News Release

Russia's Scheduled 80% Log Export Tax will reduce log exports, disrupt global forest products trade flows and create a supply shortage in China.

Higher prices and increased demand will create substantial opportunities in logs, lumber, pulp and other products for a variety of exporting countries to China and other Asian countries.

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Vancouver, B.C. — International WOOD MARKETS Group announces the release of its highly anticipated report, ***Russia Log Export Tax — Global Implications*** (Part 1: "Advance Preliminary Report"). Russia's log export tax is set to increase from 25% to 80%, (or minimum €50/m^3 or US$400/Mbf, Scribner scale) on January 1, 2009, making Russian logs too expensive and creating a supply shortage for Russia's key customers in Finland, Japan, China, South Korea and the Baltic States.

Since the mid-1990s, Russian log exports have increased from fewer than one million m^3 per year to an incredible 50 million m^3 (10 billion board feet, Scribner scale) in 2006 and 2007. China's voracious appetite for wood has caused it to become Russia's largest log export customer (consuming 50% of Russia's total log exports), and much of China's wood products growth in the last ten years has been a direct result of growing access to Russian logs. "The looming downside," said company president Russell Taylor, "is that China is facing a huge log supply "gap" starting in 2009 when the tax rises to 80%. The country's sawmills will find themselves unable to buy expensive Russian logs and still produce competitively priced manufactured wood products in global markets. Our analysis makes it clear that China will suffer a massive supply 'gap,' and that many segments of its wood industry will be in chaos in 2009 due to these dramatic shortages and soaring raw material prices." One potential outcome could be massive sawmill curtailments as China searches the world for alternative supplies of competitively priced logs, lumber, pulp and other wood products to use in its factories. For offshore exporters, this should open up opportunities for higher export prices to China — the resulting volume potential could be huge in some products!

However, China is a vast wood market with many regional and geographical advantages and disadvantages in terms of wood imports. "What this means," noted vice president and co-author Gerry Van Leeuwen, "is that Russian logs will not necessarily be replaced only by logs. Lumber, pulp and other wood products of specific sizes and grades from a variety of global wood exporters (including existing and new Russian investments) will be able to benefit from China's scramble to find new wood supplies to feed its factories."

This is the first detailed research and analysis specifically addressing the potential impacts within Russia itself and, more importantly, on the country's major log export markets. A number of other independent wood product reports and commentaries have continued to raise questions and offer opinions about the potential effects of the upcoming tax, but these have generally missed the real story. "The analysis and findings presented in this new report address many of the misconceptions previously reported," said Taylor. "Our report provides the first assessment and outlook on this pending global wood product supply shock and the export opportunities that will occur as a result — including who the winners and losers could be, in what products, and why. "

Although global wood product markets are in a period of decreasing demand, the report outlines where the major wood shortages will be, and why higher log, lumber, pulp, etc., prices are inevitably going to occur. "It appears that most companies have not fully considered the implications of the 80% tax for their businesses," commented Van Leeuwen, "Some of the greatest opportunities will be for softwood exporters from North America and the Southern Hemisphere as well as Russia itself (and to a lesser extent Europe), and at this point they don't seem to recognize the potential magnitude of the supply shock."

As a result of the pending tax, major wood product companies in Finland and the Baltics have already announced permanent capacity closures in pulp and paper as well as sawmills and plywood mills. The strategies of companies in Japan and South Korea are to find suitable replacement species or products. However, our preliminary analysis indicates clearly that China does not yet have any practical strategy and, consequently, will not have enough wood volume to replace Russian logs and to run all of its factories. The impending supply crunch that will develop within China could be similar to the crisis created by the "spotted owl" in the U.S. Pacific Northwest in the early 1990s.

International WOOD MARKETS Group has been reporting on and consulting for the international wood products industry since 1989, and is known as one of the industry's leading market research analysts and forecasters. The company's consultants travel the world over and have published numerous strategic reports on the global wood products industry and market. The company also maintains an office in China and conducts client work in all the countries covered in this report.

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