

Latvijas Finieris focuses on bioeconomics

JSC (AS) Latvijas Finieris, one of the largest birch plywood producers in Latvia, has taken a course towards bioeconomics by replacing the fossil phenol used for plywood gluing with biological lignin; furthermore, construction of the industrial level experimental birch bark recycling laboratory intended for the production of betulin is in progress.

by MĀRIS ĶIRSONS

this was told in the interview with Baltic Business Quarterly, by Mr Mārtiņš Lācis, Executive Board Member and Head of Marketing, Sales, Purchasing and Logistics Sector of JSC (AS) Latvijas Finieris. He admits that the Covid-19 pandemic and restrictions imposed in an effort to limit its spread have changed many previously common processes. The planning has also changed, since only short-time operation for the duration of a few weeks may be planned at the moment, while previously this term was many times longer.

How have the measures imposed to restrict the spread of coronavirus pandemic changed the company's operation?

Of course, the situation, which emerged in 2020 is an unprecedented one, and it affected everything — production, logistics, foreign purchasers and consumers of our products, as well as suppliers of veneer logs and other materials necessary for plywood production. In fact, everybody was forced to find a way to work under such unclear circumstances, where the highest priority was and is human health. This is why an internal regulation was developed within the company to improve safety and at the same

time reduce the risk of infection with Covid-19. The most complicated matter concerned the health of the company's employees to reduce risks of illness. For example, we limited the contact of our employees with the transporters — truck drivers. Production units of Latvijas Finieris are located in four countries — the production units in Lithuania and Finland produce veneer, while plywood and its products are produced in Latvia and Estonia. Initially, we were concerned regarding possible stricter measures imposed in Lithuania, which would affect the production of veneer in Līkme, but this turned out not to be a problem. Reactions of Baltic countries and Finland aimed at the restriction of the spread of the coronavirus pandemic were similar. There were no problems related to the supply of products — logistics, apart from the decision of Poland to close down the borders and a similar case on the border of Turkey. Besides, the imposed travel restrictions forced us to very rapidly introduce various solutions for remote gatherings and meetings with customers, especially with those who had planned to attend the company's production units. Even the annual gatherings and meetings of work groups organised by the European Panel Federation, which previously took place on-site only and were unthinkable of in remote format, now

take place in the digital environment. At the moment, the most important factor in the company is balance at all levels, both in the segments of foreign customers and all links of the supply chain, from the forest to the purchaser of products, which means the ability to adjust to the changing situation quickly and flexibly. In cooperation with forest managers, we are looking for solutions to avoid a shortage of raw materials such as veneer logs. Solutions offered by JSC (AS) Latvijas valsts meži and the Estonian state forest manager RMK to provide the stability of supply of veneer logs are worth recognition,

Latvijas Finieris

Sector: development, production and sale of birch plywood products

Export: 95% (to more than 60 countries overall)

Net turnover: 228.9 million euros (2019)

Employees: 2,545 (on average in 2019)

Production:

- In Latvia: JSC (AS) Latvijas Finieris, factory Furniers; factory Lignums, factory Hapaks and LLC (SIA) Troja (Riga), LLC (SIA) Verems in the Rēzekne Special Economic Zone
- In Estonia: OU Kohila Vineer
- In Lithuania: UAB Līkme
- In Finland: Riga Wood Finland Oy

Forestry:

- JSC (AS) Ludzas MRS
- LLC (SIA) Latvijas Finieris mežs

Sales:

- Riga Wood GmbH (Germany)
- Riga Wood Holland BV (the Netherlands)
- Riga Wood Finland Oy (Finland)
- Riga Wood Sweden AB (Sweden)
- Riga Wood Ltd (Great Britain)
- Riga Wood France S.A.R.L. (France)
- Riga Wood Iberica S.L.U (Spain)
- Riga Wood Italia S.r.l (Italy)
- Riga Wood Orman Urunleri San.Tic. Ltd. Sti (Turkey)
- Riga Wood Japan (Japan)
- Riga Wood North America Inc. (USA)
- Riga Wood Baltic AS (Latvia)



Mārtiņš Lācis, Executive Board Member of the JSC (AS) Latvijas Finieris: “Plywood products of Latvijas Finieris will become “greener” and significantly reduce the carbon footprint, thus causing competitive advantages and reducing climate change.”

Photo: Matīss Markovskis

since at that moment nobody knew the potential production volumes, because the predictions were only possible for the duration of 2–3 weeks, while any further predictions were equal to looking into a crystal ball. My prediction is that it will take a stabilisation period of 6–12 months to understand the long-term impact of the Covid-19 pandemic. Namely, the impact caused by these consequences on the demand of customers and cooperation partners for the products of Latvijas Finieris and also any other producer. For example, Latvijas Finieris supplies its products to a trailer manufacturer in Germany, which, in turn, sells its products across the globe. This time is not easy for European producers.

What changes were caused by the pandemic in the behaviour of purchasers of birch plywood?

Latvijas Finieris sells plywood products in more than 60 countries, and each of these countries has a specific situation with certain nuances. First of all, the huge uncertainty related both to the foreign customers of Latvijas Finieris and their cooperation partners,

because nobody knew what was going to happen, what kinds of restrictions were to be imposed and for how long; however, we had assurance that the situation would change at some point. Due to the aforementioned reasons, we initially built a rather pessimistic scene, where sales in April and May shrank comparatively quickly, at the same time focusing on the ability to quickly adjust to the situation — the wishes of our customers. This was the correct decision, since volumes of orders changed rapidly in all countries in April and May compared to January; a few countries showed huge drops, while other countries showed huge increases.

For example, purchasers of plywood products from Spain, France and Italy, where the restriction measures of the pandemic imposed by the countries were very strict, postponed deadlines for the deliveries of orders with the assurance that they will need the products at a later date. Of course, we also faced some cases, when customers cancelled their initial orders. There was also a case, where the cargo of products was on the way to a Spanish customer,

but his company was closed down due to the coronavirus; therefore, products were delivered to a logistics warehouse, where the customer picked up the order as soon as he was able to. April saw an explicit drop in deliveries of plywood products mainly to Southern European countries, but it was compensated by the growing demand in the German, Polish and Baltic markets. The fact that restrictions in a large market such as Great Britain were imposed later than in the rest of Europe, thus enabling us to smooth out the production process, also played its role. Besides, we have to take into account the fact that so far British purchasers have always maintained larger inventories in warehouses than in continental Europe. Whereas, in May and June, following the lifting of the restrictions in Southern European countries, customers from these countries rapidly renewed their orders. In essence, the market diversification implemented by the company a while ago allowed us to successfully overcome this complicated period. Thus, in general, volumes of plywood production during this complicated period were maintained within the conditional frames.

WHAT IS LIGNIN?

Lignin is a recyclable and ecologically friendly product, abundantly available in the entire world in trees and plants. Therefore, it has recently become important subject to active research, to develop new and more sophisticated uses for it. This rising technological wave with most promising results belongs today to the World's Megatrends. RIGA ECOlogical is one of them.

Latvijas Finieris faced its first experience with Covid-19 back in February this year. Last year, our company commenced good cooperation with plywood purchasers in China, but, at the beginning of February, deliveries to the purchasers of this Asian country were put on hold; however, 1.5–2 months later, when all the European countries commenced imposing their restrictions, deliveries to China resumed. This fact caused the feeling that economic activities would also renew in Europe. In contrast to the massive restrictions imposed in China, there were no such restrictions in Japan and Korea. Moreover, cooperation partners from Korea and Japan even wanted to receive the goods sooner than initially expected, since they were afraid of possible restricting measures aimed at the restriction of spread and combatting of the coronavirus in Latvia, which could make plywood production and deliveries thereof difficult. However, uncertainty is still here. Customers want to receive their orders within a very short time, which means a very short time span between the receipt of the order, production and delivery. Turkey is another market for the products of Latvijas Finieris, which helped to compensate for the drop in volumes of orders in Southern European countries. This Middle Eastern country has recovered after the economic recession faced in 2019, therefore construction volumes have increased, and so has the demand for plywood products.

What about the situation in the German market, where Latvijas Finieris is among the largest suppliers of industrial products from Latvia?

The German market is the largest plywood market in continental Europe, where we sell 16% to 20% of the plywood products produced by Latvijas Finieris annually. Latvijas Finieris has more than 60 customers in Germany, from traders to industrial consumers of birch plywood, with the annual business volume of the largest customer reaching approximately 5 million euros, and the smallest one – approximately 1,000 euros. Successful cooperation with such a broad circle of customers with different interests is provided by the trade company of Latvijas Finieris (with seven employees) Riga Wood GmbH, located in Dresden. As I mentioned before, during the pandemic, Latvijas Finieris was even able to increase sales in the German market. Such a result was achieved due to the elaboration forerunners of previous years combined with the ability of Latvijas Finieris to respond to the wishes and needs of each particular customer very quickly and operatively. Share of sales of Latvijas Finieris in the purchase portfolios of these customers has even increased.

Did you work on new potential markets and new customers during that time?

Work towards this direction has not stopped, even during the pandemic. For example, in the American market, Latvijas Finieris has focused on

the research of new end consumer products (where birch plywood can be used). Trans-continental trade is very sensitive to situations such as that which was caused by this pandemic. American purchasers maintain larger inventories than purchasers working in Great Britain or, moreover, in continental Europe, because they take all kinds of possible risks into account. At the same time, during this aggravation of Covid-19, interest in innovative birch plywood products grew in America; however, the materialisation thereof takes a longer time, because on-site meetings are not possible due to the cessation of travel. Although we have not attracted new purchasers of plywood products at the moment, a customer, which had not purchased anything from Latvijas Finieris for several years, placed an order this spring.

What is the situation in relation to the previously planned investment projects?

Under the circumstances of huge uncertainty, the further direction of several development projects, which were at the stage of planning, has been slowed down, but not stopped. At the moment, Latvijas Finieris concentrates on the more efficient use of the existing assets, more efficient use of heat and electric energy – energy efficiency. All technical repairs and maintenance of equipment take place according to the schedule. Coronavirus has not

WHAT IS BETULIN?

Betulin is a naturally occurring triterpene. It is commonly isolated from the bark of birch trees. The compound in the bark gives the tree its white color. In numerous scientific studies, the natural active ingredient betulin has been found to have anti-inflammatory, anti-bacterial and regenerating properties.



“My prediction is that it will take a stabilisation period of 6–12 months to understand the long-term impact of the Covid-19 pandemic,” Mārtiņš Lācis, Executive Board Member of the JSC (AS) Latvijas Finieris

affected the sector of service and product development. Emphasis is on making plywood products greener — fossil products are being gradually replaced by sustainably generated materials of organic origin. A good example of this is the new lignin-based glue of Latvijas Finieris, used for the production of plywood with the trade mark RIGA ECOlogical. This glue has been developed within the framework of a three-year project in close cooperation with the Finnish group of companies Stora Enso. Whereas, the second direction is wood resources — birch bark, which we want to use to make a product with high added value — betulin. Both of the aforementioned directions form the contribution of Latvijas Finieris to the reduction of climate change.

What is the current stage of the project related to gluing plywood using lignin-based glue?

We already started offering plywood products glued with such glue to our customers last year, and this year the volume is increasing. There are many customers in France, the Netherlands and also in Latvia, which are already receiving the entire range of products of Latvijas Finieris glued

using lignin-based glue. Customers in other countries are also waiting for such offer. In RIGA ECOlogical glue bio-based renewable lignin currently replaces almost a half of traditionally used fossil materials, thus offering to all our customers a significant competitive advantage in the increasingly green business environment. Customers like such replacement of phenol by lignin, but they also want tangible benefits — results. At the moment, Latvijas Finieris, together with scientists, performs and tests plywood products, the glue of which contains phenol and lignin. When this work is finished, we will be able to compare the environmental impact caused by both glues containing phenol and lignin. Whereas, the physical and chemical properties of the product do not change depending on the use of phenol or lignin in its content. In Scandinavia and Great Britain, during the building of houses, their environmental impact is already being taken into account and is to be later used in tax policy, most frequently for the calculation of property tax. I predict that, as soon as the relevant documentation is ready, demand for plywood products with the RIGA ECOlogical brand will also grow, because lignin reduces the carbon footprint of plywood production. It is planned that initially such a solution — to use only RIGA ECOlogical glue — will be fully adopted by the factory Furniers; however, it requires additional investments. Regarding further substitution of fossil resources, our intention is to proceed the direction where we

decrease share of phenol in our glue, replacing it with lignin over time.

What is the current stage of the intent of betulin production?

We have considered the rational, economically beneficial use of wood by-products in plywood production for many years, and, as far as birch bark is concerned, its recycling into biological betulin, which could be a raw material for cosmetics and pharmaceuticals, was admitted to be a good approach. In cooperation with the Forest Sector Competence Centre, the experimental industrial betulin production unit is in the process of creation — a laboratory with the aim to find a way to obtain high purity betulin using birch bark, which is generated as a by-product of plywood production. Opening of this production unit is planned at the end of 2020. This means that Latvijas Finieris has “stepped out” from wood processing and commenced its activity in the area of wood chemistry, the potential consumers of the products of which include the cosmetics manufacturing industry and pharmacy, which set different criteria compared to the sectors we have worked with thus far. At the moment, betulin is globally produced using birch bark in experimental small volumes, but this area has great future potential, especially in the context of the circular economy and Green Deal. The great potential is confirmed by the following example — one company (operating in the pharmacy industry) from Germany purchases decontaminated and sorted birch bark from Latvijas Finieris, in order to produce betulin. From a long-term perspective, this German company could become a good cooperation partner in the betulin segment. At the same time, it might take many years, certificates and convincing of potential consumers of the quality and properties of the product before we can speak about commercial betulin production using birch bark in industrial volumes.