

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Russian Federation

**Post:** Moscow

### Forestry Trade and Production Update

**Report Categories:**

Solid Wood Products

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**Report Highlights:**

The continued decline in forestry production and trade in 2009 is attributed to the world economic downturn which reduced both demand for Russian products and furniture.

The Federal Forestry Agency reports that the government improved the control of illegal logging in Russia, but trade sources believe that the rate of it is still high, specifically in the Far East. In certain areas illegal logging is estimated at up to 50 percent of total production and it functions as a disincentive to investment and sustainable forest management.

## General Information:

### Production

According to the Federal Service of State Statistics overall logging in 2009 is estimated at 168.2 million cubic meters in Russia, down 15 percent from 2008.

Production data for 2009 shows a drop in production output of processed wood and wood products by 17.7 percent compared to the same period in 2008. The most significant drop occurred in fiberboard production (minus 26.1 percent), followed by chipboard (minus 20.7 percent, and plywood (minus 18.7 percent).

**Table 1: Russia: Production of Wood Products, Jan.-Dec. 2009.**

Product Item	Jan.-Dec. 2009	Jan.-Dec. 2009/Jan-Dec. 2008, %
Commercial timber, mln. m <sup>3</sup>	77.0	-15.3
Sawn timber, mln. m <sup>3</sup>	19.8	- 12.2
Glued plywood, 1,000 m <sup>3</sup>	2107	-18.7
Chipboards, 1,000 m <sup>3</sup>	4562	- 20.7
Fiberboards (hard), million m <sup>2</sup>	296	- 26.1
Pulp, 1,000 MT	2014	-11.9
Paper, 1,000 MT	3923	- 2.0
Cardboard, 1,000 MT	3450	- 6.6

*Source: Russian Federal Statistics Service*

**Table 2. Russia: Major Export Indicators of Wood and Wood Products, Jan. – Nov. 2009, versus Jan.-Nov.2008.**

Product Item	Jan.-Nov., 2008		Jan.-Nov. 2009		Growth rate, in %				
	Mln. \$	%	Mln. \$	%	value	quantity	Price		
Wood and Cellulose and Paper products			10799	2.5	7624	2.9	70.6	---	--
Unprocessed, non-treated wood			3268	0.7	1654	0.6	50.6	57.0	88.7
Processed, treated wood			2634	0.6	2374	0.9	90.1	101.1	89.2

*Source: Ministry of Economic Development*

The decline in production in 2009 is attributed to the world economic downturn which reduced demand for Russian products in most overseas markets and the reduced furniture construction, which further reduced demand in the domestic market.

The export outlook for 2011 is sluggish, yet improved over 2009. New government initiatives to stimulate the economy and the sector should improve demand for wood products in the domestic market.

Russian Federal Service of State Statistics data is available only for large forestry enterprises, therefore, it does not reflect a full assessment of the forestry sector. Trade analysts believe that small business enterprises in the Russian forestry sector are more vulnerable than large ones to these changes. Experts estimate that small forestry enterprises share in Russia’s overall wood harvesting and timber processing is not less than 10 percent. The outlook for 2010 calls for a further decline in wood production in small businesses as the result of imperfect regulations and lack of incentives in unfavorable economic conditions.

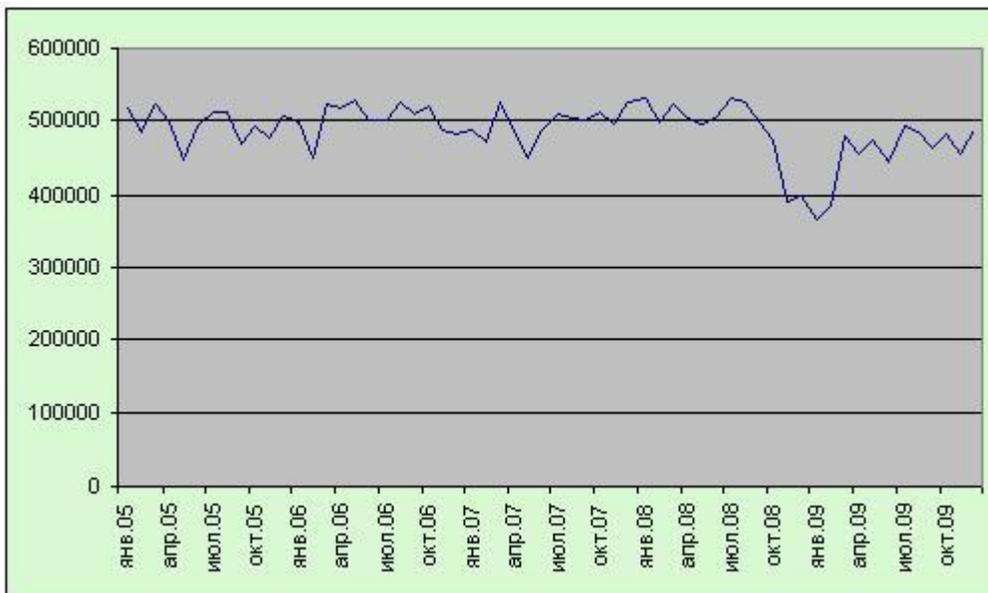
**Graph 1: Russia: Dynamics of Wood Harvesting (blue line) and Timber Hauling (pink) in Large Business Enterprises for the period from 2005 to 2009, in 1,000 MT**



**Graph 2. Russia: Dynamics of Lumber Production (blue line) in Large Business Enterprises and its Average Production (pink line), in 2005-2009, in 1,000 MT**



**Graph 3. Russia: Dynamics of Cellulose Production, Including Semicellulose and Chemical Groundwood in Large Business Enterprises, in 2005-2009, in MT.**



## Trade

According to State Customs Statistics Service, exports of wood and wood products have declined by nearly 30 percent in 2009, as compared to the same period in 2008. The drop in exports is attributed to the lower production of lumber, cellulose and plywood, as well as lower average contractual prices for processed wood and paper worldwide. The outlook for 2010/2011 calls for a continued drop of unprocessed, non-treated wood in response to government initiatives to increase export starting from

January 1, 2011. Prime Minister Putin is personally a strong opponent of any further delay in the increase of export tariff. (For more information please refer to RS GAIN 1003 Export Tariff Increase for Wood is on Hold).

Trade sources believe that exports of wood products will stabilize as the result of the government increasing the processing level of forestry products domestically and implementing programs to stimulate the business investment in the sector.

**Table 3. Russia: Export of Major Wood Products, 2007-2009, in million \$.**

					<b>% Change</b>
<b>HTS</b>	<b>Description</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>- 09/08 -</b>
	<b>44 Wood</b>	<b>8847.734</b>	<b>7787.287</b>	<b>5515.977</b>	<b>-29.17</b>
4407	Lumber > 6Mm Thick	3239.305	2823.087	2583.874	-8.47
4403	Rough, Not Sapwood	4136.886	3493.797	1819.783	-47.91
4412	Plywood, Veneer, Etc	757.218	755.240	493.855	-34.61
4401	Fuel In Log; Chips, Etc	100.182	135.721	184.060	35.62
4411	Fibrbrd Of Wd/Ot Lign	156.150	143.917	102.160	-29.01
Source: State Customs Statistics					

### **Illegal Logging**

For the last 5 years the Russian government is making greater efforts to fight the high rate of illegal logging, stimulate the processing of high-value forest products, and improve logging infrastructure in an effort to develop a modern forest products industry. In order to create an environment for investment and competition, illegal logging and exports of low processed wood must cease to undermine prices and the willingness to invest in further processing.

Despite government efforts in place to date, including satellite imagery and aerial photography as well as more responsibilities of the forestry authorities at the local level, illegal logging continues to be a difficult and sensitive issue for the Russian government.

According to official sources from the Federal Forestry Agency (FAA), in the last two years the government was able to improve the control of illegal logging in the Far East, the most vulnerable region. The Agency was able to improve the situation due to implementation of the new Forestry Code and a number of government initiatives, including decentralization of the FFA. According to the data published on the official site of the Russian Federal Forestry Agency, the losses caused by illegal activities are estimated at 4.8 billion rubles (\$160 million) in 2009. Experts believe that the figure is underestimated and does not reflect real facts. (Note: The World Wildlife Fund reports that losses due

to illegal activity are \$150 million only in Primorskiy kray.)

The GOR intends to rely on distant monitoring as the most effective tool for identifying illegal logging in Russia. Currently satellite imagery covers 24 subjects of the Russian Federation on the territory of 175.4 million hectares of the forestry reserves in Russia. In 2009, as the result of monitoring, 47,000 harvesting areas were monitored and 8.6 percent identified violations. Facts of illegal logging (or without appropriate permits) were identified on the total area of 7 million hectares (in 1643 cases) of the total volume of 982.3 thousand cubic meters.

Currently there are 3 main sources for the information to measure illegal logging in Russia, and none of them 100 percent reliable:

- Satellite imagery. This method has 2 major disadvantages: 1) it does not cover all forest harvesting areas; 2) aerial photography allows identifying harvestings above 20 m<sup>3</sup>. As a result, illegal harvesting for personal use and unauthorized felling on smaller areas for further sale can not be identified.
- Random ground monitoring and periodical inspection conducted by the Federal Forestry Agency in different regions. The violations in the wood harvesting that are gathered as the result of the method are not subject to publishing, therefore, it is hard to compile and structure them in a unified database, as a result the method is not reliable.
- Assessment based on comparing balances for harvesting, consumption and exports by experts and independent specialists. Depending on the sources the final data may vary considerably, from 20 to 50 million cubic metres annually, or approximately 10-20 percent of the total annual cut.

There are 3 major reasons for illegal logging in Russia, all three are evenly important.

- Lack of transparency and contradictions in the forestry regulation;
- Low standards of living and high unemployment rate in forestry settlements and villages;
- Low enforcement of state forestry protection monitoring and surveillance over the situation in the forests.

While accurately estimating illegal logging is extremely difficult, the highest percent is generally focused near the border regions with China and areas where the logs can be shipped easily. In certain areas illegal logging is estimated at up to 50 percent of total production and it functions as a disincentive to investment and sustainable forest management. Experts estimate that an aggregate of total illegal logging in the Far East is much lower, approximately 20 percent.

Russian exports of wood and products to China accounts for almost \$2 billion, almost 35 percent of the total Russia's exports of wood (5.5 billion).

Table 2. Trade in Wood and Products between Russia and China, 2007-2009 - Comparison Table (in million dollars)

Russian Exports to China			Chinese Imports From Russia				
	2007	2008	2009		2007	2008	2009
HTS 44	2716.8	2475.8	1987.3	HTS 44	2984.0	2972.9	2362.0
Total to World	8847.7	7787.3	5516.0	Total From World	7953.2	8018.8	7253.0
<i>Source: Official Customs Statistics of Russia and China</i>							

According to Russian export statistics, exports of wood to China were almost 2 billion dollars in value in 2009. However, Chinese import data shows over \$ 2.3 million for the same period. Thus, there is over \$300 million difference between the statistics of each country, in comparison to even more sizable difference of \$500 million in 2008.

Despite the fact that Russian and Chinese official statistics are quite close in some categories, most experts agree that there is significant smuggling and illegal harvest of logs along the border, which if taken into consideration reveals a much higher level of real trade. Experts think that there are significant irregularities in terms of customs enforcement on both sides of the border. Essentially, when illegally harvested Russian wood crosses the border, it is unlikely to be registered by Chinese customs. This is fostered by a long border and weakness in customs enforcement on both sides.