3 rd INTERNATIONAL SOFTWOOD CONFERENCE
October 16, 2008
Helsinki

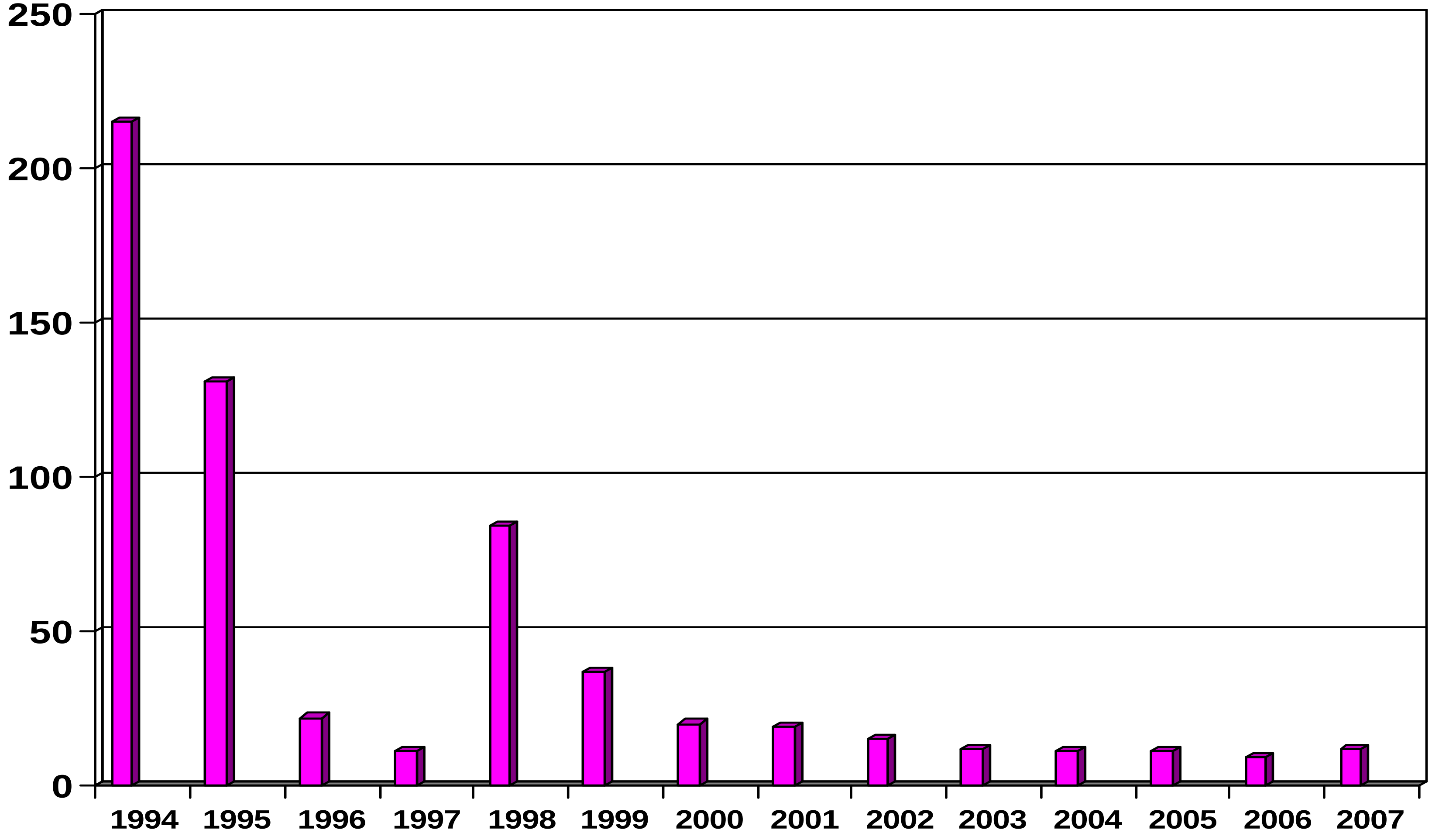
The Development of the Russian Forest Sector

Kalevi Kyyrönen
Special advisor to forestry affairs
Ministry for Foreign Affairs
Helsinki

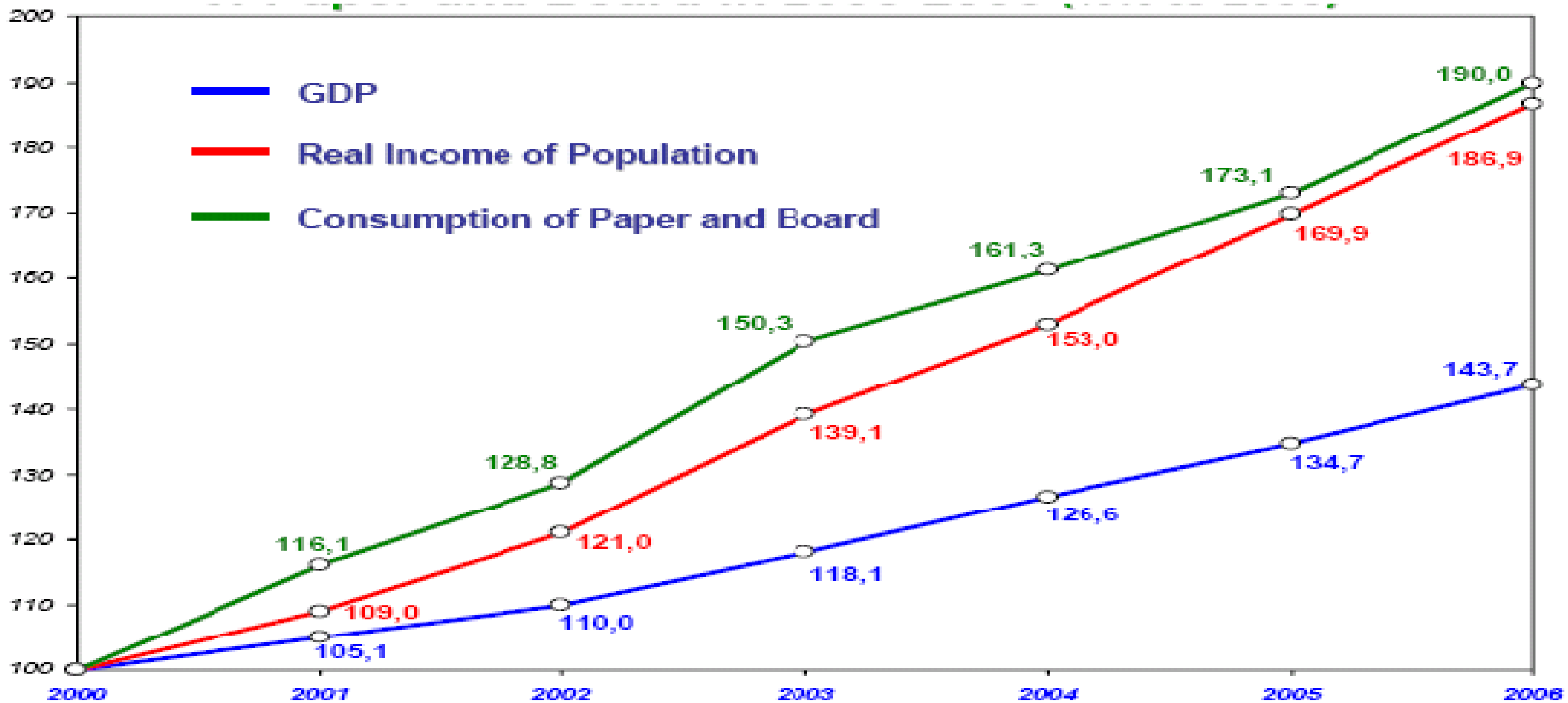
- **The Development of the Russian Forest Sector**

- Russian economy today
- Russian forestry
- Wood sourcing; harvesting, short haul and forest roads
- Russian forest industry
- Export of round wood
- Ownership of Russian forest industry
- Forestry policy in Russia
  Forest code, pros and cons
  New structure of forest management
  Investment policy
- SWOT – analysis of Russian forest industry
- Forest sector outlook
- Conclusions

Annual inflation in Russia,%



Russian GDP, Income of Population and Consumption of Paper and Board in 2000-2006 (%% to 2000)



y data of Rosstat, RAO BUMPROM

RUSSIAN ECONOMY

	2000	2003	2007
GDP, %-change	10,0	7,3	8,1
Foreign debt, billion $	115,5	96,9	**35,8**
Stabilation Fund, billion $ **Oct 2008: 141 billion $**			156,8
Currency Reserve, billion $ **Oct 2008: 560 billion $**	27,9	76,9	476,4
Inflation (CPI), 12 kk,% Inflation, % (in 1992:2508,%) **Welfare Fund: 49 billion $ in Oct 2008**	20,2	12,0	**11,9**
Average wage, $	79	180	550

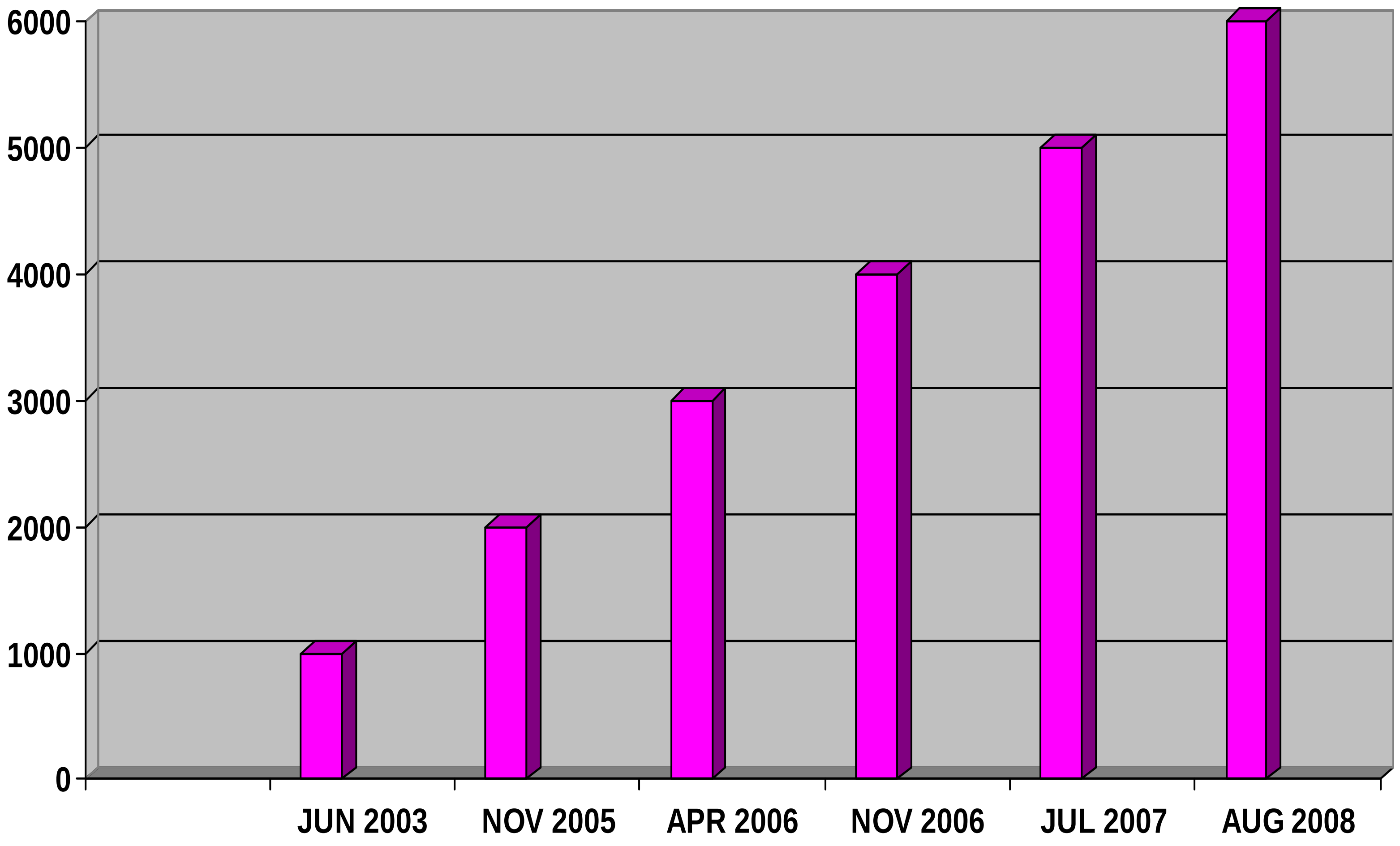
RUSSIAN ECONOMY IN 2006 AND 2007

	2006 E	2007 A
Growth of GNP %	6,9	7,6
Price index	10	12
Industry output	5,9	6,0
Investments	16,5	20,0
Real income	11,1	12,5
Retail sales, change of volume, %	12,2	15,1
Capital invested	59,1	80,0
Foreign investments	47	41- 45
Export, billion $	397	315,7
Import, billion $	285	198,7
Foreign debt of companies and banks	477,5	**387,1**
Oil price, Urals, $ barrel	73,9	69,1
Exchange rate: $/RUB	24,5	24,5

Russian economy is slowing down

	2008	2009	2010	2011
Growth of GDP, %	7,8	6,7	6,6	6,2
Growth of production, %	5,2	6,0	5,8	5,2
Capital investments, %	16,5	14,5	13,3	10,2
Real income, %	10,2	10,5	9,3	8,0
Retail sales, change of volume, %	14,8	13,2	10,5	9,5
Oil price/barrel/$	112	95	90	88
Price of gas export $/1000m3	414,8	480,8	413,7	401,3
Trade balance, $ miljardi	217	137	68	20
Growth of budget expences, %	11,0	11,5	---	12,9

THE PRICE OF FLATS IN MOSCOW, $/m2



The price of a flat in Moscow downtown,$/m2
September 2008

TVERSKAJA	10 418
ARBATSKAJA	10 395
OHOTNYJ RJAD	10 074
KROPOTKINSKAJA	9 848
FRUNZENSKAJA	9 339

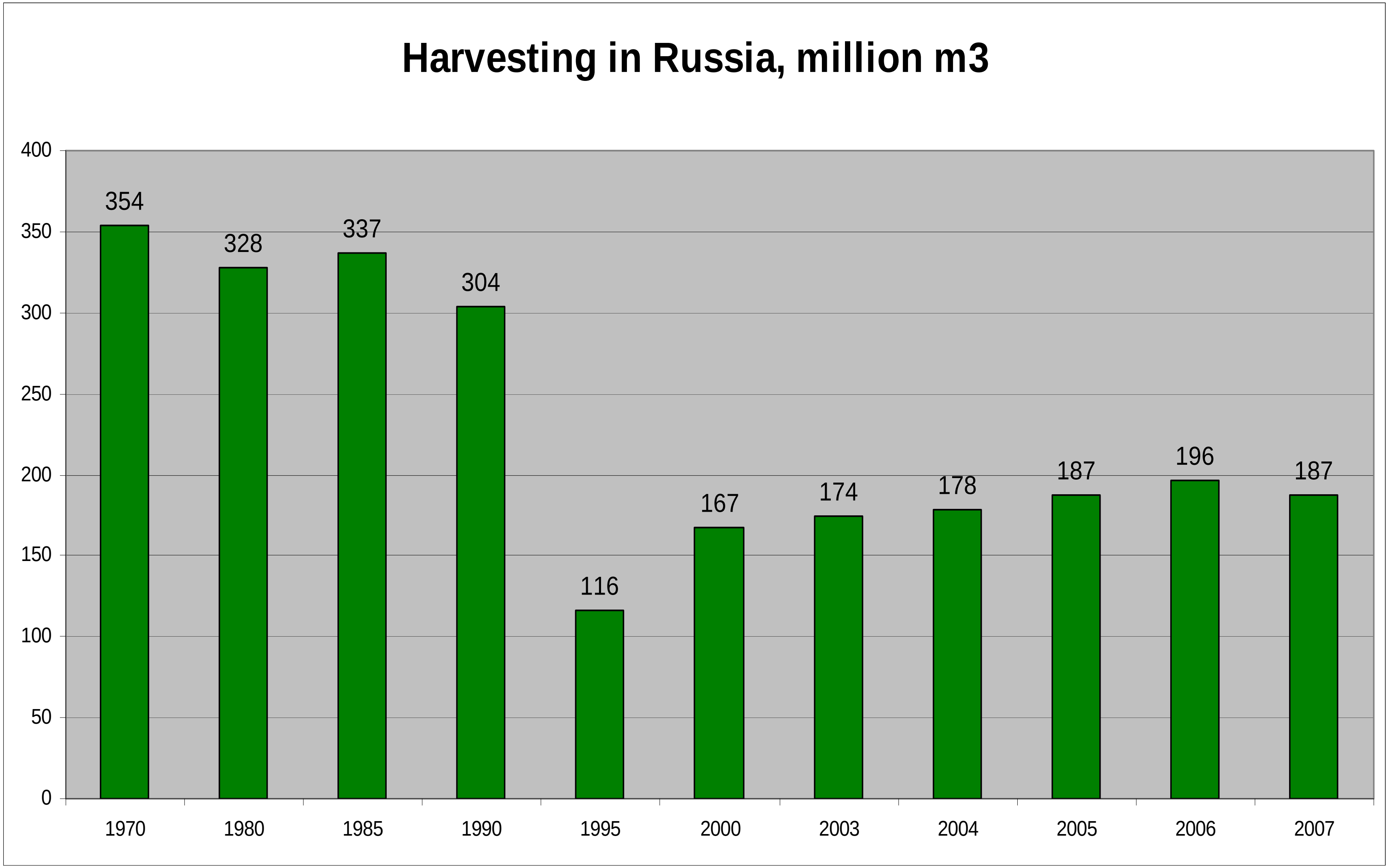
Standart of living in Russia today

- Accoding to the estimate of Dmitry Renin

Very rich	3 %
Well-off	7 %
Middle class	20 %
Poor	20 %
Very poor	50 %

RUSSIAN FORESTRY

- Forest area is 808 million hectares.
- Growing stock is 82 billion m3.
- AAC is 560 million m3.
- Annual cut is about 180 million m3.
- Forest Owner is The Russian Federation.
- Extensive forest policy; clear cut.



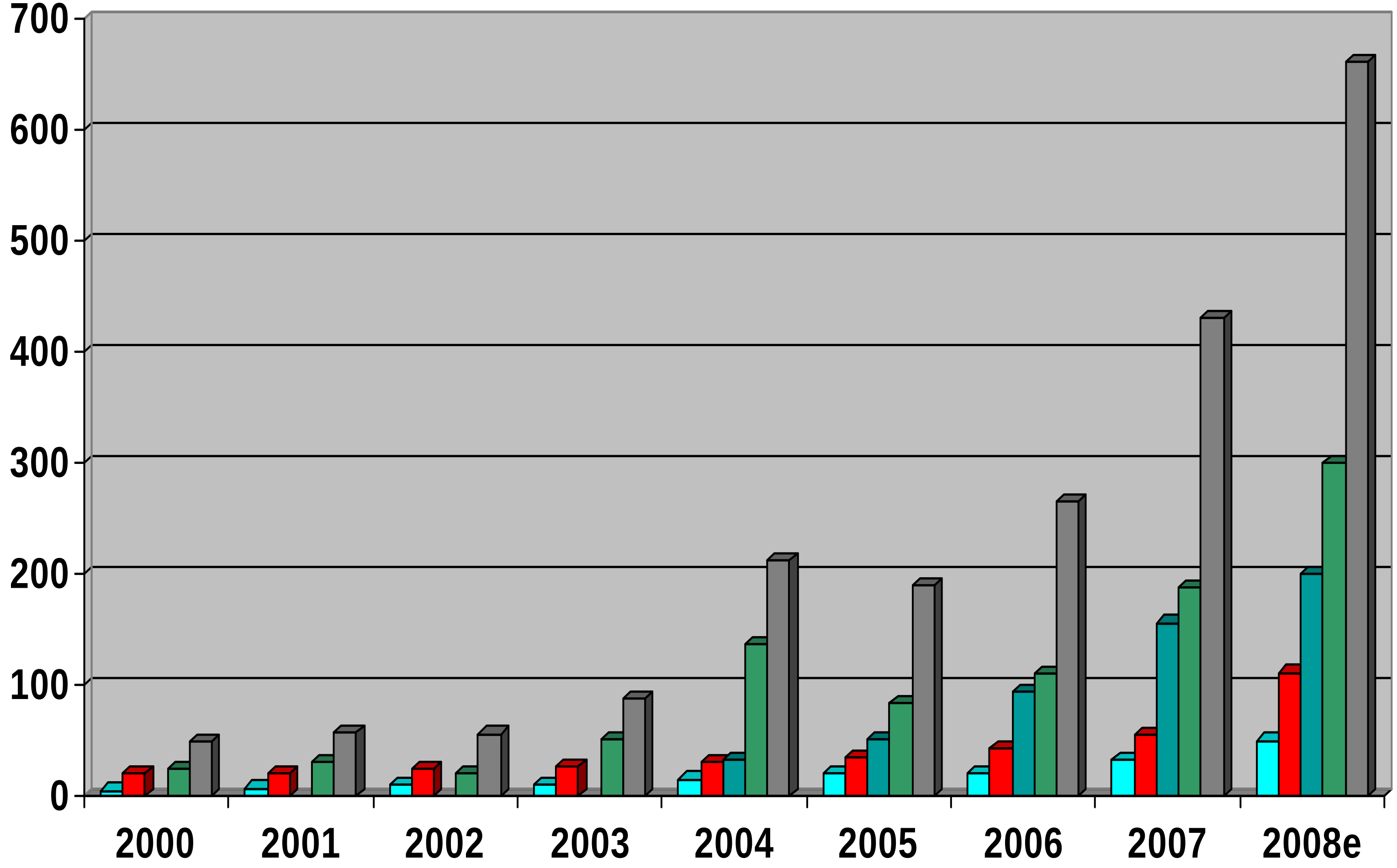
Harvesting in Russia, million m3
400
350
300
250
200
150
100
50
0
354
328
337
304
116
167
174
178
187
196
187
1970
1980
1985
1990
1995
2000
2003
2004
2005
2006
2007

Kuvat 4 ja 5. Rakentamisolosuhteista Tihvinästä. (Greis, I)

Kuvat 6 ja 7. Puutelateitä Tihvinästä. (Greis, I)

A forest road made of logs in Komi

Number of forest machines imported to Russia



Long haul in Russia, Tihvin region

RUSSIAN FOREST INDUSTRY

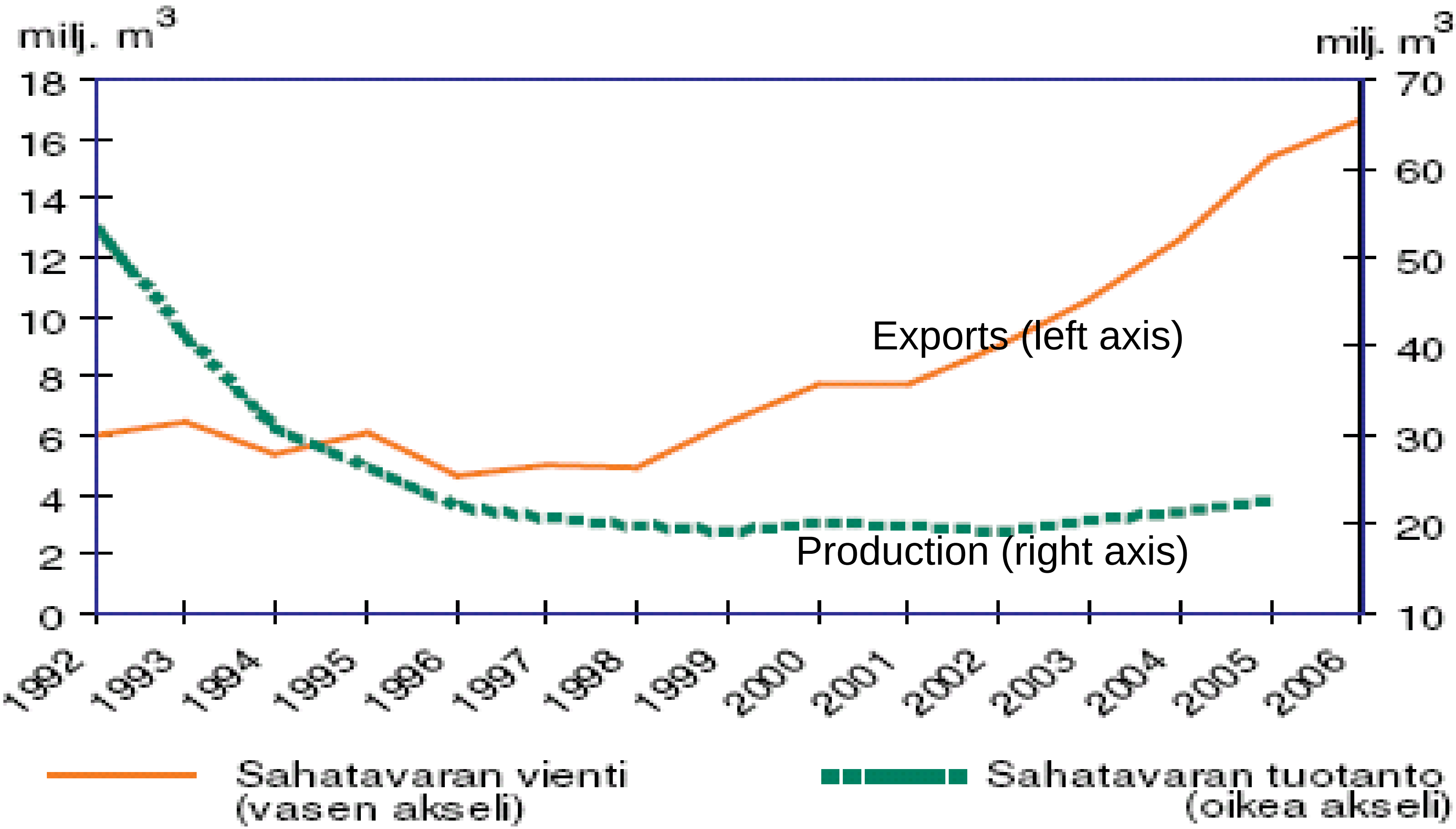
- **PRODUCTION**

- **A. Mechanical**
- Sawn timber — 23 million m3

- **B. Pulp & Paper**
- Pulp — 7 million t
- Paper — 5 million t
- Cardboard — 2 million t

- **C. Export of round wood was 51 million m3 in 2006.**

Production and export of sawn goods in Russia in 1992 - 2006



FOREIGN OWNED NEW SAWMILLS IN RUSSIA

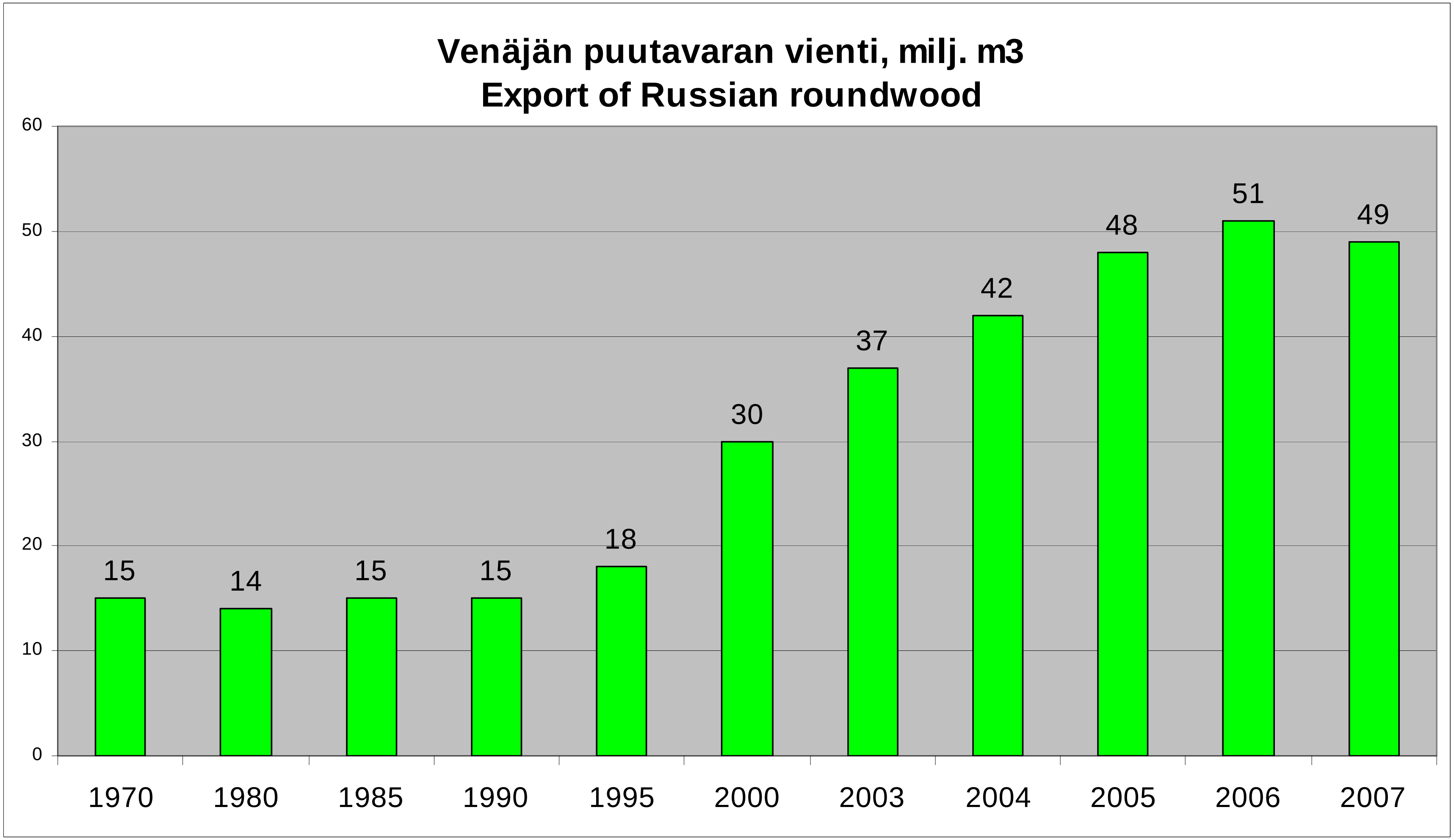
- UPM-KYMMENE: Pestovo-Novo
- Storaenso: Nebolich, Impilahti
- Botnia: Svir Timber
- Swedwood: Kostamus, Tihvin
- Mayr Melnhof Holtz: Jefimovsk
- Madoc: Novgorod

The Summary Table of Balance of Consumption and New Pulp, Paper & Board Capacities

Products	Consumption in 2015	Sources of Demand Covering			Production in 2015	Balance
		Prod. in 2006	Modernization	New Mills		
Market Pulp	3 055	2 379	1 075	3 270	6 724	+3 669
Paper & Board	14 826	7 453	1 480	2 010	10 943	-3 883

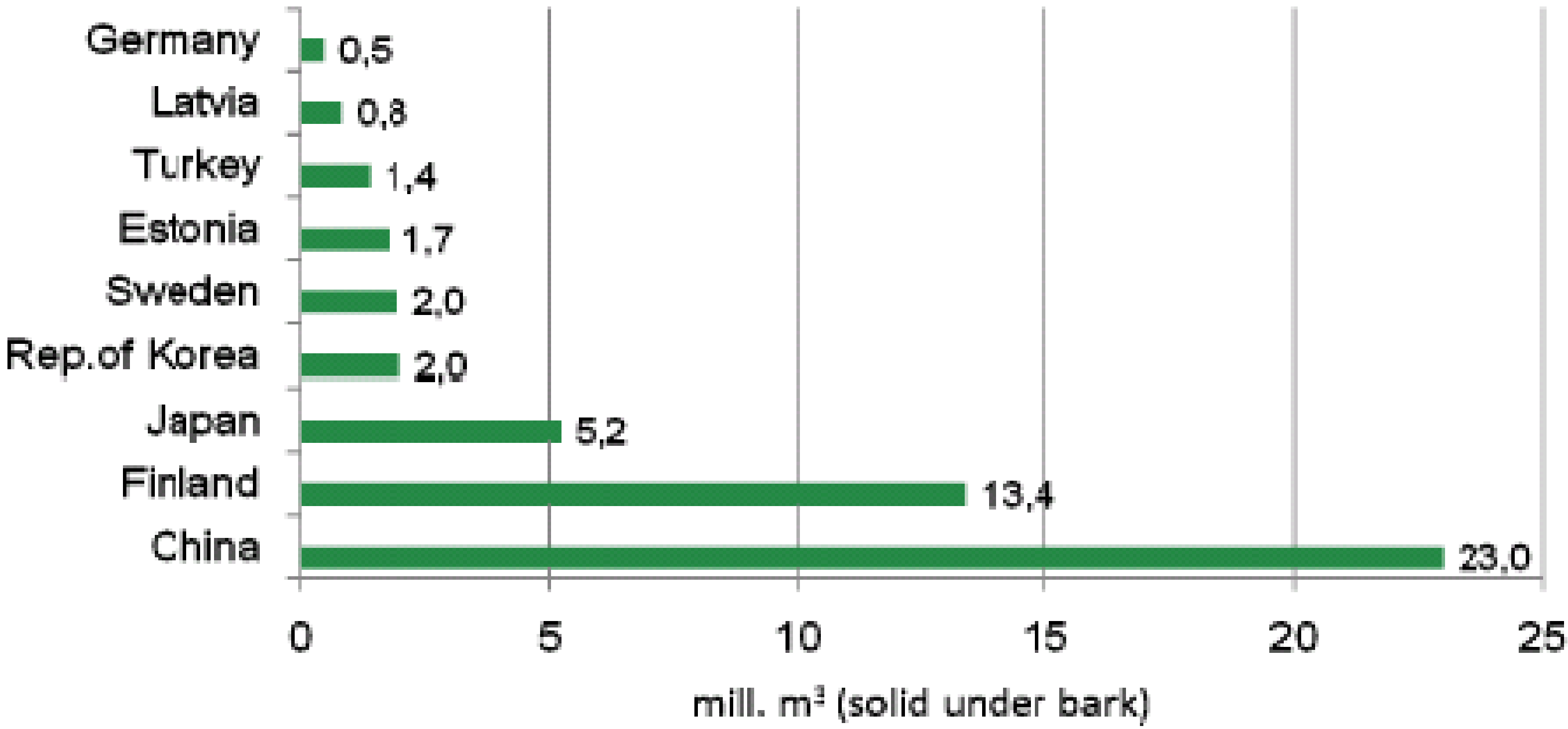
Deficit in Paper and Board Can Be Removed Due To:

- Increasing of Import Volumes;
- Manufacturing of Paper & Board Products at P&P Mills Instead of Market Pulp


Venäjän puutavaran vienti, milj. m3
Export of Russian roundwood
60
50
40
30
20
10
0
15
14
15
15
18
30
37
42
48
51
49
1970
1980
1985
1990
1995
2000
2003
2004
2005
2006
2007

China is the biggest importer of Russian roundwood

Russian roundwood exports totalled 51 mill. m^3 in 2006



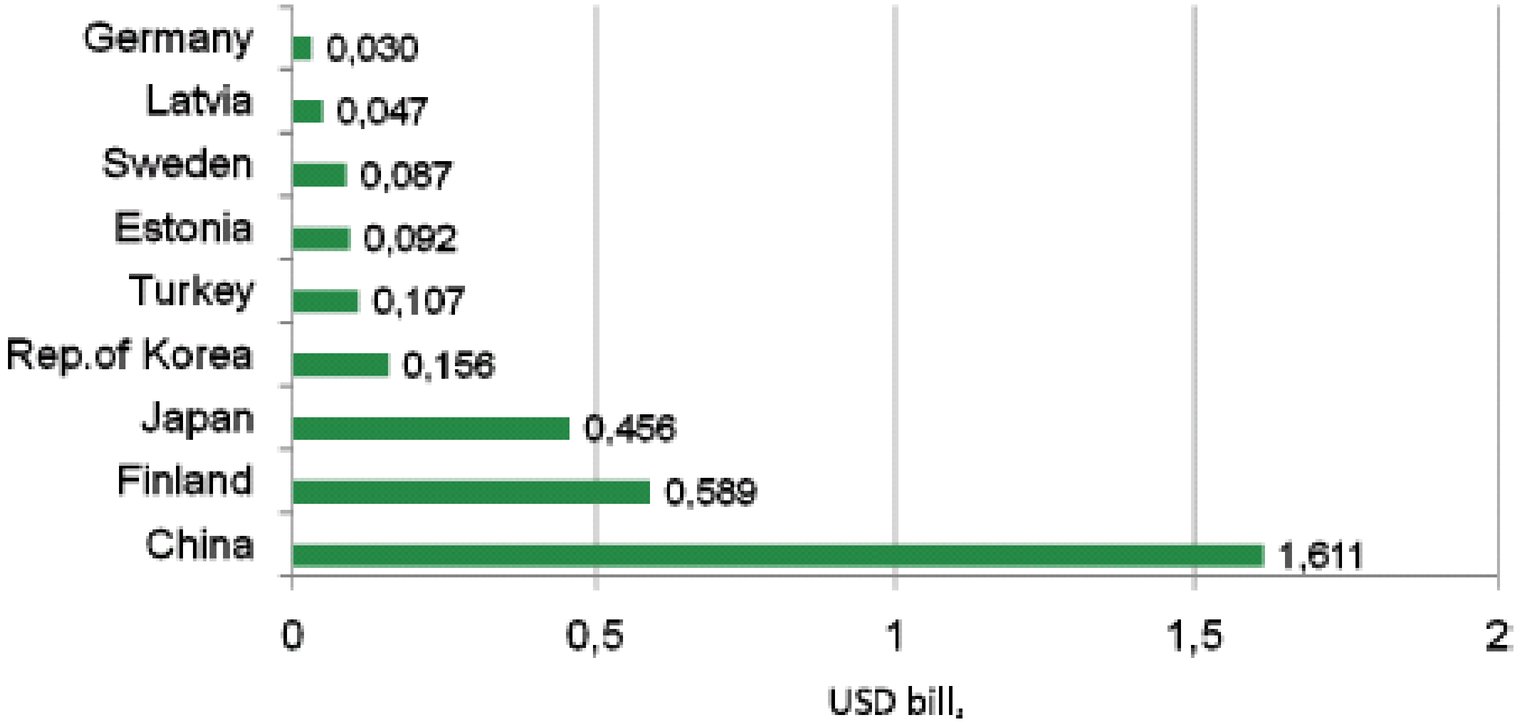
7.9.2007

SOURCE: United Nations

Finnish Forest Industries

Russian roundwood exports value totalled USD 3.2 billions in 2006

Chinese roundwood imports value totalled USD 3.9 billions in 2006

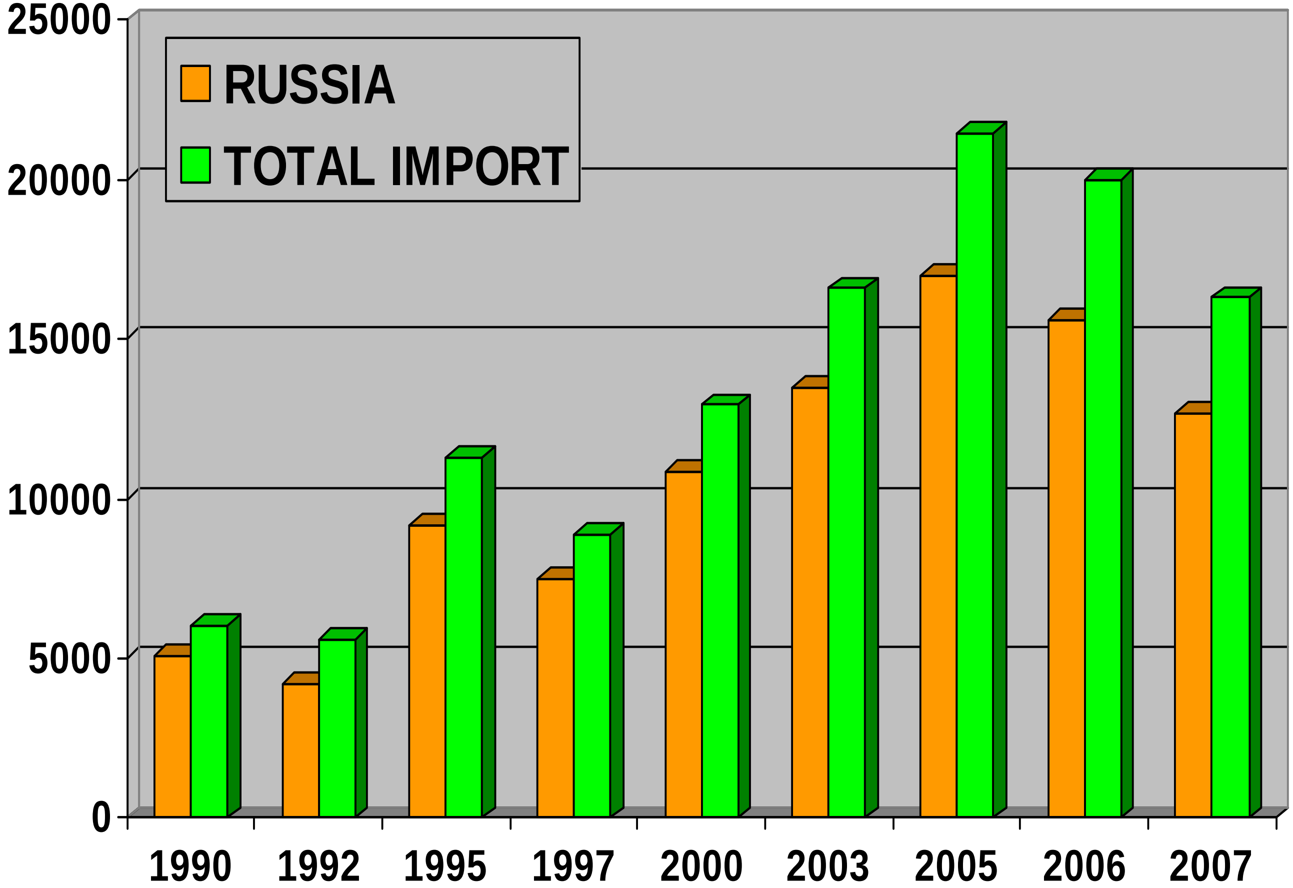


7.9.2007

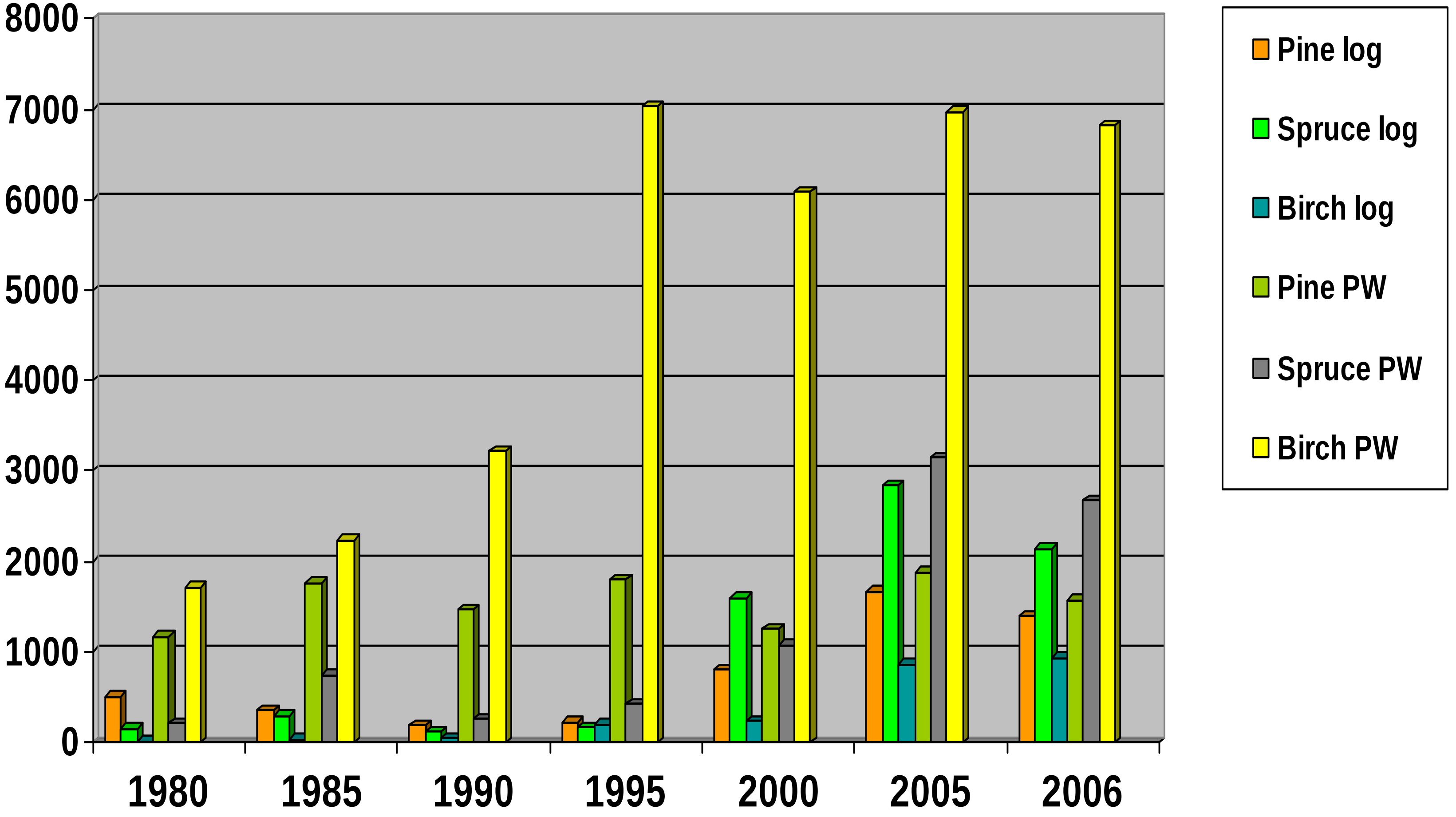
9 SOURCE: United Nations

Finnish Forest Industries

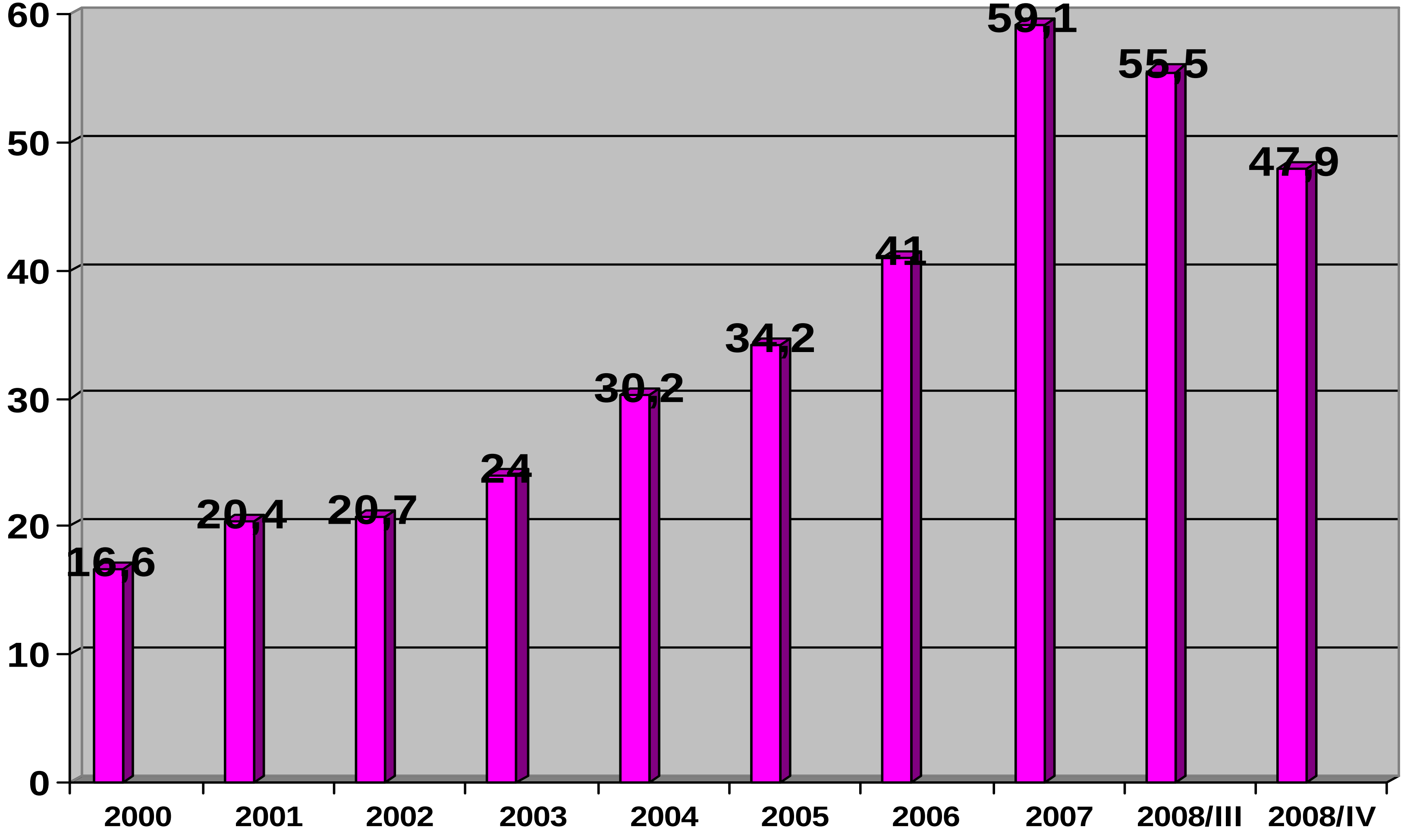
IMPORT OF ROUND WOOD TO FINLAND, 1000 m3



IMPORT OF ROUND WOOD TO FINLAND BY SPECIES, 1000 m3

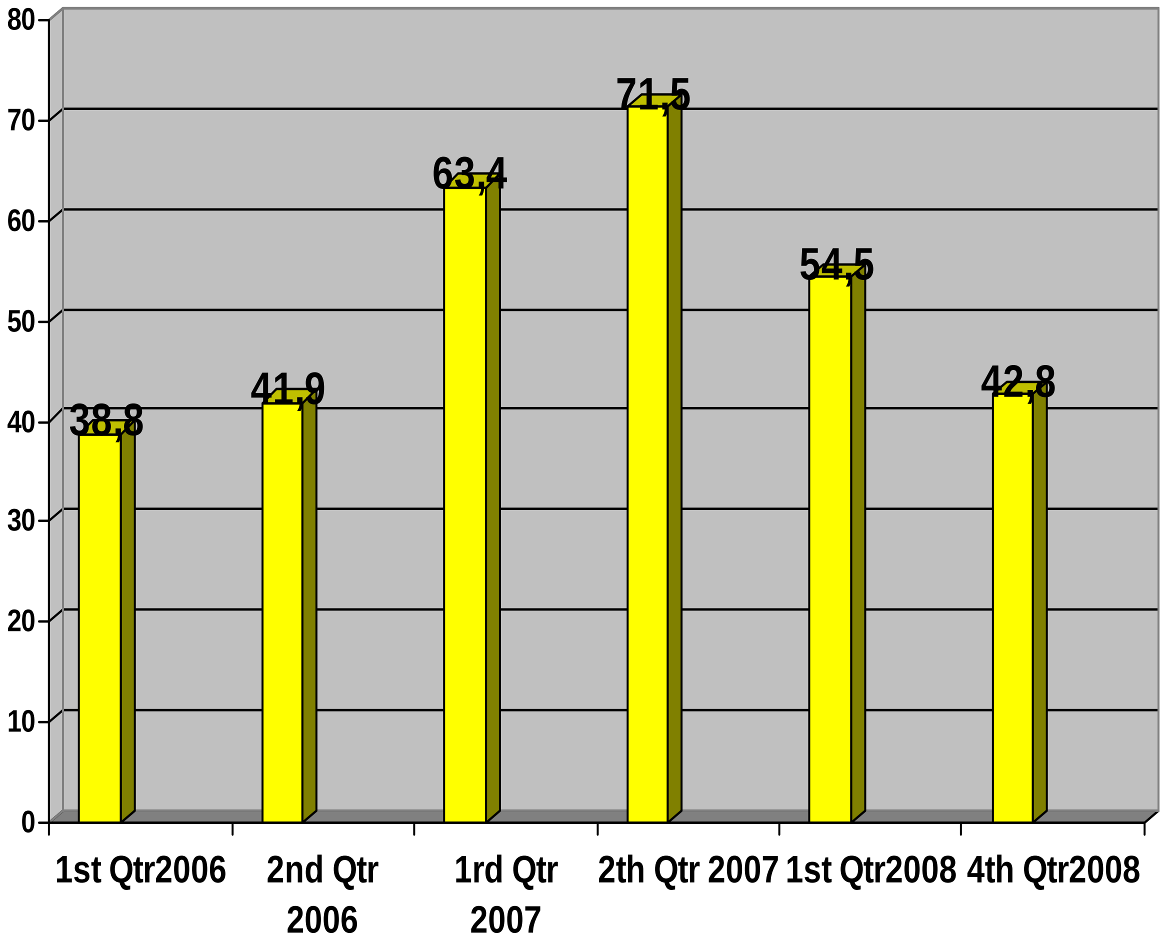


The export price of saw logs with VAT in Russia; in 2000 – 2008/III, €/m3



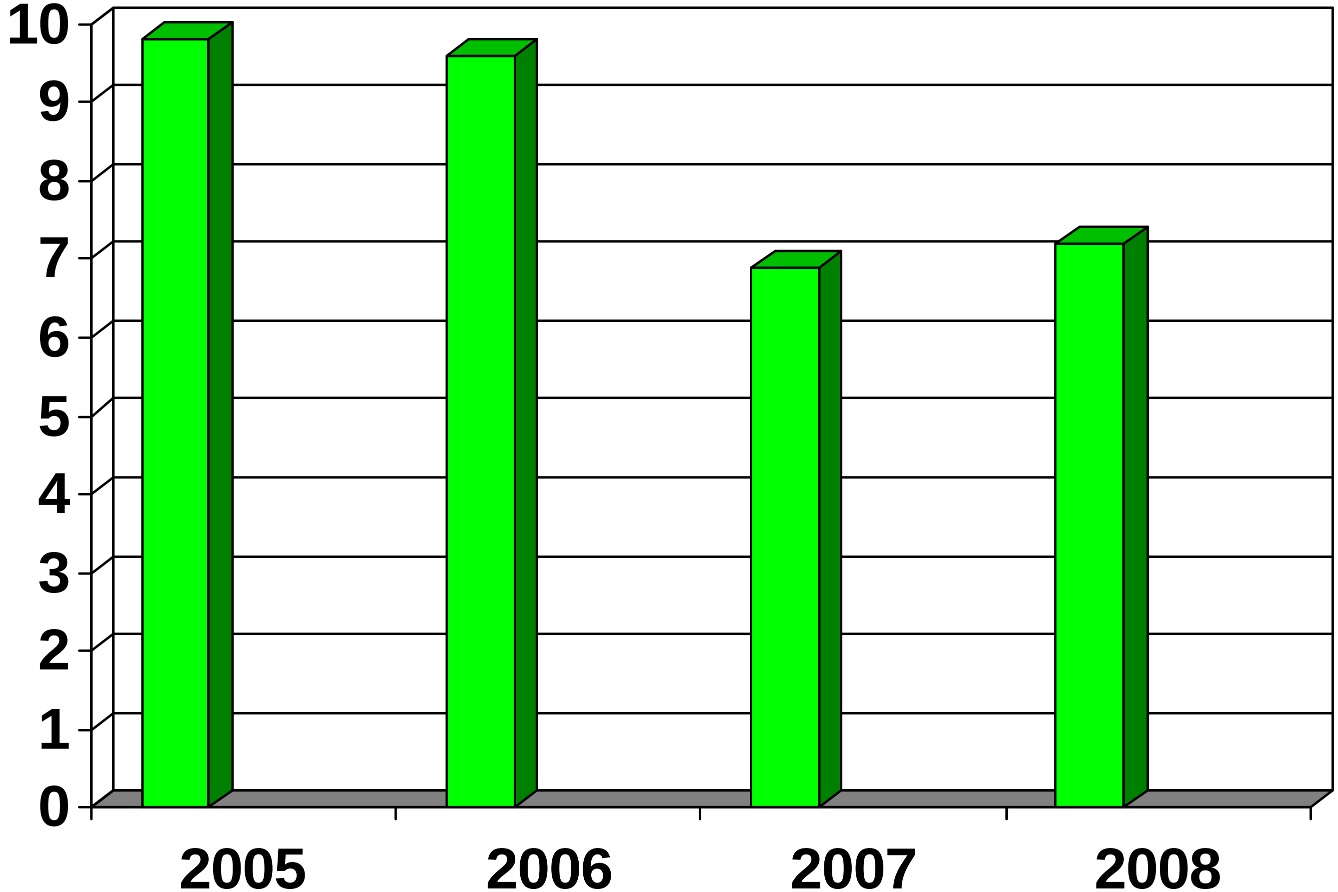
The price of birch pulp wood in Russia, €/m3

at St Petersburg port with VAT (over bark)



IMPORT OF ROUND WOOD FROM RUSSIA TO FINLAND

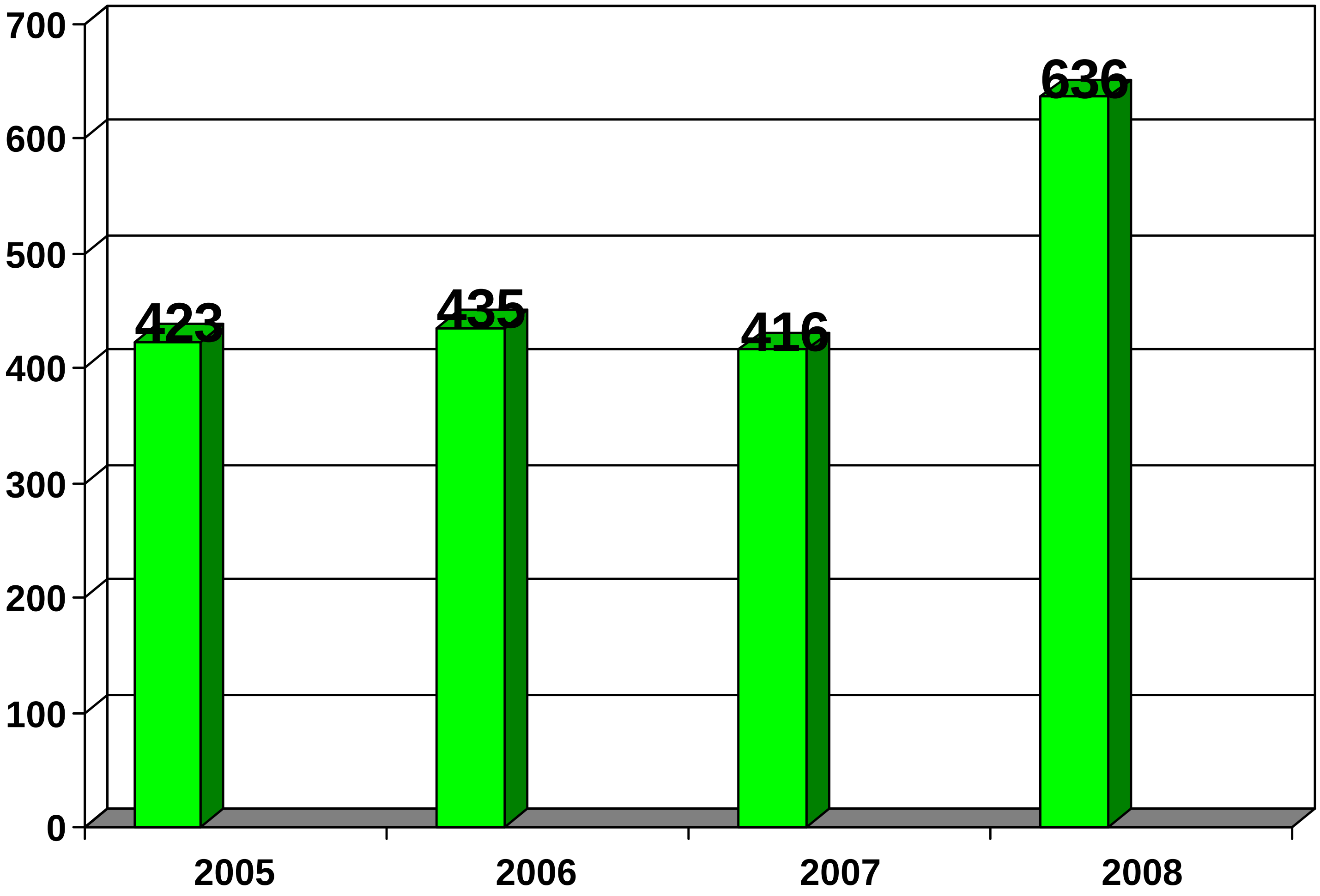
JAN-JUL 2005-2009, million m3



IMPORT OF ROUND WOOD FROM RUSSIA TO FINLAND

JAN-JUL 2005-2009

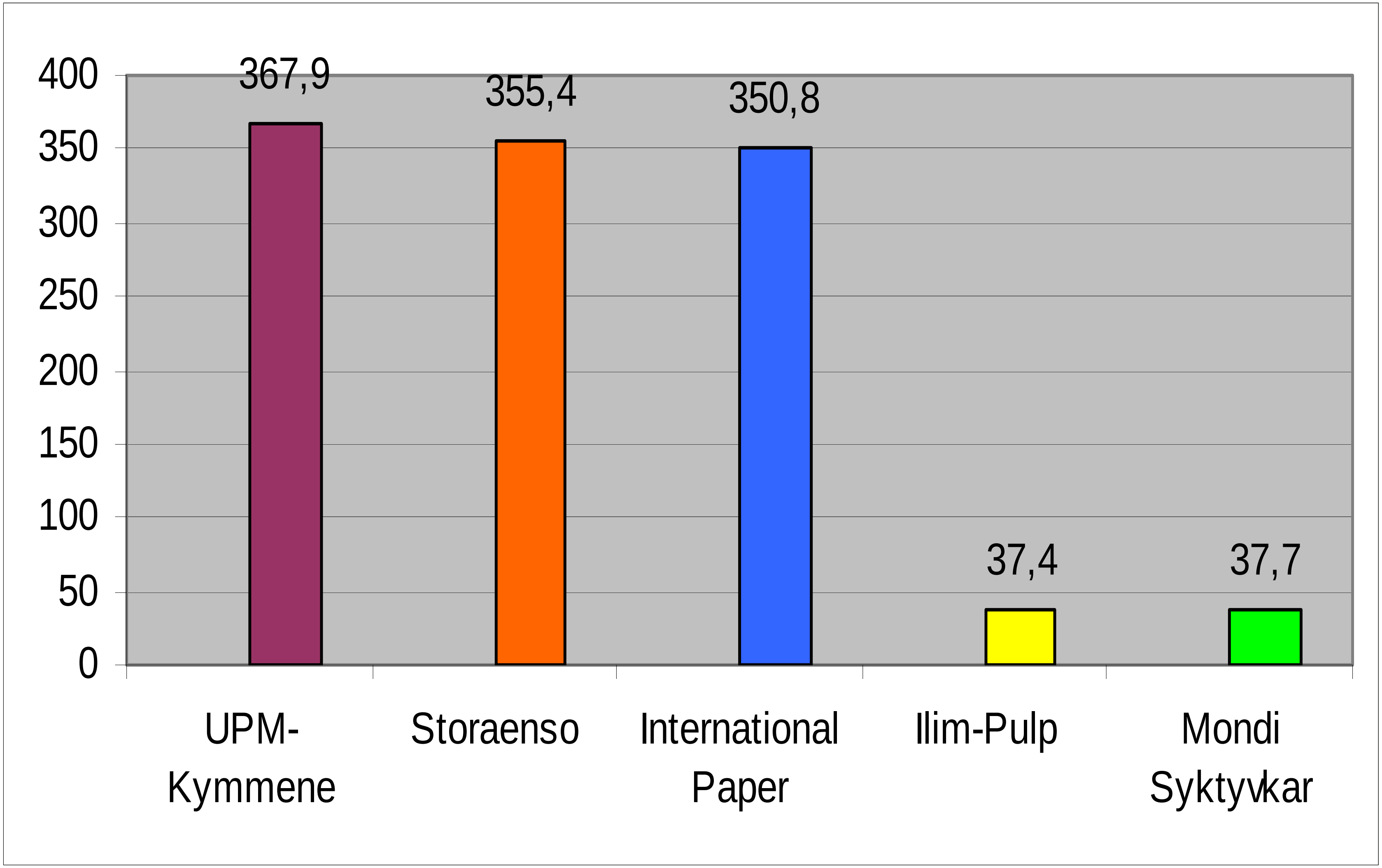
Million €



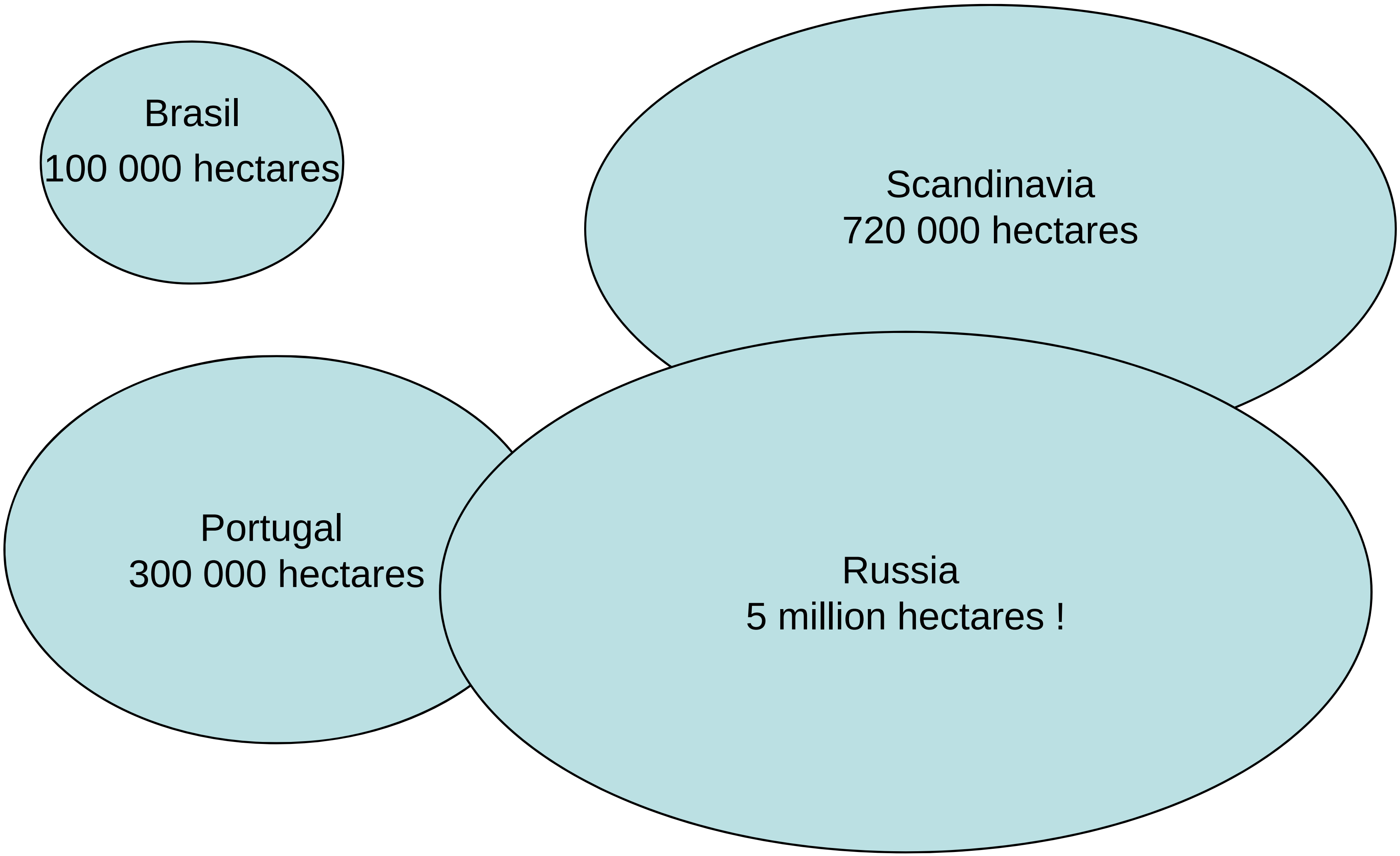
PRODUCTIVITY IN LOGGING
m3/person/year

• MBP Syktyvkar	450
• Ilim Group	1 033
• Storaenso in Russian	1 200
• Finland, average	6 000
• A Finnish logging company	
• Metsäkonepalvelu Oy	13 000

Productivity of work in P & P Industry; sales per a worker, $ 1000



Forest area required for a one million ton of a pulp mill



THE ORGANISATION OF RUSSIAN FOREST SECTOR

DUUMA: COMITTEE OF NATURAL RESOURCES

PM V.V. Putin

COUNCEL FOR FOREST SECTOR`S STRATEGIC DEVELOPMENT HEAHED BY V. ZUBKOV, 1. VICE PM

MINISTRY OF AGRICULTURE

Forest Agency

MINISTRY OF INDUSTRY AND TRADE

MINISTRY OF ECONOMIC DEVELOPMENT

MINISTRY OF NATURAL RESOURCES

A subject of the Russian Federation, like KOMI, VOLOGDA, CARELIA; (a ministry or comittee)

GOALS OF NEW FOREST CODE

- 1. BETTER UTILISATION OF FOREST RESOURCES
- 2. BETTER MANAGEMENT OF FORESTRY
- 3. RESTRUCTURING OF FMU (leshozes)
- 4. RESTRICTION OF ILLEGAL CUT
- 5. BETTER INVESTMENT OPPORTUNITIES
- 6. HIGH EXPORT DUTIES FOR ROUND WOOD
- 7. HIGHER GRADES OF FOREST PRODUCTS
- 8. FOREST RESOURCES: MANGEMENT, BUSINESS AND CONTROL ARE SEPARATED
- 9. OWNER: FEDERATION; GOVERNER: SUBJECT; UTILISER: BUSINESS
- 10. FOREST IS A PROPERTY- EXPECTED MORE RETURNS

Competitive advantages of Russian forest industry

- 1. Vast forest resources
- 2. Low stumpage price
- 3. Cheap energy
- 4. Low labor costs
- 5. Good location between Far-East and Europe

The development of Russian forest sector up to 2020
An estimate of the Ministry of Industry and Trade

PRODUCTION, SLOW VERSION	**2007**	**2012**	**2017**	**2020**
LOGGING, milj. m3, ROUND WOOD	187	149	201	242
SAWN GOODS, milj. m3	23,2	33,0	41,0	45,0
Plywood, milj. m3	2,8	3,4	4,0	4,5
Chip board, milj. m3	5,3	6,9	9,4	11,5
Particle board, milj. m3	1,6	2,5	3,6	4,5
Pulp, milj. tonnes	6,0	7,5	8,8	9,3
Paper and cardboard, milj. tonnes	7,6	8,7	11,5	15,8
Earnings, $ billion	25,2	32,7	56,0	90,7

The ownership of Russian pulp & paper industry today

- ILIM GROUP*
- INVESTLESPROM
- KONDOPOGA
- ARKHANGELSK PPC
- MONDI, SYKTYVKAR*
- CONTINENTAL MANAGEMENT
- VOLGA
- INTERNATIONAL PAPER, SVETOGORSK*
- SOLIKAMSKBUMPROM

SWOT analysis

RUSSIAN FOREST SECTOR

Own activity today

STRENGTHS
Strong growth of economy
Vast forest resources
Competitive costs
Trained personnel
Support of government

WEAKNESSES
Undeveloped infrastructure
Goal:Political and social
Old and worn-out mills
Difficult standards
Lack of entrepreneurship
Political game, authority in management & corruption

Environment and future

OPPORTUNITIES
Growing domestic demand
Possibility to increase productivity of forests
Space for growth of forest industry
Bioenergy
More utilization of wood at local level

THREATS
Uncertainty with Forest Code
Pressure from NGOs
Unclear investment policy, duties
Uncertainty in wood sourcing
Climate change

Forest Sector Outlook

- Russia will be among the fastest growing markets globally
  - But volumes are still low at product/grade level
- Declining country risk stimulating investments and inflow of capital
- Growing investments in the forest industries:
  - Present & short term: wood products
  - Medium & long term: pulp and paper
- Gradually improving infrastructure and transports, but also higher related costs; public support to infrastructure development
- Policy and institutional framework in the forestry sector in the state of change
  - Many uncertainties and risks prevail

CONCLUSIONS

- A. There are enourmos forest resources in Russia.
- B. Russian forest sector has become a political issue.
- C. Big investments are still far away.