



# Russia – China Forest Products Trade

## Promoting Sustainable Trade

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**Forest Trends**  
**August 15, 2006**



# Importance of Russian – Chinese Trade

## Overall Trade

**China : Russia's 4<sup>th</sup> largest trade partner**

**Russia: China's 8<sup>th</sup> largest trade partner**

**Average annual growth rate of 30%**

## Forest Products Trade

**10% of overall trade between the two countries**

**Russia: #1 forest products supplier to China**

**China: Most important market for Russian timber**

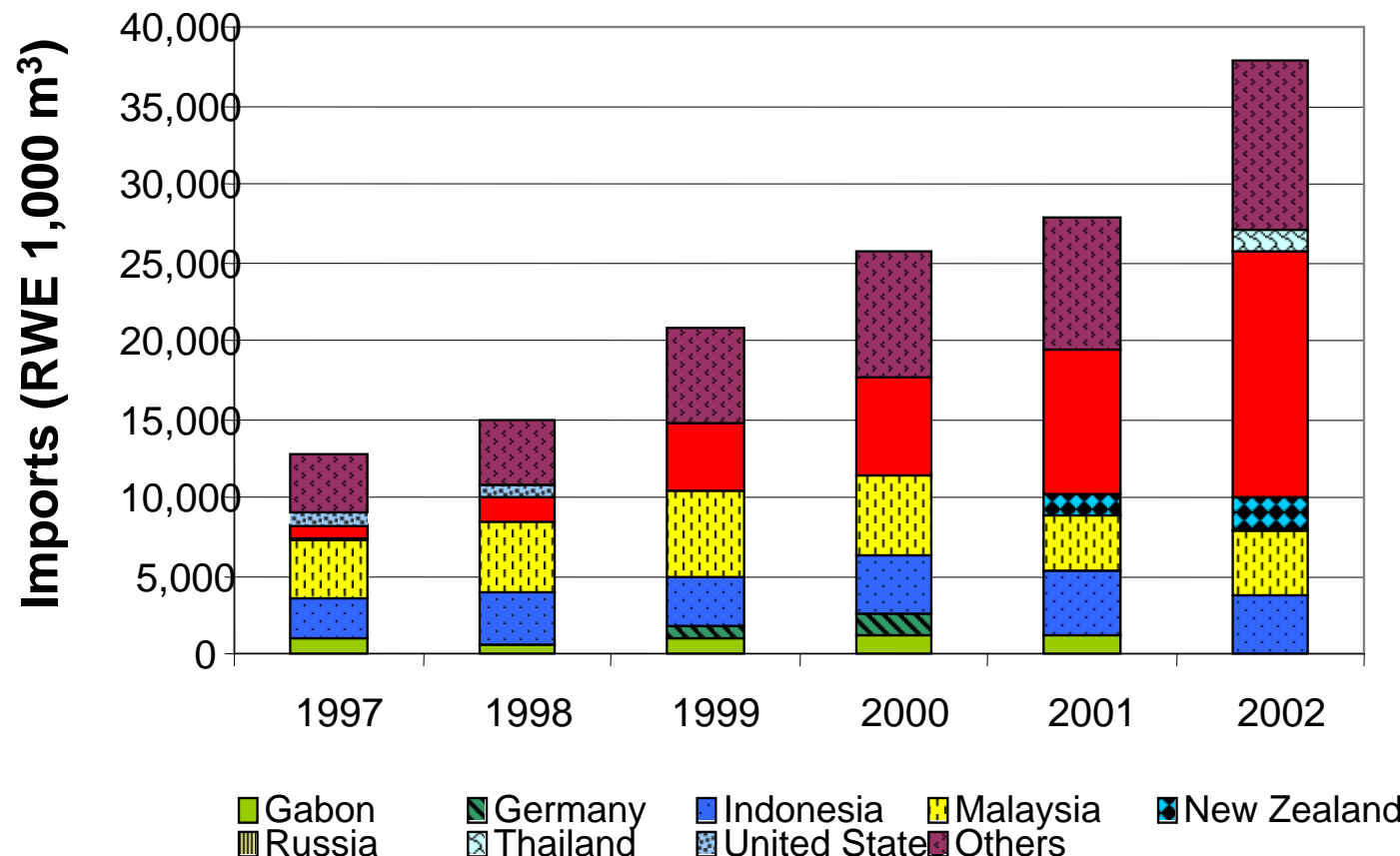
**40 fold increase in timber trade between 1996 – 2005**

***Clearly important trade relationship to both countries***

# Russia #1 Supplying Country to China

Timber Products	Logs	Lumber
<p>1. <b>Russia</b> <sup>1</sup>            <b>49%</b>            2. Malaysia            8%            3. Indonesia            6%            4. Thailand            5%            5. PNG            4%</p> <p><i><sup>1</sup> 26.4 million m<sup>3</sup></i></p>	<p>1. <b>Russia</b>            <b>68%</b>            2. Malaysia            6%            3. PNG            6%            4. Myanmar            4%            5. Gabon            3%</p> <p><b>26.4 million m<sup>3</sup></b></p>	<p>1. <b>Russia</b>            <b>18%</b>            2. USA            14%            3. Thailand            13%            4. Indonesia            12%            5. Malaysia            8%</p>
Plywood	Wood Pulp	Paper
<p>1. Indonesia            65%            2. Malaysia            21%  <b>3. Russia            3%</b>            4. Japan            2%            5. Hong Kong            3%</p>	<p>1. Canada            27%            2. Indonesia            18%  <b>3. Russia            13 %</b>            4. Chile            10%            5. US            10%</p>	<p>1. Taiwan            16%            2. USA            13%            3. S. Korea            12%            4. Japan            8%            5. Indonesia            7%</p>

## China's Timber Imports (RWE)



1996: 500,000 m<sup>3</sup>  
2005: 20 million m<sup>3</sup>

40-fold increase in  
10 years

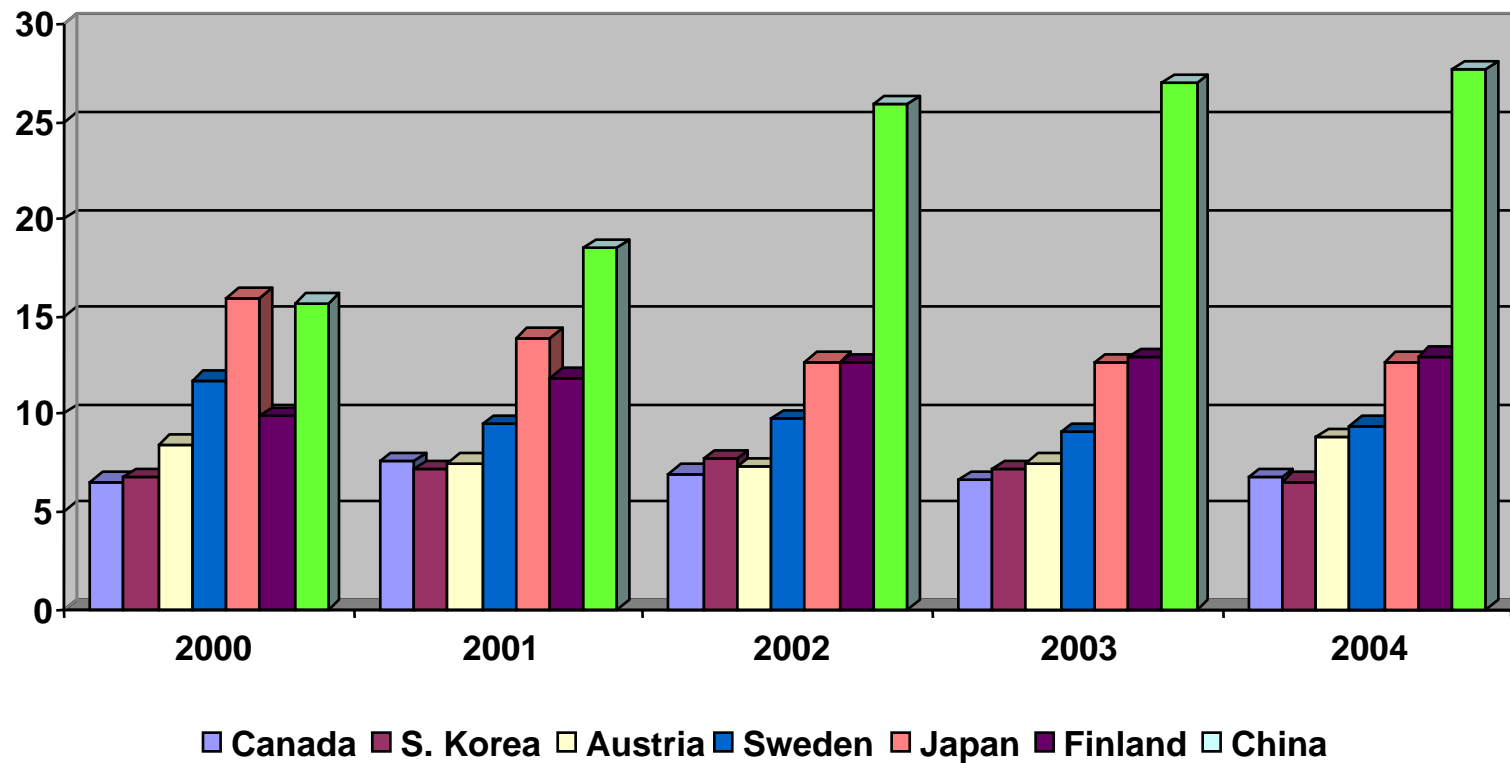
2000: China  
replaced Japan as  
largest market for  
Russian timber

Country	2004 Industrial Roundwood Imports (million m <sup>3</sup> )
1. China	27.64
2. Finland	12.96
3. Japan	12.68
4. Sweden	9.4
5. Austria	8.81
6. Canada	6.70
7. S. Korea	6.54
8. Italy	4.61
9. Spain	2.97
10. Belgium	2.88

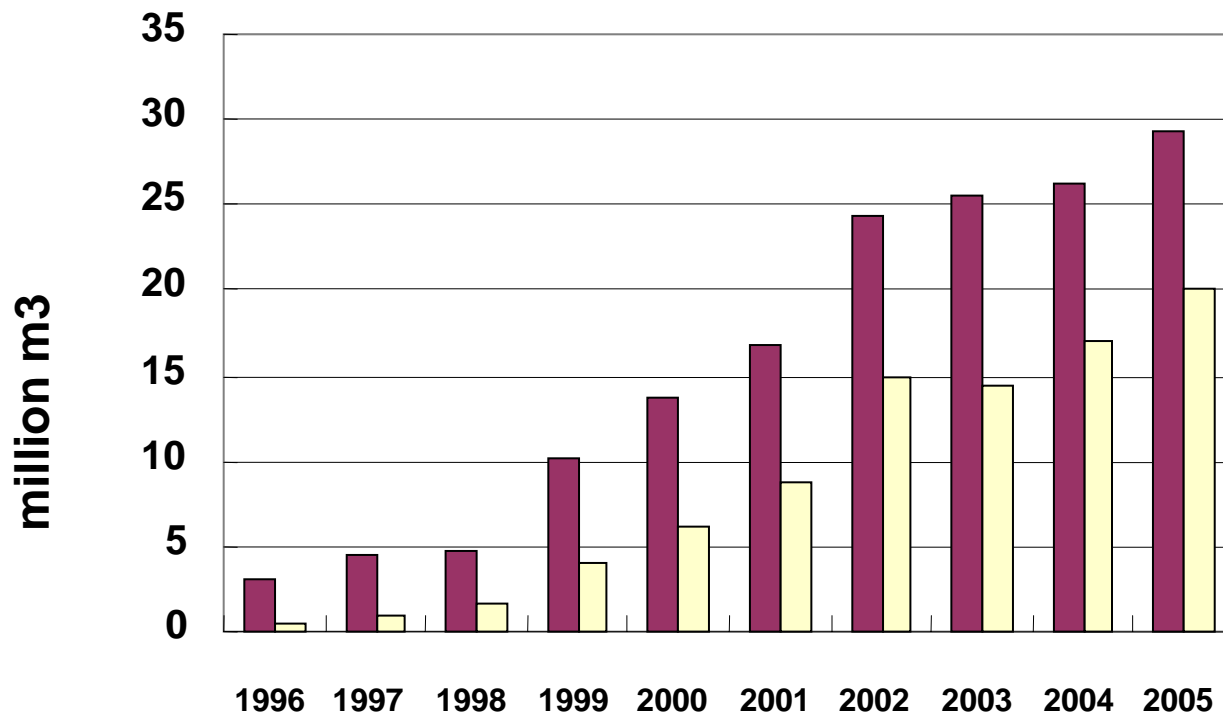
**Top 3 importers of industrial roundwood are major markets for Russia**

**China is the #1 market**

Within timber markets, China is world's largest log importer




# Importance of Russian – Chinese Trade



**Russia  
supplies China  
with 68% of its  
log imports**

**Russia exports  
90% of its logs  
to China**

**87% softwood**

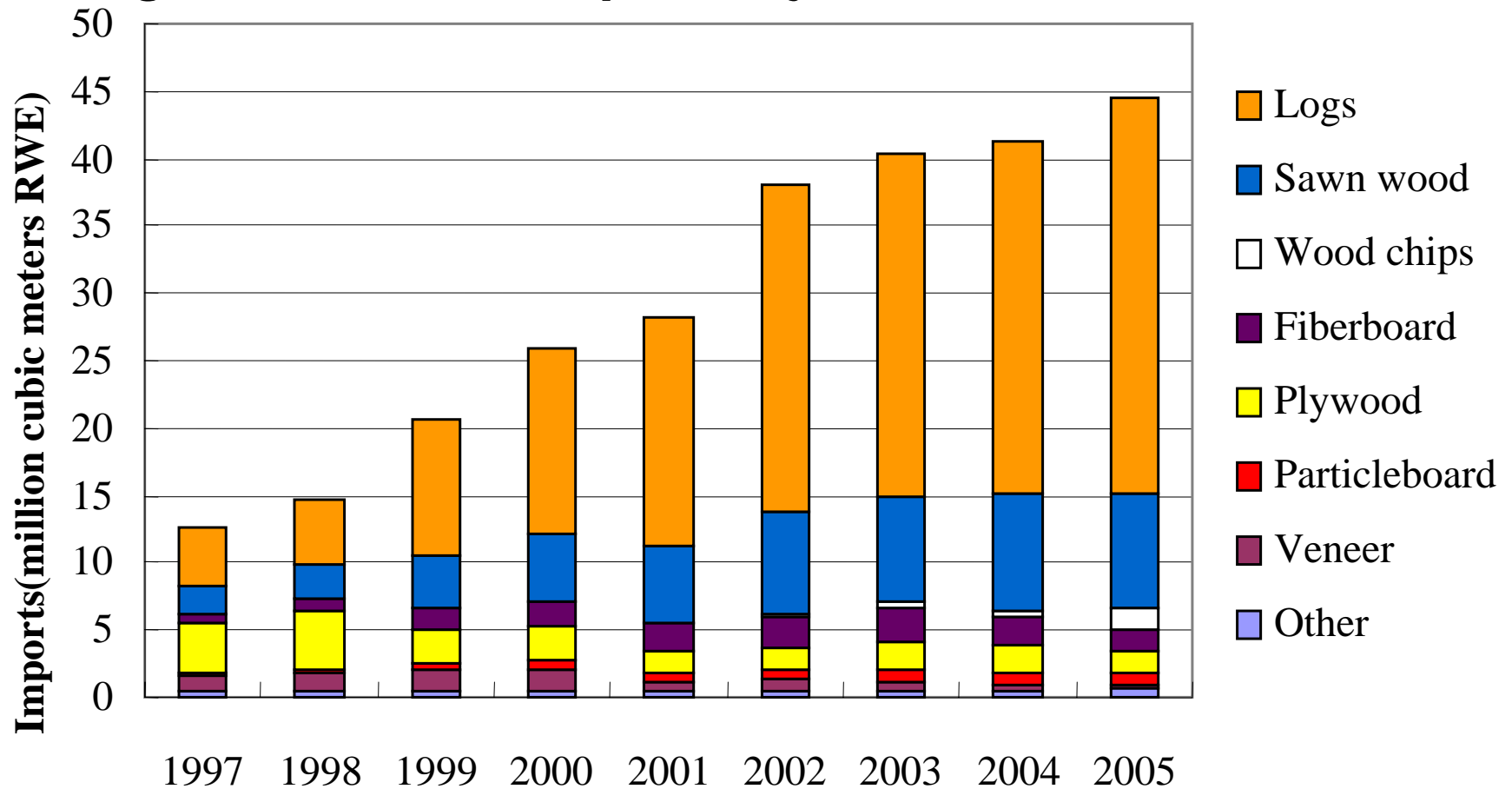
 Chinese imports  
of Russian logs

 Total Chinese log  
imports



# China's Timber Imports by Product Type 1997-2005

***Logs & sawnwood up \* Plywood & veneer down***

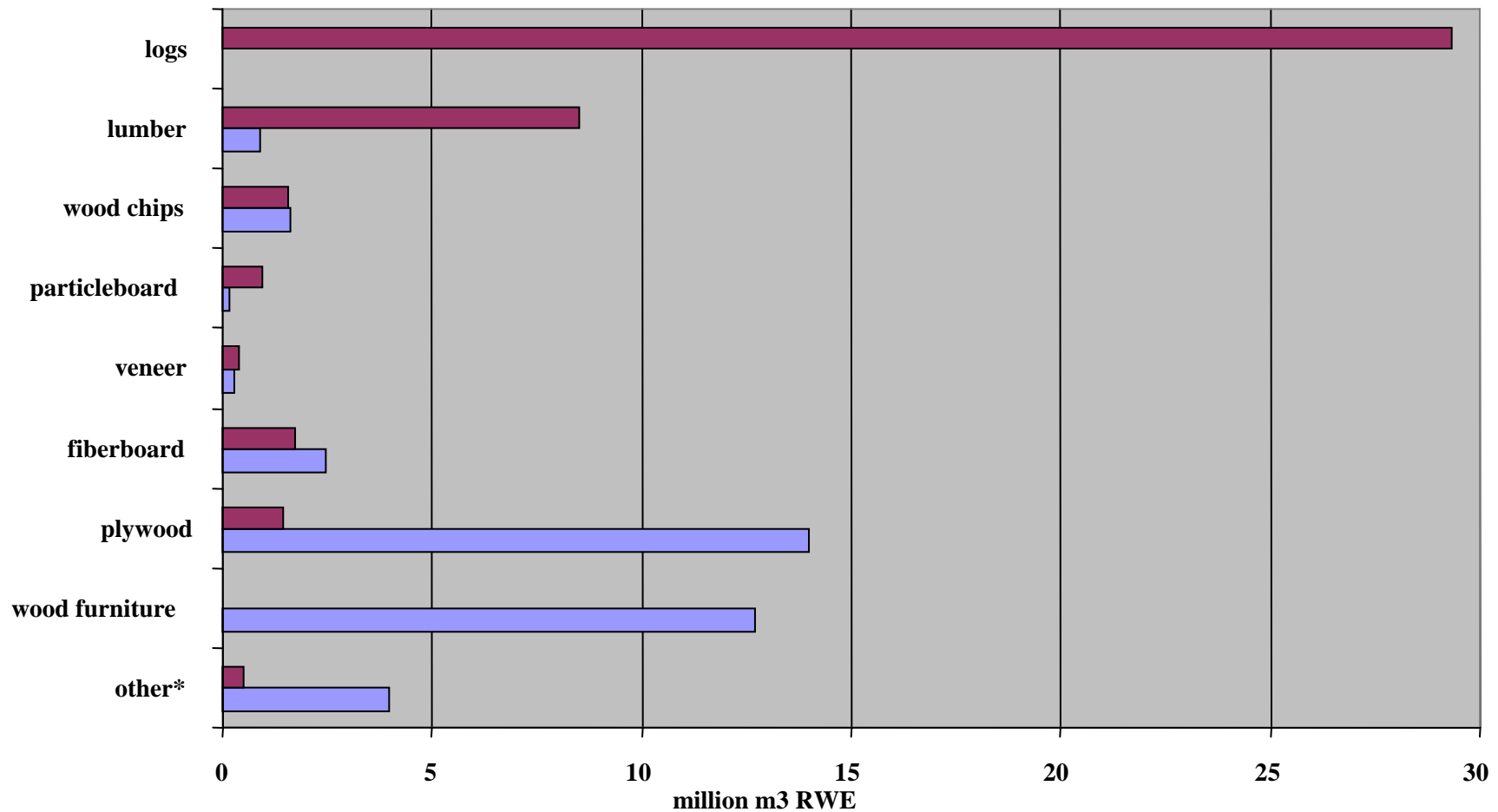






# China's Spectacular Growth as a Wood Processing Center

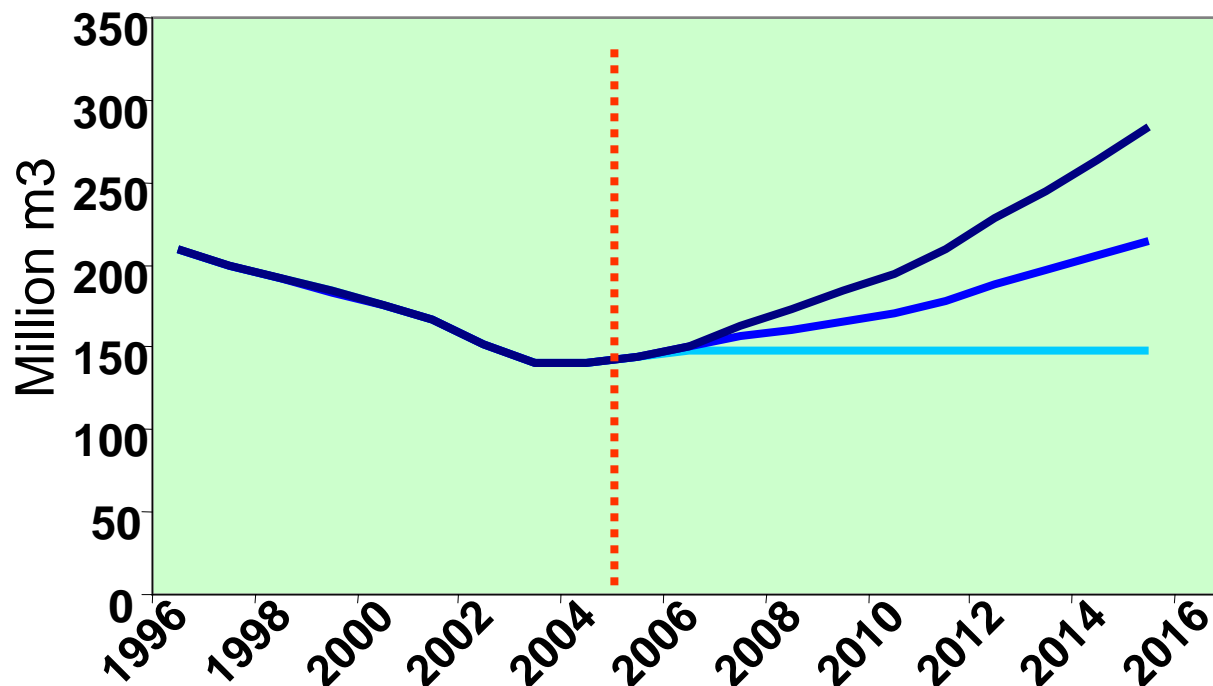
*Export – led growth*



# Drivers of Russian – China Forest Trade

150 million cubic meters (m<sup>3</sup>) gap between domestic supply of industrial roundwood and demand (domestic consumption + exports)

Projections of Domestic Production



Gap to be addressed by:

- Imports
- Substitution
- Efficiency
- Improvements in domestic production

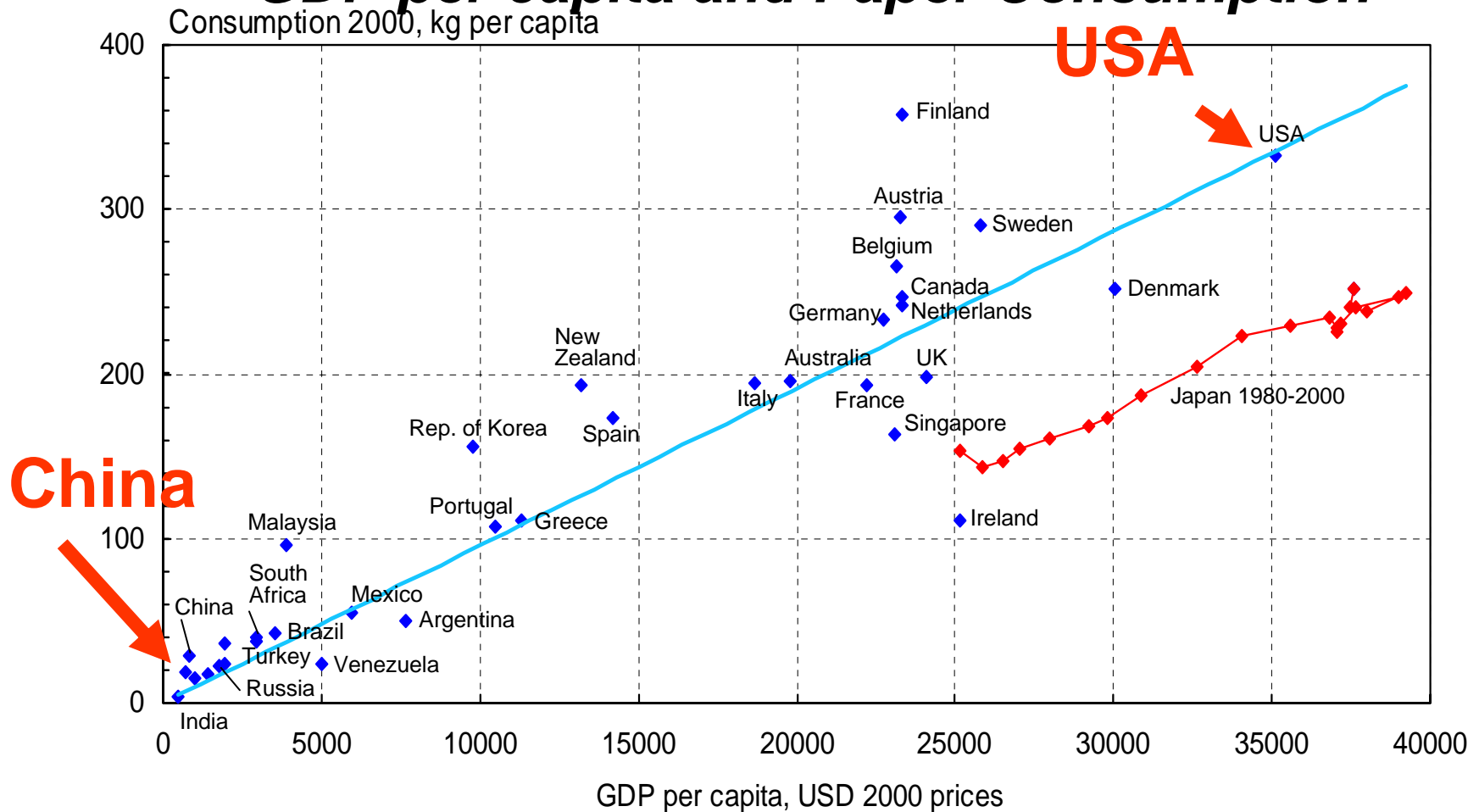
(NDRC 2006)

Sources: Zhou (SFA) 2001, Bull and Nilsson 2004



# Drivers of Russian – China Forest Trade

## Domestic Consumption GDP per capita and Paper Consumption





# Drivers of Russian – China Forest Trade



*China's net domestic consumption of timber products is quite low compared to its timber product trade*

*Pulp and paper different story: only 11% is re-exported*

*Estimated 80% of Russian softwood imports are consumed within China (construction industry and furniture)*

*20% processed within China and re-exported (increasing)*



# Drivers of Russian – China Forest Trade

**US +800%**

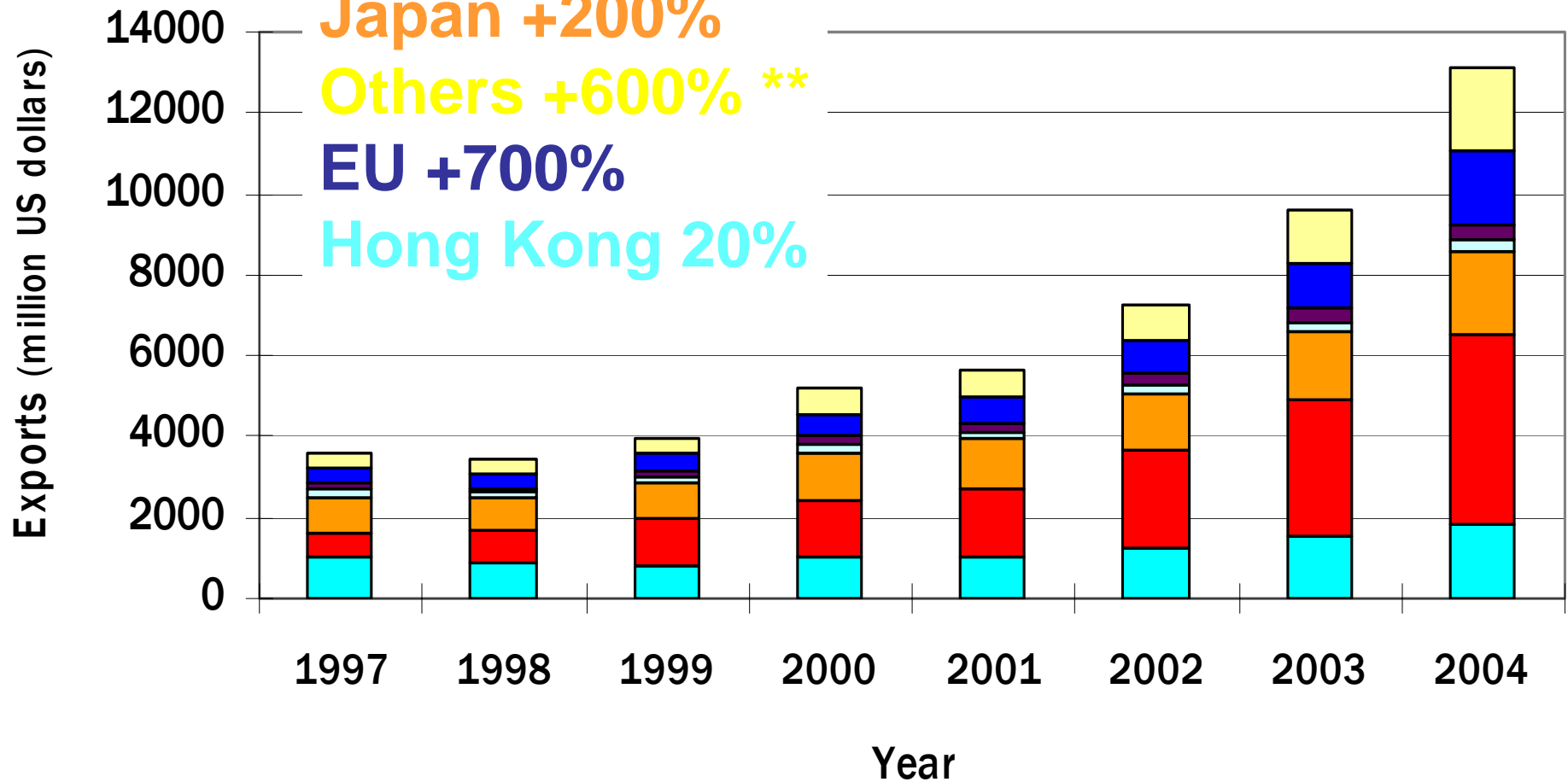
**Japan +200%**

**Others +600% \*\***

**EU +700%**

**Hong Kong 20%**

***Export-led Growth***





# Drivers of Russian – China Forest Trade

- (a) similarity of wood species in the Russian Far East and northeast China (China's traditional timber base);
- (b) low prices and China's decision to reduce tariffs (0% log import tariff);
- (c) convenience in border trade and rail links between Russia and the neighboring Chinese provinces of Heilongjiang and Inner Mongolia;
- (d) favorable tax policies for border trade; and
- (e) Russia's resumption of maritime shipping of timber products in 2001, enabling Russia's timber to be directly shipped to the major timber consuming regions on China's eastern coast

# Russia – China Forest Products Trade



Source: *Geographicheskiy atlas Rossiyskoy Federatsii (Geographical Atlas of the Russian Federation)*. Moscow, Rosgeodesiya 1999.



# Resources in Russian Far East & Siberia

- 57% of Earth's coniferous forests in Russia – 1/5 of the world's standing timber
- Not all is economically accessible at this time
- Some estimate that at present cutting rates, most natural forests in RFE will be logged out in 20-30 years
- Many of the best forest lands in Primorskiy Kraj and Khabarovkiy Kraj are degrading
  - Large clear-cuts leading to open and damaged landscape
  - Secondary broadleaf forests replacing Korean pine, larch (0.8% / year)
  - Catastrophic fires made worse by poor forestry practices
- Illegal logging and associated trade well documented and acknowledged under St. Petersburg Declaration
  - particularly around the border areas, involving both Russian and Chinese nationals

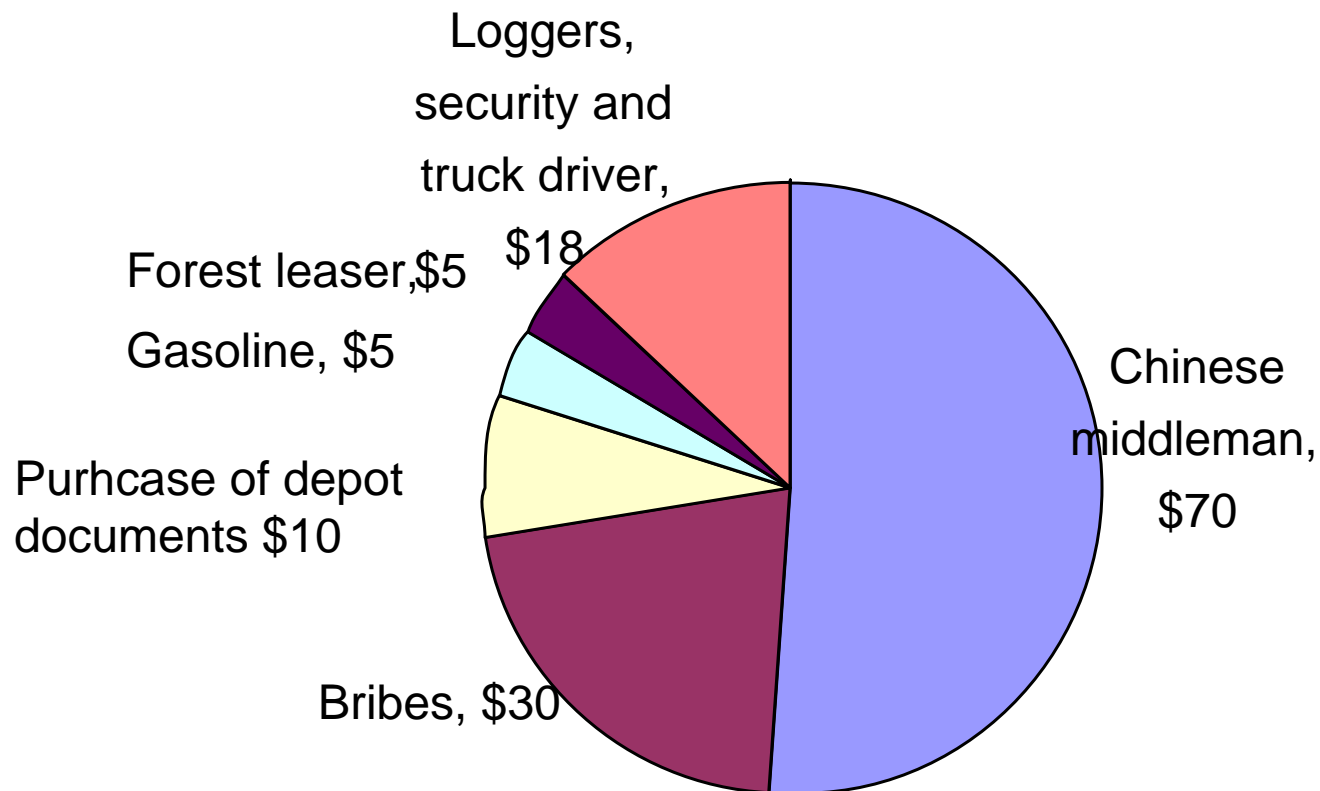




FOREST  
TRENDS

# Who Benefits from Illegal Logging

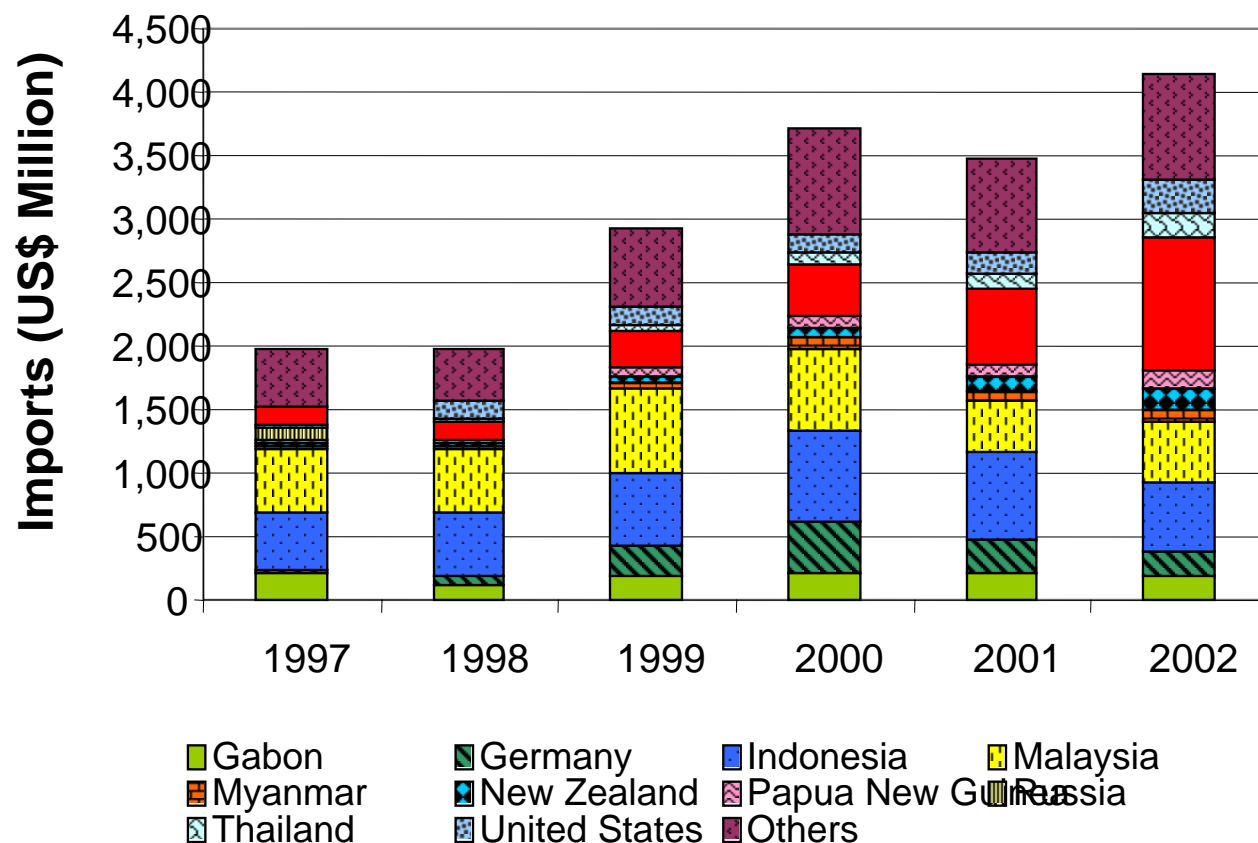
## *1 cubic meter illegally logged hardwood*





# Russia's Desire to Increase Value-Added Processing

## China's Timber Imports (Value)



By volume: 68%  
By value: 25%

1992: 40% of RFE timber processed locally. 2005: 90% exported as logs

*Low value:*  
Low volume of processed products

exporters who undercut prices or underestimate the value of exported timber.



# Russia's Desire to Increase Value-Added Processing

- April 2006, Russian government 15% tax on all log exports
- Incentives for investors in wood processing
  - No VAT to equipment imports
- Many international investors, however, see Russia as a risky investment climate
  - uncertain policy environment (Forest Code)
  - illegal logging undercutting the legal operators
  - Illegal logging causing reputational risk



# Russia's Desire to Increase Value-Added Processing

- 2006: Russian and Chinese officials announce joint forestry venture in Siberia:
  - Long-term lease of 1 million ha as pilot project on joint use of forest resources
  - Joint enterprise to cut & process timber including pulp production with Chinese investment
- Other plans for such similar joint ventures (e.g. US\$1 billion Chinese investment in pulp plant)



# Sustainable Trade Policy

- Ministry of Commerce recognizes need to ensure cooperative and legal trade and investment relationships with major trade partners such as China
  - Need to combat the “China Theory”: fear of Chinese domination in the marketplace
  - Relative success of Chinese investors and entrepreneurs in Russia itself causing tensions in a region of Russia with declining demographics and fear of losing cultural identity and regional economic control
  - Recognition that small-scale illegal Chinese operations have created a bad reputation for larger legitimate operations that would like to invest in Russia



# Sustainable Trade Policy

- July 2006: Ministry of Commerce initiated Sustainable Development and Trade Task Force
  - Recognition that China's target of 400% increase in GDP by 2020 and raising per capital income to US\$3,000 / year cannot be done with current resource supply and efficiencies
  - Recognition of the need to ensure positive trade relationships in global markets
  - Recognition of the increasing environmental sensitivity of major wood products markets (EU, N. America, Japan)
- environmental impact of current and potential trade patterns
- environmental components of WTO negotiations:
  - How can environmental measures align with strategic interests of export-led growth and poverty reduction? (Market measures to change incentives for environmental behavior)



# Sustainable Trade Policy

- Innovative schemes to ensure legal and sustainable wood supply
  - Supply chain management systems
    - Log tracking systems and certification
  - Public procurement policies (e.g. UK and Japan)
- With its huge market leverage around the world, China has a huge potential to help transform the way that forest products are harvested and traded.