



Courtesy of Midway United Limited

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## Russian Forestry News Update

### Последние известия российской лесной промышленности



Construction of the peeling line control room, September 8, 2010.

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#### Questions or comments?

Phone: +1 (678) 290-9195

Skype: bob.nurre

Email: [rnurre@midwayunited.com](mailto:rnurre@midwayunited.com)

## Ilim Group plans to invest over \$860 million in the Irkutsk oblast, Russia

Zakhar Smushkin, Board Chairman of Ilim Group, spoke at a plenary session of the Baikal Economic Forum in Irkutsk, Russia. His presentation was dedicated to investments into the forest products industry and ways to improve efficiency in using forest resources, company said in a statement received by Lesprom Network.

According to Mr. Smushkin, Ilim Group has already invested more than \$130 million in purchasing high-performance harvesting, wood hauling, road construction and auxiliary equipment in Siberia, as well as in the construction of forest roads. These investments resulted in doubled production per unit of equipment, a 20% reduction in wood costs, and an increased output of saw logs. Moreover, working conditions in the forest were brought in compliance with the modern-day requirements.

The company is currently implementing an investment project to install a new fiber line in Bratsk with the total amount of investments being \$670 million. Ilim Group's aggregate investments in the Irkutsk oblast will exceed \$860 million.

The Chairman of the Board has also covered some of the major issues the company encountered while implementing this project, including lack of sufficiently experienced construction and installation companies in the region, as well as the need to engage additional workforce, since the peak phase of the project will require up to 1,500 people.

In the area of forest management, apart from the poor road infrastructure, Mr. Smushkin has stressed the issue of low yield of wood from a unit of timberland as compared with the industrially developed countries. A possible solution to the issues mentioned above would be to provide major forest products companies with the right to organize special-purpose harvesting operations on the leased timberland plots. This would allow them to increase harvesting volumes without leasing additional timberland plots, reduce harvesting and hauling costs, and improve forest regeneration quality. In 2010, Ilim Group launched a pilot project to introduce this concept in one of the forests of the Irkutsk oblast.

*Informational resource: [Lesprom](#)*

## Loading on October railway for 8 months was more 62.6 million tons

Loading on October railway over the 8 months of 2010 was more 62.6

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million tons. Volumes of loading at the October railway between January and August of 2010 rose 8.4% compared to the same period last year.

Compared to the 8 months of 2009 increased loading on the following items of goods: iron ore-12.37%, non-ferrous ores 21.15%, fertilizers-13.2%, iron by 49%, chemicals-35.3 per goods in containers by 42.5% forest goods 8.9%. Decreased loading of bulk-oil cargo 1.25%, construction goods-0.5%, non-ferrous metals processing plant-13.2%.

Within 8 months of 2010 in service October railway shipped 13 million 475 000 tons of iron ore, 14 million 275 thousand. tons of construction goods, 10 million 840 thousand. tons of bulk-oil cargo, 9 million 153 thousand 3 million tons of fertilizer, 291 thousand tons of timber cargo, 1 million 812 000. tons of non-ferrous ores, 1 million 880 thousand tons of cargo in containers.

In August 2010 at the October railway shipped more than 8 million 648 thousand tons of cargo that 4% higher than in similar period of last year, reported the PR service DWS.

*Informational resources: WOOD.RU and JSC "Russian Railways"*

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## **Wood costs for sawmills and pulp mills in Sweden on the rise in 2010**

Despite slower lumber export sales, sawlog prices in Sweden continued upward in the 2Q, reaching their highest levels on record in local currency. Log prices have increased faster in the southern part of the country where both sawlogs and pulpwood prices are now higher than in the northern region. As a result, forest owners in Central and Northern Sweden are increasingly considering shipping logs southbound unless local log prices become more attractive, as reported in the Wood Resource Quarterly.

Swedish sawmills continue to have lower wood costs than many of their competitors in Finland, Germany and Austria. However, the cost discrepancy has declined substantially from last year. Sawmills in Eastern Europe and Northwest Russia, on the other hand, currently have 15-30% lower wood costs than Swedish mills with the Czech Republic being the only exception. The major reason for this disparity is the Czech's increasing log exports to neighboring Austria and Germany. So far this year, log shipments from the Czech Republic have gone up over 30% as compared to 2009.

Pulpwood costs, which account for about 60% of cash costs for Swedish pulp mills, were higher in the 2Q this year as compared to the same quarter last year. Average softwood and hardwood pulp logs costs have gone up 12% and 18% (in US dollar terms), respectively, in 12 months, according to the Wood Resource Quarterly. In the local currency, the increases have been slightly smaller.

With many sawmills reducing production this summer and fall and as a result, less availability of residual chips, the demand for pulplogs has increased. The pulp industry is very dependent on wood chips as this source is typically the lowest cost fiber. In 2009, just over 27% of the total softwood fiber consumption was bi-products from the country's sawmills.

It is likely that this share will be slightly lower this year because of the continued high demand for fiber and a reduction in available supply of residual chips. As a result, there will continue to be strong demand for pulplogs in the coming months.

*Informational resources: Lesprom and Wood Resource Quarterly*

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## UPM Timber to curtail Finnish production in 4Q

UPM's Timber business will curtail its production in Finland during the 4Q 2010. Demand for sawn timber has decreased and due to the seasonal changes demand is estimated to further slow down towards the end of the year. Also high wood price in Finland has weakened the business' cost competitiveness in the markets, company said in a statement received by Lesprom Network.

The production curtailments in Timber business and possible temporary lay-offs are to be carried out according to mill-specific plans. UPM Timber has curtailed its production also during the first half of 2010, and has closed down a sawmill in Heinola and a further processing mill in Parkano during the early 2010.

*Informational resource: Lesprom*