

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Forest Sector Update

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Solid Wood Products

Approved By:

Levin Flake

Prepared By:

Marina Muran

Report Highlights:

The production of forestry products rebounded in 2010 as economic recovery in many importers spurred demand. However, production remains well below its potential as a result of inefficient legislation Forest Code, poor infrastructure and lack of investments. During January-August 2011, total exports of wood products are estimated at \$5.2 billion, a 20 percent increase versus the same period in 2010 as a result of strengthening prices. Despite government calls for increased domestic processing of exported products, Russia's exports still primarily consist of logs and low-processed wood, accounting for 75 percent of total wood products exports.

General Information: Forest Sector Update

Highlights:

The production of forestry products rebounded in 2010 as economic recovery in many importers spurred demand. However, production remains well below its potential as a result of inefficient legislation Forest Code, poor infrastructure and lack of investments. During January-August 2011, total exports of wood products are estimated at \$5.2 billion, a 20 percent increase versus the same period in 2010 as a result of strengthening prices. Despite government calls for increased domestic processing of exported products, Russia's exports still primarily consist of logs and low-processed wood, accounting for 75 percent of total wood products exports.

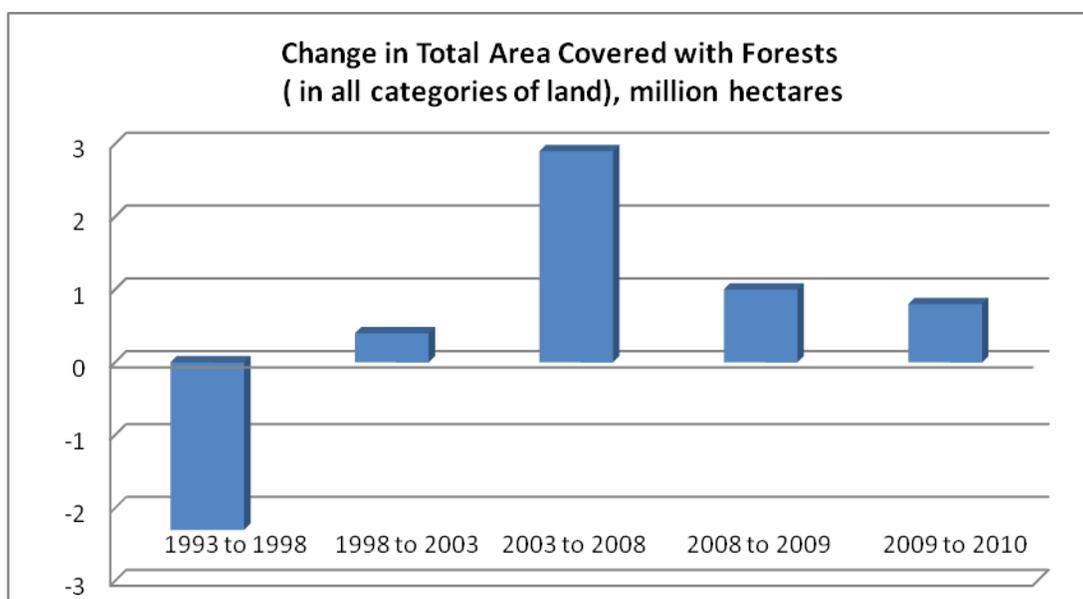
Forest Situation/Outlook

Russia is endowed with abundant forest resources, comprising 20 percent of the world's forested area and one-quarter of the world's timber stock. The area covered with forests in Russia is estimated at almost 1.2 billion hectares. The annual average growth of forested area is estimated at 700 thousand hectares (see table 1). 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 is in the western part of the country. Russian forests hold all three main species: coniferous (pine, cedar, spruce, silver fir, and larch), covering 70 percent of total area; softwoods (birch, asp, poplar, willow, and alder), covering 17 percent of total area; and hardwoods (oak, beech, ash, maple, elm, and locust) covering the remaining 13 percent.

In terms of timber, because of high natural growth and low exploitation of forests since 2003, timber stock has grown by 3 billion m³ and currently is estimated at nearly 83.5 billion m³. Coniferous trees account for 58 billion m³ (80 percent), softwood species for 13 billion m³ (18 percent), and hardwood species for 2 billion m³ (2 percent) of the total timber volume. Planted forest is estimated at 20 million hectares. The total volume of logging in 2010 is estimated at 160 million m³ which is 30 percent higher than in 2009. Nevertheless, this amount is still far below the total allowable cut set at 550 million m³.

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 remains low and consists mostly of unprocessed wood or low-processed products. The Russian government is trying to pursue long-term policies to improve the forestry sector by: 1) increasing the share of processed and higher-value wood and wood products; 2) curbing illegal export and trade of logs; 3) attracting foreign investment; and 4) improving legislation including the current Forestry Code and the development of long-term national forestry program for the period 2012-2010.

Because of the poor condition of the forest processing industry and the lack of infrastructure, the share of the forestry industry in Russia's GDP is only 1.2 percent, and accounts for just 4 percent of Russia's exports. Russia's share in world wood production is also very low, estimated at 2.3 percent, and its share in international trade of forestry products is only 2.8 percent.



Source: Federal Statistics Committee

Production

Production of forest products has rebounded in Russia, since 2009, when the world economic downturn reduced demand for Russian products in most overseas markets. Production data for 2010 shows an increase in most types of forestry products primarily in plywood, fiberwood and veneer as a result of higher demand from the local construction sector and increased demand in the furniture sector.

According to the Federal Statistics Service, production of particle board for the period January-August 2011 has increased by 24.5 percent up to 4.2 million m³, and veneer for 13.6 percent to 2 million m³ for the same period. Production of fiberboard has also demonstrated a growth on 11 percent to 278 million m².

Table 1. Russian Production of Wood Products, 2008-2010.

Commodity	2008	2009	2010
Sawn timber and lumber, in width not more than 6 mm, railway ties, in million m ³	22.0	19.0	19.0
Wood chips for cellulose production, 1,000 m ³	3,304	3,075	3,420
Wood pellets, 1000 m ³	N/A		325
Plywood, 1,000 m ³	2,583	2,107	2,679
Fiberboard, 1,000 m ²	401	296	395
Particle board, 1,000 m ³	5,750	4,562	5,484
Rotary cut veneer, 1,000 m ³	280	317	428
Window blocks, 1,000 m ²	2,218	1,165	1,316
Door blocks, 1,000 m ²	12.1	8,221	9,233

Parquet, 1,000 m ²	1,866	2,243	2,159
Wooden containers, 1,000 pieces	16.4	14.2	3.0
Wooden houses, 1000 m ²	182	127	181

Source: Russian Federal Statistics Committee

Production of forest products in Russia is far below its potential and most sector analysts attribute this to a series of reasons, including the inadequacies of the Forestry Code enacted in 2006. About 15 amendments to the Code have been approved for the past two years, but many industry analysts maintain that implementation of these changes have been in a non-transparent manner and they still do not reflect changes proposed by the forest community. Among the constraints often cited as affecting the Russian forestry sector are:

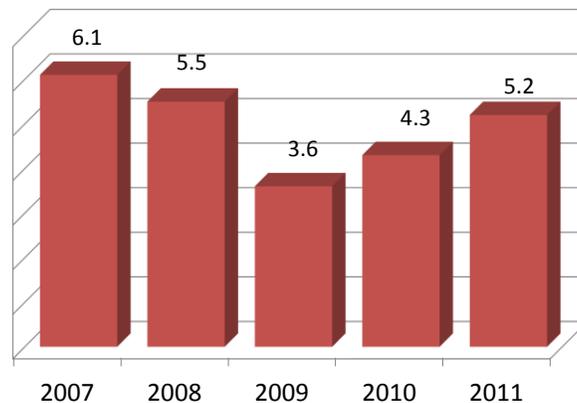
- Disruption of the economic base of forestry organizations, which before 2006 were economically self-sufficient. They are now dependent on budget financing which is significantly reduced;
- Liquidation of federal forestry protection brigades since 2006. As the result of pressure from the forestry community, the law to restore the brigades was approved in December 2010. Despite this, there are still insufficient resources and qualified staff for these brigades to be effective.
- Increased number of forestry plots of uncertain ownership, which are not covered by the forestry code, such as agricultural lands (which suffer from illegal logging and fires as much as the lands that are officially considered forests)
- Increasing bureaucracy and unnecessary formalities in the overall system of the forestry management;
- Labor reduction (more than 4 times) in the professional forestry sector;
- Lack of full and accurate information on forest resources as a result of failure to set up a federal forestry inventory system, and imperfect practices for managing forestry registries.
- Lack of infrastructure, specifically roads which do not allow to access to forest resources. Average length of forest roads in Russia is 1.46 km for 1,000 hectares of forestry land, which is from 10-to 20 times less than in Europe or North America.

Trade

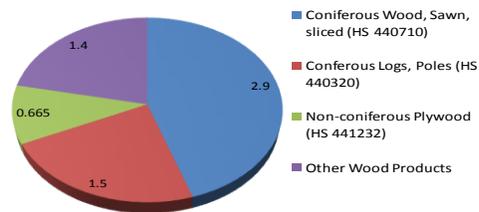
During January-August 2011, total exports of forest products are estimated at \$5.2 billion, a 20 percent increase versus the same period in 2010. Despite government call for increasing processing level of exported products, Russia's exports primarily continue to consist of logs and low-processed wood accounting for 75 percent. The major destination for the Russian wood is China accounting for 36 percent of overall exports of forestry products, where the share of round wood (HTS 440320) accounts for 60 percent, and low processed products, coniferous sawn timber (HTS 440710) with 30 percent. Finland and Japan account for 7.7 percent and 7.5 percent respectively of Russia's forest exports. Export of wood to the United States in the same period is estimated at \$72 million.

Imports of forest products from the United States to Russia is estimated at \$34.1 million for the period January-August 2011, almost doubled compared to the same period of 2010. The bulk of exports destined to Russia consist of prefabricated buildings which account for \$13.7 million in January.-August 2011, followed by oriented strand board with \$10.7 million worth of exports for the same period.

**Russia: Total Exports of Forest Products in billions \$,
January-August, 2007-2011**



**Export Structure of Forest Products in 2010
in billion \$**



Total exports of forest products (Chapter 44 HTS) in 2010 are estimated at \$6.4 billion (up 16 percent from 2009), while imports of all forest products are estimated at \$977 million (up 24 percent from 2009). The increase in total value of exports of forest products in 2010 can be attributed to continued increase in exports to China (up 12 percent from 2009), Finland (up 3 percent), and Egypt (up 20 percent) and improved worldwide demand.

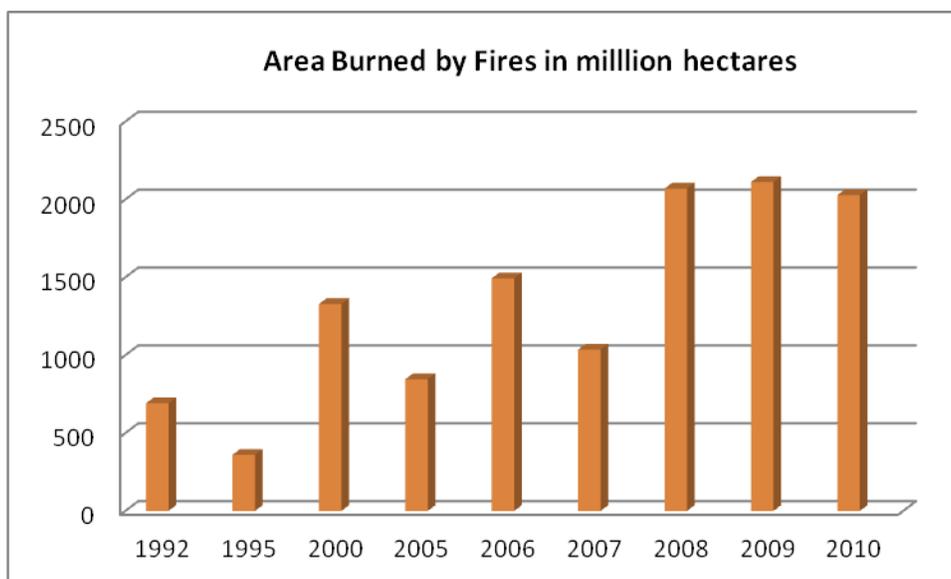
Exports of Russian forest products to the United States in 2010 are estimated at \$95 million (up 56 percent from 2009), mostly due to exports of articles of wood, statuettes and ornaments, hardwood lumber and other panel products. Imports of forest products from the United States to Russia have enjoyed a significant increase of 31 percent and are worth of \$17.7 million in 2010 versus 2009. Import structure primarily consists of prefabricated buildings, as well as veneer and wood articles for furniture construction.

Government Initiatives

The Federal Forestry Agency (FFA) is working on a program for development of the Russian forestry sector till 2020. According to FFA, this document will serve as a basis for planning and financing of forest management in the country. Among major objectives are improving the quality of seedlings by

30-70 percent and certain species by using biotechnology. The government is planning to allocate 143.4 billion rubles for implementation of the program in 2012-2014.

As a result of the extreme situation with the forest fires in 2010, GOR has doubled financing of the forestry sector to 33 billion rubles (over \$1 billion) in 2011, including 18 billion rubles allocated as subventions to the regions and additional 5 billion rubles as subsidies for purchasing forest fire suppression equipment. The government has also increased the amount of subventions to 5 billion rubles for fire fighting and forest protection and 1 billion rubles for forest restoration and regeneration. As part of the initiative it is planned to equip 153 forest chemical fire bases with modern equipment including 1,500 tractors and fire fighting machines.



Source: Federal Statistics committee