

Press Release – For Immediate Distribution

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Russian sawlog and pulpwood prices fell 20% in 1Q 2008 as log export taxes reduced foreign shipments, causing increased domestic supply

Russian domestic log prices fell sharply in the 1Q 2008 from their peak in the 4Q of last year, according to the market report Wood Resource Quarterly. Pine sawlog prices declined 22%, softwood pulpwood prices were down 20% and hardwood pulpwood costs fell just over 15%. The major reasons for the price declines were an improved log supply thanks to favorable logging conditions and a substantial reduction in log exports.

Russian export taxes for softwood logs increased from 20% to 25% of log value (minimum €15/m³) as April 1, 2008. This timber tariff has gone up from 6.5% two years ago, and is planned to reach 80% in January 2009. Sawmills in Finland, China and Japan are most directly impacted by the higher costs of Russian softwood logs as they have relied on imports from their neighbor for many years. Imports of softwood logs to Europe increased from just over 4 million m³ in 1997, peaked at 10 million m³ in 2005 and were down to 6 million m³ in 2007. Finland, the largest importer of logs in Europe, imported 37% less softwood logs from Russia in 2007 as compared to 2006. Although softwood log exports to China were down in the 1Q/08 compared to the same quarter last year, China has increased its reliance of Russian logs from a mere 530,000 m³ in 1997 to a record of 23 million m³ in 2007.

Although right now, importers of Russian logs are being most impacted by the log tax hikes, many forest companies in other parts of Europe and North America will be indirectly effected as the currently Russian-supplied pulp and lumber manufacturers will search for wood raw-material elsewhere.

Many forest companies in Europe, particularly in the Nordic countries and the Baltic States are now adjusting their wood raw-material supply strategies, near-term and long-term, as the costs of logs from Russia are likely to increase further. As of January 2009, Russian softwood log taxes will increase to a minimum of €50/m³, and if the new tax is actually implemented, the last shipments of softwood logs will be leaving Russia in late December this year.

Global pulpwood and sawlog market updates are included in the 50-page publication Wood Resource Quarterly. The report, established in 1988, also includes regular updates of pulp, lumber and biomass markets, has readers in over 20 countries.

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