Economic Impacts of the Russian Customs Tariffs Programme for Roundwood Exports – a Finnish Perspective

Timo Karjalainen, Jari Viitanen and Yuri Gerasimov

Finnish Forest Research Institute

timo.karjalainen@metla.fi

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Content

- Background
  - president Putin’s comment on Russian forest sector
  - selected means to promote forest sector in Russia
- Implications in Russia
  - reducing roundwood exports
  - income and employment effects
- Russian roundwood in Finland
- Implications in Finland
  - unprofitable roundwood imports
  - decreasing capacity in forest industry
  - income and employment effects
  - focus on domestic roundwood markets
President Putin commented the state of Russian forest sector in Syktyvkar (Komi) 6th April 2006

Main issues requiring solutions / action

<table>
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<th>Exports of roundwood</th>
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<td>Neighbouring countries get rich on Russian wood (55% to China, 25% to Finland in 2007)</td>
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<td>Processing conditions in Russia have to be improved</td>
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Improvement of the quality of forests
- Only 10% of the forests regenerated with tree species having economical significance, use of better technology

Illegal wood harvesting
- Alone reported losses exceed 5 billion Rub., need action plan to prevent illegal wood harvesting and illegal wood trade

Increasing efficiency in forest industry
- Proportion of forest industry only about 1% of the GDP, most of the 30 000 companies not able to fulfill their obligations and to develop

Actions
- Strong support for development through legislation
- Motivation for structural changes
- Create favourable conditions for investments in wood processing
Selected means to promote forest sector in Russia

Forest policy – New forest code (2007)
- Clarification of proprietary, control and usage relations
- Aim to intensify forest use, increase income from forests, prevention of illegal harvesting
- Role of private sector in forestry emphasised
- Commercial use of forests based on long term leasing

Customs policy
- Demand for phytosanitary sertificate in roundwood export 3/2005
- Increases in roundwood export taxes and requirement for sorting by diameter class 6/2006
- Reduction of places for customs clearance 3/2008
- Reduction of export taxes for processed products
- Postponing increases in export taxes for roundwood 11/2008, 12/2009, ?/201?
- Increases in import taxes for machines and devices also manufactured in Russia 1/2009

Investments
- Benefits for priority investments to be realised in the forest sector (regions proposed over 300 projects / 40 accepted)
- Reduction of import taxes for investment products not manufactured in Russia
- Funding for forest road construction (plans versus reality)
Customs policy

- **Customs tariffs programme for roundwood exports**
  - Increasing export duties, 5.2.2007 government order N75
    - Coniferous roundwood and birch diameter exceeding 15 cm
      - 1.7.2007 minimum 10 €/m³ (20% of the export value)
      - 1.4.2008 minimum 15 €/m³ (25% of the export value)
      - 1.1.2009 minimum 50 €/m³ (80% of the export value)
    - Birch diameter less than 15 cm
      - 1.1.2011 minimum 50 €/m³, until then tax free
  - Aspen
    - 1.7.2007 minimum 5 €/m³ (10% of the export value)
    - 1.1.2009 minimum 50 €/m³ (80% of the export value)
Results / impacts / implications in Russia 1/2

- Only few foreign investments in forest sector
- Export duties are hitting hardest remote regions dependent on forestry and export of roundwood

Results / impacts / implications in Russia 2/2

- Impacts in employment and income (value of round wood export to Finland 558 mill. € in 2005)
- Export duties + Felling rules + No domestic capacity to process nonconiferous species = **Problems in wood procurement also for domestic forest industry**
Enough wood for domestic processing and export

Source: Gerasimov et al. 2009

Wood harvesting in Northwest Russia in 2007

Utilization of birch and aspen in Northwest Russia

Source: Gerasimov et al. 2009
Russia: Decreasing felling volumes, consumption and exports

Source: Rosleshoz / B. Bolshakov 2009
Value of forest sector trade between Russia and Finland

- In 1997 about 5% of the whole forest sector trade
- In 2007 nearly 9% of the whole forest sector trade

Source: MetInfo, Metla
Consumption of domestic and imported roundwood by forest industries in Finland

Proportion of imported wood of the wood procurement of the Finnish forest industries

Source: MetInfo, Metla
Finnish forest industries’ domestic and imported roundwood consumption

Lähteet: Metsäteollisuus ry; SVT: Metsäntutkimuslaitos – Sources: Finnish Forest Industries Federation; OSF: Finnish Forest Research Institute

Metsäteollisuuden kotimaisen raakapuun ja tuontiraakapuun käyttö toimialoittain
Forest industries’ domestic and imported roundwood consumption by branch of industry

Source: Metla
Results / impacts / implications in Finland 1/6

- Roundwood imports are becoming unprofitable

Source: Metla
Results / impacts / implications in Finland 2/6

 ➢ Decreasing import of roundwood into Finland

Monthly cumulative import of wood to Finland

Source: Metsätilastotiedote 42/2009, Metla 2009

Source: Finnish Forest Sector Economic Outlook 2009-2010
Results / impacts / implications in Finland 3/6

- Output of forest industry decreasing in Finland
  - Temporary / permanent closing of capacity
  - Birch pulp lines converted to coniferous pulp lines
  - Forest companies have adjusted their production outside Finland partly due to the uncertainty of wood procurement
  - Difficult to isolate the effects of global market crisis and Russian tariffs programme

Source: Finnish Forest Sector Economic Outlook 2009-2010
Pirhonen et al. (2007) predicted that in Eastern Finland up to 6000 unemployed if all roundwood import from Russia ceased.

Bank of Finland predicted that a 20% decrease of the forest industry production would lead to 16 000 unemployed in 2010 (Forsman et al. 2007 BoF Online 17)
Considerable effects on domestic roundwood markets

- Pressure for domestic wood procurement
  - Forest owners will utilise increasing prices
  - Forest industry will face difficulties to find cost-efficient ways to procure needed amounts of roundwood
  - Resulted in high wood storages
  - Government decision: Temporary reliefs on taxes of wood sales to promote roundwood markets

- Forest industry in Finland will be less dependent of imported roundwood
  - Not relying on wood from Russia (e.g. statement of the CEO of S-E)
  - However, imports from other countries is likely to increase
Results / impacts / implications in Finland 6/6

- Finnish forest companies have postponed their investments in Russia

- At the Finnish-Russian Forest Summit 25 Oct. 2009 in St. Petersburg the Finnish party considered that the prerequisites needs still improvement;
  
  => Investment decisions are postponed

- Radical decreases of the staff /operations in the wood procurement organisations of the Finnish companies in Russia
builds the future of the forest sector by producing and disseminating information and know-how for the well-being of society