

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Wood Products

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Report Highlights:

Russia's wood production is far below its potential as a result of ineffective public policy programs, inefficient forest use, poor infrastructure and lack of investment. The forestry sector's share of Russia's GDP is only 0.7 percent. The forestry sector's share of total production of all industrial products in Russia is estimated at 3.7 percent. In 2015, analysts forecast continued growth in production in some sectors, specifically for plywood, veneer, cellulose and paper industries, driven by a strong demand from Europe. During January-September 2014, total exports of wood products are estimated at \$6 billion, an 11 percent increase versus the same period in 2013. This increase is largely driven by an increasing demand from Asian markets and Finland. Despite government calls for increased domestic processing of exported products, Russia's exports still primarily consist of logs and low-processed wood, which account for 65 percent of total wood products exports.

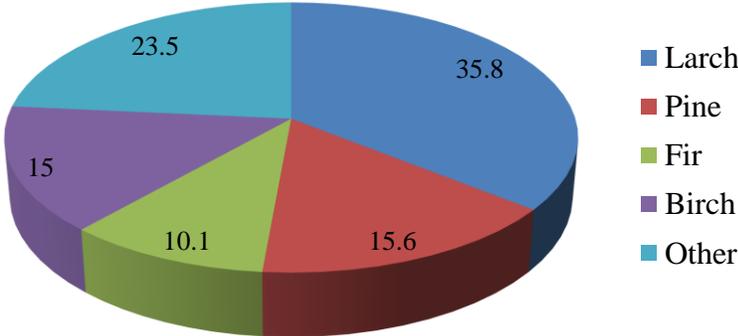
General Information:

Overview of the Timber Supply in Russia

Russia is the largest country in the world by size, and contains one-fifth of the world’s forests, with forests covering nearly half of Russia’s territory. The overall timber stock in Russia is estimated at 83 billion m3, out of which about 50 percent is suitable for logging. According to the Federal forestry inventory of 2013, the total area of Russian forested lands amounted to 1.184 billion hectares, including 6.2 million hectares of dense forests and 26.2 million hectares of urban forests and natural territories under special protection. The annual natural forestry growth is about 993.8 million cubic meters.

The forests in Russia are subdivided into three main categories: reserved forests (271.5 million hectares), protective forests (276.1 million hectares), and commercial forests (596.5 million hectares). Russian forests hold three main categories of trees: coniferous (pine, cedar, spruce, silver fir, and larch), which accounts for 70 percent of total area, followed by softwoods (birch, asp, poplar, willow, and alder) with 17 percent, and hardwoods (oak, beech, ash, maple, elm, and locust) with 13 percent.

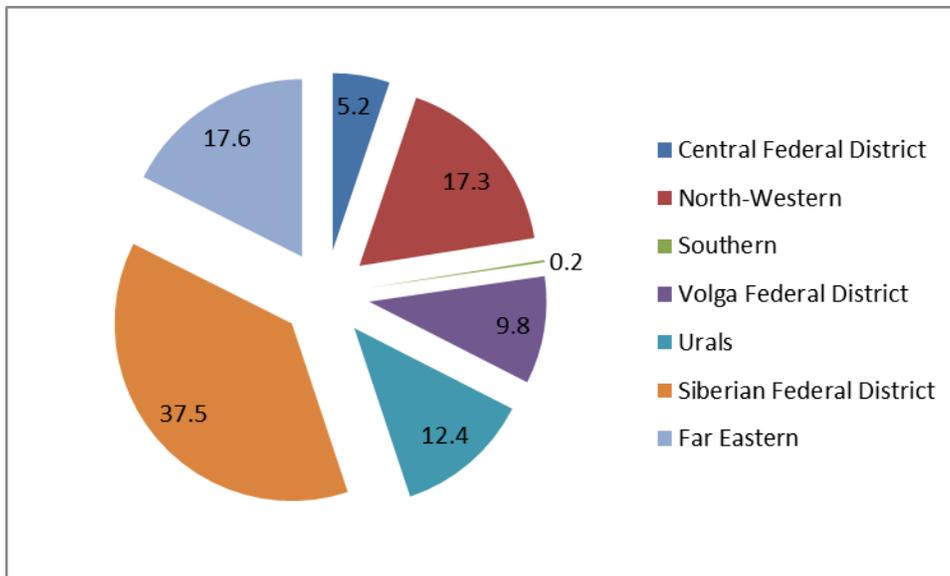
Predominant Forest Species, in %



Source: Federal Statistics Service

Forests in Russia are owned by the federal government. Access for usage of forested areas is by lease contracts. The total area of leased forestry plots in the beginning of 2014 was estimated at 231.6 million hectares, or 20 percent of the total forestry area. In recent years, the number of contracts for lease of forest lands, as well as the lease land area, has grown from 177.9 million hectare in 2009 to 231.6 million hectares in 2014. This increase in leasing activity is primarily due to government policies and initiatives that support the domestic forestry industry.

Distribution of Forest Resources within Federal Districts, 2014, %



Production

Russia's wood production is far below its potential. The forestry sector's share of Russia's GDP is only 0.7 percent. The forestry sector share of total production of all industrial products in Russia is estimated at 3.7 percent.

Russia's share in world production of round wood and other forestry products is far below its potential. Russian round wood share is estimated at 5.4 percent; sawn wood at 5.3 percent; hardwood products at 2.9 percent; paper and carton at 2.2 percent. Russia's share of world exports of round wood is estimated at 17.9 percent; sawn wood at 11.6 percent, hard wood at 2.5 percent and paper and carton at 2.5 percent.

According to the Russian Ministry of Economy and Trade's forecast, Russia's small share of total worldwide wood production is attributable to the following factors:

- ineffective forest use (low level of exploitation of annual allowable cut, outdated technologies for wood processing with a high share of waste that is not used for further processing);
- depletion of forests near production facilities;
- historically formed gap between forestry processing facilities and raw material base, the need to transport round wood by railway for long distances;
- lack of deep processing capacities; lack of modern equipment and innovative technologies, low level of processing; and high energy consumption of processing facilities;
- low quality and weak competition of Russia's wood products, including in the foreign markets;
- low labor productivity.

The total volume of logging in 2013 is estimated at 193.3 million m³, which includes 140 million m³ of coniferous species. This amount is less than one-third of the total allowable cut reported by the Federal Forestry Agency (FFA) at 696 million m³. Also, the volume of logging is forecasted to increase. However, a lower pace is expected in the near term as a result of a number of factors: lower export tariffs for unprocessed wood after Russia's WTO accession, expanding construction sector in Europe, the increasing volume of industrial-scale wood production, as well as the continued development of the construction sector. Industry analysts forecast logging volumes to increase between 10-15 percent in the near-term.

Table 1. Russian Production of Wood Products, 2011-2013

Commodity	2011	2012	2013
Wood sawn or chipped lengthwise, sliced or peeled, not more than 6 mm thick; railway or tramp sleepers of wood, untreated, mln. m ³	20.3	20.6	21.0
Wood chips for cellulose and woodmass production, 1,000 m ³	3,745	4,557	4,177
Fuel wood, 1000 m ³	--	386	482
Wood pellets, 1,000 MT	392	791	940 (estimate)
Wood in the rough, whether or not stripped of bark or sap-wood, or roughly squared: Treated with paint, stain, creosote or other preservatives, 1000 m ³	--	55.4	--
Railway or tramp sleepers of wood, treated, 1,000 m ³	347	434	390
Plywood, 1,000 m ³	3,003	3,150	3,304
Wood particle board, 1,000 m ³	6,634	6,753	6,657
Fiberboard, mln.m ³	442	458	419
Veneer, 1,000 m ³	455	546	
Window blocks, 1,000 m ²	970	1,215	1,021
Door blocks, 1,000 m ²	9.0	12.4	15.3
Parquet flooring, 1,000 m ²	3,064	3,036	3,125
Wooden constructions and joinery, 1,000 m ³	--	747	995
Industrial Houses (standard), 1,000 m ²	222	186	180
Wood pellets, wood panels, mln. Pcs	11.0	16.2	16.3

Source: Russian State Statistics Committee

Major growth in 2013 is estimated for production of plywood, wood pellets and wood construction materials. Production in these sectors continued to rebound from previous crisis levels, and in some product items has seen a substantial growth in CY 2013 in comparison with the same period in 2012. Thus, production of plywood has increased by 5 percent, fuel wood by 20 percent, and wood pellets by 20 percent. Other production areas are either slightly up or at the same level in comparison with CY 2012. Experts reported lower dynamics in the wood processing and pulp production sectors attributable to a halt in operations of several wood processing facilities for renovation (JSC "Kondopoga" and JSC "Solombalskiy") and weaker demand in the domestic market for these products. However, exports of

sawn timber in 2013 increased by almost 10 percent, as a result of a shrinking domestic market. Demand growth is expected in certain types of products where Russia's production is low or its quality is below international standards. Such products would include high density fiberboard, large-scale plywood, coated paper and cartons, and some types of hygienic and sanitary products.

According to RosStat in the period January-October 2014, several sectors of the wood industry have demonstrated a stable growth in comparison with the same period in 2013. Specifically, plywood and veneer have increased by 5 percent; cellulose by 4 percent; and paper and carton by 4 and 1 percent, respectively. Analysts forecast continued growth in production, driven by strong demand from Europe. Production of sawn timber, fuel chips, and fuel wood has slightly decreased. Production of sawn timber will continue to decrease as a result of lower demand for sawn timber in the construction sector, along with a decrease in the purchasing power of the population.

Government Policy

In recent years the government has taken a number of steps to try to improve the regulatory base and financing in the sector. On December 28, 2012, the Government adopted Resolution #2593-R on "The Program of Forestry Sector Development for 2013- 2020." The objectives of the program among include improving efficiency of forest management, and reducing forestry losses caused by wildfires, insects and illegal logging. For more information please refer to GAIN 1369.

On September 26, 2013, the government adopted the Foundation of the State Forestry Policy in the sphere of Forest Use, Protection and Reforestation until 2030. Over the last two years the government prepared 12 draft federal laws and over 40 regulatory acts. One of the most significant one is Federal Law # 415 on the registration of logged wood. The law sets a legal base for eliminating illegal wood market and intensifying measures against wood poachers. The Law enforces a uniform state automated system for logged wood registration that will record data on logging volumes and contracts with timber. Also, the government introduced several amendments to Criminal Code of the Russian Federation, providing for criminal liability for purchasing, processing and sale of illegally harvested wood. Along with this, several amendments were developed to authorize specialized forestry institutions to conduct activities on forest restoration and reforestation. Another major regulation worked out by the government in 2014 was a draft law on forest land lease contracts. The law seeks to minimize administrative barriers for forest users and possibility to introduce amendments into the lease contracts.

Illegal Logging

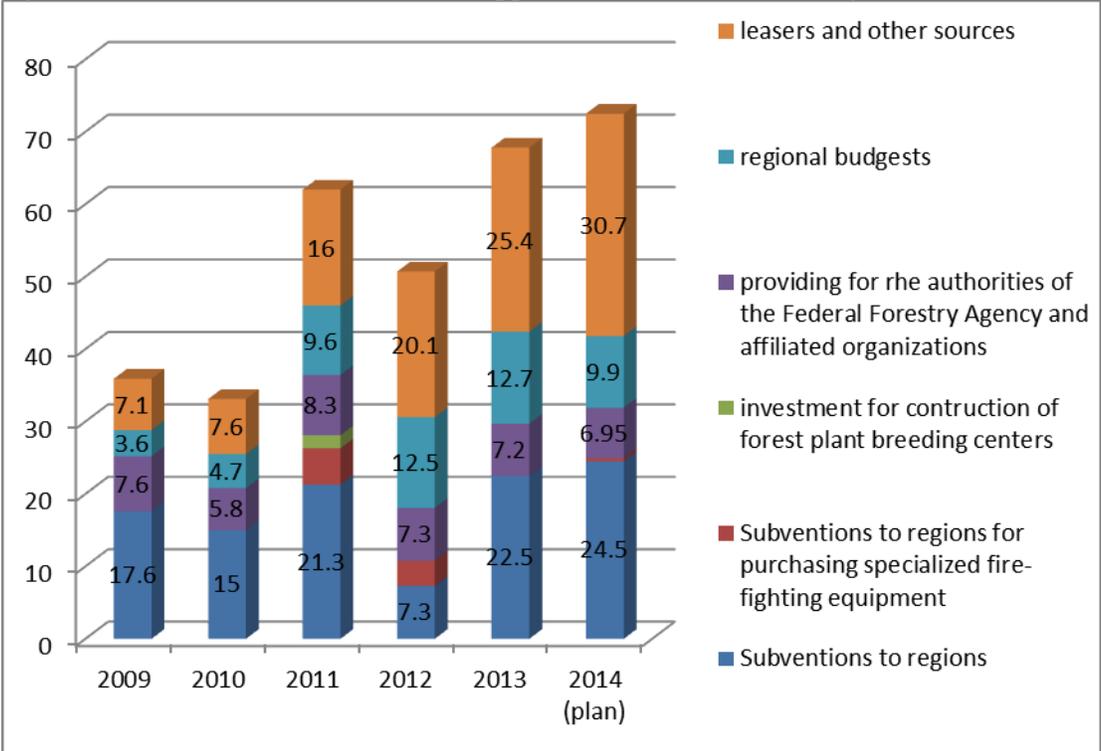
According to the Russian Federal Forestry Agency, illegal logging in Russia accounted for about 1.2 billion cubic meters, or less than 1 percent, of total logging in Russia. However, the World Wildlife Fund (WWF) and World Bank estimate that up to 20 percent, or more than 30 million cubic meters, are from illegal origin. As a result, the economic loss to the budget of the Russian Federation is reported between 13 to 30 billion rubles annually.

Experts expect that as a result of improving regulation in forestry management, specifically Federal Law # 415 on registration of logged wood, will help to combat timber poaching. However, experts believe that the government needs to address macroeconomic tasks that are beyond problems in the forestry sector, specifically unemployment and low income of the rural population in Russia.

Government budget support to the sector

Since 2008 the government has increased budgetary support to the forestry sector in an effort to improve forest management and efficiency. Since 2009 the total budget support from various sources, including federal and regional budgets and forest leasers, has gone up by 125 percent from 35.9 billion in 2009 to almost 73 billion in 2014. Financing from the federal budget over this period has increased by 30 percent and from regional budget by 27 percent. Support from leasers and other sources has more than tripled.

Dynamics and Sources of Financial Support to the Russian Forestry Sector, billion rubles

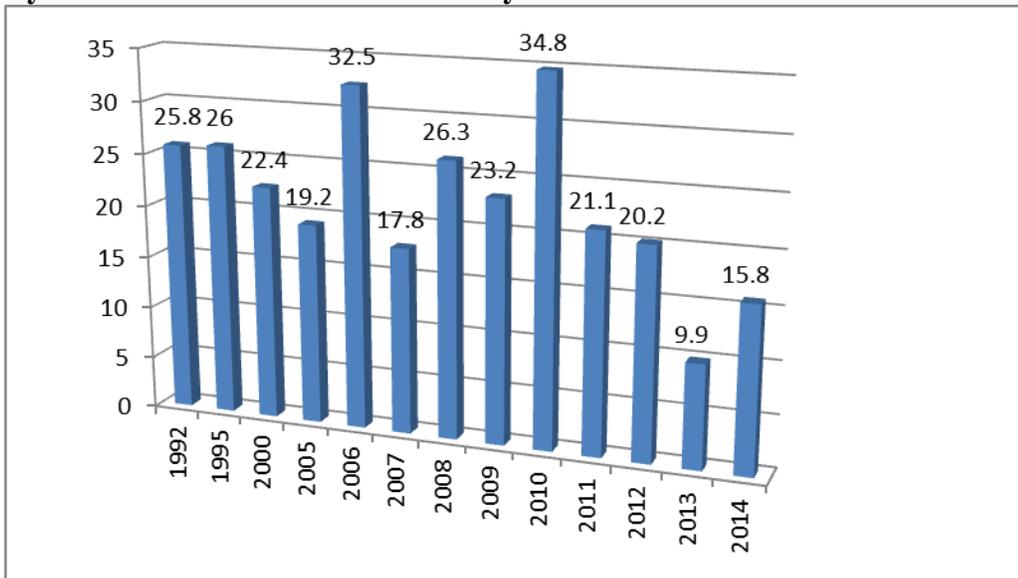


Source: Federal Forestry Agency

Forest Fires

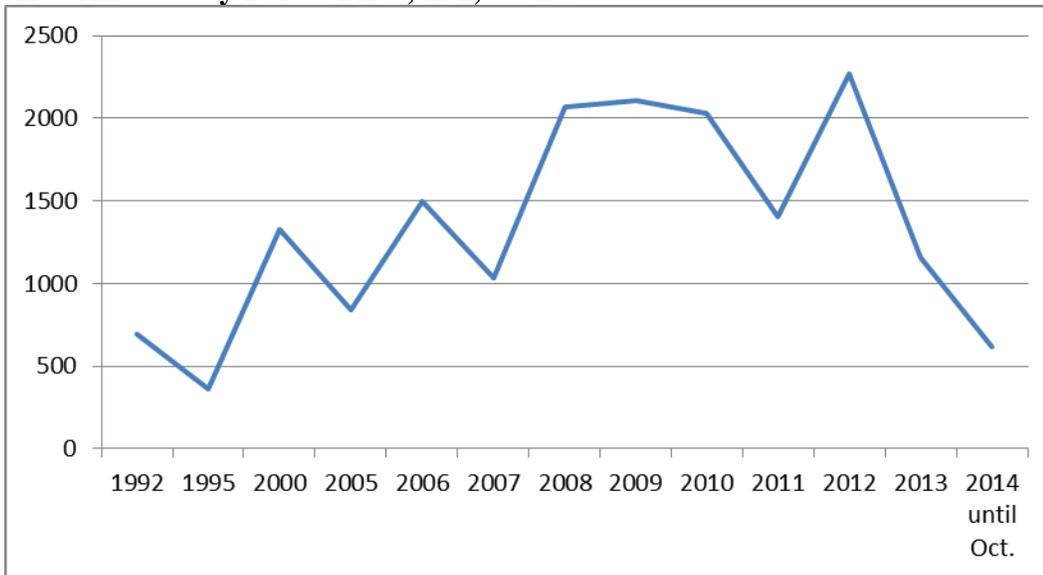
According to the Federal Forestry Agency since the beginning of forest fire season, 15,843 wildfires were registered in Russia on the territory of 3.5 million hectares. The total area of dieback forests in 2013 is accounted for 621,000 hectares. The most destructive fires occurred in the Far Eastern Federal District.

Dynamics of Forest Fires in Russia by Year



Source: Federal Forestry Agency

Area Affected by Forest Fires, in 1,000 ha



Source: Federal Forestry Agency

Trade

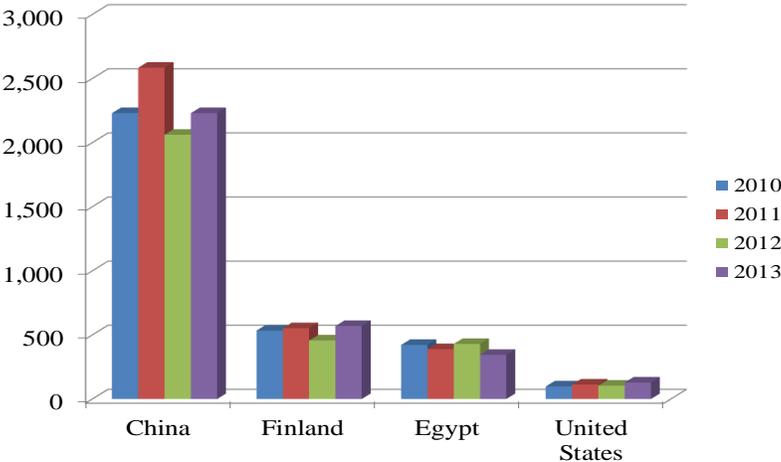
Total exports of forest products (Chapter 44 HTS) in 2013 were \$7.0 billion, up 10 percent from 2012. However, according to Customs statistics, exports of forest products from January-September 2014, increased by 11 percent and reached almost \$6.0 billion in the first nine months of the year. This increase in exports is mostly attributable to continued demand from China, Finland and Japan, as well as a continued increase in exports to other markets such as Uzbekistan, Egypt, the United States, and South

Korea. However, Russian exports of low-processed solid wood products are still highly concentrated in three markets – China, Finland and Uzbekistan. The share of low processed wood in total exports continues to be high, about 65 percent.

Imports of forest products increased to \$1.7 billion in 2013, up more than 8 percent from 2012. However, in January-September 2014 imports fell by 15 percent to \$1.3 billion. The lower imports are due to weaker demand from the wood construction sector as a result of a decrease in incomes and a soft ruble. The largest suppliers to Russia are China (25 percent and increasing in recent years), Germany (11 percent) and Belarus (10 percent). The share of the United States in total imports is estimated at 1.6 percent. In addition, from January to September 2014, imports of forest products from the United States increased by 22 percent to \$ 20 million. Solid wood imports consist mostly of processed products. Russia’s demand for oriented strand board, prefabricated buildings, medium density fiberboard of different thickness, veneer, and high-value wood articles for furniture construction will continue to be strong which provides an opportunity for U.S. exporters.

Russia’s role in the 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.

Russia’s Major Export Destinations of Forest Products, 2010-2013, in mln. \$



Source: Russian Federal Statistics Agency

