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Midway United Ltd. BVI

Russian Forestry News Update

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Russian Forest in Winter

Questions or comments?

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Sawlog prices fell 5-12% worldwide in the 3Q/08 as lumber markets weakened, reports WRQ

Reduced consumption of lumber in North America and Europe in the 3Q/08 resulted in lower demand for sawlogs and declining prices for softwood timber, according to the Wood Resource Quarterly (WRQ). Because wood costs account for 65-75% of the production costs when producing softwood lumber, they are the key factor determining a regions or company's competitiveness.

The WRQ Global Conifer Sawlog Price, based on sawlog prices in 19 key regions worldwide, fell 5.8 percent to US\$85.92/m³ in the 3Q/08, the lowest level since the 1Q/07. The recent price decrease is one of the biggest quarterly declines seen since the Index was first published in 1995. The major reason for the lower log costs was the weakening of lumber markets in most regions around the world. The biggest declines in log prices occurred in Western Canada, Sweden, Germany, the Baltic States and New Zealand. In the US, prices were down about five percent from the 2Q/08, while log costs in Brazil and Chile were practically unchanged.

The sawmill sector has been hit hard in Canada as a result of a sharp decline in housing constructions in the important US market. Housing starts in the US have fallen from 1.5 million units in early 2007 to 625,000 units in November 2008. The biggest decline in sawlog prices came in coastal British Columbia, where Douglas-fir and hemlock log prices fell about 10% from the previous quarter (in US dollar terms) and were more than 20% lower than a year ago. Most sawmills have reduced production temporarily and there have also been permanent closures. Lumber production in BC was 24% lower in the 3Q/08 compared the same quarter in 2007.

Sawlog prices fell in most regions of Europe in the 3Q as the demand for lumber declined not only in Europe but also in the US and Japan, both important overseas markets for sawmills particularly in the Nordic countries and Germany. Log prices fell the most in the Nordic countries where average costs were between 5-10% lower than in the 2Q. Despite this decline, wood costs for sawmills in Sweden and Finland are still among the highest in the world and substantially higher than they were two years ago.

Global pulpwood and sawlog market updates are included in the 50-page publication Wood Resource Quarterly. The report, established in 1988 and with readers in over 20 countries, tracks wood prices in most regions around the world and also includes regular updates of international timber, pulp, lumber and biomass markets.

Good prospects for Swedish biofuels

Because of increasing energy prices the value of Swedish forest-based biofuels has increased circa 7 % annually in the last years, The Nordic Forest Owners Association said. At present the numerous heating and district-heating power plants now being built in the country are the most important consumers of biofuels.

The state owned company Sveaskog, one of the major suppliers, will supply 1.8 million terawatt-hours (TWh) of biofuels this year. That is the equivalent of about 900 thousand cubic metres of wood. Mr Roger Johansson in Sveaskog says that the objective is to double this volume to 4 TWh in the following three years. In respect of forestry supplied volumes are calculated in cubic metres, but supplies to the energy sector are calculated in energy content.

Pulp mills are the traditional consumers of forest-based fuels, which they burn in their boilers. But at present the numerous heating and district-heating power plants now being built in the country are the most important consumers. There is naturally most demand in densely populated areas, such as the Mälardalen region and in Southern Sweden.

Recently Sveaskog concluded a record size contract of three years for supplying biofuels to the company Fortum. Sveaskog is to supply biofuels to an annual value of 56-60 million SEK (circa Euro 5.5-6 million) to the district-heating power plant in Brista outside Stockholm.

In order to fulfil its supply commitments Sveaskog will be creative and apply new methods for harvesting wood for biofuels. In addition to harvesting residues, such as branches, crowns and roots, also other raw materials will be used. Mr Roger Johansson says that the company will for example clear young forests and buy felling rights around fields and pastures, which are about to become overgrown. Until now such forests have been considered worthless, but they are valuable for the growing biofuel industry.

Finnish timber sales up 16% in January

The industry in Finland purchased 1.3 million cubic metres of timber from privately-owned forests in January. This was 32% less than in January 2008, but 16% more than in December, the Finnish Forest Industries Federation reported.

Log procurements were down 21% and fibrewood purchases were down 37% from January 2008. Although wood demand has temporarily fallen because of the economic slump, the industry needs to secure an increasing amount of timber in Finland over the long term.

The decrease in purchases was due both to the economic slump and the harvesting of winter felling sites that had been procured in earlier years. Winter felling sites can be logged and the wood transported away from them only after the ground freezes. The weather has been sufficiently cold this winter to enable logging activities in these difficult sites.

The stumpage prices of wood have declined slightly. The January stumpage prices of logs fell by about 10% and fibrewood stumpage prices by 6-9% from last December. The average stumpage price of pine and spruce logs was Euro 46-47 per cubic metre. On average, birch logs fetched Euro 43, pine and birch fibrewood Euro 14-15 and spruce fibrewood Euro 20 per cubic metre.

The prices of wood raw material in the main competing countries have fallen more rapidly than in Finland. The export prices of sawn timber have also declined more rapidly than log prices.

Head of the Board of Directors of Ilim Group Zakhar Smushkin is planning to invest 28 billion roubles into real estate development business

Head of the Board of Directors of Ilim Group Zakhar Smushkin is planning to invest 28 billion roubles into real estate development business in Leningrad region (Russia), as Russian business paper Veodmosti reports referring to an authority in the regional government.

Smushkin confirmed through his representative that investments will be made through Start Development company which is not related to Ilim Group. As the Economic Development Committee of Leningrad region reports, on February 10 the project of Start Development was approved by the inter-department committee. In 5.5 years the developer is going to spend about 28 billion roubles on preparation of installation of industrial enterprises on 435 hectares in Gatchina municipality of Leningrad region of Russia.

Developer's General Director Andrei Nazarov precised that at the first stage 4 billion roubles of own and loaned funds will be invested into establishment of engineering infrastructure. Then it is planned to gather investor pool out of the companies which want to build their enterprises at this site. The project entails in particular construction of 1.2 million sq m of warehouses. Food enterprises will have preference, said Nazarov. According to Mr Nazarov, Start Development is developing 15 projects in total, mainly economy class residential property and industrial parks, but all of them are at their early stages.

As Vedomosti notes, Smushkin does have money for all this: in the autumn of 2007, Russian shareholders of Ilim sold 50% of its shares to International Paper for \$650 million. Names of sellers were not disclosed, but International Paper report for the Q3 of 2007 mentioned Mr

Smushkin among people who guaranteed transfer of share in Ilim. Smushkin runs a risk starting such a project amid the crisis: demand for industrial sites will grow only in 2-3 years, says General Director of Espro Investments Vladimir Frolov (Maryino industrial park (Moscow) developer). This time should be added to usual pay-back period of such projects, 5-7 years, warns Frolov.

Start Development OJSC was established in May 2007, 100% of shares belongs to Perspektiva Investments CJSC, 99.96% of which are owned by Aurora Equities (according to Russian YeGRYuL - Official Single Register of Legal Entities). Financial performance of the company is not liable to disclosure.

Chemicals producer Wurtz opened its affiliate in Russia E. und P. Wurtz GmbH & Co. KG (Germany) which produces chemicals for WPB, MDF and plywood production opened its affiliate in Russia, as Deputy General Director of Wurtz LLC Timur Memetov reported Lesprom Network .

"Russia is a very interesting market, we are even late a bit", - said Mr Memetov when commenting on opening the affiliate.