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**Spring  
2009**

**Painful issue: export duties on round log**

*The Russian Government planned to cancel export duties on round log.*

Russian Government is to consider the possibility to cancel export duties on round log for companies that are involved in realization of large projects including foreign investments. The appropriate regulation can be signed in summer 2009.

Cancellation of export duties on round log for investors is a part of anti-crisis measures. The project also includes 1-2 year delay in credit payments regarding priority projects that are in the final stage of realization.

Moreover, the government is to support harvesting companies by subsidizing credit interest to the amount of over 7.5 million EUR (325 million RUB). However, Minister of Finance pointed that duty-free export of round logs will concern only some timber species.

According to Russian State Statistics Service, in 2008 export volume of round log decreased by over 25% as compared to 2007 and reached 36.7 million cubic meters.

Experts watched a significant decrease in round log export up to 50% in January-February 2009. They also expect that cancellation of duties can revive timber industry, however, in order to significantly improve situation in the branch it is required to introduce long-term privileges as many agreements on round log delivery are conducted for more than one year.

According to other experts, cancellation of duties in current economic situation can smooth consequences of crisis and stimulate realization of large investment projects. It is a way out for the largest investment projects worth over 20 million EUR (5 billion RUB) provided that money got from duty-free export will be reinvested in priority projects, in particular in supply of resources. It will also allow solving old problems concerning forest road construction.

However, later the Russian Government excluded cancelling of export duties on round log for certain categories of investors from anti-crisis plan. Actors of the market are not satisfied with such decision taken in mind low attractiveness of Russian timber industry. As expected, export duties on round log were to be cancelled only for investors who realize projects with investment volume reaching over 5 billion RUB.

There are mainly large projects on construction of pulp and paper mills, whereas some representatives of timber industry insisted on privileged export conditions.

New proposal was cancelled due to critics from the leading party. The negative attitude was mainly explained by the fact that new regulation being of effect, small and large actors on the market would be in unequal conditions.

At the same time a number of experts hope that this is a signal of another measure that is to be taken by the RF Government, particularly, to postpone increase of export duties on round log for one more year.

**Finnish party**

*Russia will not increase duties for Finland.*

Russia as one of the largest round wood exporters increased export duties in order to stimulate development of woodworking sector. However, that led to serious problems at the Finnish timber companies that depend on timber supplied from Russia.

Currently Vladimir Putin confirmed that Russia will not increase export duties on round wood for Finland in order to support Finland in existing crisis conditions. Governments of both countries came to an accommodation re. timber trade.

**Reference:**

Russian government took decision on gradual increase of round log export duties starting from January 2007. The latest increase by 25% was made in April 2008/ However, the government regulation on increasing of export duties on round log (by 20% in July 2007 and by 25% in July 2008) led to decreased competitiveness of Russian companies on the world market. The next increase up to 80% was to be made in January 2009, but due to current economic situation implementation of new export duties was postponed for a year.

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**Russian Statistics in QI**

Sawn timber production decreased by 24.4% as compared to QI 2008.

According to Russian State Statistics Service (Rosstat), sawn timber production decreased by 24.4% (up to 4.3 million cubic meters) compared to QI 2008.

The most significant decrease was fixed in fiberboards (hard) production and glued plywood production – by 43% and 39.5% respectively. At the same time chipboard, cardboard and paper production also watched the decrease in QI 2009.

Item	QI 2009	March 2009/ March 2008	March 2009/ February 2009	QI 2009/ QI 2008
Sawn timber, mln m3	4.3	-17.1	+24.3	-24.4
Glued plywood, th. m3	433	-31.3	+17.0	-39.5
Sliced veneer, th. m3	58.3	-23.5	+10.6	-24
Fiberboards (hard), mln ref. m2	60.0	-40.6	+12.1	-43
Chipboards, mln ref. M3	1.0	-35.5	-10.3	-28.7
Market pulp, th. tons	459	-16.9	+18.8	-26.2
Paper, th. tons	913	-4.4	+15.3	-11.6
Cardboard, th. tons	728	-8.4	+22.0	-19.7
Newspaper (ref. circulation), bln pcs.	4.0	-18.9	+04.3	-18.4
Books and brochures (printed sheets), mln pcs.	1916	-33.9	+27.6	-38.9
Magazines (printed sheets), mln pcs.	1350	-31.1	+13.6	-27.6

Production indices in January-March 2009.

In January-March 2009 production indices as regards woodworking and manufacturing wooden products made up 70.8% as compared to January-March 2008, as regards pulp and paper sector (including publishing and printing) – 82%, and as for harvesting – 88.2%.

Changes on the outer markets (incl. market saturation, a sales slowdown and decline in prices on wood products) led to suspension of production and shipment at some enterprises, which resulted in considerable reduction of production output. January-March 2009 watched decrease in fiberboards (hard) production by 43%, plywood – 39.5%, sawn timber – 24.4% as compared to January-March 2008.

However, QI 2009 fixed continuing growth in wooden container production, i.e. production index reached 104.3%.

Item	March	Jan-March 2009/ Jan-March 2008, %
Timber, mln m3	9.6	-17.3
Sawn timber, mln m3	1.7	-24.4
Glued plywood, th. m3	171	-39.5
Chipboards, th. ref. m3	326	-28.7
Fiberboards (hard), mln ref. m2	22.5	-43
Market pulp, th. tons	172	-26.2
Paper, th. tons	337	-11.6
Cardboard, th. tons	290	-19.7

**Export in Jan-April 2009**

Terneyles is to supply timber products to Sumitomo Corporation.

According to the Russian State Statistics Service, in Jan-April 2009 export volume of timber and pulp and paper products made up 61.2% (in USD) of the analogous index in 2008, i.e. decreased by 38.8%.

Federal Customs Service reported that export volume (in quantity, cubic meters) of main types of timber products decreased as follows: unprocessed timber – decrease by 50.4%; processed timber – by 13.4%; glued plywood – by 16.5%; pulp – by 24.2%; newspaper – increased by 0.07%.

For example, JSC Terneyles (Primorye Area) is to supply timber products to Sumitomo Corporation (Japan) to the amount of 5.5 billion RUB (128 million EUR). The deal was approved at shareholders' meeting dated April 25, 2009.

At the same time shareholders of Terneyles approved the freight contract to be signed between Sumitomo Corporation and JSC Terneyles on timber products shipping to the amount of 1 billion RUB (about 23.7 million EUR), as well as agreement of equipment purchase to the amount of 400 million RUB (over 9 million EUR), and on purchase of machinery and spare parts to the amount of 300 million RUB (about 7 million EUR).

## Investments

*More investment projects were approved in the Irkutsk region.*

Investment council of the Irkutsk region approved three investment projects and included them in the list of priority projects in the field of forest exploitation. They include:

- Projects on low-rise timber house construction (LLC Gosstroy);
- Formation of facilities for quickly erected houses construction (Irkutsk house construction mill, LLC);
- Formation of vertically integrated company for low-rise frame-panel house construction (from glued logs) – (Sibirskye Terema, LLC).

All in all, the Council considered 26 investment projects. Currently there are already projects from CJSC Igirma LDK (construction of sawmill and woodworking complex) and JSC Ilim Group (modernization of current capacities on pulp and cardboard production, works on paper production).

Today 7 projects are to be considered by the Ministry of Industry and Trade additionally, of them 3 being just approved by the Investment Council of the Irkutsk region.

Realization of these three projects will allow decreasing round log export, provide 1 334 workplaces, as well as construction of timber houses inside the area.

*Over 650 million EUR is to be invested in Perm timber industry.*

Over 650 million EUR are to be invested in the Prikamye timber industry. Companies ready to invest in the Perm woodworking sector are to get forest areas without auction scheme.

In June 2009 RF Government is to make an independent examination of 7 present investment projects in the Perm Area. They include projects from JSC Solokamskumprom and Perm house construction mill, as well as LLC Capital-3, Uralbumaga, Perm plywood mill, Goronozavodsk Lesprom and Kochevo woodworking mill.

The projects aim at modernizing existing machinery, constructing new facilities for plywood, bentwood products, furniture shields and sawn timber production.

The required investment volume amounts to over 650 million EUR for projects to be realized by 2012.

The projects being approved, they are to be included in the list of the Ministry for Industry and Trade and investors are to get forest resources without any additional formalities.

## The Fly in the Ointment

*Realization of projects is delayed due to formalities.*

IKEA (Sweden) is to postpone investment projects in Russia due to some administrative issues that the company faces within their realization.

However, IKEA will finish projects that are being currently financed, of them projects in Samara, Omsk, Ufa and Moscow region and continue negotiations regarding projects in Samara, Voronezh and Tyumen.

According to Per Kaufman, the main reason is "unexpected character of administrative procedures in some regions".

For example, opening of Mega-Samara Trading centre was postponed for 8 times. Currently IKEA is at law with the Russian engineers with disputed sum amounting to 136 million EUR.

At the same time, one of the main projects on construction of an advanced woodworking complex in the Khabarovsk area can be postponed for at least a year. The company has already invested over 2.3 billion EUR with the project to be included in the list of priority projects on the regional level in April 2009.

The investor is to purchase the construction site – area of former FSUE PO Amurmash in Amursk.

However, tax administration blocked the procedure due to some formalities. If the decision is not taken till September 1, 2009, the company is to find another construction site in the Khabarovsk area or Amursk region.

Dallesprom's Project has large investment volume. The first stage – construction of three woodworking plants – is estimated at 305 million USD. With construction of a pulp and cardboard mill amounting to 1.3 billion USD.

**Reforestation**

*Altay Area preserves 100 ha of forest belts.*

Ministry of Agriculture of the Russian Federation is to provide the Altay Area with a machinery complex for reforestation worth over 2.3 million EUR.

Altay Area has two urgent issues, i.e. to preserve land resources, maintain and increase soil biological fertility, as well as to preserve about 100 thousand ha of forest belts.

Machinery for reforestation will allow using all technologies at the highest level, incl. seed cone harvesting, seed treatment, calibration, storage, etc. with seedlings survival reaching 95-98%.

There are only 4 such complexes in Russia.

*Over 1.5 mln spruce and pine seedlings will be planted in the Arkhangelsk region.*

Solombalales Group of Companies (Arkhangelsk region) finished spring reforestation works with almost 1.5 million spruce and pine seedlings being planted on the forest areas of the company.

According to the lease contract, Solombalales is to perform reforestation and forestry works at its own expense. The works include preparation of the soil, forest planting, seedlings care and handling, etc.

Thus, this and next season works on soil preparation are to be performed on the area of 530 ha, forest planting – 342 ha with costs making up over 50 thousand EUR for seedlings.

*Ilim Group of Companies: Over 800 th EUR for reforestation works.*

Harvesting companies of Ilim Group affiliate in the Irkutsk region (Bratsk, Ust-Ilimsk) started reforestation works held annually in spring with investment volume amounting to over 800 thousand EUR in 2009.

Ust-Ilimsk is to get over 220 thousand EUR. Artificial reforestation works include seeding and planting works on the area of over 1800 ha, of them 232 ha for pine seedlings. Works on carding of plantations planted earlier will be held on the area of 1488 ha. At the same time the companies are to top prepare 1884 ha of soil for next year.

Over 580 thousand EUR will be spent for reforestation works in Bratsk with area for artificial reforestation making up 1122 ha. The works also include assistance to natural regeneration (8711 ha), incl. protection of understory trees (5678 ha) and soil disturbance (3033 ha).

According to experts, survival ability of seedlings makes up 85-87%.

**Pellet Production**

*A plant for pellet production is to be constructed in the Rostov region.*

Alternative Biotechnologies (AITBioT, Krasnodar area) is to construct a plant for pellet production worth 13.5 million EUR in Ust-Donetsk (Rostov region).

Capacity making up 10 tons/h is to provide about 180 workplaces. Construction site reaches 8-9 ha with area of 6 ha being already purchased.

It is early to speak about terms of starting up as works on electrification are not completed yet. To supply the required amount of raw materials AITBioT is to reconstruct forest belts in the area, including removing of old and dry trees and planting of new ones instead. The plant is to also use straw as a raw material.

The project being successfully realized there are 6 analogous plants to be constructed in the Rostov region, which will allow completely reconstructing forest belts in the area within 25 years.

Currently AITBioT is completing construction of a plant for pellet production (capacity reaching over 80 thousand tons per year) in Krasnodar. Investment volume amounts to 14 million EUR. The plant is to be launched May 2009.

Analogous plant is being constructed also in the Vologda region, with preparation works on pellet plant construction being held in the Tambov region. All in all there are to be constructed 25 plants for pellet production in Russia. Products are to be exported first of all to Europe with representative sales offices being opened in Italy and Germany.

*Ecofoster cooperates with Arkhangelsk region.*

Ecofoster (Finland) is considering the possibility of realization an investment project on construction of pellet production in the Arkhangelsk region. The Finnish party is also interested in realization of a pilot project in the field of medical wastes utilization. The project is to be realized in cooperation with NEFCO (Nordic Environment Finance Corporation). There is also a possibility for Russian-Finnish cooperation in the field of water resources management.

These issues were discussed recently by representatives of the company and the Arkhangelsk region as well as senior management of the regional companies. At the same time Finnish experts presented the latest innovations in the area of online monitoring.

## Manufacture

*New facilities are to be constructed in Siberia and Far East...*

Profit Pro's Oy, the Amur region Government and LLC KEDR Amur woodworking company signed an agreement on construction of wastless woodworking facility in Fevral'sk.

The Finnish company is obliged to attract investors that are to design a project and supply the machinery. All organizational issues are to be resolved in a month. All engineering and construction works are to be performed by KEDR (Amur region).

The project is to be realized in three stages within 4 years. The first stage (woodworking) includes formation of elements of low-rise house construction, whereas the final stage includes construction of pulp and paper mill.

Thus, project capacity is to make up 240 thousand cubic meters of sawn timber and 500 thousand tons of pulp annually. There are no analogous mills in the region – Far East.

A plant for regularized round timber production was launched at Koda Salym Les affiliate (Khanty-Mansi Area) April 16, 2009. It is one more product line that is to be used as a construction material both for bath houses and timber houses. The shop was repaired and the required machinery was purchased last year already.

Commissioning works have taken for three months and currently a new shop is to reach production capacity, i.e. 100 pcs of cribs (6x6x2.7) annually.

April 2009 JSC LesPliitInvest (Leningrad region) launched MDF door molding manufacture. JSC LesPliitInvest (SOUZ, Industrial Group) is one of the largest Russian producers of MDF boards and interior doors.

New highly efficient WAINIG machinery allows producing a wide range of products and molding profiles. Moldings are coated with high quality CPL plastic laminate produced by IMAWELL.

Products are to enter the market in May-June 2009 under Ladora brand. Currently JSC LesPliitInvest is one of the leaders of moldings manufacture in Russia and CIS countries.

March 31, 2009 LLC Polyatino harvesting company (Novgorod region) launched joinery production, incl. manufacture of windows, doors as well as parts of built-in furniture.

Last year ANO Novotest (founder of the company from March 2008) purchased new BARS headrig and the second computerized drying kiln.

Polyatino harvesting company specializes in harvesting and deep wood processing, production and sales of sawn timber, construction materials and moldings as well as wastes processing.

Solution on launching of new production line was right as currently there is a decline in demand for moldings. That is why joinery production will help the company to survive, develop new directions, among them deep wood processing, wood concrete and charcoal production, etc. All the joinery is to be supplied to both inner and outer markets.

*and in the North-Western Federal District.*

## Foreign investments

*China invests over 180 mln USD in development of the Russian woodworking sector.*

Ikhu and Lianfa (China) intend to construct a woodworking complex worth over 180 million USD in Zabaikalye area. Plant capacity is to reach 5 million cubic meters of processed timber annually.

The corresponding agreement was signed between the Chinese companies and LLC Manul on March 30, 2009.

The first stage worth 50 million USD includes infrastructure development and preparation works on the construction site situated near Kharanor railroad station. The second stage presupposes purchase of woodworking machinery – expected investment volume making up at least 130 million USD.

Construction of a woodworking complex close to the Chinese border is explained by the increase of export duties on round logs starting from 2010.

April 28, 2009 Mayr-Melnhof Holz GmbH (Austria) and LSR Group put into operation the first stage of the woodworking plant in the Leningrad region – investment volume making up 80 million EUR.

LLC MM-Efimovsky woodworking plant is situated in the village of Chudtsy, Boksitogorsky district, Leningrad region, on the area of 40 ha.

The plant is to specialize in complete woodworking and produce sawn timber, glued log, and bio-fuel – pellets. Raw materials will be supplied by the local harvesting companies. The plant is to provide 300 workplaces.

*Mayr-Melnhof Holz GmbH and LSR Group launched the first stage of woodworking plant.*

**Machinery**

*Decline on the Russian woodworking machinery market makes up 30%.*

Volume of the Russian woodworking machinery market made up about 724 million USD last year, of them only 5% fell on domestic manufacturers.

Share of Russian woodworking machinery producers is decreasing on the internal market annually. This year total decline on the woodworking machinery market can reach 30% with this indicator within some sectors amounting to 80%, experts say.

According to Market research ([www.bsmarket.ru](http://www.bsmarket.ru)), sawmilling machinery was the most dynamic segment with its share increasing in the Russian production pattern as well as in the import structure annually before the financial crisis.

Share of sawmilling machinery is high repeatedly and makes up 50% of the Russian woodworking machinery market (in quantity) for several last years.

Sawmilling machinery is followed by planing and milling machines. Currently the most capital intensive sector is, however, machinery for timber house construction.

**Investments**

*Three Liebherr manipulators for Ilim Group affiliate in the Irkutsk region.*

Three Liebherr electrically controlled manipulators (improved model) were delivered at Ilim Group affiliate in Ust-Ilimsk (Irkutsk region). New manipulators are designed for SISU trucks, lorries and railway cars.

Lifting capacity: 7 tons  
Radius: 12 m

Liebherr manipulators are equipped with lifting cab. The cab can be raised up to 5 m and angled to 360 degrees. Control system (electrically operated) and air-conditioner are also installed inside the cab.

New machinery will allow decreasing time of timber shipment from SISU trucks, i.e. increasing their efficiency. In impassability time manipulators will be used for wood pulp shipment.

*New Dieffenbacher line for laminated chipboard production in the Penza region.*

April 07, 2009 JSC Chaadaev plant for chipboards production (Penza region) launched a new Dieffenbacher line for laminated chipboard production (Germany) with capacity making up 3 million sq. m. annually.

The project capacity is to be reached already in the beginning of May 2009. The plant is to produce laminated chipboards 2.5m x1.8 m for furniture industry and construction.

*Sykytyvkar and Gagarin plywood mills are to expand product range.*

New Steinemann plywood polishing line with 6 heads (Austria) is to be installed at Sykytyvkar plywood mill. New programme on machinery reconstruction aimed at improving quality of plywood and chipboard was approved at the mill. Modernization works are due to start with chipboard polished line.

Product range is also being expanded, i.e. there was renewed production of different types of plywood both polished and laminated, taken decision on extension of laminated chipboard decoration.

Product range is also expanded at the Gagarin plywood mill. The plant produced laminated chipboard of different width (6-38 mm) and sizes that were mentioned in the contract.

In April 2009 the mill produced chipboard with improved moisture resistance with quality meeting European requirements. The mill is to reach project capacity in autumn 2009.

*Second line for sawn timber production to be launched in Primorye area.*

Second line for sawn timber production is to be launched at JSC Terneyles (Plastun, Primorye area) by summer 2009. The project is included in the list of priority projects. Assembling works are in the progress currently. As soon as the line is put into operation plant's capacity is to make up 700 thousand cubic meters per year.

All in all there are 3 investments projects realized in the field of timber industry of Primorye area. Thus, CJSC LesExport (Dalnorechensk) is to get its first production by QIV.

There are also projects on construction of sawmills of JSC Primorsklesprom in Svetlaya and Olga – total volume of processed timber making up 360 thousand cubic meters. Sawmill in Svetlaya has been already launched.

With all facilities being put into operation, wood processing in Primorye is to increase as much as 2 times.

**Business Support Bureau  
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**Reference:**

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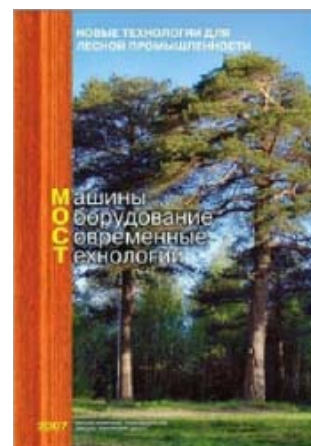
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