

## News Release

# **Russian Log Importers Dodge the Bullet – For Now!**

## **Delay of the 80% Log Export Tax for 9 to 12 Months Only Creates More Uncertainty for Log Importers.**

**For Immediate Release**

**November 21, 2008**

**Vancouver, B.C.** – The Russian government has announced that they will delay the implementation of an 80% (min €50/m<sup>3</sup>) log export tax, scheduled to take effect on January 1, 2009, “for 9 to 12 months”. After having insisted for two years that the increasing log export tax was essential to develop the domestic log processing industry and therefore not negotiable, the Russian government has suddenly done an “about face” on the grounds that the current global economic downturn has created new concerns about the implementation of the last stage of this planned export tax schedule. The current 25% (min. 15€/m<sup>3</sup>) log tax, which is extremely crippling to most Russian log importers, was implemented on April 1, 2008 and will stay in effect.

As reported earlier by International WOOD MARKETS Group (IWMG), implementation of the 80% log export tax would have created havoc in Russia’s major log markets – especially in Asia, with China extremely vulnerable. The 9 to 12 month delay will provide some breathing room for Russia’s major log customers to find alternate log and lumber supply sources but in the meantime they must continue to pay the expensive 25% log export tax.

IWMG believes that the 25% (min €15/m<sup>3</sup>) log export tax in combination with rising Russian log costs and prices will continue to create serious log cost implications and unfavorable economics in Russia’s key log export markets. China’s log imports from Russia dropped by 24% in the first half of 2008 (mainly as a result of the 25% log export tax). “In Northern China, hundreds of wood product manufacturing companies have already stopped importing Russian logs and have closed their sawmills”, said Gerry Van Leeuwen, VP. “Japan has already reduced Russian log imports by more than 50% in 2008 compared to 2007 as Russian log prices have become too expensive.”

The 9 to 12 month delay can be considered advantageous as it will allow importing countries more time to source alternative raw material supplies and/or to curtail operations over a longer time horizon. At the same time, the short notice “about face” decision by the Russian government on such an important operational and financial issue has further eroded confidence in Russia’s future log supply credibility and wood products investment risk. “Securing alternative wood supply sources remains a high priority for

Russia's major log buyers", said Russell Taylor, President, "as dependence on Russian logs clearly remains a very risky situation for any one requiring log imports to support processing investments. It is becoming essential for operators dependent on Russian logs to look outside Russia to obtain better security and regularity on imported raw material supplies."

This trend is very evident from the sawnwood trade data for the first nine months of 2008, which shows that China's softwood lumber imports from Canada increased by over 250,000 m<sup>3</sup> (+58%) as compared to the previous period in 2007. This surpasses the softwood lumber increase from Russia (+217,000 m<sup>3</sup>, or 21%) during the same time period, thereby confirming the estimates that Russian mills, as well as new foreign sawmilling investments in Russia, are not able to supply China with more than a modest percentage of its overall increased lumber requirements in 2009, even with the log export tax at 25%. This is not the result that the Russian government was expecting.

IWMG has released Part I of its *Russia Log Export Tax: Global Implications* publication that analyses the impact on global log trade due to the Russian log export tax at the 25% rate and at the 80% rate (the final report is due in mid-December). The analyses clearly shows that there is a huge wood export opportunity for offshore suppliers to replace Russian logs at the 25% export tax rate – especially in China – as well as in a number of other major softwood log and lumber exporting countries. It is certainly becoming more evident that China will need millions of cubic metres of incremental logs or sawnwood to feed its factories not only in 2009, but especially if the full 80% tax is implemented in a year from now. Softwood log and lumber exporting countries like Canada and New Zealand seem especially well positioned to take advantage of this situation with many more opportunities available for those individual exporters that understand what China and other parts of Asia need in lieu of unpredictable supplies of expensive Russian logs.

IWMG still believes that the Russian log export tax schedule is the most profound wood supply dynamic in North America since the U.S. spotted owl crisis in the early 1990s.

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