

Russian log export ban in 2022

Implications for the Global Forest Industry

Moscow, 22nd April 2021



WOOD RESOURCES INTERNATIONAL



Russia holds, harvests and exports a large share of global wood resources, both softwood and hardwood

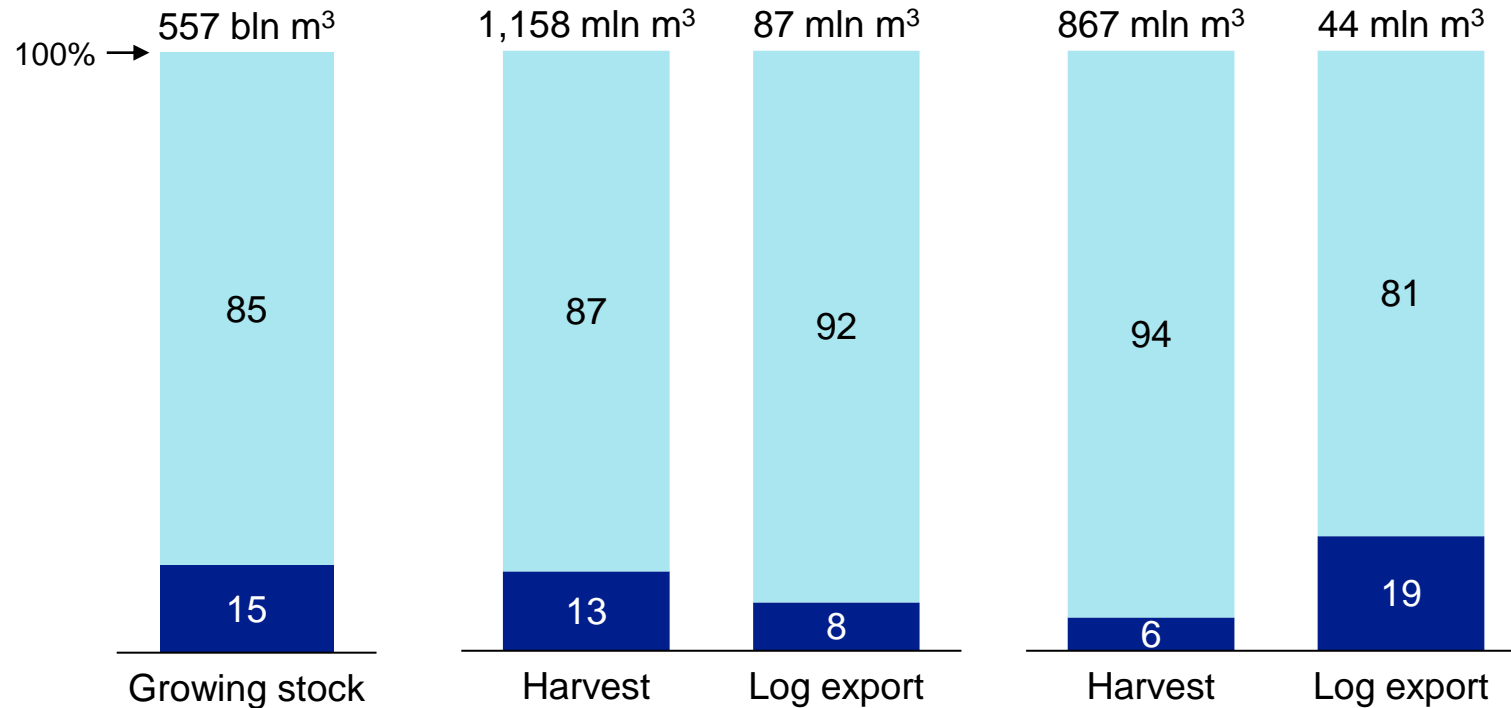
Russia's share of global wood resources¹; Percent

Rest of world
Russia

All species

Softwood

Hardwood



- **15% of global growing stock** (higher share of softwood, 35-40%²)
- **10% of global harvest** (13% of softwood)
- **10% of global log exports**
- **25% of global softwood lumber export**

1. Growing stock and export in 2020, industrial roundwood harvest in 2019

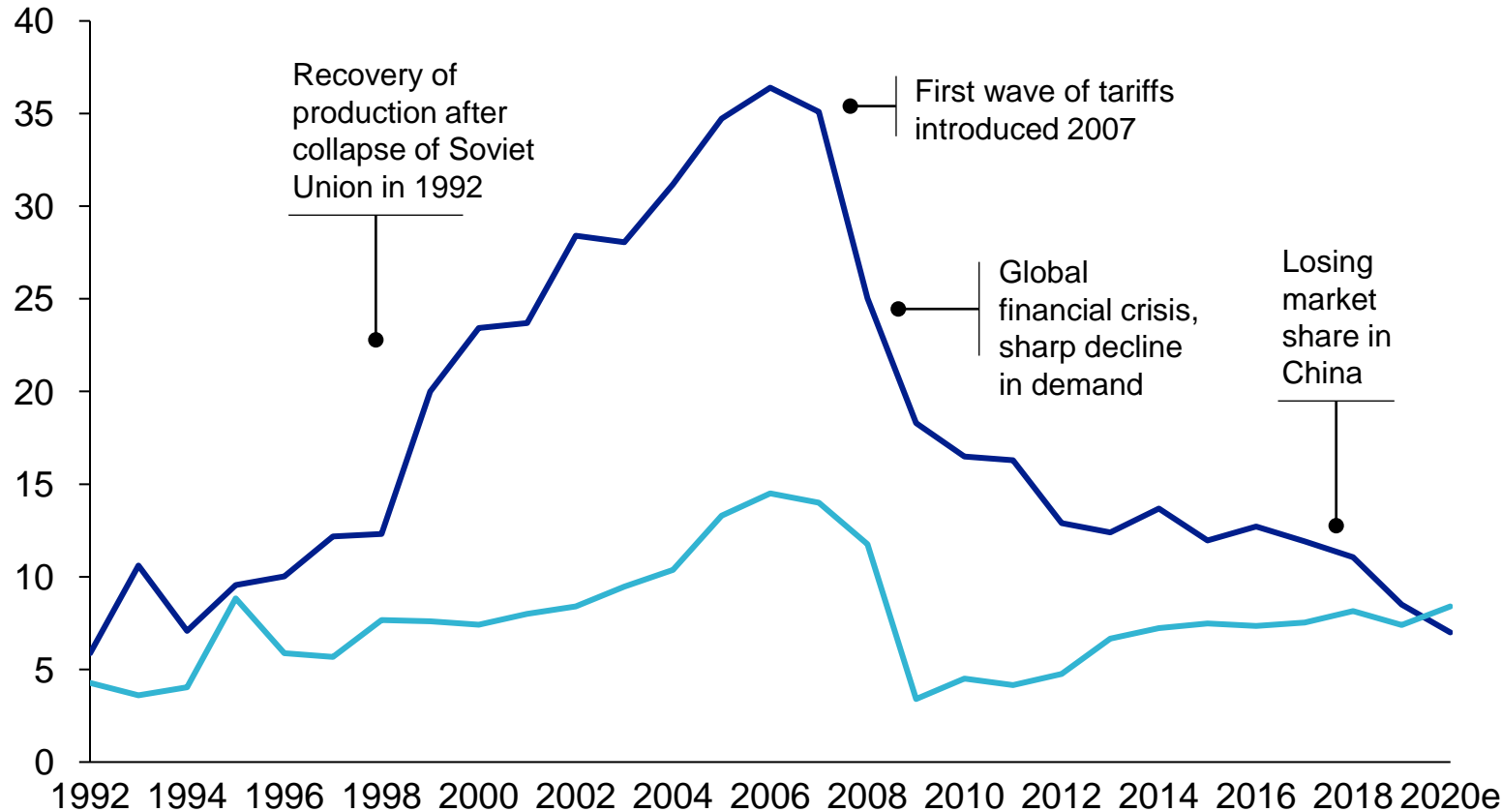
2. Poor data availability for global split of growing stock by species, many countries do not report separately



Russian log exports peaked in 2006 then fell sharply with the introduction of tariffs, but are still significant at ~15 million m³

Russian wood exports; Million m³

— Softwood logs — Hardwood logs



- **Exports fallen since 2006**

- Export tariffs
- Global financial crisis
- China finding other suppliers
- Shift to export of lumber

- **Exports still ~15 million m³**

- Softwood: 7.0
- Hardwood: 8.4

The latest export ban was requested by President Putin to take effect from January 1st, 2022

Background and objectives

- Putin statement in **October 2020**
- Ordering government to strictly control **export of roundwood and low-value forest products**
- Follows series of log export tariffs since 2007
- Purpose
 - Reduce **export of unprocessed wood** / stimulate **value-added processing** in Russia
 - Reducing **illegal logging**

Scope

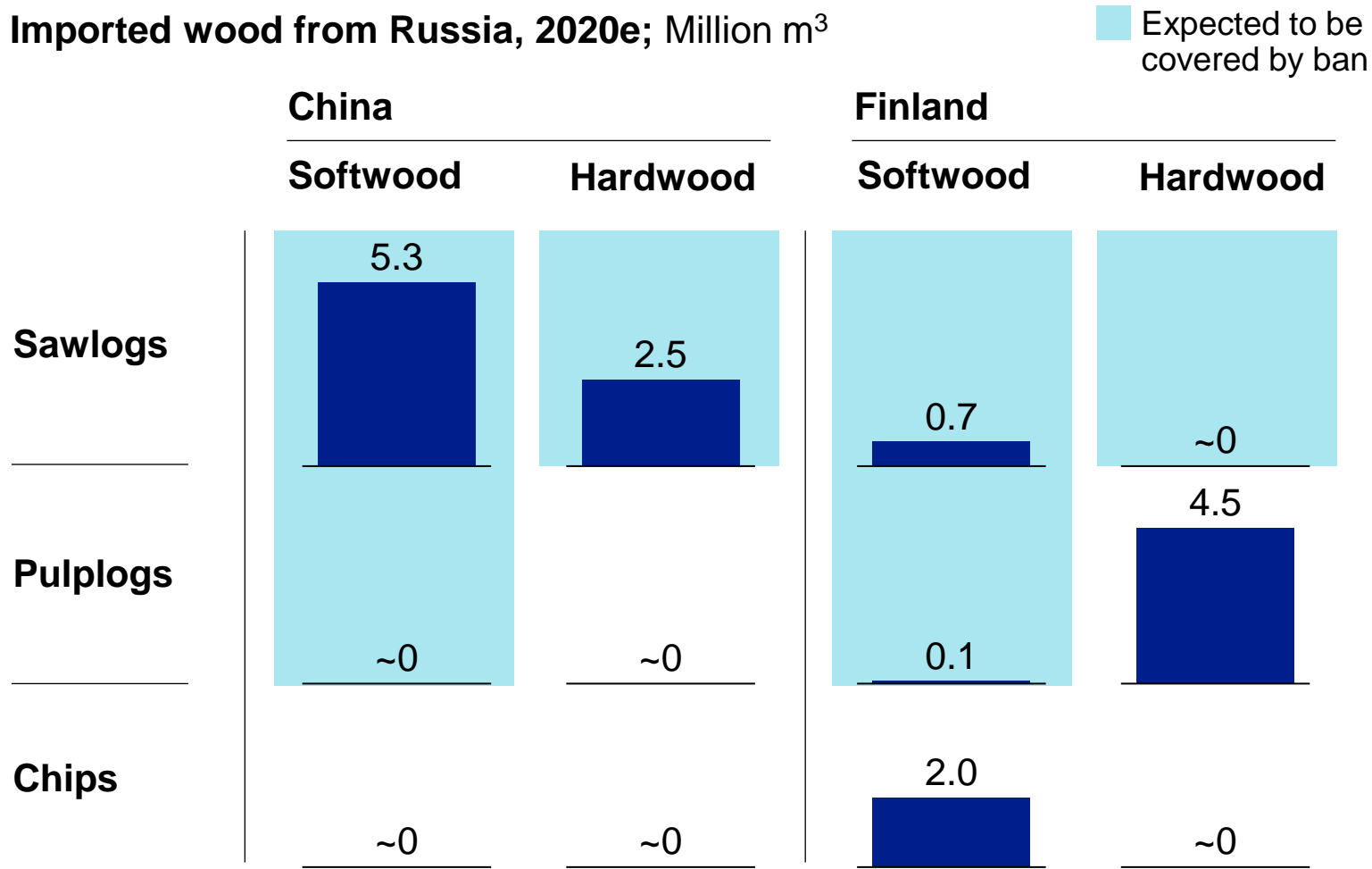
- **Unprocessed / roughly processed softwood**
 - All species. Pulplogs and sawlogs (+chips?)
 - 7 mln m³ of export in 2020e.
- **Valuable hardwood**
 - Sawlogs for high-end wood products
 - Ash, maple, oak, beech, elm and linden. Birch in Far East only. Aspen and other birch exempt
 - 2.5 mln m³ of export in 2020e.
- **Parallel initiatives**
 - Subsidized loans for domestic processing
 - Tariff on green lumber to incentivize investments in dry-kilns

Timing and status

- Likely to become **law in Q2 of 2021**
- Effective as of **1st January 2022**
- Discussions about possible **state-owned monopoly** for log export

China and Finland are both dependent on Russian logs; China mainly for sawmills, Finland for pulp and paper

Imported wood from Russia, 2020e; Million m³



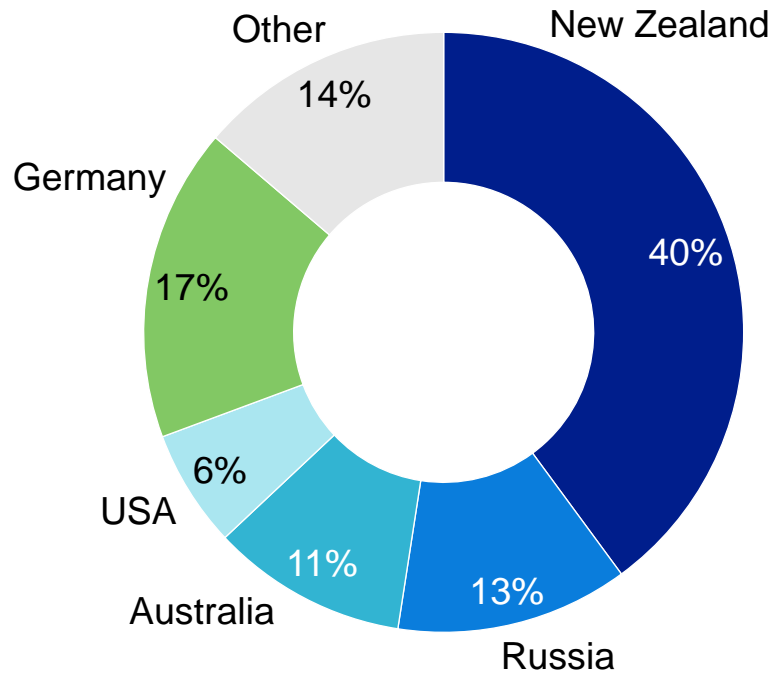
- **Important for Chinese sawmill industry**
 - 10-15% of softwood log imports, 30% of hardwood log imports
 - Secondary impact on residues for panel mills
- **Less impact on Finland**
 - Russian import mostly hardwood pulplogs (not covered)
 - Softwood imports mainly as chip (not covered?)

SOURCE: Customs data; WRI/OA analysis

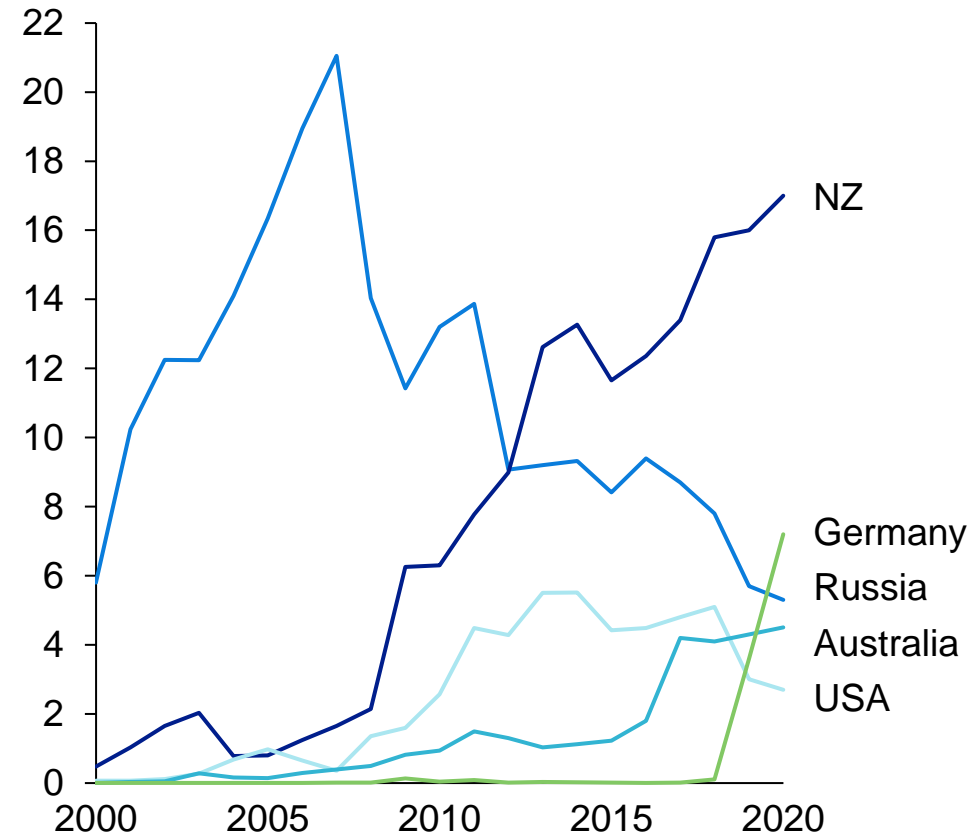


Since tariffs were first introduced in 2007, China has replaced ~75% of Russian volumes with imports from other countries

China softwood imports 2020e
100% = 43 Million m³



Development of imports by source;
Million m³



- **China already shifted ~15 million m³ of Russian softwood log imports to other sources**
- **Further diversified recently the import mix (Australia and Germany)**
- **European imports temporary (bark beetle salvage)**

The Russian log export ban will have far-reaching impact on global markets for logs and downstream forest products

Potential impacts of Russian log ban



Log markets



Forest product markets

Asia-Pacific



- **Tighter sawlog market in China**, possibly tighter residue markets
- **Increased export from New Zealand**, competition and higher prices on domestic market

- Shift of **China's** imports from logs to lumber - opportunity for exporters in e.g., Russia

Europe



- **Limited impact on log markets in Finland**, unless extended to chips or hardwood
- **Increased export of sawlogs from Central Europe** to China (short-term)

- Increased **lumber exports** to Asia, from all exporting countries (e.g., Germany, Sweden, Finland)

North America



- **Increased export from US West**, increasing competition for lower-value logs
- **Opportunity for US South** to export softwood and hardwood

- **Higher wood costs** in US West, could spill over to British Columbia




Rest of world

- **No/limited impact on South America**, with pine harvest declining

- Potentially tighter lumber markets in **Middle East & North Africa**, with European exports diverted to Asia

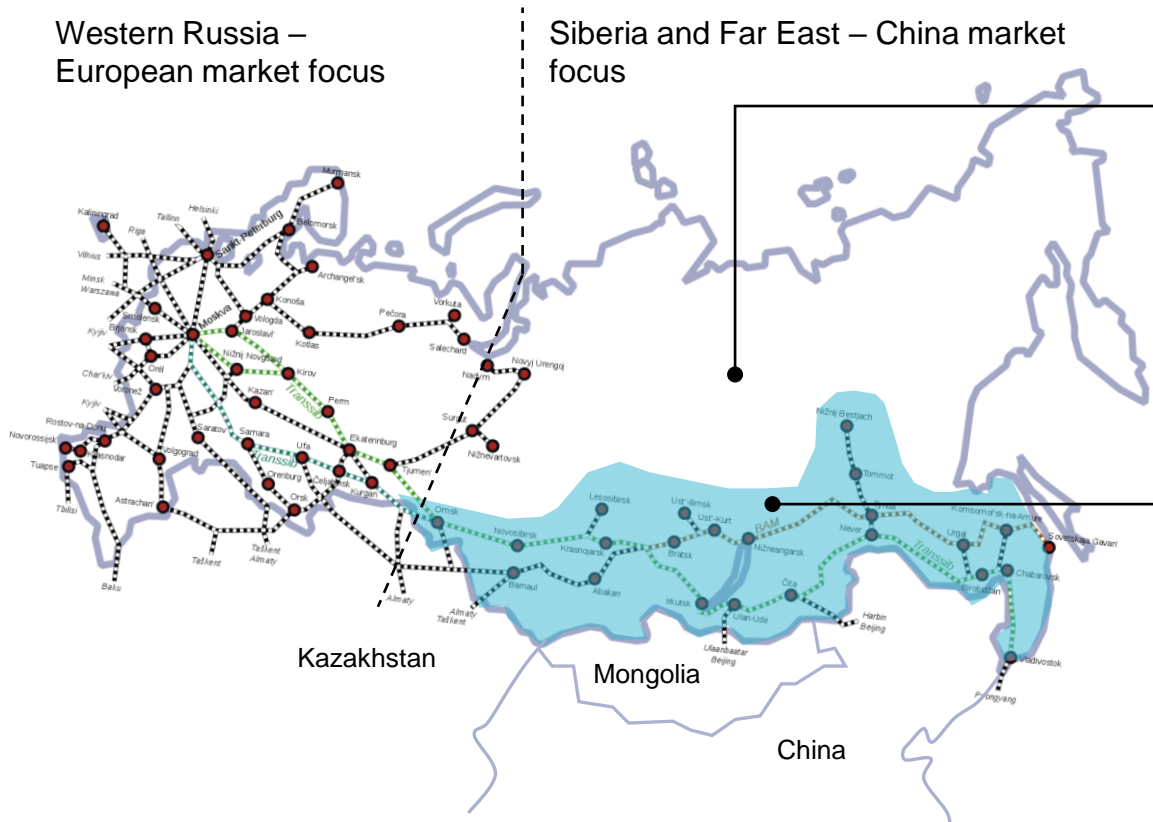


The export ban will likely improve competitiveness of Russian wood product industries, and gradually stimulate further growth

Russian objectives for export ban 	Likely impact on Russian forest industry 	Global implications 	Key uncertainties 
<p>A. Increase Russian domestic wood processing, to increased value-added industry within Russia</p>	<ul style="list-style-type: none"> • Reduced competition for logs in regions close to the border or infrastructure • Decline in logging • (Eventually) increased investment in Russian wood processing 	<ul style="list-style-type: none"> • Improved cost-competitiveness of some Russian exports • Increased Russian export of lumber and hardwood plywood 	<ul style="list-style-type: none"> • Who will invest? • How quickly? • What investments? • How far will wood prices fall in interim? • Long-term impact of logging decline?
<p>B. Restrict/eliminate illegal logging</p>	<ul style="list-style-type: none"> • Better oversight of logging and ability to trace wood sourcing 	<ul style="list-style-type: none"> • Improved market access for Russian wood products to in developed regions 	<ul style="list-style-type: none"> • Can Russian industry certify the source and sustainability of its wood products?

The export ban would reduce competition for logs in parts of eastern Russia close to Chinese border or infrastructure for export

Wood competition in Siberia and Russia Far East – Map of rail infrastructure



Relatively remote locations

- Limited impact on market price
 - No log exports
 - Limited competition between mills, due to distance between

Locations by border or railway

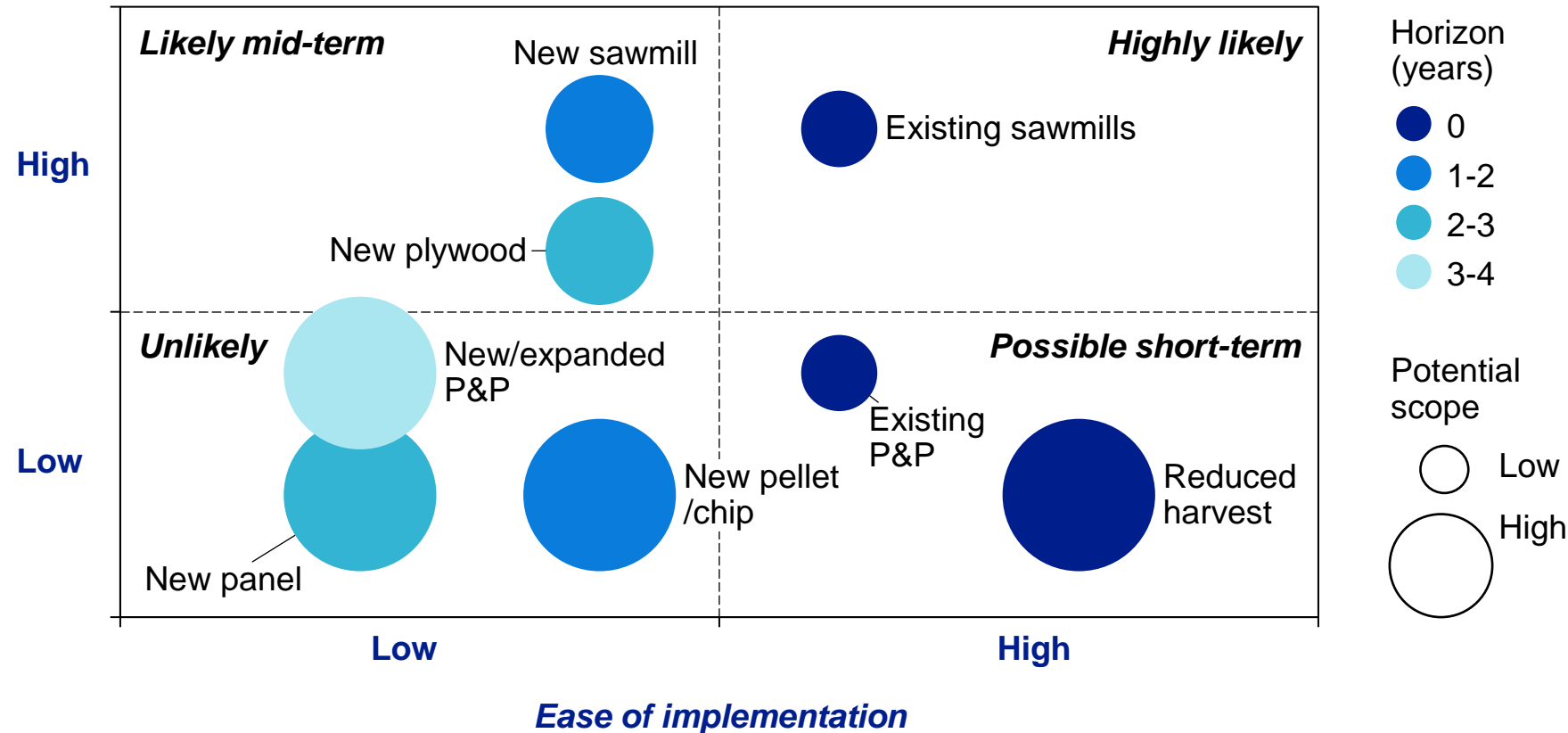
- Downward price pressure
 - Decrease in log export
 - Reduced harvest
 - Elimination of high-costs sources, e.g., difficult terrain, poor access
- Gradually, increased processing
 - Relocation of sawmills from China, and more remote areas

- Export ban will impact market **prices in parts of eastern Russia**
- Currently, most exports are from Far East, **locations near border or infrastructure**
- Price impact while total **log demand is reduced**
- **2007-08 tariffs** had large initial impact on prices in RUB

In short-term, it seems reduced harvest and increased throughput in sawmills is most likely – new sawmill capacity in the mid-term

Potential responses in eastern Russia to reduce softwood log export

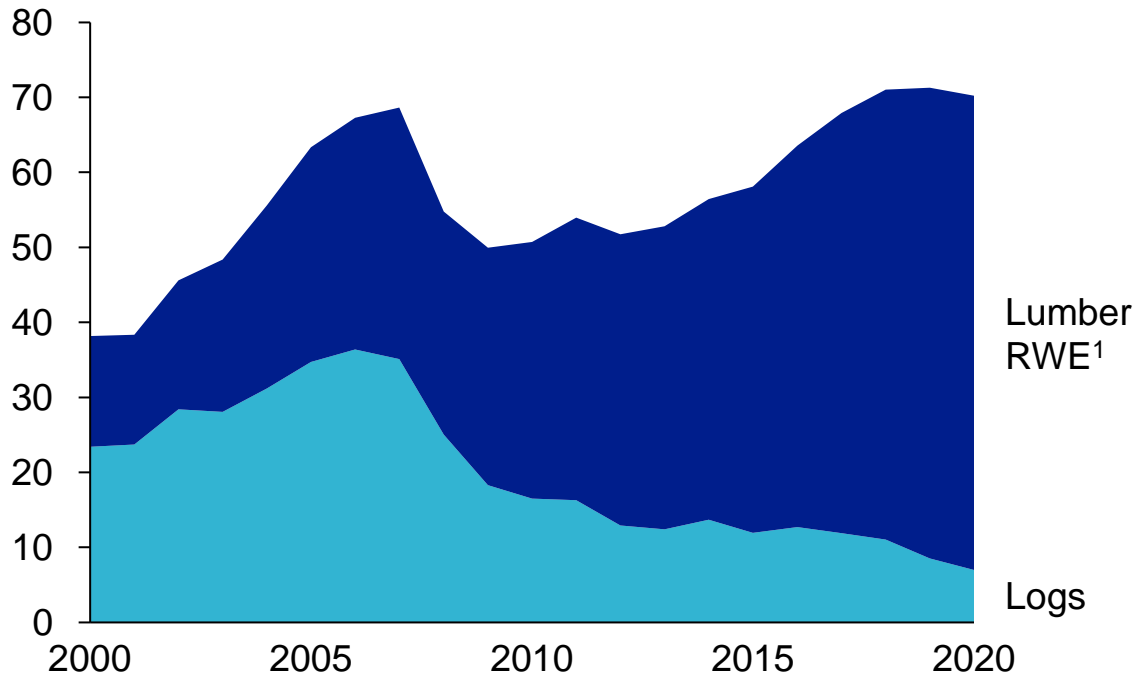
Value creation



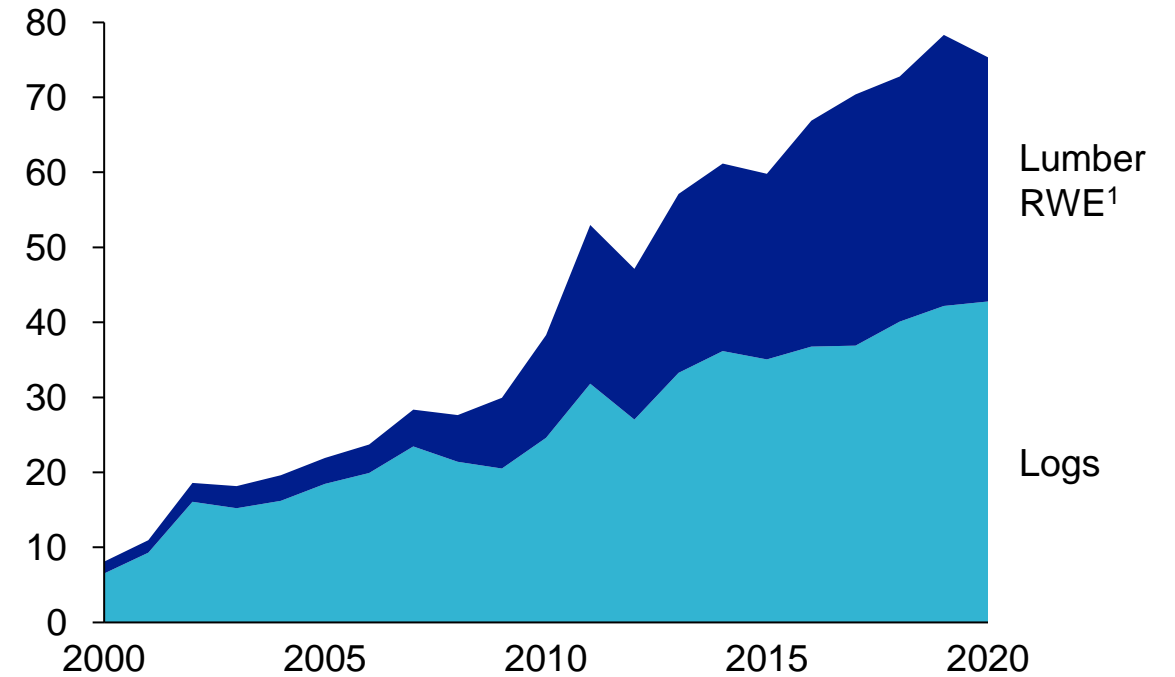
- **Short-term**
 - Higher utilization of existing sawmills
 - Reduced harvest
- **Mid-term:** investment in sawmills and plywood mills
- **Long-term:** New P&P, panel and pellet capacity is possible (industry complexes)

China is already shifting imports from sawlogs to lumber, and Russian exports mirror this

Russia exports of softwood logs and lumber; Million m³



China imports of softwood logs and lumber; Million m³



Expect an acceleration of **China's ongoing shift of importing lumber not logs**. Seen in Japan in the 1970-80s as sawmill based on imported logs become less competitive, and lumber market moved towards accepting standard metric dimensions. In parallel, **more sawlogs sawn to lumber in Russia**

1. Roundwood equivalent, assuming typical sawlog to lumber conversion

Summary: global shockwaves, challenge and opportunity for Russia

Details of ban not confirmed

- Chips included?
- State-owned export monopoly?
- Investment incentives, ban on green lumber...

Profound impact on China

- Main destination for Russian (saw)logs, large share of China's log supply
- Finland less impacted unless ban extended to chips or hardwood pulp logs

Opportunity for other log exporters

- Tighter sawlog markets in New Zealand, US West, Australia...
- Central Europe only temporary, bark beetle salvage, lumber industry strong

Challenge and opportunity for Russia

- Downward pressure on sawlog prices in east of Russia
- Higher utilization of existing sawmills, investment in capacity expansion
- Improving quality and sustainability profile of Russian lumber on global markets
- Larger-scale investments (panels, pellets, pulp?)

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