

Summary

- The Russian government is working on broader restrictions on the export of logs and roughly processed timber. As part of these measures, the government has approved a ban on export of roundwood (logs), which it says will enter into force from 1 January 2022.

Report

Update on the proposed export ban

- There are continuing calls by many in the industry for the Russian government to abandon the idea of introducing a total ban on export of roundwood (i.e. logs). In response to these questions, the Deputy Prime Minister and Presidential Envoy to the Far East, Yuri Trutnev, said that the government is not considering dropping its plans for the ban, which is due to enter into force from 1 January 2022. Trutnev also said that by the end of 2021, Russia will have established a state-owned company that will have monopoly rights to export roundwood timber (i.e. logs), while private companies will still be able to export processed timber.
- The ambiguity of the wording (for example, what the term "roughly processed timber" exactly means) has led to speculation in the local media that the export ban could also include products like sawn timber and plywood, as well as raw logs and associated materials. Russia's Ministry of Industry and Trade proposes to include these types of products in the list of goods that are essential for the domestic market. While this would not automatically result in a ban on exports, it may provide an indication of products that could be subject to one in the future.

Interim export duties on roughly processed timber

- On 21 May 2021 the Russian government approved a 10% duty on the export of certain types of roughly processed timber from 1 July 2021, which will be in effect temporarily until the end of the year. Under the relevant Government Decree, new export duties have been introduced for the export of timber with a moisture level exceeding 22%.
- Industry sources note that the purpose of these duties is to limit the export of unprocessed and roughly processed wood under the guise of sawn timber, curb the rise in prices for this unprocessed timber, and also reorient the Russian forestry sector towards the production of products with higher added value.
- The new duties on the export of "roughly processed timber" target a range of species. For conifers and oak the duty rate will be 10%, but it will be charged at an amount not less than 13 and 15 euros per 1 cubic meter respectively. Previously no duty was levied on these categories. Export duties on beech and ash will also amount to 10%, but charged not less than 50 euros per 1 cubic meter. Before the announcement, export duties for these latter two products were 10 and 12 euros per 1 cubic meter, respectively.
- The measure specifies a maximum moisture level for wood to separate what is deemed as "poorly processed wood" from higher quality products that have gone through a proper "chamber drying" (kiln dried) process, which trade at substantially higher prices.

Timber traceability pilot

- Since the beginning of this year the Russian government has run a pilot experiment on the traceability of timber. This experiment ran until 30 June, and from 1 July Russian authorities planned for the traceability system of timber

and transactions will be rolled out across the country.

Russia's long term wood strategy

- According to the head of the Russian state forestry recording organization "Roslesinform", the introduction of the 10% export duty is one of the steps towards a "radical change" in the entire Russian forestry sector. This change had been forecast in the Strategy for the Development of the Forestry Complex until 2030 that was adopted this year. The Strategy's key purpose is to maintain a balance of interests of the timber processing industry and forestry stakeholders. The strategy says it is necessary to stimulate "deep processing" within the country, to move from an export-oriented model of forest raw materials to a model for creating products with high added value.
- The new Strategy for the Development of the Forestry Complex, approved on 11 February 2021 by the Russian government, assumes that by 2030 the industry's total contribution to the Russian economy will double. It envisages that this growth will be achieved by digitalization of the industry, increasing the efficiency and pace of reforestation, as well as the creation of forest nurseries, the development of the domestic market and the reorientation of the industry from the export of raw timber to the export of processed products with high added value.

Industry reaction

- The Commission on Forestry and Timber Industry of the Russian Union of Industrialists and Entrepreneurs (RUIE) believes that the new rules provide a clear signal to the timber industry that the government will continue to take measures aimed at reducing raw material exports and developing processing within Russia. The RUIE's forestry commission explained that the prompt introduction of duties from 1 July indicates the government's determination to continue to take measures against unprocessed commodity exports. The short-term effect of the duty for six months until the end of 2021 and the relatively low rate of 10% will enable timber merchants to modernize production without stopping work. At the same time, it is likely that the duty rate will be increased from the beginning of 2022 if the export volumes of minimally processed logs do not begin to decline (i.e. through the export ban or by other means).
- In terms of future directions, Russian industry experts foresee two possible scenarios: the first scenario is that the industry's capacity is not impacted by the export ban, and the entire volume that was previously exported will be processed in the domestic market. Under scenario two, the volume of logging will decrease, as the players in the domestic market will most likely not be able to cope with the processing of harvested timber at the current capacity. Some experts believe that the first scenario is more likely, as domestic processors will have enough time to adjust. However, processors believe that one year is not enough to successfully implement the measure. Many industry commentators note that there are still a lot of blank spots in the topic of wood products exports. Therefore, not all market participants have decided on their response to this problem, with many preferring to take a wait and see attitude.

Latest export statistics

- The Russian government's new measures do not seem to have had a large impact on log export figures. According to data by Russia's Federal Customs Service, between January-March 2021 3.4 million cubic metres of unprocessed timber were exported, an increase of 17.1% from the same period in 2020. The customs value of the export of unprocessed timber amounted to \$259.2 million, which is 28.2% more than a year earlier. However, initial figures from the March 2021 month show that log export volumes declined 2.5% on March 2020, although the value of these exports increased 3.5% for the same period.

Global implications

- Industry experts O'Kelly Acumen and Wood Resources International report that Russia exported 15 million cubic metres of logs in 2020, accounting for 12% of global trade. Around 80% of Russia's logs were exported to Finland and China. China has been gradually reducing its reliance on Russian log imports since Russia's first round of export tariffs in 2007, by increasing imports from other markets such as Germany, Australia, the US and New Zealand. However, China still sourced around 10% of its log imports from Russia for 2020 (in comparison China imported 10.9% of its logs from New Zealand in 2020).
 - If implemented, Russia's proposed log export ban from 2022 could have significant impacts on global forest product
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markets. While information is still unclear, it is possible that large timber manufacturers, such as China, could be forced to replace remaining Russian imports from other source markets. This could be challenging for inland Chinese sawmills without good access to seaports and railways. At a wider level, a sudden reduction in supply of Russian logs in the global market could increase sawlog prices worldwide. Given the importance of New Zealand's wood industry to our economy, the New Zealand Embassy in Moscow will continue to monitor and report on developments in the Russian timber sector.

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