



Russian Rising Export Tariffs Will Impact Global Wood Markets

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The recent decision by the Russian government to raise the export tariffs for roundwood has led to a vivid international discussion. Statistics show that the Russian exports have increased over the past five years at a level where a decrease could have serious impacts both in Russia and in the countries currently importing Russian roundwood.

On a global scale, Russia is the biggest exporter of industrial roundwood. Its share is approximately one third of the world export. Value of roundwood export was 3300 million USD in 2006, which alone was over 40% of the export value of the Russian forest sector, i.e. bigger than the export value of sawnwood or paper and paperboard.

Russian wood exports have increased during the past years and accounted 51 million m³ in 2006, which is approximately one fourth of the roundwood production (Figure 1). Biggest export countries are Chi-

na, Japan and Finland. In Europe, countries around the Baltic sea region are the main importers (Figure 2).

Current aim of Russian Federation is to make roundwood exports unprofitable and thereby provide incentives to speed up domestic wood processing. Export tariffs will be gradually increased from the current 6.5% of the export value (minimum 4 €/m³) up to 80% (minimum 50 €/m³) in January 2009. The 50€/m³ tariff level would essentially stop all roundwood exports from Russia.

Substantial effects on the international market

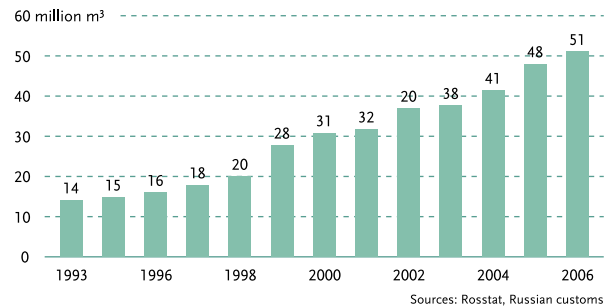
Percussions of increasing Russian export duties will be strongly felt in the international roundwood markets. Impacts are substantial both in Russia and in the countries currently importing Russian roundwood. In Russia, decreasing roundwood exports will benefit domestic industry, but only if local logging companies are able to continue wood harvesting without export income. There is a risk, however, that while export income is lost, there will be significant unemployment in forestry and logging sector without immediate new and substantial investments in Russian forestry and forest industry.

Under the current circumstances foreign investors appear to be reluctant to make significant greenfield investments in the Russian forest industry. Although Russian domestic wood product and pa-



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Export of industrial roundwood from Russia



per markets are developing, they are still relatively small compared to e.g. Asian developing markets. It is also unclear if Russian investors are able and willing to make substantial new investments in the forest industry. Due to increasing wood demand and prices in international markets, other roundwood exporting countries (e.g. USA) will benefit from the situation.

In the countries, which are dependent on the imported Russian wood, e.g. China, Japan, Korea and Finland, it will be a great challenge for the forest industry to find substitutes for Russian wood. Basically this is possible by increasing domestic supply or by importing wood or woodpulp from other countries. Certain wood assortments will also be easier to substitute, while in other assortments higher relative scarcity persists. In Europe also increasing use of wood for energy purposes is more and more influencing roundwood markets.

Looking for solutions

In the short run it is expected that forest owners and wood sellers could benefit from the increasing Russian tariffs due to increasing demand and better prices, but in the longer run impact could be opposite. Mills which currently heavily rely on Russian wood may have to decrease their capacity because of cost increases. In the worst case some mills may be permanently closed. This would have consequences not only in forestry but also in a wider perspective. Governments of individual countries and EU negotiated with Russia trying to relieve increasing export duties and also arguing that increasing export duties are not in line with the WTO pre-agreement made in 2004 between EU and Russia.

From the forest resources and their utilisation point of view, Russia could increase substantially both the domestic use of wood

and exports of roundwood: currently only one third of its annual allowable cut is being utilised. Increasing wood supply would require intensification of silviculture and forest management, investments in infrastructure and modernization of industry. Recently adopted new forest code and its proper implementation would aid reaching this outcome, too. Intensification of forest management and improving general investment climate could be a better option for attracting foreign and domestic investments in the forest sector than trying to force inward foreign investments.

Further information is available via the ongoing project Towards progressive forest sector in Northwest Russia, www.metla.fi/hanke/3384/index-en.htm