

RUSSIA: Forest Industry Competitiveness & Export Outlook

Third Edition

FEATURING:

- Overview of Russian log harvesting and wood products production trends
- Impact of the new Russian log export tax and quota regulations
- Russia's export fit in key global log and lumber markets — especially China and Europe
- Cost benchmarking analysis of Russian sawmill costs and EBITDA earnings compared to key regional competitors
- Review of Russian logging practices and implications on future coniferous saw log supply
- Investment trends in the Russian forest industry — domestic and foreign
- Assessment of potential risks of doing business in Russia



Produced by
International WOOD MARKETS Group Inc.



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6 **RUSSIA'S COMPETITIVENESS AND BUSINESS CASE**

GLOBAL COMPETITIVENESS

LOG COST TRENDS:

- Infrastructure,
- Transportation distances and costs to mills
- Role of government: financial assistance in infrastructure costs

COST BENCHMARKING:

- Russian Saw Log Costs
- Russian Sawmilling Costs
- Sawmill Cost Comparison of Russian Logs: Sawn in Russia versus China
 - Log & Lumber Transportation Costs
 - Estimated delivered log prices and EBITDA margins
 - Sawmill residuals (chips, sawdust, shavings, bark)
 - Sawmill productivity
 - Labour and work force quality
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7 **INVESTMENT TRENDS AND RISKS**

A. CAPITAL INVESTMENT TRENDS & EFFECTIVENESS

- Harvesting
- Log Processing
- Added Value
- Biomass Utilization (pellets, biomass steam plants, etc.)

B. INVESTMENT RISKS IN THE RUSSIAN FOREST INDUSTRY:

- Legislation and Institutional Risks
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- Privatization Shortcomings
- Lack of Transparent Legal Process
- Lack of Financial Market Development
- Political Risk
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- Government Policy Direction and Initiatives

8 **OBSERVATIONS AND DIRECTION OF FOREST INDUSTRY REFORM AND INVESTMENT**

OUR TEAM WOOD MARKETS TEAM

WOOD MARKETS' consultants Gerry Van Leeuwen and Russell Taylor have toured Russia's forests and wood products industry extensively since 2000, collectively spending over seventy weeks there — they know the mysteries and dynamics of Russia that foreigners find difficult to understand!

ABOUT THIS REPORT

Although Russia is the world's largest log exporter and the fourth-largest softwood lumber exporter, its log harvest and exports have plummeted since 2007, in part due to the ill-fated log export tax and then the global financial crisis in late 2008. This has created a major supply crisis for China, its largest log and lumber customer, as well as Scandinavia, the Baltics and Japan.

In 2012, more forest industry drama took place as Russia entered the WTO and new log export taxes and species-specific export quotas were implemented in August 2012.

WOOD MARKETS' new report, *Russia: Forest Industry Competitiveness & Export Outlook*, specifically conducts an extensive analysis of the cost structure of the Russian logging and sawmilling industry, including delivered costs to key export markets. It also examines the future of Russia's log, lumber and panel industries, providing outlooks on how log and wood product prices in key export markets could be impacted.

In addition, the report assesses some looming questions, including *How large will the ripple effect be beyond China, Japan and Scandinavia as Russia either ramps up exports or falters? When or where could further impacts from the changing global supply/demand dynamics be felt?*

ATTRIBUTES

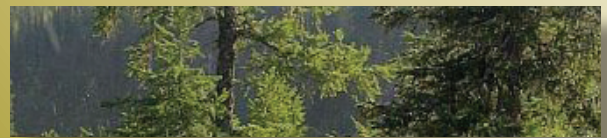
KEY ATTRIBUTES

- Cost competitiveness of the Russian logging and wood products industries along the supply chain and in export markets.
- Delivered log and lumber costs to key markets in China, Scandinavia and Japan.
- Log and lumber prices in Russia for domestic and export markets — current and forecast.
- Investment risks, issues and strategies.

ANSWERS

ANSWERS ON RUSSIA

- On the future potential of the Russian timber harvest, log exports and wood products production.
- On whether log exports will continue to decrease or rebound, and if China will remain the main market.
- On the competitiveness of Russian #2 & Better dimension lumber to the U.S./China, and J-grade to Japan.
- On the latest log export taxes and quotas (they are complicated!) and their expected impact on global markets.
- On why investments being made by Russians may be motivated by different reasons than you might think.



QUESTIONS

QUESTIONS ADDRESSED

- What is the short- and long-term potential for log and lumber exports from Russia to key markets in Europe, the U.S., Japan, China and other Asian markets? What are the drivers/impediments?
- What are current delivered log and lumber costs to Europe, China and Japan from Russia?
- When will Russian log and lumber production and exports rebound? Will Russia be able to attract capital investment to exploit its vast forests? When? And from where?



Forest Industry Competitiveness & Export Outlook

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