

Press release – For Immediate Release

Seattle, USA. September 4, 2008

Global Timber Markets Impacted by Russian Log Export Taxes says WRI

With the impetus provided by the Russian government, which has implemented regulations that restrict open trade of logs, Russia is slowly transforming from being a large exporter of logs to an important producer of primary processed wood products, as reported by the Wood Resource Quarterly.

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 of April 2008, Russian log export taxes for softwood species and large-diameter birch logs increased from 20% to 25% of the log value (minimum €15/m³ of about US\$23/m³). Smaller-diameter birch logs will not be taxed in 2008.

Although the tax increase of €5/m³ is a small share of the total log cost for foreign sawmills, it has still had an impact on the sourcing strategies for many forest companies in both Europe and Asia. Despite continued negotiations amongst the governments of the Nordic countries, EU representatives and Russian ministers, there has, so far, been no willingness by Russian representatives to reconsider the announced increase of log taxes to 80% of the log value (minimum €50/m³ or about US\$78/m³) for softwood species in January 2009. If Finland is not successful in reversing the Russian export barrier, and if the Finnish Government does not find a way of compensating the Finnish forest industry, it is likely that the last shipment of softwood logs to Finland may leave Russia in late December of 2008.

In the latest issue of the Wood Resource Quarterly it was reported that as a result of the implemented and planned log export taxes, shipments of softwood logs from Russia have declined both to Europe and Asia in 2007 and 2008. In the first quarter of 2008, Russia shipped 44% less to Europe and 15% less to Asia. During the 1Q/08, Russia exported less to all of its major trading partners except China, which increased purchases by 14%. Softwood log exports are now at their lowest level in four years. Hardwood log exports, which typically consist of smaller logs for pulp manufacturing, have not been affected by the higher taxes on large birch logs and were actually up by as much as 28% in the first quarter of 2008, as compared to 2007. In 2007, Sweden and Finland alone imported 89% of Russia's total shipments to Europe. Other importers were sawmills in Estonia and Latvia, which increasingly have become dependent on Russia for sawlogs.

Assuming the log export tax will reach a minimum of €50/m³ from 2009, global trade of softwood sawlog will change. Sawmills in particularly Finland, China and Japan will have to find new sources for logs. Some countries will also have to consider importing processed forest products rather than logs in the future.

Contact Information

Wood Resources International

Hakan Ekstrom

info@wri-ltd.com

www.woodprices.com