

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Date: 10/6/2010

GAIN Report Number: RS1059

Russian Federation

Post: Moscow

Forestry Production and Trade Update

Report Categories:

Solid Wood Products

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Report Highlights:

Production and exports of Russian forest products during the first seven months of 2010 increased significantly due mostly to government efforts to support the sector during economic downturn and stronger demand for forestry products worldwide. This report highlights some of the topics discussed at the 5th International Forestry Forum held in Moscow, September 27-30, 2010, to address important issues for the future development of Russia's forest sector.

General Information:

Production

During January-July 2010, production of forest products in Russia increased significantly compared with the same period in 2009. The major increases in production were in plywood 29.6 percent; particle board 24.6 percent; MDF 18 percent; lumber 4.5 percent; wood pellets 7.7 percent; and paper and carbon about 7 percent. The increase in production is mostly attributed to government initiatives and programs and a renewed worldwide demand for Russian forestry products.

Table 1: Russia: Production of major forestry products, Jan-July 2009-2010.

Product Description	Jan-July 2009	Jan-July 2010	Change %
Unprocessed wood, million m ³	53.4	59.1	10.5
Lumber, lengthwise cut or cleft, million m ³	10.2	10.7	4.5
Plywood, 1,000 m ³	1173.0	1519.9	29.6
Particle board, 1,000 m ³	2336.5	2911.8	24.6
Fiberboard, million m ²	192.0	211.7	10.3
Wooden houses, 1,000 m ²	60.9	78.3	28.6
Fuel pellets, 1,000 MT	137.3	148.0	7.8
Wood cellulose including from fibers, 1,000 MT	3201.9	3385.1	5.7
Paper, 1,000 MT	2509.9	2664.5	6.2
Cardboard, 1,000 MT	1581.5	1705.3	7.8
Furniture, billion Ru	39.8	44.5	11.7
<i>Source: Federal Forestry Agency</i>			

Trade

Exports of processed wood products since the beginning 2010 are going up, mostly in lumber 16 percent, MDF - 35 percent, and veneer - 30 percent. Russia's export share of softwood lumber to Europe has increased 40 percent since January 2010 since last year. Experts forecast that Russia will be a strong supplier of wood to Europe in 2011.

Russia is one of the leading suppliers of forestry products worldwide. The trend in exports calls for an increase in all categories, except for unprocessed logs which decreased by 500,000 m³ since the beginning 2010. Russia and New Zealand continue to be the major suppliers of softwood logs to the world. However, starting in 2008, when the Russian government implemented 25 percent of export tax, its share of total trade fell almost 40 percent in 2006 to less than 28 percent in the first quarter 2010. At the record year 2006, Russia's exports of soft wood logs reached 37 million m³, while the 2010 outlook calls for less than 18 million cubic meters.

Table 2: Russia: Exports of major forestry products, Jan-June 2009-2010.

Description	Jan –June 2009	Jan-June 2010	Change %
Unprocessed wood, million m ³	10.6	10.5	-0.9
Lumber, million m ³	7.6	8.9	16.3
Particle board, 1,000 m ³	230	331	43.9
Fiberboard, million m ²	39.8	40.6	1.9
Plywood, 1,000 m ³	623	654	4.9
Pulp, 1,000 MT	750	790	5.3
Paper and cardboard, 1,000 MT	1373	1418	3.3
<i>Source: Federal Forestry Agency</i>			

Russia continues to import significant volumes of high value forestry products as a result of growing consumer demand for high value paper products and furniture, and lack of processing facilities in the domestic market.

Table 3: Russia: Imports of major forestry products, Jan-Jun 2009-2010.

Description	Jan-Jun 2009	Jan-Jun 2010	Change %
Particle board, 1,000 m ³	158	240	51.6
Fiberboard, 1,000 m ²	26,744	30,265	13.2
Paper and board, 1,000 MT	752	915	21.8
<i>Source: Federal Forestry Agency</i>			

Policy

The 5th International Forestry Forum held in Moscow, September 27-30, 2010, brought together federal and local governments, industry and business leaders, to address important issues for the future development of Russia's forest sector.

During the Forum participants agreed that production has stabilized in most major categories of wood products as the result of several government support measures and renewed world demand for wood products. Nevertheless, a number of issues continue to be the major obstacle in forestry sector sustainable development. They include poor road infrastructure that limits access to resources, insufficient management in forest protection against fires, and lack of professionals.

On the first day of the Forum officials from the Russian Federal Forestry Agency reported on the sector achievements and its production and trade potential.

One of the priorities of the Russian Government is taking measures aimed at attracting investments in the forestry sector. As the result of the government decree adopted on June 30, 2007” On priority investment projects in use of wood products” 91 investment projects with the total 406.8 billion rubles (\$13.6 billion) were approved. To date, 46 projects with a total budget of 70 billion rubles (\$2.3 billion) have been implemented. The leading areas for project implementation are North Western region which is accounted for 26 investment projects in the forestry sector, followed by Siberian region - 18 and Volga Federal District - with 12 projects. More than 50 percent of projected investments are aimed at

wood processing and panel production.

In 2009, the 9 investment projects aimed at deep wood processing were implemented. That included construction of forestry processing facility in Novovyatsk in Kirov province with 3 billion rubles (\$100 million) and provided 542 employment slots; in Boksitogorsk, in Leningrad province – 2.6 billion rubles (\$860 million). The investment program for 2010 calls for fulfillment of 10 investment projects with total cost of 41 billion rubles (\$1.3 billion). In Syktyvkar (Republic of Komi) 17 billion rubles (\$560 million) were invested for renovation of the processing of cellulose and paper facility; in Torzhok, Tver province, 7 billion Rubles were put in for construction of the new processing facility for wood pellets and wooden blocks which created 660 employment slots in the region.

Since 2009 the government provided financial assistance to forestry facilities in an effort to support production during economic downturn. The financial measures included:

- Partial compensation of payments on loans extended to exporters of high-value wood products;
- Partial compensation of payment of interest rate of 5 year loans extended to facilities on technical upgrade;
- Direct subsidies to compensate interest rates on loans extended for the purpose of building inter-seasonal stocks and fuel reserves.

In 2009 the government provided support to the forestry processing facilities of 500 million rubles (\$16.5 million), and in 2010 the government allocated 1.3 billion rubles (\$430 million) for inter seasonal storage as well as to support export of forestry products. The government also decided not to increase the minimum stumpage fee that was set in 2008.