

## RUSSIA FOREST PRODUCT MARKET STATEMENT

### 1. General economic trends affecting forests and forest industries sectors.

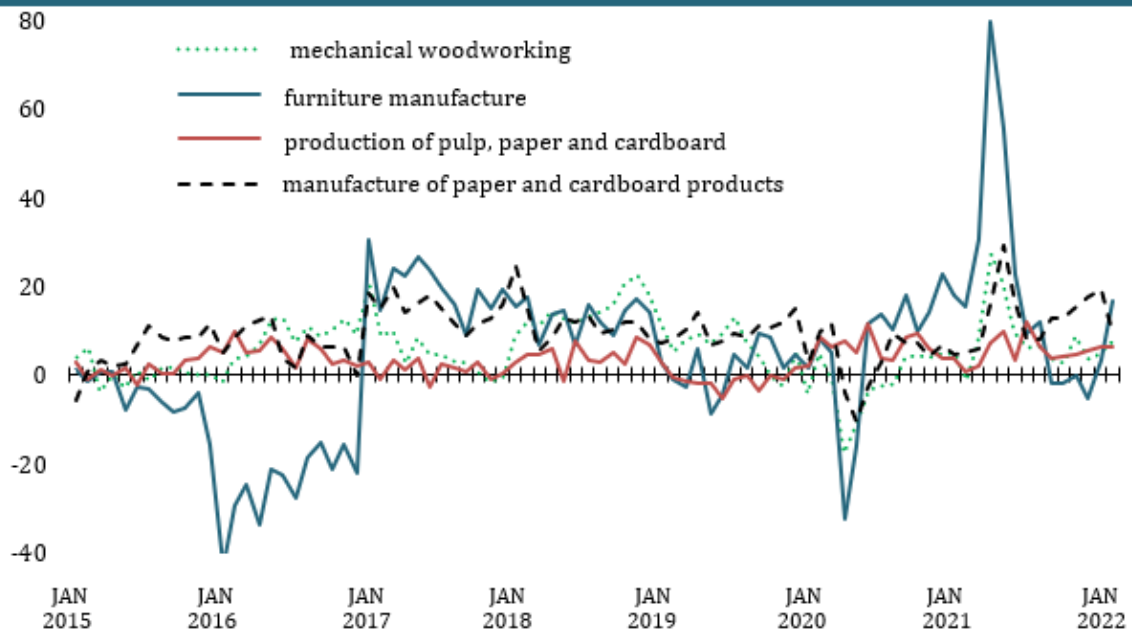
The Russian GDP grew by 4.7% in 2021 compared to 2020. In Q2 2021, according to the analytical data from the Central Bank of the Russian Federation, the Russian economy in general resumed the long-term growth trends and even exceeded them in some sectors. In December, the annual GDP growth remained high: 4.3% YoY (after 5.3% YoY in November, 4.9% YoY in October, and 4.3% YoY in Q3 2021), despite the high base of December 2020.

In 2021, the growth was mostly bolstered by consumer demand. The growing domestic and foreign demand, along with high corporate profits, stimulated investment activity.

According to the Federal State Statistics Service (Rosstat), the annual inflation rate was 8.4% in 2021.

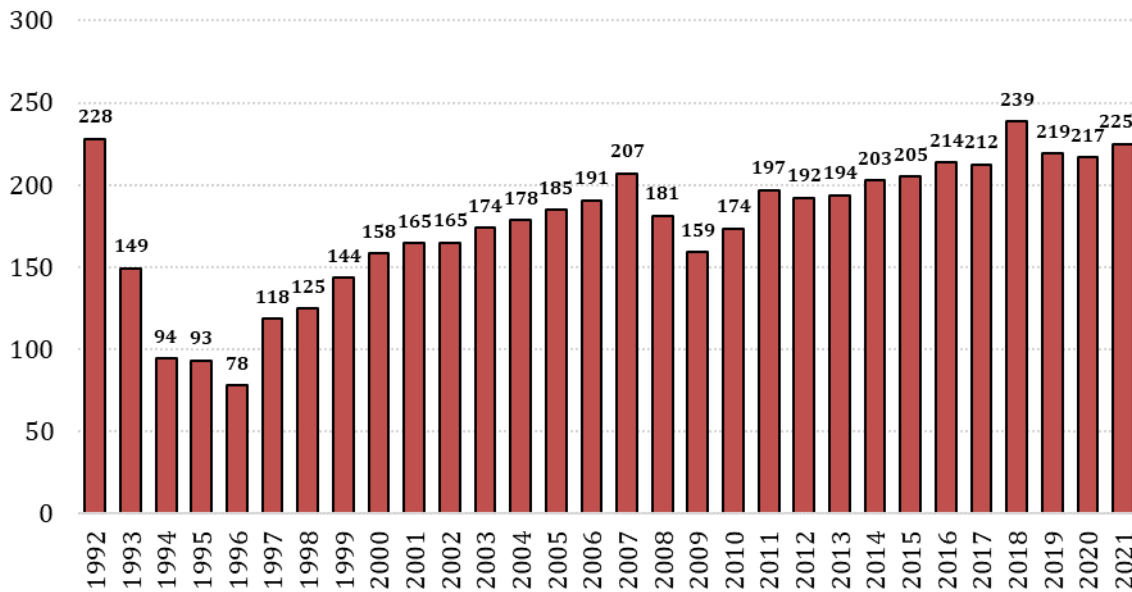
From the point of view of the Russian timber industry, 2021 was the most successful year.

Index of industrial production by forest industry sectors, % y/y



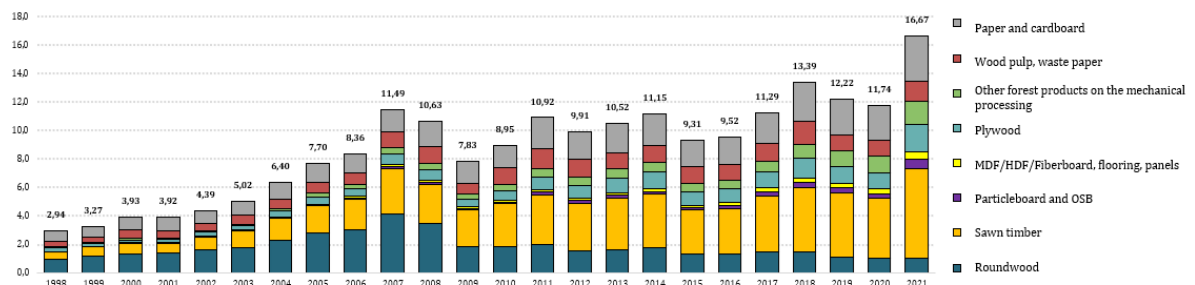
The timber harvesting volume grew by 4% based on 2021 performance, up to 225 million m<sup>3</sup>.

### Timber Harvesting in Russia in 1992-2021 (mln m3)

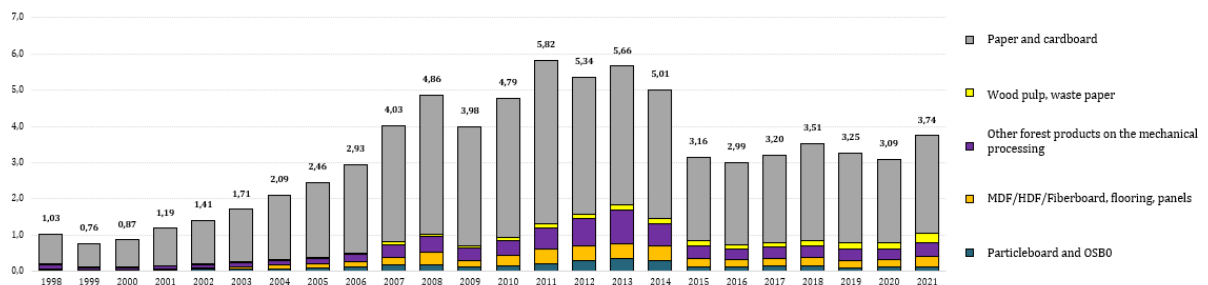


Revenue of enterprises of the timber industry soared by 32% to 2.9 trillion rubles, net profit increased by 3 times to 460 billion rubles, and the contribution of the Russian timber industry to the country's GDP increased to 2%. The main factor that made it possible to achieve results in 2021 was an unprecedented increase in prices for all forest products on the Russian and world markets. Thus, the Russian timber industry has fully played down the reduction of the period of coronavirus restrictions in 2020. Export revenue from sales of the Russian timber industry products in Russia increased from \$11.7 billion to \$16.7 billion in 2021. The figure that the Russian Government set out to show in 2024 under the National Project "International Cooperation and Export" was achieved.

Export of forest products from Russia by products in 1998-2021 (billion USD)



Import of forest products from Russia by products in 1998-2021 (billion USD)



In 2021, the first IPO of the timber sector in Russia took place on the Moscow Stock Exchange – shares were placed by one of the largest Russian vertically integrated timber holdings with a full cycle of logging and deep processing of wood Segezha Group. The company's securities are included in the first-level quotation list. The volume of the initial public offering (IPO) of Segezha Group amounted to 30 billion rubles.

In 2022, an unprecedented situation has developed in the forest industry.

In April, the 5th package of EU sanctions was adopted, which came into force on July 10, 2022, prohibiting the supply of plywood, sawnwood and boards, pellets from Russia, all products under the HS code 44 and a number of the pulp and paper industry items.

As a result of the 8th package of sanctions against Russia, imposed by the European Union on October 6, 2022, the import of all pulp and paper from Russia, not included in the 5th package, was banned. The EU sanctions have significantly affected the export of forest products, a significant part of the sales markets has been closed, the established logistics chains are in the process of transformation.

The decision of the United Kingdom and the United States regarding Russia abolished the most favored nation regime and introduced protective import duties on Russian timber products.

## **2. Policy measures taken by the country over the last 18 months, which might have a bearing on forest management or production and trade of forest products.**

- Government of the Russian Federation banned the export of roundwood, chips, and veneer to "unfriendly countries" until the end of 2022. Government Decree No. 312 dated March 9, 2022, came into force; it bans, until the end of 2022, the export of roundwood (HS code 4403), chips (HS Codes 4401 21, 4401 22), and veneer (HS Code 4408) to countries unfriendly to Russia, whose list was endorsed by the Russian Government on March 5, 2022.
- Russia has introduced quotas for the export of round timber to the EAEU countries. In the Regulation No. 380 of March 16, 2022 the Government of the Russian Federation has established export limits for round timber (HS codes 4403 11 000, 4403 12 000 1, 4403 12 000 2, 4403 12 000 3, 4403 21, 4403 22, 4403 23, 4403 24, 4403 25, 4403 26 000 0, 4403 91, 4403 93, 4403 94 000 0 and 4403 99 000 1) to the member States of the Eurasian Economic Union (EAEU).
- × **Biotic and abiotic disturbances of forests, their impacts on forests products markets and trade, current and planned policy measures taken by the country to mitigate economic and ecologic impacts;**
- In the Russian Federation, in 2020 and 2021, forest restoration activities were carried out on an area of 1,185.8 thousand hectares and 1,235 thousand hectares per year, respectively. Efficient reforestation is one of the key goals of the federal project "Forest Preservation". As of October 15, 2022, reforestation in Russia has been completed on an area of almost 1.1 million hectares, against a target of 1.3 million hectares for the current year. The reforestation area exceeded last year's figures for the same period by 155.7 thousand hectares.
- According to preliminary estimates, the area of forest fires since the beginning of 2022 amounted to 3.5 million hectares, which is 3 times less compared to 2021.
- Measures taken in the Russian Federation to promote the legal circulation of timber continued to be strengthened. The fundamental new decision aimed at strengthening control in this area and reducing the "gray" turnover of wood is to impose restrictions on the export of unprocessed and rough-treated softwood and valuable hardwood from January 2022. At the same time, it should be noted that this measure does not apply to high-value-added products (cellulose, boards, furniture, building materials, etc.).
- The updated functionality put into operation since January 1, 2022, of the unified state automated information system for accounting for timber and transactions with it, called LesEGAIS. It allows to ensure full traceability of the turnover of wood and significantly

increases the efficiency of inspections of timber processing infrastructure facilities, warehouses, and carriers of wood and lumber.

× **Renewable energy policies and their impacts on forest products markets .**

- The development of the decree of 2019 on the adoption of the Paris Agreement was issued by the Decree of the President of the Russian Federation No. 666 dated 04.11.2020 "On reducing greenhouse gas emissions", became FZ-296 dated 02.07.2021 "On limiting greenhouse gas emissions" and the Decree of the Government of the Russian Federation No. 3052-r "On approving the Strategy of socio-economic development of the Russian Federation with low greenhouse gas emissions gases until 2050", marking the beginning of the legislative branch of the development of carbon regulation in the Russian Federation. This strategy is based on the development of industrial sectors, energy, as well as an increase in the absorption capacity of ecosystems, thereby ensuring a reduction in net greenhouse gas emissions by 60% compared to the level of 2019 and by 80% compared to the level of 1990. In particular, the Decree of the Government of the Russian Federation No. 355 of 14.03.2022 approved the criteria for classifying legal entities as regulated organizations in terms of greenhouse gas emissions, according to which: for enterprises with total annual emissions of 150,000 or more tons of CO<sub>2</sub>e from 2023, as well as additionally from 2025 for enterprises with total annual emissions of 50,000 and more tons of CO<sub>2</sub>e.
- Resolution No. 1587 of the Russian state development corporation VEB.RF: approval at the national level of criteria for sustainable (including green) development projects in the Russian Federation and requirements for their verification system. This legislative act approves the taxonomy of green projects, designed to attract extra-budgetary funds to projects aimed at the implementation of the national development goals of the Russian Federation in the field of sustainable development, allowing the issuance of green financial instruments (at the moment, this resolution is planned to expand in part of the list of criteria).
- The Bank of Russia, in its information letter No. IN-06-28/49 dated 12.07.2021 "On Recommendations on Disclosure by Public Joint-Stock Companies of Non-financial Information Related to the Activities of such Companies", in Principle 3 indicated that any public company is recommended to disclose the goals of the strategy/guidelines for low-carbon development based on science-based climate change scenarios (Science-Based Targets initiative). This paragraph recommends public joint stock companies to build their own low-carbon development strategy in accordance with this global initiative, which is a recognized tool by the international community to meet the goals of the Paris Agreement of 12.12.2015.

### **3. Market drivers.**

Continued demand for softwood lumber in export markets (China, Egypt, Japan, new markets) amid the strengthening of the ruble and growing competition with EU producers due to their advantages in logistics costs.

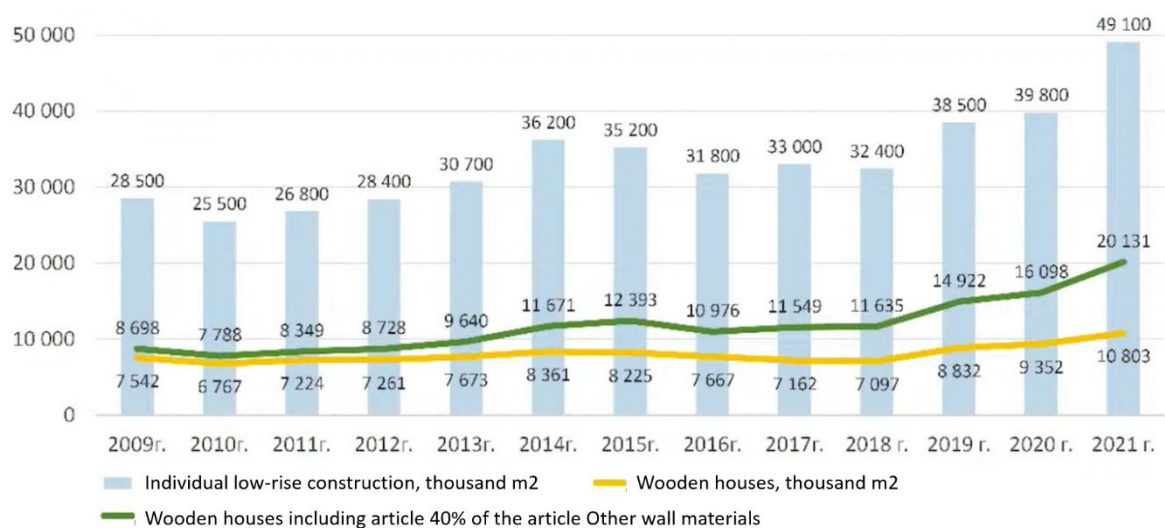
Unsatisfied demand for the products of the Russian timber industry (balance wood for the pulp and paper industry of the Scandinavian countries), pellets (EU).

Growing demand for timber industry products from the EAEU and ASEAN countries.

### **4. Developments of forests and forest products markets sections.**

- A very solid and sustainably strong demand for unprocessed wood started establishing in the market across all consumer segments – from sawmills to wood-based panel plants and pulp & paper mills.
- Housing construction. According to the results of 2021, the volume of construction of wooden housing in Russia increased by 15.5% over the year and reached a record 10.8 million square meters since 2009. The increase in the volume of wooden housing construction was facilitated by the demand for suburban housing, which was spurred by the pandemic of coronavirus infection. The number of those wishing to move outside the metropolis, according to experts, has more than doubled. In total, 92.6 million square meters of housing were commissioned in Russia in 2021, which has become a record in the entire history, since the Soviet era. Moreover, most of this volume was occupied by individual housing construction (IHS) — 49.1 million sq. m. The share of commissioned residential buildings with wooden walls in the total volume of housing construction by the end of 2021 was 11.67% against 11.37% a year earlier. About 40% are occupied by houses based on a wooden frame with multilayer wall structures, various facade finishing options, including houses made of SIP panels, combined houses (there are a total of 9.3 million square meters).

### Russia: wooden housing construction in the total volume of individual housing construction



Source: Association of Wooden House Building, 2022