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Proposals to improve forest holding size and structure in Finland

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Background

- In Finland, there are in total 347 000 family forest holdings over 2 hectares of productive forestland.
- Family forest owners number 737 000, which is 14 % of all Finnish citizens.
- Average size of a forest holding is 30 hectares and average age of a forest owner is 60 years, and the age for those without agriculture is 62 years.
- Forest real estate structure could be improved by land consolidation on 4 million hectares mainly in western Finland
- Family forestry without connection to agriculture or forest industry is not regarded in Finland as a business but financial (capital) investment.
- Because separate financial policies are applied to business investments and financial investments, structural instruments applied in agricultural farms or family companies cannot be used in family forestry.
- From the roundwood supply point of view, the forest holding structure is increasingly regarded ineffective.

The project 2009-2011

- Background: Finland's national forest programme 2015:
 - Chapter 1.4 Profitability of family forestry and holding size
- Ministry of Agriculture and Forestry ordered during spring 2009 from Metla a development project with a ministerial working group (steering group at the same time), which should aim at concrete initiatives/proposals with effectivity/efficiency analyses to
 1. Increase family forest holding size,
 2. Enhance transfers to the next generation
 3. Improve structure of forest holdings.
- Involved researchers from Metla:
 - Harri Hänninen (Spring 2009-Summer 2011)
 - Jussi Leppänen (All the time...)
 - Marjut Vierimaa (Summer 2009-Spring 2010, presentation in SSFE 2010)
 - Simo Tikakoski (Autumn 2010-Winter 2011)

Expected project outcomes in 2011

- Initiatives and proposals of the project should have been targeted on
 - Taxation
 - Legislation
 - Development and enhancement of new forest ownership forms
 - Enhancement of jointly owned forests and new partitioning of forest estates
- In addition, to the project should have been mapped ongoing development projects and collected the best practises and brought them to overall use (see: www.metsanomistus.fi)

Result: most effective instruments (in effectivity order)

1. Conditional concession for inheritance and donation tax for forest holdings
 2. Developing land consolidation arrangements for improving forest holding structure
 3. Conditional concession for profit taxation from forest holding assignment
 4. Developing and increasing advise and education for transfer to next generation
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5. Allowing companies as forest owners to make taxation reserves and forest deduction
 6. Enlargement and administration development of jointly owned forests
 7. Using state forests as incentives to establish jointly owned forests
 8. Advising heirs as forest owners to form private partnerships or jointly owned forests
 9. Developing forest renting

Currently adopted and not adopted proposals in public decision making

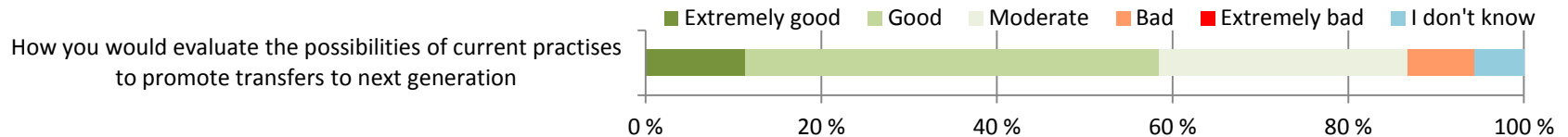
1. Conditional concession for inheritance and donation tax for forest holdings
 2. Developing land consolidation arrangements for improving forest holding structure (partly)
 3. Conditional concession for profit taxation from forest holding assignment
 4. Developing and increasing advise and education for transfer to next generation
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5. Allowing companies as forest owners to make taxation reserves and forest deduction
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Disqualified (ineffective or politically impossible) instruments

1. Integrating forest income taxation (nowadays capital income taxation) to agricultural income taxation (simplified business income taxation)
2. Partitioning constraints to forest real estates
3. Municipality owned forests to maintain low-tax status when joining to/establishing jointly-owned forests
4. Forest ownership payment
5. Purchase priority to existing forest owners when forest estate comes for sale
6. More degressive forest management fee with forest holding size
7. Forestry deficit to be deducted only from forestry incomes
8. Expanding real estate tax to forests
9. Development of legislation to allow REIT-ownership of forests

Feedback from seminar (October 2011) for advise experts from development projects

- According to the seminar participants, the project could rather well produce proposals which satisfy the needs for further development
- However, advise experts (N=52) saw surprisingly good opportunities to continue with present tax & legislation environment too, with regard to transfers to next generation

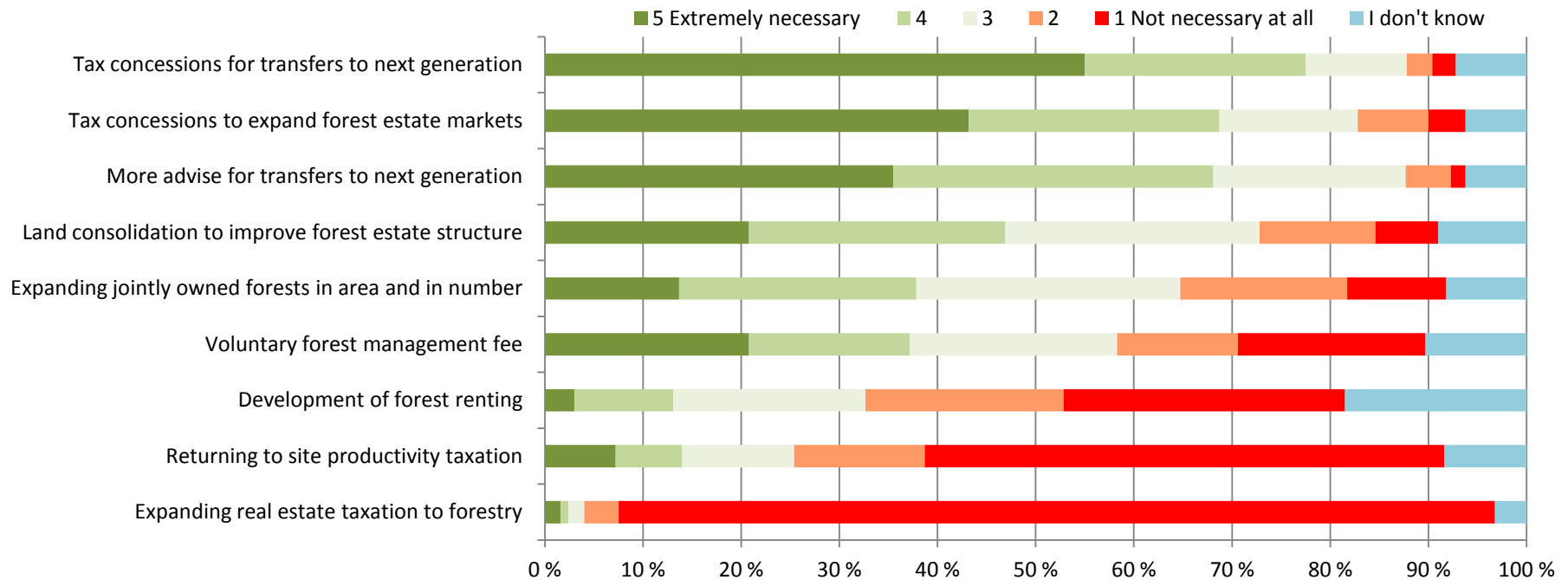


- They also saw that development in jointly owned forests is going into right direction, but some of the respondents seemed to still expect further enhancement instruments for JOFs

Feedback received by a webropol survey in April 2012

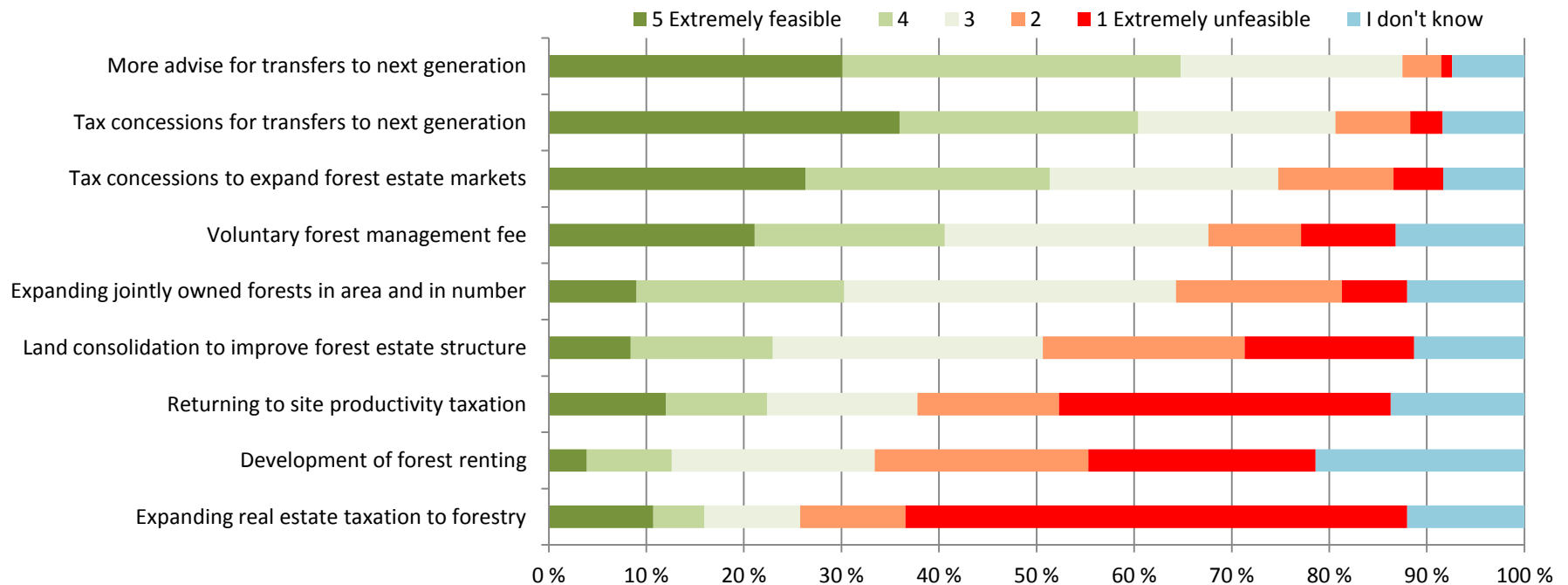
- Non-representative but rather large email survey was made to develop roundwood market environment
- Webropol survey was emailed to selected
 - small-scale forest owners
 - large-scale forest owners
 - wood buyers from operational level to top of the organisation
 - forestry professionals and experts in large sense
- Two approaches in questions, likert scale 1-5
 - Policy necessity and policy feasibility

Feedback from small-scale forest owners (necessity of instruments)



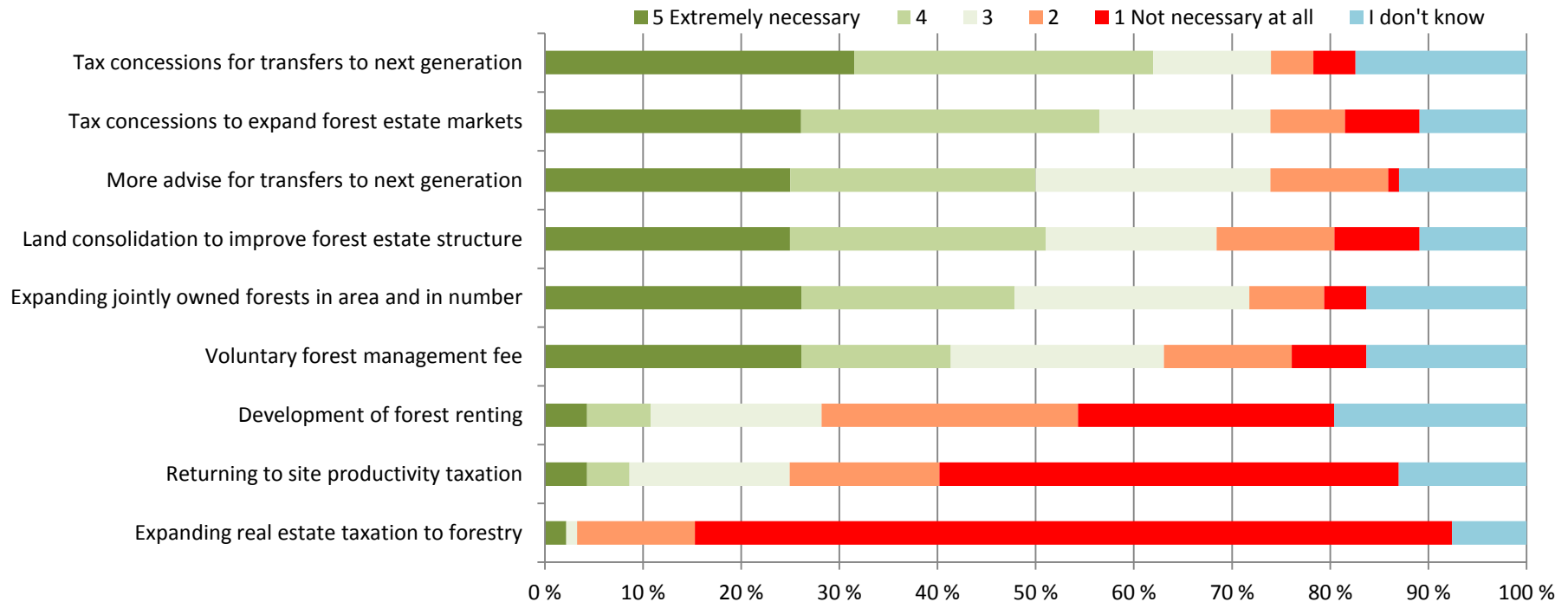
- Non-representative sample (clearly larger holdings and more active forest owners than in average)
- Number of respondents = 915

Feedback from small-scale forest owners (feasibility of instruments)



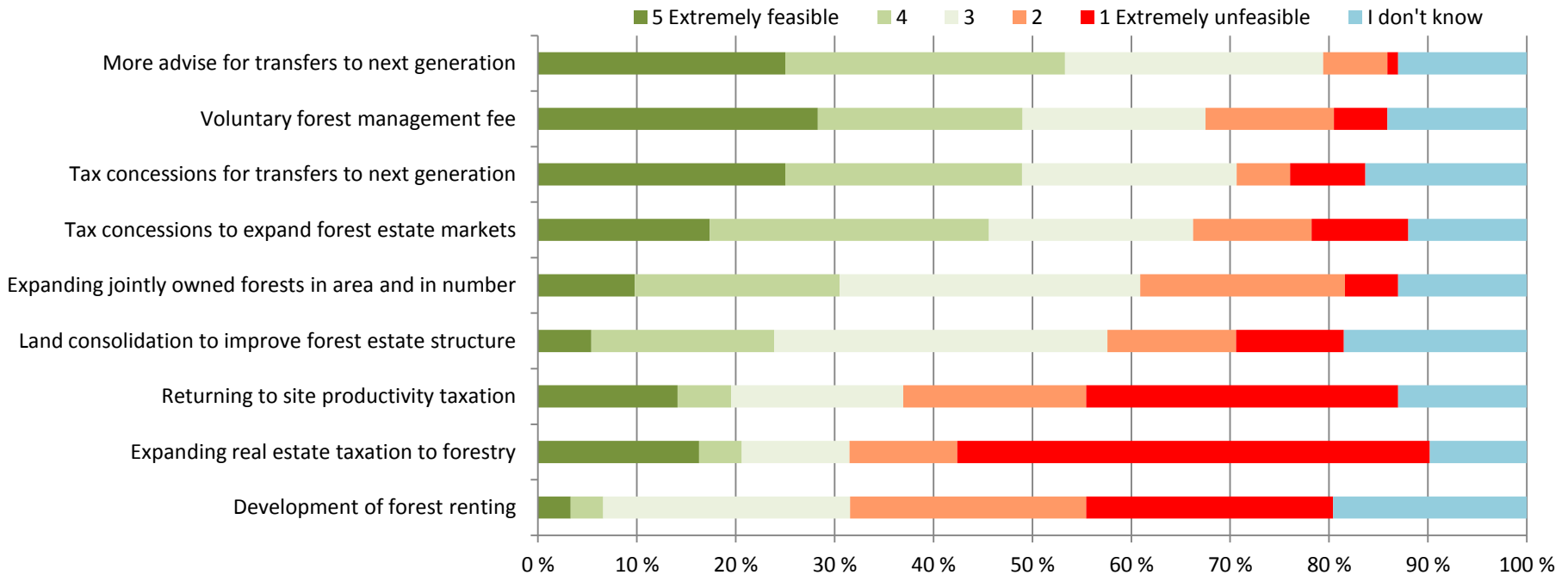
- Non-representative sample (clearly larger holdings and more active forest owners than in average)
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Feedback from large-scale forest owners (necessity of instruments)



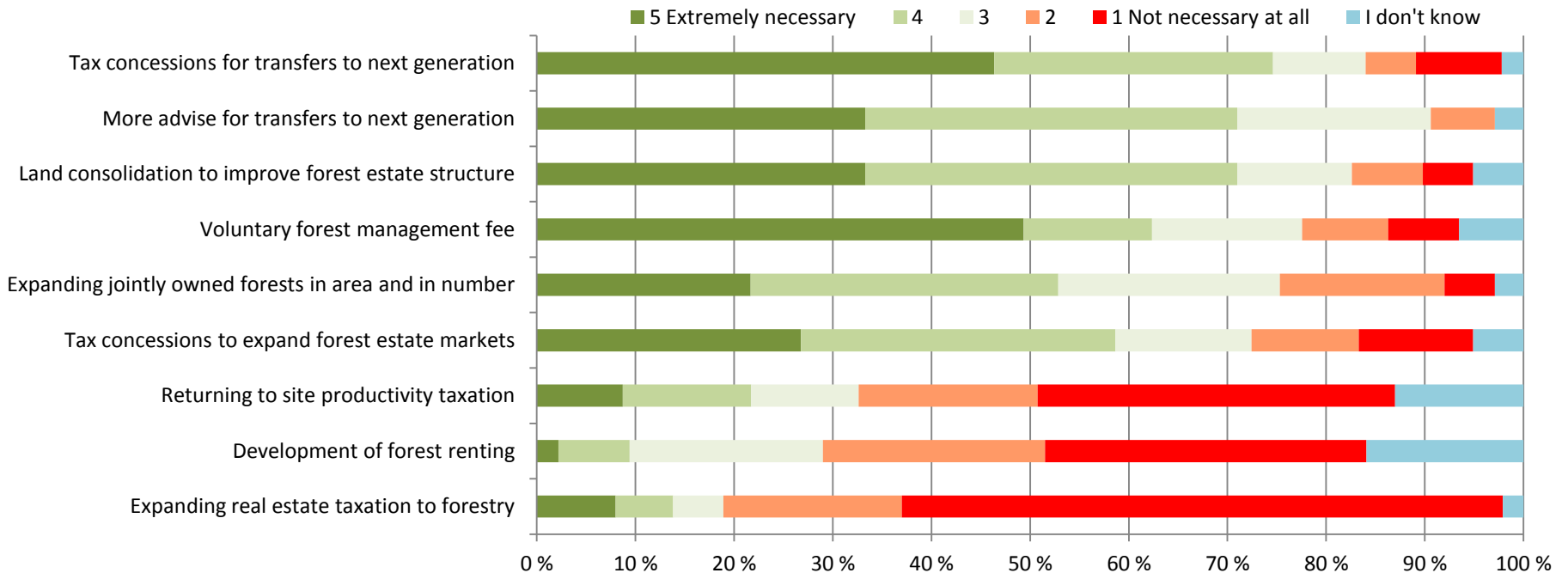
- Non-representative sample?
- Number of respondents = 92

Feedback from large-scale forest owners (feasibility of instruments)



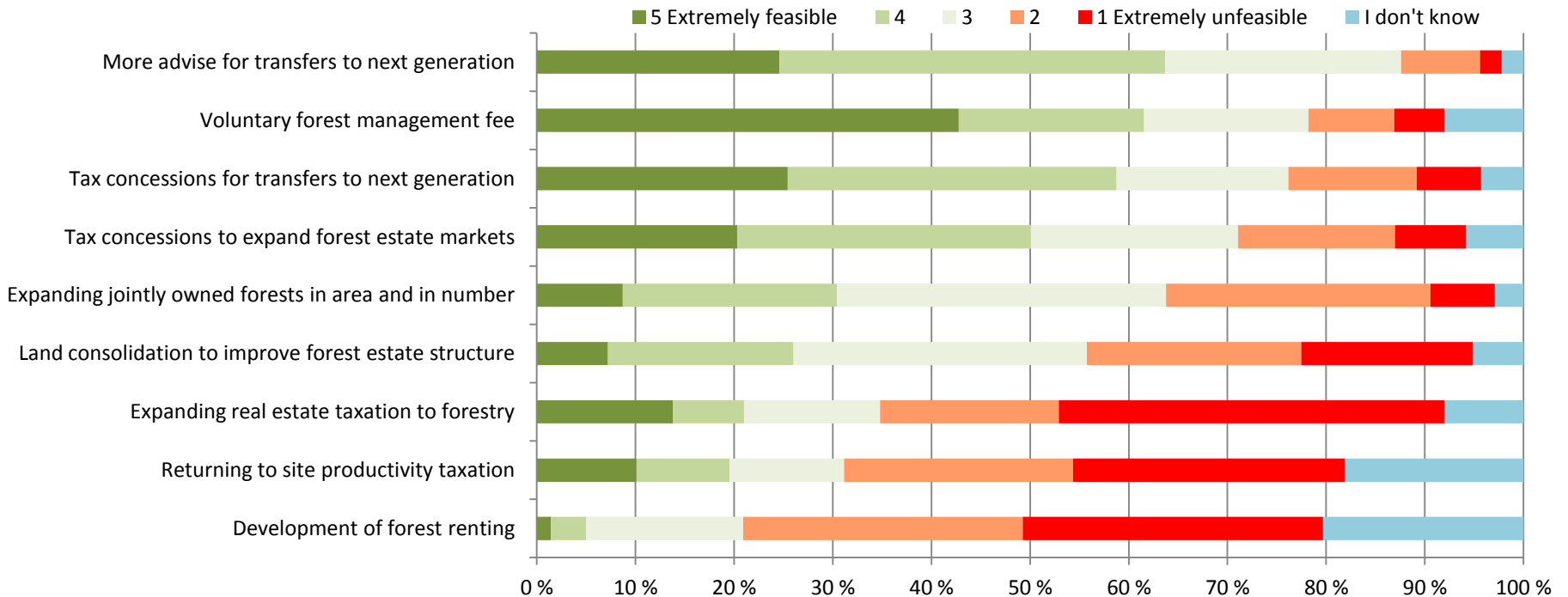
- Non-representative sample?
- Number of respondents = 92

Feedback from roundwood buyers (necessity of instruments)



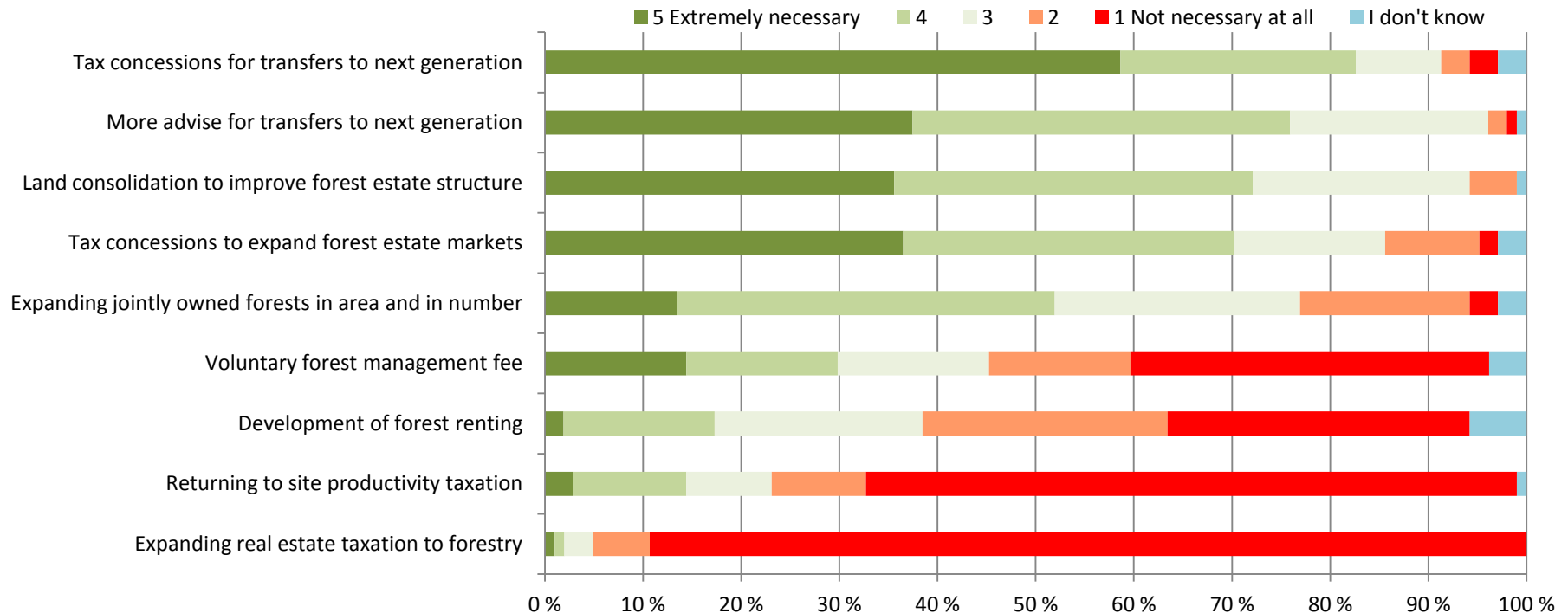
- Non-representative sample?
- Number of respondents = 138

Feedback from roundwood buyers (feasibility of instruments)



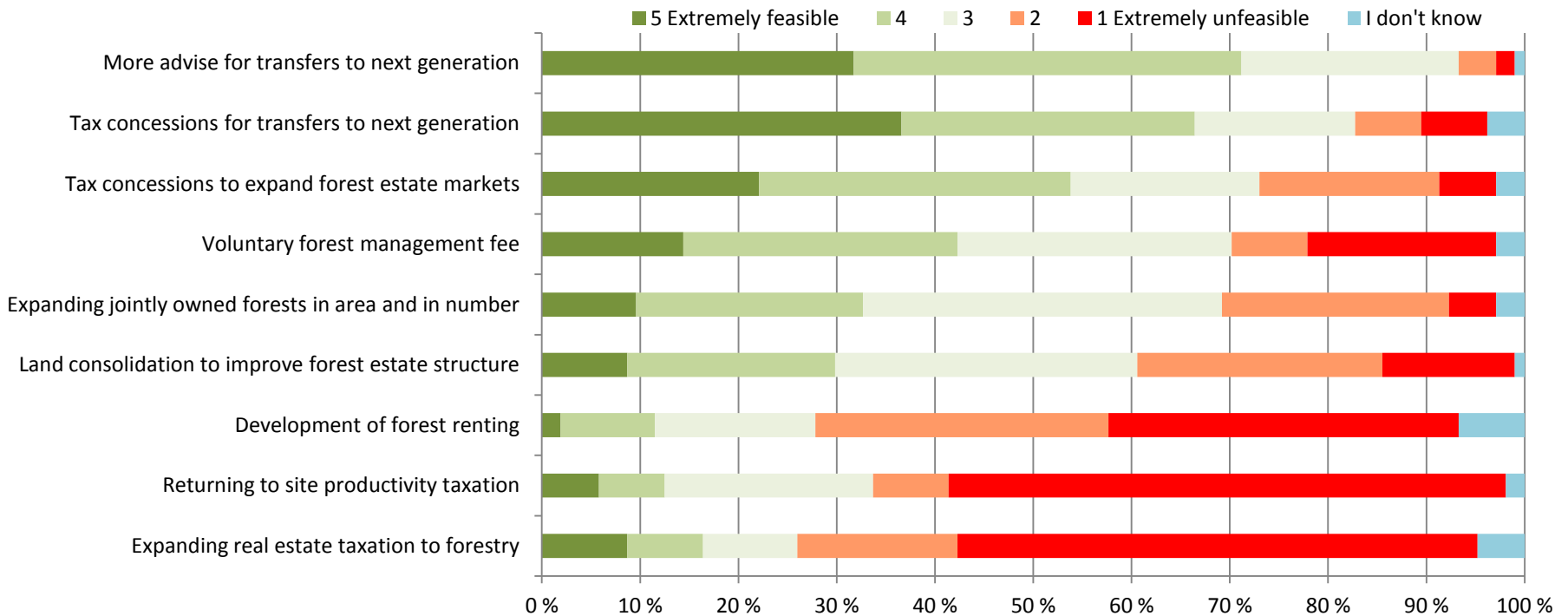
- Non-representative sample?
- Number of respondents = 138

Feedback from forestry professionals and experts (necessity of instruments)



- Non-representative sample?
- Number of respondents = 104

Feedback from forestry professionals and experts (feasibility of instruments)



- Non-representative sample?
- Number of respondents = 104

Summary and conclusions

- The project / working group proposals aimed at improving profitability and sustainability of forestry as well as roundwood supply in Finland
- At present situation, proposals on advise and education (on list #4, 8), jointly owned forests (#6, 7) and partly also land consolidation (#2) seem to proceed in governmental decision making
- Forestry experts, who work e.g. in advise for transfers to next generation and other forest estate structural matters seem to require less changes to present situation than webropol survey indicates
- According to webropol survey, the project and working group could evaluate the initiatives rather well for its proposals, however in the WG there were strong interest parties, which had an influence on the result
- Overall conclusion: single decision makers or small discussion groups (working groups, ministry staff, forestry advisers etc.) may not see the full picture and recognise the best initiatives to make the best proposals

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Thank you