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Russian Federation

Solid Wood Products

Annual

2007

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Report Highlights:
The production of solid wood products is forecast to increase in 2007 and 2008 due to growing international and domestic demand. Exports of softwood logs, lumber, and hardwood plywood are increasing with China, Japan, and Finland as the major destinations. The continued growth of the Russian economy is leading to an expansion in domestic demand for wood and wood products, primarily from the furniture, construction, and paper/pulp sectors. The Russian government has prioritized combating illegal logging. However, little progress has been made due to rampant corruption and the lack of coordination between government agencies. The new Forest Code entered into force on January 1, 2007, but its full impact on the sector is yet to be seen.

Includes PSD Changes: No
Includes Trade Matrix: Yes
Unscheduled Report
Moscow [RS1]
[RS]

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Executive Summary

Post expects production of solid wood products in Russia to continue to expand in 2007 and 2008, boosted by growing domestic and export demand for softwood logs, lumber, and plywood. Although the overall output of the industry has been growing at four percent rate, the construction sector has been enjoying double-digit growth, significantly outpacing GDP growth of 6 to 7 percent. Growing incomes are driving the boom in the construction sector and boosting demand for furniture, paper and pulp, and the development of new areas of wood utilization.

Russian solid wood exports will continue to grow due to strong economic growth in China and other countries. Both exports and imports of solid wood products are forecast to set new record highs. The introduction of the Forest Code at the end of 2006 has not had yet an impact on Russia's forest sector, which continues to strive with illegal logging, corruption, shortage of investments to improve processing facilities, and concentration of exports of logs, instead of high value products.

Forest Situation/Outlook

Russia is endowed with abundant forest resources, comprising one-fifth of the world's forested area and one quarter of the world's timber stock. Russian forests also provide the largest land-based carbon sink in the world and one of the most biodiverse ecosystems.

Total forested area is estimated at 850 million hectares. Boreal forests are predominant in Russia and most forest resources are located in remote areas, of which 40 percent is considered inaccessible. Nearly 70 percent of Russia's total forested area is in Siberia (43 percent) and the Far East (27 percent), whereas 70 percent of the population and more than half of wood demand are in the western part of the country. Russian forests hold all three main categories of trees: coniferous (pine, cedar, spruce, silver fir, and larch), which account for about 70 percent of total area; softwoods (birch, asp, poplar, willow, and alder) - 17 percent of total area; and hardwoods (oak, beech, ash, maple, elm, and locust).

The timber stock is estimated at nearly 73 billion m^3. Coniferous trees account for 58 billion m^3 (80 percent), softwood species for 13 billion m^3 (18 percent), and hardwood species for two billion m^3 (two percent) of the total timber volume. Planted forest is estimated at 20 million hectares. The total volume of logging is estimated at 183 million m^3, including 129 million m^3 of forests administered by Federal Forestry Agency (FFA). This amount is still well below the total allowable cut estimated at 559 million m^3.

Russia's role in world trade of forest products does not correspond to the potential of its forest resources base. Russia's market share of the world market for all wood products is still low and consists mostly of unprocessed wood products. The Russian government is trying to pursue long-term policies to improve the sector's efficiency by: 1) increasing the share of processed and higher-value wood and wood products; 2) curbing illegal export and trade of logs; 3) applying tariffs and other government measures to promote the export of processed products versus logs; and 4) attracting foreign investment; and 5) implementation of the Forestry Code and development of unified national forestry policy.

Solid Wood Product Situation/Outlook

Softwood logs and softwood lumber constitute the largest category of solid wood production and trade in Russia. Output of both products is expected to increase by seven and ten percent in 2007 and 2008, respectively. This production increase is supported by strongexport demand, mostly from China and Finland, and by the rapid expansion of domestic demand from the wood processing industry, as real disposable incomes continue to grow and retail sales remain strong.

Growth in the domestic wood-processing sector is forecast to increase by more than seven percent annually in 2007 and 2008, boosted by 32.5-percent growth in housing construction along with steady 15-percent increase in the production of panel products (particleboard and medium density fiberboard), and a six-percent increase in veneer production. Part of the increase in the housing sector is attributed to the recent government initiative to implement the national priority project "Housing" aimed at providing affordable housing for young families primarily in rural areas. This sector is also attracting foreign investment, largely from large and vertically integrated enterprises. Higher returns on investments in wood processing facilities, along with a new export tariff policy implemented by the government, will likely maintain expansion at high levels compared to other categories of the forest sector.

However, according to trade sources, production of solid wood products in Russia will be constrained by outdated machinery, lack of accessible roads to forest sources, higher energy and oil prices, and uncertainty about the impact of the new Forest Code.

Trade

Total exports of forest products (Chapter 44 HTS) in 2006 are estimated at a record $6.6 billion (up 9 percent from 2005), while imports of forest products are also expected to set a record at $465 million (up 26 percent from 2005). Both export and import values are forecast to increase in 2007 by 15 percent and 24 percent, respectively. This increase in exports is mostly attributed continued firm demand from China and Finland, and to a lower extent from Japan, as well as an increase in exports to other markets such as Egypt, Estonia, the United States, and the European Union. However, Russian solid wood products exports are still highly concentrated in three markets – China, Finland and Japan. These markets account for 50 percent of all forest products exports from Russia. Although the share of unprocessed wood exports, such as logs, to these markets declined from 82 percent in 2004 to 78 percent in 2006, the rate remains high. On the import side, the European Union is the largest supplier of wood products to Russia, followed by Poland, China, Ukraine and Finland. Solid wood imports consist mostly of processed products.

Early in February 2007, President Putin, speaking at a meeting with several of Russia's wealthiest businessmen in the Kremlin, expressed his concern that the Russian economy suffers from an over-reliance on raw materials and called on corporations to move toward producing high-value exports. Putin acknowledged that the share of exports of Russia's main unprocessed raw materials increased from 80 percent in 2000 to 85 percent in 2005, and stated "we must learn not only to profitably export crude oil, gas, ores, and timber, but we need to process these natural resources within the country and export valuable high-tech products, which would also yield more jobs."

Policy

Forestry Code

After nearly three years of discussions, a new Forest Code passed its final reading in the State Duma and entered into force on January 1, 2007. Backed by President Putin, the new Code is expected to stimulate foreign investment in the sector by providing tax breaks and facilitating business investments in modernizing the wood processing industry. According to the Federal Forestry Agency, total investment in the forestry industry is likely to reach $4 billion by 2008, up considerably from $2.4 billion in 2005. However, forestry analysts estimate that total long-term investments necessary to modernize the forest sector in Russia would total $24 billion during 2006-2010, of which 80 percent should come from the private sector, including foreign investors. About 60 additional legislative amendments to the new Code are likely to be issued before July 1, 2007, which will enable full transition of the forestry complex operation and management under the new rules. For more detailed information on the Forest Code, please refer to GAIN RS-6060 dated.

Certification

Currently the total area of certified forests in Russia is estimated at 6.4 million hectares.

On September 15, 2006, two national initiatives for forest certification in Russia were announced under the Pan European Forest Certification Council (PEFC). The chairmen of the two national certification councils operating in Russia have signed a document establishing a national umbrella organization to represent both systems in PEFC. Both initiatives have revealed that they will submit their certification systems for PEFC endorsement.

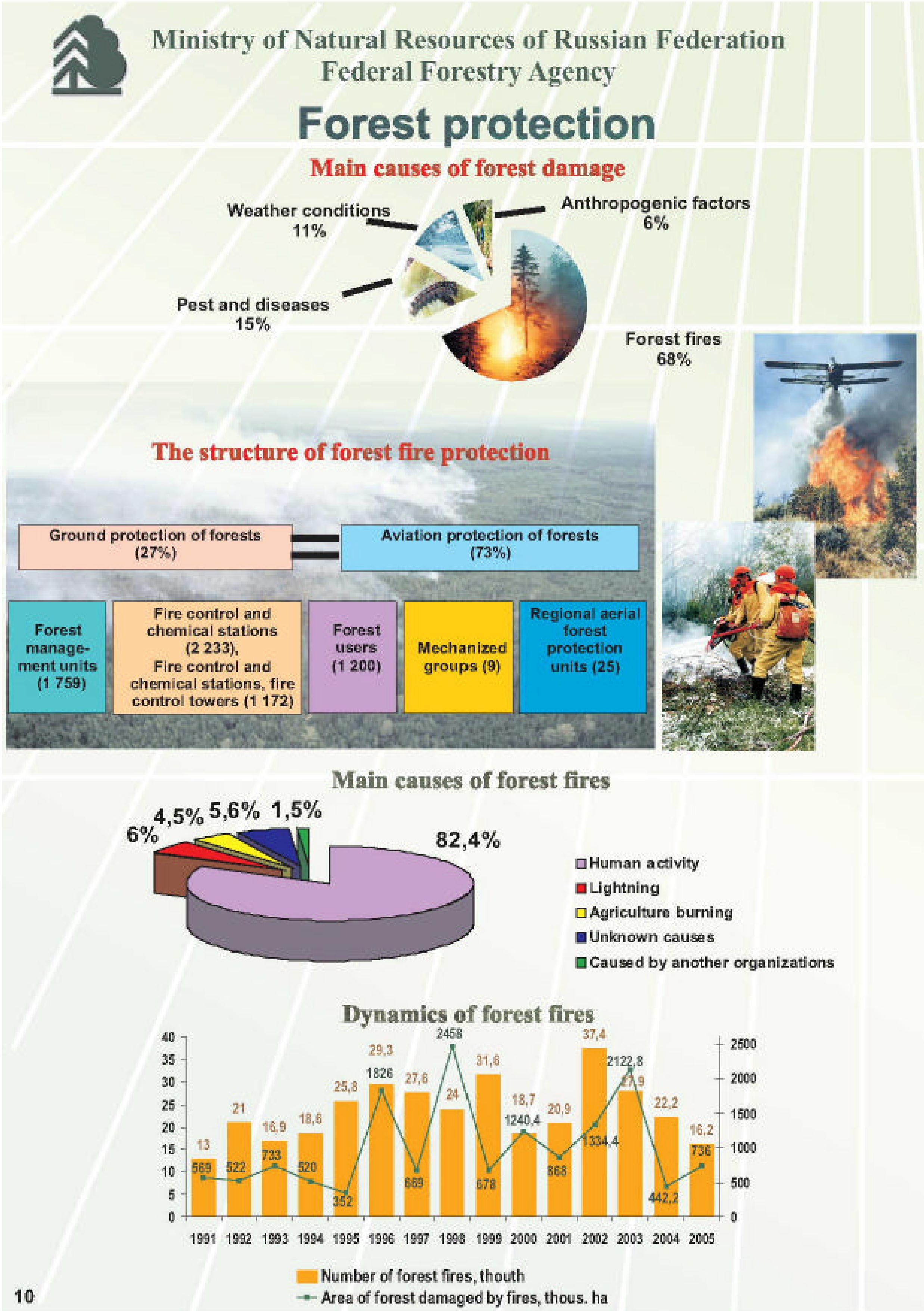
Tariffs

The Russian Government is still working on a new proposal to apply selective tariff rates for exports of value-added forestry products. According to government resolution #340 dated June 2, 2006, export duties were reduced to zero, beginning July 2, 2006 for certain types of paper and carton (HTS 4804 11 1100, HTS 4804 11 150 0, HTS 4804 11 190 0, HTS 4804 11 900 0, HTS 4804 19 110 0, HTS 4804 19 310 0). As part of the government's goal to gradually increase the export tariffs on logs, on February 5, 2007, the government published Resolution #75 (to enter into force on July 1, 2007), increasing the export tariff on coniferous logs to 20 percent, but not less than 10 euros for one cubic meter. On April 1, 2008, the tariff will increase to 25 percent, but not less than 15 euros, and as of January 1, 2009, up to 80 percent, but not less than 50 euros. The full text of the Resolution can be found at:
http://www.government.gov.ru/government/governmentactivity/rfgovernmentdecisions/archive/2007/02/07/0bd014c5c85f4ef48d0a4c943b034b8d.doc

In addition to gradually increasing export tariffs on round wood, the government is planning to lower import tariffs on high-tech equipment for wood processing. The goal is to reduce exports of unprocessed timber and increase domestic processing of wood products, as stated by President Putin in early February. However, despite these changes in government policy to increase export tariffs for round wood, log exports remain high. According to Rosstat, export of this wood category increased by 7.7 percent during Jan-Oct. 2006, compared to the same period in 2005.

Forest Fires

The latest information about the forest fire situation in Russia is presented in the following slide provided by the Russian Ministry of Natural Resources:


Ministry of Natural Resources of Russian Federation
Federal Forestry Agency
Forest protection
Main causes of forest damage
Weather conditions 11%
Anthropogenic factors 6%
Pest and diseases 15%
Forest fires 68%
The structure of forest fire protection
Ground protection of forests (27%)
Aviation protection of forests (73%)
Forest management units (1 759)
Fire control and chemical stations (2 233), Fire control and chemical stations, fire control towers (1 172)
Forest users (1 200)
Mechanized groups (9)
Regional aerial forest protection units (25)
Main causes of forest fires
6%
4,5%
5,6%
1,5%
82,4%
Human activity
Lightning
Agriculture burning
Unknown causes
Caused by another organizations
Dynamics of forest fires
13 21 16,9 18,6 25,8 29,3 27,6 24 31,6 18,7 20,9 37,4 27,9 22,2 16,2
569 522 733 520 352 1826 669 2458 678 1240,4 868 1334,4 2122,8 442,2 736
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Number of forest fires, thouth
Area of forest damaged by fires, thous. ha
10

Illegal Logging

Illegal logging continues to pose a significant threat to sustainable development of the forest sector and poses a challenge for the Russian government. In addition to the obvious negative impact on the Russian economy in terms of tax evasion and lost revenues, illegal logging also affects trade for competing exporters. Illegal businesses do not pay taxes or customs duties, do not conduct mandatory replanting and environmental conservation activities, and do not comply with social obligations and community development.

Federal Forestry Agency Head Valeriy Roshchupkin recently stated that space and aerial monitoring are the main tools Russia will rely in its efforts to curb illegal logging. He added that the new system would contribute significantly to planning and management. In 2006, remote control detected about ten percent (or 2 million m^3 of wood) of the overall violations in the forests.

Trade sources report that government initiatives to curb illegal logging will not be effective until the problem of corruption in the sector is resolved and transparent coordination between ministries and services is established. Trade sources are also concerned that the Forestry Code is not transparent in dealing with this issue. For more detailed information on illegal logging refer to GAIN RS-4043.

The latest government measures in place to curb illegal logging can be viewed in the following slide provided by the Russian Ministry of Natural Resources:

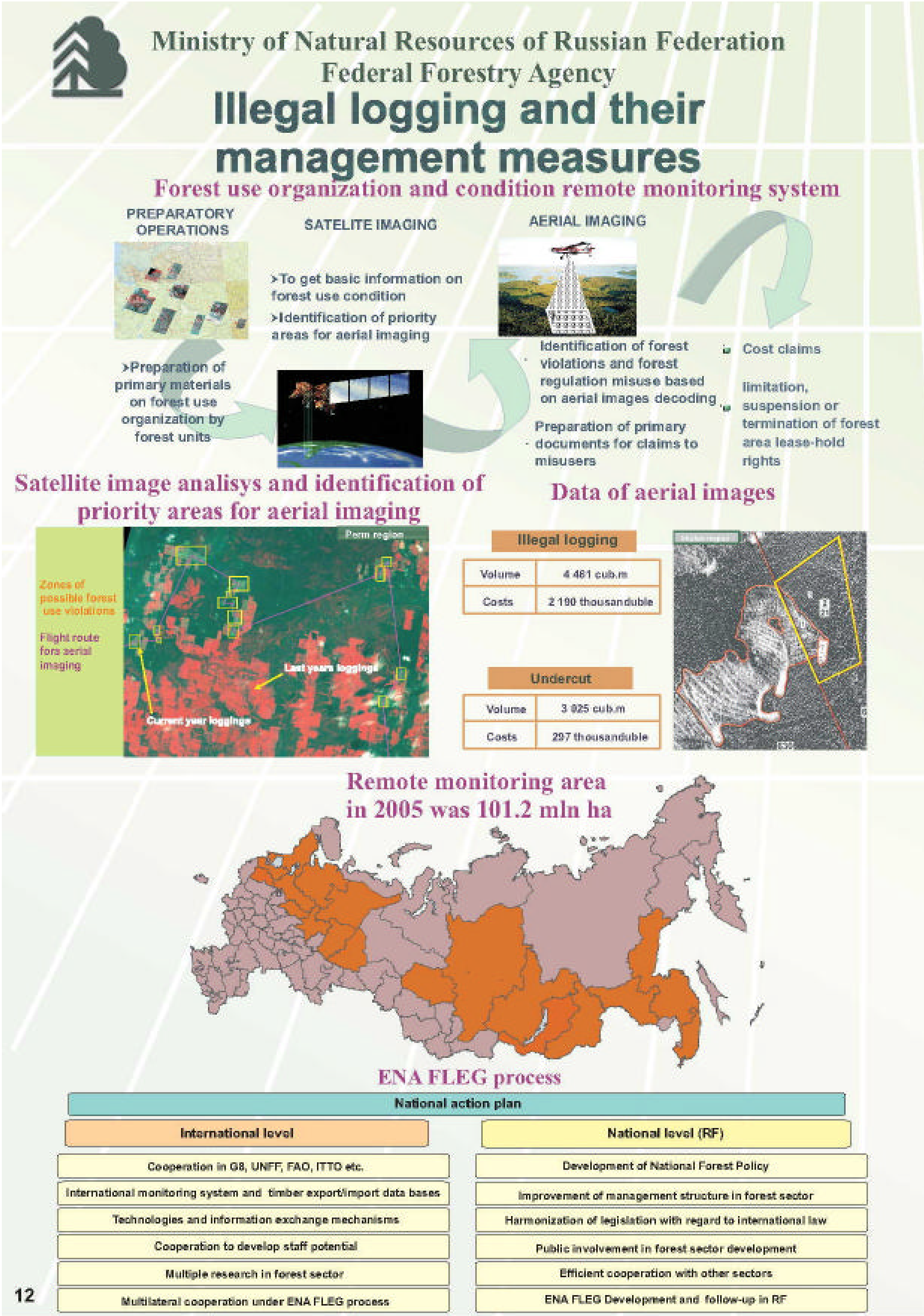

Ministry of Natural Resources of Russian Federation
Federal Forestry Agency
Illegal logging and their management measures
Forest use organization and condition remote monitoring system
PREPARATORY OPERATIONS
SATELITE IMAGING
AERIAL IMAGING
>To get basic information on forest use condition
>Identification of priority areas for aerial imaging
>Preparation of primary materials on forest use organization by forest units
Identification of forest violations and forest regulation misuse based on aerial images decoding
Preparation of primary documents for claims to misusers
Cost claims
limitation, suspension or termination of forest area lease-hold rights
Satellite image analisys and identification of priority areas for aerial imaging
Zones of possible forest use violations
Flight route fors aerial imaging
Perm region
Last years loggings
Current year loggings
Data of aerial images
Illegal logging
Volume 4 461 cub.m
Costs 2 190 thousandruble
Undercut
Volume 3 025 cub.m
Costs 297 thousandruble
Remote monitoring area in 2005 was 101.2 mln ha
ENA FLEG process
National action plan
International level
Cooperation in G8, UNFF, FAO, ITTO etc.
International monitoring system and timber export/import data bases
Technologies and information exchange mechanisms
Cooperation to develop staff potential
Multiple research in forest sector
Multilateral cooperation under ENA FLEG process
National level (RF)
Development of National Forest Policy
Improvement of management structure in forest sector
Harmonization of legislation with regard to international law
Public involvement in forest sector development
Efficient cooperation with other sectors
ENA FLEG Development and follow-up in RF
12

Table 1. Export Trade Matrix, Softwood logs, 1,000 CUM

Country	Russian Federation		
Commodity	Softwood Logs		
Time Period	Jan-Dec	Units:	1,000 CUM
Exports for:	2004		**2005**
U.S.	0	U.S.	0
Others		Others	
China	13,654		16,909
Finland	5,515		6,908
Japan	5,678		4,589
Korea, South	1,594		1,733
Estonia	1,303		1,278
Total for Others	27744		31,417
Others not Listed	3,827		3,579
Grand Total	31571		34996

Table 2. Export Trade Matrix, Temperate Hardwood logs, 1,000 CUM

Export Trade Matrix

Country	Russian Federation		
Commodity	Temperate Hardwood Logs		
Time Period	Jan-Dec	Units:	1,000 CUM
Exports for:	2004		**2005**
U.S.	0	U.S.	0
Others		Others	
Finland	6,171		7,503
China	1,821		2,253
Sweden	1,078		1,949
Estonia	142		385
Latvia	180		303
Ukraine	130		160
Japan	170		101
Total for Others	9692		12,654
Others not Listed	119		277
Grand Total	9811		12931

Table 3. Trade Matrix, Softwood Lumber, 1,000 CUM

Commodity	Softwood Lumber		
Time Period	Jan-Dec	Units:	1,000 CUM
Exports for:	2004		**2005**
U.S.	107	U.S.	108
Others		Others	
Egypt	1,202		1,601
Japan	929		1,065
China	623		905
U.K.	707		764
Uzbekistan	550		741
Germany	596		716
Iran	644		701
Azerbaijan	434		467
Kazakhstan	472		662
Total for Others	6157		7,622
Others not Listed	5,875		6,549
Grand Total	12139		14279

Table 4. Export Trade Matrix, Temperate Hardwood Lumber, 1,000 CUM

Export Trade Matrix			
Country	Russian Federation		
Commodity	Temperate Hardwood Lumber		
Time Period	Jan-Dec	Units:	CUM
Exports for:	2004		**2005**
U.S.	3	U.S.	10
Others		Others	
China	146,898		150,362
Lithuania	30,503		46,372
Estonia	8,498		34,304
Germany	30,277		25,257
Kazakhstan	21,725		19,935
Latvia	6,344		16,740
Italy	17,505		18,424
Total for Others	261750		311,394
Others not Listed	89,803		95,846
Grand Total	351556		407250

Table 5. Export Trade Matrix, Softwood Plywood, 1,000 CUM

Export Trade Matrix

Country Russian Federation

Commodity Softwood Plywood

Time Period	Jan-Dec	Units:	1,000 CUM
Exports for:	2004		**2005**
U.S.	12	U.S.	7
Others		Others	
Denmark	32		62
Italy	19		32
Germany	14		27
Finland	10		13
Estonia	4		5
Sweden	5		4
Azerbaijan	4		3
U.K.	6		3
Netherlands	2		2
Total for Others	96		151
Others not Listed	78		18
Grand Total	186		176

Table 6. Export Trade Matrix, Hardwood Plywood, CUM

Export Trade Matrix

Country Russian Federation

Commodity Hardwood Plywood

Time Period	Jan-Dec	Units:	1,000 CUM
Exports for:	2004		2005
U.S.	448	U.S.	381
Others		Others	
Egypt	87		129
U.K.	96		95
Latvia	10		93
Germany	81		85
Estonia	77		79
Finland	60		71
Italy	75		70
Azerbaijan	23		44
Kazakhstan	20		41
Total for Others	529		707
Others not Listed	268		265
Grand Total	1245		1353