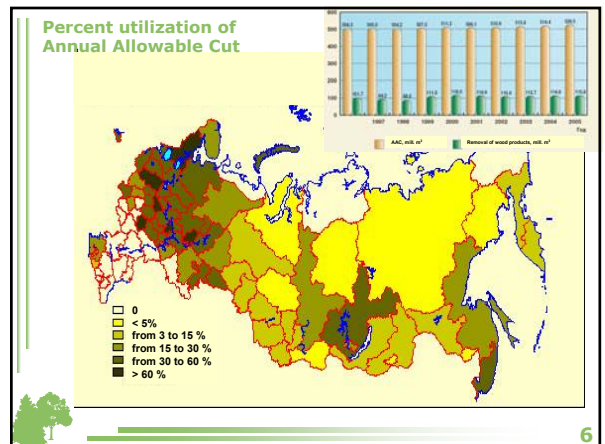
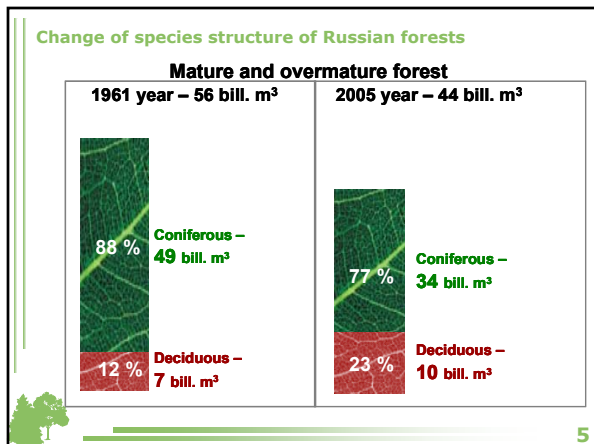
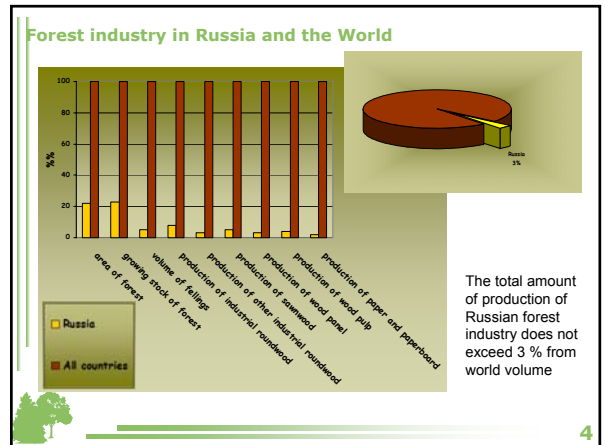
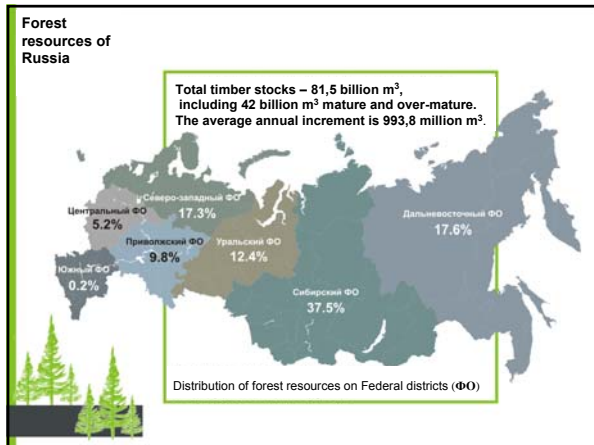
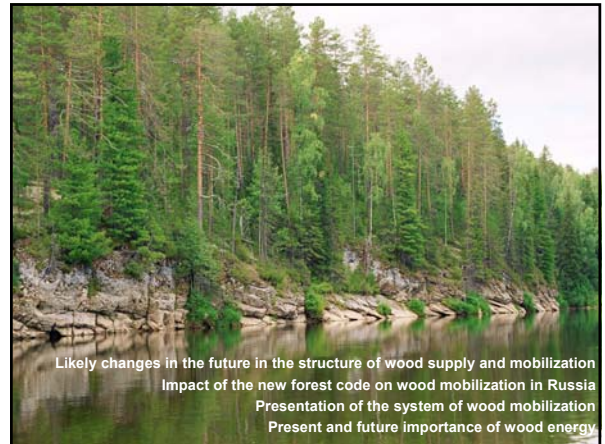
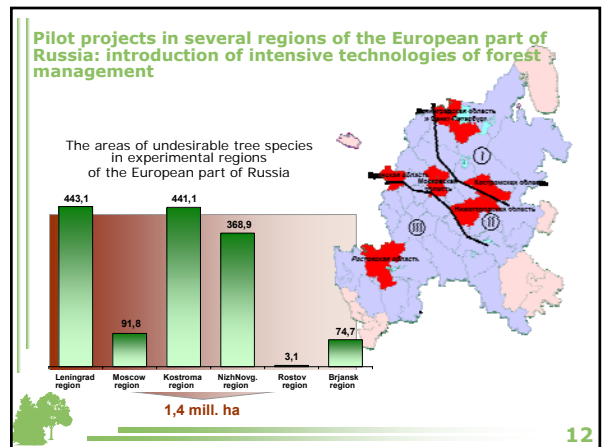
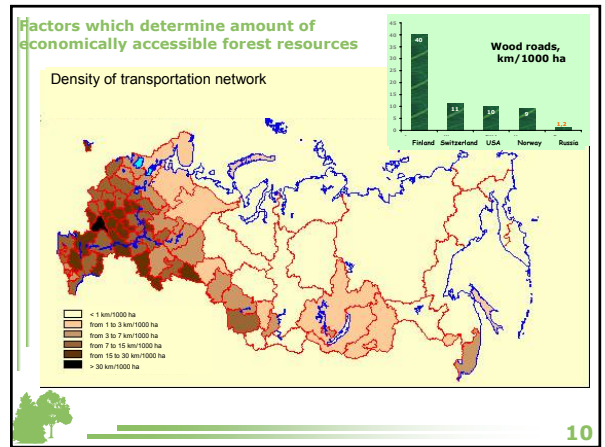
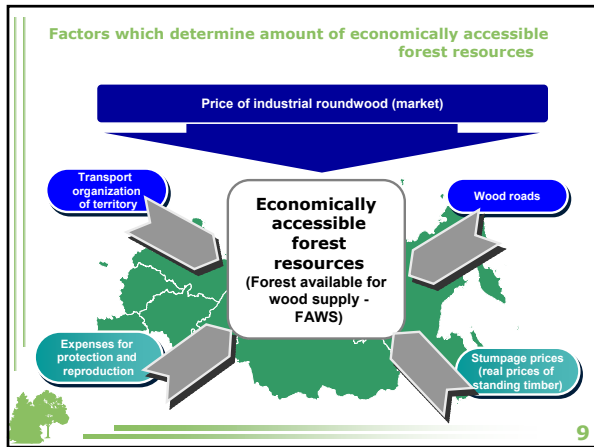
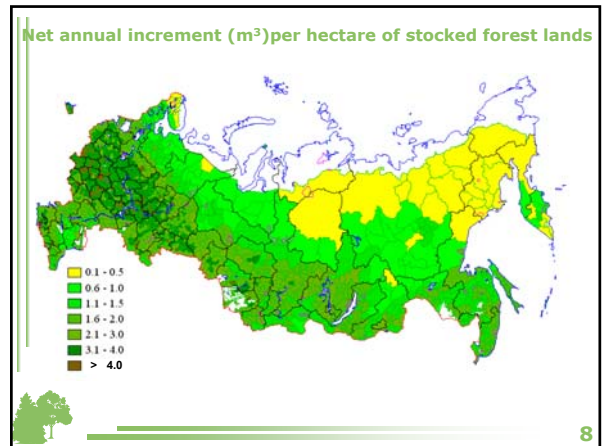
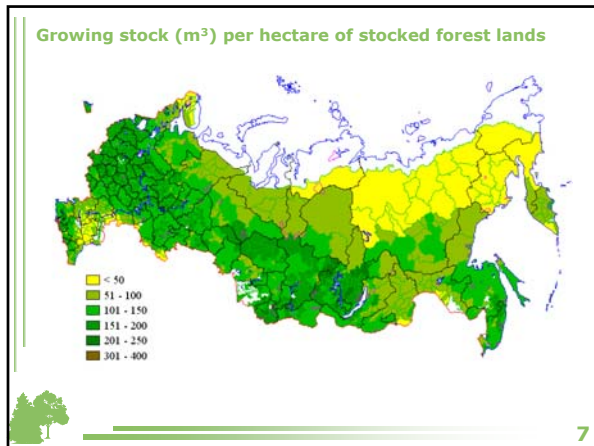


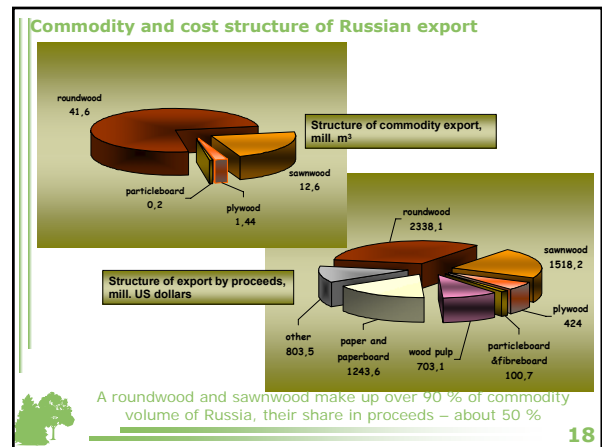
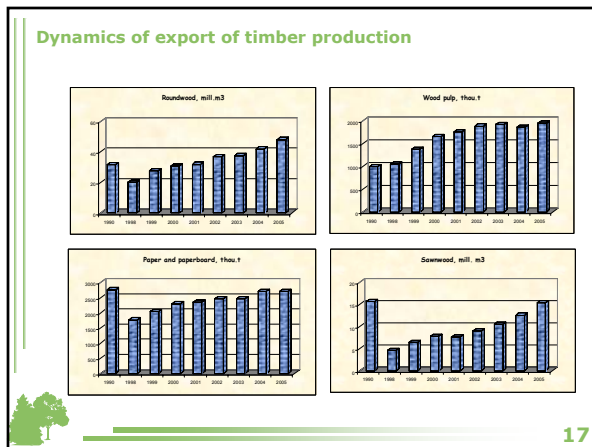
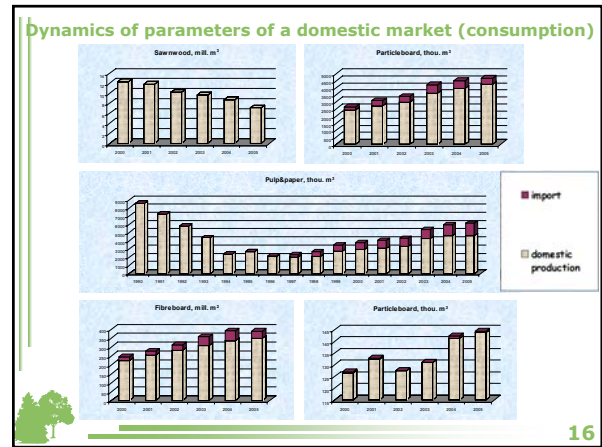
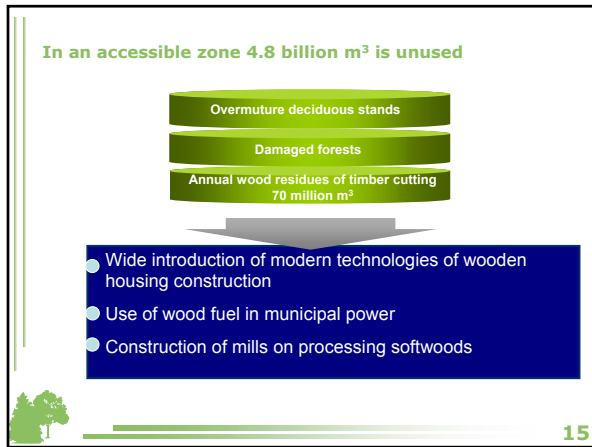
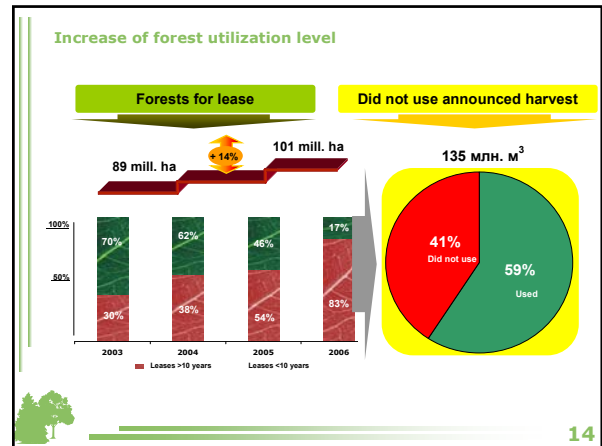
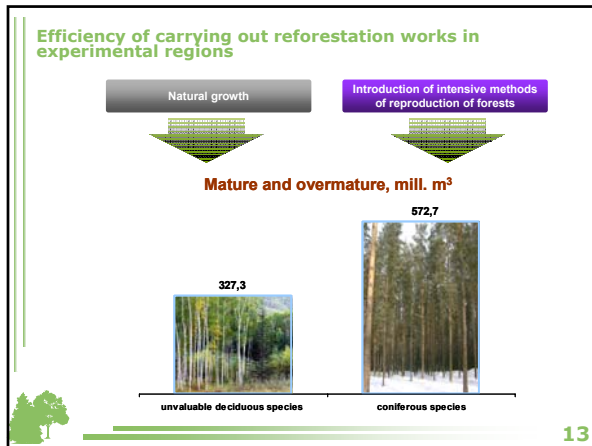
## Mobilizing Wood in Russia in the light of the new forest code

Dr. Maria Palenova

MINISTRY OF NATURAL RESOURCES  
OF THE RUSSIAN FEDERATION  
Agency of Forestry  
2007





### Role of the Russian roundwood in rough provision of the countries which are producing timber goods

The Russian roundwood forms a basis of production:

- Pulp & paper industry – Finland, China;
- Building materials (LVL) – Japan, Korea
- Finishing materials (veneer, plywood) – Japan, China, Korea

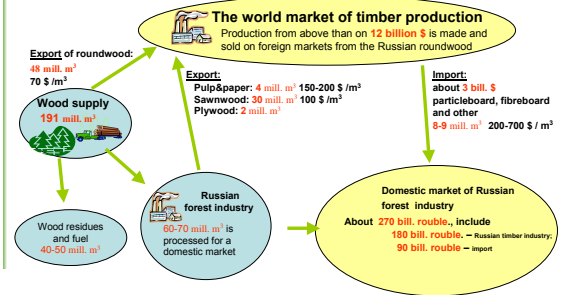
The Russian roundwood serves the principal countries-importers, its shares in raw material balance of these countries makes:

- China – 17 %;
- Japan – 21 %
- Korea – 16 %
- Finland – 22 %

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### Material and financial flows of timber production of Russia

(physical parameters of production show as conditional m<sup>3</sup> of standing wood)



The purposes of development of the Russian forest industry consists in:

- 1) Replacement of imports;
- 2) Expansion of presence in the world market;
- 3) Maintenance of growing needs of a domestic market

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### Up-to-date Russia forest policy targets:

- Controlled decrease of round wood export
- Increase of own wood processing and value added
- Increase of forest utilization level
- Increase of forest income
- Attraction and increase of investments
- Partnership between state and business
- Combat against illegal loggings

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### Coming to force of the new Forest Code

- The Code has come in the force on January, 1, 2007 (1 month after official publication)
- The shift of Forest Management Units (FMU = "leshoz") to regions ownership will be formulated by February, 1, 2007
- Lower level acts for implementation of the Forest Code will be formulated by July, 1, 2007
- Forest tickets can be issued and silvicultural works can be carried out by FMUs until January, 1, 2008. After that silvicultural activity can be done only through auctions and order.

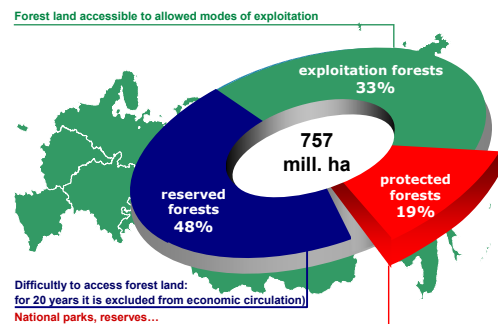
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### The main contents of the new Forest Code

- The forests belonging to the Forest Fund lands are the property of the Russian Federation
- Forests on other land categories shall be defined as established in land legislation
- The forests are divided to three categories:
  - protected forests,
  - utilization (exploitation) forests and
  - reserved forests

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### The forests are divided to three categories:



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### The main contents of the new code

- The forests belonging to the forest land are the property of the Russian Federation.
- Forests on other land categories shall be defined as established in land legislation.
- The forests are divided to three categories:
  - protected forests,
  - utilization (exploitation) forests and
  - reserved forests.
- Free entry to forests is guaranteed for citizens. However, they must obey the regulations (regeneration, forest fire etc.).
- A long term forest lessee is responsible for silvicultural activities.
- Forest use is announced by a harvest declaration.
- The main harvesting methods in the utilization forests are: final felling (clear cutting) and selective felling.

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### The main contents of the new code

- Forests are given for lease through open auctions
- For strategic investors the leases can be admitted also without an auction
- Forest utilization right scan be acquired through leasing or against stumpage payment (valid one year or less)
- Forest lease period is 10-49 years
- Forest management rules will be prepared separately for each forest regions
- Lower level forest administration units: "Lesnichestvo"

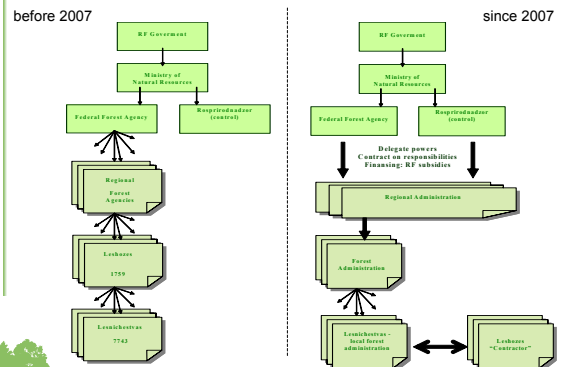
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### New classification of forest regions



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### Organisation of the forest administration



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### Duties of the Federal and Regional Forest Administration

#### Federal

- Financing and its control
- Normalization of silvicultural works
- Control and evaluation of subjects in the field of forestry
- Forest inventory and maintaining the forest statistics
- Determination of annual allowable cut (AAC)
- Forest pathology
- Seed production and genetic improvement
- Forest science and education
- Forest policy

#### Regional

- Formation of harvest plans and rules silvicultural works
- Formation and designing of forest plots and the organization of their transfer to rent (short-term using)
- Maintenance of reproduction of forests
- Protection of woods (including suppression of forest fires)
- The state control and supervision of a condition of woods, including fight to illegal cabins

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### Duties of Lesnitsestva and Leshoz

#### Lesnitsestvo

- Pointing out forest areas for harvesting
- Organisation of forest protection
- Keeping the state forest account on forest utilisation, protection and regeneration
- Fulfillment of act as a state inspector and controller towards forest lease holders

#### Leshoz

- Marking of forest harvesting areas
- Forest regeneration and forest fire prevention
- Fire extinguishing
- Harvesting of forest
- Forest protection and regeneration based on a contract with forest leaseholder

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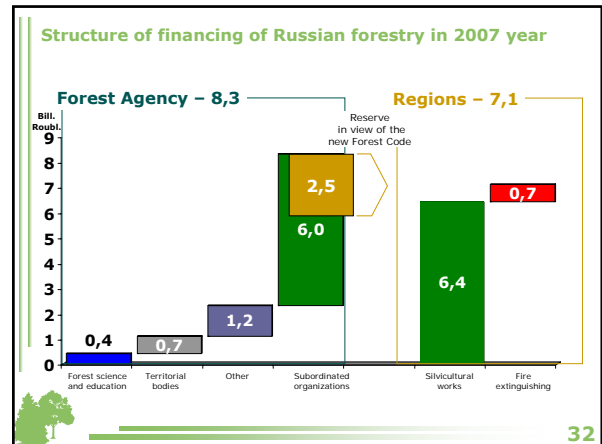
### Transfer of organizational structures and resources for execution of the transferred powers (2007 year)

#### Forest Agency

Territorial bodies	- 81
Subordinated organizations	- 5
Leshoz	- 1 759
Lesnitsestvo	- 7 743
Branches of Avialesoohrana	- 24
Number of the personnel-	190 thousand person
Production assets -	34 billion roubles

**Regions of the Russian Federation**

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### Important for wood mobilization

- Leshozes will work in 2007 basically the same way as earlier.
- There will be a new law for investment projects. The law will provide privileges such as forest resources without an auction, possible tax redemptions, support to infra investments.
- Forest Agency has classified these investments into three categories: sawmill, panel and pulp investment. A list of priority investment projects in the area of forest development shall be prepared and approved.
- Priority investment agreement can be made also for present forest areas.
- All the forest leases will need to be renewed during 2007. This is not an automatic procedure and it will favor enterprises with wood processing.
- Leases with less than 10 years lease period will not be renewed.

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### Forestry sector development programs

- Forest industry strategy 2015 under preparation
- Forest sector target programme 2015 under preparation
- Government approval planned in Jan-Feb 2007
  - Target: big integrates and value add production
  - Projects collected from the Regions
  - Production increase of 52% from 2004 to 2010.
  - Production value in 2010 around 16 billion euro
  - Ultimate target: 100 billion USD

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### Forest industry development: focus in value add production

- Road map for the near future development, which includes new type of interaction between the state and business.
- Establishment of favourable investment conditions: long term investment agreements and state partnership.
- Encouraging wooden house building.
- Expansion of harvesting machine production.
- Infrastructure development to open new forest areas.
- Wood energy promotion.
- Decrease of import custom duties for foreign wood processing machines.
- Decrease of export custom duties for value add wood products.

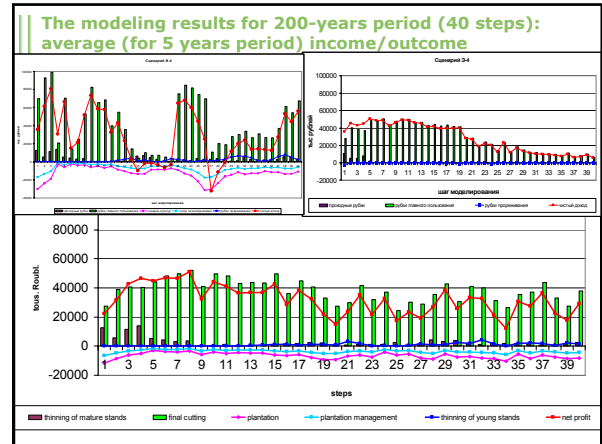
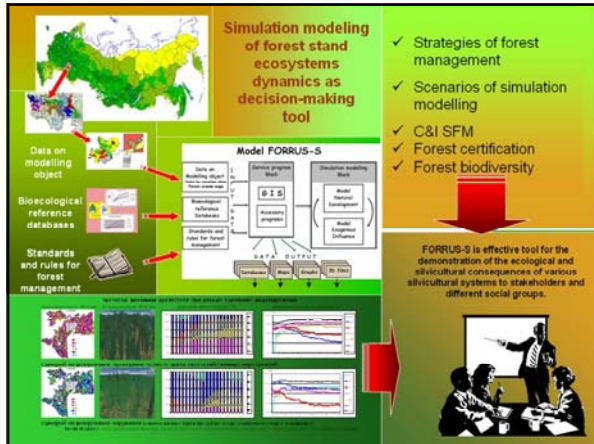
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### Influence of the transition process on the forest sector

#### Risks

- Financial**
  - changes in forest ownership;
  - the weakening of forest sector institutions during the transition, e.g. reducing their ability to enforce forest law;
- Organizational**
  - insufficiency of financing of measures on protection and reproduction of forests as a result of change of their executor;
- Social**
  - decrease in an occupation level, delays of payment of wages;
  - decrease in a level of timber cutting;
- Industrial**
  - decrease in efficiency of preventive fire-prevention actions in connection with reforming of a control system of a forestry;
  - decentralization of actions on protection of forests;
  - loss of quality of Forest inventory and forest statistics;
  - increase the area of forest will reclassify from "not available for wood supply" (e.g. for nature conservation reasons) to "available for wood supply".

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**Future targets**

- Growth in 2006 compared to same period in 2005  
harvesting -6.6%, sawnwood -3.4%, plywood +7.0%,  
market pulp -3.9%, paper +2.0%, board +9.9%

Targets	2005	2010	2015
Paper and board production	49,1	82,7	125,9
Paper and board consumption	37,4	56,0	77,8
AAC utilization level	25 %	34 %	42 %
GDP growth	6,1%	5,8%	6,7%

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- Round wood export custom duty**
- Export custom duty for fire wood was increased to 6,5% ad valorem but at least to 4 euro / m3 in March 2006
  - Export custom duty for softwood round wood was increased to 6,5% ad valorem but at least to 4 euro / m3 in April 2006
  - The Russian Commission on Safeguards and Tariff Policy is preparing a detailed plan to increase export duties on round wood for 2007-2010:
    - 1.7.2007 10 %, min. 6-9 €/m3
    - 1.7.2008 12 -13,5 %, min. 12-14 €/m3
    - 1.7.2009 15-17 %, min. 18-19 €/m3
    - 1.7.2010 20 %, min. 24 €/m3
  - In addition to custom duty, Russia plans to increase also the custom declaration fee
  - The present fee is 500 roubles per custom declaration (0,28 euros/m3).
  - The new suggestion is 10 000 or 11 000 roubles per declaration (around 6 euros/m3)
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