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Midway United Ltd. BVI

Russian Forestry News Update

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*Driving through the Siberian Forest
in January*

Questions or comments?

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China facing the brunt of a pending log supply shortage as a result of Russia's current 25% Log Export Tax and the scheduled 80% Tax

Tightening log supply pressure only being partially averted due to reduced market demand and currency volatility as a result of the global economic crisis.

International WOOD MARKETS Group has released its complete report, Russia Log Export Tax — Global Implications (Part 1: Logs and now Part 2: Lumber). While Russia's move to an 80% log export tax (or minimum €50/m³ or US\$400/Mbf, Scribner scale) has been delayed to late 2009, the projected reduction in Russian log production and exports in combination with higher log export costs (due to the current 25% tax with a minimum of euro 15/m³) is increasingly putting pressure on global log markets. China, Japan, Scandinavia and the Baltics have already incurred major negative fall-out as a result of the 25% log export tax - to the point where new wood supply strategies have been rapidly implemented.

The report highlights why the 25% log export tax will encourage increased Chinese and Russian investment in new sawn lumber capacity in Eastern Russia. With Chinese demand for wood raw material inputs (logs and lumber) still expected to remain relatively strong in 2009, lumber prices or exporters' returns in China are expected to be attractive. Major changes to supply and price dynamics have already occurred in log and lumber markets in Japan, Finland and the Baltics as a result of the 25% tax.

The WOOD MARKETS' Russian Log Export Tax report highlights some key market reactions to the current 25% log export tax and proposed 80% log export tax:

- The volume of Russian softwood log exports will plummet through to 2012 as a direct result of the log export tax schedule. Supply is expected to steadily decrease to Russia's seven largest softwood log export markets.
- Global log trade disruptions from Russia will create new log export opportunities for major global softwood log exporters, especially in the key Asian markets of China, Japan, and South Korea. Potential winners are identified and reviewed.
- It is now expected that new capital investment in the Russian wood products industry will be delayed or be minimal at best following the collapse of many smaller logging and wood product manufacturing companies in 2008.
- Northern China has been the most negatively impacted by the current 25% and will be most affected by the proposed 80% log export tax.
- China needs to source new log and lumber suppliers and also step up its own domestic timber harvests.
- Wood demand in China continues to increase despite decreases in finished wood product exports as its own domestic wood product market continues to expand. The recent collapse in global currencies (relative to the U.S. dollar and Chinese RMB) – and especially the Russian ruble – could provide some short term relief for supply options.

Vice president and co-author Gerry Van Leeuwen states that "The ripple effect from Russia's log export tax will continue to disrupt major log and lumber markets – especially China - and higher prices (or returns to exporters) are a given!"

"This means that there are some potentially attractive opportunities for those log and lumber exporters that can create a competitive fit with China, especially during the global market downturn," commented company president Russell Taylor. "The current market turbulence leaves China as the only destination that will likely require increased log and lumber imports in 2009 and this is the opportunity for strategic exporters".

"It appears to WOOD MARKETS that most companies still have not fully considered the implications of the current 25% export tax as it impacts Russia's log customers," commented Van Leeuwen. "Based on our recent travels and research in Russia and China, we believe that some of the only growth opportunities in 2009 for softwood exporters could be linked to calamities linked to the Russian log export tax. If and when the 80% tax is initiated, a real supply shock will be the end result no matter how global markets are doing!"

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Putin signs resolution on Russian timber export duties

Prime Minister Vladimir Putin signed Resolution 982 on 24 December 2008, which set export fees at 25% from 1 January 2009 to 1 January 2010 on certain pine species and birch with a diameter not less than 15 cm. The export fees for oak, beech and ash are reported to be EUR100 for per m³. The 80% export fees on major roundwood types is effectively postponed as a result of the resolution.

Russian cargo ship Sinegorsk loses 1,500 tons of timber in English Channel

Around 1,500 tonnes of sawn timber has been spilt into the English Channel, informed Lesprom Network according to the Timber Industry Magazine.

The Russian-registered Sinegorsk cargo ship was heading from Oskarshamn, Sweden to Alexandria in Egypt when it developed a 15° list 14 nautical miles south of Newhaven. The ship is now headed for shelter towards the Isle of Wight, the Maritime & Coastguard Agency has said.

The Dover Coastguard has been alerted to the spill, with the Solent Coastguard to takeover the incident as the vessel and debris move west.

The Greek-registered Ice Prince was also bound for Alexandria when it ran into trouble off the coast of Dorset in January 2008, spilling timber from its deck before sinking. The resulting clean-up operation lasted months and affected beaches along the Sussex coast.

New wood sawing department worth a total of 1,3 million US Dollars in Transbaikalia

In the middle of January new wood sawing department has been opened in Droyanaya settlement (Transbaikalia). Universal Timber Resources Limited Company invested 1,3 million US Dollars in this project. Governor of Transbaikalia, Ramil Geniatulin, took part in the ceremony of opening. According to Oleg Polykov's (Minister of Industry and Exegetics of the Transbaikalia district) information, company, that pools China and Brazil recourses, bought timber-processing equipment. Building of department estimated on the basis of Zabaikalskaya Lesnaya Kompania, Ltd.

5,000 acres of seedlings will be planted in Orenburg district within the bound of Kyoto Protocol

According to member of Ministry of Natural Recourses, seedlings of the new forest will be planted in Orenburg district on the area of 5,000 acres in 2009. Ground for 2.6 million plantings has been prepared by local foresters. In consideration of green house effect danger, scientists of leading world powers under U.N.O worked out the special system of arrangements to prevent the growing jeopardy. Kyoto Protocol became the first step to realization the outreach program created to stabilize concentration of hot bet gases in the atmosphere. It means that every participant is ready to reduce carbon emission that badly influences upon the ozone layer. Only forests, acting like nature lungs of the planet, can help it. Russia ratified Kyoto Protocol in 2004. Orenburg

district was permitted to this great project. Now it has an opportunity to get financing according to its task to realize forest reproduction. Within the bound of program 25,000 units of the forest stands will be planted in Russia. The half of this forest stands' volume is planed to be planted in Orenburg district.

Russia and China made an arrangement of carrying out several events that would prevent forest fires on the border

Last week talks between heads of departments of extreme situations of Russia and China took place. While discussing, politicians negotiated about fire protection by a joint effort of the Transbaikalia district of the Russian Federation and Inner Mongolia autonomous region of the People's Republic of China. Sides worked out several protection actions. China, for example, will enlarge size of fireguards from 100 till 120 meters. In case of fires, sides promised to inform each other timely simplify ceremonial functions of passing border and help each other to extinguish a fire. Russian side in frames of the fire-prevention period must limit or forbid entry to frontier regions for hunters, fishers and other special kinds of people.

FreeDom Works company enters the European market

Russian company FreeDom Works specializing on building of wooden houses from glued squared beam, has entered European wooden house building market. Due to the dealer agreement, which has been signed at the end of 2008, French company Ecco Lodge will introduce interests of FreeDom Works in France and in Benelux. To show their abilities, Russian and French companies, in partnership, built two wooden houses in French town Annay Soulens. Wooden parts of houses (walls, boarding joists, angle rafters) were made by FreeDom Works. Experts from Russian company have guided the process of installation of wooden constructions.

Kyrgyzstan Parliament approved Code of Ecology

WWF endorses new conception of ecological network, which would become a foundation of system of protected nature territories and strict rules of using nature recourses in the country. Members of Kyrgyzstan Parliament approved Code of Ecology. Now it should get the endorsement of the President. Code of Ecology has been prepared since 2005 by the Ministry of Ecology and Extreme Situations of Kyrgyzstan, Independent ecological examination, Ltd., and GEF-UNEP-WWF project: 'Creating ECONET for saving bio-variety in ecological regions of Central Asia'. Code of Ecology will help to remove discrepancies and backups in the legislation. It takes into account the requests of international agreements, simplifies law enforcement, and provides priority of ecological topics in progress of the Kyrgyzstan Republic. Due to new Code of Ecology, the conception of ecological network is included in legislation for the first time as a base for protection of nature. Ecological network is a system, which combines protected territories and territories with different regimes of nature management, integrating topics of nature protection.