Russia: Market for Forestry/Woodworking Equipment

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Summary

For many years, the Russian forestry and woodworking industry has been export-oriented. Today, however, exports of raw timber are generating smaller profits and many enterprises are re-tooling their operations to produce value-added items for the domestic and foreign markets. Products include those used in domestic construction and in furniture production, such as construction board, beams, doors, and window frames. Because of strong local demand, the domestic wooden housing industry is growing and requires investment and modern equipment for production of various types of board and other wooden construction materials.

Market Demand

Russia has 82 billion cubic meters of forest, which is one quarter of the world's forests. The forestry industry is one of the major industrial sectors of Russia. It provides about 5 percent of the total volume of Russian industrial production output. Over 25 percent of Russian enterprises, employing about seven percent of the population of Russia, specialize in forestry harvesting and the production of value-added products. Forestry is the main business in 45 regions of Russia. However, during the last 15 years the share of Russia's forestry/woodworking industry products on the world markets decreased from 18% to 2%, of which over 20% is a round timber. In order to increase the share of the Russia's forestry industry in world trade and to change the situation in favor of the production and export of value-added products, the industry requires modern equipment.

By order of the Russian Government, MinPromEnergo (the Russian Ministry for Industry and Energy) is currently developing the "Program for development of woodworking and harvesting by 2015", including development of board production and production of other components required for wooden housing. At the beginning of 2006, there were only 39 particleboard production lines with total annual capacity of four million cubic meters. This production is not competitive on world markets. Recently established facilities for production of fiberboard satisfy local demand for this material, however, the increasing demand on wooden houses will stimulate the construction of new fiberboard production mills.

According to VNIIDrev (All Russia Scientific and Research Institute for the Woodworking Industry), by 2010, the consumption of oriented strandboard (OSB) in Russia will increase to 600,000 cubic meters, while the domestic industry will annually produce about 1.5 million cubic meters. Specialists of the Association of Commercial Enterprises provide their estimates on a basis of current plywood production. Annual plywood consumption in Russia is 560,000 cubic meters. As expected, the share of OSB will account for 15% of the plywood market (i.e. 150,000 cubic meters a year). These estimates are based on the Federal Mortgage Development Program. A large number of Russian citizens are expected to have access to bank financing in the near future. Hence, an increased demand for apartments will stimulate growth in the construction of inexpensive houses, based on the use of modern foreign technologies. Another important factor stimulating the development of OSB production in Russia is the availability of practically unlimited forestry resources. OSB production utilizes a low quality timber. The average share of such timber, not currently used for pulp and paper production or woodworking, is 22.5% for hardwood and 45% for softwood in Russia. By 2010, five OSB mills are expected to be constructed in Russia. This will drive demand for woodworking equipment.

Market Data

A large number of domestic companies produce woodworking equipment. Most Russian producers of woodworking equipment manufacture machines designed for sawing plants including. barking bars, horizontal band saw mills, round saw mills, gang saws, and planers. Such equipment is used to produce medium-quality, standardized saw timber which is widely used in construction. Domestic equipment is relatively inexpensive and practically all end-users have several types of it. However, this equipment is not used to produce high-quality items, nor is it used as an integral part of high-output production lines.

Despite the lower cost and wide availability of domestically produced equipment, local purchasers prefer imported equipment. This is because imports usually provide higher manufacturing quality and better compliance with particular manufacturing methods. Imports of woodworking equipment include direct supplies to end-users and supplies to wholesale trading firms and distributors. The majority of foreign importers have representative offices in Moscow and St. Petersburg. While German, Italian, and Finish equipment have long dominated the market, firms from Estonia, Lithuania, and Poland have acquired their own market share in recent years. These Eastern European firms offer inexpensive lower-end equipment, thereby meeting the needs of newly established enterprises with little to spend.

Best Prospects

Although Russia currently consumes very low quantities of OSB and construction technologies based on OSB are not developed, the market will have great potential in the near future for U.S. manufacturers of machinery and materials used in the production of OSB. The demand for equipment and materials for production of other modern wooden construction composite materials is also growing. Since the US industry of engineered wood products has extensive experience in development of advanced materials and construction of modern mills, US project development and management companies also have great potential in Russia.

Best prospects for U.S. exports include: handling equipment, log sorting machinery, debarkers, blenders, dryers, and various chemical additives including wax and resins.

Key Suppliers

Russia's major domestic woodworking equipment manufacturers include:

-Vologodsky Stankozavod (Vologda)
-Vologodsky Experimental Plant of Woodworking Equipment (Vologda)
-Severny Kommunar (Vologda)
-Bakaut (Novgorod Region)
-Vector, Borovichsky Plant of Woodworking Machinery (Novgorod Region)
-Lesstankoprom (St. Petersburg)
-LesoTekhnika (St. Petersburg)
-Savelovsky Plant of Woodworking Equipment (Kimry, Tver Region)
-Belgorodsky Mechanical Plant (Belgorod)
-KAMI-Stankoagregat (Moscow)
-Barnaulsky Stankozavod (Barnaul)
-Kurgansky Plant of Woodworking Equipment (Kurgan)
-Sherwood (Kirov)

Dry kilns are produced by IrGTU (Irkutsk), Ariada-Yug (Stanitsa Leningradskaya), Scron (Bryansk), Taiga (St. Petersburg), and Uraldrev-INTO (Ekaterinburg). While dry kilns are assembled from domestically sourced materials, critical electronic and mechanical components are imported from various foreign companies. Russian manufacturers that offer dry kilns with this mix of domestic and imported components can significantly reduce their prices compared to 100% imported kilns.

Plants that manufacture furniture production equipment include IMA (St. Petersburg) and NPF Semil (Izhevsk)

The major woodworking machinery importers are:

Germany	Finland	Italy
Altendorf	Kallion Konepaja	Casati
Stegher	Lahden terateos	Centauro
Alber	Tyrolit	Tecnolegno
Homag	Valon Kone	B.C.R.
Scheppach	Valmet	Sicar
Hoffman	Oulun Kone ja Tera	Tiger
Mafell	Veisto-Rakenne Rautio	Stromab
Elektra Beckum	Kone Wood	Valentini
Michael Weining AG	Tahka	Fravol
Armac	Raute Wood	Grifo, Lari & Lari
	Macron	Macmazza

U.S. Market Position
A small number of companies represent the U.S. industry. Global Edge, one of Russia's largest distributors, offers a variety of U.S. equipment including Timber Harvester, High Point Tool, Heartwood, Baker Products, Unique Machine & Tool Co., The Tailor, and Lenox. Koetter Dry Kiln is an established trademark in the Russian market. Wood-Mizer mobile band saw mills enjoy customer recognition as effective and reliable machinery. Another recognized brand is USNR. The company supplies a wide range of forestry and woodworking equipment.

Prospective Buyers

The market's major end-users are large holding companies comprised of timber-cutting and woodworking enterprises, pulp and paper plants, and furniture factories. Only large companies can finance large-scale projects, such as the construction of new production facilities or refurbishment of existing ones. Industry analysts estimate that holding companies control over 85% of the forestry industry and operate in all of the major forestry regions. The largest Russian forestry holding company is Ilim Pulp Enterprise. The company is currently implementing a $600 million investment program for the development of its production facilities. Ilim Pulp Enterprise includes Kotlass Pulp and Paper Mill, Bratsk Forestry Enterprise, Ust-Ilimsk Forestry Enterprise, and St. Petersburg Cardboard Mill. Other large potential buyers include such companies as Rossyisky Les, Vologdoskie Lesopromyshlenniki, LEMO Group, Karellesprom, Titan Group of Companies, Uvadrev Holding, and Terneiles.

Market Entry

Woodworking machinery is supplied either through distributors or directly to end users as in the case of new or modernization projects. To be successful in the market, the U.S. company is encouraged to have a representative office and a local warehouse with spare parts. After-sales service including short-term delivery of spare parts is critical for success. Training in equipment use is also very important. U.S. firms should invest time and resources in establishing strong relationships with potential clients and regional administrations. The first sale can be difficult and time consuming but it is a critical step to gaining recognition and future sales.

Participation in local trade shows/conferences and international events focused on Russia and the NIS market is very important for promotion of new products and establishing contacts with key industry people.

Market Issues and Obstacles

In general, the regulatory climate for importing forestry/woodworking equipment into Russia is favorable. Customs duties on this machinery varies from five to 10 percent. Recently, through Government Resolution No. 168 of March 24, 2006, the Russian Federation has adopted temporary import duties for certain kinds of equipment for a 9-month period beginning April 29, 2006. Within this period, import duties are set to nil for about 700 kinds of industrial equipment, including forestry machinery (HS Codes 8427;28;29;30;33) and woodworking machinery (HS code 8465). Please note that only 39 specific HSC positions within the forestry and woodworking machinery groups are tariff exempt. U.S. exporters may contact the U.S. Commercial Service in Russia directly with specific questions about whether certain products are included. The official publication of Russian Federation Government Resolution No. 168 of March 24, 2006 as well as the full list of the equipment under the resolution (in Russian) can be found at http://www.rg.ru/2006/03/29/poshlini-dok.html

Shipments of goods to Russia must be accompanied by documents that prove that the product meets Russian quality, safety, and measurement standards. Alternatively, the Russian Standards Committee, Gosstandart, can certify the products (see Key Contacts).

Financing
The low level of investment activity and continued growth of local demand will result in stagnation of the industry and increased imports for the next few years. As of December 2003, Russia's forestry industry accounted for $1.3 billon of foreign investment.

In general, external financing is available from foreign and local banks, as well as foreign and local government and private funds. The following are some examples which illustrate investment activity in the Russian forestry/woodworking sector:

Finnish Botnia recently launched a woodworking mill in Podporozhsky District of Leningrad Oblast (St. Petersburg region). The cost of the mill is over Euro 50 million. Botnia is a part of Finnish Metsaliitto Group. Annually, the mill will process 500,000 cubic meters of timber and produce 200,000 cubic meters of sawn wood. According to the company, the mill in Leningrad Oblast is the most advanced woodworking mill in Europe. Botnia has a long term development strategy in the Russian market and in addition to woodworking mill, is considering opportunities for construction of pulp and paper mill. Currently, forestry land provided for woodworking mill has a capacity of two million cubic meters of timber. Since wood consumption may increase up to three million tons, the company has developed the program for advanced forestry management, which will allow it to increase existing forestry stock from 2 to 12 million cubic meters.

German Kronospan established a production facility in Egor'evsk, Moscow region. The new mill has become the largest manufacturer of medium density fiberboard (MDF) in Russia. The cost of the first stage of the project was Euro180 million. The production capacity of the mill is 12 million square meters of flooring a year and 500 cubic meters of MDF a day. The company is also going to put into operation an additional MDF production line and facilities for the production of resins in the near future. The next stage of the development plan includes the production and finishing of particle board. Total investment into the Kronospan facilities in Russia will be Euro 500 million.

BISNIS FinanceLink helps U.S. companies locate financing. It does this by distributing to U.S.- financial institutions summaries about transactions or projects where a U.S. company has already identified a buyer or partner in the NIS. See http://bisnis.doc.gov/bisnis/finlin3.htm for full information and http://www.bisnis.doc.gov/bisnis/bulletin/013Bull5.htm for advice on preparing your request for trade finance.

The legal and tax environment for leasing in Russia has greatly improved since the enactment of amendments to the Russian leasing law in January 2002. Leasing has become increasingly attractive to both lessees and lessors because of its economic effectiveness, flexibility and accessibility in comparison with bank finance. Equipment suppliers also appreciate leasing as it offers additional sales opportunities.

The competitive attractiveness of American products in Russia has improved lately due to a number of factors which include the general increase of bilateral trade relations, increased local consumer capacity, orientation toward high-quality products, and dollar / euro exchange rates. Utilization of leasing schemes may create additional advantages for U.S. equipment suppliers in their competition with European, Asian and domestic manufacturers. Russia's need for extensive capital investment through lease financing in combination with the improved legal and tax environments creates opportunities for U.S. financial institutions offering leasing services. There are already several successful examples of U.S. owned leasing companies that have accumulated significant experience in the Russian leasing market and are looking for additional business opportunities to support U.S. exports to Russia.

DeltaLeasing, a U.S.-Russia Investment Fund -funded local leasing company, provides financing for small and medium-size enterprises to purchase U.S. equipment via a general guaranty facility approved by U.S. Ex-Im Bank in 2002. The facility, which increases the affordability of lease financing for Russian SMEs, is successful as DeltaLeasing has already financed several projects for construction equipment. The pipeline of projects continues to grow. The program is of great value to U.S equipment vendors and manufacturers as it helps increase their sales without taking on additional credit risk in Russia.

CitiLeasing OOO, a 100% subsidiary of ZAO Citibank, was established in 2002 to offer leasing services to eligible customers of ZAO Citibank. Eligible customers of CitiLeasing OOO are both multinational companies present in Russia and top tier local corporate names

Trade Events

Exhibiting in Russia is an excellent way for U.S. companies to increase visibility of products and services and are particularly effective when combined with the U.S. Commercial Service's Gold Key Matching Service. (For more details of our products and services please see http://www.buyusa.gov/russia/en/products_services.html)

Lesdrevmash
11th International Trade Show
September 11-15, 2006
Expocenter
Moscow, Russia
http://www-eng.expocentr.ru/site/213/default.asp?section=3

Forestry Forum
8th International Forum and five specialized exhibitions
October 10-13, 2006
Lenexpo Exhibition Center
St. Petersburg, Russia
http://www.restec.ru/exhibitions/featured/lpkexpo/index.en.html

LesTechProduktsiya
8th International Trade Show
December 5-8, 2006
Crocus Expo
Moscow, Russia
http://www.lestechprodukzia.ru/defaulteng.stm

Wooden Housing, HolzHous
December 7-10, 2006
Crocus Exhibition Center
Moscow, Russia
http://www.holzhaus.ru/defaulteng.stm

Resources and Key Contacts

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