

Press Release – For Immediate Release

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Log costs fell in Russia in the 3Q/08 as the forest industry cut back production, reports WRI

The Russian timber market has gone through a roller coaster ride the past 12 months, with log costs reaching record highs in the 4Q of last year and then falling to two-year lows in the 3Q this year. Topping off the dramatic events as of late was the announcement by Prime Minister Putin in early November that the long-awaited log export tax, which would practically cease log exports in January 2009, will be postponed for 9-12 months.

The Russian economy started to slow in the 3Q with a decrease in housing constructions and reduced demand for lumber both domestically and in the export market. So far this year, lumber production is down about 7% and logging has declined by about 9% compared to last year. Spruce sawlog prices fell by about 7% in the 3Q, while pine log prices increased slightly because the pine lumber export market was still reasonably active early in the quarter. A continued slowing in the production rate in the sawmilling sector in the coming months is likely to result in further declines in sawlog prices this winter, even with the delay in implementation of the log export tax increase (previously scheduled to increase to Euro50/m³).

Softwood pulplog prices in northwest Russia fell by 13% in the 3Q to their lowest level since early 2007. With slowing demand for domestic wood fiber and reduced consumption of wood fiber in Finland, the largest export market for Russian logs, it is probable that pulplog costs will continue to decrease slightly next year.

It is not to be expected that forest companies which have relied on softwood logs from Russia will abruptly change their long-term procurement strategy of reducing their dependence on Russian wood based on the recently announced short-term delay in the hike of the Russian log tax. Softwood log shipments from Russia to Finland will probably continue to decline as Finnish companies are expected to consume less in 2009, domestic wood and imports from other countries around the Baltic Sea will be substituted for Russian logs. The major benefit for companies using Russian logs is that the transition period for becoming independent of this source has been prolonged by a few months.

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 timber, pulp, lumber and biomass markets.

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