Russia became a member of the World Trade Organisation (WTO) in August 2012. This accession to the WTO opens up the Russian market and eliminates the option of using protective customs duties to support domestic production. The cut in Russian import duties on a range of forest industry products will improve the position of Finnish companies on the Russian market. The operating environment will steadily become more predictable and transparent, making the situation clear to all involved. The reduction in Russia’s roundwood export duties will place a strain on its market for softwood sawlogs, but will improve the position of hardwood.

Roundwood Export Duties Cut to Moderate Level

The roundwood export duties introduced by Russia in 2007 and subsequently increased in stages were cut as soon as its WTO membership took effect (see Figure 1). Russian softwood is now subject to export quotas, within the limits of which the export duty on pine is 15% and on spruce 13%, in place of the previous 25% for both. The reduced duties apply to an annual export quota of 22 mill. m³ of softwood, of which the EU’s share is set at 9.6 mill. m³. For the EU, the quota is almost equal to the total amount of Russian softwood exported to Europe in the peak years of roundwood exports, and so it is not likely to restrict exports to any significant degree. In recent years, China has imported about 13 mill. m³ of Russian softwood annually, equivalent to the non-EU portion of the present quota. Any exports outside the quota will be subject to an export duty of 80%, which will limit the growth of spruce and pine exports to China. If the full quota of softwood is exported from Russia in the future, the export volume will be up by 40% in comparison with recent years, marking a return to the 2008 level.

The maximum export duty for birch under the WTO terms is 7%, which applies to all the customs tariff headings in use. Birch of less than 15 cm diameter has been exempted from export duties for more than 10 years already, and this situation will continue (Table 1). The 25% export duty imposed since 2008 on larger diameter wood brought about a collapse in Russia’s birch exports. According to Finnish representatives in the industry, birch imports from Russia could double in the future as a consequence of the duty reductions. Russia’s exports of wood chips¹ to Finland in the past three years have been growing, even exceeding exports of birch pulpwood. The growth in chip exports will probably continue when the present 5% export duty is removed completely after the four-year transition period.

Russia’s WTO membership did not bring any changes to the roundwood customs nomenclature, and so the sorting requirements and related costs will remain the same.

¹ Volumes of pulp chips and energy chips cannot be distinguished in the customs statistics, as they are included in the same tariff heading.
at least initially. In the future, the Russian Federal Customs Service will not be permitted to use its own reference prices for determining the customs clearance value of a product, but instead the value will have to be based on the product’s actual price, which will make the rules clearer and eliminate the scope for the customs authorities to make their own interpretation.

Rise in Softwood Sawlog Prices

Northwest Russia’s roundwood exports will increase in the future, especially from areas close to the international border, although the volumes seen in the past are scarcely likely to be reached, at least not in the very short term. Roundwood consumption in the Finnish forest industry has fallen in recent years, and in practice the availability of roundwood and especially softwood in Russia could be limited. Roundwood harvesting volumes across the whole of Russia have grown in the past two years, but in Northwest Russia the trend has been downwards. In addition, the structure of the roundwood harvesting sector has changed since 2008. A large number of small and mid-sized roundwood harvesting companies in Russia have ceased operating, and roundwood harvesting has been dominated by larger companies. Most of the main roundwood harvesters are owned by major forest industry corporations, as these corporations have sought to reduce the risks of wood procurement by owning harvesting companies. Domestic demand for roundwood has also grown as investments have been made in sawmilling and production of wood-based panels. The demand for softwood sawlogs in particular has been high at times, and in certain areas sawmills have had to restrict their production due to raw material shortages.

For hardwood, the situation is just the reverse. Russia’s domestic processing capacity has not been developed rapidly enough to be able to use the hardwood volumes previously exported. The harvesting companies have had to focus on softwood-dominant stands because of the lack of demand for hardwood. With the growth in exports, the rising demand for hardwood will improve the profitability of roundwood harvesting in Northwest Russia. The conditions for developing roundwood harvesting will also improve in the longer term, as the import duties on forwarders and timber transporters will decrease considerably after the transition period. The reduction in the protective duties established in 2009 is good news for machinery manufacturers in Finland, and will improve their export opportunities to Russia.

### Table 1. Export duties for roundwood and wood chips before and after WTO membership.

<table>
<thead>
<tr>
<th>Product</th>
<th>Before membership, starting on 1 April 2008</th>
<th>After membership, starting on 22 August 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Softwood</td>
<td>25%, minimum EUR 15/m³</td>
<td>Duty applying to quota: pine 15%, quota 16.0 mill. m³ (EU: 3.6) spruce 13%, quota 6.2 mill. m³ (EU: 6.0) Outside the quota: 80%, minimum EUR 55.2/m³</td>
</tr>
<tr>
<td>Birch</td>
<td>25%, minimum EUR 15/m³ diameter &lt;15 cm: 0%</td>
<td>WTO max. for all export headings 7% diameter &lt;15 cm: 0%</td>
</tr>
<tr>
<td>Aspen</td>
<td>10%, minimum EUR 5/m³</td>
<td>5%</td>
</tr>
<tr>
<td>Chips</td>
<td>5%</td>
<td>5% (after transition period: 0%)</td>
</tr>
</tbody>
</table>


### Figure 2. Nominal producer prices of softwood in the Northwest Russia and Volga federal districts. Monthly statistics. (Sources: Consultant Plus, Russian Federal State Statistics Service, Russian Federal Customs Service)
Russian experts have forecast a rise in roundwood prices as a consequence of WTO membership and increased exports. In the light of producer price statistics (see Figure 2), this does seem probable especially for softwood sawlogs. In the roundwood export peak years of 2005–2007, softwood producer prices in the Northwest Russia federal district – a strong roundwood exporter – were higher and rose faster than in the Volga federal district, which is further from European markets. Softwood prices fell sharply in 2008–2009, but the impact of reduced roundwood exports on prices is difficult to separate from the effects of the wider economic crisis. The roundwood price fluctuations in these years may also have been partially attributable to the extensive reform of Russia’s forestry administration, which hampered practical operations for instance via changes in forest leasing and felling permit practices. During the past two years, softwood prices in Northwest Russia have stabilised at the level seen before their decline. The decrease in export volumes following the increase in roundwood duties appears to have slowed the rise in prices particularly for softwood sawlogs in Northwest Russia, where softwood sawlog prices in recent years have risen more slowly than in the Volga federal district.

In examining the difference between Finnish import prices and Northwest Russia’s producer prices, it can be seen that the export duty increases in July 2007 and April 2008 were passed on to Finnish buyers, which was evident as an increase in the price differential (see Figure 3). For softwood pulpwood, the difference between the import price and producer price has been significantly greater than in the Volga federal district, which is further from European markets. Softwood prices fell sharply in 2008–2009, but the impact of reduced roundwood exports on prices is difficult to separate from the effects of the wider economic crisis. The roundwood price fluctuations in these years may also have been partially attributable to the extensive reform of Russia’s forestry administration, which hampered practical operations for instance via changes in forest leasing and felling permit practices. During the past two years, softwood prices in Northwest Russia have stabilised at the level seen before their decline. The decrease in export volumes following the increase in roundwood duties appears to have slowed the rise in prices particularly for softwood sawlogs in Northwest Russia, where softwood sawlog prices in recent years have risen more slowly than in the Volga federal district.

In examining the difference between Finnish import prices and Northwest Russia’s producer prices, it can be seen that the export duty increases in July 2007 and April 2008 were passed on to Finnish buyers, which was evident as an increase in the price differential (see Figure 3). For softwood pulpwood, the difference between the import price and producer price has been significantly greater than in the export duty, as the import price has been affected than the export duty, as the import price has been affected by other factors, such as higher transportation costs. The price differential in the case of softwood sawlogs shows that after 2009 there was a return to almost the level seen before the duty increases. Due to the fall in demand, Russian roundwood sellers have had to be flexible in their prices and to adjust their margins.

In Russia, roundwood availability and price are affected not only by market forces but also by factors related to the operating environment, such as the tariff policy of state monopolies, delivery problems concerning rail consignments, weight restrictions in road transportation, and administrative decisions on forest use. The factors affecting roundwood prices will be analysed in more detail in 2013, in a Finnish Forest Research Institute study of the Russian forest sector.

Increase in Bureaucracy and Supervision

The softwood quota system means an increase in bureaucracy for roundwood exports in Russia. Softwood export quotas are granted to companies that are entitled under a forest lease agreement to harvest spruce and pine on their leased land, provided that they have no overdue forest lease payments. A purchase contract with such a company can also be accepted as grounds for an export quota. Russia’s Federal Forestry Agency publishes an annual list of forest lessees, which is used by the Russian Ministry of Industry and Trade to grant export licences. Before a licence can be issued for exports to the EU, it is necessary for the applicant to supply a notary-approved Russian translation of the relevant EU quota permit. In the EU, the distribution of quotas is based on the previous importing operations of the party in question: 70% of quotas are reserved for so-called traditional importers. There is therefore an increase in bureaucracy in the EU as well. Problems have arisen concerning the introduction of the EU’s quota system, and this has affected the EU’s roundwood imports in the early months of Russia’s WTO membership.

Supervision of roundwood markets will increase in Russia in 2013. To prevent illegal felling, Russia is preparing a federal supervision system for comprehensive monitoring of roundwood harvesting, transportation and sales. The system is planned for introduction in 2013, and it is intended to meet the EU Timber Regulation requirements regarding verification of lawful origin.

Sources:
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