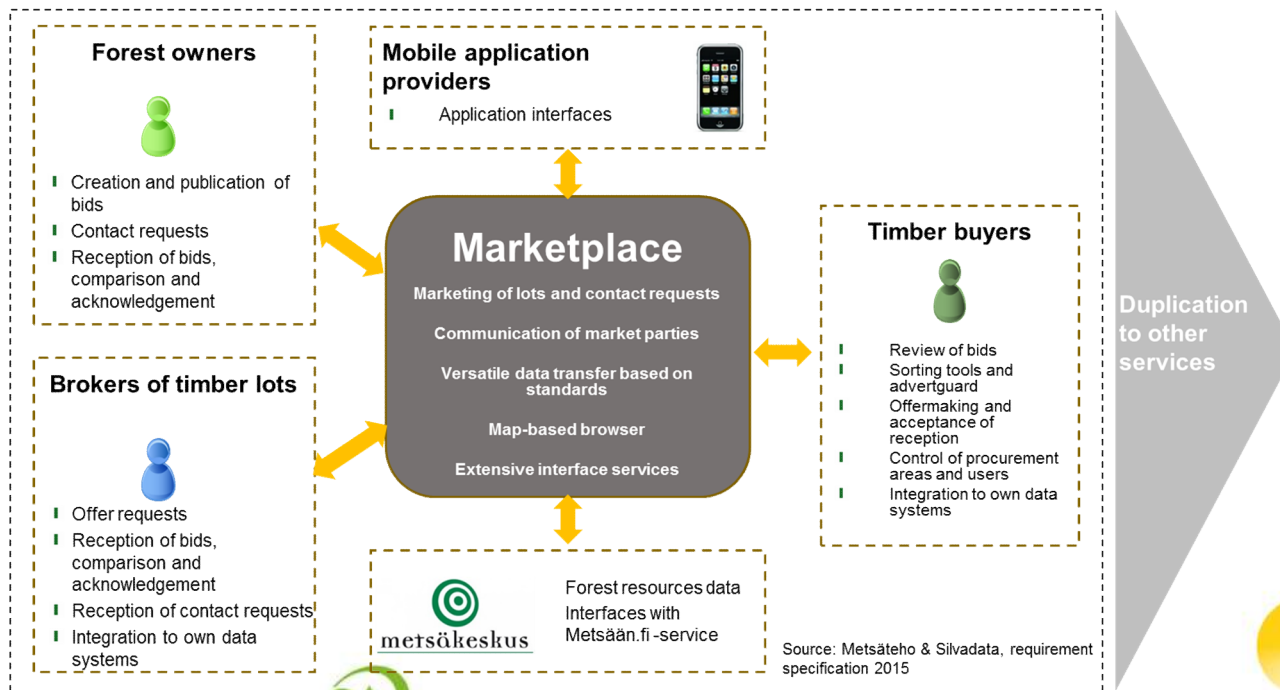


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Electronic roundwood marketplace



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The Overhaul of Forest Legislation

- Reform of the Forest Act, 1st of January 2014
- Reform of the Forest Management Association Act 2014-2015
- Forest Damages Act 1st of January 2014
- Timber Measurement Act 1st of July 2013 and 1st of January 2014
- The Act on the Placing on the Market of Timber and Timber Products
- Reform of forest administration:
 - Finnish Forestry Centre 2012-
 - Forestry Development Centre Tapio 2014 -> limited market-driven company
 - Metsähallitus - State enterprise 2015; forestry business unit incorporated
- Act on the Financing of Sustainable Forestry 2014
- Act on the Natural Resources Institute Finland, 2015
- Forest gift deduction and entrepreneur deduction for forest owners, 2017
- **Aim of the overhaul is to increase forest owners' freedom of choice, by creating more balanced competitive conditions for players offering forest services, and by increasing market guidance.**
- **A key method in the overhaul has been the reduction of detailed regulation.**
- **Function of the roundwood market has also improved.**



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