

Family forest owners' opinion on potential forest leasing service in Finland

- Mikko Kurttila^{1*}, Teppo Hujala¹, Harri Hänninen¹, Hanna Kumela¹
¹*Natural Resources Institute Finland (Luke), Finland*
** mikko.kurttila@luke.fi*
- FINAL CONFERENCE of the COST Action FP1201 FACESMAP
7 – 8 September, 2016, University of Natural Resources and Life Sciences, Vienna, Austria

Leverage from
the EU
2014–2020




European Union
European Regional
Development Fund

Contents

- What could a forest leasing service look like?
- Interest towards the service
- Service characteristics
- WTP and WTB from service



Forest owner
survey results



Service provider
survey results

Drivers of forestry services



Forest leasing – service innovation for family forestry?

- **Basic idea:** a family forest owner makes a long-term leasing contract with a service provider (e.g. forest management company, forest owners' association)
 - Rent, rights and responsibilities **specified**
 - Land ownership will not change, but proprietary rights are transformed to service provider
 - **Easiness:** no need to make decisions of individual operations (cf. ordinary service agreements with timber buying companies)
 - Even **annual income flow** to the lessor
 - The tenant's high expertise and economies of scale **can improve the profitability** of the holding's forestry allowing reward to the tenant and to the lessor

Photo: Teppo Hujala/Luke
(FACESMAP Travellab Helsinki)



Survey results on demand and supply potential

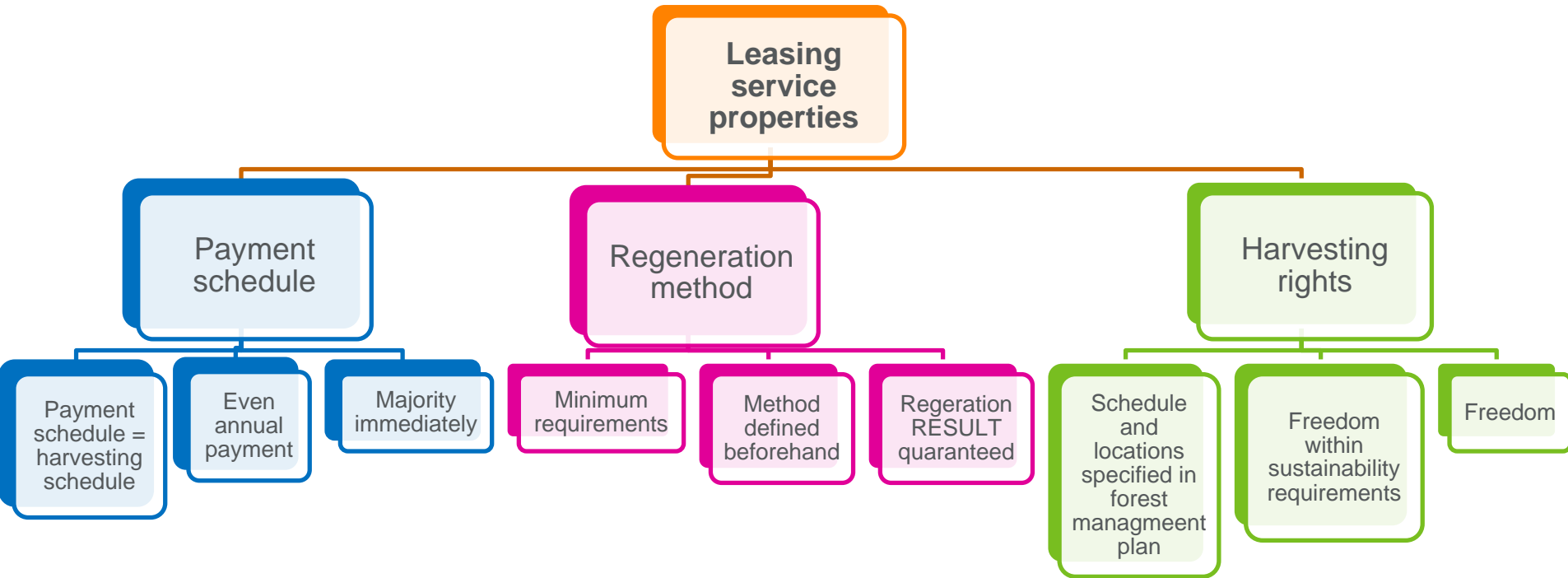
- Postal survey to family forest owners in January-March 2016
 - Regions of Päijät-Häme and North Karelia in southern and eastern Finland
 - Sample size 1300 in each region, final sample 2575, response rate 26%

% of owners (n=663)	Yes	Neutral	No	Cannot say
Would be a lessor	5	12	79	5
Would be a tenant	3	6	86	5

-
- Web-based survey to forest service companies and forest management associations in March-April 2016
 - Päijät-Häme and North Karelia and adjacent regions
 - Sample size 62, response rate 40%

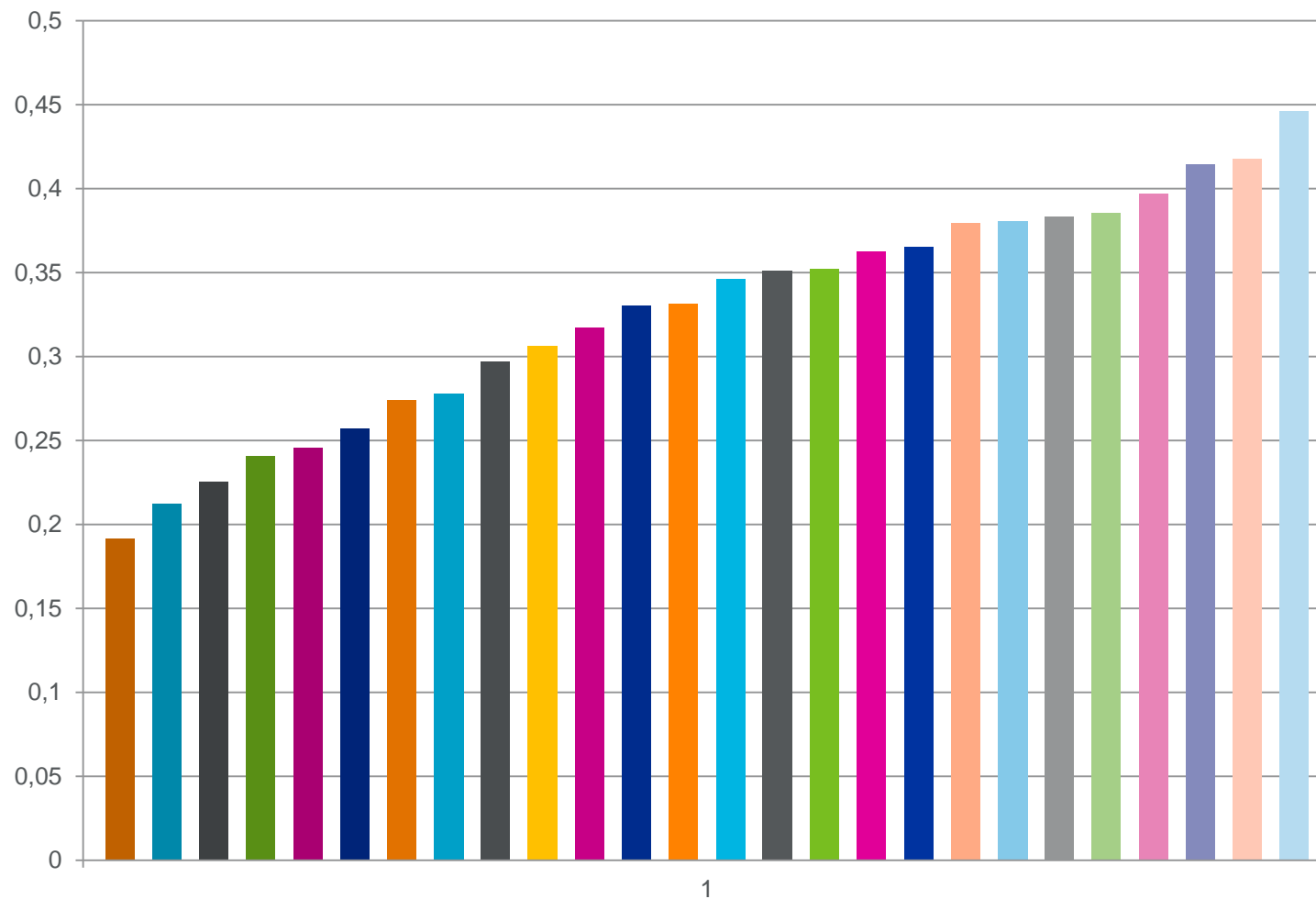
% of companies (n=25)	Yes	Neutral	No	Cannot say
Would be a tenant	72	9	9	0

Forest leasing service characteristics

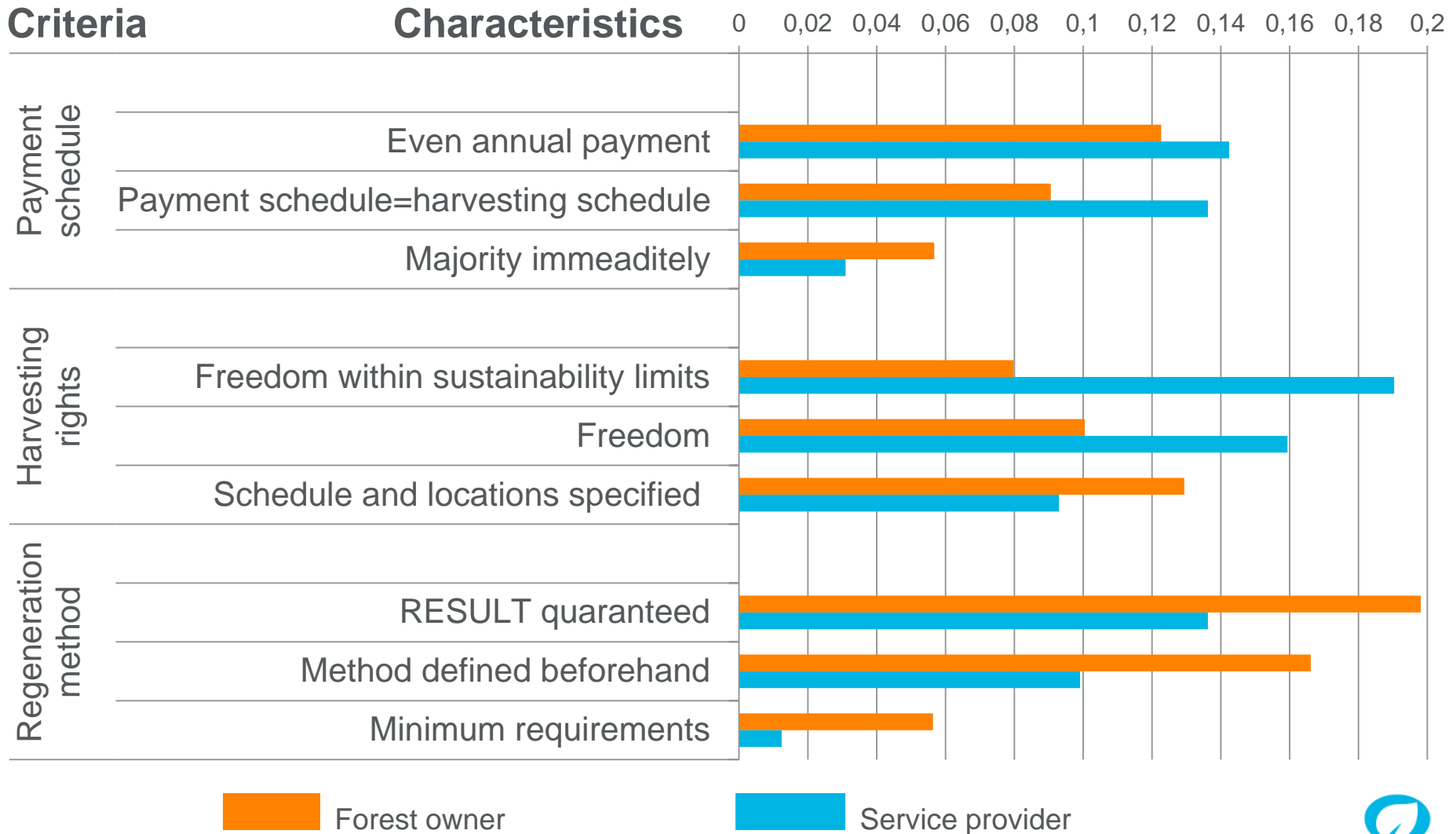


The different combinations result in 27 leasing service alternatives
Importances of three main criteria and alternatives assessed with cumulative voting
(distribute 100 points between alternatives according to your own opinion
how good / important you consider the criteria and alternatives)

Global priorities of 27 alternatives (n=499)



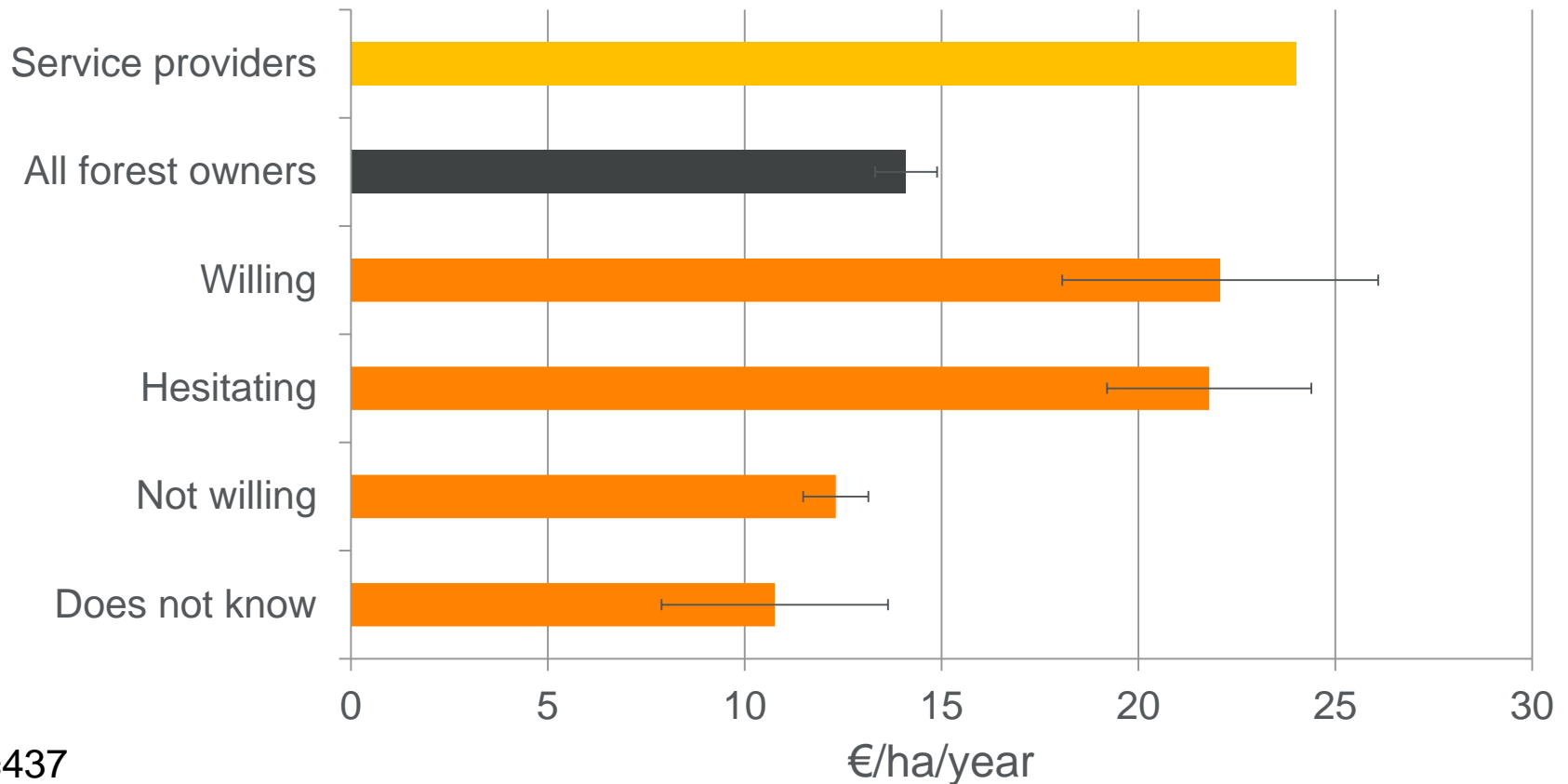
Global priorities of characteristics



Willingness to pay (WTP) and bill (WTB) from property management service

- Includes a promise: profitability increases 10% with professional management and due to economies of scale
- *”Let us assume that you own forest from which the annual net income (timber selling income minus silvicultural and administrative costs) under your own management would be 100 €/ha. With a further assumption that you give the administration and management of your forest to external trusted service provider for the forthcoming 10-year period. The service provider is with her/his professional expertise able to increase the annual net incomes from your forest to 110 €/ha. – How much would you be willing to pay for the service provider from the 110 €/ha annual net income?”*

WTP (forest owners) and WTB (service providers)



n=437

Insights from survey results

Although the share of interested forest owners was small, together with the neutral ones they constitute a potential pool of leasing service customers (45 000 holdings)

High education and earlier experience on outsourced forest management correlate positively with interest in forest leasing

Owners' and service providers' perceptions of the characteristics correspond each others rather well

Owners are willing to pay to service providers (with promise on profitability increase), thus consumer orientation among owners is emerging

The trustworthiness of the service provider and quality of forest after the leasing period raise serious doubts

Conclusion

At this point,
rather good
number of owners
are interested

Majority of forest
owners are
sceptical

Forest leasing
attracts service
providers

Quality assurance of
forest management is
pivotal

Demand and
supply will build
the contents of
the service

Reference cases
are needed

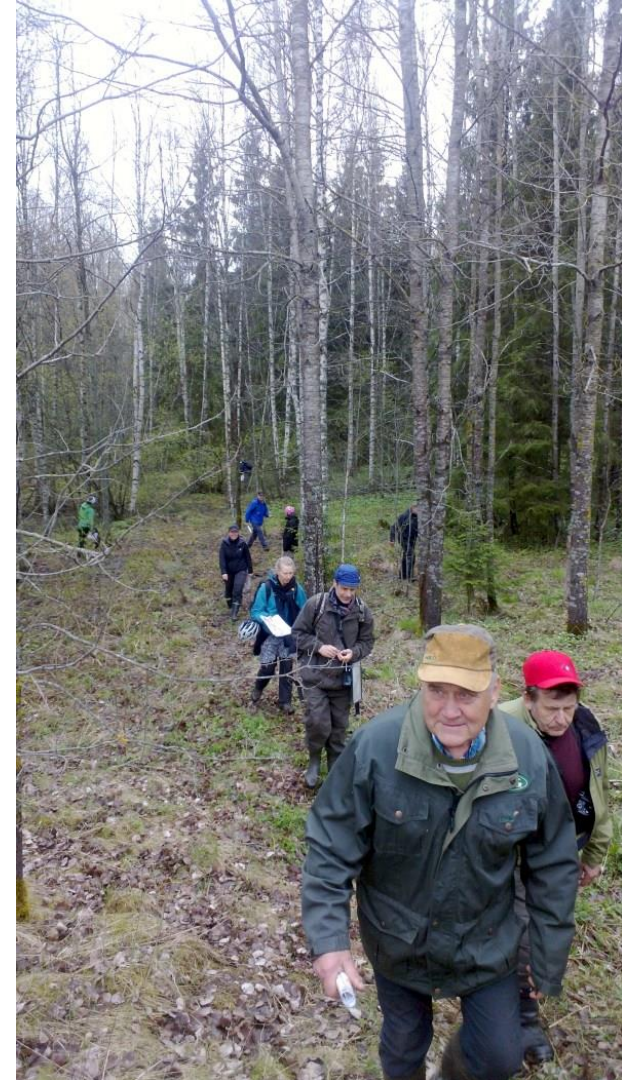


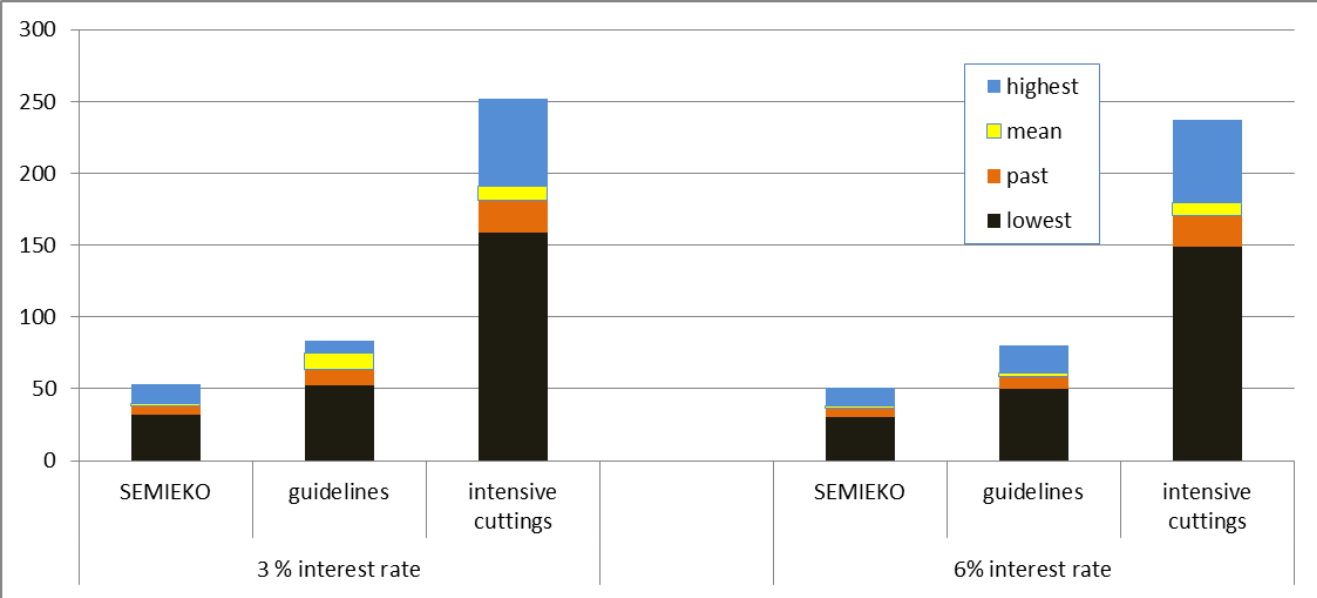
Photo: Teppo Hujala/Luke

Thank you!

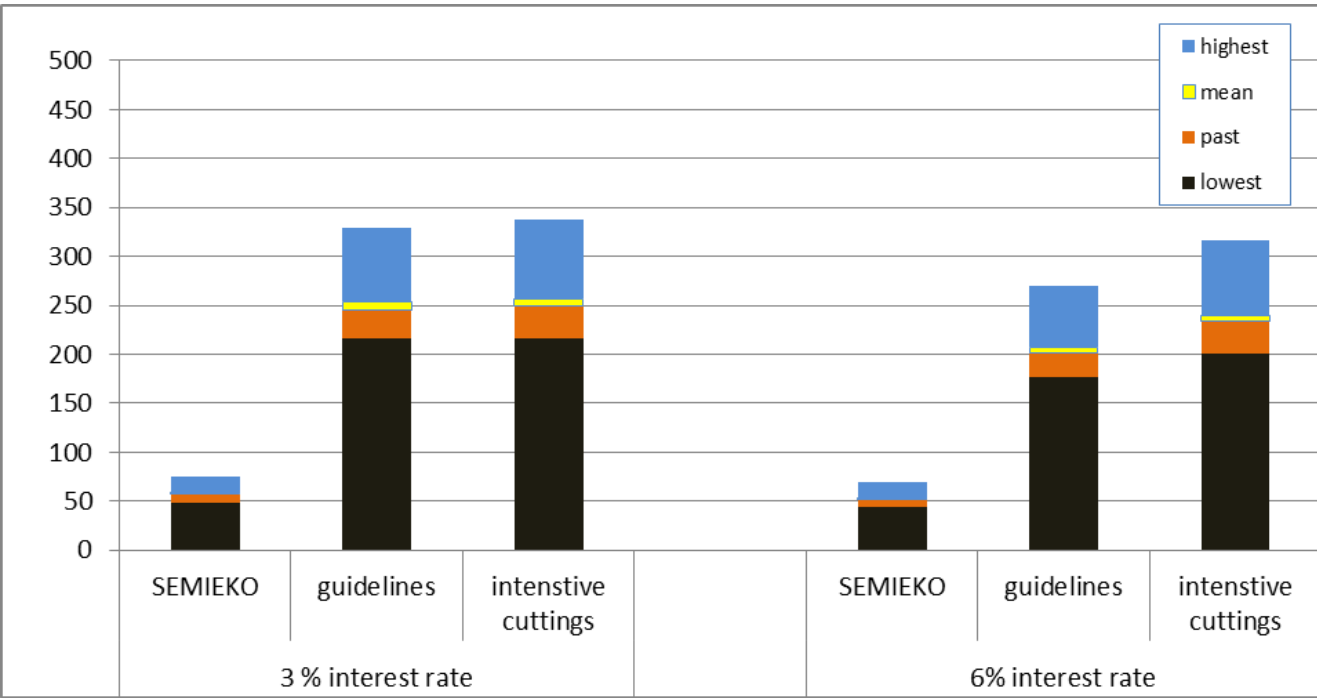


NATURAL RESOURCES
INSTITUTE FINLAND

Example calculations on case holdings; maximum lease €/ha/year

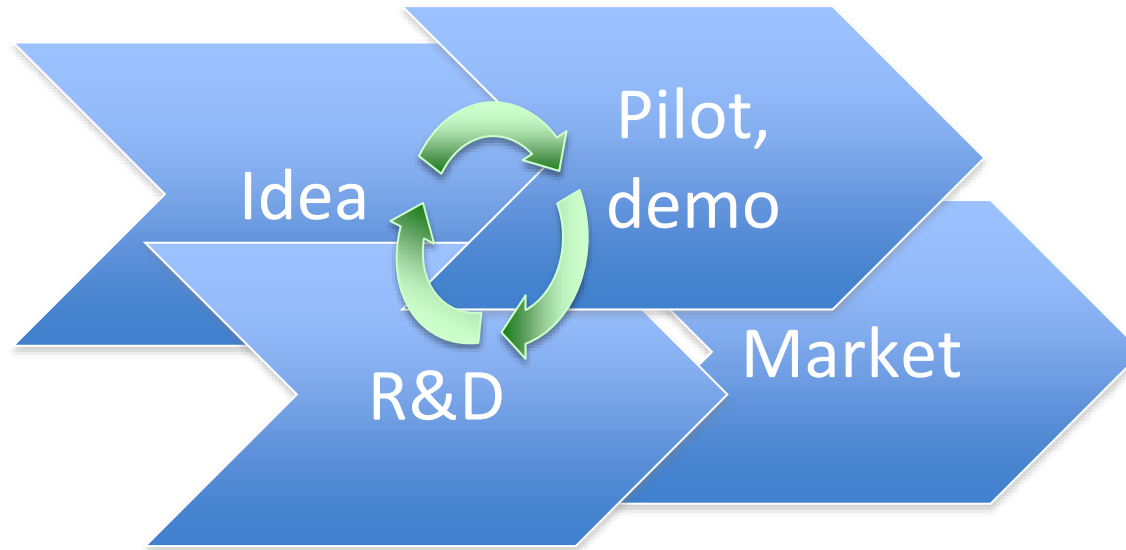


10 year contract



20 year contract

Approach: experimental development; close collaboration with beneficiaries



- Discussions with a feedback panel (n=10), comprising individual forest owners, forest service entrepreneurs and representatives from forest management associations and property management companies
- Potential service characteristics, demo calculations, background reports and survey results to stimulate feedback and further contemplation

Risk and incentive aspects

- Forest leasing represents a rather typical principal-agent situation and may be analyzed via Principal-agent theory
 - Asymmetric information
 - Whose interests are advocated
- When comparing rent determined as a percentage of cash flow and rent based on fixed return on capital:
 - Cash flow principle enables better the risk sharing between the tenant and the lessor
 - Return of capital principle provides higher managerial incentives to the tenant
 - This could be made more attractive to the owner by constraining the tenant's forest use (sustainable cuttings etc.)