

## Press release – For Immediate Release

Seattle, USA. September 22, 2008

### **Russian log export taxes will raise unemployment in Russia says WRI**

*The Russian Federal Government is trying to assist development of its forest industry by adding export taxes on logs, thereby limiting competition by foreign companies for the Russian timber, as reported by Wood Resource Quarterly. These taxes are currently 25% of the log value (minimum €15/m<sup>3</sup>) for softwood logs and are scheduled to increase to a minimum of €50/m<sup>3</sup> (about US\$78/m<sup>3</sup>) from January 2009.*

With the assumption that Russian exports of softwood logs may come to a halt in January next year due to prohibitively high log export taxes, there could be about 35 million m<sup>3</sup> of softwood logs available to the domestic industry. The question is, will the Russian forest industry be able to expand the production capacity and process this wood domestically? Unfortunately, the short answer to this question is: NO.

The Russian forest industry has increased softwood roundwood consumption on average 4 million m<sup>3</sup> per year the past five years, but because of poor infrastructure, lack of investment capital, corruption, burdensome bureaucracy, lack of respect for property rights and political uncertainty, it is not likely that the industry will be able to expand much more rapidly in the near future than it did the past five years. This is going to have huge negative ramifications for thousands of Russian loggers, forest managers, and workers involved in the transportation of wood.

The biggest changes in the Russian forest industry have come the past five years with substantially higher production of wood-based panels in particular. The pulp industry has not expanded as fast, although there are plans both for expansion of existing pulpmills and for new greenfield mills in the coming years. The area with the slowest growth has been that of lumber, with softwood production up only about 20% the past ten years and hardwood lumber production even declining 70% that seen in 1997. In summary, the only major expansion within the industry has occurred in sectors which account for only a small share of the total log consumption in Russia, according to WRI.

The Russian government's involvement in the domestic log market will have unintentional consequences. Short-term, the effect of the Russian log export tax will be to reduced employment in the forest sector rather than to increase it; exactly the opposite effect hoped for by the Federal Government when it decided to restrict log exports.

*Global pulpwood and sawlog market updates are included in the 50-page publication Wood Resource Quarterly. The report, established in 1988 and with readers in over 20 countries, tracks wood prices in most regions around the world and also includes regular updates of international pulp, lumber and biomass markets.*

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