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Solid Wood Products

Annual

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Report Highlights:
Growth in Russia's wood products industry sector is slowing as a result of rising production costs, and a lack of capital investment. Exports of Russian forest products continue to be mostly low value items. During 2002 total forestry output is expected to expand marginally.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

The rapid rate of growth in Russia's forestry sector that was evident following the ruble devaluation has slowed, as Russian forestry output in 2002 and 2003 is not expected to expand significantly. The industry badly needs policy reform and capital investment. Despite its enormous potential as an exporter of wood products, Russia continues to export mostly logs and pulp, lacking equipment for producing value added items. Therefore, internationally Russian wood is cheap. Although there are pockets of investment into the sector, they fall far short of the amount needed if Russia is to become a reliable major exporter of forestry products. In the near future, no major turnaround is expected.

Production

According to the Russian Union of Forest Industry and Timber Exporters, Russia could harvest 700 million cubic meters of wood on a yearly basis without damaging the ecology. Although Russian forestry and wood product output is slowly expanding, most experts believe that its harvesting and manufacturing capacity is severely limited by a lack of efficient modern equipment. Russian wood production facilities are inefficient, with the lowest efficiency occurring in the timbre harvesting and sawing industry. Even the export oriented newsprint and cellulose industry only utilizes from 50 percent to 65 percent of its production capacity according to the Union.

Wood products from Russia often do not meet the quality standards demanded in the international arena. Capital investment is badly needed by the forestry sector. Since there are few modern mills in Russia, domestic logging companies cannot utilize their wastes. Instead companies from Finland, Norway, and Sweden -- using efficient wood technologies -- find ways to turn these wastes into profitable products.

Furthermore, Russia does not have a well developed natural resource policy. Bureaucracy, taxes, and antiquated policies encourage illegal logging, and eliminate incentives for the industry to re-equip. The current investment climate is dampened by Russia's slow movement towards land policy reforms and high bank interest rates that are detrimental to revitalizing the sector. Therefore, maintaining and expanding the productive capacity of the domestic forestry sector is difficult, as potential investors perceive high risks in the industry.

Neighboring countries with limited and properly regulated forest reserves remain interested in Russia's vast forests. Finland, Norway, Sweden, and China continue to buy logs and pulp for paper and furniture making. Some Russian forestry companies with an interest in producing more value added products are acquiring investments through Russian banks with the support of international programs. For the most part, however, few foreign companies are involved in Russia's timber processing industry, but rather helping to build port loading and other facilities that make timber exports easier.

Despite Russia's outstanding potential, only border areas have been able to develop profitable industries because of lower transportation costs. In central Russia, the lack of roads that would allow logs to be taken out, as well as high railway transportation costs prevent exploitation of forestry resources. Consequently, Russia's forest area is growing faster than it can be cut.

During 2002, total roundwood production is expected to be approximately three percent above output in 2001. Softwood and hardwood lumber production are projected at 14 million cubic meters and 4.7 million cubic meters, respectively, or about the same levels as last year. Russian timber companies are expected to produce 1.3 million cubic meters of hardwood plywood in 2002, or 4 percent more than in 2001, while production of softwood plywood is expected to be flat over the same period. Without significant changes in domestic forestry policy and management output in Russia’s forestry sector is not expected to expand rapidly.

Table 1: Russian Production of Wood Products

	Russian Federation	European part	Asian part
Overall stocks of timber , billion m3	81.9	22.1	59.8
Annual timber gain, million m3	970.4	359.4	611.0
Calculated available wood logging, million m3	550.0	212.6	337.4
Total logging volume	165.9	109.3	56.6
Harvest of timber from one hectare of territory covered by forest, m3	0.21	0.65	0.09
Usage of calculated available wood logging, 5	24.0	40.9	13.3
Share of usage of the annual timber gain (percent)	17.1	30.4	9.3

Source: The Russian Forestry Journal

Table 2: Russian Production of Wood Products, 1999 - 2001

Commodity	1999	2000	2001
Cut roundwood, million m3	95.0*	100.0*	97.0*
Workable roundwood , m3	76.8*	78.4*	77.7
Sawn timber, million m3	17.4	18.7	17.3
Window blocks 1,000 m2	2,770	3,416	3,254
Door blocks 1,000 m2	3,529	4,153	3,994
Ore bars 1,000 m3	29.6	24.6	18.6
Mine boards 1,000 m3	27.7	16.6	12.0
Plywood 1,000 m3	1,319	1,480	1,590
Parquet 1000 m2	2,208	1,991	1,705
Box sets 1000 m3	189.0	228.0	184.0
Fiber board million m2	237.0	273.0	277.0
Particle board million m3	1,969	2,293	2,482
Railway ties 1000	3,590	5,518	4,801
Industrial Houses, 1000 m2	53.4	81.3	90.5
Containers, pieces	4,060	8,175	12,500
Summer houses	2,242	2,557	1,905
Matches, 1000 boxes	6,237	6,961	7,716
Tables, 1,000s	3,097	3,573	3,665
Chairs, 1000s	3,011	3,511	3,108
Wardrobes, 1,000s	2,458	2,724	2,597
Wooden beds, 1,000s	544	649	630

Source: Russian State Statistic Committee; *Post Estimate

Consumption

Russian foresters export their best quality items. The rest is consumed domestically. There is a large amount of wasted wood left in forests, as the Russia lacks equipment for processing many value added wood products. Russian consumers of wood products find that they can get better quality items at competitive prices from foreign suppliers.

Trade

According to Russian Customs statistics, exports of forestry products account for some four percent of national exports. According to the Union of Forest Exporters, Russia exported approximately $4.5 billion worth of timber products in 2001, but claim exports could be much greater.

Russian statistics indicate that wood product exports grew 6 percent during 2001 compared with the previous year. However, exports of logs increased from 33 percent to 39 percent of exports during that period. Russia presently is unable meet the high quality standards demanded in international markets, as there is a lack of modern equipment for producing valued added products.

Table 3: Russian Exports of Timber Products

	1999		2000		2001	
	Volumes	$millions	Volumes	$millions	Volumes	$millions
Round wood 1000 m3	27,622	1,200	30,835	1,338	37,176	1,666
Sawn timber, million 1000, m3	6,432	626	7,763	733	7,730	715
Plywood 1000, m3	913	234	974	221	1,020	240

Source: Russian Union of Forest Industry and Timber Exporters

Policy

There is no clear government policy towards developing the forestry and timber industries because there is no single state body regulating activity in this sphere. In 2000, the Forestry Department was moved from the Ministry of Ecology to the Ministry of Natural Resources, while the Department of Timber Resources was moved from the reformed Ministry of Economy to the Ministry of Industry and Science. As a result there is no clear, effective national policy in forestry. According to a recent article from "The Russian Forestry Journal", the Forestry Union Congress to be held in the Republic of Komi on February 22, 2002 will discuss this issue, and recommend that a Federal body responsible for management of forests and regulation of the timber processing industry be created. This will help to prevent conflict of interest between State policies and wood processing industries.

Tariffs

Table 4: Import Duties for Wood and Articles of Wood (valid until June 30,2002)

Russian customs code (HS code)	Product Description	Previous Tariffs	New Tariffs
4401 through 4421	Wood and product	20%	15%
EXCEPT:			
4408 31 through 4408 39	Dark red Meranti., Light Red Meranti and Meranti Bakau and other	5%	10%
4410 31 000 0	Particle board, other, from wood, not processed or without further processing besides polishing	30%	20%
4415 20	Pallets	20%	5%
4418	Builders' joinery and carpentry of wood ...	20%	20%
4701 00 through 4707	Wood pulp, waste, scrap of paper or paperboard	15%	15%

Source: Russian Customs, 2002

Railroad Tariffs To Increase

According to the Ministry of Railroads (MRR), tariffs increased by 16 percent beginning February 15, 2002. This will be the second time that railway tariffs have been increased in a year. Further changes are indicated as the MRR seeks to unify tariffs for internal and international shipments. Currently, domestic tariffs are lower than international ones.

Illegal Logging and Timber Certification

Russia is in the process of developing a mandatory certification system for standing timber. According to First Deputy Natural Resources Minister Yuri Kukuyev, Russia misses out on approximately 1.0 billion dollars in export revenues annually because it lacks a system for certifying exported timber. According to forestry experts, uncertified timber from Russia is 30 percent cheaper on world markets. In addition, Russia is taking steps toward curbing illegal logging practices, which Kukuyev estimates were responsible for about 732, 000 cubic meters of production between 1996 and 2000.

Marketing

On the domestic market, Russian wood is expensive compared to products from other countries. According to experts, Russian forestry output is lacking in almost all categories - quality, precision of processing, commodity appearance, packaging, etc. The result is that Russian wood is approximately 30 percent cheaper in the world market.

Some experts believe that the ruble is overvalued. Rising production costs are negatively affecting profits within the forestry industry. The positive effect that the 1998 ruble devaluation had on exports is disappearing. This tends to erode good forest management.

Table 5: Index of Forestry and other Russian Industry Input Prices, base year = 1990

	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Total, Industry	10,619	13,804	15,184	18,677	31,247	41,121
Forestry complex	6,793	7,472	8,025	11,443	19,144	23,854
Electricity	14,541	18,903	20,547	21,082	24,117	33,730
Fuel and oil industry	13,541	18,957	21,024	21,192	49,780	77,258
Rail road tariffs	16,188	20,721	20,866	16,693	18,362	24,972

Source: News of Forestry Economy ,#3, 2001

Table 6: Profits of the Forestry and Timber Complex, million rubles

	1999	2000	2001
Total	17,936	17,266	16,000
Including			
Harvesting industry	1,975	-319	-400
Timber processing industry	4,670	2,900	3000
Cellulose production industry	11,215	14,603	13,355

Source: Russian Forestry Journal, January 2001

PSD Table						
Country:	Russian Federation					
Commodity:	Softwood Logs					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	61000	64000	68000	66000	0	68000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	61000	64000	68000	66000	0	68000
Exports	16000	20000	23500	21500	0	22500
Domestic Consumption	45000	44000	44500	44500	0	45500
TOTAL DISTRIBUTION	61000	64000	68000	66000	0	68000

PSD Table						
Country:	Russian Federation					
Commodity:	Temperate Hardwood Logs					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	19500	23000	23500	23500	0	24000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	19500	23000	23500	23500	0	24000
Exports	5700	9200	9200	9600	0	10000
Domestic Consumption	13800	13800	14300	13900	0	14000
TOTAL DISTRIBUTION	19500	23000	23500	23500	0	24000

PSD Table						
Country:	Russian Federation					
Commodity:	Softwood Lumber					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	14000	14000	14500	14100	0	14500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	14000	14000	14500	14100	0	14500
Exports	4350	4350	4600	4400	0	4800
Domestic Consumption	9650	9650	9900	9700	0	9700
TOTAL DISTRIBUTION	14000	14000	14500	14100	0	14500

PSD Table						
Country:	Russian Federation					
Commodity:	Temperate Hardwood Lumber					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	4950	4650	4850	4700	0	4720
Imports	0	0	0	0	0	0
TOTAL SUPPLY	4950	4650	4850	4700	0	4720
Exports	310	360	430	380	0	390
Domestic Consumption	4640	4290	4420	4320	0	4330
TOTAL DISTRIBUTION	4950	4650	4850	4700	0	4720

PSD Table						
Country:	Russian Federation					
Commodity:	Softwood Plywood					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	180	250	258	258	0	265
Imports	2	2	2	2	0	2
TOTAL SUPPLY	182	252	260	260	0	267
Exports	110	180	182	182	0	186
Domestic Consumption	72	72	78	78	0	81
TOTAL DISTRIBUTION	182	252	260	260	0	267

PSD Table						
Country:	Russian Federation					
Commodity:	Hardwood Plywood					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	1250	1250	1410	1300	0	1350
Imports	0	0	0	0	0	0
TOTAL SUPPLY	1250	1250	1410	1300	0	1350
Exports	860	860	1000	880	0	900
Domestic Consumption	390	390	410	420	0	450
TOTAL DISTRIBUTION	1250	1250	1410	1300	0	1350