

*A service for our
friends and partners*

Midway United Limited BVI

Russian Forestry News Update

JUNE 1, 2009

VOLUME 2, NUMBER 10



*Cedars Deep Inside in the
Siberian Forest*

Questions or comments?
Phone: +1(678) 290-9195
Skype: bob.nurre
Email: nurre@midwayunited.com

We're on the Web!
www.midwayunited.com

Russian President Dmitry Medvedev highlighted timber processing development as an item high on the national agenda

Russian President Dmitry Medvedev in discussion with Governor of the Khabarovsk region Vyacheslav Shport highlighted timber processing development in Russia as an item high on the national agenda, as Vostok Media informed Lesprom Network.

"This is our persistent and difficult problem and it is very important that timber was deeply processed at the territory of the Russian Federation," said Dmitry Medvedev. He stressed that "the added value gained from wood processing should be held onto in this country instead of being handed on to our partners, no matter how we treat them."

In return, Vyacheslav Shport reported to Medvedev about major project of construction of timber processing works, which are assumed to replace the old cardboard plant in Amursk. He stated that necessary funds have been already raised for this project.

Informational resource: "Runa" www.runa.info

Raute to provide Henda-Sibiria with machinery

Raute Corporation and Henda-Sibir (joint Chinese-Russian investment company) signed a contract worth about 8 million EUR for machinery delivery at veneer mill that is to be constructed in the Tomsk region.

The delivery set included a log handling line, a peeling line, and a veneer drying and grading line. The contract is expected to be effective in June 2009, the machinery is to be delivered in the end of 2009 – beginning of 2010.

Henda-Siberia Co LTD is a Russian company owned by Yantai Northwest Forestry Co., Ltd. and the Chinese Investment Promotion Agency of Yantai Economic and Technological Development Area. The new veneer mill will be part of a large wood processing project, Tomsk Industry Garden, realized in cooperation with the Chinese central government and Henda Siberia Co LTD.

Informational resource: "Runa" www.runa.info

Over 650 million EUR for timber industry in Perm Area

Over 650 million EUR are to be invested in the Prikamye timber industry. Companies ready to invest in the Perm woodworking sector are to get forest areas without auction scheme.

In June 2009 RF Government is to make an independent examination of 7 present investment projects in the Perm Area. They include projects from JSC Solokamskumprom and Perm house construction mill, as well as LLC Capital-3, Uralbumaga, Perm plywood mill, GoronozavodskLesprom and Kochevo woodworking mill.

The projects aim at modernizing existing machinery, constructing new facilities for plywood, bentwood products, furniture shields and sawn timber production. The required investment volume amounts to over 650 million EUR for projects to be realized by 2012.

The projects being approved, they are to be included in the list of the Ministry for Industry and Trade and investors are to get forest resources without any additional formalities.

Informational resource: "Runa" www.runa.info

JSC LesPlitInvest to launch MDF door molding manufacture

April 2009 JSC LesPlitInvest (Leningrad region) launched MDF door molding manufacture. JSC LesPlitInvest (SOUZ, Industrial Group) is one of the largest Russian producers of MDF boards and interior doors.

New highly efficient WAINIG machinery allows producing a wide range of products and molding profiles. Moldings are coated with high quality CPL plastic laminate produced by IMAWELL.

Products are to enter the market in May-June 2009 under Ladora brand. Currently JSC LesPlitInvest is one of the leaders of moldings manufacture in Russia and CIS countries.

Informational resource: "Runa" www.runa.info

Altay Area to preserve 100 ha of forest belts

Ministry of Agriculture of the Russian Federation is to provide the Altay Area with a machinery complex for reforestation worth over 2.3 million EUR.

Altay Area has two urgent issues, i.e. to preserve land resources, maintain and increase soil biological fertility, as well as to preserve about 100 thousand ha of forest belts.

Machinery for reforestation will allow using all technologies at the highest level, incl. seed cone harvesting, seed treatment, calibration, storage, etc. with seedlings survival reaching 95-98%.

There are only 4 such complexes in Russia.

Informational resource: "Runa" www.runa.info

Manzhouli Timber Industry is Taking Off

Manzhouli is the biggest land port in China located in the Northeastern section of the Inner Mongolia Autonomous Region and is bordered by Russia to the North. Manzhouli is the nearest and most important import hub connecting Russia and several Commonwealth of Independent States with China. Manzhouli accounts for over 65% of Sino-Russian trade; its revenues from foreign trade with adjacent countries accounts for 23% of the total in China.

China is a large manufacturer of timber as well as a major importer of timber resources. For instance, between January and August 2008, China imported 20.85 million m³ of logs, of which 64.2% were from Russia (13.4 million m³). During the same period, China imported 4.54 million m³ of lumber, of which 27.5% was from Russia (1.25 million m³). China is therefore clearly very dependent upon Russian timber for the bulk of its supplies. Russia has extremely abundant forestry resources, especially in Siberia and the Far East, which will greatly promote local economic development if can be utilized in a reasonable, efficient and sustainable way. Because of its physical proximity to Russia, Manzhouli has an advantage in transportation cost. As Sino-Russian cooperation has developed, the unit price of timber exported to Manzhouli is below the average level in global market, even though the Russian government has raised the timber export tax several times. In addition, the Manzhouli government has implemented several preferential policies to encourage foreign trade and manufacturing.

Manzhouli is China's biggest land port and carries over 60% of Sino-Russian trade transportation. From 2000 to 2007, import volumes from Russia through Manzhouli increased threefold from 3.8 million m³ to 10.69 million m³, accounting for one-third of China's timber imports from Russia. Although affected by the increase of the Russian log export tax and the abolition of the preferential policies for small-scale border trading, the E&I volumes through Manzhouli port still reached 8.4 million m³ in 2008. In terms of the species of timber imported through Manzhouli port, Mongolian Scots Pine accounts for 80% of the total while birch and larch accounted for 18% and other species for just 2%. In terms of products, logs represented 85% of the volume, lumber for 10%, and paper pulp for 5%. The import volume of board reached 1 million m³ in 2008 with a big growth over the previous year. Growth is expected to continue over the next several years. Logs were mainly distributed to Hebei and Shandong provinces; timber products were distributed to Hebei, Shandong, Jiangsu, Zhejiang and Heilongjiang provinces. Imported timber is mainly used in decoration and for building materials, and a small part goes into furniture, wooden windows and other products.

The development of Manzhouli's timber processing industry is linked with the establishment of the zone for processing imported resources. There are up to 107 companies in Manzhouli, and 80 of them have settled in the special zone. Of this total, 30% of them have intensive-processing projects and annual outputs of lumber and dried timber respectively reached 5 million m³ and 1.2 million m³ in 2008. Manzhouli imported 8.4 million m³ of timber in 2008; processed 3.12 million m³ of imported timber with a value of RMB 4 billion, accounting for 54% of the total production revenue in Manzhouli. Manzhouli is at present in the early stages of developing, a timber processing structure with the recent increase in the number of intensive processing enterprises, and as products manufactured in Manzhouli become ever more acceptable in the domestic market.

For example, solid wood windows and doors produced by Lianzhong Wood Industry have become popular with a lot of consumers, and Lianzhong has consequently established its own distribution networks and channels for the domestic market. Finger-joint panels produced by Sanfa Timber, Linsen Timber, Sanxia Timber and Mangang Timber and veneer from Manzhouli Simu Timber have been sold to both domestic and overseas markets.

Because of the large increases in Russia's export tax, Manzhouli has encouraged its local companies to establish supply channels in Russia. At present, 10 companies are establishing operations in Chita, Ulan-Ude, Irkutsk and Krasnojarsk with a total annual timber output of 0.5 million m³. This includes the flooring and wall panel project investment by Xiangyang company with an estimated annual output of 30,000 m³. Meanwhile, Euro-Asian Timber Industry has reached an annual timber output of 0.1 million m³.

Informational resource: Japan Lumber Journal #9 (2009) (according to China Wood Monthly Market Report (www.chinawood.net))

Japan Lumber Journal: Russian Timber Report

The amount of Russian logs received in February was 45,000 m³, a 52.1% decrease compared to the previous month and a 71.0% decrease compared to last year marking the lowest level on record.

In detail, the amount was 6,600 m³ for larch (a 80.4% decrease compared to the previous month and a 91.0% decrease compared to last year), 27,800 m³ for pine (a 23.2% decrease compared to the previous month and a 44.4% decrease compared to last year), and 4,950 m³ for spruce (a 64.2% decrease compared to the previous month and a 73.3% decrease compared to last year), and the amount of larch received in February almost stopped. As softwood plywood manufacturers are sifting materials from Russian larch logs to domestic cedar logs in Japan, the domestic demand for larch logs is rapidly decreasing. The amount of hardwood received was 57,50 m³ sharply decreasing 44.5% compared to the previous month bouncing up and down.

The amount of lumber products received in February was 3,400 m³ for larch, and the total for spruce and pine, which is the leading variety, was 78,900 m³. The amount of spruce and pine received increased by 13.4% compared to the previous month and by 77.3% compared to last year showing a favorable recovery, and it is different from the arrival of Russian logs. The amount of structural laminated lumber received in February was 3,600 m³. The amount received increased by 48.6% compared to the previous month and by 73.0% compared to last year.

The CIF Japan Port price of logs in February was 11,427 yen per cubic meter for larch, 18,585 yen for pine, and 11,460 yen for spruce, and compared to the previous month, larch fell 9.8%, pine dropped 6.1%, and spruce fell 15.0%. The prices show a downward trend. Compared to last year, the price went down 19.5% for larch and 13.7% for spruce, but rose 13.1% for pine. As the demand for pine logs is deep-rooted, the price is supported by a difficulty in assembling the logs. The price of hardwood oak was 43,230 yen increasing by 6.4% compared to the previous month.

The price of lumber products was 26,018 yen per cubic meter for larch, 33,967 yen for pine and spruce, and the price of the main items of pine and spruce was an increase of 0.2% compared to the previous month and 6.0% compared to last year. The price of hardwood jumped to 90,191 yen per cubic meter. The price of structural laminated wood was 40,138 yen per cubic meter with a decrease of 15.1% compared to the previous month and 5.7% compared to last year.

Informational resource: Japan Lumber Journal #9 (2009)

Finland dramatically reduces Russian log imports

Finland imported 24 percent fewer logs from Russia in the 4Q/08 as compared to the same quarter in 2007. With the uncertainty surrounding the log export taxes and timber market conditions in Russia, it is likely that the Finnish forest industry will rely less on Russian timber in the future.

Log consumption in Finland was substantially lower in 2008 than in the previous year. Total harvests were down about seven percent, with log deliveries from small private owners 25% lower than in 2007. Contrary to domestic log deliveries, log imports increased by three percent, totaling over 13 million m³ last year. However, shipments fell dramatically late in 2008, with softwood imports in the 4Q/08 down 24% from the same quarter in 2007 and hardwood log imports declining 28% over the same time period.

Demand for logs was quite different for the pulp industry compared to the sawmilling sector. The total harvest of sawlogs was down an estimated 22% in 2008 and the decline in the imports of conifer sawlogs was close to 45%, with the biggest reduction originating in Russia.

Informational resource: "Runa" www.runa.info

Minister for Foreign Trade and Development to make an export promotion

visit to St. Petersburg

Minister for Foreign Trade and Development Paavo Väyrynen will make an export promotion visit to St. Petersburg and the Leningrad region on 20-22 May. He will be accompanied by a business delegation with almost 60 delegates.

The purpose of the visit is to promote the operating conditions of Finnish companies in St. Petersburg and the Leningrad region and to strengthen the investor status of Finnish companies. Furthermore, the goal is to identify new kind of business opportunities. The business delegation's areas of priority include energy and the environment, infrastructure, logistics and construction, retail trade, services, and information and communications technology.

Head of the Leningrad region and Minister for Foreign Trade and Development Paavo Väyrynen are to discuss perspectives of Russian-Finnish cooperation in the field on woodworking sector.

Successful working experience between Finnish woodworking companies in the Podporozhsky and Tikhvin districts (Leningrad region) allows continuing cooperation in this field. One of the potential areas of cooperation is formation of woodworking companies in the Leningrad region. Thus, tariffs on round wood effective currently in Russia would be out of concern for the Finnish party.

[Informational resource: "Runa" www.runa.info](http://www.runa.info)

Forestry CEOs call to reboot global economy

Global leaders of the forest products industry meeting in London sounded a warning that governments efforts to offset the environment challenges and economic crisis facing the world today may have the perverse impact of exacerbating the problems, Finnish Forest Industries Federation said in a statement received by Lesprom Network.

Government subsidies risk creating deep distortions in competition and inhibiting investment flows needed for rebooting the economy. Protectionism and a focus on regional economy will lead to reduce global trade and may deepen the current crisis. Magnus Hall, CEO of Holmen and Chairman of the meeting, reflecting the consensus among global CEOs: «Whilst needed in the short run to face the urgency of the current crisis, the shift to a political economy based on governments' intervention might have the perverse effect of unlevelling the playing field and fuelling protectionism»

Looking to the longer term, CEOs were optimistic that the industry will adapt. At a moment when people of all nations are questioning the economic and environmental direction of the global business model, 20 CEOs from the forest industries of 12 countries called for innovation in business models to adapt to changing environments.

The forest products industry model may hold the answer to many of the questions facing humanity. Increasingly, markets are demanding products that respect nature, while meeting human needs and earth's carrying capacity. Only industries that live within nature's cycles will prosper in the future.

The participants pointed to a set of lessons that emerge from the forest industry model:

- sustainable production contributes to prosperity in rural areas,
- economic activities that are based on sustainable forest management will mitigate deforestation and forest degradation,
- industrial processes that rely on nature's carbon cycle will help reduce greenhouse gases emissions,
- use of renewable materials that are recyclable and return to nature will meet society's needs within nature's carrying capacity.

The CEOs noted that the forest sector itself has not yet reached its full potential in terms of providing a model of sustainable production and consumption but also felt confident that the future of all industrial production will need to be based on the models that are evolving in their industry.

[Informational resource: Finnish Forest Industries Federation](http://www.finnishforestindustries.com)

Sharply declining wood costs for pulpmills worldwide in the 1Q 2009, according to Wood Resource Quarterly.

Wood costs, the largest cost component when producing wood pulp, have fallen substantially in all regions of the world the past nine months. The biggest reductions have occurred in western North America, Oceania, Latin America and the Nordic countries, reports the Wood Resource Quarterly.

The global pulp and paper industry has continued to reduce production in 2009. The manufacturing of market pulp was 16 percent lower the first two months of 2009 compared to the

same period in 2008. As a result of the lower operating rates and declining demand for wood fiber, pulpwood and wood chip costs for the world's pulp industry continued to slide in the 1Q/09 and the WRQ Global Average Wood Fiber Price Indices recorded the second sharpest quarterly decline since 1995.

The Global Average Wood Fiber Price is a volume-weighted average of delivered wood fiber prices for the pulp industry in all 17 regions tracked by the publication Wood Resource Quarterly. These regions together account for 85-90% of the world's wood-based pulp production capacity.

The average conifer wood fiber price fell 8.5 percent from the previous quarter to \$89.00/odmt, and was 20.5 percent lower than the peak in the 2Q/08. The reduction was mainly the result of substantial price declines in the local currencies in Finland, Germany, Russia and western US. Wood costs in Latin America and Oceania were only slightly lower in the 1Q/09 as compared to the 4Q/08.

The average non-conifer wood fiber cost fell 6.5 percent in the 1Q/08 to US\$91.99/odmt, the lowest level since early 2007. The biggest declines in local currencies occurred in Finland, Germany, France and Japan, while prices in China, Brazil, Chile, Indonesia and Australia were practically unchanged in early 2009. During the past two decades, global wood fiber prices have been declining during most of the 1990's and early 2000, followed by a substantial increase from 2002 to 2008, according to Wood Resource Quarterly. Wood costs reached record levels in early 2008, but then fell rapidly for 12 months. The recent decline is most likely going to be temporary and global wood costs will slowly increase again later this year or in early 2010.

[Informational resource: Wood Resources International](#)

Dieffenbacher becomes majority shareholder of Shanghai Wood Based Panel Machinery

Dieffenbacher group has concluded an agreement with Kronospan group with regard to the take over of the shares of Shanghai Wood Based Panel Machinery (SWPM). The SWPM is located close to the Volkswagen, Shanghai facilities, Dieffenbacher said in a statement received by Lesprom Network.

SWPM is the most accepted local supplier in China for wood based panel production plants and has during the recent years made good progress with consequent expansion into international markets. Primarily as a supplier of Multi-opening Press Lines, SWPM has gained significant market shares. SWPM recently also has developed 4 ft wide continuous press which, by becoming a shareholder, Dieffenbacher also can offer as a competitive solution for this market segment.

SWPM and Dieffenbacher production programs are complementary in a wide range and therefore no negative effects must be expected for the employees of the Dieffenbacher companies in Germany, said in a statement.

The SWPM production program will remain and will be complemented by additional products from the Dieffenbacher program.

Dieffenbacher has a long experience in the Chinese market and has during the recent years started own activities in China by forming a sales and service company in Beijing and by opening up manufacturing facilities in Changzhou. As a consequence of becoming a shareholder Dieffenbacher will concentrate as quickly as possible all activities for the Chinese market at the Shanghai location.

[Informational resource: Lesprom Network/](#)

-

LIGNA HANNOVER Underlines Wood Industry Strengths

Attracting a highly international audience, LIGNA HANNOVER 2009 closed on an upbeat note, capping five days of brisk business activity and giving the wood industry hope of renewed growth. "LIGNA HANNOVER far exceeded the expectations of our exhibitors from 50 different countries," enthused Deutsche Messe Managing Board member Stephan Ph. Kühne at the closing press conference.

"As the world's foremost trade fair the forestry and wood industries, LIGNA has once again triggered new momentum and a brighter outlook for the road ahead, despite the troubled economy. The show's exhibitors and visitors offered proof positive of the industry's determination to respond to the challenges it faces with flexibility and innovativeness. The keynote theme of resource efficiency also played a major role in helping stimulate new growth," Kühne remarked.

Dr. Bernhard Dirr, Managing Director of the German Woodworking Machinery Manufacturers' Association within VDMA, referred to LIGNA as a "shelter in the storm", adding that LIGNA's popularity among exhibitors and visitors underscored its "unparalleled status on the international trade fair scene."

During the five-day run of the "world fair for the forestry and wood industries", 1,758 exhibitors from 50 nations presented their products and services on total display space of 130,152 square meters - impressive results, only slightly down from the "boom year" of 2007. A strong exhibitor lineup cemented LIGNA's reputation as the world's No. 1 event for the forestry and wood industries. With regard to attendance, Kühne remarked: "Given the factors affecting the industry, a total of over 83,000 visitors is highly respectable. As a potion against the current economic ills, the high caliber of our audience gave rise to many new projects, scores of new business opportunities and numerous business deals." One example: the Brandenburg-based firm Timme Stapelautomaten reported closing a major export deal at LIGNA for deliveries to Canada and the United States, which will keep production at high levels for the entire year.

"While visitor numbers did reflect strained economies around the world as well as the fact that many firms have been forced to drastically cut travel budgets, well over a third of all trade visitors with decision-making authority still came from abroad," commented Kühne.

LIGNA HANNOVER 2009 again impressively demonstrated its international appeal, drawing visitors from over 90 different countries. In terms of countries and/or regions of origin, the percentage remained stable, most notably for the Americas and Asia. An upswing in attendance was registered for Sweden, Switzerland, Poland and France.

Trade visitors again accounted for over 95 percent of total attendance. "Our success in maintaining this extremely positive result in spite of the tough economic circumstances was a remarkable achievement," declared Kühne. In terms of audience background, the construction industry and the interior finishing sectors accounted for an increased share of visitors, while attendance by machinery trade professionals was down. As Kühne explained, these figures represented "a clear reflection of current economic realities."

Stephan Kühne summed the event as a whole as follows: "LIGNA was eagerly anticipated, and ended up successfully mobilizing the strengths of the wood and forestry industries."

[Informational resource: Ligna.de](http://Ligna.de)