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## **Russian Federation**

**Post:** Moscow

## **Forestry Production and Trade Outlook**

### **Report Categories:**

Solid Wood Products

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### **Report Highlights:**

Forestry production for 2010 will continue to decline, but at a lower pace than in 2009, primarily as a result of government policy aimed at increasing export tariffs on unprocessed wood and the lack of investments in the sector. Weaker demand for forestry products resulting from the financial crisis and downturn of the economy are also contributing to the poor outlook in the forestry industry.

### **General Information:**

#### **Production Outlook**

According to the Forestry and Hunting department of the Ministry of Agriculture, Russia's volume

of logging is forecast at 165 million cubic meters in 2009, approximately 20 million cubic meters lower than in 2008. The downward trend in timber harvesting started after the peak of 202 million cubic meters in 2007. The growth was artificially stimulated by the introduction of higher export tariff rates to restrict exports of round wood. The outlook for 2010 calls for production of 130 million cubic meters a 36 percent decline since 2007. According to the Department of Forestry and Hunting at the Russian Ministry of Agriculture the drop is mostly attributed to the combination of the global financial crisis, higher export tariffs for unprocessed wood and inefficient legislation for forest management. As of 2008, when the prices for wood products worldwide declined as a result of the reduced demand for forestry products, several domestic forestry companies became unprofitable. According to the Forestry and Hunting department of the Ministry of Agriculture the forest processing capacity in Russia is estimated at 110 million cubic meters. Local producers failed to boost processing domestically since they were not able to invest into processing infrastructure before the economic downturn began to hit the sector in 2008. As a result, federal revenues along with investment into forest infrastructure declined.

According to “Ilimp Pulp” the world financial crisis has impacted on investors’ activity and the weak demand for logs worldwide combined with higher export tariffs led to a decline in export. Domestic demand was not enough to offset for lower exports.

According to some sources at the government, the principle decision about keeping export tariffs for logs in 2010 at the same level of 2009 was made in September 2009 as a result of the discussions at the Ministry of Economic Development. The Ministry reasoned that “there is no need to set up additional barriers to forestry export when the demand for Russian forest products in the world market is declining.”

During Russian-Finnish summit that took place in St. Petersburg on the 25th of October, Prime Minister Vladimir Putin confirmed that Russia will sustain export duties on logs for 2010, and most likely for 2011, at the 2009 level. According to Prime Minister Putin, who is personally a strong opponent to delay in export tariff increase, this was a forced measure in the period of economic downturn when demand of wood is declining worldwide. However, he stated that it is important that Russia adheres to gradually increase export tariffs for low value wood products with the objective of stimulating domestic processing of wood and curbing the export of unprocessed wood.

Reportedly by making this decision, Russia has gained approval from Finland for building a gas pipeline in Finnish territorial waters. According to the Finnish government Russia’s current export tax policy will have a positive turn in negotiations with the EU regarding access for wood.

Some experts in the forestry sector believe that keeping the same level of export tariffs in 2010 may have a negative impact for larger forestry processing facilities. These facilities borrowed large credit in 2007-2008 with perspective of increasing the processing level of forestry products domestically. Delay in export tariffs will have less impact for the medium sized and smaller companies, but uncertainty in tariff policy makes it difficult to implement profitable contracts and long term planning.

According to the report of the Russian government released on October 19, 2009, currently there are 60,000 large, medium and smaller forestry companies with more the 1 million employees. The forestry sector's share in the Russia's GDP is about 1.3 percent, while its share in the volume of industrial production is 4.7 percent, and in export income is 3.2 percent.

Production of major forestry products during January-August 2009 verses the same period in 2008 has declined significantly and accounted for: logging – 80.3 percent; lumber – 83.5 percent; fiberboard – 68.1 percent; particle board – 72.2 percent; veneer – 72.2 percent; cellulose – 81 percent; paper – 93.5 percent; and carton – 88.8 percent. Furniture production has also dropped by 25.5 percent for the same period.

Exports of unprocessed wood during January-August 2009 decreased by 43.7 percent, veneer – by 5.8 percent, cellulose by 26.7 percent, while export of lumber increased by 2.1 percent.

In addition to government policy for gradual increasing of export tariffs, the government determined on a number of preferences to the investors, such as providing forestry plots without auction, and applying lower coefficient (0.5) to the minimum fee for forestry resources and forestry plots.

Currently the Russian Ministry of Trade approved 75 investment priority projects in the forestry sector with total investment of 429.7 billion rubles and with the forestry raw materials involved of 68.1 million cubic meters. As of October 5, 2009, eight projects have been implemented with investment of 15.3 billion rubles, seven projects are pending approval.

According to the report the government the shorter-term plans also include developing additional proposals of mechanisms to stimulate implementation of investment priority projects in forestry.

**Table 1. Russia: Exports of Wood and Wood Products, January-August 2007-2009, in million US dollars.**

					<b>% Change</b>
<b>HS</b>	<b>Description</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>09/08</b>
	44 Wood	6040,390	5488,26	3547,723	-35,36
4407	Lumber > 6Mm Thick	2245,217	1962,50	1643,169	-16,27
4403	Rough,Not Sapwood	2866,570	2487,10	1230,054	-50,54
4412	Plywood,Veneer,Etc	484,511	549,92	297,265	-45,94
4401	Fuel In Log;Chips,Etc	58,285	84,98	111,848	31,62
4411	Fibrbrd Of Wd/Ot Lign	94,138	100,84	62,035	-38,48
4410	Particle+Simlr Board	67,102	60,71	56,995	-6,12
4418	Blders'Joinry+Carpntr	93,571	89,16	53,653	-39,82
4421	Othr Articles Of Wood	36,840	41,50	24,459	-41,06
4408	Veneer Sheet<6Mm Thck	12,516	19,78	19,500	-1,42
4409	Tongued,Grooved	27,237	31,72	18,402	-41,99
4406	Sleeper(Cross-Ties)	16,268	31,67	16,188	-48,88
4415	Pack,Etc;Pallet,Collr	6,284	6,75	4,058	-39,89
4420	Marqtry Et;Jwl Cse Et	23,758	5,79	3,475	-39,96
4419	Tableware+Kitchenware	2,375	10,68	1,864	-82,54
4404	Hoopwood;Pickets,Etc	0,489	0,53	1,096	105,32
4405	Wood Wool;Wood Flour	1,173	1,55	0,988	-36,16
4402	Wood Charcoal	0,958	0,87	0,975	12,17
4416	Cask,Barr,Vat,Etc+Pts	1,777	1,19	0,914	-22,9
4417	Tool/Tl+Broom Body,Et	0,854	0,62	0,455	-26,54
4413	Densfd Blk/Plt/Str/Pr	0,360	0,32	0,222	-31,12
4414	Frme F Paint,Phot,Etc	0,108	0,08	0,110	32,29

Source: Customs Committee of Russia

**Table 2. Russia: Exports of Rough Wood (HTS 4403), January-August 2007-2009, in million US dollars.**

					<b>% Change</b>
<b>HS</b>	<b>Description</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>09/08</b>
4403	Total Rough,Not Sapwood	2867	2487	1230	-50,54
440320	Coniferous Nt Treat	2251	1694	1081	-36,17
440399	Nonconiferous,Other	529	686	122	-82,18
440391	Oak (Quercus)	83	106	26	-75,7
440310	Treatd Paint,Presrv	3	1	1	-45,69
440392	Beech (Fagus)	0	0	0	-76,37

440349	Ot Tropcl,N Treated	0	0	0	0

Source: Customs Committee of Russia