

## 5. Implications of the Russian Log Export Tax

On February 5, 2007, the Russian government announced that it will increase its export tax on softwood logs over the next two years (CIBC 2007, Katz 2007). The tax will increase to 80 percent by January 2009, and will apply the greater of an ad valorem or a specific tax (Table 1.2). The objective of the tax is to add value to existing resources, protect and expand domestic employment and processing, and increase exports (NZFRI 1999, CIBC 2007, Katz 2007). By lowering the domestic log price the tax may also reduce illegal logging (CIBC 2007).

Projections with the Global Forest Products Model suggest that the Russian log export tax will result in:

- Significantly lower Russian log exports and prices. By 2020 Russian industrial roundwood production is 49 million m<sup>3</sup> (19 percent) lower, exports are 51 million m<sup>3</sup> (50 percent) lower, and the Russian domestic price of logs is 16 percent lower.
- The reduction in the Russian price of industrial roundwood encourages a modest 0.9 to 2.7 percent increase in Russian wood product processing in 2020.
- Total global wood supply is lower (Table 5.1), and accordingly log prices are higher (Table 5.2).
- Major consumers of Russian logs, Finland, China, Japan, and to a lesser extent South Korea and Sweden, all suffer a reduction in log imports (Table 5.1), and hence production and export of wood products (Table 5.3).
- The United States, Germany, New Zealand and Australia increase their production and export of industrial roundwood (Table 5.1).
- The current situation of global oversupply of industrial roundwood is predicted to continue with the world price of logs declining 0.8 percent per annum from 2007 to 2020.

New Zealand, as a significant exporter of logs to countries that also import from Russia (China, Japan and South Korea), could potentially benefit a great deal from the reduction in Russian log exports. The key impacts, on New Zealand, of the tax include:

- A 17.0 percent increase in the price of industrial roundwood in 2020
- A 2.9 percent increase in harvests and 4.9 percent increase in log exports (Table 5.4).
- Little change in New Zealand production and export of processed wood products (Table 5.5).

New Zealand's wood processing sector, therefore, does not realise significant benefits from lower wood product production and exports from Finland, China, and Japan due to the Russian export tax.

## References

- CIBC World Markets (CIBC). 2007. *Russia Plans to Dramatically Increase its Export Tax on Logs*. CIBC World Markets, Equity Research Industry Update.
- Katz, A. 2007. Russia wields the stick to keep logs at home. *Inwood*, Issue 74 May/June 2007.
- New Zealand Forest Research Institute (NZFRI). 1999. *Study of Non-Tariff Measures in the Forest Products Sector*. Committee on Trade and Investment, APEC. Prepared by New Zealand Forest Research Institute Ltd., Rotorua.  
[www.apec.org/apec/publications/all\\_publications/committee\\_on\\_trade.html](http://www.apec.org/apec/publications/all_publications/committee_on_trade.html)

**Table 5.1: Change in industrial roundwood production, exports and imports in 2020 due to a Russian log export tax**

| Country                       | Base Scenario         |                |                | Change                |                |                | Change      |              |              |
|-------------------------------|-----------------------|----------------|----------------|-----------------------|----------------|----------------|-------------|--------------|--------------|
|                               | Production            | Import         | Export         | Production            | Import         | Export         | Production  | Import       | Export       |
|                               | (000 m <sup>3</sup> ) |                |                | (000 m <sup>3</sup> ) |                |                | (%)         |              |              |
| <b>Africa</b>                 | <b>49,077</b>         | <b>694</b>     | <b>7,818</b>   | <b>1,389</b>          | <b>-21</b>     | <b>921</b>     | <b>2.8</b>  | <b>-3.0</b>  | <b>11.8</b>  |
| Nigeria                       | 9,160                 | 1              | 2              | 1                     | 0              | 0              | 0.0         | 0.0          | 0.0          |
| South Africa                  | 18,738                | 1              | 3,088          | 829                   | 0              | 732            | 4.4         | 0.0          | 23.7         |
| <b>North/ Central America</b> | <b>797,163</b>        | <b>5,833</b>   | <b>29,450</b>  | <b>10,150</b>         | <b>151</b>     | <b>2,805</b>   | <b>1.3</b>  | <b>2.6</b>   | <b>9.5</b>   |
| Canada                        | 246,513               | 4,517          | 2,263          | 2,650                 | 165            | -1             | 1.1         | 3.7          | 0.0          |
| United States of America      | 530,691               | 1,162          | 27,126         | 7,256                 | 0              | 2,807          | 1.4         | 0.0          | 10.3         |
| <b>South America</b>          | <b>202,601</b>        | <b>52</b>      | <b>2,266</b>   | <b>2,744</b>          | <b>-2</b>      | <b>677</b>     | <b>1.4</b>  | <b>-3.8</b>  | <b>29.9</b>  |
| Argentina                     | 7,421                 | 9              | 12             | 18                    | -1             | 0              | 0.2         | -11.1        | 0.0          |
| Brazil                        | 138,773               | 9              | 596            | 1,384                 | 0              | 210            | 1.0         | 0.0          | 35.2         |
| Chile                         | 40,343                | 7              | 1,410          | 1,130                 | 0              | 463            | 2.8         | 0.0          | 32.8         |
| <b>Asia</b>                   | <b>258,439</b>        | <b>120,744</b> | <b>10,583</b>  | <b>6,565</b>          | <b>-10,302</b> | <b>315</b>     | <b>2.5</b>  | <b>-8.5</b>  | <b>3.0</b>   |
| China                         | 119,003               | 65,636         | 621            | 4,568                 | -8,785         | 0              | 3.8         | -13.4        | 0.0          |
| Indonesia                     | 40,293                | 250            | 735            | 1,260                 | -4             | 281            | 3.1         | -1.6         | 38.2         |
| Japan                         | 20,632                | 34,137         | 52             | 725                   | -1,256         | 0              | 3.5         | -3.7         | 0.0          |
| Korea, Republic of            | 1,893                 | 14,799         | 4              | 110                   | -261           | -1             | 5.8         | -1.8         | -25.0        |
| Malaysia                      | 16,528                | 676            | 4,437          | -748                  | 55             | -283           | -4.5        | 8.1          | -6.4         |
| India                         | 29,224                | 2,286          | 13             | 4                     | 0              | 0              | 0.0         | 0.0          | 0.0          |
| Thailand                      | 4,966                 | 62             | 1,424          | 373                   | 0              | 300            | 7.5         | 0.0          | 21.1         |
| Viet Nam                      | 10,636                | 117            | 1,318          | 84                    | 0              | 1              | 0.8         | 0.0          | 0.1          |
| <b>Oceania</b>                | <b>55,809</b>         | <b>93</b>      | <b>19,875</b>  | <b>2,545</b>          | <b>0</b>       | <b>3,433</b>   | <b>4.6</b>  | <b>0.0</b>   | <b>17.3</b>  |
| Australia                     | 28,572                | 81             | 4,342          | 819                   | 0              | 1,675          | 2.9         | 0.0          | 38.6         |
| New Zealand                   | 23,901                | 5              | 12,698         | 1,574                 | 0              | 1,617          | 6.6         | 0.0          | 12.7         |
| <b>Europe</b>                 | <b>749,025</b>        | <b>87,590</b>  | <b>144,694</b> | <b>-30,786</b>        | <b>-27,923</b> | <b>-46,294</b> | <b>-4.1</b> | <b>-31.9</b> | <b>-32.0</b> |
| EU25                          | 414,871               | 80,203         | 30,604         | 15,819                | -27,916        | 4,411          | 3.8         | -34.8        | 14.4         |
| Finland                       | 57,814                | 31,889         | 357            | 4,443                 | -21,857        | -2             | 7.7         | -68.5        | -0.6         |
| France                        | 37,974                | 1,036          | 2,181          | 818                   | 0              | 686            | 2.2         | 0.0          | 31.5         |
| Germany                       | 40,639                | 486            | 13,024         | 1,836                 | 0              | 1,850          | 4.5         | 0.0          | 14.2         |
| Sweden                        | 79,127                | 17,217         | 384            | 3,045                 | -4,238         | 0              | 3.8         | -24.6        | 0.0          |
| United Kingdom                | 9,457                 | 418            | 18             | 197                   | 74             | 0              | 2.1         | 17.7         | 0.0          |
| Russian Federation            | 250,165               | 304            | 102,406        | -48,517               | 0              | -50,964        | -19.4       | 0.0          | -49.8        |
| <b>World</b>                  | <b>2,112,114</b>      | <b>215,006</b> | <b>214,686</b> | <b>-7,393</b>         | <b>-38,097</b> | <b>-38,143</b> | <b>-0.4</b> | <b>-17.7</b> | <b>-17.8</b> |

**Table 5.2: Change in world wood product prices due to a Russian log export tax. Source: Global Forest Products Model**

| Product              | Base Scenario                     |      |      | Change                            |      |      | Change |      |      |
|----------------------|-----------------------------------|------|------|-----------------------------------|------|------|--------|------|------|
|                      | 2010                              | 2020 | 2030 | 2010                              | 2020 | 2030 | 2010   | 2020 | 2030 |
|                      | (US\$/ m <sup>3</sup> or US\$/ t) |      |      | (US\$/ m <sup>3</sup> or US\$/ t) |      |      | (%)    |      |      |
| Industrial roundwood | 60                                | 55   | 49   | 0.6                               | 1.8  | 2.7  | 1.0    | 3.3  | 5.5  |
| Sawnwood             | 185                               | 175  | 164  | 1.0                               | 2.9  | 5.3  | 0.5    | 1.7  | 3.2  |
| Wood panels          | 327                               | 317  | 311  | 0.8                               | 3.2  | 5.5  | 0.2    | 1.0  | 1.8  |
| Wood pulp            | 352                               | 336  | 319  | 1.1                               | 4.3  | 8.1  | 0.3    | 1.3  | 2.5  |
| Paper                | 681                               | 664  | 652  | 1.1                               | 2.9  | 4.8  | 0.2    | 0.4  | 0.7  |

**Table 5.3: Change in world production and trade in 2020 due to a Russian log export tax. Source: Global Forest Products Model**

| Region                 | Product                  | Base Scenario                 |         |         | Change                               |         |         | Change     |        |        |
|------------------------|--------------------------|-------------------------------|---------|---------|--------------------------------------|---------|---------|------------|--------|--------|
|                        |                          | Production                    | Import  | Export  | Production                           | Import  | Export  | Production | Import | Export |
|                        |                          | (000 m <sup>3</sup> or 000 t) |         |         | (000 m <sup>3</sup> or 000 t change) |         |         | (%)        |        |        |
| Developing             | Industrial roundwood     | 633,580                       | 87,860  | 19,521  | 9,499                                | -9,085  | 1,322   | 1.5        | -10.3  | 6.8    |
|                        | Sawnwood                 | 128,563                       | 28,428  | 18,634  | 471                                  | 512     | 1,114   | 0.4        | 1.8    | 6.0    |
|                        | Wood panels <sup>2</sup> | 113,148                       | 21,759  | 22,591  | -748                                 | 77      | 243     | -0.7       | 0.4    | 1.1    |
|                        | Wood pulp <sup>3</sup>   | 48,001                        | 22,464  | 10,809  | 52                                   | 15      | 185     | 0.1        | 0.1    | 1.7    |
|                        | Paper <sup>4</sup>       | 188,421                       | 33,614  | 11,288  | -165                                 | -130    | 202     | -0.1       | -0.4   | 1.8    |
| Developed <sup>1</sup> | Industrial roundwood     | 1,665,129                     | 128,571 | 195,864 | -16,825                              | -29,058 | -39,465 | -1.0       | -22.6  | -20.1  |
|                        | Sawnwood                 | 367,314                       | 108,944 | 121,304 | -1,290                               | -2,949  | -3,550  | -0.4       | -2.7   | -2.9   |
|                        | Wood panels              | 214,429                       | 65,143  | 66,464  | -504                                 | -417    | -584    | -0.2       | -0.6   | -0.9   |
|                        | Wood pulp                | 206,171                       | 24,162  | 37,277  | -928                                 | -354    | -524    | -0.4       | -1.5   | -1.4   |
|                        | Paper                    | 319,774                       | 73,884  | 101,779 | -392                                 | -353    | -687    | -0.1       | -0.5   | -0.7   |

<sup>1</sup> South Africa, Canada, United States, Japan, Australia, New Zealand, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom

<sup>2</sup> plywood and veneer, particleboard, and fibreboard, <sup>3</sup> Mechanical and chemical pulp, <sup>4</sup> newsprint, printing and writing paper, and other paper and paperboard

**Table 5.4: Change in New Zealand log and sawnwood production and prices in 2020 due to imposition of the Russian log export tax. Source: Radiata Pine Market Model**

| Product                  | Base Scenario                |                                  | Change                       |                                  |           |                |
|--------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|-----------|----------------|
|                          | Price (US\$/m <sup>3</sup> ) | Production (000 m <sup>3</sup> ) | Price (US\$/m <sup>3</sup> ) | Production (000 m <sup>3</sup> ) | Price (%) | Production (%) |
| Sawlogs & small logs     | 39                           | 12,356                           | 3.0                          | 222                              | 7.7       | 1.8            |
| Export logs              | 16                           | 7,920                            | 8.5                          | 388                              | 52.9      | 4.9            |
| Peeler logs              | 37                           | 1,549                            | 3.6                          | 33                               | 9.6       | 2.1            |
| Pulp & chip logs         | 4                            | 4,506                            | 1.5                          | 140                              | 38.4      | 3.1            |
| Total roundwood          | 26                           | 26,331                           | 4.4                          | 764                              | 17.0      | 2.9            |
| Sawnwood                 | 271                          | 5,998                            | 6.0                          | 126                              | 2.2       | 2.1            |
| Sawmill operating margin | 79                           |                                  | -0.9                         |                                  | -1.1      |                |

**Table 5.5: Change in New Zealand production, trade and prices in 2020 due to Russian log export tax. Source: Global Forest Products Model**

| Product          | Base Scenario                     |  |        |        | Change                            |   |        |        | Change    |                |        |        |
|------------------|-----------------------------------|--|--------|--------|-----------------------------------|---|--------|--------|-----------|----------------|--------|--------|
|                  | Price (US\$/ m <sup>3</sup> or t) | Production (000 m <sup>3</sup> or 000 t) | Import | Export | Price (US\$/ m <sup>3</sup> or t) | Production (000 m <sup>3</sup> or 000 t change) | Import | Export | Price (%) | Production (%) | Import | Export |
| Plywood          | 387                               | 1,577                                    | 8      | 404    | 3.6                               | 1   | 0      | 2      | 0.9       | 0.1            | 0.0    | 0.5    |
| Particleboard    | 163                               | 324                                      | 2      | 75     | 2.5                               | 0   | 0      | 1      | 1.5       | 0.0            | 0.0    | 1.3    |
| Fibreboard       | 256                               | 1,214                                    | 4      | 700    | 2.3                               | 14  | 0      | 17     | 0.9       | 1.2            | 0.0    | 2.4    |
| Mechanical pulp  | 271                               | 956                                      | 0      | 305    | 3.3                               | 15  | 0      | 17     | 1.2       | 1.6            |        | 5.6    |
| Chemical pulp    | 394                               | 984                                      | 7      | 575    | 3.3                               | -10   | 0      | -9     | 0.8       | -1.0           | 0.0    | -1.6   |
| Waste paper      | 90                                | 316                                      | 1      | 129    | 0.3                               | 1   | 0      | 1      | 0.3       | 0.3            | 0.0    | 0.8    |
| Newsprint        | 467                               | 372                                      | 2      | 212    | 3.0                               | -1  | 0      | 0      | 0.6       | -0.3           | 0.0    | 0.0    |
| Printing paper   | 841                               | 29                                       | 202    | 9      | 2.5                               | 0   | 0      | 1      | 0.3       | 0.0            | 0.0    | 11.1   |
| Other paper      | 634                               | 843                                      | 74     | 334    | 2.8                               | -2  | 0      | -1     | 0.4       | -0.2           | 0.0    | -0.3   |
| Carpentry        | 1350                              |  |        | 127    | 11.6                              |   |        | 0      | 0.9       |                |        | 0.0    |
| Wooden furniture | 2695                              |  | 13     |        | 9.5                               |   | 0      |        | 0.4       |                | 0.0    |        |
| Prefab buildings | 2325                              |  |        | 0      | 7.5                               |   |        | 0      | 0.3       |                |        | 25.0   |
| Mouldings        | 633                               |  |        | 54     | 9.6                               |   |        | -2     | 1.5       |                |        | -4.1   |