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# Russian Federation

# Solid Wood Products

# Annual Report

# 2005

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**Report Highlights:**
Russian production of total solid wood products is forecast to increase by nearly five percent in 2005 and 2006 due to strong growth in the softwood lumber and hardwood plywood sectors. Russia's exports are forecast to increase in most categories in 2005, though the share of low value products will continue to dominate. To compliment the export sector, the continued overall growth in the Russian economy is boosting domestic wood demand from the furniture, paper and pulp, and construction industries.

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Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

## Table of Contents

## Executive Summary

Production of solid wood products in Russia is forecast to increase by an average of five percent in 2005 and 2006, boosted by increased production of softwood logs and lumber and hardwood plywood. The main driving force behind higher production is the expectation of increasing exports to China and other Asian markets. The continued growth of the Russian economy is also boosting demand for wood and wood products from the domestic furniture, paper and pulp, and construction sectors. Overall exports of forest products are forecast to increase in most categories in 2005 and 2006 and reach new export records. In 2005, important changes in forest policy, such as the Forest Code and tariff reform, are expected as the Russian Government starts to focus on the systemic problems of the industry.

## Forest Situation/Outlook

Russia is endowed with abundant forest resources, comprising one-fifth of the world's forested area and one quarter of the world's timber stock. Russian forests also provide the largest land-based carbon sink in the world and one of the most biodiverse ecosystems.

Total forested area is estimated at 760 to 850 million hectares. Boreal forests are predominant in Russia and most forest resources are located in remote areas. It is conventional wisdom that nearly 70 percent of Russia's total forested area is in Siberia (43 percent) and the Far East (27 percent), whereas 70 percent of the population and more than half of wood demand are in the western part of the country. Russian forests hold all three main categories of trees: coniferous (pine, cedar, spruce, silver fir, and larch), which account for about 70 percent of total area; softwoods (birch, asp, poplar, willow, and alder) - 17 percent of total area; and hardwoods (oak, beech, ash, maple, elm, and locust). The timber stock is estimated at nearly 73 billion cubic meters. Coniferous trees account for 58 billion cubic meters (80 percent), softwood species 13 billion cubic meters (18 percent), and hardwood species two billion cubic meters (two percent) of the total timber volume. Planted forest is estimated at 20 million hectares.

The Russian Government retains ownership over most of the country's forests (the "Forest Fund"). A revised Russian Forest Code, the main legislation regarding the Russian forestry industry, is being considered that provides for long-term leases of forested land and is meant to encourage large investments in the industry. New legislation is also slated to provide tax breaks for forestry investments. In 2004, total investments in the forest industry are estimated at $1 billion, up from $ 825 million in 2003. These investments included an estimated $280 million of foreign investments, of which 70 to 80 percent were channeled into downstream wood processing. According to the Federal Agency for Forestry, the total annual investment needed to modernize the Russian forest sector is $2 billion.

Russia's role in world trade of forest products does not correspond to the potential of its forest resources base. Russia's market share of the world market for all wood products is low and consists mostly of unprocessed wood products. The Russian government is trying to pursue long-term policies that improve the sector's efficiency and competitiveness. According to the government and industry, some of the important current hurdles and constraints are: 1) increasing the share of processed and higher-value wood and wood products; 2) curbing illegal export of logs; 3) applying tariffs and other government measures to promote the export of processed products versus logs; and 4) promote consolidation of major wood and pulp processors to improve their financial position versus foreign competitors. In the medium term, the strategy is to boost exports of high-value wood products from European Russia to the European Union and increase Western Siberia's exports of sawn wood, plywood, and particleboard products to China, other Asian countries, and the United Sates.

**Solid Wood Products Situation / Outlook**

**Overview**

Russia's economic performance in 2004 exceeded expectations, as preliminary data shows the 7.1 percent GDP growth outpacing previous forecasts (6.5 percent). However, industrial output slowed last year to 6.1 percent, down from seven percent growth in 2003. The forest sector's share of Russia's economy, still insignificant related to its potential, is estimated at 2.3 percent of current GDP.

Growth in the forest sector in 2004 is estimated at four percent. This was mostly due to the dynamic development of the pulp and paper industries, but was also due to growth in particleboard (seven percent), medium density fiberboard (up 14 percent), and veneer (up 13 percent) production from relatively low baselines. Logging and the raw lumber sector production continue to face constraints related to infrastructure.

Round wood output is forecast at 81 million $m^3$ in 2004 (256 million $m^3$ in 1990), or 25 percent of the total allowable cut. According to government sources, to obtain an annual increase in logging of 60 million $m^3$, an additional 3,000 km of forest roads per year must be constructed. In order to address this problem, the federal government has announced plans to launch a federal forest road infrastructure development program as early as 2006.

The outlook for 2005 and 2006 calls for a continued increase in Russia's forest sector output due to continued strong export demand and increasing domestic demand. Production of value-added wood products (veneer, particleboard, and packaging materials) will continue to grow at average rate of four percent in 2005 and 2006, driven mainly by foreign investment and the expansion of large, vertically integrated Russian paper/pulp/wood processing enterprises.

**Temperate Hardwood and Softwood Logs**

Softwood logs comprise the largest category of forest products production and trade in Russia. Production is forecast to increase by an average of three percent in both 2005 and 2006 in response to continued export demand and, to a lesser extent, higher domestic demand. The lower rate of growth in softwood logs reflects a government policy that promotes exports of value-added products, instead of raw materials.

Exports of softwood logs are projected to increase by an average of 4.5 percent annually in 2005 and 2006, mostly driven by steady demand from China and Japan. Exports of softwood logs in 2004 increased by 11 percent to a record 30 million cubic meters. The major export destinations for Russian softwood logs in 2004 were China (44 percent) and the EU (29 percent), of which Finland accounts for more than half. Exports of softwood logs have also increased to the former Soviet republics.

Production of temperate hardwood logs is forecast to increase by an average of five percent in 2005 and 2006, mostly due to continued expansion in exports and higher demand from the plywood industry.

In 2004, exports of temperate hardwood logs increased by ten percent, to 10 million cubic meters, due to significant increases in exports to China (up by 90 percent) and Japan (22 percent). The major export destinations for Russian hardwood logs are Finland (68 percent) and China (17 percent). Exports are forecast to increase at an average rate of eight percent over the next two years.

According to trade sources, Russian hardwood logs are competitive in price and quality to similar species on the Chinese market. In addition, logistics favors Russian exports due to large gateway cities in northeast China, such as Suifenhe and Manzhouli, which serve as distribution centers for Russian timber and as wood processing zones.

**Temperate Hardwood and Softwood Lumber**

Production of temperate hardwood lumber is forecast to increase by an average of three percent in 2005 and 2006. Production is responding to the higher levels of investment being made to upgrade and construct new plants in the Far East and Vologda region. This sub-sector is attractive because of abundant raw materials and does not require as much investment as value-added products. In addition, higher domestic demand from the furniture sector and growing exports support higher lumber production. However, investment in lumber production can also be seen as a precursor to additional investment in further processing.

Exports of hardwood lumber are projected to increase at an average rate of five percent in 2005 and 2006, reflecting higher demand from China and Lithuania. Production of softwood lumber is projected to increase by an average of nine percent from 2005 to 2006 in response to strong export demand (forecast at ten percent growth). In 2004, exports increased 20 percent, due to higher exports to Iran, China, and Japan. Other important markets for Russian softwood lumber are: Egypt, the United Kingdom, Germany, and the Netherlands.

**Hardwood and Softwood Plywood**

Hardwood plywood output is forecast to increase by nearly eight percent in 2005 and 2006. The growth in the hardwood plywood sector is the result of higher demand from the domestic market, mostly from the projected expansion in the furniture industry resulting from higher imports tariffs on imported analogs.

Exports of hardwood plywood are projected to increase by ten percent in 2005 and 2006 in response to growing demand from the United States (increasing 13 percent in 2004) and the European Union (mostly the United Kingdom and Germany). These countries account for almost 50 percent of total imports of Russian hardwood plywood. In 2004, total exports of hardwood plywood increased by 16 percent to a record 1.2 million cubic meters.

Production of softwood plywood is projected to increase by an average of three percent in 2005 and 2006 thanks mainly to higher demand from the domestic market. The Russian softwood plywood industry is growing slowly due to the lack of investment in high-tech equipment. Exports are also projected to increase slowly because Russian softwood plywood is not competitive in the world market due to high production costs. In 2004, exports of softwood plywood increased by only two percent, mostly to Finland and Italy.

**Consumption**

Demand for solid wood products in Russia is projected to grow at a steady rate of five percent during 2005 and 2006. The growth is attributed to increasing demand from the furniture, construction, and housing industries as a result of government incentive programs for housing construction and higher tariffs on finished goods.

Although a net importer of furniture, the Russian furniture sector is rapidly improving due to the steady growth of the economy, improved domestic quality and styling, and higher exports. In addition, recent government measures to set higher import tariffs for several categories of furniture will enable local producers to compete with imported furniture.

In 2004, furniture exports increased by 40 percent, to nearly $100 million, while imports increased by 32 percent to $295 million. The European Union, mostly Germany and Italy, are the main destinations for Russian furniture, while Italy and Poland are the major suppliers of furniture to Russia.

## Trade

### Overview / Outlook

Total exports of forest products (Chapter 44 HTS) in 2004 are estimated at a record of $4.1 billion (up 31 percent from 2003), while imports of all forest products are estimated at $273 million (up 28 percent from 2003). The increase in total value of exports of forest products in 2004 can be attributed to the following factors: a) continued appreciation of the Euro and b) significant increase in exports to Japan (up 28 percent from 2003), China (up 28 percent), and Finland (up 18 percent). Exports of Russian forest products to the United States in 2004 are estimated at $135 million (up 29 percent from 2003), mostly due to exports of hardwood lumber and other panel products.

### New Tariff Proposal

The Russian Government is working on a proposal to apply a selective tariff policy that gives preferential rates to exports of value-added forestry products. In the past several years, the government has approved a number of resolutions lowering export duties for several categories of value-added forestry products. According to Government Resolution # 233 of May 11, 2004, export tariffs for three categories (charcoal (HTS 4402 00 000 0-4421), laminated forest products (HTS 4418 90 100 0), and other wood products (HTS 4421 90 980 0)) were abolished. Government Resolution from December 15, 2004, abolished export duties for newspaper in sheets or rolls (HTS 4801 00 000 0).

According to the Head of Federal Agency for Forestry, export duties remain higher for many processed products than for timber. For example, the export tariff on particleboard is ten percent of production cost but no less than EUR 5 per 1 $m^3$, while the export duty on round-wood is 6.5 percent of the production cost but no less than EUR 2.5 per 1 $m^3$. This is not consistent with the declared customs policy of the government and the industry claims it is a hurdle to the modernization of the industry. Therefore, a recent proposal to adjust the remaining export duties for unprocessed wood and finished products was submitted to the Government's Foreign Trade Safeguards Committee. Per the government proposal, export duties on raw material are expected to increase based on the progressive export duty policy principle. According to the proposal, the maximum increase is needed for round wood designated for domestic saw-milling, plywood, and veneer production. This is designed to benefit Russian saw milling and plywood manufacturers, which often face difficulties in obtaining a stable wood supply. Though it is intended to ensure enough raw materials for Russian producers, there is also a competing need to maintain a balance with exports to secure normal operation of foreign pulp and paper mills. Such measures benefit Russian manufacturers and target foreign investors, such as Finnish and Chinese, who invested in Russia based on assurances of wood supply but which also further process Russian wood just across the border.

**Policy**

**Overview**

According to the Federal Agency for Forestry, the priorities of the agency for the forest sector are: 1) identify forest zones and develop legislative framework for each forest zone; 2) continue efforts to curb illegal logging; 3) use technology to estimate and identify forest territories that are most exposed to illegal activities; 4) establish electronic log tracking databases; and 5) collect accurate statistics through satellite monitoring of forest areas affected by fires.

**Illegal Logging**

According the Russian Federal Agency for Forestry, the losses caused by illegal activities are estimated at 5.5 billion rubles ($180 million) per year. (Note: The World Wildlife Fund reports that losses due to illegal activity are $1 billion.) One of the measures under consideration by government officials to curb illegal logging is the introduction of satellite imagery and aerial photography. Introduction of the new system will also help to monitor forest fires and other ecological disasters. It is estimated that in 2004, there were nearly 22,000 forest fires in Russia.

The Government plans to spend 128 million rubles on the project and expects that the system will monitor all Russian forests by 2006. The agency is looking to use the most advanced military technology. The work is already underway to set up six data processing facilities: in the Khabarovsk Kray, Novosibirsk Oblast, Krasnoyarsk Kray, Vologda Oblast, St-Petersburg, and Karelia.

**Forest Code**

Development of Russia's forest sector is currently restrained by the lack of a transparent legal framework, which can attract investors by reducing uncertainty about ownership of forest resources and foster a higher level of wood processing. One reason for this is the lack of a modern forest code; a legislative document that provides a legal framework and strategy for government policy in this sector. The draft of a code has long been debated and been repeatedly disseminated to government, industry, social and environmental organizations. The current draft of the document is waiting for approval by the Federation Council. The major changes expected to the existing code are: 1) possibility for long-term lease of forests (99 years); 2) limited privatization of forest plots; and 3) to change the system of selling resource rights. The government hopes to pass the Forest Code in 2005.

For more detailed information on the status of the Forest Code, please refer to GAIN Report RS4058.

**Forest Certification**

Beginning 2006, the EU will ban import of any forest product without certification. Since Russia is one of the largest exporters of forestry products to the EU, mainly of unprocessed logs, the issue has become a government priority. Russian industry understands the importance of this issue and also recognizes that a national system of certification would help forest management, make the forestry sector more competitive, and curb export of illegally harvested timber.

The Russian National Council on Certification was set up in 2002. While the national certification system is still being developed, there are several certification systems being applied throughout the country. They are: The Forest Stewardship Council, National Voluntary Certification, and the Finnish Council of Forest Certification. However, these programs are not always applicable to Russian economic conditions and therefore are hard to implement. The certification process in Russia is also being delayed by lack of money to pay for the costly certification process, especially by medium and small companies.

According to Head of the Federal Agency for Forestry, Valeriy Roshchupkin, voluntary certification in Russia covers 4 million $m^3$ or over three percent of the total actual cut. He has stated that the national forest certification system will become operational in the spring of 2005 and the process of certification will then progress swiftly.

**Marketing**

Despite a series of constraints faced by the Russian forest sector, such as the lack of a legal framework, lack of investment, and the high rate of illegal logging and trade, the sector enjoys major advantages in geography, a large resource base, and generally low production costs.

In the past few years, the Russian forestry industry has experienced an increase in the number of forestry seminars, forums, and trade shows. These events help to increase the awareness of the constraints and promote the development of high quality domestic products. The most noteworthy has become an International Forestry Forum, which brings together most of major players in the Russian and international forestry markets. During the $6^{th}$ Forestry Forum that took place in October 2004, there was held six conferences within its framework: "Forestry: Forest resource allocation"; "Furniture production: Factors for success in the market"; "Wooden construction: Materials and components"; "Sawing, Woodworking, and Board production"; "Pulp and paper industry of the North-West of Russia"; and "New solutions and innovations in the forest industry". Key forestry specialists from all over Russia and 15 countries shared their experience and discussed issues related to innovations and solutions in the forestry industry. For complete details, please refer to GAIN Report RS4058 dated November 3, 2004.

## PS&D Tables

### Table 1. Production, Supply, and Distribution of Softwood Logs

**PSD Table**

**Country** **Russian Federation**

**Commodity** **Softwood Logs**

1000 CUBIC METERS

| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] | UOM |
|---|---|---|---|---|---|---|---|
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 | MM/YYYY |
| Production | 70500 | 72500 | 0 | 74875 | 0 | 77345 | 1000 CUBIC METERS |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 | 1000 CUBIC METERS |
| TOTAL SUPPLY | 70500 | 72500 | 0 | 74875 | 0 | 77345 | 1000 CUBIC METERS |
| Exports | 23500 | 30710 | 0 | 32245 | 0 | 33860 | 1000 CUBIC METERS |
| Domestic Consumption | 47000 | 41790 | 0 | 42630 | 0 | 43485 | 1000 CUBIC METERS |
| TOTAL DISTRIBUTION | 70500 | 72500 | 0 | 74875 | 0 | 77345 | 1000 CUBIC METERS |

### Table 2. Production, Supply, and Distribution of Temperate Hardwood Logs

**PSD Table**

**Country** **Russian Federation**

**Commodity** **Temperate Hardwood Logs**

1000 CUBIC METERS

| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] | UOM |
|---|---|---|---|---|---|---|---|
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 | MM/YYYY |
| Production | 25500 | 25500 | 0 | 26625 | 0 | 27820 | 1000 CUBIC METERS |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 | 1000 CUBIC METERS |
| TOTAL SUPPLY | 25500 | 25500 | 0 | 26625 | 0 | 27820 | 1000 CUBIC METERS |
| Exports | 10000 | 10160 | 0 | 10975 | 0 | 15965 | 1000 CUBIC METERS |
| Domestic Consumption | 15500 | 15340 | 0 | 15650 | 0 | 11855 | 1000 CUBIC METERS |
| TOTAL DISTRIBUTION | 25500 | 25500 | 0 | 26625 | 0 | 27820 | 1000 CUBIC METERS |

**Table 3. Production, Supply, and Distribution of Softwood Lumber**

| Country | Russian Federation | | | | | | |
|---|---|---|---|---|---|---|---|
| Commodity | Softwood Lumber | | | | 1000 CUBIC METERS | | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] | UOM |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 | MM/YYYY |
| Production | 15400 | 15800 | 0 | 17160 | 0 | 18645 | 1000 CUBIC METERS |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 | 1000 CUBIC METERS |
| TOTAL SUPPLY | 15400 | 15800 | 0 | 17160 | 0 | 18645 | 1000 CUBIC METERS |
| Exports | 5225 | 12075 | 0 | 13285 | 0 | 14615 | 1000 CUBIC METERS |
| Domestic Consumption | 10175 | 3725 | 0 | 3875 | 0 | 4030 | 1000 CUBIC METERS |
| TOTAL DISTRIBUTION | 15400 | 15800 | 0 | 17160 | 0 | 18645 | 1000 CUBIC METERS |

**Table 4. Production, Supply, and Distribution of Temperate Hardwood Lumber**

## PSD Table

| Country | Russian Federation | | | | | | |
|---|---|---|---|---|---|---|---|
| Commodity | Temperate Hardwood Lumber | | | | 1000 CUBIC METERS | | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] | UOM |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 | MM/YYYY |
| Production | 4890 | 4890 | 0 | 5040 | 0 | 5190 | 1000 CUBIC METERS |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 | 1000 CUBIC METERS |
| TOTAL SUPPLY | 4890 | 4890 | 0 | 5040 | 0 | 5190 | 1000 CUBIC METERS |
| Exports | 420 | 343 | 0 | 360 | 0 | 380 | 1000 CUBIC METERS |
| Domestic Consumption | 4470 | 4547 | 0 | 4680 | 0 | 4810 | 1000 CUBIC METERS |
| TOTAL DISTRIBUTION | 4890 | 4890 | 0 | 5040 | 0 | 5190 | 1000 CUBIC METERS |

**Table 5. Production, Supply, and Distribution of Softwood Plywood**

# PSD Table

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Country** | **Russian Federation** | | | | | | |
| **Commodity** | **Softwood Plywood** | | | | 1000 CUBIC METERS | | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] | UOM |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 | MM/YYYY |
| Production | 275 | 275 | 0 | 283 | 0 | 291 | 1000 CUBIC METERS |
| Imports | 2 | 2 | 0 | 2 | 0 | 2 | 1000 CUBIC METERS |
| TOTAL SUPPLY | 277 | 277 | 0 | 285 | 0 | 293 | 1000 CUBIC METERS |
| Exports | 190 | 186 | 0 | 190 | 0 | 193 | 1000 CUBIC METERS |
| Domestic Consumption | 87 | 91 | 0 | 95 | 0 | 100 | 1000 CUBIC METERS |
| TOTAL DISTRIBUTION | 277 | 277 | 0 | 285 | 0 | 293 | 1000 CUBIC METERS |

**Table 6. Production, Supply, and Distribution of Hardwood Plywood**

# PSD Table

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Country** | **Russian Federation** | | | | | | |
| **Commodity** | **Hardwood Plywood** | | | | 1000 CUBIC METERS | | |
| | 2004 USDA Official [Old] | Revised Post Estimate [New] | 2005 USDA Official [Old] | Estimate Post Estimate [New] | 2006 USDA Official [Old] | Forecast Post Estimate [New] | UOM |
| **Market Year Begin** | | 01/2004 | | 01/2005 | | 01/2006 | MM/YYYY |
| Production | 1500 | 1800 | 0 | 1940 | 0 | 2095 | 1000 CUBIC METERS |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 | 1000 CUBIC METERS |
| TOTAL SUPPLY | 1500 | 1800 | 0 | 1940 | 0 | 2095 | 1000 CUBIC METERS |
| Exports | 950 | 1230 | 0 | 1353 | 0 | 1490 | 1000 CUBIC METERS |
| Domestic Consumption | 550 | 570 | 0 | 587 | 0 | 605 | 1000 CUBIC METERS |
| TOTAL DISTRIBUTION | 1500 | 1800 | 0 | 1940 | 0 | 2095 | 1000 CUBIC METERS |