

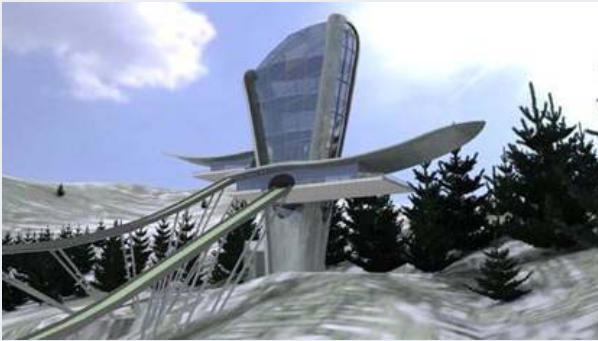
A service for our
friends and partners

Midway United Limited BVI

Russian Forestry News Update

DECEMBER 1, 2009

VOLUME 2, NUMBER 22



Computer visualization of the
Sochi 2014
Ski Jumping Complex

Questions or comments?

Phone: +1 (678) 290-9195

Skype: bob.nurre

Email: nurre@midwayunited.com

We're on the Web!

www.midwayunited.com

Russia Introduces New Olympic Logo, Branding

Russia has [unveiled](#) the first Olympic logo inspired by a web address. The logo for the 2014 Sochi Winter Olympics is a mashup of the domain name - it's all blue lowercase with no graphic save for the Olympic rings. The words sochi.ru are right there for anyone who wants to surf the site.



The [slogan](#) of the games is "Gateway to the Future" which was "chosen to promote Sochi 2014 as a catalyst for long-lasting sporting, social, economic and environmental legacy." To this end, the games will [use](#) as much sustainable timber as possible.

This slogan is part of an effort to showcase Russia to the world. According to [Inside the Games](#), "It is the gateway for the world to discover Russia's passion, innovation and excellence through hosting the 2014 Olympic Winter Games."

Informational resource: "Name Wire" www.namedevelopment.com

Russia: Time to Be Optimistic?

Russian leaders are optimistic about the economy's outlook, perhaps for good reason. Exports have grown steadily, rising oil prices are supporting the balance of payments, and industrial production is recovering. However, domestic consumption remains weak, casting doubt on the strength and sustainability of the recovery. While Medvedev's ambitious plans for modernization could aid the recovery, they currently lack both details and execution mechanisms.

Signs of Strength

Russian leaders have become increasingly optimistic about the country's economic recovery. President Medvedev's forecast of a 7.5 percent (y/y) decline in 2009, which would require 12.5 percent growth (q/q) in the fourth quarter, is particularly positive. The Ministry of Economic Development and Trade gives a more cautious, but still optimistic, assessment of 0.6 percent (q/q) growth in the third quarter.

Several recent developments support such optimism. First, Russian exports, in terms of physical volume, have grown steadily since spring, briefly returning to pre-crisis (i.e., spring 2008) levels this autumn, though the trend is still down.

(This should not be overemphasized. More than 85 percent of Russia's exports are comprised of six commodities-oil, gas, ferrous and non-ferrous metals, primary chemicals and fertilizers, and timber-with limited linkages to the broader economy.)

China, where a strong stimulus package and state accumulation of natural resources fueled growth, and Europe, where consumers took advantage of the summer's low gas prices to stock up for winter, were largely responsible for this improvement.

Second, the rising price of oil has benefited the federal budget and the balance of payments, both of which largely depend on oil exports for stability. The federal budget is based on oil being priced at \$41 per barrel, but since January, it has averaged \$60 per barrel. The higher-than-expected price, in addition to export duties and a mineral extraction tax, boosted the budget by RUB 614 billion, or 12 percent of total federal income, from January through October.

Similarly, the current account balance, which turned negative in the fourth quarter of 2008, has significantly improved this year. As a result, the Bank of Russia was able to freely float its currency from March through August of this year. However, after facing an excessive supply of foreign currency in September and October, the Bank began intensively accumulating international reserves again, driving up the value of the ruble. Ironically, this appreciation, coupled with high interest rates in Russia and low ones elsewhere, is now causing the supply of foreign currency to grow again as the ruble becomes an attractive currency for carry trade.

Third, industrial output in Russia has been surprisingly strong, with September data showing rapid 2.5 percent (m/m) growth. However, this may simply reflect rising exports and recovering inventories (as was the case in February); several months' data is needed to assess whether or not the growth will be sustained. Because exports are still 15 to 20 percent below their historic peak, reached in fall 2007, they have the potential for further expansion. However, many experts agree that GDP growth will be limited to 3 percent per year if external demand remains the sole driver of growth.

Finally, after exceeding 8 percent from January to July, consumer inflation slowed rapidly in August. As a result, inflation, which plagued Russia prior to the crisis, is expected to be significantly lower than the official government forecast of 11 percent this year, may moderate even further, reaching 6-8 percent in 2010. While the theoretical link between a recession and falling inflation is clear, Russia has never before experienced the two in tandem; the three consecutive months of zero inflation (i.e., August to October) caught many experts by surprise.

Medium-Term Weaknesses

However, a weak outlook for domestic demand is likely to offset these strengths. Real household incomes, which accounted for more than 55 percent of GDP in the first half of 2009, have declined continuously since April, falling 4.9 percent (y/y) in September alone. Incomes are expected to continue to decline at least until spring 2010, largely because Russia's labor market remains weak, salaries in non-export sectors have stagnated, and wages in the public sector are not indexed to inflation. Only pensioners will see an increase in real income next year, as nominal pensions grow by 45 percent. However, while pensioners account for more than 28 percent of the population, their income accounts for little more than 8 percent of total household income. As a result, the increase in pensions will do little to strengthen domestic demand.

Furthermore, aggressive expenditure increases, enacted from 2007 to 2009, coupled with falling revenues, have seriously strained the federal budget. Federal budgetary incomes fell 33 percent (y/y) while regional ones declined 25 percent (y/y) from January to September 2009. Because expenditures on wages, pensions and social benefits cannot be cut, investments, repairs, and renovations, which have the highest multiplier effects on the economy, must be actively reduced instead. As a result, aggregate public demand may decline by 3.5-4 percent of GDP in 2010 from the 2009 level.

Regional governments, which receive no revenue from foreign trade and lack the authority to impose new taxes, face an even harsher fiscal reality. Only broad-based economic growth will help raise their revenues, which come from profit and income taxes. While 2009 budgets were maintained at 2008 levels in nominal terms, the current budget actually reflects a contraction in real expenditures, given the 10 percent inflation rate experienced since 2008. Wages and various social payments have increased in 2009, forcing regional governments to cut purchases of goods and services by about 2 percent of GDP. However, even these cuts were not enough to balance the budget; a gap of RUB 500 billion, or 1.25 percent of GDP, is still expected by the end of 2009.5 Preliminary assessments suggest this gap will persist in 2010 even if regional expenditures continue to remain nominally stable. The "easiest" way for regions to finance this gap is through late payments to suppliers of electricity and gas.

Other Focal Points of Public Attention

Additionally, analysts have been debating the fate of AvtoVAZ, Russia's only remaining car producer. AvtoVAZ incurred tremendous losses in 2008, amounting to \$1,000 per car sold despite record sales volumes. In 2009, the company has experienced further losses, with sales having declined by approximately 50 percent and continuing to fall. As a result, the government took control of the company in August. The new management, which has a strong record of accomplishment in private business, has developed a comprehensive restructuring plan, setting operational profit as the immediate goal, debt/equity conversion as the short-run goal, and technological renovation and modernization as the medium-run goal. Unfortunately, to achieve its first objective, the company must fire 35 to 45 percent of its 102,000 workers. However, while the government insists that the company return to health, it fears that layoffs could engender social unrest, particularly in the one city, Togliatti, where AvtoVAZ is concentrated. As a result, the government prohibited mass layoffs, thus limiting the company's potential.

Medvedev's and Putin's calls for "modernization," or radical change in the structure of the Russian economy, have also garnered attention. According to the ideas they have announced, modernization would reduce Russia's dependence on natural resource exports and lead to the emergence of knowledge-based industry clusters, as well as massive technological innovation in industry and infrastructure. It would increase the economy's overall efficiency. However, both leaders emphasize that they do not envisage any change in the political system as part of the plan. As of today, these plans lack tangible goals and execution mechanisms. However, they should not be completely discounted: when Mikhail Gorbachev first mentioned perestroika and glasnost in 1987, few people took notice.

Sergei Aleksashenko, former deputy minister of finance of the Russian Federation and former deputy governor of the Russian central bank, is a scholar-in-residence in the Carnegie Moscow Center's Economic Policy Program.

Informational resource: Lesprom Network and Sergei Aleksashenko International Economic Bulletin, November 2009

United Russia congress approves new program for 10 yrs

A congress of the United Russia party in St. Petersburg approved a new program for the next years. The program was approved after Prime Minister Vladimir Putin's report on the social and economic development of the country and party tasks for the future.

State Duma Chairman Boris Gryzlov, who is one of the party leaders, said the program was based on the priorities contained in the Strategy-2020, the Putin Plan, President Dmitry Medvedev's executive article "Onward, Russia!" and his Address to the Federal Assembly.

He also stressed that the program also drew on the party's project implementation experience.

"This is the first executive document of the party which alongside the tasks of improving the quality of life and economic development projects will clearly state our ideology – Russian conservatism," Gryzlov said. "This is an ideology of stability and development, constant creative renovation of society without stagnation and revolutions."

According to Gryzlov, "Russian conservatism is open conservatism", that is "conservatism that is prepared for discussion, both inside the party and with opponents", "conservatism that is prepared to accept new ideas and therefore capable of modernizing the country".

He believes that party's ideology can be state in very simple terms: "Creating the new and preserving the best".

The main purpose of the program is to improve the quality of life in Russia. Economic development can proceed only alongside social development, and this is why social issues are in the focus of anti-crisis measures, Gryzlov said.

He stressed that United Russia was ready to offer a set of measures aimed at developing the economy and replenishing the budget. These include, among others, a halt to the export of round timber and a transfer of excises from alcoholic drinks to ethyl alcohol, without any exemptions.

Additional budget revenues can also be generated by the development of commercial housing lease services and streamlining of import-related customs payments.

Gryzlov said party projects could become one of the tools for fulfilling these tasks. They "cannot and should not replace the functions of the state", but are designed to draw public attention to the most pressing issues and create mechanisms for their resolution, and ultimately "develop and implement full-scale government programs wherever advisable and necessary".

The party program covers a period of ten years, which is consistent with the Strategy-2020 (a strategy of the development of the country up to 2020) that has been accepted by United Russia as a benchmark.

[Informational resource: Itar-Tass](#)

Ilim Timber Industry to acquire Parfino plywood mill

Ilim Timber Industry is planning to acquire Parfino plywood mill (Novgorod region, Russia), at the moment negotiations are held with Sberbank of Russia, which performs bankruptcy of the mill. The data published by BN.ru (since December 01, the enterprise may start operation in four shifts producing 4,500 cubic meters of plywood per month) is not commented by the company until agreements are concluded.

By September 2009, total debt of the enterprise amounted to 1.3 billion roubles. It was expected that the mill's buyer would undertake elimination of the debt.

[Informational resource: "Lesprom Network" www.wood.lesprom.com](#)

Russia's Zavetluzhye LLC to launch a line producing polished plywood

In December 2009, Zavetluzhye LLC is planning to launch new production line producing polished plywood. The rated capacity of the line makes up 1,500 cubic meters per month. After the launch, it is planned to produce 120-150 cubic meters per month, terms of reaching full rated capacity are not defined by far. It is planned to use existing raw wood resources, further production load will depend on the market situation.

According to the mill's representative Dmitry Shulpin, today the demand for this product exceeds supply fourfold. However, after the price in 2008 fell from 20,000 down to 10,000 roubles per cubic meter, profitability of production is very poor, he says. 30 million roubles of loaned assets are attracted in the project. Equipment of Korean SR-RP company is installed at the line.

For manufacturing polished plywood, it is planned to use birch wood harvested by the company in northern parts of Nizhniy Novgorod region and Kirov region. Products are destined for the domestic market. Agreements are concluded with cabinet furniture producers from Nizhniy Novgorod region, Moscow, Ryazan region, Rostov region, a number of Volga regions, and some construction companies from Dagestan.

[Informational resource: "Lesprom Network" www.wood.lesprom.com](#)

Russia increased import duties for harvesting machinery

The RF Government toughened its strategy re. machinery that is imported to Russia and introduced a new regulation, according to which import duties for harvesters, feller-bunchers and their constituent parts are increased up to 5%. Moreover, in the beginning of 2009 Russia

increased import duties for forwarders from 5 to 25%.

No doubt, measures taken aim at strengthening and supporting domestic machinery producers. However, some experts are sure that harvesting companies in Russia will be still interested in purchasing of well known, tried machinery.

Informational resource: "Runa" www.runa.info

Harvesting companies in the Sverdlovsk region choose advanced machinery

It is the second year LLC Lesnoy Ural (Serovo, Sverdlovsk region) has been using unique machinery produced by Ponsse (Finland) – Ponsse Dual – that can operate as both harvester and forwarder. CJSC Turinskiy TsBZ is to purchase analogous machinery for exploitation of the rent area as well. Using of such harvester-forwarder logging complexes allows increasing labor capacity by 12-15% with max. preservation of environment being provided as the foreign experience showed.

Harvesting is really complicated and cost effective activity. There are currently a few profit making enterprises in the region. The reason lies in the usage of out-of-date technologies and machinery. Thus, there are 10 logging complexes in the Mid Urals so far - of them only one harwarder.

Informational resource: "Runa" www.runa.info

Timber products manufacture in January-October 2009

According to the Ministry of Economic Development and Trade of the RF in January-October 2009 production output of processed timber and wooden products decreased by 21.8% as compared to the analogous period in 2008.

Fiberboard production volume decreased by 31.0%, that of chipboards – by 24%, plywood – by 23.9%, sawn timber – 14.5%.

Article	October2009	January-October2009	Jan-Oct 2009/ Jan-Oct 2008, %
Commercial timber, mln m3	5.6	62.5	-17.4
Sawn timber, million m3	1.6	15.8	-14.5
Glued plywood, th.m3	206	1706	-23.9
Chipboards, th. ref. m3	453	3653	-24
Fiberboards (hard), million ref. sq. m	30.3	238.3	-31
Market pulp, th. ton	182	1682	-17.5
Paper, th. ton	352	3241	-4.2
Cardboard, th. ton	305	2841	-9.4

Informational resource: "Runa" www.runa.info

Forests minister heading to China to sell B.C. wood

Forests Minister Pat Bell is heading to China with a delegation of the province's leading forestry CEOs in a trade mission aimed at increasing British Columbia's share of the growing Chinese wood products market, as The Vancouver Sun informed Lesprom Network.

Bell described the delegation as the largest-ever mission by both the provincial government and the forest industry to build a B.C. presence in China. He said the Chinese market is "unique," needing close cooperation between both government and industry to succeed.

"We continue to bill the market in China as the fastest-growing market anywhere for the forest products industry. This year, we are anticipating that B.C. will sell somewhere in the neighborhood of 1.3 billion to 1.4 billion board feet of lumber into the Chinese market. That represents the total production of between five and six Interior sawmills. This is becoming a very meaningful amount of lumber and it is definitely driving our mill production and employment."

China now is the province's second-largest forest products market in terms of volume, next only to the United States. Most of the wood, however, is lower grade. For the first seven months of 2007, exports to China brought in \$170 million.

Informational resource: "Lesprom Network" www.wood.lesprom.com

Japan Lumber Journal: Russian Timber News

In mid-October, there was news that reported the postponement of the tariff hike for Russian logs to 80% next year, and people in charge of Russian lumber were relieved in the meantime.

However, as for arrival of Russian logs next year, 'the arrival will decline with a certainty on year-to-year basis' said many people in charge of Russian lumber. The management of Russian lumber industry will be severe in next year. Compared to the arrival of Russian logs which is decreasing drastically, 'arrival of Russian Lumber Products from initiate suppliers is noticeable' said many people in charge of Russian lumber. Especially after this Summer, arrival of Russian Lumber Products from initiate suppliers is increasing, and receiving substitute demand of existing lumber products.

Imports of Russian Wooden Products

unit : cubic meter

	Logs					Lumber			Laminated Lumber
	Total	Softwood			Hardwood	Total	Softwood		Structural
		Larch	Pine	Fir			Larch	Pine/Fir	
2009 MAY	48,429	17,535	25,059	3,364	2,471	77,206	2,851	73,882	4,419
JUN	69,244	21,211	23,610	23,535	888	58,370	1,343	56,711	909
JUL	61,065	34,913	15,907	8,396	1,849	53,298	1,204	51,657	3,736
AUG	62,111	40,828	10,924	10,271	88	43,473	1,161	41,777	3,785
SEP	65,904	43,368	9,734	12,802	0	46,142	171	45,971	3,797

Average Import Value for Major Russian Wooden Products

unit : Yen per cubic meter (CIF Japan Ports)

	Logs				Lumber		Laminated Lumber
	Softwood			Hardwood	Softwood		Structural
	Larch	Pine	Fir		Larch	Pine/Fir	
2009 MAY	11,925	17,847	12,933	41,039	24,313	33,472	33,632
JUN	12,160	17,360	12,893	37,333	24,571	32,557	36,938
JUL	11,311	16,410	13,129	45,441	25,506	32,928	34,054
AUG	11,596	16,074	12,908	38,148	24,842	33,670	36,436
SEP	12,472	15,842	13,655	-	25,240	32,358	35,799

Informational resource: [Informational resource: Lesprom Network and Japan Lumber Reports](#)