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Dwarf Pine Cones

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Russian forest sector in change

International interest in Russia's forests is increasing. The potential is huge: about 20% of the world's forest resources are in Russia, but the Russian share of the global roundwood removals is only about 6%. Less than one-third of the annual allowable cut has been utilized.

The domestic industry is not able to process all available roundwood and about one-fourth has been exported. This has made Russia the biggest exporter of roundwood with 52 million m3 of roundwood (nearly 40% of the total global roundwood exports) in 2006. Roundwood exports provide about one-third of the value of the Russian forest sector export. Russia is now trying to intensify forest use, while decreasing exports of roundwood at the same time. This requires increasing domestic utilization of roundwood and raising the value-added of wood products.

Accordingly, the export duty on roundwood has been raised dramatically, and it was supposed to increase again at the beginning of 2009 to a level that would practically put an end to exports. It would have a great influence on global markets, hitting the biggest importers hardest: in particular, China, Japan and Finland. The roundwood imports of e.g. the Finnish forest industry from Russia in 2007 were about 16 % of the total industrial wood consumption in Finland and about 25% in 2005 and 2006.

The EU has argued that the raise is against the agreement between EU and Russia on Russian WTO membership. Negotiations have not given any direct result, but in November Prime Minister Putin announced that the planned increase will be postponed 12 months.

The Finnish forest industry has prepared for the decrease of imports by increasing domestic wood procurement and imports from other countries. Some production capacity has been closed. As drastic adjustment measures have already been taken, the temporary postponing of the duty raise is not expected to change the plans of the industry very much.

While in itself an understandable line of development from the point of view of Russian national economy, the rapid pace of change bodes difficulties for the Russian forest sector. There is not enough domestic capacity to process wood that has previously been exported to European countries (in 2006 about 29 million m3 into the EU) and Asia (in 2006 about 25 million m3 into China alone). Therefore halting roundwood exports will lead to substantial losses of jobs and revenue. The supply of wood to Russian mills can be disrupted.

"The decision to postpone the planned raise of export duty on roundwood has given some more time to adjust to the situation, but in general the events have not improved the general impression of the deficient stability of forestry policies in Russia", says professor Timo Karjalainen of Metla.

"Our forest industry cannot count on the availability of Russian wood anymore, which is in fact good for our domestic wood markets, as there is room to increase supply from own forests, thus providing more income and work in Finland."

"Although we are now experiencing hard times in the forest sector, we also have a chance to fundamental structural changes that will pave the road for recovery and new solutions. In forestry, we have a renewable natural resource that we know how to grow and use sustainably. Products made of wood have many advantages over many other products that they could replace. This is useful to keep in mind when seeking solutions to global challenges such as mitigation of climate change", continues Karjalainen who has contributed to several IPCC (Intergovernmental Panel on Climate Change) reports.

Hekotek to launch a new sawmill in Krasnoyarsk area

Hekotek, in co-operation with Finnish companies Valon Kone OY and Veisto OY has put into operation a new sawmill in Krasnoyarsk area, in Boguchani - Boguchanski LPK. The capacity of sawmill is to make up 150 000 m3 of ready sawn timber in year, i.e. about 4 000 logs in 2 shift

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Hekotek has delivered and installed at Boguchanski LPK log in feeding equipment with log turning device, conveyors for chips, sawdust and bark, as well as a combined sorting line, with 20 sorting pockets for green and dry sawn timber sorting.

Wood pellet factory is to be delivered at Boguchanski LPK in the nearest future, which allows using side products from sawing process (sawdust and chips) for high-quality pellets production.

China, Russia to enhance mutual investment with more flexibility
Chinese and Russian officials said the two countries would increase mutual investment in a more "flexible" and "pragmatic" way.

The National Development and Reform Commission (NDRC) of China and the Ministry for Economic Development (MED) of the Russian Federation had reached consensus to expand collaboration in the fields of energy, machinery manufacturing and industrial chemicals, said NDRC director Zhang Ping at the China-Russia Investment Forum on Friday.

He said cooperation in logistics, agriculture, telecommunications, banking and insurance would also be extended. Zhang said when it comes to facing the global financial crisis, the two countries should beef-up mutual investment and promote mutual benefits by giving full play to comparative advantages. With continuous joint efforts, the two countries would certainly ride out the hardships, Zhang said.

Nabiullina Elvira, minister of the MED of Russia, said China was a reliable trade partner with Russia. The trade volume between the two countries hit 50 billion U.S. dollars last year, but there was still potential for further expansion. Vice Premier of China Li Keqiang and Russian Deputy Prime Minister Alexander Zhukov attended the meeting and witnessed the signing of a memorandum of understanding to improve the mechanism of the Sino-Russian investment promotion conference, and the summary of minutes on formulating programs for Sino-Russian investment cooperation. They also witnessed the signing of other cooperation agreements between the two countries.

Alexander Zhukov stressed that the two nations should especially expand joint efforts in energy resources, which would be a key area for bilateral cooperation. Last month, the two nations signed an oil-for-loan deal, under which China offered Russia 25 billion U.S. dollars of a long-term loan and Russia would supply 300 million tonnes of oil through pipelines to China from 2011 to 2030.

In 2008, China remained Russia's second largest trading partner only after the European Union. Russia ranked as China's ninth largest trading partner, compared to the seventh in 2007, according to the Chinese Ministry of Commerce. The China-Russia Investment Forum is an annual event designated to promote bilateral investment and cooperation. It was first kicked off in 2004 and saw the signing of 32 investment programs, involving a total investment of 4.36 billion U.S. dollars.

Russia is considering the possibility of canceling export duties on round log for companies that are involved large projects.

The Russian Government is to consider the possibility to cancel export duties on round log for companies that are involved in realization of large projects including foreign investments. The appropriate regulation can be signed in summer 2009.

Cancellation of export duties on round log for investors is a part of anti-crisis measures. The project also includes 1-2 year delay in credit payments regarding priority projects that are in the final stage of realization.

Moreover, the government is to support harvesting companies by subsidizing credit interest to the amount of over 7.5 million EUR (325 million RUB). However, Minister of Finance pointed that duty-free export of round logs will concern only some timber species.

According to Russian State Statistics Service, in 2008 export volume of round log decreased by over 25% as compared to 2007 and reached 36.7 million cubic meters.

Experts watched a significant decrease in round log export up to 50% in January-February 2009. They also expect that cancellation of duties can revive timber industry, however, in order to significantly improve situation in the branch it is required to introduce long-term privileges as many agreements on round log delivery are conducted for more than one year.

According to other experts, cancellation of duties in current economic situation can smooth consequences of crisis and stimulate realization of large investment projects. It is a way out for the largest investment projects worth over 20 million EUR (5 billion RUB) provided that money got from duty-free export will be reinvested in priority projects, in particular in supply of resources. It will also allow solving old problems concerning forest road construction.

Russian government took decision on gradual increase of round log export duties starting from January 2007. The latest increase by 25% was made in April 2008/ However, the government regulation on increasing of export duties on round log (by 20% in July 2007 and by 25% in July 2008) led to decreased competitiveness of Russian companies on the world market. The next increase up to 80% was to be made in January 2009, but due to current economic situation implementation of new export duties was postponed for a year.

Second line for sawn timber production to be launched in Primorye area

The second line for sawn timber production is to be launched at JSC Terneyles (Plastun, Primorye area) by summer 2009. The project is included in the list of priority projects. Assembling works are in the progress currently. As soon as the line is put into operation plant's capacity is to make up 700 thousand cubic meters per year.

All in all there are 3 investments projects realized in the field of timber industry of Primorye area. Thus, CJSC LesExport (Dalnorchensk) is to get its first production by QIV.

There are also projects on construction of sawmills of JSC Primorsklesprom in Svetlaya and Olga – total volume of processed timber making up 360 thousand cubic meters. Sawmill in Svetlaya has been already launched.

With all facilities being put into operation, wood processing in Primorye is to increase as much as 2 times.

Finnish delegation visited timber companies in Sverdlovsk region

Finnish delegation – top management of Midinvest Management Oy, Pisma Oy and consultant of Finnish-Russian Trade Chamber - visited timber companies in the Sverdlovsk region. The aim of the visit was to discuss preparation works for realization of the project on forest machinery assembly – harvesters.

There are about 400 harvesters operating in Russia currently, which is not enough. Assembly of harvesters in Russia will allow decreasing production cost of such machinery as well as adapting it to Russian climate conditions.

In the mid-Urals the delegation visited harvesting units of CJSC Fankom that has 3 advanced Scandinavian harvesting complexes. Representatives of Finnish companies watched harvesters operating in Russian climate conditions, assessed potential market of forest machinery, discussed economic perspectives of harvester assembly in the Urals area.

Negotiations were also taken with JSC Yekaterinburg Forest Machines, products of which - pruning machines, log cutting and sorting lines – are in high demand. Finally, the delegation saw a shop ready for new machinery production.

Management of Midinvest highly appreciated the technical level of timber industry enterprises in the Urals, pointed at good potential of the branch, which allows taking decision on project realization in the nearest future.

Timber processing and woodworking volume in Ukraine increased by 28.8%

In February 2009 timber processing and woodworking volume (except furniture production) in Ukraine increased by 28.8% compared to January 2009 and decreased by 35.6% compared to February 2008. These data were published by Ukraine's Goskomstat (State Statistic Service). Pulp, paper and publishing output volume fell by 20.6% compared to February 2008 and grew by 25.2% compared to January 2009.

Activity	Ratio of February 2009 to January 2009, %	Ratio of February 2009 to February 2008, %	Ratio of Jan-Feb 2009 to Jan-Feb 2008, %
Timber processing and woodworking (except furniture production)	+28.8	-35.6	-40.3
Pulp and paper production and publishing activity	+25.2	-20.6	-25.5

Turkish panel maker Kastamonu Entegre Agac Sanayi Ve Ticaret AS plans expansion in Russia

Turkish panel maker Kastamonu Entegre Agac Sanayi Ve Ticaret AS is planning major panelboard expansion in Russia with proposals for 2 separate mill projects in the country's southwest, as WBPI Online informed Lesprom Network.

But their progress is likely to be slower than expected in the face of the global economic crisis because of the company's need to secure credit to finance the plants' construction.

The more advanced project for a 300 thousand cubic metres per year MDF plant to be located on a half a million square metres site in the city of Krasnodar in Russia's far southwest was scheduled for start-up in late 2010. However, this project is understood to be on hold at present.

The Turkish company is also planning to invest around \$100 million in the construction of a second wood based panels operation further north east in the semi-autonomous Russian region of Tatarstan.

The company, which also makes plywood, particleboard and doorskins, runs 7 plants, mainly in Turkey, but also in Romania, Bulgaria and Bosnia Herzegovina. It is also considering a plan to build an OSB mill in Bulgaria.

New machinery for Harvy Forester Group of Companies

Harvy Forester signed an Agreement with Etelä-Karjalan Puupörssi Oy (Finland) on delivery of machinery for chip production at sawmill in Arkhangelsk (HarvySeveerLes). The machinery is to be delivered by the middle of June 2009.

Chip produced mostly from non-merchantable timber will be supplied to UPM-Kymmene Oy.

Ilim Group to purchase forest machinery

Ilim Group purchased 28 Volvo trucks with Doll trailers for IlimSibLes, LLC (harvesting department of Ilim Group affiliate in Bratsk, Irkutsk region). This delivery is a part of large investment programme the realization of which started in 2008.

New machinery is to be used for timber haulage and delivery to Ilim Group affiliate in Bratsk. Drivers completed training courses for truck operation. Usage of new machinery allows increasing capacity, decreasing net costs of harvesting as well as improving working and safety conditions for drivers.

All in all there are currently 166 transport and machinery units at the company in Bratsk, including harvesters, forwarders, skidders, loaders, refuellers, bulldozers and graders. The company is to also purchase Kesla log loaders (based on KamAZ) in the nearest future and later 8 Volvo stem trucks.

100 million USD for woodworking development in Zabaikalye

China is to invest 100 million USD in construction of woodworking plants in Zabaikalye area. Chinese party is ready to start construction works this year, provided the company will get the site near rail road, including water and energy resources, as well as permission for employment of Chinese workers. It is not the first time Chinese companies have intended to construct woodworking facilities in Zabaikalye area. Chinese Trade Industry Corporation planned to construct a pulp and paper mill worth 500 million USD in the area, however, the project was not realized. There are several Russian-Chinese harvesting companies and plants for primary wood processing so far.

In the beginning of February 2009 Mr. Medvedev said that it was very important to develop deep wood processing in Siberia and Far East. According to the Ministry of Nature, annual harvesting volume in Zabaikalye amounts to 22-23 million cubic meters with only 14% of them to be processed in the area.

January-February 2009, timber processing in Russia fell by 31.4% – Ministry for Economic Development

Production ratio in timber processing and woodworking in Russia in January-February 2009 amounted to 68.6% compared to the first two months of the previous year. The ratio in pulp and paper production, publishing and polygraphic activities was 80.2% (79.6% in publishing and polygraphic activities and distribution of recorded media and 81% in production of pulp, wood pulp, paper, paperboard and its products), in timber harvesting – 84.7%, as reported by the Russian Ministry for Economic Development.

Due to changed conditions on external markets (including market saturation, decrease of prices and demand for wood products) a number of enterprises stopped production and shipping, which resulted in a considerable decrease in production volumes. In January-February 2009, compared to the similar period of the previous year, production of hard wood fiber boards decreased by 44.4%, of plywood – by 43.8%, of sawnwood – by 28.5%, of wood particle boards – by 25.1%, and of wooden construction (including wooden house kits and joinery) – by 12.7%.

Decrease in pulp and paper production by 19% in the first two months of 2009 compared to January-February 2008 is due to decrease in market pulp production (30.8%) and paperboard production (25.8%). A considerable decline in growth rate of pulp and paper production is accounted for falling demand for market pulp from major consuming industries.

Along with that, the trend of growth in production of wooden crate products remained: this time the increase was 18.1%, compared to the first two months of the previous year.

Major products output in Jan-Feb 2009

Product	February 2009	Jan-Feb 2009 to Jan-Feb 2008 ratio, %
Market timber, million festmeters	7.6	-21.5
Sawnwood, million cubic meters	1.4	-28.5
Plywood, thousand cubic meters	146	-43.8
Wood particle boards, thousand nominal cubic meters	363	-25.1
Hard wood fiber boards, million nominal square meters	20.1	-44.4
Market pulp, thousand tons	144	-30.8
Paper, thousand tons	293	-15.3
Paperboard, thousand tons	238	-25.8

Publishing and polygraphic activities and distribution of recorded media in January-February 2009 year-on-year showed a 20.4% decline, which is due to curtailment of magazines production by 25.3%, and of books and brochures by 41.8%.

New RAUTE laminating line for Vyatka plywood mill

Laminating line is to be commissioned at Vyatka plywood mill. The first batch of laminated

plywood (used in construction, machine manufacturing and car-building) is to be produced in the end of March.

Commissioning works will be performed by the machinery supplier – RAUTE (Finland). Specialists of the company will also hold training courses for operators. Project capacity reached, the mill is to laminate 60% of the produced plywood.

The mill was launched December 15, 2008. The project was realized by CJSC Investlesprom with being financed by Bank of Moscow - total investment volume making up about 70 million EUR. The mill produces 90 thousand cubic meters of eco-friendly birch plywood with improved wear resistance.

Perm area: investment volume in timber industry to reach over 620 mln EUR in 2008

Last year Ministry of Industry, Innovation and Research received 10 applications from timber industry enterprises of Perm area regarding realization of investment projects in the field of forest development, including:

- Modernization of technological line for fiber and paper production. Construction of a new technological line, JSC Solikamskumprom;
- Modernization of equipment for paper and cardboard production, LLC Uralbumaga;
- Modernization of technological line for plywood production, LLC Perm Plywood Mill;
- Construction of enterprise for ply-curve items and plywood production LLC Gremiachensky Mining and Concentration Complex;
- Modernization of production at LLC Kochevsky House Construction Enterprise;
- Construction of an enterprise for glued log and chip production;
- Construction of an enterprise for furniture shield and activated carbon production;
- Formation of an enterprise for edged sawn timber chip production;
- Organization of low-rise house construction, JSC Perm House Construction Enterprise;

According to Perm State Statistic Service, timber industry enterprises released products for over 400 million EUR in 2008 with growth watched in pulp, wood pulp, paper and cardboard, items made of paper and cardboard, wooden containers production.

Ruukki Group to construct a sawn timber and chip production

Ruukki Group (Finland) is considering the opportunity to construct a sawn timber and chip production mill near Vyborg. Investments in new woodworking complex are to reach 76 mln EUR with over 100 workplaces provided. Among possible construction sites is an area near Vozrozhdenye (former Kavantsaari) 20 km from Vyborg.

The project was presented by the head of the District Administration and Tapio Siarkkia, project manager, in Vyborg last week. Tapio Siarkkia has emphasized that the construction is only being planned and the decision to start it has not been made. However, both Siarkkia and Deputy CEO of the Group Ukka Havia declined to comment so far.

In 2006 Ruukki Group had already made a decision to construct a pulp and paper mill worth over 1 billion EUR in the Kostroma region, about 500 km from Moscow. However, that project was cancelled. Currently the company is looking for a new construction site.

Finland's leading wood products corporations established new research organization

Finland's leading wood products corporations – Ekovilla, Metsäliitto Group, Ruukki Group, Stora Enso Timber, Tikkurila and UPM – have established a broad-based research organization, Finnish Wood Research Ltd, to boost the renewal of the industry, as The Finnish Forest Industries Federation informed Lesprom Network.

Shared research activities have already been launched while the search is on for a managing director for this new organization.

The mission of Finnish Wood Research Ltd is the initiation of research and innovation programmes, the channeling of research funding for chosen areas of emphasis as well as international research cooperation within the wood products industry.

The common research strategy published by the wood products industry in autumn 2008 will serve as a foundation for Finnish Wood Research Ltd's efforts to establish a broader basis of innovative competence that will support the renewal of the wood products cluster and provide support for the generation of new, robust business activities for the industry in Finland. The organization is actively looking for new partners both from within the industry as well as from actors closely associated with the wood products industry.

The wood products cluster has defined the following areas as the focal points of its shared innovation activities and as potential sources of new development opportunities:

- The environmental performance of wood
- Wood construction and the energy-efficiency of building
- The opportunities of bioenergy and bio-based chemicals
- Business innovations, new products and services
- Production technologies of the future
- Research in support of standardization

In addition to its domestic research activities, Finnish Wood Research Ltd will pool Finland's shared resources and bring together different views, promoting their realization in international research cooperation. Its international cooperation partners include, for example, the European woodworking industry federation CEI-Bois, the Forest Based Technology Platform and the Building with Wood cooperation programme.

The aim of this international cooperation is to boost the position of the Finnish wood products cluster as a pioneer in its field as well as to promote the utilization of wood products. International cooperation in research that supports standardization will hopefully lead to more widespread bulk customization of wooden building components as well as to improved specialization and further processing opportunities.

"Wood products that serve the needs of customers and consumers together with the services associated with these products provide unprecedented opportunities for the Finnish wood products cluster at a time when the operating environment for wood products companies is undergoing powerful changes. Boosting and refocusing research and innovation activities and promoting cooperation between industry companies is one way to respond to the challenges of the operating environment, and this will speed up the renewal of the industry," says Matti Mikkola, Chairman of the Board of Directors of Finnish Wood Research Ltd.

Cathay Forest commences lower landing operations

Cathay Forest Products Corp. announced that its majority-owned Russian Joint Venture, DalEuroLes L.L.C. has received a temporary railway license for its recently completed lower landing in Kharpichan, Russia. With the lower landing fully operational, logs being harvested by DalEuroLes are now being transported to the lower landing where they are being handled for shipment to China and Japan via rail and sea, as Cathay Forest Products Corp. informed Lesprom Network.

"The commencement of lower landing operations marks a significant milestone in the development of Cathay as an integrated global forestry company," said Anthony Ng, Cathay Forest's President and CEO.

In the first few days since receiving the temporary railway license, DalEuroLes has already shipped more than 60 railcars of round logs from the Lower Landing.

Cathay has received a second order for shipment of round logs to Japan under the existing distribution agreement with Marubeni Corporation. The order for approximately 3,500 cubic meters is to be filled with logs harvested by DalEuroLes. This shipment of logs to Japan will take place within the next two weeks.

In addition, Cathay and Marubeni have also agreed to ongoing bi-monthly shipments of round logs beginning in April 2009. Each shipment of approximately 4 thousand cubic meters will be harvested, sorted, and shipped from DalEuroLes property to Japan.

"Cathay has demonstrated its ability to establish new sales channels by supplying and delivering high quality wood products from our forest concessions," said Anthony Ng. "We continue to realize our vision of supplying wood fiber to the underserved markets of China and Japan."

Cathay Forest is a forest products company that manages approximately 1 million hectares of standing timber properties and fast-growth, high-yield poplar plantations in China and Russia.