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## Russian Forestry News Update

### Последние известия российской лесной промышленности



*Siberian Aspen & Birch Forest*

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## Russian log and lumber exports increased substantially in 1Q/11

The world's largest log exporter, Russia, increased the shipments of logs in the 1Q/11 after having declined for four years. Russian exports of softwood lumber have also gone up substantially, especially to China, Uzbekistan, Japan and Egypt. Russia has for many years been, by far, the largest exporter of logs in the world. When the country announced a log export tax of 25 percent in 2007 and the intention to increase this tax to 80 percent in 2009, many forest companies in Asia and Europe decided to reduce their reliance on Russian logs. As a result, total log exports from Russia fell from 51 million m<sup>3</sup> in 2006 to about 22 million m<sup>3</sup> in 2009 and 2010.

This downward trend, however, appears to have been broken in 2011. During the first few months, total softwood and hardwood log exports have been up by almost 40 percent compared to the same period last year. Much of this increase in shipments has been to China, Finland and Japan. This recent upward trend can be expected to continue during 2011 and 2012, less dramatically, as Russian log export taxes are reduced. During discussions between Russian and EU representatives in December last year, it became clear that Russia has been pressured to reduce log export taxes if the country wants to join the World Trade Organization (WTO).

It is still not clear exactly what the new log export taxes may be and when they will be implemented. Softwood log taxes may fall to somewhere between 5-10 percent, and hardwood log taxes will probably be lower than those for softwood. The lower tax rates are not likely to be instigated until Russia has been recognized as a full member in the WTO, which may not be until early 2012.

Russia has not only increased its exports of logs but also of softwood lumber. From 2008 to 2010, exports were up 18 percent, reaching an all-time high of 17.5 million m<sup>3</sup> last year. So far this year, exports have been over 50 percent higher than the same period last year; 2011 may very well be a record-year. China is the largest market for Russian logs, followed by Uzbekistan, Japan and Egypt. Shipments to China tripled between 2007 and 2010; during the first quarter this year, exports were 150 percent higher than the same quarter in 2010.

The trade of logs and lumber between Russian and China can be expected to expand in the coming years because of the continued increase in demand for wood products in China and the country's relative close proximity to Russian forests and sawmills.

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

## Softwood lumber demand jumps 18% last year

Global demand for softwood lumber increased by about 18 percent in 2010. This came after a year when wood consumption worldwide was the lowest it had been in almost 50 years. This upward trend in consumption has continued thus far in 2011, with total volume consumed being more than 20 percent higher than the same period in early 2010, according to the market publication Wood Resource Quarterly.

Not surprisingly, it is China that has been the major driver in the higher demand for lumber. The country's sawmills are far from being able to meet the increased demand, and as a result there has been a substantial increase in import volumes the past five year, from just over two million cubic meters (m<sup>3</sup>) in 2006 to 9.4 million m<sup>3</sup> in 2010.

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This unprecedented rise in shipments continued the first two months of 2011 when imports were as much as 32 percent higher than in 2010.

Practically all major lumber markets in Asia, Europe and North America experienced stronger demand last year. This resulted in higher production worldwide and also increased global trade. The world's largest importer, the US, imported seven percent more lumber in 2010 than the previous year, while imports to the third largest market, Japan, were up almost 15 percent. In Europe, shipments were up between 10 and 35 percent to the largest lumber-consuming countries on the continent.

The improved market conditions have resulted in higher lumber prices worldwide. Lumber prices can be anticipated to go up in many markets during 2011 for a number of reasons, including expected increased demand in China, somewhat higher lumber imports to Japan for the rebuilding after the earthquake, and continued measured improvements in the US housing market (mainly repair & remodeling and multi-family residential housing).

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

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## **A new Swedish woodworking company will open in the Angara Area**

The first Swedish woodworking company in the East Siberia OOO "Rusforest-Magistralny" will be launched by RusForest group of companies in the first half of June in Magistralny village of Kazachinsko-Lensky District of Irkutsk Region. The rated output of the plant is projected at 150 thousand cu m of sawn wood products per year. The main marketing area of the plant will be the European countries, primarily Germany and Austria, the countries of Middle East, as well as Japan, South Korea, China. Also there is a possibility to supply the products in Moscow and Saint-Petersburg. The industrial residues, such as chips, sawing and bark, will be used as biofuel in the boiler plants. It is planned that the high-grade industrial chips will be supplied to the pulp-and-paper plant of the Bratsk branch of Ilim Group. OOO "Rusforest-Magistralny" will transfer to the budgets of Irkutsk Region and Kazachinsko-Lensky District 1 billion 340 million rubles of taxes during ten years. The plant will create jobs for more than 500 employees.

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

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## **Solombalales is going to raise about USD 3.95 billion of credits to upgrade the production**

The credits will be used to create a new sawmilling production at the territory of the plant and to implement the project «The upgrading of the woodworking facilities and the creation of forestry complexes». The payment guarantor on credits for the banks shall be OJSC Solombala Pulp-and-Paper Mill as decided at the shareholders meeting of Solombala Pulp-and-Paper Mill that took place on May 20, 2011. The date of credit granting is not disclosed yet, but the press-office announced that it will happen "very soon".

All the projects of the future plant have been already prepared and at the moment the site preparation works are being conducted. As it was reported by the press-office the tender for supply of equipment has been announced. It is planned that upon the implementation of the project Solombala Sawmill and Woodworking Plant will increase the processing of the raw material up to 800 thousand cu m<sup>3</sup> per year and the lumber production output will reach up to 370 thousand cu m<sup>3</sup> per year. The company will produce dried lumber and the planed lumber, the glued structures and industrial chips for the pulp-and-paper production.

It is planned that in the scope of the second investment project a new wooden-and-trade production will be constructed and will include the wood treatment facility with the output of 1 million m<sup>3</sup> of chips per year. The facilities will be located at the industrial site of Solombala Pulp-and-Paper Mill. According to the press-office of the managing company, the upgrading will be finished by 2018.

The creditor of the first investment project shall be JSC VTB Bank or JSC Sberbank, of the second investment project - JSC VTB Bank North-West or JSC Sberbank, JSC SKB-bank and JSC Bank of Saint-Petersburg".

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## The French company MEM has installed a new TWIN Circular line in the Ust-Ilim of Irkutsk region

"This last time our company engages in the modernization of the existing sawmills in Russia, staffed by obsolete Soviet equipment. In this project in Siberia, our Circular TWIN line replaces three frame saws R-63, worked in parallel. The advantage of our line is that the volume of processed logs in sawmill has not changed. In the same time we are working now with only one headsaw machine instead of three energy-intensive and technologically out-of-date frames saws. This machine is able to set the blades for a split second to cut the logs of different diameter, whereas in the past to change the saws we needed to stop all production. The Circular TWIN is operated by one operator, which reduces the costs per unit of production", – said Oleg Sanochkin, Engineer of MEM Company.

At present time the company is working in the projects of sawmill modernization in the Vologda region, the Siberian Federal District and the Khabarovsk Territory.

*Informational resource: [Russian Forestry Review](#).*

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## RusForest acquires additional forest lease-holding companies in Krasnoyarsk region, Russia

RusForest AB has entered into an agreement to acquire ZAO ADAR ("Adar") and OOO LP LDK Kansky ("Kansky") in the Krasnoyarsk region, Russia. The two companies hold forest leases with a combined Annual Allowable Cut (AAC) of 470,600 cubic meters. The acquisitions are conditioned upon, inter alia, the two companies having settled certain debts, as the company said in a press release received by Lesprom Network.

Adar holds a pine-dominated forest lease located approximately 110 km north of the Boguchansky LPK sawmill, with an AAC of 262,700 cubic meters and covering an area of 110,343 hectares. The remaining term of the forest lease is 44 years.

Kansky holds a larch-dominated forest lease, located approximately 170 km north of the Boguchansky LPK sawmill with an AAC of 207,900 cubic meters and covering an area of 109,493 hectares. The remaining term of the forest lease is 43 years.

The new forest leases complement RusForest's existing assets in the region well, especially in light of the fact that the Company is expanding drying and sorting capacity at the Boguchansky LPK sawmill. The transactions, when completed, will increase the Company's AAC in the Boguchany region to 748,400 cubic meters, and will allow Boguchansky LPK to become self-sufficient in terms of raw material supplies and help reduce raw material related costs starting from the 2011-2012 season.

RusForest's long-term objective for the Boguchansky LPK sawmill is to reach an annual sawnwood output of 200,000 cubic meters through the construction of additional drying and sorting capacity at the site.

Following the acquisitions, RusForest will invest into additional harvesting equipment during the autumn of 2011 and will continue to strengthen the local management in harvesting as well as in road construction.

"The competition with regards to access to high quality raw material continues to increase in Russia, not least in Siberia where Chinese companies have become very active recently. In addition, two large state-funded projects in the Krasnoyarsk region, Angara Paper (with Södra as a partner) and Kraslesinvest (Boguchansky pulp-mill), also have a significant impact. The acquisitions of Adar and Kansky will allow Boguchansky LPK to become self-sufficient in terms of sawlog deliveries in the future, decreasing supply-related raw material risks while allowing for increased production and reduced raw material related costs", comments RusForest's CEO, Martin Hermansson.

The acquisitions are conditioned upon both Kansky and Adar having settled certain debts, as well as upon conditions customary for acquisitions of this kind, including no material adverse change having occurred in the target companies between signing and

closing.

Following the acquisitions of Adar and Kansky, RusForest's consolidated AAC will amount to approximately 3.3 million cubic meters

*Informational resource: Lesprom*

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## Russian Federation expects further co-op with China

The Sakha Republic had signed several documents on cooperation with China focusing mainly on timber extraction and processing but the two sides were also discussing joint oil and gas exploration projects according to China Daily last week.

Yegor Borisov said the focus of these documents was mainly on "China is eyeing construction of a sea transport corridor via the Sakha Republic and the Arctic Ocean, while Russian republics which wanted to establish links with Europe are also interested in the project," Borisov said.

This year marks the 10th anniversary of the signing of the Treaty of Good-Neighborliness and Friendly Cooperation between China and Russia.

Sakha, located in the northeast of Russia, is the biggest Russian republic, covering one fifth of the country's total territory.

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

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## Finnish-Russian collaboration in forest sector will strengthen

The project will get funding of 175 000 euros from South-Karelia - Russia ENPI program. ENPI (European Neighborhood and Partnership Instrument) -program is financed by EU, the Republic of Finland and the Russian Federation. One of the aims during the project is to find a suitable form for strengthening the research and education collaboration between Finnish and Russian forest sector. The father of the idea of Finnish-Russian Forest Academy has been Mr. Timo Puttonen, Executive Director of Regional Council of South Karelia.

The target of Forest Academy is to facilitate and increase the cross-border forest industry collaboration, enhance development of new innovations and business in forest sector.

The Forest Academy aims to create a forum for constructive dialogue, development and co-operation for universities, enterprises, public organizations and authorities. In the course of time knowledge and knowhow related to research, education and innovations in forest sector will be cumulated in this Finnish- Russian center of expertise.

One of the main topics which will be examined in the new project is bioenergy. Finland pays a lot of attention to this question, but Russia is far away from that so far. At the same time the bioenergy development could be very positive for Russians.

The lead coordinator of the project is Lappeenranta University of Technology, but the project is implemented together with St. Petersburg State Technological University of Plant Polymers and St. Petersburg State Forest Technical Academy.

The Finnish-Russian Forest Academy project is one of the accepted projects in the first call of applications of South-Karelia - Russia ENPI -program.

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

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## Finnish forest industry purchased 2 million cubic meters of timber in May

The forest industry purchased 2 million cubic meters of timber from private forests in May. The volume more than doubled from April, as Finnish Forest Industries Federation said in a press release received by Lesprom Network.

All timber grades are in demand, but there's a particular need for more sawlogs, which are needed to keep sawmills up and running.

Although timber sales have picked up in May, the aggregate volume of purchases in the early part of the year still lags almost one-third behind the longer-term average. The volume of purchases concluded in January-May 2011, 5.7 million cubic meters, was down 17% from the corresponding period of 2010.

The sawlog purchase volume was 2.1 million cubic meters, down a quarter from the corresponding period of the previous year. Procurements were down 42% compared to the five-year average. Livelier timber sales are especially important for sawmills; more timber is needed to keep them operational and customers supplied with sawn timber products.

The pulpwood purchase volume was 3.3 million cubic meters, down 13% from 2010 and about one-third from the five-year average.

On average, stumpage prices were up 5-11% from May 2010. Compared to April 2011, stumpage prices increased 1-2%.

The average stumpage price of pine sawlogs was Euro 55 per cubic meter and spruce sawlogs cost Euro 57 per cubic meter. On average, birch sawlogs fetched Euro 43 per cubic meter. The average stumpage price of pine and birch pulpwood was Euro 16 per cubic meter, while spruce pulpwood fetched Euro 19 per cubic meter on average.

All timber grades as well as standing sales and sales for delivery are in good demand at present, with sites that can be harvested in summer being particularly sought after. Sites harvested in summer are also an important source of business for harvesting entrepreneurs.

*Informational resource: Lesprom*