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# The impacts of increasing Russian roundwood export tariffs on the forest sector markets

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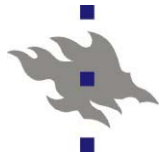
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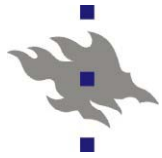
<sup>4</sup> Finnish Forest Research Institute, Vantaa, Finland

Forest Sector Modeling Conference, Seattle 18.11.2008



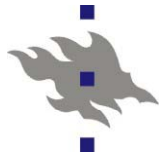
## Acknowledgements

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- In addition to our host institutions, we acknowledge financial support from the Ministry of Agriculture and Forestry in Finland on the project during 2004-2007



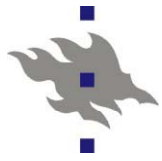
## Point of departure

- Russian federation has 23 % of the global growing stock of forests and 50 % of coniferous forests (FRA, 2005). Russia's forest resources are vastly under-utilized and final fellings account for only one quarter of allowable cut.
- Russian federation has become the world's largest net exporter of roundwood, totalling at 51 million cubic meters in 2006.
- Although the share of economically accessible timber is limited due to the lack of infrastructure, especially poor quality of road network, there is significant potential in increasing the utilization of forests in the Russian federation.



## Wood imports from Russia

- Largest importers of roundwood from Russia go to China. In Europe, Finland, Sweden and Estonia are the largest importers of Russian roundwood. Within European Union, 72 % Russian roundwood trade has been directed to Finland
- In 2006, roundwood imports from Russian federation into Finland totalled 16,8 million cubic metres and the Finnish forest industry's dependency on the imported Russian wood has increased significantly, as nearly one fourth of roundwood used in Finland was in 2006 of Russian origin.



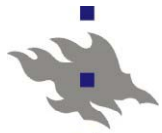
## Russian forest policy

- To encourage foreign investments, the Federation has announced to increase export duties from 1.7.2007 onwards from 6,5 to 10 €/m<sup>3</sup> on coniferous roundwood and non-coniferous logs above 15 cm top diameter.
- Gradually the tariffs will be raised towards 50 €/m<sup>3</sup> in January 2009 and finally in 1.1.2011 to also include non-coniferous pulpwood.
- Russian federation is in the process of becoming a full member of World Trade Organisation (WTO), and according to bilateral negotiations and existing pre-agreement between Russia and European Union, no new tariffs should be implemented during the negotiation period.



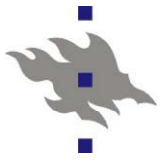
## Methodology

- A partial equilibrium global forest sector model EFI-GTM to scrutinize how forest products markets will evolve towards 2020 under different export tariff levels implemented on the Russian roundwood.
- The EFI-GTM- model is based on the assumption of competitive markets, where producers and consumers are maximizing their economic surplus. Related to Russian forest sector, this model has earlier been utilized for example on analysing the restrictions of wood supply in Europe (Moiseyev 2003) or the impacts of illegally harvested timber on the roundwood markets (Ottitsch et al. 2005).
- As usual, the presented scenarios are not intended to be interpreted as forecasts for future development, but illustrate the differences between alternative policy measures in the longer term as compared to the development under current market structure and existing policies.

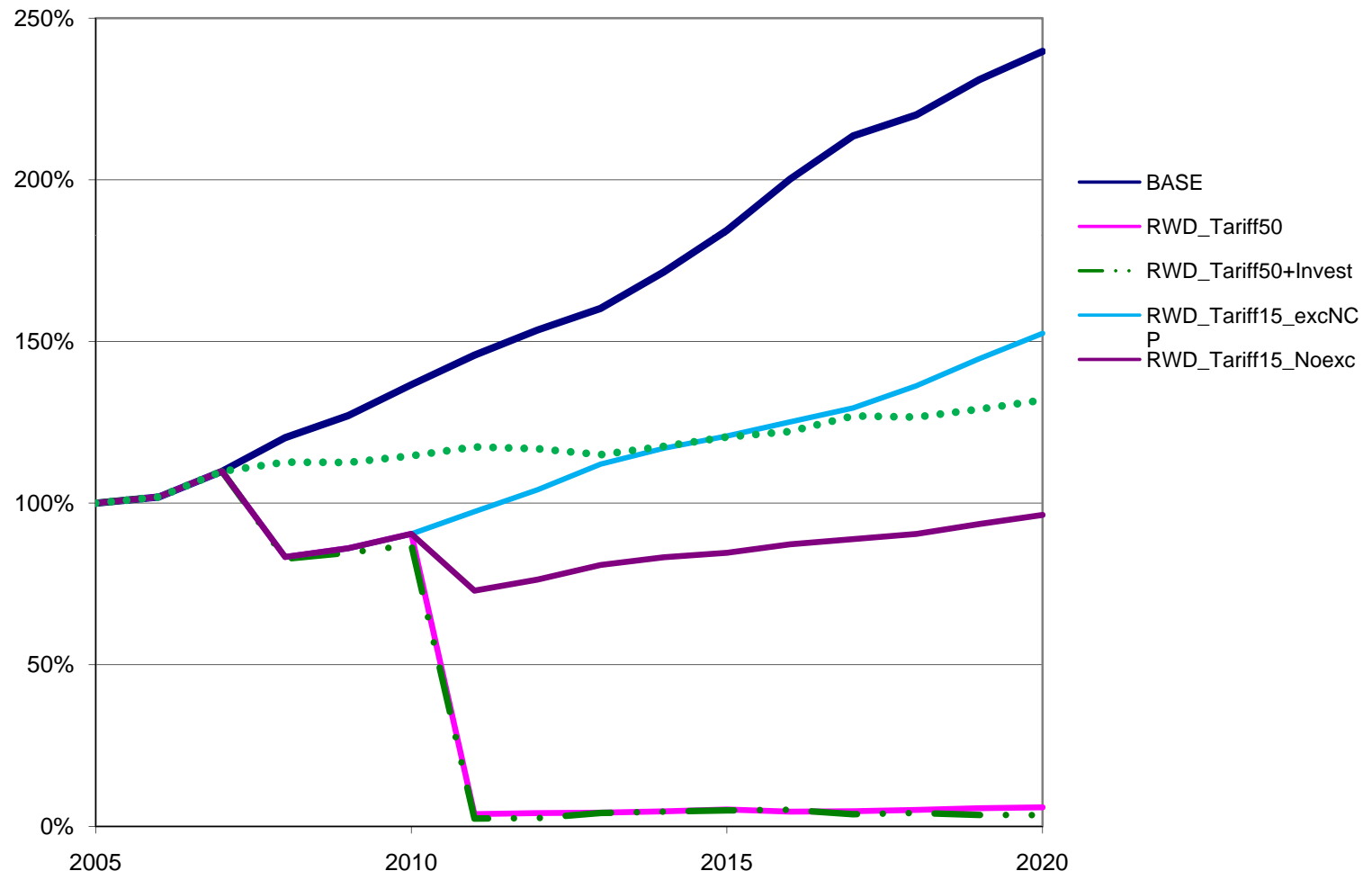


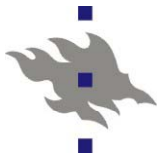
## 6 scenarios:

- Base scenario development without any tariff increases
  
- Russia rising its' export tariffs on all wood assortments in 2008 up to the level of 15 €/m<sup>3</sup> (over bark), but no further rises will be implemented.
- Russia rising its' export tariffs in 2008 up to the level of 15 €/m<sup>3</sup> (over bark), but no further rises implemented. Regarding non-coniferous wood, these increases will be implemented only in 2011.
- Russia rising its' export tariffs on all wood assortments in 2008 up to the level of 15 €/m<sup>3</sup> (over bark), and further in 2009 up to the level of 50 €/m<sup>3</sup> (over bark).
  
- Improving investment climate in Russia together with rising export tariffs on all wood assortments in 2008 up to the level of 15 €/m<sup>3</sup> (over bark), and further in 2009 up to the level of 50 €/m<sup>3</sup> (over bark).
- Baseline + improving investment climate

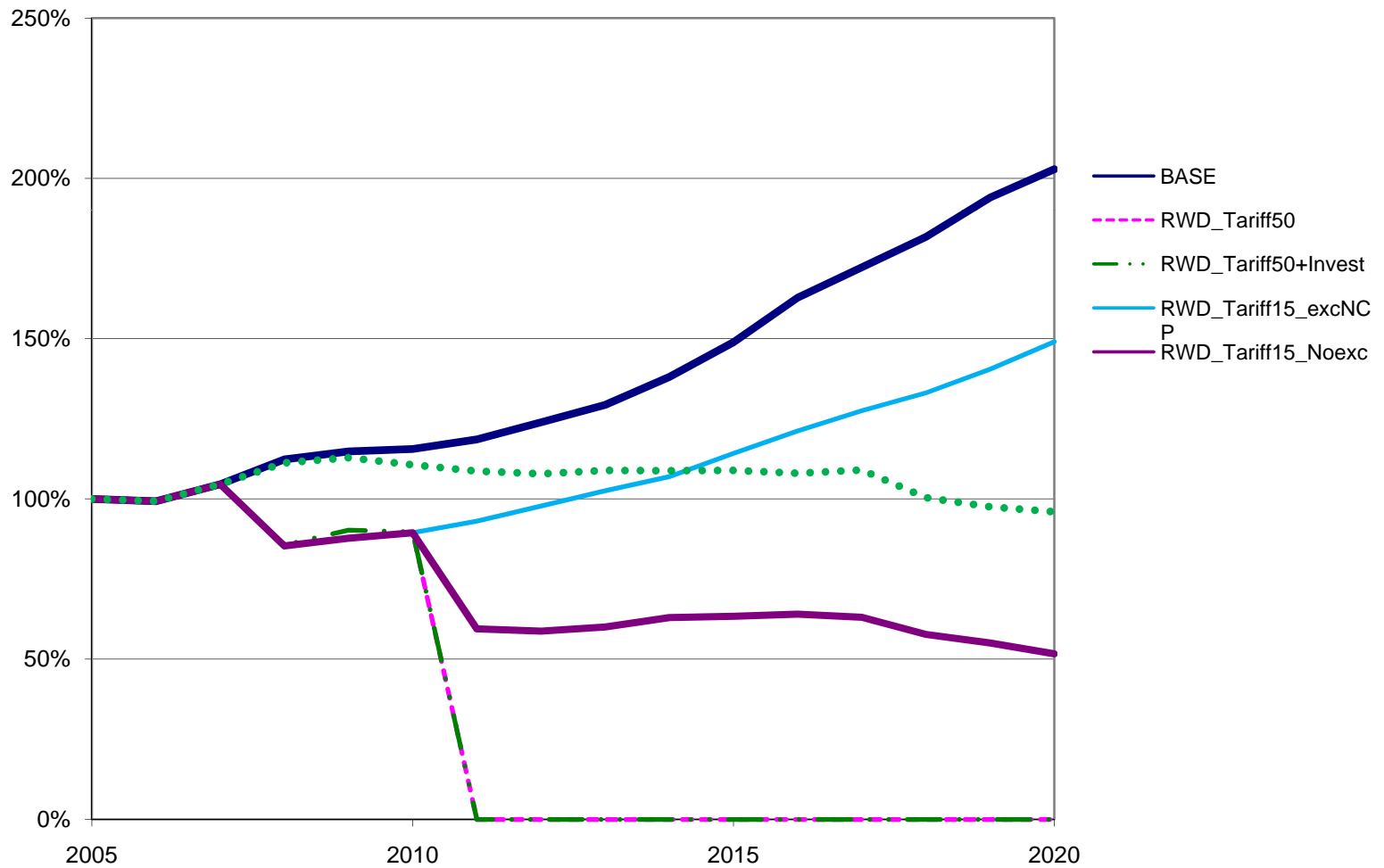


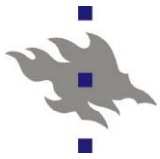
## Russian wood exports under different scenarios



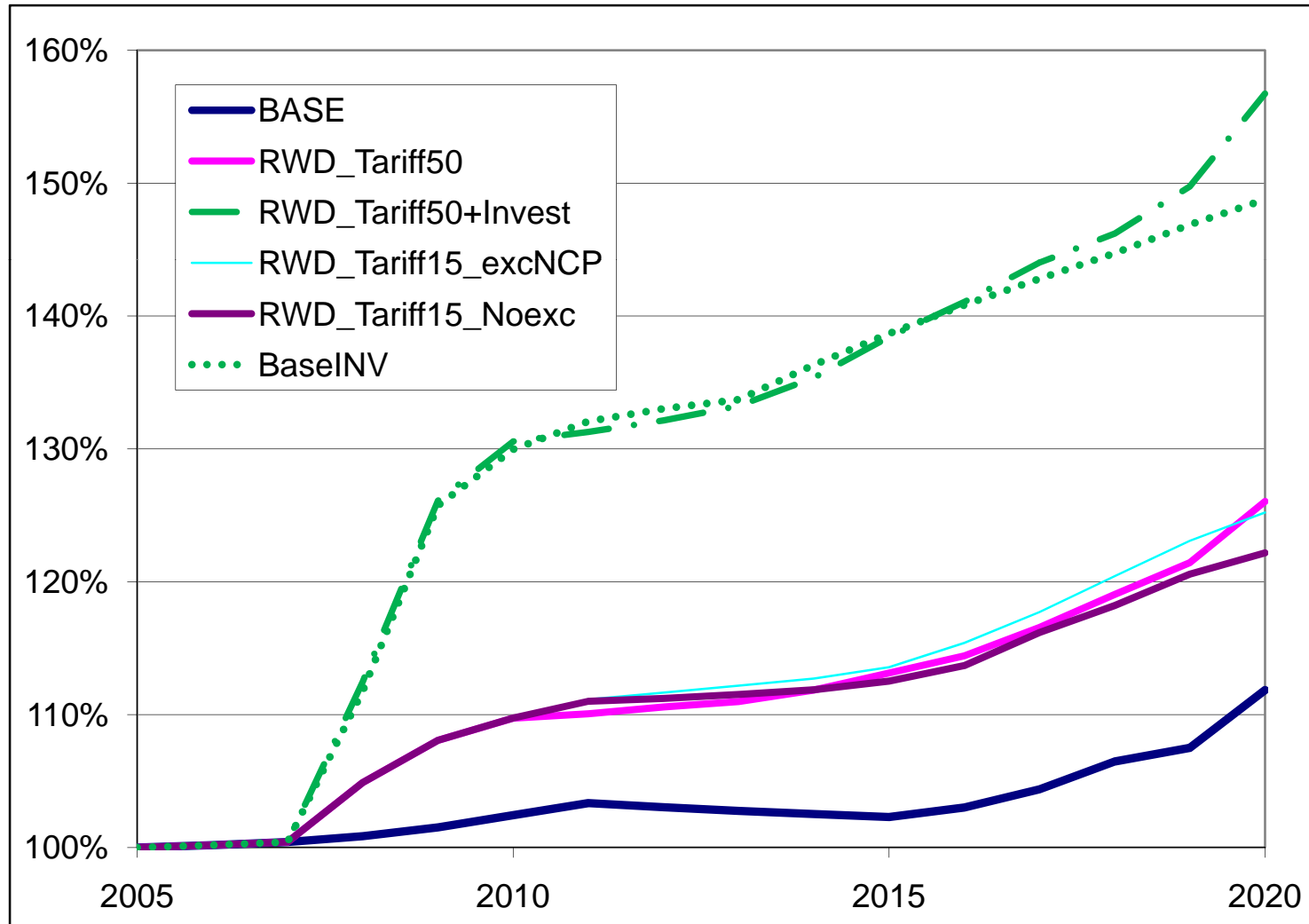


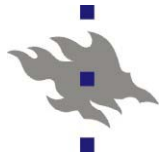
## Russian wood exports into EU under different scenarios



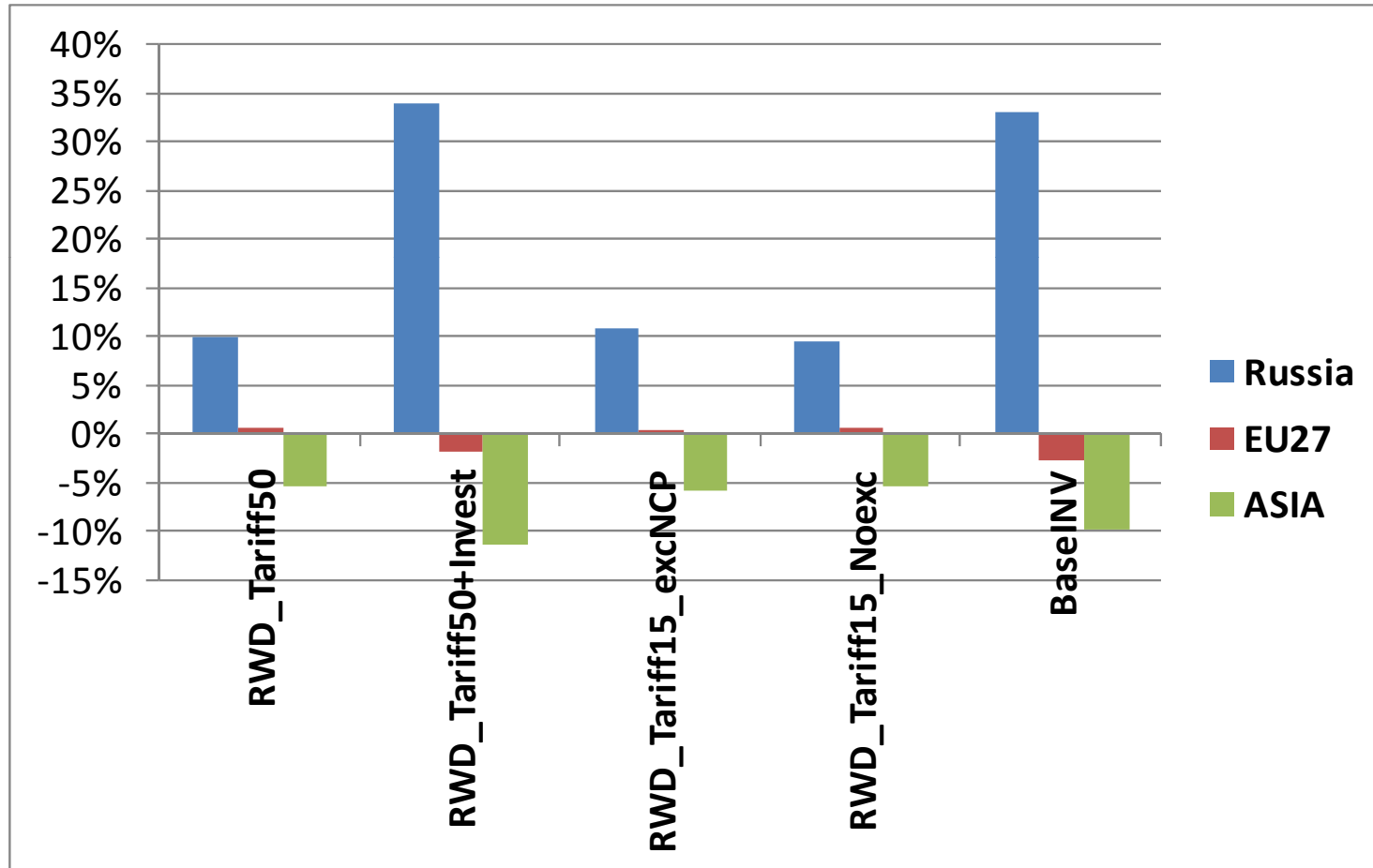


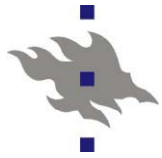
## Sawnwood production in Russia



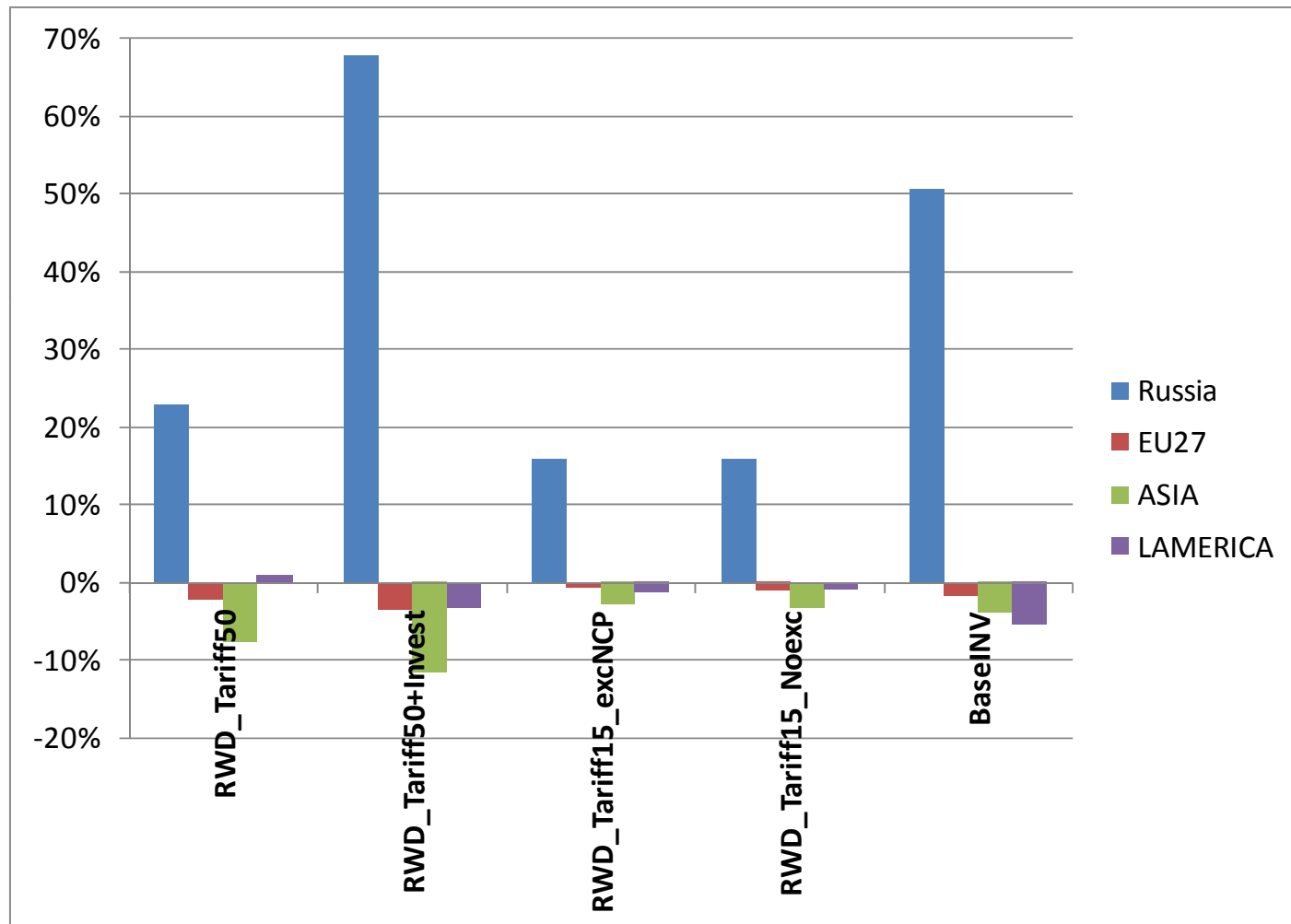


## Global changes in sawnwood production over 2010-20 compared to BASE scenario (100%)



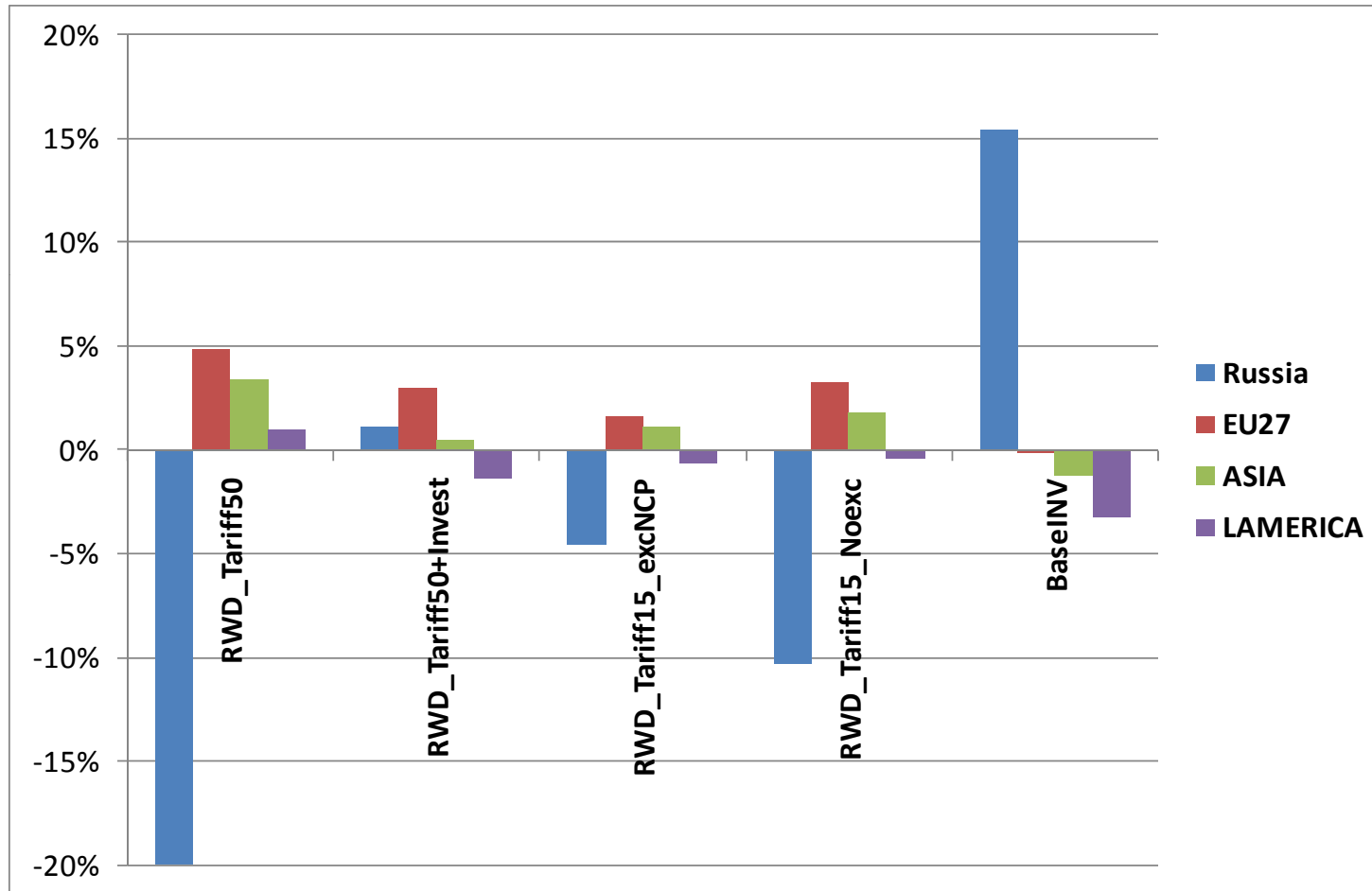


## Global changes in chemical pulp production over 2010-20 compared to BASE scenario (100%)



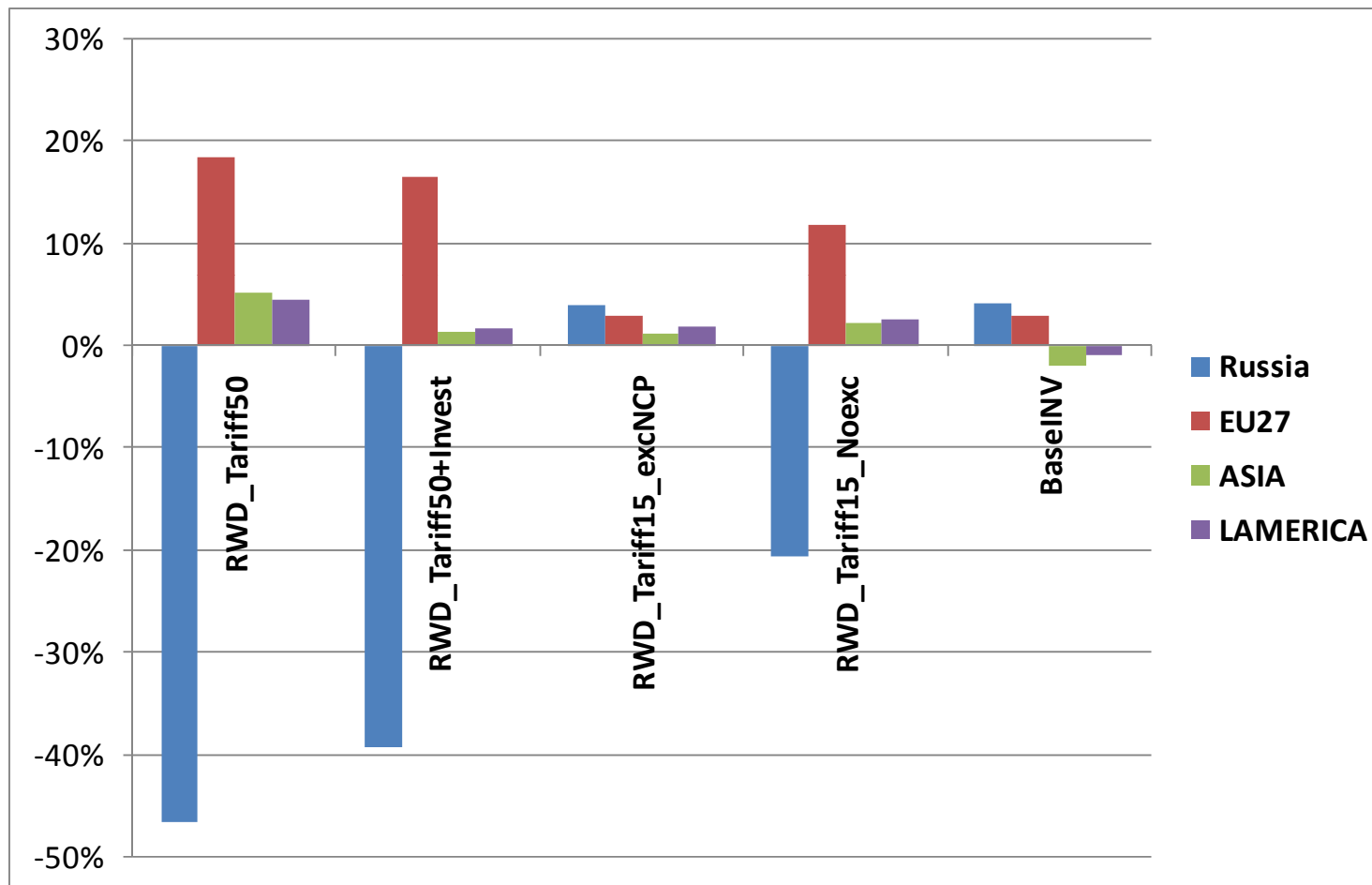


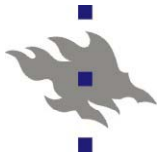
## Global changes in industrial roundwood harvest over 2010-20 compared to BASE scenario (100%)



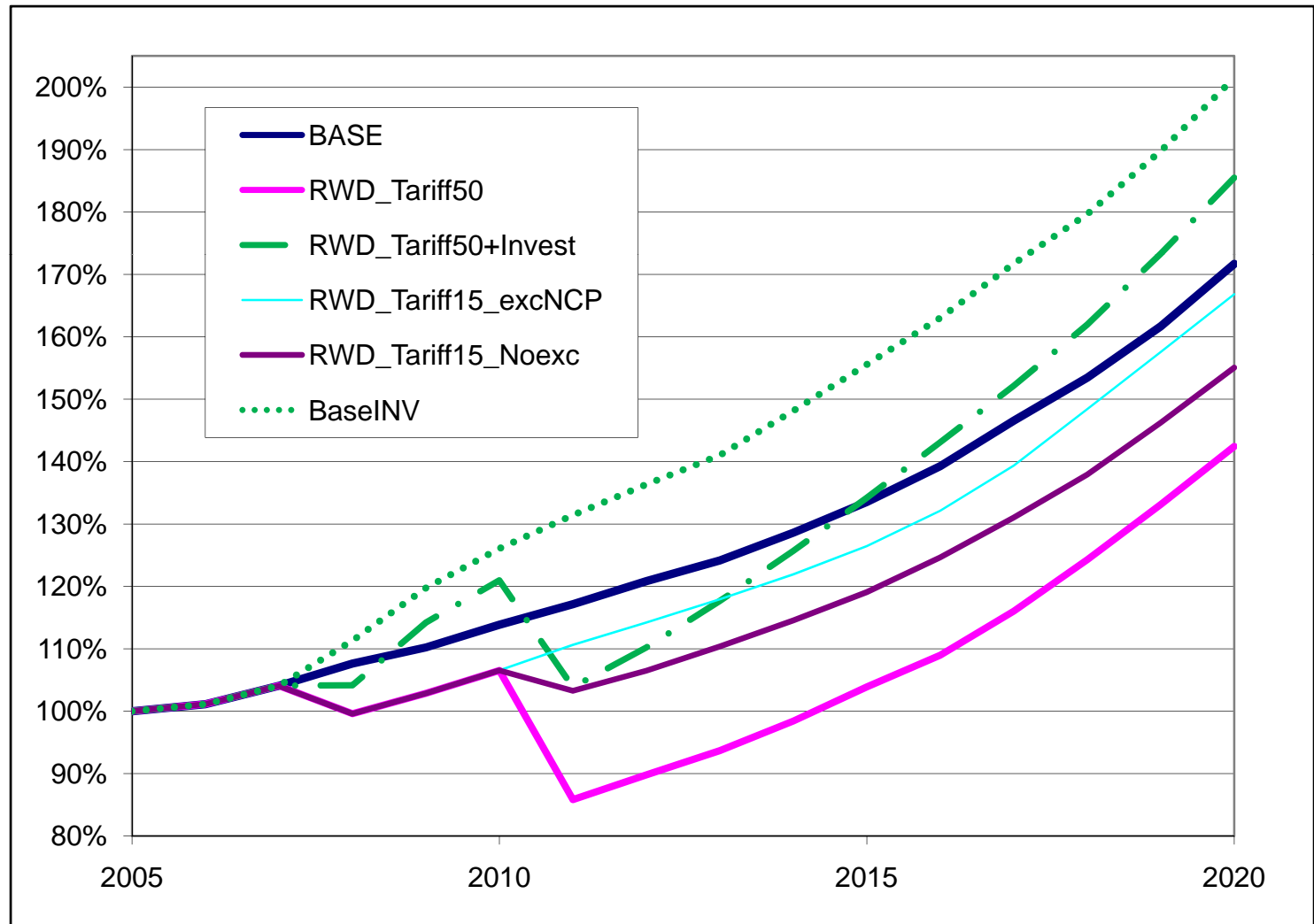


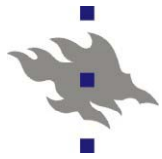
## Global changes in industrial roundwood prices over 2010-20 compared to BASE scenario (100%)





## Russian harvests under different scenarios





## Conclusions.

- It will take essentially *both* the high level of export tariffs in conjunction with improvement in the Russian investment climate for its sawmill and pulp industry to develop favourably. The investment climate is obviously more crucial than trade policy for the forest industry development in Russia.
- High logs export tariff doesn't do much better for Russia than medium tariff
- Also, it seems to be much more difficult to develop forestry than forest industry in Russia through restrictive trade policy.