

News Release

China facing the brunt of a pending log supply shortage as a result of Russia's current 25% Log Export Tax and the scheduled 80% Tax

Tightening log supply pressure only being partially averted due to reduced market demand and currency volatility as a result of the global economic crisis.

For Immediate Release

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Vancouver, B.C. — International WOOD MARKETS Group has released its complete report, *Russia Log Export Tax — Global Implications (Part 1: Logs and now Part 2: Lumber)*. While Russia's move to an 80% log export tax (or minimum €50/m³ or US\$400/Mbf, Scribner scale) has been delayed to late 2009, the projected reduction in Russian log production and exports in combination with higher log export costs (due to the current 25% tax with a minimum of euro 15/m³) is increasingly putting pressure on global log markets. China, Japan, Scandinavia and the Baltics have already incurred major negative fall-out as a result of the 25% log export tax - to the point where new wood supply strategies have been rapidly implemented.

The report highlights why the 25% log export tax will encourage increased Chinese and Russian investment in new sawn lumber capacity in Eastern Russia. With Chinese demand for wood raw material inputs (logs and lumber) still expected to remain relatively strong in 2009, lumber prices or exporters' returns in China are expected to be attractive. Major changes to supply and price dynamics have already occurred in log and lumber markets in Japan, Finland and the Baltics as a result of the 25% tax.

The WOOD MARKETS' *Russian Log Export Tax* report highlights some key market reactions to the current 25% log export tax and proposed 80% log export tax:

- The volume of Russian softwood log exports will plummet through to 2012 as a direct result of the log export tax schedule. Supply is expected to steadily decrease to Russia's seven largest softwood log export markets.
- Global log trade disruptions from Russia will create new log export opportunities for major global softwood log exporters, especially in the key Asian markets of China, Japan, and South Korea. Potential winners are identified and reviewed.
- It is now expected that new capital investment in the Russian wood products industry will be delayed or be minimal at best following the collapse of many smaller logging and wood product manufacturing companies in 2008.

- Northern China has been the most negatively impacted by the current 25% and will be most affected by the proposed 80% log export tax.
- China needs to source new log and lumber suppliers and also step up its own domestic timber harvests.
- Wood demand in China continues to increase despite decreases in finished wood product exports as its own domestic wood product market continues to expand. The recent collapse in global currencies (relative to the U.S. dollar and Chinese RMB) – and especially the Russian ruble – could provide some short term relief for supply options.

Vice president and co-author Gerry Van Leeuwen states that “The ripple effect from Russia’s log export tax will continue to disrupt major log and lumber markets – especially China - and higher prices (or returns to exporters) are a given!”

“This means that there are some potentially attractive opportunities for those log and lumber exporters that can create a competitive fit with China, especially during the global market downturn,” commented company president Russell Taylor. “The current market turbulence leaves China as the only destination that will likely require increased log and lumber imports in 2009 and this is the opportunity for strategic exporters”.

“It appears to WOOD MARKETS that most companies still have not fully considered the implications of the current 25% export tax as it impacts Russia’s log customers,” commented Van Leeuwen. “Based on our recent travels and research in Russia and China, we believe that some of the only growth opportunities in 2009 for softwood exporters could be linked to calamities linked to the Russian log export tax. If and when the 80% tax is initiated, a real supply shock will be the end result no matter how global markets are doing!”

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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