EXECUTIVE SUMMARY

The Russian Far East Federal District, consisting of 9 regions, was analysed in terms of potential for new forest industry investments. The analysis covered forest resources, infrastructure and markets for forest industry products.

Theoretical potential for increasing harvesting is very large as the annual allowable cut in the Russian Far East stands at 95.5 million m^3 while the current harvesting only reaches 12.5 million m^3 per annum. However, economic availability of new harvesting areas is limited as the road infrastructure is generally poor. Due to mining industry development in some areas the road and railroad infrastructure is being developed and this may open new possibilities for forest industry investment in the future. Long term view to forests as a renewable natural resource is lacking and few companies are committing to long term sustainable investments.

There are 5 possible sources of raw material that can be considered for new forest industry investments; 1. by-products of the existing forest industry installations (>0.5 million m^3), 2. currently non-utilized small diameter logs (3-5 million m^3), 3. large diameter logs currently exported to Asia (5 million m^3 from the RFE), 4. currently underutilized / idle forest lease areas and 5. opening of wholly new forest lease areas.

Demographic factors combined with the socioeconomic situation result in large differences between skills and capabilities among the region. The most developed areas offer clearly much better operating environment for forest industries.

Markets for wood products were assessed and the most attractive products seem sawnwood, particleboard and bioenergy. Pulp and paper manufacturing in the Russian Far East does not seem feasible after a brief analysis, particularly unbleached softwood pulp and BCTMP were analysed. Biofuel markets may become attractive in the future as the technology matures.

Indufor evaluated the potential for new forest industry investments in the Russian Far East in a scoring matrix. The scoring matrix was done separately for the 9 Russian Far East regions, based on a scale of 1 to 5, 1 being the lowest score and 5 the highest score. The scoring matrix had 8 criteria and each criteria was assessed against forest industry products / projects.

Results of the Project Ranking per Region per Product

Product	Amur	Jewish AO	Kamchatka	Magadan	Primorsky	Sakha Rep.	Khabarovsk	Chukotka AO	Sakhalin
Sawnwood	2.7	2.5	1.7	1.5	3.3	2.5	3.7	1.5	2.5
Plywood	2.8	2.3	1.4	1.4	3.1	2.2	3.5	1.4	2.2
Reconstituted panels	2.8	2.6	1.7	1.7	3.4	2.6	3.6	1.6	2.4
OSB	2.8	2.5	1.7	1.7	3.3	2.5	3.6	1.5	2.4
Other panels	2.8	2.8	1.7	1.7	3.5	2.6	3.6	1.7	2.4
Bleached chemical pulp	2.8	1.6	1.5	1.4	2.7	2.3	2.7	1.4	2.1
Paper and paperboard	2.8	1.6	1.5	1.4	2.5	2.1	2.5	1.4	2.1
Bioenergy	3.0	2.5	1.7	1.6	3.5	2.9	3.9	1.8	1.8
Biofuels	2.5	1.9	1.6	1.5	3.3	2.5	3.5	1.6	2.5

The most attractive regions for forest industry investments are Primorsky and Khabarovsk Krais, and in limited cases for specific products Amur Oblast and Sakha Republic. The Situation Analysis Report offers a list of potential investment projects, of which 5 were chosen for further analysis in the project meeting on June 19th 2013 in London.

The projects are 1. sawmill, 2. glulam production facility, 3. particleboard mill, 4. small diameter timber sawmill, and 5. liquid biofuels production facility. At this stage it was not possible to identify investors for the projects and the further analysis is conducted without a fixed location for the projects.