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Midway United Limited BVI

Russian Forestry News Update

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Siberian Larch (*Larix siberica*) Veneer

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Overview of the Russian Wood Market

Russia holds about 25% of the world's forests. However, the proportion of wood on the Russian market accounted for only 2% in woodworking and 3% in trade. Only 20% of Russian timber is included in the downstream processing activities. According to experts' estimate the value of the logging market is \$ 4 billion. The largest segment of the market is 47% - and consists of raw wood (pulpwood, industrial roundwood, sawlogs).

The capacity of the domestic market of woodworking is estimated in the range of \$ 2-2,5 billion. The largest segment of the market - more than 50% - occurs to the production of lumber (40% - the production of plywood and 10% - boards MDF, hardboard and chipboard).

The dynamics of the market

According to State Statistics Committee of Russia in 2007, the volume of timber production, wood processing services and production of wood increased by 6.2%, compared with 2006.. However, in 2008 the market influenced negative aspects associated with the global economic downturn. In 2008, the volume of timber working fell at 22%; the demand in sector of furniture production has dropped at 25-30%, of wood and sawnwood at 40-50%.

According to the Ministry of Agriculture estimated in 2009 the volume of timber harvesting in Russia will fall. Small and medium enterprises will be affected stronger than all. The serious decline is expected in the logging industry, which is now the most technologically underdeveloped. 2009 revealed a marked trend of falling market of wood-working equipment, in particular, the decline in sales of woodworking machines. The market has shrunk accordingly the amount of orders from businesses to repair woodworking machinery reduced. Also the volume of orders for wood products from businesses related industries dropped.

In 2009, the dynamics of falling output in the wood has slowed in comparison with IV quarter 2008: «Virtually all commodity groups observed monthly production capacity and increase the level of capacity utilization at 10-25%», - underlines the Deputy Minister of Industry and Trade of Russia Andrei Dementev. According to the Ministry, woodworking and production of wood in the I quarter of 2009 decreased at 29% compared to the same period of 2008, the pulp and paper production, publishing and printing activities - at 16,6%, and timber - at 10, 4%.

Due to reduction in demand and prices for wood products industry, lots of enterprises suspended production and shipment of products. The first half of 2009 compared with the corresponding period of 2008 significantly decreased the production of solid wood panels (at 39.8%), plywood (at 36.2%), wood stoves (at 30.9%), timber (at 22 4%), manufacture of wooden building structures (to 26.9%). The drop in production volumes in the pulp and paper companies in the I quarter of 2009 amounted 12,5%.

The fall in the domestic market is also fraught with a declining share of imports of foreign woodworking equipment. According to representatives of the price indices of major instrument manufacturers the rearrangement of the demand of consumers from high and middle segments of the segment below the national average is noticed.

Market growth of wood and woodworking equipment

Weak growth in the domestic wood processing industry is linked mainly to the low efficiency of production and lack of investment. Sales of wood-processing equipment are largely dependent on how the market will develop for housing. The seasonal factor caused a possible revival of the market. With the start of construction and the cottage season, according to the experts, the positive trend in demand for lumber and wood processing equipment in the lower price segment is expected.

The negative trend is not only the objective consequences of the economic crisis. Many experts called the cause of the fall the obsolete technology and a small amount of wood reinforced deep, used in production. Today, the owner of the business does not invest in technology resources to update their businesses, but use old woodworking equipment, having from time to time a full renovation. However, the light at the end of the tunnel is visible, innovation is increasingly being

implemented in the wood. Most Russian companies are developing a strategy for preserving market share and make adjustments in the manufacturing process in accordance with the constantly changing market requirements.

Energy Saving in Wood Industry

More and more manufacturers are paying attention to the introduction of energy-saving technologies. Today's economic crisis has made the topic of resource economic very relevant. Special interest it's introducing the topic of energy-saving technologies acquired in the production and maintenance of sawmill equipment, woodworking machines and tools. Needs of saving the energy and minimize the cost of repair of equipment creates the prospect of development of energy-saving technologies in the industry. Modern, high-speed woodworking machines that use energy-saving technologies are low cost and meet the demanding requirements of modern industries in advanced manufacturing processes.

Each node of the technological equipment passes a strict control and is exactly in line with the existing technological standards. The integrated control system for quality guarantees the excess stability and longevity of the operation of machinery and equipment. Large range of applications and innovative solutions with the introduction of energy-saving technologies makes it possible to carry out this revolution in the wood. On the basis of economic calculations in the implementation of energy-saving technologies, the timing of return on investment is estimated by experts in the interval of 2-3 years, as the main consumer products industry has traditionally remain Buildings Industry and repair, which is now up to 75% of all wood products.

Information resources: Michael Bendyak, EquipNet.ru

A new timber mill to start in the Altai region

There has begun a building of a new woodworking plant in the Altai region, the press service of the Altai region of forest management said. The plant will be founded in the town of Kamen-na-Obi.

"Already, the project is known as one of the largest in Siberia," – these are ambitious claims of the officials.

The construction of Kamensky plant (LDK) is in the framework of developing program in forest industry of Altai region, that touched more than 20 forest enterprises of the province. Four of them located in the northwestern part of the Altai region, will be involved in Kamensk mill: Ltd «Kamenskii forestry», LLC «Aleusky forest», LLC «Baevsky forest», LLC «Vector». These companies operate today, but their wood product is not sufficiently advanced. «New high-tech, competitive industry - the main task, which should serve the new timber industry complex», - the report says.

Kamensky LDK will be equipped with modern equipment saw of the last samples of world forest industry. Initially the factory will produce lumber from pine, 120 thousand cubic meters per year. Further it is planned to develop production of deep processing of low birch wood, large deposits of which (about 200 thousand cubic meters) are in the zone edge. The goal is to get birch timber, and further processing to enhance the production of wood-based materials, and ultimately to produce furniture.

Taking into account the high level of automation, the plant will hire no more than 30 people. But taking into account all the ancillary services, including the drivers of timber, there will be set to work about 100 people. Further development of the number of jobs will grow.

Informational resource: Politsib.Ru, RussianForestryReview

Largest investment project in Russia in the field of forest exploitation

CJSC Kraslesinvest is considering producers and suppliers of sawmilling machinery. Expected volume of used sawlogs makes up 900 thousand cubic meters per year for the first stage and 600 thousand cubic meters per year for the second one.

Project on construction of Boguchany Woodworking Complex is the largest investment project in Russia in the field of forest exploitation with investment volume amounting to over 2 billion EUR. The project includes construction of two production facilities, of them mill for bleached kraft-pulp production (capacity reaching 880 thousand tons per year) and sawmill (capacity making up 440 thousand cubic meters annually).

Pulp and paper and sawmilling capacities are to be increased up to 1 million tons and 880 thousand cubic meters respectively. Besides, there will be installed optimization lines for wood

boards production, frame house construction, and paper.

Both facilities are to meet environment standards. There are only several such complexes in the world with this to be the first ever constructed in Russia.

Designing works are performed by MAN Ferrostaal AG (Germany). The woodworking complex is to reach full capacity in 2014.

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

Two mills for deep woodworking to be launched in Primorye area

Two mills for deep woodworking are to be launched on July 20, 2009 in Plastun, Primorye area.

It is one of the largest investment projects in Russia. Two mills are to produce 150 thousand cubic meters of sawn timber and over 250 thousand cubic meters of veneer annually. Both mills will process about 700 thousand cubic meters of round log per year.

The mills being launched in the mid of economic crisis, it will allow decreasing social strain in the area.

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

Komi: Lusales to launch a line for molded logs production

Lusales – one of the largest timber companies in Komi Republic – is to launch a line for molded logs production in the end of 2009.

Construction works are being performed at sawmilling plant in Kyddyavidz with trial start-ups being provided currently.

Today Lusales produces trimmed and glued logs. Molded logs are to be used in timber house construction.

New production is to be exported not only inside the region, but into other regions in Russia as well, including existing interest from Finnish and Swedish companies.

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

June 2009: Price of Round Wood in Russia Decreased by 0.9%

The average price of 1 m³ of timber conifers (pine, spruce) with a diameter of 16-30 cm and length of 4-6 m in June was 1% higher than in May, of 1 m³ of timber from hardwood (birch), diameter of 16-30 cm, length 3-6 m in June was 3% less than in May, 1 m³ of pulpwood from spruce species 4 m long, 6-16 cm in diameter (1, 2 and 3 grade) went up by 2.2%. The price of 1 m³ of pulpwood of pine (mild), 4 m long with a diameter of 6-16 cm (1, 2 and 3 grade) in June increased by 1.6%, 1 m³ of pulpwood of hardwood (birch), diameter of 6-16 cm length of 6 m (1, 2 and 3 grade) in June had dropped in price on 2,7%.

These prices can vary depending on volume, destination of products, as well as a secure supply of frequencies. Prices are taken from the producers of roundwood in the conditions of the sale of 1 m³ of raw materials to the nearest station for loading the wagon. Stipulated amount of supply is 500 cubic meters.

In June, at the spot-market prices for roundwood, coniferous sawlogs were stable or even slightly increased. This primarily relates to growth in a wooden house building. Deciduous sawlogs dropped in price, as well as less demand. Pulpwood loggers try not to depress prices, as well as selling the balance sheets has become less profitable.

In the Siberian region in connection with the construction season saw logs in June went up. Prices on softwood pulpwood also increased, while the hardwood pulpwood fell.

Prices of pine sawlogs increased in the Ural region in June. Loggers indicate that fewer companies have been selling raw materials, trying to recycle it by themselves, therefore, and the number of offers in the timber market has become smaller. Prices on the balance sheet fell. Manufacturers note that the demand from the pulp and paper mills increased slightly, but the procurement is for low prices.

In North-West district in June, there was an increase in the prices of pine sawlogs, due to increased demand for lumber during the construction season. Prices on the balance sheet fell. In the Central District in June there is a tendency diverse. Prices for sawlogs declined. This may be due to the fact that last month there was a large increase (+5.5%). Balance went. Loggers try to stabilize prices and export balances only on an advance, otherwise the implementation of raw material becomes unprofitable.

In the Volga region in June prices of pine sawlogs remained unchanged, while deciduous sawlogs cheaper. This is due to lower demand for this type of material. In the segment balances also experienced a slight downturn in prices.

[Informational resource: Lesprom](#)

Petrozavodskmash to supply bark sorting machinery to Kotlas woodworking plant

Machinery for bark sorting - SSch 900-1 - was shipped from Petrozavodskmash to Kotlas woodworking plant. Capacity makes up 900 cubic meters per hour in bulk.

Machinery is designed for sorting out the bark that can be used for pulp production. It is the largest machinery produced in Russia.

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

John Deere prepared to expand operations in Russia

On the eve of the Russia - USA Business Forum in Moscow, Deere & Company announced that it is prepared to significantly expand its farm, forestry, and construction operations in Russia.

The Russia - USA Business Forum is being held in conjunction with the summit meetings between Russian President Dmitry Medvedev and U.S. President Barack Obama. "Under the right market access conditions, John Deere anticipates significant investments in Russia. John Deere is working to expand its Russian manufacturing of agricultural equipment by early 2010. Ultimately, with the support of the government of the Russian Federation, Deere could envision a series of significant investments over the next five to seven years in expanded capacity for manufacturing and supporting all types of Deere equipment", said Samuel R. Allen, president and chief operating officer.

[Informational resources: John Deere](#)