



Current Russian Industry Issues and Outlook

New Zealand as a Competitor to Russian Logs and Lumber

**By: Gerry Van Leeuwen, Vice President,
International WOOD MARKETS Group**

International WOOD MARKETS Group Inc.

WOOD MARKETS' Speakers

Gerry Van Leeuwen



- ◆ 15 trips to Russia
- ◆ 20 trips to China

Russ Taylor



- ◆ 8 trips to Russia
- ◆ 10 trips to China

Introduction to: International WOOD MARKETS Group

- We are wood products industry consultants and we assist companies around the world to develop operational, marketing & business strategies.
- We are known as global market & industry experts/analysts on timber, lumber, panels & many millwork products sold in the U.S. market & key export markets.
- We produce Multi-Client Reports: Europe & Russia; Clearwood Pine; Global Lumber Benchmarking; The China Book; WOOD Markets 2000, 2002, 2006, 2010; & the WOOD Markets Monthly Report



WOOD Markets' Multi-Client Reports

2nd Edition

GLOBAL WOOD BOOK



TRENDS & STATISTICS

Country Profiles of Softwood (& Hardwood) Wood Products Industries

Featuring

- Profiles of more than 35 of the largest producing, importing, exporting and consuming countries that drive the international wood products industry and markets
- Regions examined include Europe, Asia, the Southern Hemisphere, North Africa/the Middle East and North America
- Coverage of softwood (and hardwood) production and consumption trends in timber harvests, lumber/sawwood, plywood, OSB, MDF and particleboard
- Economic (and housing) trends profiled for most countries
- Full statistical sections provide more than 300 data tables and summary graphs
- Over 350 pages

Available April 15, 2009

From the publishers of WOOD MARKETS MONTHLY INTERNATIONAL REPORT, WOOD MARKETS 1996, 2000, 2002, 2006, 2010 and many other strategic industry reports

2011 EDITION WOOD MARKETS

The Solid Wood Products Outlook • 2011 to 2015

A DETAILED ANALYSIS OF THE NORTH AMERICAN WOOD PRODUCTS MARKET

COVERING: Lumber, OSB, Plywood, MDF and Particleboard

FEATURING: A Five-Year Outlook for Supply, Demand and Prices, including Mill Operating Rates

INCLUDING: An Economic Analysis of the U.S. Housing-Market Recovery and the Key Demand Drivers

Prepared and published by International WOOD MARKETS Group Inc.

WOOD MARKETS logo

LUMBER PANELBOARDS TIMBER ENGINEERED WOOD ECONOMICS MARKETS FORECASTS

GLOBAL LUMBER/SAWN WOOD COST BENCHMARKING REPORT

2008 Annual Basis & Q1/2009

Featuring:

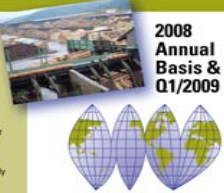
- A profile of the major sawn wood-producing regions in North America, Europe and the Southern Hemisphere
- Benchmarking of log costs, sawmilling costs, lumber revenues and margins for over 25 key countries or regions
- Includes full-year costs/revenues for 2008, with a timely update on cost structures occurring in Q1/2009 (just before the release date)
- Assessment of currency fluctuations and transportation on delivered costs to market by exporting country
- Cost summaries and analyses based on information gathered directly from sawmill visits
- Enhancements for this report include sawmill performance at actual and "normal" operating rates

Available April 30, 2009

WOOD MARKETS logo

THE WOOD GROUP logo

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WOOD MARKETS

MONTHLY INTERNATIONAL REPORT

VOLUME 11, NUMBER 1 • FEBRUARY 2009

Featuring Lumber, Panels and Wood Products Analysis

Global Competitiveness

Low-Cost Labor Regions Winning

In many global products (such as furniture, cabinets, flooring, millwork and doors) and even commodities (like plywood), low labor rates provide a competitive advantage. This has been especially evident in the U.S. in terms of furniture imports from China, and also in plywood and millwork shipments from Brazil and Chile. The relative competitiveness of China versus Canada and the U.S. is very evident (Figure 1). Essentially, countries like China and Vietnam can employ forty to fifty workers for the price of one North American worker. As we illustrate in our China dual report, countries like China are now accumulating state-of-the-art capital with low labor rates to achieve the lowest production costs in the world. So, depending on your industry, beware!



WOOD MARKETS UPDATE: You will notice a new look this month! Since we are now starting our eleventh year of publishing WOOD MARKETS, we thought it was time for a makeover. In the same time, our company has been expanding, so we have also re-branded ourselves to reflect the growing recognition of our WOOD MARKETS monthly report and other publications and conferences.

The new graphic contained in newsletter material shown will also be the logo for our new brand company name, International WOOD MARKETS Group. This will include all of our publications (previously under the International Wood Markets Research Inc. name) and also all the activities of our consulting services group (previously conducted under the company name I.W.M. Taylor & Associates LLC). In addition, we are moving to larger offices across the street effective February 1, so please note our new mailing address at the bottom of page 12. All of our existing email addresses, as well as phone and fax numbers, remain unchanged.

In our next monthly issue of WOOD MARKETS we will further profile the changes — in terms of ownership and expanded services, along with some other new developments — that have occurred as our company continues to grow.

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GLOBAL PRICE TRENDS




CLEARWOOD (PINE) LUMBER, MOULDING & MILLWORK SECTOR

OUTLOOK TO 2012

FOURTH EDITION

Published by International Wood Markets Group www.woodmarkets.com



NEW TO THIS EDITION:

COST BENCHMARKING OF FINGER-JOINT AND NDF MILLWORK PRODUCTION FOR MAJOR PRODUCING REGIONS.



FEATURING:

- An in-depth insight for senior executives looking to evaluate their corporate business strategies and options in the clearwood lumber and moulding sectors.
- A review of the strategic implications of domestic vs. offshore clearwood pine lumber production/markets.
- A detailed assessment of the U.S. moulding market segments by product and supplying region, including MDF.
- Five-year supply, demand and price forecasts on clear pine lumber and mouldings (SL, FL, MDF).

THE CHINA BOOK: Wood Products Industry and Market Review

Strategic Assessment of China's Growing Force as the World's Low-Cost Production Engine & Exporter

PREPARED AND PUBLISHED BY International WOOD MARKETS Group, Inc.

WOOD MARKETS logo

INTERNATIONAL WOOD MARKETS RESEARCH INC. logo

W. Taylor & Associates LLC logo

CHINA FIRST EDITION

FEATURING:

- A comprehensive overview of China's wood products industry and its global competitiveness
- Assessment of China's timber resources and imported raw material supply sources
- Timely analysis of China's evolving distribution system for softwood/hardwood products
- Chinese domestic market consumption and its far foreign wood imports
- An overview of investment opportunities and insights on "Doing Business" in China

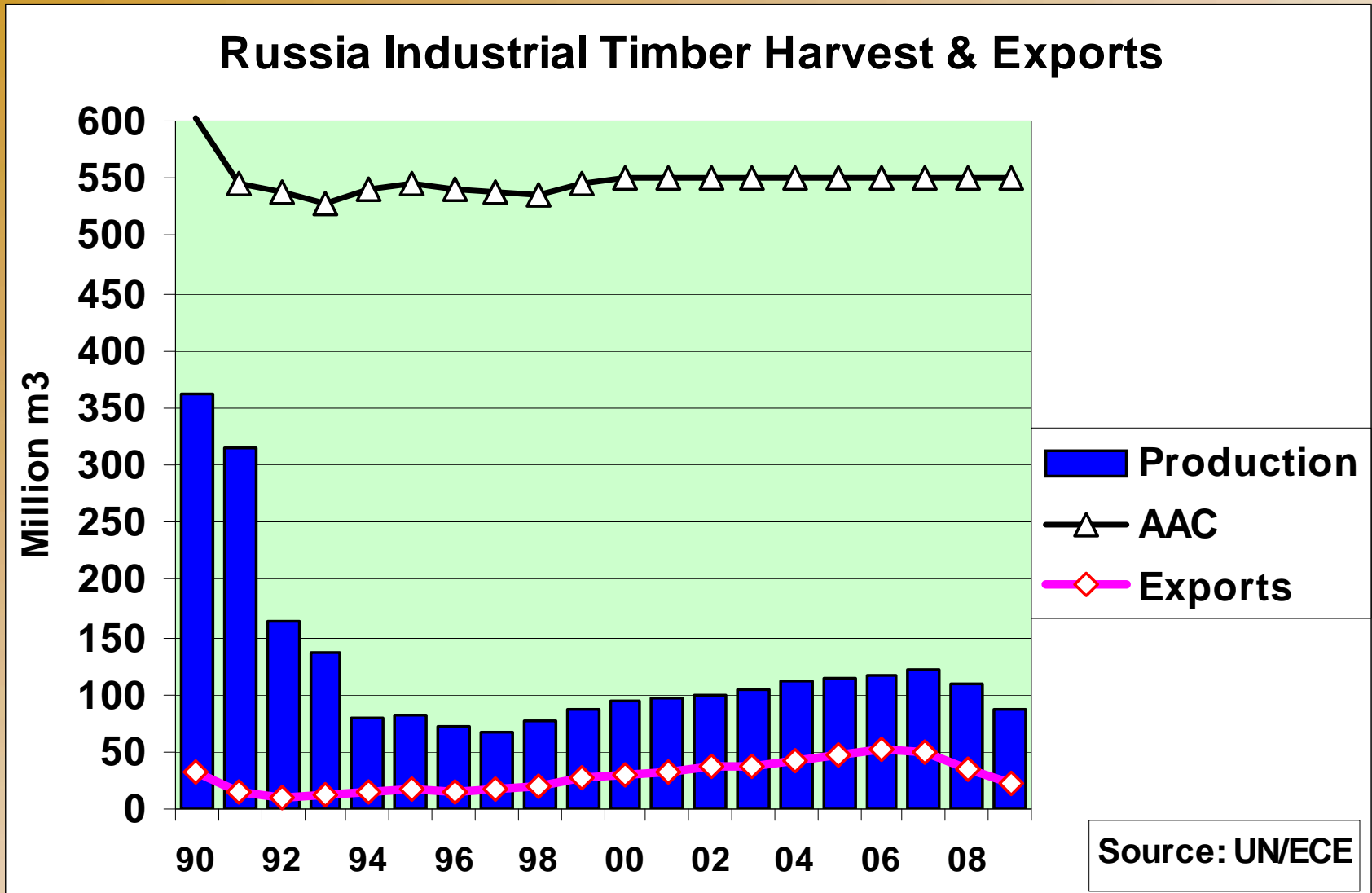


Presentation Outline

1. Russia - Industry Overview
2. Russia - Log Export Tax Implications
3. Russia – Issues Impacting the Industry
4. Summary

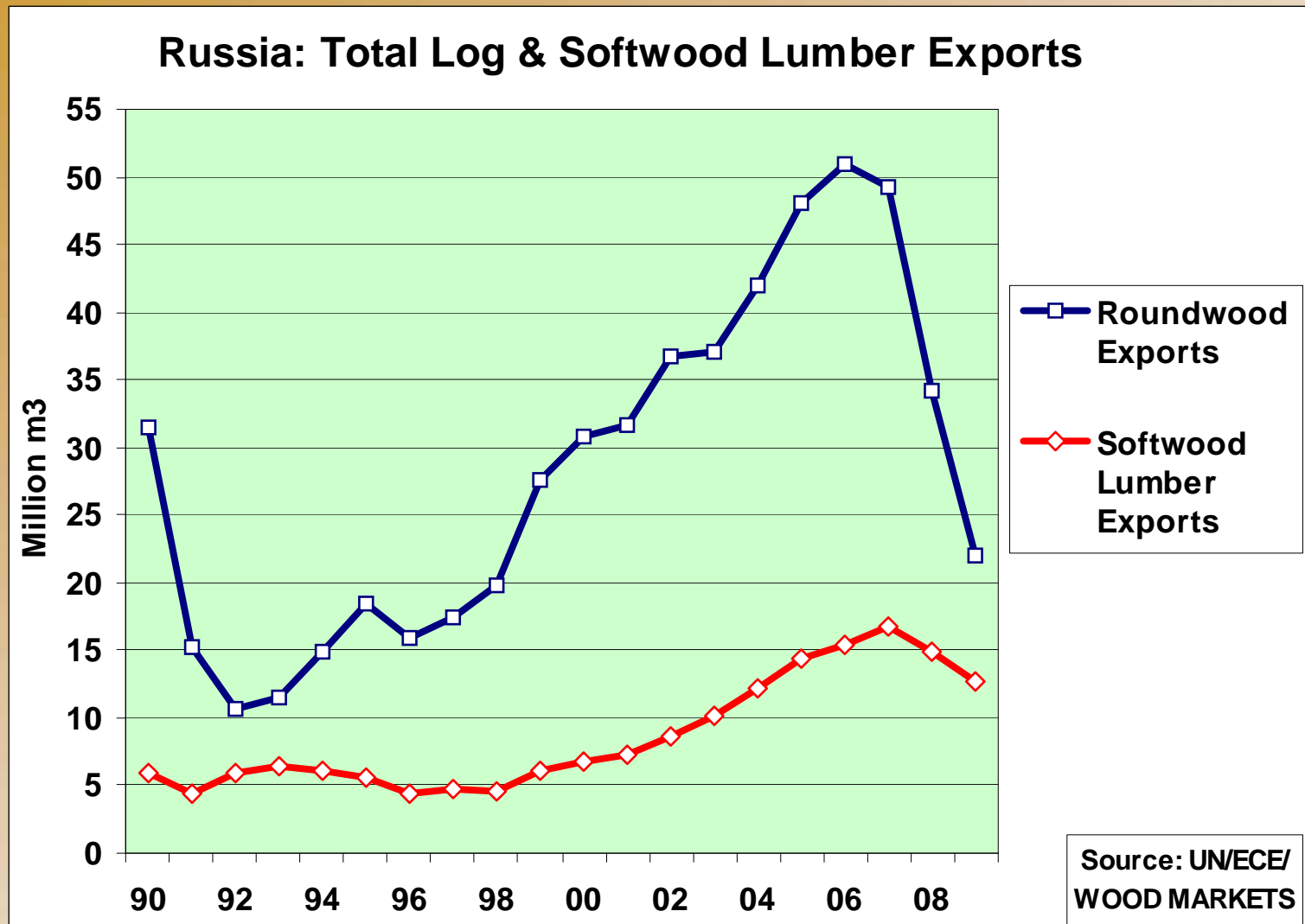
Note: all data in this presentation are extracts from WOOD MARKETS' publications: *The China Book: Outlook to 2015*; the monthly *China Bulletin*; & *WOOD Markets Monthly*.

Russian Harvest: Lots of Upside



Realistically, Russia's harvest can probably only increase by 75 to 100 million m3 in the next few decades

Russia Exports Now Plunging from Global Economic Crisis & Log Tax



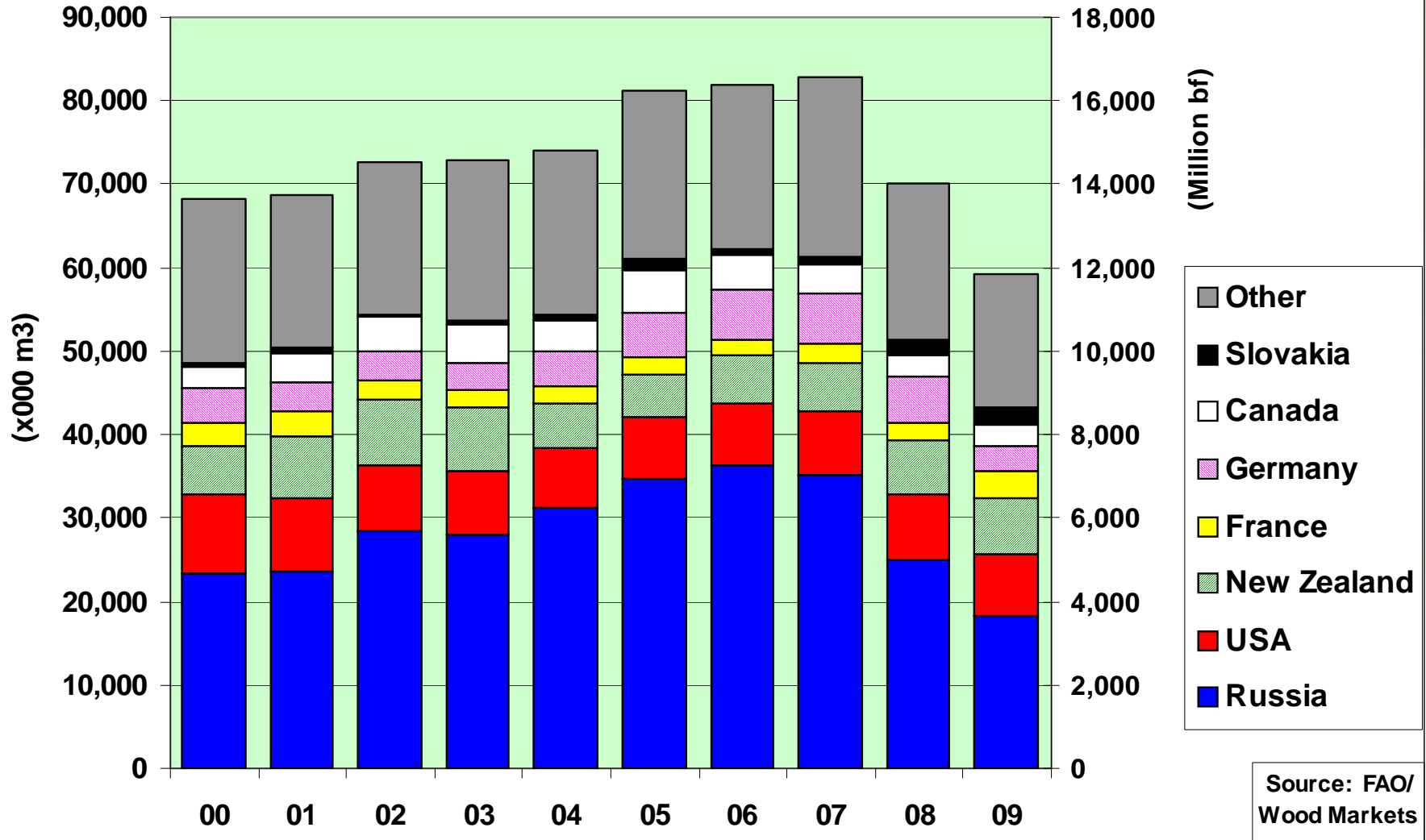
Russian exports have collapsed, soared & now collapsed

RUSSIA: Timber Export Tax

- For softwood logs, the tax has risen:
 - from 6.5% to 20% (euro 10/m³) in July 2007.
 - to 25% (euro 15/m³) in April 2008.
 - to 80% (euro 50/m³) in Jan. 2011 (not likely)
- For hardwood saw/veneer logs, the export tax is already at euro 100/m³.
- For birch pulpwood, the tax has been delayed.
- Many uncertainties on whether the tax will go ahead as scheduled or what role investments will play...
- **Russia is 40% of world's softwood log export supply & 30% of hardwood log exports, so this export tax is dramatic for its customers!**

Russia was 45% of SW Log Exports

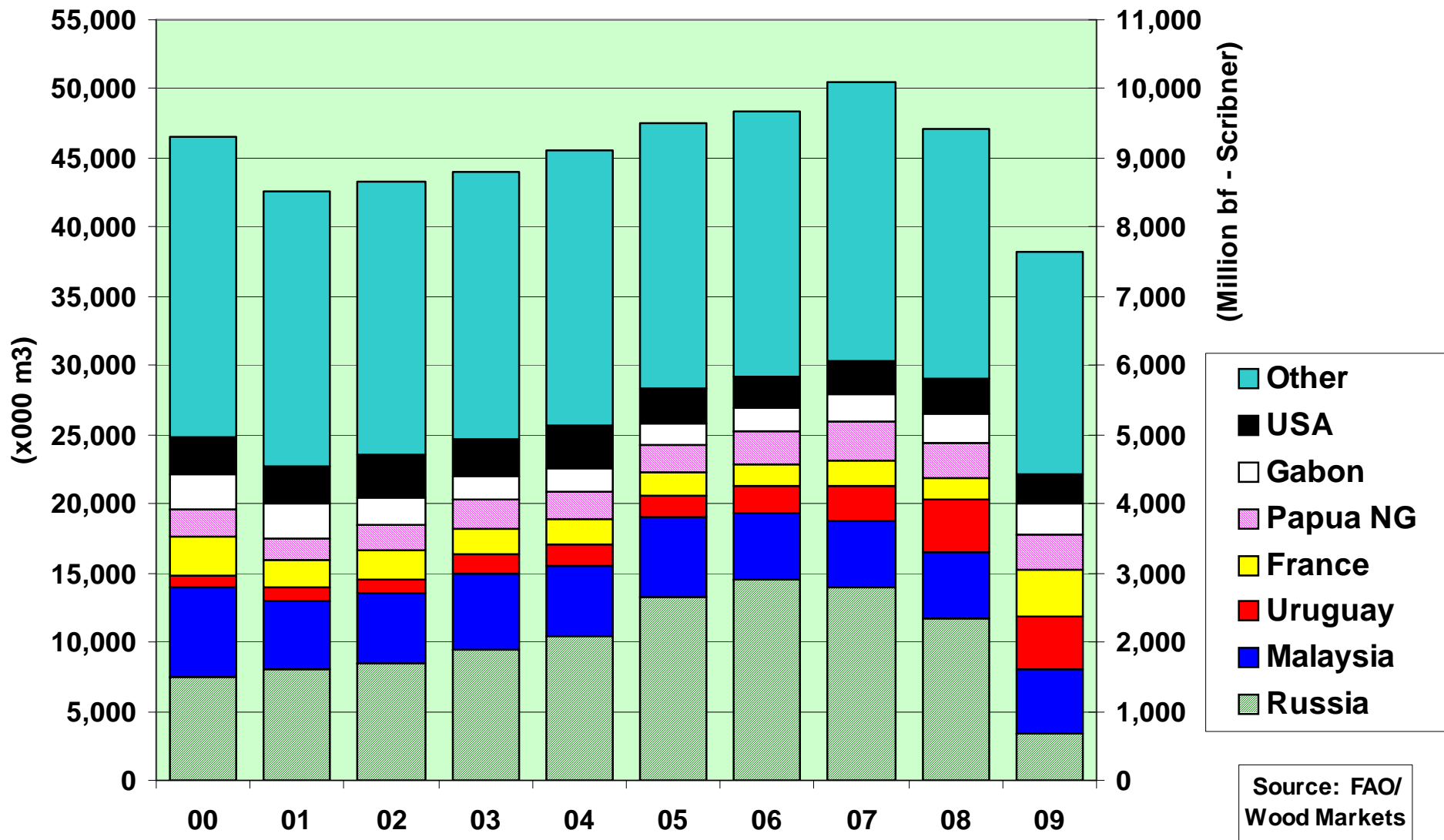
Global Industrial Roundwood (Coniferous) Exports



Russian SW log exports soared then plummeted from export tax

Russia was 30% of HW Log Exports

Global Industrial Roundwood (Non-Coniferous) Exports



Source: FAO/
Wood Markets

Russian HW log exports soared then plummeted from export tax

Russian Log Export Tax - Implications

There will be a new supply realignment of replacement log and wood products to rebalance supply in the most affected countries.

- **Russian logs will be replaced: Domestic + imported log sources + lumber and perhaps OSB or plywood.**
- **Which countries or companies are most likely to offer supply solutions to the importing countries?**
- **Due to logistics, the Pacific Rim countries (including NZ) will be major benefitters in selected products, grades and species to Asia (and also may see less growth in imports from Asia).**

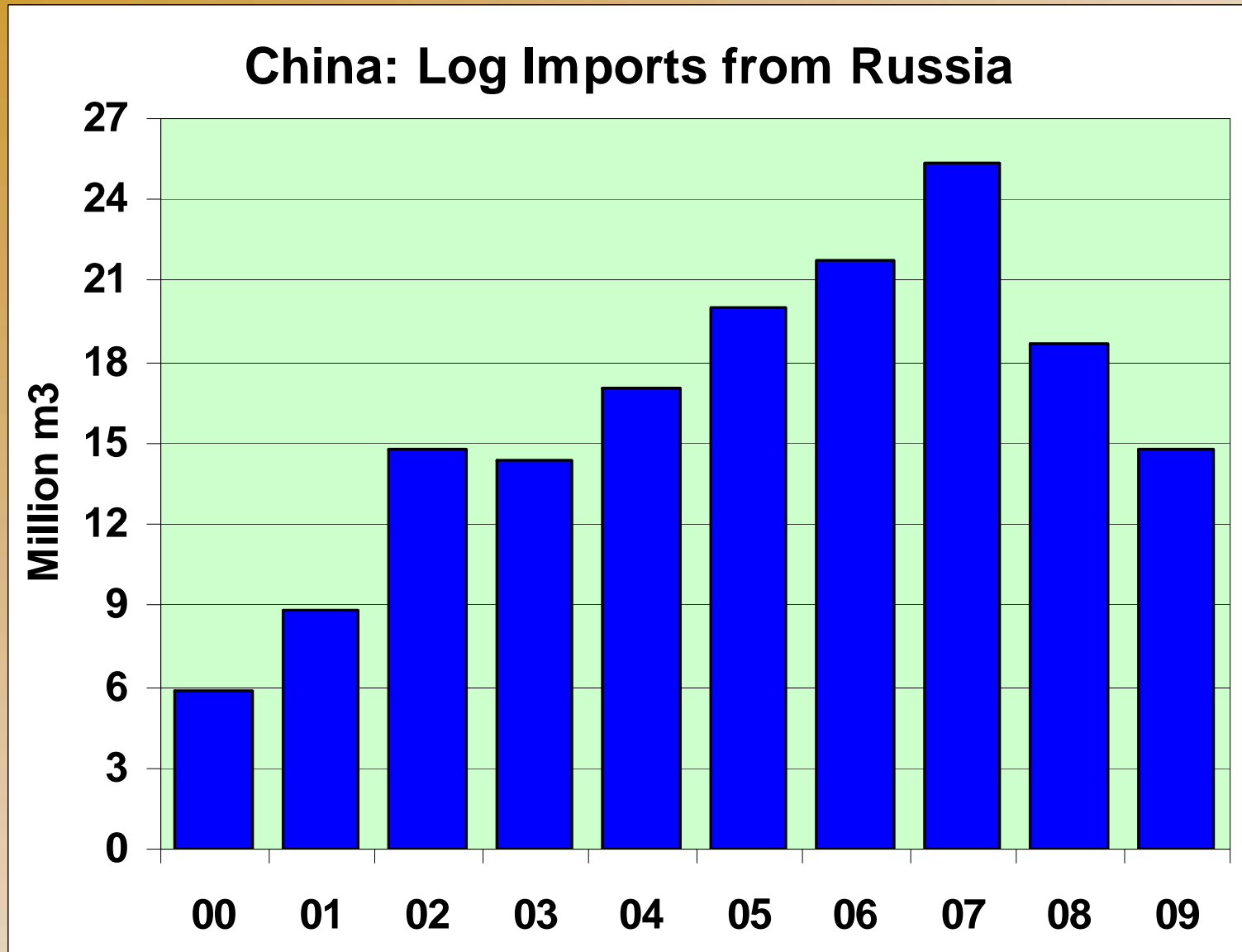
Issues Impacting Russian Industry

- **25% Russian log export tax + global recession = very negative impact on Russian log production and exports. Annual harvest down by about 35% and log exports down by 60%.**
- **Log export tax is expected to remain at 25% for next two to three years. Don't expect tax to increase to 80%, but it could possibly increase by another 10% or 15% in the next five years.**
- **Many small logging companies have disappeared or purchased by larger companies.**

Issues Impacting Russian Industry

- **Domestic Russian log prices have increased by \$10-\$15/m³ in the last year (2010) due to:**
 - **Lack of profit derived from high priced log export business.**
 - **Reduced log availability as a result of decreased annual harvest.**
 - **Rising lumber prices in Europe, Japan, North Africa and CIS countries.**
- **Many sawmills in Eastern Russia are operating on less than one shift due to lack of saw logs and constrained bank lending.**

Russia's Log Exports to China = Down



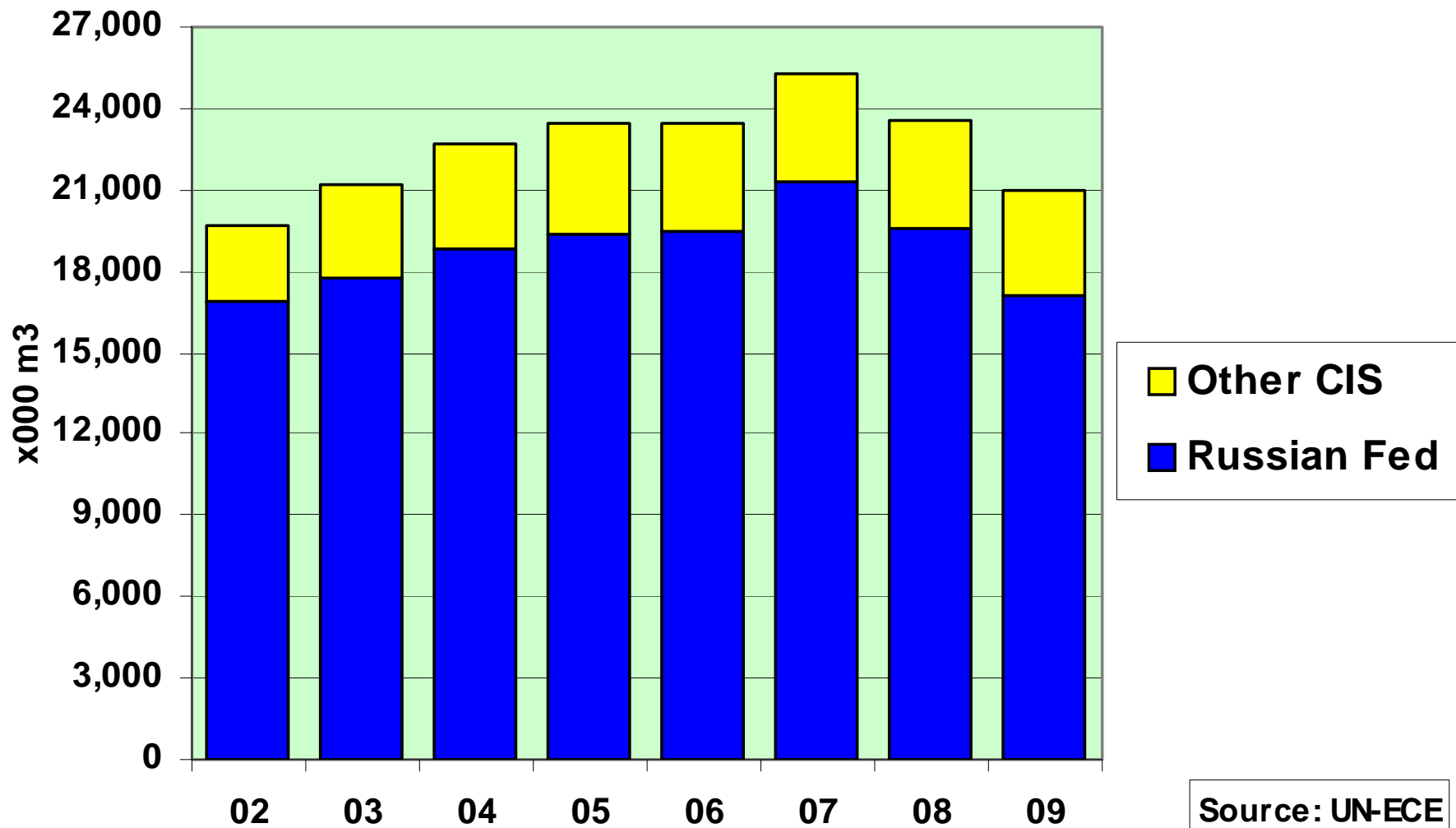
China's total log imports = was ~ 2/3 from Russia!

Issues Impacting Russian Industry

- **Most Russian owned sawmills produce lumber for high priced markets in Japan, Europe, N. Africa and CIS countries.**
- **Number of Chinese owned sawmills in Eastern Russia is steadily increasing. Current estimate is 150-200 Chinese sawmills cutting an average of 10,000-15,000 m³ of lumber each per year.**
- **Chinese sawmills produce rough sawn, green lumber that is further processed in China.**
- **As a result, about 2/3 of Russian lumber exports to China is produced by Chinese owned sawmills.**

CIS (incl. Russia) - Production Trends

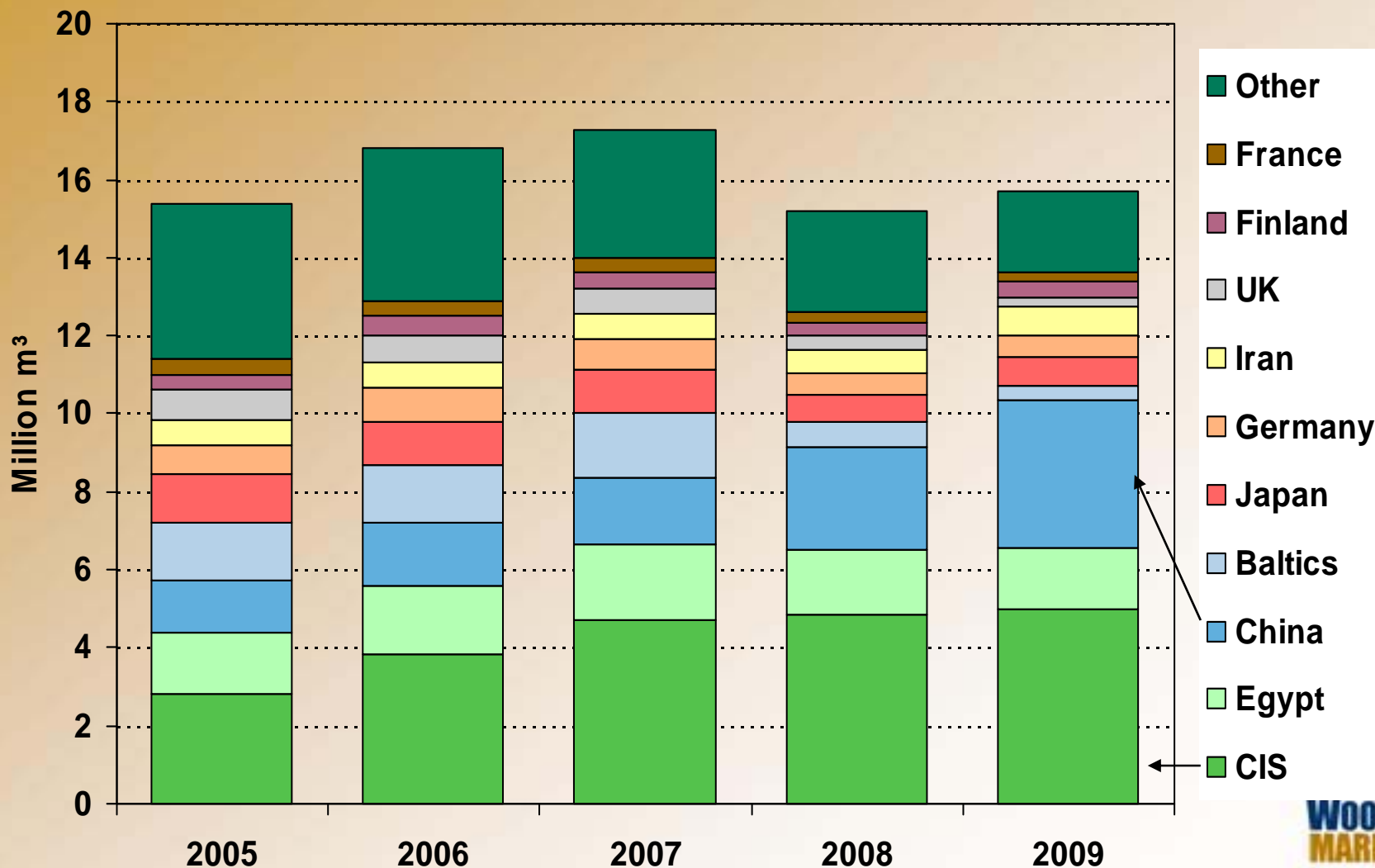
CIS: Sawn Softwood Production



Reductions were also the rule in Russia and the CIS in 2009

Russia - Lumber Export Markets

Russia exports grew in 2009 - the share of CIS countries & China was over 55% of total exports and is expected to increase further as sawn softwood exports replace log exports.



Issues Impacting Russian Industry

- **Chinese owned sawmills have lower production costs than Russian sawmills. As result, can sell rough green lumber at a lower price. Profit is realized in processing operations in China.**
- **The number of Chinese owned sawmills in Russia is expected to continue to grow steadily as the advantages of importing lumber in place of logs (with 25% export duty) provides incentive.**
- **A number of new, modern sawmills and plywood/veneer mills have been built or are being built but mainly with Russian money (i.e., 3 new Linck mills, 2 new veneer/plywood mills, new MDF plant). (Pictures)**

Issues Impacting Russian Industry

- **Questions remain about how efficiently Russians can operate these modern sawmills & veneer mills.**
- **Foreign investment in Eastern Russia log processing is still minimal (except for Chinese).**
- **Proformas indicate strong business case for investment in Russia, but execution and dealing with Russian politics, corruption, transparency, etc., are still real issues.**
- **Significant new investment in mechanized logging equipment throughout Russia. Due mainly to the lack of skilled labor and the low productivity of manual logging methods.**

Expected Impact on Russian Log and Lumber Exports to China

- A few Russian forestry companies are importing foreign labor (Ukraine, CIS countries) due to the lack of a skilled and efficient Russian labor force.
- Russian log exports to China are expected to grow slowly with the 25% log export tax. If the export tax moves higher, exports will decrease substantially!
- Russian lumber exports to China are expected to continue to increase but will come from mainly Chinese-owned or operated sawmills as long as Russian-owned mills have higher priced markets available.
- China-Russia border infrastructure is excellent.

Expected Impact on New Zealand Log Exports to China:

- A slow growth of Russian log exports to China is forecast – this means a “log shortage” in China (as forecast in **WOOD MARKETS’ China Book – Outlook to 2015**).
- The current 25% log export tax provides a growing opportunity for New Zealand (and other softwood log exporters) to fill a growing Chinese demand.
- New Zealand log exports to China must be priced competitively compared to higher quality North American and Russian softwood logs.
- Chinese log importers have a clear price structure and price relationship between these three major suppliers and domestic softwood logs.

Thank You!

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