

Forest Products Market Update

- a news brief from Wood Resources International LLC

Softwood log prices increased in Russia in 2009, while hardwood prices fell because of a 72% decline in log exports, reports the Wood Resource Quarterly

Despite large timber resources, Russia struggles to attract investments within the forest industry because of political and financial uncertainty in the country. Domestic prices for softwood sawlogs and pulplogs were up in 2009, while hardwood log prices fell as a result of a sharp decline in log exports to Finland, reports the Wood Resource Quarterly.

Seattle, USA. March, 2010. Domestic softwood sawlog prices have moved up in Russia in 2009 both in Rouble and in US dollar terms. In the 4Q, the average pine log prices were over 30% higher than in the 1Q/09 (in Ruble terms they were up 15% during the year), as reported in the Wood Resource Quarterly. The major reason for the price jump was that production of lumber and plywood picked up towards the end of last year, and demand for logs was slightly higher.

Softwood pulpwood cost also went up during 2009 in Rouble terms, but hardwood pulpwood prices fell. The hardwood log market changed dramatically during 2009 because of the sharp reduction in exports of birch logs to Finland. The export volumes were down by 8.5 million m³, or 72%, from 2008 mainly as a result of reduced demand for hardwood fiber in the Finnish pulp industry. The Russian government's ambiguity and lack of clarity regarding the future policies of log export taxes has resulted in a reluctance from foreign companies to invest in Russia, and many forest companies are considering other regions for their long-term supply of wood raw-material.

Russia's Prime Minister Mr. Putin announced last year that the current log export tax for softwood timber will remain at 20% of the log value (with a minimum of €15/m³) for 2010. He also hinted that this tax might be extended to 2011 if the demand for Russian forest products had not improved by that time. The key message in the Prime Minister's statement was that Russia has no intentions of suspending the export tax altogether as had been requested by the Finnish Government and by the EU. There are, however, indications that the duty-exemption for birch logs might be raised from top-diameter 15 mm to 24 mm.

In addition to a decline in demand for Russian logs, the wood supply increased in the second half of 2009. The winter was very cold in western Russia this year, which was good for logging. More timber is expected to be available in the spring and with substantial log inventories, costs for both sawlogs and pulplogs can be expected to decline later in the spring.

Official statistics show that timber harvests were down 15% in 2009 as compared to the previous year. This seems low considering the substantial decline in log exports and the

reduced domestic production of lumber, wood-based panels and pulp last year. WRI estimates that the actual decline in timber harvests last year was closer to 20%.

Global timber market reporting is included in the 50-page publication Wood Resource Quarterly. The report, established in 1988 and with readers in over 25 countries, tracks sawlog, pulpwood, lumber and pellet prices in key regions around the world and also includes regular updates of the latest developments in international timber, pulp, lumber markets.

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