



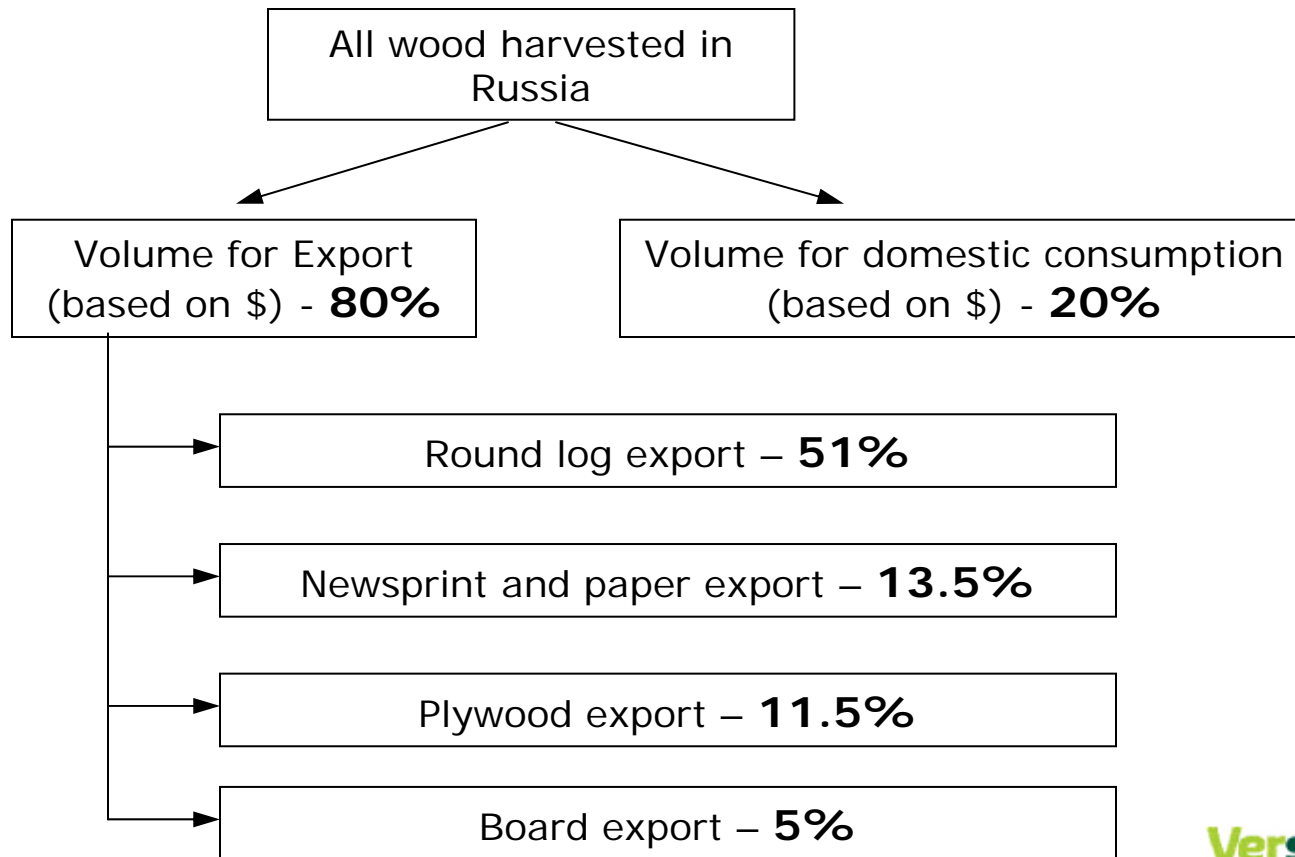
Russian Wood Tariffs

August 2008



Flow of Wood harvested in Russia (2005 data)

The large majority of wood harvested in Russia is exported; just over half is unprocessed / unconverted round wood logs



Verso simple.



Russia increases wood export tariff

The Russian government imposed a 25% export tariff on April 1, 2008. This was part of a commitment to raise taxes from 6.5% (2006) to 80% (by 2009).

Items	Rate	Jul. 1 2007	Apr. 1 2008	Jan.1 2009
	Min. Amount			
Softwood logs	%	20	25	80
	Euro/m3	10	15	50
Hardwood logs	%	20	20	40
	Euro/m3	24	24	50
Poplar	%	10	10	80
	Euro/m3	5	5	50
Semi finished products with bark thickness 15cm or less	%	10	15	50
	Euro/m3	20	25	80

This move seems to indicate the seriousness of the move to 80% scheduled for January of next year.



Russia's rationale

The Russian government wants to attract US \$51.2B of investment into the country's forests by 2020. (Source: Forestweb)

Russia is the world's largest exporter of roundwood, accounting for approximately ¼ of world export value. Russia is attempting to develop their own wood processing sector. According to President Putin speaking at a meeting on forests in April "Our neighbors continue to earn billions of dollars relying on Russian timber. And we do so little to create proper conditions for wood-processing within the country." (Source: fas.usda.gov)

The current state of Russia wood processing (Source: Business Support Bureau "Runa")

- Estimates are that over 60% of the machines and equipment used in the timber industry are totally worn out and outdated.
- In the industry there exists a severe lack of qualified specialists in production process development.
- Large forest areas of Russia are simply inaccessible due to lack of forest roads.



Wood tariffs and Russian's bid to join the WTO

Russia's WTO accession has been a priority for President Putin for the last 8 years. He had set 2003 as a goal for the accession. As it stands today, in order for Russia to be accepted into the organization, a number of outstanding commercial issues, including export duties on timber, need to be settled. The European Union objects to this planned increase in Russian export duties for wood.

How much Russia, the world's 10th largest economy and by far the biggest country still outside the WTO, would actually benefit economically from joining remains to be seen. Membership for China and Vietnam provided an enormous boost to their economies in terms of exports and investment.

Other issues, such as the recent military conflict with neighboring Georgia, are also barriers to Russia being voted into the WTO successfully.

Verso simple.

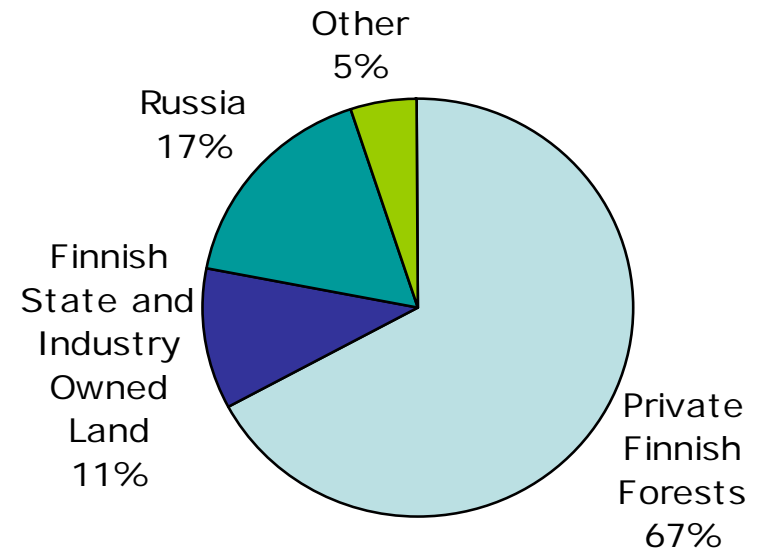
Relevance of tariffs to Finland

Roughly 80% of Finnish log imports come from Russia, and Russian logs make up as much as 17% of Finland's total roundwood supply.

Analysts estimate that the tax increase will add \$15-20MM Euros to Finland's wood-processing costs.

Finnish media have estimated up to eight major plants could close in eastern Finland due to lack of raw materials, costing some 16,000 jobs.

Finnish Round Wood Supply



Sources: World Trade Atlas and Finnish Forest Research Institute



Finland's reaction to Russian Tariffs

Finland's government cut capital gains taxes on timber sales to help its paper sector to cope with a shortage of raw materials. The tax cut is to persuade Finland's mostly private owners of forests to sell wood to big Finnish papermakers such as Stora Enso Oyj, UPM-Kymmene Corp., and M-real Corp. These taxes were reduced by 50% from April 2008 to end of 2009 and by 25% in 2010. The cost of the reduction in wood tax to the government is projected to be approximately \$271MM in 2009.

According to the Finnish Minister for Foreign Trade and Development, this move will help to replace Russian Birch during the next year or two but a longer term solution has still not been identified.

Finland plans to impose a new tariff on goods transported across Finland to Russia and compensate its papermakers for higher costs.

Verso simple.



Relevance of tariffs to other neighboring countries

Japan – The impact would be primarily in its plywood and lumber industry since the need for wood comes primarily from the housing market. Japan imported almost 5 million cubic meters of logs from Russia in 2006. Use of Russian wood by the Japanese plywood and lumber industry will be impractical if Russia actually implements the new tax rate as announced. The Japanese plywood industry currently uses 90 percent of Russian larch imports to Japan. Although the percentage of Japanese species used in plywood increased up to one million cubic meters last year, the majority is still Russian. (Source: IHB Network)

China - As Russia started raising export tariffs on logs, the partners of China's timber imports have been quietly changed, and New Zealand, Canada, Europe and other countries will become new important suppliers of logs and sawed wood. Like Japan the largest application for wood imports has been building and structural needs. Almost half of the wood imported by China is plywood, sawed wood, sheet and board.

Other impacts

Canadian Timber Companies such as TimberWest have seen a surge in demand for fir logs to Japan, and Chinese sawmills are already finding it difficult to source Russian logs opening up another potential market for British Columbia logs. Timing couldn't be better for companies like TimberWest who have seen the demand in US drop dramatically with the collapse of the housing market. (Source: Forestweb May 2nd, 2008)

Some pulpmills in Finland are importing Eucalyptus chips from Latin America and one pulpmill in Norway is now importing wood chips rather than roundwood from Uruguay. (Source: The PaperIndex Times – 8/6/2008)

“Russia will inevitably witness that although more money is raised per exported ton through the increased tariffs, that the total revenue may drop since harvesting companies have very few choices domestically to ship the roundwood for processing.”
(Source: Business Support Bureau “Runa”)