NW Russian roundwood market functioning

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15 September 2017, Helsinki

Region	Logging level in 2016, thousand m3	Including softwood logging
Arkhangelsk	10 986	8 257
Vologda	13 542	5 478
Leningrad	5 202	2 785
Murmansk	51	51
Novgorod	2 241	862
Pskov	1 491	714
Karelia	6 352	5 275
Komi	6 961	4 239
NW Russia TOTAL	**46 826**	**27 661**

Major traded assortments:

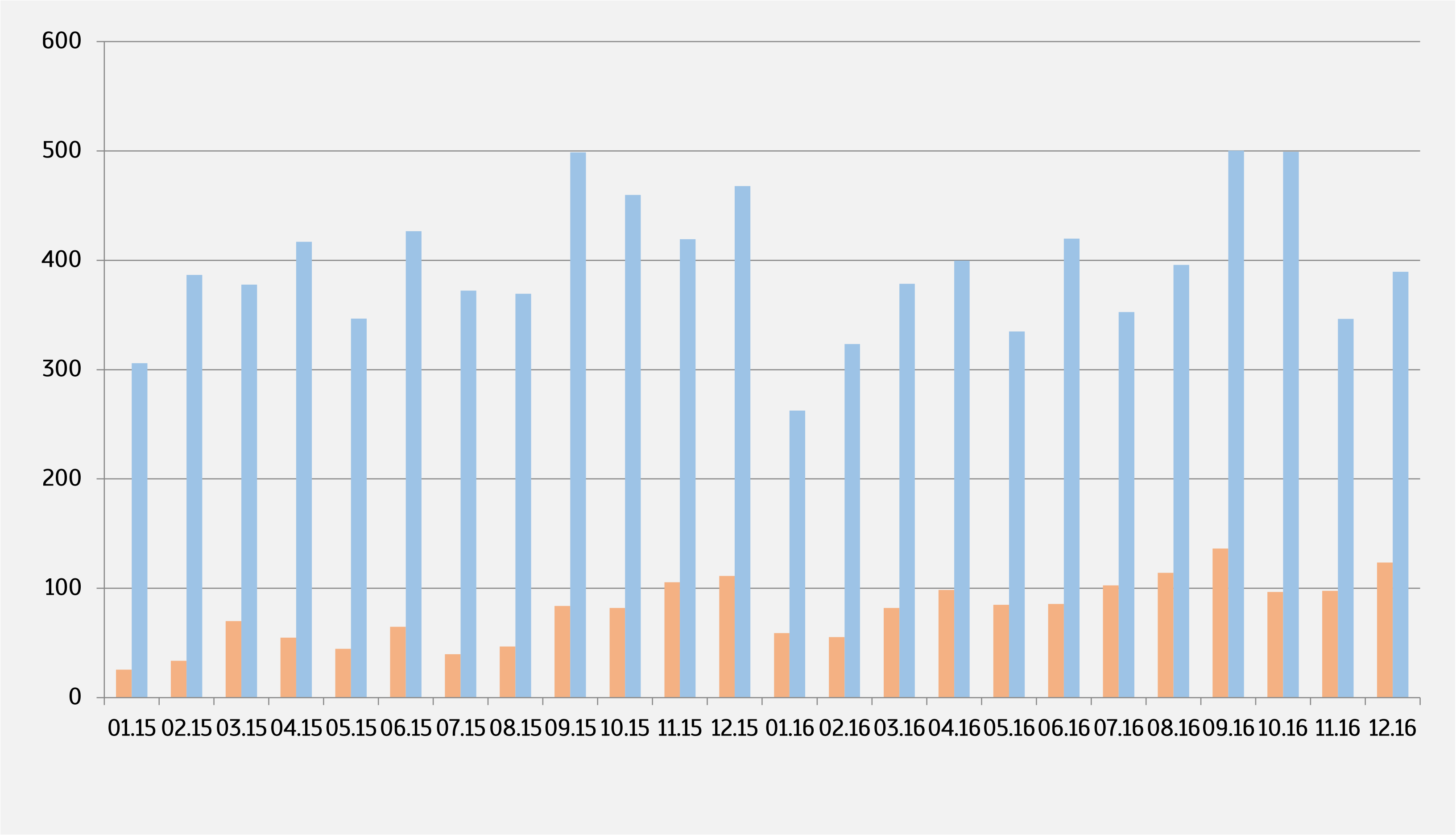
- Softwood sawlogs for lumber production
- Birch veneer logs for plywood production (European Russia produces very small volumes of softwood plywood)
- Pulpwood (softwood, birch, aspen)
- Energy wood (chips sold on the market for CHPs and export demand)

In Russian exports to Finland:

Birch pulpwood (HS code 4403995909)	~3.5M m3
Birch plylogs D>15 cm (HS code 4403995901)	~1M m3
The rest (softwood pulpwood etc.)	~1M m3

	Duty before WTO	Duty after WTO accession	
Spruce, fir	25%, but not less than €15 per 1 m3	13% within quota	80%, but not less than €55.2 per m3 outside quota volume
Pine	25%, but not less than €15 per 1 m3	15% within quota	80%, but not less than €55.2 per m3 outside quota volume
Birch (except pulpwood)	25%, but not less than €15 per 1 m3	7%	
Birch (pulpwood with diameter not more than 15 cm)	0%	0%	
Aspen	10%, but not less than €5 per 1 m3	5%	
Larch	25%, but not less than €15 per 1 m3	25%, but not less than €15 per 1 m3	
Wood chips	5%	0%	

Softwood and hardwood log exports to Finland, thousand m3



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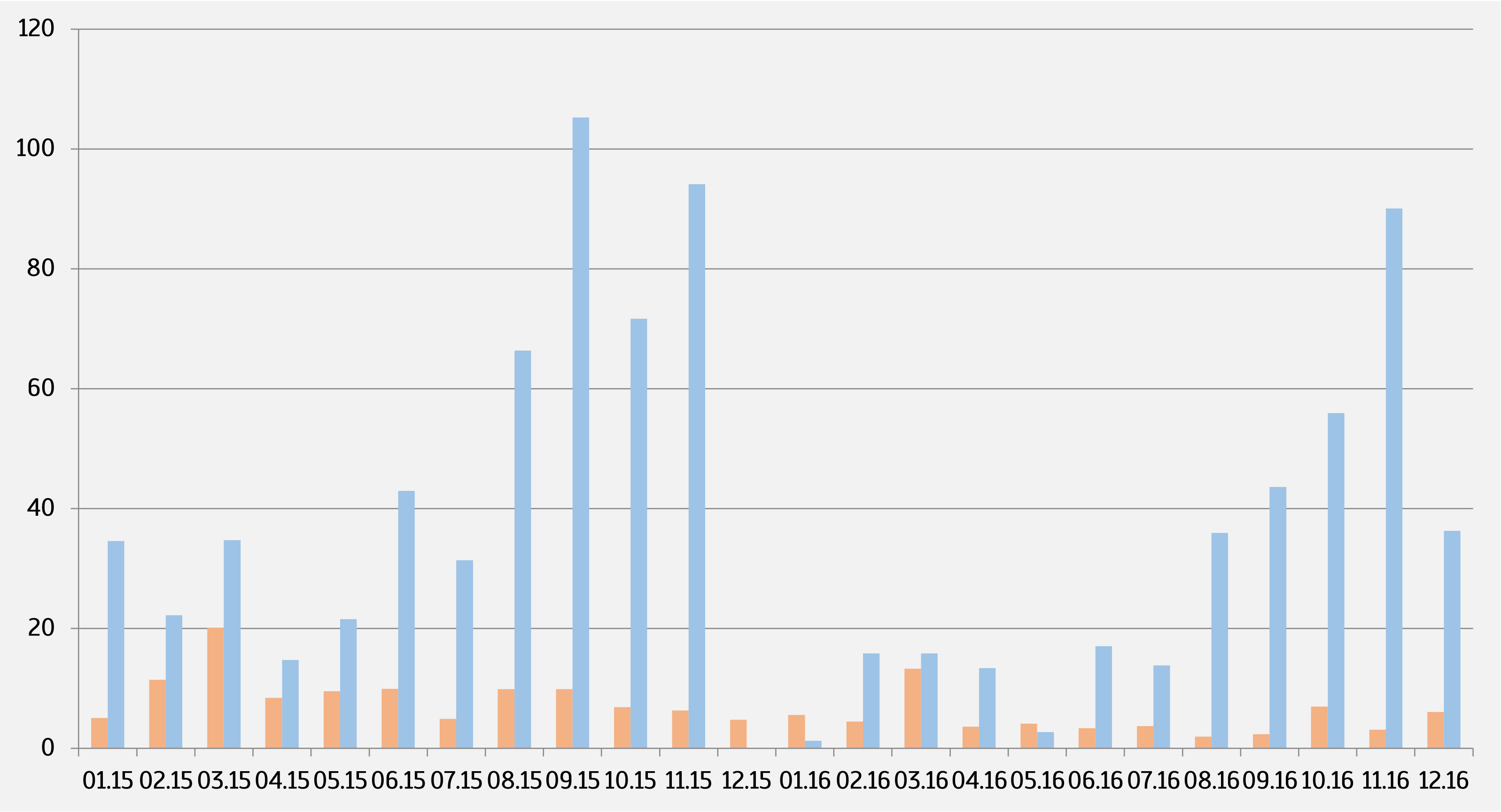
Softwood and hardwood log exports to Sweden, thousand m3



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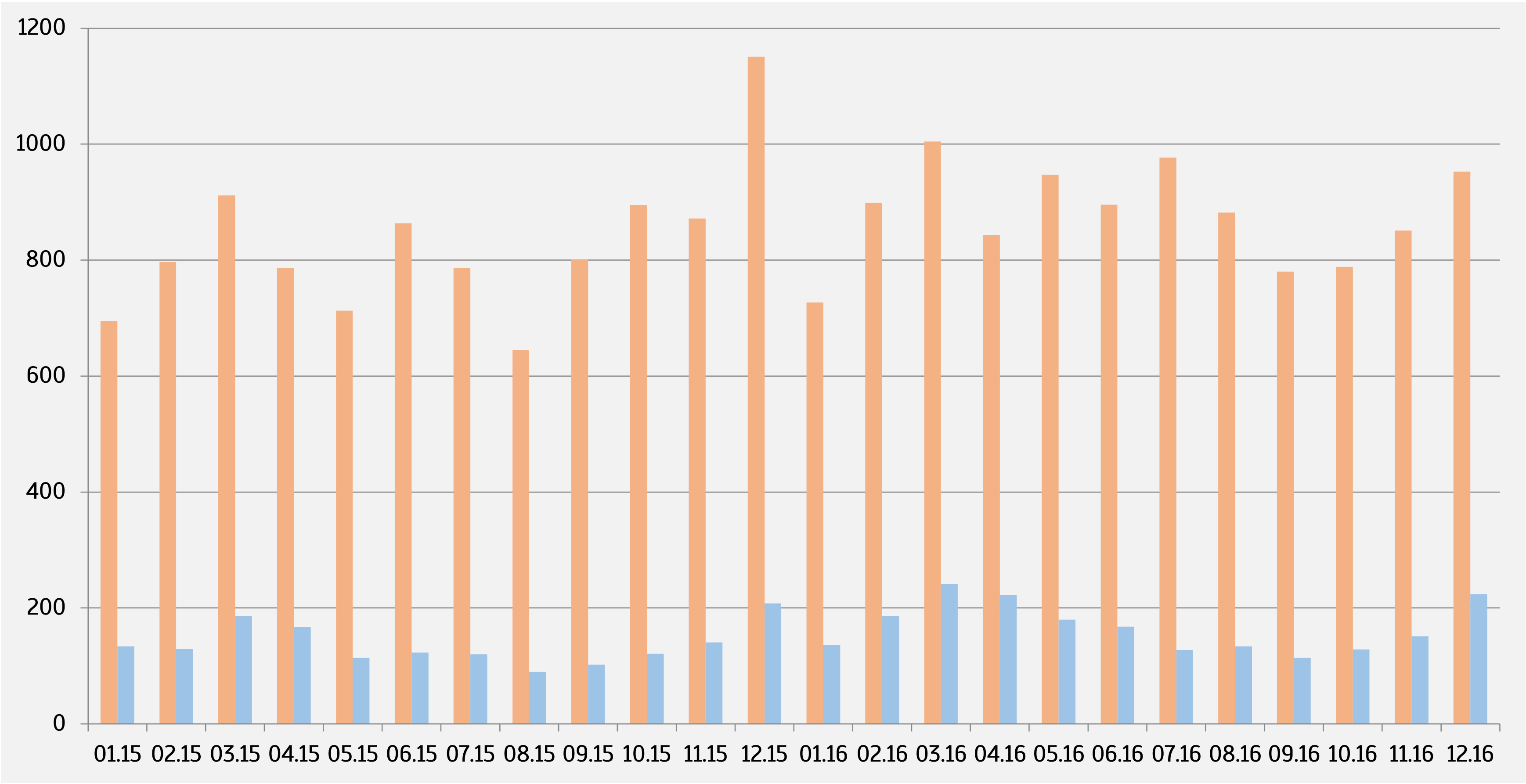
Softwood and hardwood log exports to China, thousand m3



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Competition is growing for roundwood assortments, so are the **prices**:

- In the regions which are able to export cost-effectively
- In the regions with a lot of pulpmills/panel mills (Central, NW Russia)

- Record prices in the spring of 2017
- Spruce pulpwood with rail delivery to a pulpmill in Central Russia: 2700 RUR/m3 (38 EUR)
- Birch plylogs were 11% more expensive in 2016
- Pulpwood price growth up to +30% according to some companies

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- Roundwood export in Russia is mainly done by **railroad** (62% of the volume in 2015).
- **Water** transport is the cheapest but the least available alternative.
- **Truck** delivery for exports is economically feasible only from the border-side areas in Karelia, for instance.

Record growth rates of **railway** costs:
- Deficit of rail cars
- Priority to more profitable cargoes
- Transles LLC: 2,000 car units in European Russia (65-70% of what is needed)
- Market to be balanced by mid-2018
- Companies buying out their own rail cars

Truck delivery also has problems:
- Seasonality of logging influences the price and availability toughly due to poor forest road condition in the mud season
- Companies start building their own railroads to fight this

- **River** deliveries are becoming an option, companies are willing to prepay for such services even in winter

- Lumber mills are going into the low-grade market with building capacities to process thin sawlogs, the definition of a sawlog is changing

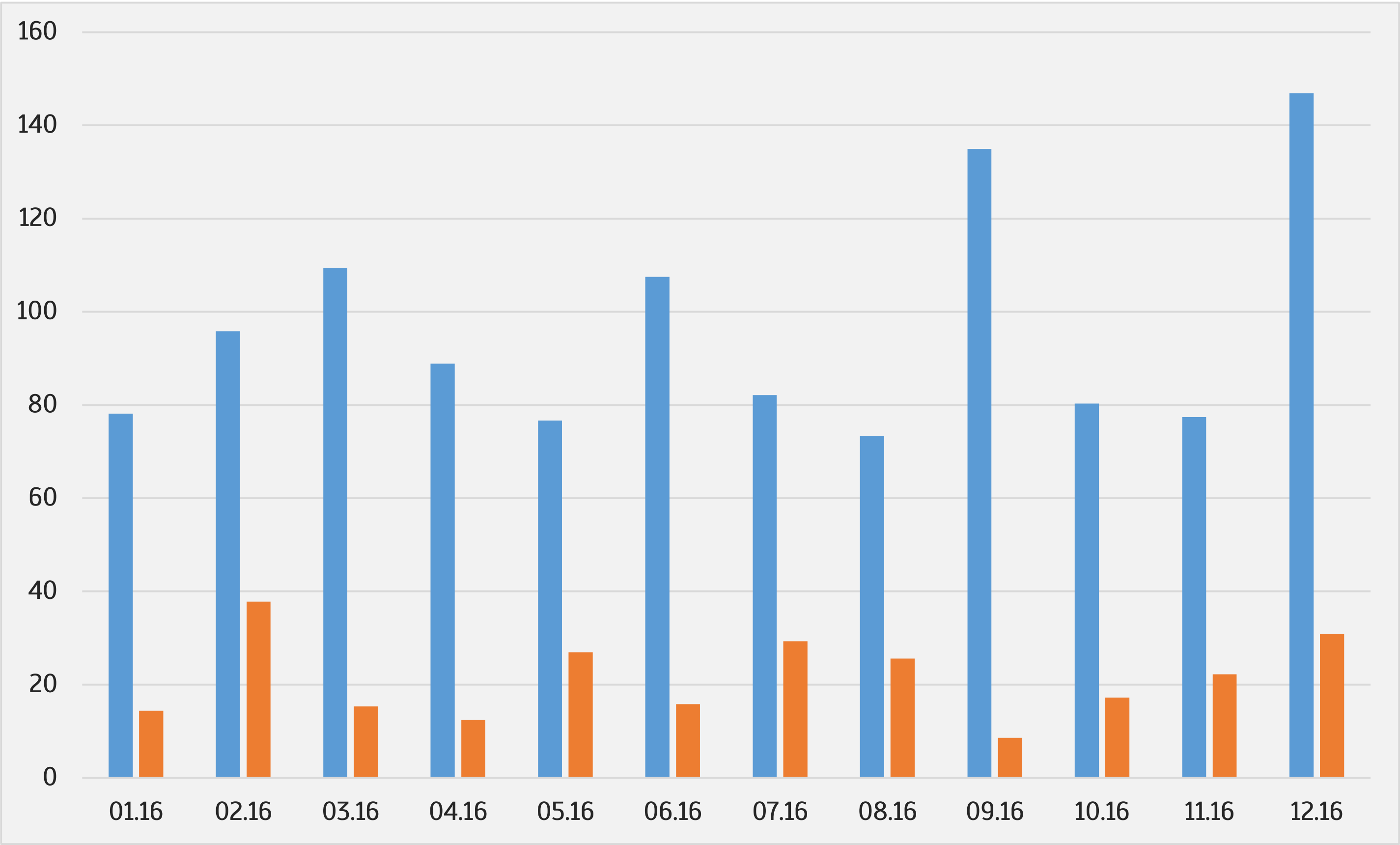
- Some companies try to develop own logging to secure resources under such terms

Plylog export ban?

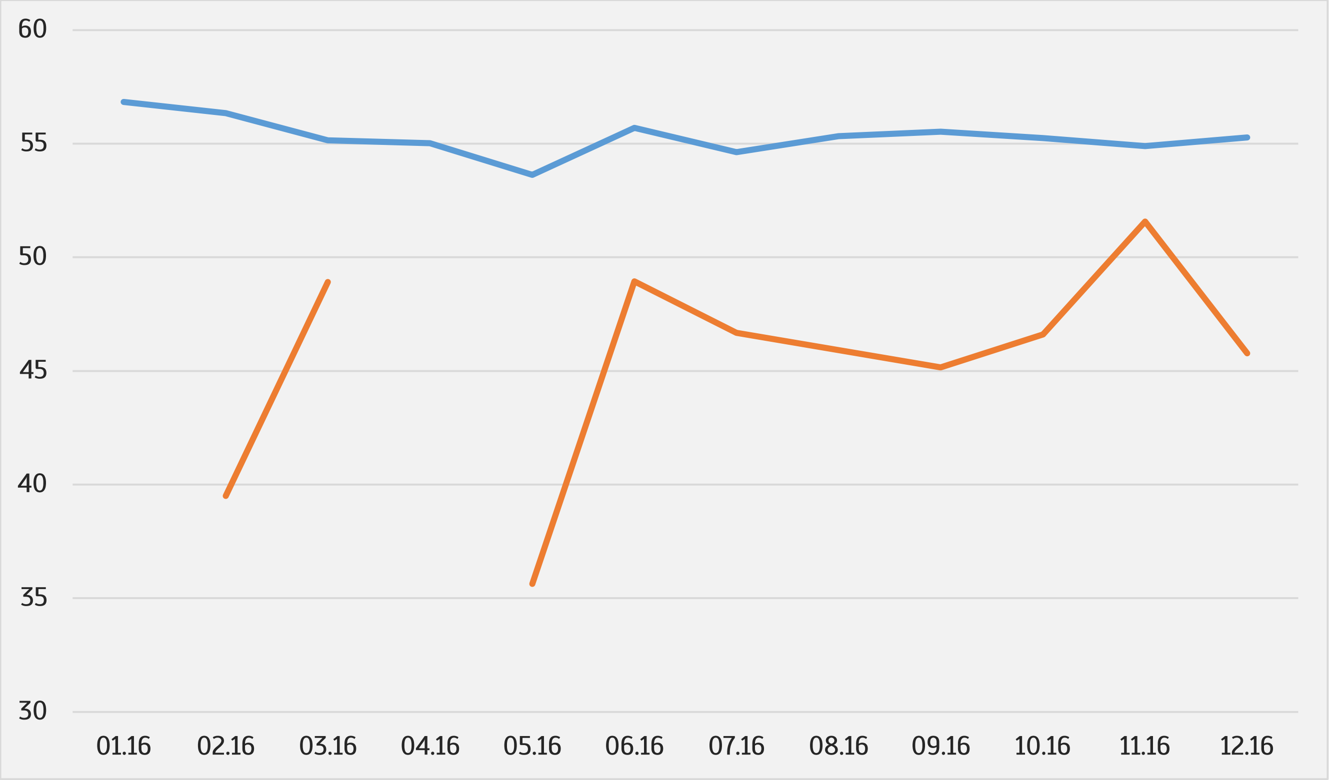
- In early 2017 the government regarded the ban on birch plylog exports, but this wasn't finalized, and the market players in Russia don't think this will be introduced

- Still if introduced, it could hit some logging companies in Russia and favour some others and plywood producers, but hardly will influence seriously the Scandinavian timber markets to our view, because a lot of other more important assortments will be exported still, and the major demand in Scandinavia is for pulpwood

Softwood and hardwood chips exports from Russia to Finland, thousand t



Base prices for softwood chips in Finland: DAP Imatra, DAP Kaukas/Lappenranta, €/t



Thank you!

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