PANEL DISCUSSION
Opportunities for and barriers to forest products from the perspective of the private sector

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74th session of the Committee on Forests and the Forest Industry, UNECE/FAO Forestry and Timber Section
October 19th, 2016, Geneva
ILIM TIMBER CORPORATE PROFILE

OPERATIONS

- Business Units: Russia and Germany
- Sales organizations: EU, USA, China, Russia and NIS, MENA
- Annual production capacity: **2,65 million m³** of sawn timber and **220 000 m³** of plywood
- Company headcount: about **3000** people
- Species: pine, Siberian larch, spruce, Douglas fir, Sitka spruce
- Long-term contracts with strategic log suppliers
ILIM TIMBER CORPORATE PROFILE
MARKETS AND PRODUCTION VOLUMES 2015

- Total production: 2,300,000 m³
- Total sales: 600 mln. USD

Key markets* (cbm.):
- Russia 54%
- China 18%
- MENA 13%
- Russia & CIS 6%
- RoW 9%

*incl. sales of plywood
### Ust-Ilimsk branch of Ilim Timber
- Location: Ust-Ilimsk, Irkutsk region, 700 km North from Baikal lake
- Foundation: 1983
- Products: softwood sawn timber («Taiga» brand)
- Raw material: Angara pine, Siberian larch
- Project capacity (output) per year: 650,000 m³
- Sales: China, MENA, EU, Japan

### Bratsk branch of Ilim Timber
- Location: Bratsk, Irkutsk region, 500 km North from Baikal lake
- Modernization: 2012
- Products: softwood plywood
- Raw material: Angara pine, Siberian larch
- Project capacity (output) per year: 220,000 m³
- Sales: Russia, EU, NIS
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Annual available cut in Siberia & Russian Far East is less than 20% utilized while utilization rate in NW Russia exceeds 60%
SOFTWOOD SAW LOG PRODUCTION, mln. m³

2014: 71,4
2015: 72,9

+2,1 %

Source: Rosstat
• Total export volume - **22.4 mln. m³**
• China the main market – 9.8 mln. m³
• CIS – 4.25 mln. m³
• MENA – 3.47 mln. m³
• Europe - 3.2 mln. m³
• Asia exl. China – 1.3 mln. m³
RUSSIAN EXPORT OF SOFTWOOD SAWN TIMBER BY REGIONS 2014 vs 2015 (th. m³)

Source: Russian Customs

+4.7 %
CHINA SOFTWOOD LUMBER IMPORT 2014 VS 2015, th. m³

Source: China Bulletin

+16,5
Russia

Source: China Bulletin
SOFTWOOD SAWN TIMBER EXPORT to CHINA 2016 H1, m³

Source: Russian Customs, China Bulletin
RUSSIA WILL INCREASE WOODWORKING CAPACITY PRIORITY INVESTMENT PROJECTS

- Implementation 2006 – 2021, average payback time 6-7 years
- 121 state supported investment project
  (so far 41 are accomplished and 8 will come in 2016)
- Reserved 70 mln.m³ from AAC (10% from whole Russian AAC)
GOVERNMENT INCENTIVES

• Electronic system for monitoring of round wood turnover on federal level started to operate successfully July 01, 2015 (415 Federal Law)

• June 10, 2016, the State Duma adopted in the third (final) reading the largest set of amendments to the Forestry code of the Russian Federation since its adoption in 2006:
  - compulsory application of remote sensing data (including GPS survey data, aerial photography), photo and video recording, reports on the use of forests and reports on reforestation

• Intensive forestry model promotion by the Ministry of natural resources of Russia
MAJOR CHALLENGES FOR THE FORESTRY BASED BUSINESS

1. Infrastructure and economic barriers
   - Lack of investment in forest roads
   - High railway tariffs for the transportation of wood products

2. Domestic market development
   - Wooden frame houses promotion
   - Use of wood in public sector construction

3. Low investment attractiveness
   - Investments return is highly dependent on access to log and infrastructure (not fast enough)
   - High interest rates

4. Dependence on imported equipment
   - No locally made equivalents to imported equipment
   - Lack of quality components (chemicals, glue, parts) necessary for production process

5. Supply chain territorial disruption
   - Exceeding volumes of timber in Asian part of Russia
   - Exceeding production capacities and major consumption regions in the European part

6. Personnel and R&D deficit
   - Common for the ROW
THANK YOU FOR YOUR ATTENTION!