

# Plundering Russia's Far Eastern Taiga



## Illegal Logging Corruption and Trade



A Report By: Bureau for Regional Oriental Campaigns, Vladivostok, Russia  
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# TABLE OF CONTENTS

<b>I.</b>	<b>Preface</b>	<b>4</b>
<b>II.</b>	<b>Research Methods</b>	<b>5</b>
<b>III.</b>	<b>Executive Summary</b>	<b>6</b>
<b>IV.</b>	<b>The Russian Far Eastern Taiga and Other Forests</b>	<b>9</b>
	Overview	
	Preserving Biological Diversity	
	Stabilizing Climate Change	
	Permafrost Covers 75% of the Russian Far East	
<b>V.</b>	<b>Russian Timber Industry</b>	<b>13</b>
	Overview	
	A Natural Resource Colony: Dependence on Raw Log Exports	
	Lack of Local Benefits	
	Uncontrolled Growth in Logging and Export Companies	
	The Russian Forest Service: Oversight Agency or Logging Company?	
	Forest Service Abuse of Salvage Logging Regulations: A Case Study	
<b>VI.</b>	<b>Illegal Logging and Trade</b>	<b>23</b>
	Overview	
	Money Can “Buy” Documents	
	Widespread Illegal Logging and Export of Ash	
	The Role of Chinese Middlemen in Illegal Logging and Export	
	Other Illegal Export Strategies	
	A Summary of Common Forms of Illegal Activity in the Russian Far East Timber Sector	
<b>VII.</b>	<b>Russia’s Timber Flows to Northeast Asia: Rising Consumption Threatens Russian Far East Forests</b>	<b>29</b>
	Overview	
	Export Routes	
	Flows to China	
	Investigating the Illegal Chinese Timber Trade – A Case Study	
	Flows to Japan	
	Flows to South Korea and North Korea	
<b>VIII.</b>	<b>Efforts to Address Illegal Logging and Export</b>	<b>39</b>
	Government Efforts	
	Public Efforts	
<b>IX.</b>	<b>Recommendations and Conclusion</b>	<b>43</b>
	To Crack Down on Corruption and Bribery	
	To Ensure Full Enforcement of Laws and Regulations	
	To Prevent Abuses from Salvage Logging	
	To Decrease the Region’s Dependence on Raw Log Exports	
	To Ensure Accurate and Transparent Data	
	To Raise Awareness about Illegal Logging and Trade	
	To Promote Sustainable Forestry in the Russian Far East	
	Conclusion	
<b>XI.</b>	<b>Bibliography of Sources</b>	<b>46</b>

# PREFACE



In the past year, Russia has come under increased scrutiny for widespread corruption within its government and private sector. Capital flight, spotlighted by the 1999 scandal at the Bank of New York, has crippled Russia's economic development.

At the same time, Russia's economic welfare – especially in the vast regions of Siberia and the Russian Far East – has been based on its exploitation of natural resources. Timber, fish, oil, and gold have been the backbone of Russia's industrial development during the twentieth century. In the last decade, as Russia has struggled through economic reforms, "mafias" that control these resources in Siberia and the Russian Far East gained power and wealth, while Russia's industrial sectors stagnated.

Responding to a deepening economic crisis and the rules of the international market economy, regional governments across Siberia and the Russian Far East have facilitated large-scale extraction and export of natural resources in order to generate short-term, hard currency revenues. Private companies – both Russian and foreign – have moved quickly to obtain concessions of timber, minerals, and oil and gas at bargain prices. And the Russian President's shocking decision (in May, 2000) to dissolve the Committee on Ecology and the Federal Forest Service, transferring their functions to the Ministry of Natural Resources, was the latest alarming demonstration of efforts by the industrial lobby to remove the last obstacles to uncontrolled, predatory exploitation of Russia's forest resources.

The Siberian taiga includes many of the world's last forest frontiers – large, intact forest and wildland ecosystems that are under threat of exploitation. Representing more than half of the world's coniferous forests, the Siberian taiga is vitally important for several reasons. Levels of biological diversity within the taiga are globally significant, and taiga forests store huge amounts of carbon which would otherwise exacerbate current levels of global warming.

Despite growing interest worldwide in the conservation of Siberian and Russian Far Eastern forests, illegal logging and trade practices have also continued to increase. Responding to concerns about growing corruption in Russia and its relation to the exploitation of natural resources, the Vladivostok-based Bureau for Public Regional Campaigning, Tokyo-based Friends of the Earth – Japan, and California-based Pacific Environment undertook an investigation to show the extent of illegal logging and trade in the region. In the last stage, Greenpeace Russia took an active role in the work and provided substantial support to the authors and a significant amount of fresh information. This report provides the results of the investigation, along with specific recommendations for correcting those practices.

This report is being published in both English and Russian, and it is being distributed among the international environmental community, business circles, specialists in regional administrations, state agencies and scholarly institutions.

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## RESEARCH METHODS

Primary research on illegal logging and corruption was carried out during a series of field trips in 1997, 1998, and 1999. Anatoly Lebedev and Josh Newell spent three weeks in the winter of 1998 travelling by truck through the Primorsky and southern Khabarovsk regions. We spoke with loggers, truck drivers, timber barons, customs officials, local government bureaucrats, and foresters in small towns, logging camps, and cities throughout the region. We spent time tracking the timber trade in Plastun, a port town along the Sea of Japan, and on the Russian-Chinese border, particularly the Russian towns of Markova, Lesozavodsk, and Gorodekova. In spring 1999, on contract with the Global Environmental Forum, Newell traveled primarily to cities in Sakhalin, Khabarovsk, and Primorsky to gather information and interview government officials in the Federal Forest Service, Committee on Ecology, and regional administrations. In summer 1999, Newell and Lebedev traveled with Dr. Masanobu Yamane (Institute for Global Environmental Strategies) and Wen Bo (Green China) through northeastern China to Primorsky Krai by train. On that trip, we researched timber processing plants in Harbin and customs offices and train-loading facilities in Suifenhe (China) and Gorodekova (Russia). David Gordon, meanwhile, traveled with Sakhalin Environment Watch to inspect logging sites and speak with loggers on Sakhalin Island.

In compiling this report, we have also drawn on research done by others. Dr. Masanobu Yamane, Dr. Alexander Sheingauz (Institute of Economic Research, Khabarovsk), and Dr. Wen-Ming Lu compiled invaluable statistics on export flows of timber to China, Japan, and South Korea and on companies involved in the timber trade. Mokuzaï Shimbun, a Japanese-language daily newspaper on the timber trade, remains the premier source of information on the Japanese timber market and exporters who serve that market, the world's largest. Greenpeace Russia has done some valuable research on illegal logging in Russia generally and has compiled useful statistics on Russian timber production and export. Some of the material in Sections IV (Russian Far East Taiga) and V (Russian Timber Industry) has appeared in other publications and reports including, *The Russian Far East: Forests, Biodiversity Hotspots, and Industrial Developments* (Newell and Wilson, 1996), and *Saving Russia's Far Eastern Taiga: Deforestation, Protected Areas, and Forest "Hotspots"* (Newell, 1999).

Finally, the recommendations (Section IX) outlined in this report come from our numerous meetings and interviews and the conclusions we reached after analyzing the data we gathered. Synthesizing these findings, David Gordon developed the "To Do" list, which we urge the Russian government, companies, NGOs, and international institutions to implement swiftly.

# EXECUTIVE SUMMARY

Russia's Far Eastern forests are of global importance. Huge tracts of old-growth forests protect a wealth of biodiversity, including such species as the Siberian tiger, and serve as a "carbon sink" in the battle against global warming. However, rampant illegal logging and consumption of specific timber species in China and Japan have now become the primary threats to the rich temperate forests of Eastern Siberia and the southern Russian Far East. Russian domestic demand has plummeted over the past ten years, so that now the Russian timber industry focuses almost exclusively on export markets.

Demand in the primary markets of China, Japan, and South Korea now determines the species that are logged and the size of logs. To avoid steep transportation costs, Russian timber companies log heavily in the most accessible areas, which offer easy transport to the Asian market.

Over the next ten years, demand for Russian timber in Northeast Asia will increase. For example, by 2025 China could face a deficit of 200 million cubic meters of wood per year, according to a recent study by the Center for International Trade in Forest Products (CINTRAFOR) at the University of Washington. To satisfy that demand, China is looking northward to Russia, which already provides 42% of China's total log imports. And in 1999 the Harbin International Economic and Technological Cooperation Corporation in Northeastern China received permission from the Russian government to send loggers across the border to the Khabarovsk Region, in order to log 3 million cubic meters of timber. Reportedly, all of it will be exported to China.

Despite such active trade, logging villages in the Russian Far East continue to live in poverty, and local people are worried about their very survival. Timber industry officials blame the lack of funds on Japanese undervaluation of logs, while local villagers hold "corrupt" timber traders and the upper management of the timber companies responsible. During the Asian financial crisis, log export operations in the Russian Far East slowed, as logs piled up in ports because there were no buyers in Japan. The crisis highlighted the problems of a "boom-and-bust" economy based on raw log exports. It also led local Russian government officials to renew their calls for investment in timber processing, which would allow the Russians to sell finished wood products and receive more income per volume of wood while ensuring more sustainable revenues.

Meanwhile, illegal logging is flourishing in the Russian Far East, and the lack of regulation is apparent on all levels. Logging practices remain extremely wasteful and destructive, as 40 to 60 percent of the logged timber is lost during logging and transport. Government control over forest management has diminished due to weak federal legislation, declining budgets, and infighting among numerous federal and regional government agencies. Regulatory bodies, including the forest service and environmental protection committees, rarely use their authority to control the explosion of small logging firms that have cropped up since 1996. Illegal practices such as logging without a license, logging in protected forest zones, taking protected tree species, and logging outside of concession boundaries are widespread. Further, in order to avoid the high taxes demanded by the Russian tax



system, many Russian firms conceal at least some of their profits through clever, complex methods of documentary fraud and bribes.

To secure hard currency and maintain their infrastructure, local districts of the Russian Forest Service (*leskhozy*) had — until recently — become some of Russia's most active loggers and organizers of illegal logging. Abusing loopholes in rules governing “salvage” or “sanitary” logging, Forest Service *leskhozy* would themselves cut or issue licenses for others to log commercially valuable ash, Korean pine, and oak forests — despite the fact that the *leskhozy* were the very government bodies responsible for monitoring logging operations and maintaining forest health. And while the Forest Service *leskhozy* only logged trees to cover their budgets, their staff did not curtail other logging operations in the forest, which led to uncontrolled logging.

In the new Russia, widespread disregard for rules and loss of oversight by government agencies run rampant, but especially in the natural resource sectors — in the mining, oil and gas, and fisheries sectors as well as timber. The Center for International and Strategic Studies estimates that from 25% to 40% of all businesses in Russia are corrupt, and that Russia's shadow economy comprises approximately 40% of the reported Russian GNP. Illegal logging and exports constitute a large part of this shadow economy in the Russian Far East.

Illegal logging and trade have been identified by international groups, including the World Conservation Union (IUCN), as a primary contributor to deforestation. Indeed, illegal logging and trade could threaten the continued viability of the northern temperate and boreal forests of Siberia and the Russian Far East.

The Russian government, along with international governments and non-governmental organizations (NGOs), must take action now to bring illegal logging and export under control. Specifically, it is vital to:

- Crack down on corruption and bribery;
- Ensure full enforcement of existing Russian laws and regulations;
- Prevent abuses in the name of salvage logging;
- Decrease the region's dependence on raw log exports;
- Ensure accurate and transparent data;
- Raise awareness about illegal logging and trade;
- Promote sustainable forestry in the Russian Far East.

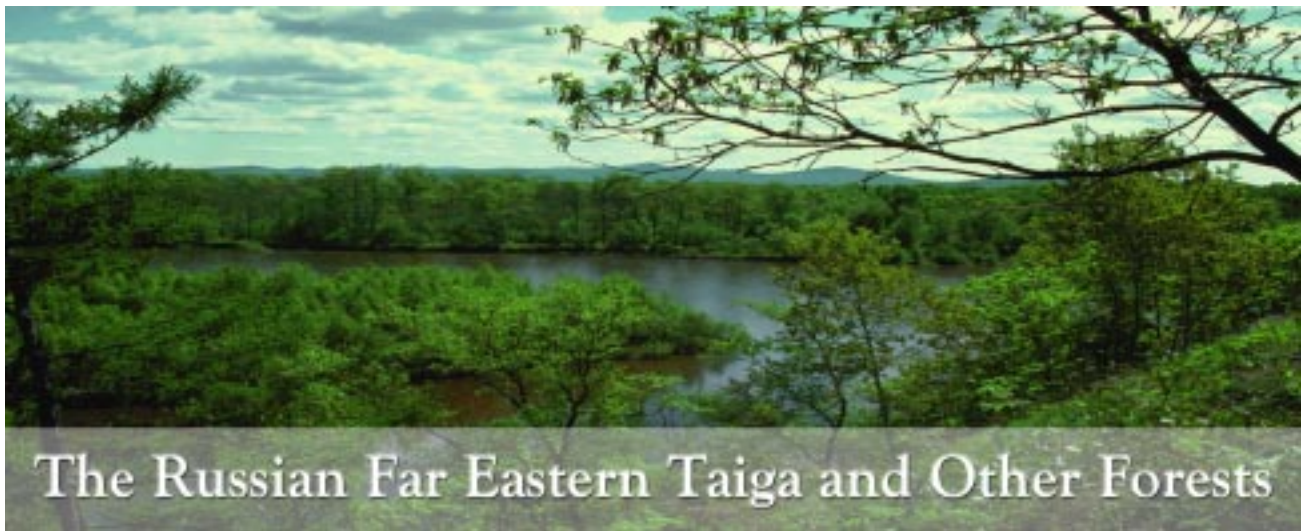
Full recommendations about how to achieve these objectives are outlined in Section IX.

# TIMBER EXPORT ROUTES

Russia, Japan, South Korea, and China



Map of Timber Flows from East Siberia and the Russian Far East



## Overview

**Russia's forests represent 25% of the world's remaining forests and over 57% of the earth's coniferous forests.**

Russia's remaining "frontier forests" are located primarily in the Russian Far East and Eastern Siberia, the vast eastern half of the country where infrastructure remains limited and extensive tracts of wilderness remain intact and largely pristine. Russian scientists disagree on how much of the frontier forest remains; estimates range from 25% to 50%. Overall, forests of the Russian Far East occupy 273.7 million hectares and timber reserves are estimated at 20.4 billion cu. m. (Far Eastern Forest Inventory Enterprise, 1995).

Although centuries of heavy logging and mining have taken a grave toll on most of the forests in the European part of Russia, Russia retains a large portion of the earth's forests. In total, Russia's forests represent 25% of the world's remaining forests and over 57% of the earth's coniferous forests (Rosencranz, 1992). A 1997 global analysis by the World Resources Institute (WRI) revealed that Russia holds 26% of the world's frontier forests, forests which, as defined by WRI, are "relatively undisturbed and big enough to maintain all of their biodiversity, including viable populations of the wide-ranging species associated with each forest type" (see Table 1 below). These tracts of pristine forest are particularly important in comparison with other northern forests: logging has reduced old-growth forests to 1%-2% of their original size in Sweden and Finland, and only about 1% of the original forests of Western Europe are left (Dudley, 1995).

Table 1- Countries With the World's Remaining Frontier Forest

Global Rank	Country	Total Frontier Forest (thousands of km <sup>2</sup> )	Percentage of the World's Total Frontier Forest
1	Russia	3,448	26%
2	Canada	3,429	25%
3	Brazil	2,284	17%
4	Peru	540	4%
5	Indonesia	530	4%
6	Venezuela	391	3%
7	Colombia	348	3%
8	United States	307	2%
9	Zaire	292	2%
10	Bolivia	255	2%
11	Papua New Guinea	172	1%
12	Chile	162	1%

Total frontier forest area of the top 12 countries as a percentage of the global total - 90%

Source: World Resources Institute (WRI), 1997.

The Russian forests are at risk. While forty percent of the forests remain inaccessible to logging due to the mountainous landscape and lack of infrastructure, the timber industry has heavily overlogged many accessible areas, particularly around railroads and near population centers. This problem is compounded by uneven forest distribution. Although foresters often say that Russian forests are increasing in area and timber volume, that is misleading. Due to heavy logging and fire, second-growth deciduous forests are replacing mature conifers – spruce, pine, fir – in the total forest cover at a rate of about 0.8% per year. Areas that have been clearcut, and particularly those located on permafrost north of the Amur River, have become virtual deserts because of the extreme cold and thin soil layers. The current trend in Russia toward diminishing forest health must be reversed.

Preservation and sustainable use of Russian Far East and Eastern Siberian forests is of global importance for a number of reasons. First, biological diversity, including endangered species, must be preserved. Second, the traditional environment for the tens of thousands of indigenous people who depend on these forests and their resources must be protected. Third, a timber supply must be conserved for the nearby countries that have largely destroyed their forests. Last, the forest must continue to mitigate climate change.

### Preserving Biological Diversity

Russia is becoming internationally renowned for the Ussuri taiga region, in which the Sikhote-Alin mountain range is based, because it is extremely high in biodiversity. The Ussuri Taiga has been recognized by IUCN as a Center for Plant Diversity, not only due to the number of species it contains (there are more than 3,000 vascular plant species); the unique assemblages of species found there also make the area exceptional.

**The current trend in Russia toward diminishing forest health must be reversed.**

**“The unique assemblages of species in the Greater Caucasus and the Russian Far East surpass the diversity and endemism found in temperate forests anywhere else in the world. The Amur-Sakhalin Bioregion in the Far East has particular significance because much of the region escaped the most recent period of glaciation.”**

This ecoregion is often included with the entire lower Amur River basin and Sakhalin Island as the “Amur-Sakhalin Bioregion,” a term coined by the World Bank:

*The unique assemblages of species in the Greater Caucasus and the Russian Far East surpass the diversity and endemism found in temperate forests anywhere else in the world. The Amur-Sakhalin Bioregion in the Far East has particular significance because much of the region escaped the most recent period of glaciation. As a consequence, these areas became a climatic refuge for many species and communities and have a high level of plant and invertebrate endemism (Krever and others 1994; Charkiewicz 1993). Similar forests once covered areas of China, Korea and Japan, but they have been largely destroyed. The region's unique biogeographic history has resulted in unusual assemblages of plants and animals. Amur (Siberian) tigers, Amur leopards, musk deer, and Himalayan bears share the same habitat with brown bears, reindeer, and salmon. (World Bank, Russia: Forest Policy during Transition, 1997)*

Unfortunately, the same region contains most of the Russian Far East's (RFE's) commercial forests.

There are a number of other important areas of forest biodiversity in the RFE. The Kamchatka Peninsula's conifer forests, for example, protect rivers containing the world's largest salmon runs. And those salmon feed the 10,000 Kamchatka brown bears roaming the Peninsula.

### Stabilizing Climate Change

Equally important is the role that RFE forests play in regulating the global climate. The vast RFE forests act as reservoirs for carbon dioxide, the atmospheric overabundance of which contributes to global warming. Oregon State University professors Tatiana Kolchugina and Ted Vinson have estimated that the total “carbon sink” value of Russia's vast forests may equal as much as one-seventh of the global carbon pool (Vinson, 1993). Russia's boreal forests are particularly important in storing carbon; they hold 75% of the carbon stored by all of the world's boreal forests. Properly conserved, the Russian forests act as a critical green “lung” for the earth, second only to Brazil's dense and massive Amazon forests.

Deforestation is the second largest emitter of CO<sup>2</sup> after fossil fuel combustion. Large-scale deforestation of Russian forests could release huge amounts of carbon into the atmosphere, thereby accelerating global warming (Hammond, 1994). The extent of carbon emissions depends on how the forest is logged, however. If forests are logged sustainably, meaning that only selected trees are felled and the diverse structure of the forest remains intact, then CO<sup>2</sup> emissions are minimized.

If the forest is clear-cut and all the trees on a given plot are felled, deforestation not only releases massive amounts of carbon, but also reduces the forest's ability to store carbon because the forest structure is destroyed (Greenpeace, 1994). More than 90% of all RFE forests are clear-cut, although in the Ussuri Taiga they are generally logged selectively.

Reforestation, contrary to popular belief, does not always put carbon back into the ground; some managed forest plantations hold an estimated one-third to one-half as much carbon as does an undisturbed forest (Woodwell, 1993)



**Disturbing the freeze/thaw cycle by logging on permafrost increases greenhouse gas emissions and contributes to global warming.**

### *Permafrost Covers 75% of the Russian Far East*

Approximately seventy-five percent of the Russian Far East's forests stand on permafrost, ground that is perpetually frozen for many meters down, thereby storing the moisture forests depend upon. In the dry summer months, just the top few meters of permafrost thaw, supplying water and nutrients to trees and surrounding vegetation; in winter that layer freezes again, storing water until the next year. This thawing and freezing cycle is critical to the health of northern forests.

Disturbing the freeze/thaw cycle by logging on permafrost increases greenhouse gas emissions and contributes to global warming. When logged, the exposed ground of Russian forests in permafrost zones releases methane, which has a warming effect of 10 to 20 times that of CO<sup>2</sup>. Increased methane emissions occur because large-scale logging causes the permafrost to melt unnaturally by exposing it to direct sunlight. Thus, previously forested ground quickly becomes a swamp. Normally, dying plants do not decompose on permafrost, but instead accumulate on the ground. But when permafrost zones turn swamp-like, this organic matter decomposes quickly, and trapped methane is released from both plant matter and the permafrost. Eventually, the swampy land dries out and may become a desert. Many heavily logged areas of permafrost-covered land never recover. Protecting large tracts of Russian forests would help minimize climate change by keeping the CO<sup>2</sup> in the ground in fragile permafrost regions, and it would also ensure that habitat corridors are available to animals migrating in response to climate changes.



## Overview

**Since 1992, there has been an explosion of small, private timber firms and exporters, resulting in heavy overlogging in the southern Russian Far East forests.**

Russia's timber industry has undergone a radical transformation since 1992, when the Russian government first privatized all state forest industry enterprises. That transfer of power led to an explosion of small, private firms and exporters. State agencies, due in part to declining budgets, have been largely unsuccessful in controlling these enterprises. Withdrawal of state subsidies and the corresponding increase in transport and energy costs have concentrated logging near export markets. From 1990 to 1997, for example, railroad tariffs increased in the southern Russian Far East by 22,107 times (Sheingauz, 1998). While timber production has decreased, overall, localization of logging for convenient exportation has put greater pressure on accessible forests in the southern Russian Far East (Primorsky, Khabarovsk, Sakhalin, and Amur regions). As a result, many of these areas are heavily overlogged. Additionally, higher transportation and fuel costs coupled with declining domestic demand have made it uneconomical to send timber from the Russian Far East to other parts of Russia and the former Soviet Union. Table 2 on the following page shows timber production by region in the RFE.

Table 2 – RFE Reported Timber Production

Region	in 1997* (thousands of cubic meters)	in 1999**
Khabarovsk	3840	4166
Primorsky	2761	1780
Amur	1380	not available (n.a.)
Sakhalin	1070	n.a.
Republic of Sakha	1530	n.a.
Kamchatka	120	n.a.

Total Production: **10,701,000 cubic meters**

Sources: \* Russian Far East Institute of Economic Research  
 \*\* Russian Federal Customs

The processing industry as well as pulp and paper industries in the Russian Far East are dilapidated and cannot produce paper efficiently. As a result, Russia is importing cheaper, better quality, processed timber and paper products from other countries. Thus, the RFE timber industry is increasingly export-driven; it logs commercially valuable timber species and exports the raw logs to Japan, China, and South Korea in exchange for hard currency.

One might expect that the breakup of the former Soviet Union and subsequent Russian economic collapse would relieve the pressure on forests. After all, domestic timber companies do not currently harvest the annual allowable cut, according to officials from the Russian Federal Forest Service, in part because they do not have the equipment to log at pre-1990 levels.

However, the timber industry's wasteful methods and destructive logging practices, the poor conditions for forest regeneration, and an economy driven by raw log exports all contribute to forest degradation in Russia. Indeed, deforestation is increasing throughout Siberia and the Russian Far East, and it will accelerate even more as these geographical regions become more involved in international commerce. Indeed, the figures for annual allowable cut are inflated and do not reflect the actual state of the forests, according to some NGOs. Because the necessary heavy equipment has been privatized, the borders of accessible and assimilated forests, where large-scale cutting of the most valuable species demanded by foreign markets is underway, have widened. Furthermore, catastrophic fires in Siberia and the Russian Far East have significantly reduced the forests that are suitable for logging. NGOs also blame the growing and uncontrolled illegal logging and timber trade activities for forest loss. For example, timber production in Khabarovsk Region may have been as much as three times greater than the 3.8 million cubic meters officially reported, according to some NGO observers. The forests of Siberia and the Russian Far East face many threats in the future that will jeopardize their critical ecological values and functions.

Widespread disregard for logging regulations allows illegal logging and trade to flourish while the unique RFE forest ecosystems are further degraded.

**The forests of Siberia and the Russian Far East face many threats in the future that will jeopardize their critical ecological values and functions.**

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This problem was compounded by the main regulatory bodies responsible for forest protection, the Forest Service Districts *leskhozy*: some *leskhozy* were abusing salvage logging policies in order to obtain the revenue they needed to survive. Beyond that, widespread apathy towards logging regulations has created a “frontier mentality” in the Russian Far East. Now that lawlessness has become status quo, it is even more difficult to enforce timber harvest regulations and collect stumpage and licensing fees, and thus much harder for honest timber companies to survive the competition of illegal operators.

One legacy remains from Soviet forestry, and that is tremendous waste. Russian scientists estimate that from 40 to 60% of all cut timber is lost in the production process, a figure four times higher than in other timber-producing countries (Sheingauz, 1998). After felling the trees, loggers choose only the best logs and leave the rest on site. When transporting logs, the amount of cut timber often exceeds transportation capabilities. Logs are left lying along roadsides for long periods of time; they often rot or are infested by insects. During the processing stage, by-products such as chips and trimmings are rarely used to make fiberboard or other useful products.

The waste left at the logging site provides fuel for another common threat to Russia's forests – fire. In 1998, the Khabarovsk and Sakhalin regions experienced catastrophic fires. According to recent data by the Far Eastern Forestry Research Institute, 1262 fires burned more than 1.5 million hectares of forest land in the Khabarovsk region alone. The Khabarovsk Federal Forest Service estimates that 154.3 million cubic meters of wood stock was lost. Economic losses totaled almost 4.6 billion rubles (\$177 million). Meanwhile, unofficial reports claim additional damages. Many believe that the fires of 1998 – which also led to a public health crisis – burned as many as 6 to 10 million hectares (Wildlife Foundation, Khabarovsk).

Forestry practices in Far East and Siberian forests are destructive and unsustainable. Clearcutting remains the preferred practice over much of the boreal and northern temperate regions of the RFE. Clearcuts cause soil erosion, clogging river systems and reducing the valuable topsoil necessary for regrowth. They also dry out the soil, thereby hindering seedling growth. Finally, clearcuts create breaks in the forest canopy which increase the risk of wind and fire damage to remaining trees. Many forests that are clearcut never fully recover. Selective high-grading, as in the case of Korean pine and ash logging, remains the preferred methods in the Sikhote-Alin region, since the forest's diversity of species makes it uneconomical to clearcut. The practice of high-grading, or taking out only the best trees, slowly degrades the forest's genetic diversity and harms river systems. Other destructive methods include bad road construction, logging on steep slopes, and the use of heavy, outdated logging and transport machinery.

### Foreign Companies Logging in the RFE

Currently, both domestic and international companies are escalating logging pressures in Siberia and the Russian Far East. Most of the international attention is focused on the accessible forests of the Ussuri taiga and pristine coastal forests in Khabarovsk Region. In Khabarovsk Region overall, international logging ventures threaten to increase dramatically the volume of timber logged in the region's previously inaccessible forests. For example, Pioneer Group is logging a large area of forests in the remote Siziman Bay along the coast of Khabarovsk Region and is planning to expand its operation. Thus far, local non-governmental organizations interested in monitoring the industry have been refused access to Pioneer Group's operations.

Further, in December 1997, Rimbunan Hijau, a Malaysian timber company that plans to export logs to Japan, won a 48-year lease on 305,000 hectares (750,000 acres) in the Sukpai watershed in Khabarovsk Region. Logging in these pristine forests will harm wilderness throughout the northern Sikhote-Alin Mountains, in part because the new logging roads now being built will extend access to the forests beyond the leased area. It is unclear whether government agencies will mandate strict, sustainable forestry standards for the Malaysian venture: under Russian law, forests belong to the government but can be leased out to various companies after a competitive tendering process; any lease of fifty years or more requires that the company engage in reforesting the land, while shorter-term leases do not.

Leasing rights threaten forests throughout Siberia and the Russian Far East. In Amur Region, as much as half of the commercial timber base has been leased to logging companies. Around Irkutsk, the regional government has approved over 40 such leases to Russian and foreign companies, including Japanese and European firms. Officials in the Altai Republic are preparing to lease forests proposed for inclusion in a nature preserve to Chinese loggers.

### Russian Logging Companies

Although international logging ventures have received widespread attention, most of the logging in Siberia and the Russian Far East is actually done by domestic operations that export raw logs to China, Japan, and South Korea. Enforcing regulations for domestic logging operations and timber trading firms is more difficult than for international ventures, because domestic ventures attract less scrutiny from the government and press, according to Russian observers.

A large amount of timber is logged by small firms working under salvage logging contracts with the Forest Service leskhozoy. These firms then sell timber for cash – often with fake documents – to Chinese wholesalers. According to estimates by officials in the Primorsky Region administration, up to 40-50% of hardwoods logged in Primorsky Region are logged or exported illegally. For example, in 1998, 445,000 cubic meters of high-quality ash – more than 20% of the region's annual allowable timber harvest – was exported to China and Japan from so-called "salvage operations." Salvage operations are designed to extract old or sick trees and are exempt from leasing payments and stumpage fees. Such operations are also allowed within protected territories. The Forest Service and small companies use this loophole to increase logging volumes, even though such logging does little to benefit local budgets. In 1996, salvage logging operations made up more than 16% of all logging in Primorsky Region and 7% of all logging in Khabarovsk Region (Primorsky Krai Forest Service, Khabarovsk Krai Forest Service, 1998).

**Most of the logging in Siberia and the Russian Far East is done by domestic operations. Enforcing regulations against these operations is very difficult as they attract less scrutiny from the government and press.**

## A Natural Resource Colony: Dependence on Raw Log Exports

All of Russia is experiencing declines in domestic timber production, the collapse of timber processing industries, and the need to increase timber exports. From 1993 to 1998, total timber production in Russia decreased three-fold, while exporting timber abroad became the sole source of steady revenue for many enterprises. From 1993 to 1997, raw log exports from Russia increased by 53%, and in that same period, the export share of total timber volume grew from 6.8% to 19.3% (Sheingauz, 1998).

The RFE timber industry now lives off of raw log exports. Logging companies find it much more profitable to export logs than sell them to local sawmills, which cannot afford to pay high timber prices. In 1997, roundwood comprised 85.3% of total production, and at least 60% of that was exported to Japan, China, and South Korea. Currently, only about 10% of harvested timber is processed locally. In 1992, the industry was much more balanced. Roundwood output was 40% of total industry production; wood processing made up 41%; and pulp and paper production was 16%. At that time almost half of all wood products were used within the region, while one quarter was sent to other regions of the former Soviet Union and 30% was exported internationally (Sheingauz, 1998).

The table below shows 1998 and 1999 timber exports from the Russian Far East. Exports were delivered almost exclusively to Japan, China, and South Korea. The timber originates from both Eastern Siberia and the Russian Far East, but it is channeled mainly over RFE territory and out of its seaports and border crossings. In 1998, over a one-year period, official Chinese imports doubled to 1.7 million cubic meters. Due to the economic recession, Japanese log imports declined from about 6 million cubic meters in 1997, to 4.76 million in 1998. However, 1999 figures show that imports are again up to previous levels.

Table 3 – Russian Far East Timber Exports in 1998 and 1999

Region	1998 RFE Timber Exports*, in cubic meters			Total, 1998	1999 RFE Exports Total, 1999***
	Logs	Sawnwood	Other		
Japan	4,768,000	254,000	186,000	5,208,000	6,074,000**
China	1,698,000	12,500		1,710,500	4,407,000**
South Korea	711,000	30,000		741,000	920,000
<b>Total Russian Far East Exports</b>				<b>7,647,000</b>	<b>11,401,000</b>

\* Timber from both RFE and Eastern Siberian forests

Sources: \* *Russian Federal Customs, 1999*

\*\* *Japanese and Chinese Customs Services*

\*\*\* *Data from GTK of the Russian Federation*

Since domestic demand has shrunk, the Russian Far East timber industry is almost entirely export-driven and is therefore at the mercy of fluctuating Asian markets. Thus, Russian forests are directly affected by demand in Asia for particular species. For example, ash is prized by Japanese companies for housing construction, and increasing Japanese demand has led to illegal logging of ash along protected river basins, as well as general overlogging in some regions. Additionally, Japanese plywood manufacturers have shifted preference from tropical luan to Russian larch. This change in the Japanese market will most likely lead to long-term damage of the fragile permafrost of the RFE's northern temperate and southern boreal forests.

### Lack of Local Benefits

Across Siberia and the Russian Far East, many timber companies now work in communities experiencing horrendous social and economic conditions. Production of sawnwood and other finished wood products could help alleviate some of those problems: timber-processing enterprises could provide jobs to local communities, as well as yielding more income per tree and reducing waste. Yet timber companies are exporting raw logs instead of investing in local processing.

By focusing on raw log exports, timber companies are also speeding up logging. As more timber is exported, raw log production must increase, and faced with the growing scarcity of accessible stands, companies want to develop roadless wilderness in order to find new sources. Such an industrial structure is not only environmentally destructive, but also economically unstable. When Japanese buyers disappeared during the Asian financial crisis,

Table 4 - Distribution of RFE Wood Exports by Main Roads and Railroad Lines, 1998

Main Roads, Railroad Lines and Means of Transportation	Volume, in 1,000 m3	Portion, %
Trans-Siberian Railway (Moscow-Vladivostok, with the Ugolnaya-Nakhodka branch)	3458	44.9%
Komsomolsk-Vanino branch	1774	23.1%
Baikal-Amur Mainline (Tayshet-Komsomolsk)	650	8.4%
Ussuriysk-Khasan branch	66	0.9%
Transportation of Wood Cargo along Highways	1746	22.7%
<b>Total</b>	<b>7694</b>	<b>100%</b>

Source: Russian Far East Institute of Economic Research in Khabarovsk (IER)

**Using equipment and materials appropriated from the old state-run timber companies, newly created small companies have capitalized on the current financial crisis and lack of government oversight by logging and trading timber illegally.**

for example, log export operations in the Russian Far East slowed and logs piled up in ports. The problems of a “boom-and-bust” economy based on raw log exports became clear during the crisis. Local officials began renewing their call for investment in timber processing, which would allow Russia to sell finished wood products with value added, thereby ensuring larger, more sustainable revenues.

The export-driven logging industry provides few benefits for local logging communities. Indeed, a February 1999 investigation by Sakhalin Environment Watch and Pacific Environment showed that Russian loggers are often forced to work under conditions equivalent to slavery. During a visit to a logging site in the southern portion of Sakhalin Island, the organizations determined that the logging brigade – made up of eight people – earned only 18 rubles, or 75 cents, per cubic meter logged. Thus, each brigade member received on average of less than 10 cents per cubic meter logged. The truck driver who transported the logs to a port 40 kilometers away received 6 rubles per cubic meter, or about 25 cents. The wood itself would be sold to Japan for \$70 to \$100 per cubic meter. Unfortunately, entrepreneurs then send the profits out of the country – part of Russia’s capital flight – rather than reinvesting in the local community. Loggers continue to work for such petty wages because no other job opportunities exist for them.

### *Uncontrolled Growth in Logging and Export Companies*

Three simultaneous events – the opening of Asian markets, the privatization of the Russian timber industry, and the decrease in government subsidies for the Russian Forest Service – have triggered a flurry of small, illegal timber operations throughout the Russian Far East.

Privatization and the ongoing Russian economic crisis forced many large, formerly state-owned logging companies in Siberia and the Russian Far East to cut back on production and lay off workers. In response, many of the newly unemployed workers have started their own private logging firms. There are now more than three times as many logging companies operating in the RFE than during Soviet times. Using equipment and materials appropriated from the old state-run timber companies, these small companies have capitalized on the current financial crisis and lack of government oversight by logging and trading timber illegally.

When the Forest Service was still in place, it was extremely difficult for Forest Service officials to control the huge number of small-scale timber companies, which often exist for only one or two years, conduct their illegal logging and trade activities, and disappear before authorities can catch them. In 1997 in Khabarovsk and Primorsky Regions alone, there were 346 and 224 logging companies, respectively. Many of these firms have since gone bankrupt, but local enforcement has not improved, and other firms are likely to spring up in their place. In fact, by early 2000 there were already more than 450 logging firms in Khabarovsk Region.

The Forest Service lacked the funding, equipment, and personnel to control the firms properly. As a result, illegal logging has become common and widespread. With logging rules and regulations routinely ignored, logging has even been documented in nature reserves, game preserves, and protected Group I forests.

Tax avoidance prompts some loggers to work illegally. Often it is more profitable for a company to pay a bribe or fine than to pay regular taxes.

And when a company is unable to pay a fine, there are almost no repercussions. The company will simply go bankrupt, and the entrepreneurs behind the venture will simply create a new company to continue their illegal operations without old debts or responsibilities.

## The Russian Forest

### Service: Oversight Agency or Logging Company?

Until Putin's recent decrees abolishing them, the Russian Federal Forest Service, along with the State Committee on Ecology, has been responsible for forest management and control. There were 81 Regional Forest Service Departments under Federal Forest Service control, and, each was responsible for its own respective region or republic. Under the jurisdiction of these Departments, Forest Service Districts (*leskhozy*) were responsible for local oversight of forest use, management, and protection of a particular administrative district. There are 1,740 Forest Service Districts in Russia. In Khabarovsk region alone there are more than forty.

For years decline in federal funding left many of the Forest Service Departments and Districts without the necessary funds to properly manage and protect forests. In 1995, federal funding covered only 45% of the funds needed for forest management. The 1997 budget in the Primorsky Region, encompassing perhaps the richest forests in all of Russia, was 67 million rubles (U.S. \$2.7 million), which paid the salaries of 2,500 staff employed within 123 forest service stations, scattered among 31 Forest Service Districts. However, the Primorsky Forest Service received only 18 million rubles from the federal budget. The regional government provided an additional 3 million rubles, generated through leasing payments and stumpage fees, for reforestation. Penalties and fines brought in 2.5 million rubles. The U.S. Forest Service donated a one million ruble grant to fight the Gypsy moth. The remaining 49 million rubles, 73% of the total budget for the Primorsky Forest Service, was generated through salvage logging conducted by the Forest Service itself.

In search of funds, the Forest Service Districts resorted to selling "salvage logging" licenses to local logging companies or doing the salvage logging themselves. By Russian definition, "salvage" logging, also called "sanitary" or "maintenance" logging, is intended to remove old and ill trees and those trees which pose fire threats. Therefore, salvage logging is not taxed by the federal government. This loophole enabled both the Forest Service Districts and local companies to employ salvage logging rules and raid high – grade forests for a few key commercially valuable species, primarily ash and Korean pine. However, "sanitary cutting appears to be used more to maximize current revenue than to maximize the future value of the forest, contrary to its intended objective," according to a study by the World Bank (World Bank, 1996).

Viktor Surkov, Chairman of the District Committee on Ecology in Lazo District in Khabarovsk Region, researched the Forest Service Districts operating in his jurisdiction. He found that 82% of the logs harvested under "salvage logging" licenses were commercial grade timber, and that their sale generated revenue for the Khabarovsk Forest Service and Forest Service Districts. Surkov's findings were confirmed not only by officials in the Khabarovsk Region administration, but also by the Regional Forest Service in Khabarovsk, which has sheepishly admitted that some Forest Service Districts were "out of control." And Khabarovsk is not the only region where this was true.

Greenpeace Russia estimates that the Forest Service had become Russia's biggest timber producer, providing 10 million cubic meters of commercial

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**The report  
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timber in 1998. Primorsky Region's Forest Service alone allowed 377,000 cubic meters of timber under the salvage logging loophole (Logging Industry Department, Primorsky Krai Administration, 1998).

*“It is no secret that we ourselves, local forest services in administrative districts of the Russian Far East, are some of the most serious violators of forestry rules and regulations. Even though logging may be our only means to survive, as we receive almost no financing from the local administration and from the government, we have no right, I suppose, to log commercially under the label of ‘salvage logging.’” – Viktor Kozachko, Director, Melnichny Forest Service District, Krasnoarmeiskii District, Primorsky Region.*

*“Our main worry in forest protection is that salvage logging, conducted by Forest Service Districts in forests where no maintenance is actually necessary, leads to a large amount of healthy timber cut for export. We [need] . . . to introduce a regional law to ban logging by Forest Service Districts completely, even so called “salvage” logging.” – Sergei Krylov, Head of Administration, Olginsky District, Primorsky Region*

Non-governmental organizations (NGOs) used to worry that the Forest Service focused more on producing timber in order to meet its budgetary needs than on carrying out its mission of protecting Russia's forests and ensuring sustainable forest management. When the Forest Service itself seriously violated Russian forestry rules, it was even more difficult for the Service to enforce rules over private companies. Furthermore, officials within the Russian Forest Service, who allow or facilitate inappropriate salvage logging, would become more susceptible to bribes from timber companies. For the Forest Service to be effective, say NGOs, it would need to stop conducting salvage logging operations itself and focus instead on ensuring that timber companies follow Russian logging rules and regulations. Now that the duties of the Forest Service have been shifted to the Ministry of Natural Resources, NGOs can expect an even bolder orientation towards logging activity from the former Forest Service foresters.

### Forest Service Abuse of Salvage Logging Regulations: A Case Study

On December 15, 1998, the inspection division of the Southern Interdistrict Committee for Environmental Protection of Khabarovsk Region submitted a detailed report entitled “Status of Group I forests in riparian protection zones of the rivers and creeks in Lazo District, Khabarovsk region.” The report revealed widespread salvage logging abuse by the local Forest Service. The impetus for this report was increasing concern over water and forest health around river systems. Most ash grows in river valleys and plays a vital role in regulating water levels and in preventing erosion along river banks; however, ash is also the most commercially valuable species in the Russian Far East. Ash is being logged heavily by timber companies as well as the Forest Service.

The investigation, conducted jointly by the Khabarovsk Committee on Ecology, forest inventory enterprises, and local police, reviewed 380 logging sites licensed by the Khorsky, Oborsky, Mukhensky, and Sukpaisky Forest Service Districts. After analyzing the data, the report “found tremendous damage to water flows and forests due to non-industrial or salvage logging.” According to the Institute of Water and Ecological Problems, located in Khabarovsk, 50% of all the trees in riparian protection zones had been logged, thus lowering ground water levels by 50 centimeters. The report documented that selective logging along the Khor river watershed had reduced water levels by 100 to 115 centimeters.

“Based on many inspection trips, all of the listed Forest Service Districts have been logging rich, commercially valuable timber of key species (ash, Korean pine, and spruce) in sensitive riparian protection zones and along spawning rivers under the guise of ‘salvage logging’; this is absolutely prohibited,” the report continues.

The report then provides a list of specific violations by Forest Service Districts operating in the area:

*“On forest plot #192 (Sukpaiski department of Sukpaiski Forest Service District), license #38 dated July 27, 1996 delivered rights for so-called ‘Renewal logging’ in the riparian protection zone of the highest category spawning region of the Khor river. Using this license, 698 cubic meters of high quality timber were logged, including 560 cubic meters of top-grade export timber. Eight-two percent of this timber was A-1 quality ash. This area, upon inspection, did not need ‘maintenance’ or ‘renewal.’”*

*“On forest plot #85 (Gornii department of Sukpaiski Forest Service District), license #17 of February 14, 1996 delivered rights for so-called ‘Passage logging’; 516 cubic meters of high quality timber were logged, including 447 cubic meters of commercial quality ash – this site did not need maintenance.”*

*“On the set of forest plots administered by the Katenski Forest Service District on the riparian protection zone of the first fisheries category of the Katen river, there were a series of so-called ‘Rejuvenation logging’ operations in 1996-1997. These operations delivered more than 2000 cubic meters of first quality ash to the market, although licenses provided for logging of primarily old yellow birch trees.”*

*“On August 30, 1999, Khorski Forest Service District delivered license #216 to the Kiya-les Company to cut under the guise of maintenance-rejuvenation logging on forest plot #142. In actuality, 182 cubic meters of top-grade ash and 76 cubic meters of ash firewood were logged.”*

The report concluded that forms of illegal logging by the Forest Service Districts include:

- Logging in contradiction to the Forest Service's mission, since the purpose of salvage logging is to log sick trees and to reduce threats of fire, not to generate profits
- Under-grading of timber (rating timber at lower grades than its actual worth)
- Removing under/over-sized trees
- Logging in prohibited areas, such as steep slopes, along river banks, and in key watershed areas.

**“These operations delivered more than 2000 cubic meters of first quality ash to the market, although licenses provided for logging of primarily old yellow birch trees.”**



## Overview

**On paper, Russian rules regarding logging methods are extremely strict. Yet, due to corruption within the Forest Service, timber companies can easily circumvent any and all of these rules.**

“As much as 40 to 50% of Russian timber is sold to Pacific Rim countries under dumping prices and faked contracts.” –

*Viktor Doroshenko, General Director of Primorsky Region's largest logging firm, Primorsklesprom, in "Vladivostok News" as reported in "Russian Far East Update" - February 1998.*

Illegal logging plagues Russian forests. Examples of illegal activity include logging without a license, logging in protected areas, logging outside of concession boundaries, illegal domestic movement of timber, undergrading timber, transfer pricing, and incorrectly classifying species to avoid taxation.

A common method of illegal logging is to ignore the license requirements of specifying the volume and species of trees to be logged and the methods. These requirements are based on a forest inventory that is supposedly performed every ten years. According to NGOs, however, this inventory is often inaccurate. For example, the Russian forest inventory methodology does not estimate the volume of ash, even though ash has become extremely valuable commercially and is in high demand by timber companies. The Forest Service would issue a logging license based on inaccurate inventories (and therefore inaccurate figures for annual allowable cut), and logging companies were then free to fell whichever species they choose.

On paper, Russian rules regarding logging methods are extremely strict. For example, they forbid logging on steep slopes above 30 degrees and severely restrict logging on slopes above 20 degrees. Additionally, they prohibit logging in forest stands that are composed primarily of Korean pine. Yet, due to corruption within the Forest Service, timber companies can easily circumvent any and all of these rules.

## Money Can “Buy” Documents

As Tatiana Soboleva (of the Commerce Section of the U.S. Consulate in Vladivostok) asserts, while the officially proclaimed volume of timber traded annually between Primorsky Krai and China is worth 250 million rubles, Chinese representatives attest that the true volume of border operations is ten times larger. For a small bribe, Customs officials allow containers and train cars into China practically without verification, and a great number of goods cross the border illegally.

To move illegally harvested timber into the marketplace, timber companies must provide documentation for the timber. This results in a huge amount of fraud, including declaration of timber shipments with inaccurate pricing, grades, species, and timber volumes. Transporting timber regularly involves fake logging licenses, double contracts, forged export licenses, and forged transport certificates. There is also evidence of bribery for the transferring of timber.

Forged logging licenses, timber transport certificates, and export papers are widely available in Primorsky and Khabarovsk regions. In Roshchino village in the Primorsky region, the authors of this report were offered a logging and transport certificate, complete with the embossed seal of the Forest Service, for \$300 on the black market (Newell, 1998). The document included logging dates, data on the logging site, species, and the allowable cut timber volume, as well as truck license numbers, names of drivers, an official stamp, and a logging license number. Armed with this fake certificate, one can easily proceed through militia and customs checkpoints, regardless of the timber source.

“We have a steady but mediocre salary,” reported Yuri, a truck driver for a logging company in Primorsky Region. “Our officials give me blank certificates to fill in data about the timber that I take on my truck from a logging site. So I write in whatever I want to sell officially; the difference that I want to hide for a private cash sale is up to me. We can negotiate the extra logs’ price, and I simply give them to the port manager for cash. Everything is always negotiable, both documents and timber to be exported.”

There are a number of other loopholes. One can log without a license at all, pay off the militia at the checkpoint, and then sell the timber to a wholesaler who prepares forged documents for customs. According to Alexander Kichigin, director of the firm ‘Belogorka’ in Roshchino, “Any consignment can get through the militia point for 200 to 300 dollars.” This timber is then taken to a wholesale timber yard for sale and export. We found this to be a common strategy in the city of Dalnerechensk. Illegally logged timber would pass the militia checkpoint and get transferred to a large lumber facility that has become a wholesale point controlled by Chinese exporters.

Pavel Soldatov, Chairman of the Committee of Ecology in Krasnoarmeisky District of Primorsky Region, agrees with this assessment of rampant bribery. He says, “Depending on the quality of the faked documents, the amount of ash, and the number of people involved, two to five hundred dollars will get you through the militia point. One typical procedure for dealing with the militia is to send a scout ahead of the log trucks to bribe the militia officer, and then the truck can proceed.”

Other strategies include faking the list of stored timber and prices in the consignment, purposefully mislabeling species to avoid taxes, and creating fake export contracts that undervalue the timber, while settling the deal in cash.

**Forged logging licenses, timber transport certificates, and export papers are widely available in Primorsky and Khabarovsk regions.**

## Circumventing Restrictions on Logging of Rare Korean Pine

The rare Korean pine is a good case study for illegal logging in the Far East. Many timber companies are interested in logging Korean pine, a commercially valuable species, yet current logging rules prevent access to Korean pine stands. In response, companies often bribe the Forest Service in order to receive salvage logging rights. The salvage logging quickly turns into logging for Korean pine. Companies can also receive permission to build roads through Korean pine stands, thus gaining access to the trees. The timber companies' most common tactic, however, is to request that the Forest Service increase the size of the forest plot that has been inventoried and is up for leasing. By increasing the plot size, the company can often gain access to Korean pine areas or to forested steep slope sites.

Many customs officials and border guards in the Russian Far East cannot effectively regulate timber exports because they are not trained in species identification. For example, large companies such as Melnichny Timber Company and Terneilles, exporting to Japan, continue to log rare Korean pine, despite the fact that logging Korean pine is severely restricted. Yet timber companies often disguise Korean pine exports by listing the species on customs and port documents as "pine," which usually refers to Scotch pine, or simply "coniferous." For example, Melnichny Timber Company reported 1,200 cubic meters of Korean pine exported from the port of Plastun to Japan in 1998, while it exported some 25,000 cubic meters of "coniferous" raw logs. Yet reviewing the company's logging sites reveals that Melnichny Timber Company had permits to log primarily in Korean pine forests. Furthermore, one can directly observe huge stacks of high quality Korean pine logs in the port of Plastun.

"Timber harvest in Primorsky and Khabarovsk regions is underreported by 100% to avoid taxes," says Dr. Vsevolod Rozenberg, one of the most experienced and knowledgeable forest specialists in the Russian Far East. So if the annual harvest rate was 1 million cubic meters, Rozenberg estimates the real amount logged is close to 2 million cubic meters. This does not, however, account for felled timber that is left at the logging site. This figure can reach approximately 50% of the total cut and would bump the total yearly cut of Korean pine up to 3 million cubic meters.

## Widespread Illegal Logging and Export of Ash

Demand for large, high quality ash logs is skyrocketing in both Japan and China, where the hardwood is especially prized by the housing industry. This has led to intense localized logging, focused on riparian areas in southern Khabarovsk and Primorsky Regions. The largest ash trees grow in riparian areas which play a crucial role in regulating water levels and controlling erosion. Since they are considered protected as "Group 1 Forest," riparian zones are supposedly off limits for logging.

Regardless of such regulations, ash exports to China from the Primorsky Region are greater than ever. In 1995 these exports totaled 212,000 cubic meters, while in 1998 they reached 363,000 cubic meters, almost doubling over a four-year period. Meanwhile, the first quarter of 1999 saw a huge explosion in the amount of exported ash; 450,000 cubic meters – more than in all of 1998 – was exported in the first three months alone.

The problem of illegal logging and export of ash in Primorsky Region has become so widespread that governmental officials in the region openly admit to the problem. Due to the amount of illegally harvested timber flooding the Asian markets, the Primorsky and Khabarovsk Region govern-

**...timber companies often disguise Korean pine exports by listing the species on customs and port documents as "pine," which usually refers to Scotch pine, or simply "coniferous."**

ments have repeatedly tried to restrict hardwood export volumes, particularly ash, to Japan and China. On May 25, 1999, Vladimir Stegni, Director of Foreign Economic Relations for the Primorsky Region, requested export licenses with strict quantity limitations from the Russian Ministry of Economy in Moscow. He wrote:

*“Timber hardwood export volumes from Primorsky Region to Japan and China are constantly increasing and are much greater than the legal allowable cut volume. . . . Providing export licenses without quantity limitations yields no results. From February 15 through May 20, 1999 there were licenses delivered on hardwood logs exported in a volume of 930,900 cubic meters (both Primorsky and Khabarovsk Regions), while the legal quota in Primorsky Region for these species for (all of) 1999 is 260,000 cubic meters.”*

Commercial hardwood grows primarily in Primorsky and Khabarovsk Regions, with Primorsky Region the largest producer by far. Stegni's letter clarifies the extent to which illegal timber exports are accelerated by false documentation.

Illegal logging is not only ecologically destructive, but as the Primorsky government realizes, it is also bad economics. Stegni continued in his letter, “This commercial activity jeopardizes the economic interests of Russia. Our country does not receive proper benefit from such timber exports, as raw logs of ash are sold at dumping prices of \$50-80 per cubic meter, although they cost about \$300 per cubic meter on the global markets.” Because so much timber is being logged illegally the Russian government has been unable to control the amount of exports, and it is also not receiving stumpage fees or other taxes that would normally be generated from legitimate logging operations.

## The Role of Chinese Middlemen in Illegal Logging and Exporting

The border between China and Russia extends approximately 2,000 miles, from southwestern Primorsky Region in the Russian Far East to Chita Region in eastern Siberia. Along this expanse, dozens of border crossings allow the export of logs to China by rail and truck. There is little monitoring or legal oversight of this timber trade, according to local observers. Indeed, some Chinese companies have moved beyond merely trading to investing directly in logging operations in Siberia and the Russian Far East. Such pressure is not limited to areas bordering directly on China, but extends westward along the Mongolian border through Southern Siberia and even to Kazakhstan. Officials in Siberia's Altai Republic recently concluded a deal with China to barter Russian timber for Chinese cotton, and they are

**Illegal logging is not only ecologically destructive, but as the Primorsky government realizes, it is also bad economics.**

Table 5 – Exports of Hardwood Logs to China from Primorsky Region (1995 – First Quarter 1999)

1995	212,000 cubic meters
1996	276,000 cubic meters
1997	423,000 cubic meters
1998	363,000 cubic meters
1999 - First Quarter	450,000 cubic meters

Source: Primorsky Krai Forest Service, 1999

**Chinese timber brokers are moving aggressively into the Russian Far East, and many of them are working illegally.**

considering leasing additional forests to Chinese logging operations. A proposed road to facilitate this exchange would open huge areas of pristine wilderness to timber operations and other forms of resource extraction. With China's growing hunger for timber and Russia's lack of effective control over logging practices, such investment could lead to large-scale forest degradation.

According to government documents, testimony from officials, and industry representatives, Chinese timber brokers are moving aggressively into the Russian Far East, and many of them are working illegally. In a letter to Primorsky Governor Nazdratenko, the Russian Federal Immigration Service wrote, "After inspection, we found that in the Lesozavodskii and Dalnerechenskii Districts, 71 Chinese residents are dealing in timber wholesale and export to China. They come to Russia with the S series business passport; they themselves arrange expert assessment of timber quality and value and accompany the timber back to China. All of this goes on, even though they have no rights to work in Russia."

*(Federal Immigration Service of Russia, Primorsky Branch, to Primorsky Region Governor Nazdratenko; Subject: On the facts of illegal foreigners' activities on Primorsky territory, April 21, 1999)*

The strong reaction by the Russian government can be partially attributed to Russians' overall concern about Chinese commercial activity and residence on Russian soil, but it also reveals the increasing involvement of Chinese firms in the selection, harvest, and export of timber. Many Chinese operators control wholesale timber yards in the Primorsky Region's cities of Luchegorsk, Dalnerechensk, Lesozavodsk, Ussuriisk, Nakhodka, and Dalnegorsk. And many Chinese export firms are listed under false names and aliases which allow them to hide cash operations. There is growing evidence that Chinese money is funding Russian timber firms and exporters.

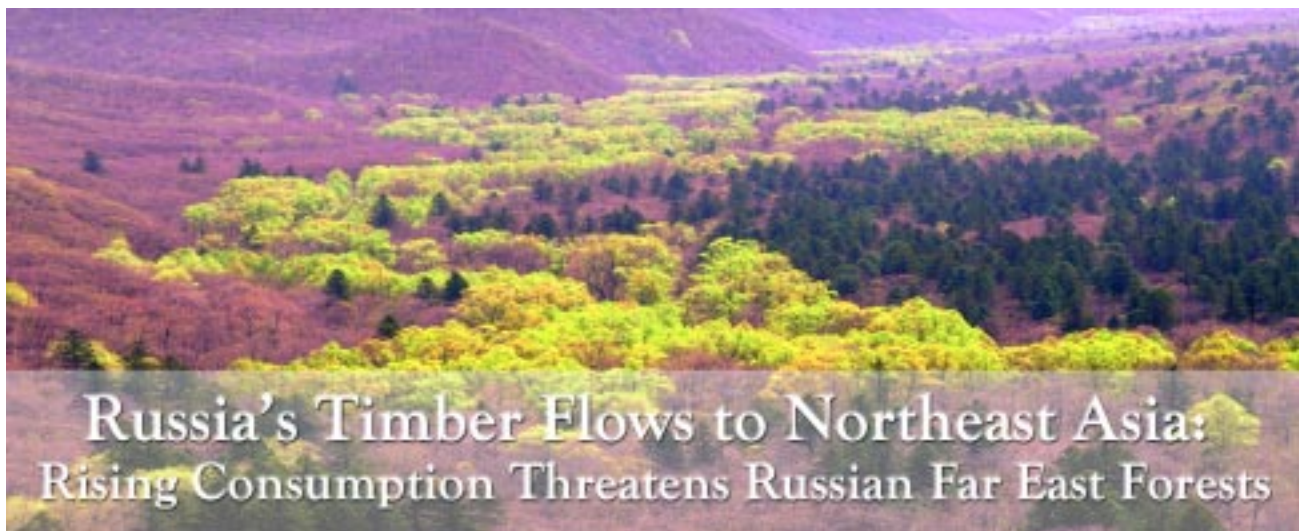
### Other Illegal Export Strategies

As another illegal export strategy, Russian exporters and Japanese importers label high-quality timber as "pulp logs," in order to reduce the official contract price. Often this strategy is meant to hide company profit on the Russian side and thereby reduce the profit tax that the company must pay to Russia. In another version of the "pulp log" strategy, the Japanese importer rejects timber due to "poor quality," forcing the Russian exporter to sell it as pulp logs, thus reducing the price of the logs. When the logs are then sorted or sized in Japan, they are registered again as high-quality timber. In the first six months of 1997, Japan reported 120,000 cubic meters of softwood pulp log imports from Russia, North America, and Australia (Japan Lumber Journal, September 20, 1997). However, Russian statistics show that for the same period, Russia alone exported 163,000 cubic meters of softwood pulp logs to Japan.

This practice appears to be even more prevalent when exporting hardwood ash and oak logs, which are more valuable than softwood. Japanese customs statistics show that, in 1997, 363,000 cubic meters of Russian hardwood logs were imported. Of this total, high-quality logs made up 150,000 cubic meters, while the remainder — 213,000 cubic meters (an unlikely figure) — were reported as pulp logs. As with softwood logs, ash and oak are being under-graded as pulp logs to avoid profit tax and thereby increase profits.

## A Summary of Common Forms of Illegal Activity in the Russian Far East Timber Sector

- Rigging of forest leasing processes
- Absence of environmental impact assessment during the leasing process
- Logging of restricted species and sizes
- Commercial logging of healthy trees under the guise of salvage logging
- Procurement of illegal licenses from the forest service, through bribes and intimidation
- Illegal road construction along salmon rivers and streams
- Logging without a license
- Logging more than the allowable harvest
- Logging in prohibited areas
- Misclassification of species in order to avoid profit taxes
- Under-grading timber
- Under-valuing the export price in the "official" contract
- Signing fake contracts, providing either no payments back to Russia or a cash dollar payment that is brought into Russia illegally.
- Under-declaration of timber volume by bribing customs officials.



## Russia's Timber Flows to Northeast Asia: Rising Consumption Threatens Russian Far East Forests

### Overview

In 1998, 7.6 million cubic meters of timber from the southern Russian Far East (Khabarovsk, Primorsky, Sakhalin, and Amur Regions) and Eastern Siberia (Irkutsk, Buryatia) flowed through RFE land and sea ports to Japan, China, and South Korea (see Table 6 below). Virtually all of the imported wood was in the form of raw logs, and at least officially, Japan remains the largest consumer of Russian timber.

Table 6 - Distribution of Timber Exports among the RFE Territories and Zabaikalye

Territory	(in thousands of cubic meters)					
	1985	%	1994	%	1998	%
Buryatia	776.0	9.2%	62.0	0.8%	625.0	8.1%
Sakha Republic	99.0	1.2%	18.0	0.2%	0.0	0.0%
Primorsky Krai	3797.5	45.3%	3679.0	49.0%	4159.6	54.1%
Khabarovsk Krai	2962.0	35.3%	3487.0	46.5%	2553.3	33.2%
Kamchatka	125.0	1.5%	20.0	0.3%	3.6	0.0%
Sakhalin	350.0	4.2%	242.0	3.2%	272.3	3.6%
Chita Region	280.2	3.0%	0.0	0.0%	80.0	1.0%
Marine export	7125.5	84.9%	7432.0	99.0%	6072.8	78.9%
Railroad Export	1264.2	15.1%	76.0	1.0%	1621.0	21.1%

Sources: IER, Khabarovsk; and IGES, Tokyo.

These export figures, taken from Russian customs statistics, are not completely accurate, however. There are extensive unreported exports, particularly via the numerous rail and road export points to China, according to some analysts. Much of the trade is through barter, when goods are exchanged rather than funds, thus making it difficult to calculate export values.

About 75% of Russian timber imported to Japan is used in housing construction, primarily for non-structural timber and plywood. Siberian larch is gradually replacing tropical logs as the preferred choice of the Japanese plywood industry. Indeed, after enduring years of criticism for its destruction of tropical forests, the plywood industry in Japan is now calling its increased use of coniferous forests environmentally responsible, though Japanese NGOs, led by Friends of the Earth-Japan, are challenging that claim.

Imports of Russian logs to Japan have steadily increased since 1991 (4.3 million cubic meters), reaching a high of 6.07 million cubic meters in 1999 (Mokuzai Shimbun, 2000). The timber is shipped out of numerous ports in the Russian Far East, including large ports such as Nakhodka, Vanino, Vladivostok, Vostochny, Kholmok, Korsakov, and Uglegorsk, as well as from smaller timber ports, such as Plastun, Olga, Svetlaya, Nelma, Siziman, and DeKastri, which are accessible to timber supplies. Japan imports Siberian pine logs (1.69 million cubic meters in 1999) from Eastern Siberia, while the remaining 4.5 to 5 million cubic meters is composed of larch, spruce, fir, ash, and Korean pine logs that come from forests of the southern Russian Far East.

Barring significant environmental restrictions or a collapse of the Japanese housing market, Russian log imports will continue to increase. Russia has emerged as Japan's largest supplier of logs. In Japan houses last between 30 and 35 years, due to a "scrap-and-build" housing policy supported by the government and the finance and insurance sectors, which has led to massive over-consumption of the world's forests.

Wasteful housing construction methods in Japan must be changed, say many Japanese NGOs. In particular, building codes need to be revised to include non-timber sources; loan policies and regulations mandating a limited life span for houses need to be dissolved; and the housing construction industry needs to be de-centralized.

South Korea, whose own forests were devastated during World War II and the Korean War, imports about 90% of its timber products, including about 8 million cubic meters of raw logs each year. While New Zealand remains South Korea's largest log supplier, Russia has become a major source, ranking third after New Zealand and Chile. In 1997, South Korea imported 925,000 cubic meters of logs from Eastern Russian forests – doubling its imports of 1993. Russia ships logs from the Russian Far East ports to the South Korean ports of Pusan and Incheon. Analysts predict that Korean imports of Russian logs will increase, since Russian old-growth timber is of a higher quality than New Zealand and Chilean plantation timber but costs about the same. Unlike their Japanese counterparts, Korean timber importers place a premium on price rather than quality. Therefore, demand for medium and pulp grade logs is high; larch pulp logs, in particular, are often converted into sawn timber.

Increasing Chinese timber consumption poses perhaps the greatest long-term threat to Russia's Far Eastern taiga. Massive flooding in China in 1998 forced the government to strictly limit timber harvests, in order to protect natural forests and prevent further erosion. Those domestic limits are leading to increased logging rates in Siberia and the Russian Far East, all

**In Japan houses last between 30 and 35 years, due to a "scrap-and-build" housing policy supported by the government and the finance and insurance sectors which has led to massive over-consumption of the world's forests.**

along the Chinese border. Despite the Chinese government's claims that it will strive for self-sufficiency in timber production through massive plantation efforts and increasing harvesting efficiency, the reality is clear: China will become a major timber importer in the next ten years. China Economic Information Daily reports that China faces an annual shortfall of timber by 45 million cubic meters by 2000 and would "dispatch lumberjacks and equipment to set up lumberyards in other countries." China imports Siberian pine logs from Eastern Siberia, and ash, larch, fir, and spruce from southern RFE forests. The Center for International Trade in Forest Products (CINTRAFOR) predicts that by the year 2025 under a low growth scenario, China could face a deficit of 200 million cubic meters annually.

Table 7. Chinese Imports of Russian Logs, 1995-1999 (in cubic meters)

Year	1995	1996	1997	1998	1999
Logs from Russia	357,788	529,374	949,324	1,591,272	4,304,946
Total log imports	2,582,601	3,185,483	4,470,669	4,823,042	10,135,683
Russian logs, % of total	13.9%	16.6%	21.2%	33.0%	42.5%

Source: *Chinese Customs Yearbook (1995-1999)*, in Yamane and Lu, 2000, Chen.

China will look to Russia to cover a good portion of that deficit. In 1997, Russian log exports to China totaled about 941,000 cubic meters, while in 1998 the figure nearly doubled, to 1,698,000 cubic meters. In the first half of 1999 alone, Chinese imports of logs from the Russian Far East surged to 4.22 million cubic meters. According to CINTRAFOR, trade in logs between Russia and China increased almost ten-fold in two years – from \$1.8 million in mid-1996 to \$17.5 million in mid-1998.

In 1999 the Russian Ministry of Foreign Trade and Economic Cooperation granted permission to the Harbin International Economic and Technological Cooperation Corporation, located in Northeast China, to send its loggers to Khabarovsk Region to cut three million cubic meters of timber, where the forests have been ravaged by fires. In Amur Region, the government recently entered into a \$1 million contract for a Chinese contractor to log the construction site of the proposed Bureya Dam. All of that timber will reportedly be sent to China for sale. Dr. Changjin Sun, forest program officer at WWF-China, writes, "Large diameter logs are in huge demand in China. We are close to running out of timber. Lester Brown asks who will feed China. Well, the question should be, 'Who will house China?'"

Environmentalists fear that China plans not only to import large volumes of Russian logs for its own needs, but also to modernize its huge sawmill industry in Northeast China and export sawn timber made from Russian logs to Japan, Taiwan and other Asia-Pacific countries. These fears may be realized. Over the past five years, Chinese sawn timber exports to Japan have grown dramatically (see Table 8 on page 32).

In fact, many of the small sawmill firms are established through Taiwanese investment, some as joint ventures, others as Taiwan-owned companies, according to Wen Bo of the China Green Students Forum. Because the government is trying to attract foreign investment, they may even enjoy some policy benefits, and the local government may see this as a way to modernize the local sawmill industry, says Bo.

Regional government officials have long discussed the need to develop a local processing industry in the Russian Far East. As a result of the eco-

Table 8 – Chinese Sawnwood Exports to Japan (1991–1997)

1991	1992	1993	1994	1995	1996	1997
109,457	142,515	183,483	230,914	303,903	354,201	403,699

Source: Ministry of Finance, Japan, 1999

conomic crises in Russia, huge Soviet-style lumber and pulp mills have gone bankrupt. Meanwhile, across the border, China's Heilongjiang Province has seen an increase in new timber processing enterprises, including Nacha Wood, Lancian Wood, Mudanjiang Forest Wood, San Gan Ling, and Xin Yang Wood – together representing more than 600,000 cubic meters of annual processing capacity. Yet RFE officials, despite saying they favor developing a local processing industry, continue to promote policies that allow Chinese companies greater access to Russian Far East timber.

### Export Routes

Timber is transported from the Russian Far East and Eastern Siberia by rail, road, and ferry to China and exclusively by ship to Japan and South Korea. As Russian international economic interactions have increased over the last decade, the number of ports for export has risen. Any military, ship-repair, fishing or research berth has become a place for leakage of legal and illegal wood overseas. The Primorsky regional government estimates that there are more than 97 export points from Primorsky Region alone. And according to the estimate of “Nakhodkales” Director Nikolai Pozdnyakov, a similar number of private piers and moorings where wood is traded for export can be found in Nakhodka alone. On Sakhalin a number of companies, taking advantage of the proximity of leased forest plots to the shore, use helicopter transport of wood from those plots directly to ships anchored just offshore.

Table 9 – Top Ten Importers of Russian Timber (Logs) to Japan – 1997

		cu.m.	%
1.	Nisso Iwai	858,655	14.0%
2.	Nichimen	524,755	8.5%
3.	DzalenY.	432,868	7.1%
4.	Sumitomo	339,392	5.5%
5.	Orient	291,442	4.8%
6.	Marubeni	278,463	4.5%
7.	Itochu	271,059	4.4%
8.	Mitsui	246,520	4.0%
9.	Uasa	229,356	3.7%
10.	Troika	225,367	3.7%

Source: Compiled from Mokuzaï Shimbun, 1998

Table 10 – Ten Largest Chinese Timber Processing Plants Using Timber from Russia

**In Heilongjiang province:**

- Harbin Furniture and Decoration Industry Company, Harbin City
- Wood Furniture Factory of Qiqihar City
- Harbin Wooden Products Manufacture Factory, Harbin City
- Helin Integrated Furniture Co. Ltd., Jiamusi City
- Mudanjiang Integrated Wood Processing Factory, Mudanjiang City
- Nanshan Plywood Plant of Hegang City

**In Jilin province:**

- Changchun Huanmei Floor Co. Ltd., Changchun City
- Wood-based Panel General Factory of Hunchun City
- Tumen Sawmill, Tumen City
- Zhenlai Wood Preservation Factory under the Railway Ministry, Zhenlai County

Source: Lu and Yamane (Unpublished data). Chinese Customs, 1999

Table 11 – Ten Largest Chinese Importers of Russian Timber

1. China Local Product and Animal Product Import and Export Corporation
2. China Handiwork Import and Export Corporation
3. China Packaging Import and Export Corporation
4. China Nanguang Import and Export Corporation
5. China Timber Corporation
6. China International Trust and Investment Corporation (CITIC)
7. China Metal and Mineral Product Import and Export Corporation
8. Heilongjiang Provincial Light Industry Product Import and Export Company
9. Heilongjiang Provincial Local Product and Animal Product Import and Export Company
10. Shanghai Municipal Local Product Import and Export Company

Source: Chinese Customs, 1999. Lu and Yamane (Unpublished data)

During the Soviet period, the government held a monopoly over timber exports; timber could be exported only by a special exporter overseen by the federal government. That system has expired, and a number of land and seaports have opened for timber export – including privatized sea terminals and piers in merchant and naval shipyards, which are almost impossible for government authorities to regulate.

A number of unequipped, uncontrolled export points suitable for small ships and barges have sprung up on remote sections of the coast along Sakhalin Island and Khabarovsk Region, on both sides of the Tartar Strait. These export points deliver timber directly to Japan. Similar uncontrolled export points exist along the Amur River, upriver from Khabarovsk, to deliver timber to China. Timber flows across the Amur River to Tong Jiang (near Khabarovsk) and Hei He (across the river from Blagoveshchensk) are increasing, say researchers in Heilongjiang Province (in northeast China), according to Wen-Ming Lu of “Chinese Customs Yearbook.”

Table 12 - Distribution of RFE Wood by Means of Transportation, 1998

Means of Transportation	Volume, in 1000 m3	Portion, %
<b>On the Continental part of RFE:</b>		
Railroads and railroad exchanges	1621	21.1%
Railroad outlets to ports	4327	56.2%
Automobile outlets to ports	1470	19.1%
<b>On Sakhalin</b>		
Railroads and automobile transport to the island's ports	272	3.5%
<b>On Kamchatka</b>		
Automobile transport to ports	4	0.1%
<b>Total</b>	<b>7694</b>	<b>100.0%</b>

Source: Russian Far East Institute of Economic Research in Khabarovsk (IER), and Yamane and Sheingauz (2000)

An analysis of wood exports from Sakhalin in 1995, prepared by Sakhalin Environment Watch, reported that in the early 1990s up to 40 companies exported wood through the port of Korsakov alone. Every year 75 vessels were sent off, each carrying from one to seven lots of wood from various suppliers for various buyers, and the volume of each lot comprised from a few hundred to several thousand cubic meters. There are about 20 such export points on the island.

As a result, it is extremely difficult to track and oversee timber exports effectively. Russians speculate that illegal exportation, especially to China, is widespread. Furthermore, the mushrooming export sites have made it difficult for the Forest Service and customs to track the origin of the timber and guarantee that the timber was not logged illegally.

Regional governments are making small attempts to control the situation. The Khabarovsk government is now mandating that 20 percent of the region's timber be exported by a new state firm, *KhabGlavLes*. Nonetheless, most observers do not see this as an attempt to control and regulate illegal export; rather, they suspect it is an effort by the government to muscle in on the profits.

In Primorsky Region, the governor signed a decree two years ago to prevent the export of ash logs and reduce the number of export points to a quarter of what they had been. However, many exporters have ignored the decree and avoided regulation, while selling their timber to other wholesalers and exporters such as Primorsklesprom or Chinese private companies. Because of forged documents, the illegally harvested timber is extremely difficult to track through the chain of custody. The Customs Service, too, has ignored the decree, not wishing to lose revenue by lowering the numbers of exports.

### Flows to China

Timber is exported to China primarily using the Chinese Eastern Railroad, which was built by Russians in 1903 and cuts through the heart of North-eastern China. The railroad cuts directly across Manchuria from the Eastern Siberian border of Zabaikalsk - Manzhouli, southeast of Lake Baikal. The railroad leads to Harbin, a Russian-built city that is now the capital of China's Heilongjiang Province.

**Because of forged documents, the illegally harvested timber is extremely difficult to track through the chain of custody.**

**Figures on export of Russian timber to China are generally unreliable, due to weak export and import controls, the multitude of export paths, and barter deals.**

A second route, from Primorsky Region's Pogranichnoye to the Chinese city of Suifenhe, is located just 100 kilometers from Russia's Ussuriisk, a city of 250,000 which has become a center for Russian-Chinese trade, thanks to its location on the Trans-Siberian railway. The Pogranichnoye-Suifenhe railroad and two truck roads form a primary artery for Russian-Chinese trade. According to official statistics, this trade route handles 55% of all international trade between Heilongjiang Province and Russia.

In addition to the two railway routes, the other primary export routes are by ferry from the city of Blagoveshchensk (Amur Region) to Hei He and by rail from Naushki, in the Republic of Buryatia, across Mongolia and into the central provinces of China. Illegally logged pine from Northern Mongolia is being mixed with the shipments of Russian timber bound for China on this Russian-Mongolian rail route, according to Mongolian NGOs. Recently, the Mongolian government instituted high export tariffs on timber exports to reduce deforestation, but that measure may have increased illegal exports of logs. Further complicating matters, Valery Sukov of the export agency "Grodekovovneshtans" has reported that trading partners in illegal logs use both the Naushki and the Pogranichnoye-Suifenhe routes. Thus, if it is impossible to export Siberian pine via Naushki, the traders will ship the timber via the Trans-Siberian to Pogranichnoye-Suifenhe for export. Such practices only increase the complexity of tracking timber from source to consumer.

Figures on export of Russian timber to China are generally unreliable, due to weak export and import controls, the multitude of export paths, and barter deals, which – in an absence of hard currency exchange – are difficult to track.

The Manzhouli, Suifenhe, and Naushki/Erlianhot train routes account for about 95% of all timber exported from China. Official Chinese customs statistics show that in 1999, 4,235,631 cubic meters of timber were imported from Russia. The Zabaikalsk-Manzhouli route, largest export gateway since 1995, exported 1,777,579 cubic meters in 1999 (about 40 percent of all logs exported to China), this is a tremendous increase from 272,124 cu.m. in 1996. In 1999, 1,341,380 cu.m. of logs, about 31 percent of all logs to China, were exported through the Pogranichnoye-Suifenhe route. Russian traders exported 933,569 cu.m. along the Zabaikalsk-Manzhouli-Erlianhot route. The other major route is through Heihe, where imports of logs totaled 98,675 cu.m. in 1999. The table below shows import figures for all major import gateways in more detail. A significant percentage of timber to China used to be shipped, almost 40 percent in some years. However, that figure is now down to about two percent, due to improved Russian-Chinese rail routes.

We will focus our attention here on the trade in hardwoods (ash and oak) reaching China from the Sikhote-Alin Mountains of the Russian Far East (Primorsky and southern Khabarovsk Region). Local RFE customs data for 1998 show that 640,000 cubic meters of hardwoods were exported to China from Primorsky Region, while 150,000 cubic meters were exported from Khabarovsk Region – a total of 790,000 cubic meters. However, federal customs data report that only about 520,000 cubic meters of hardwoods were exported to China from all of Russia that year. Thus, assuming that local statistics are more reliable, federal statistics underestimate the volume of trade by at least 35%, without even considering hardwood exports to China from regions other than Primorsky and Khabarovsk Regions. Moreover, many people also assume that even the local statistics miss a significant percentage of the illegal export of hardwoods; thus, it is most likely that overall timber exports to China are far higher than timber volumes reported in official statistics.

Table 13: Chinese Imports of Russian Logs (By gateway)

Province/ Customs Gateway	1995	1996	1997	1998	1999
<b>Inner-Mongolia</b>					
Manzhouli	116,462	146,838	381,663	665,141	1,783,570
Erliahot	2,717	11,778	118,903	260,480	933,569
Xinjiang Urumchi	0	0	0	192	4,245
Jilin Hunchun	55	610	0	1,404	11,012
Heilongjiang Suifenhe	—	272,324	381,328	560,959	1,341,380
Heihe	—	1,923	0	3,459	98,675
Xunke				599	735
Jiayin					341
Luobei					705
Fujin				1,610	2,373
Tongjiang		17,050	13,567	10,293	25,713
Fuyuan					6,568
Raohe			630		152
Hulin		17,209	4,747	2,017	1,632
Mishan		4,135	267		216
Dongning		8,158	8,513	5,798	16,485
<b>Total</b>	<b>119,234</b>	<b>480,025</b>	<b>909,618</b>	<b>1,512,494</b>	<b>4,235,631</b>

Source: Chinese Customs, 2000. In Yamane and Lu, and Lu.

Scientists and NGOs have become extremely concerned at the lack of control over hardwood exports from Primorsky and Khabarovsk regions. According to an estimate by Vyacheslav Balandin, a representative of the Primorsky Regional Administration's Logging Industry Department, overlogging of hardwoods has increased four- to five-fold in the last five years. Logging of commercially valuable ash and oak often occurs in riparian protection zones, along salmon spawning rivers, and in first group protected forests.

Even the local statistics do not consider export activity across the numerous small road and river crossings along the 2,000-kilometer Russian-Chinese border, and there is little data about timber flows from those exit points. Small shipments of timber can also be exported by ship to China. Although this is not an exact figure, CINTRAFOR estimates that up to 40% of Russian timber is exported by small ships which generally handle about 5,000 cubic meters each. Chinese buyers favor small shipments, since they often do not want to finance larger shipments, and most of them are sent to Shanghai, Jiangsu, and Zhejiang. This area also requires further research.



**Logging of commercially valuable ash and oak often occurs in riparian protection zones, along salmon spawning rivers, and in first group protected forests.**

## Investigating the Illegal Chinese Timber Trade – A Case Study

On June 30, 1999 a criminal investigation was launched in Krasnoarmeiskii District (Primorsky Region) against Chinese national Qian Yun for “legalization of illegally received property.” Mr. Qian was accused of purchasing illegally logged ash and selling it as legal timber with the use of fake documents. However, no lawsuit was filed against him.

In early 1999, the Department for Fighting Organized Crime (DFOC) of the Primorsky Region Police discovered a Chinese organized crime group in the forest-rich District, with a timber storage area and an illegal “headquarters” in the nearby town of Dalnerechensk. The group stockpiled illegal ash and oak purchased from loggers, legalized the timber with fake documents, and exported it to Japan. A police search revealed a number of blank transport certificates, a type of Forest Service document that is strictly controlled and required for customs clearance.

It is remarkable that the case by the Krasnoarmeiskii District Police against Qian Yun was not brought to trial. According to DFOC, the case was dropped because of procedural violations. Reportedly the “violations” occurred thanks to Chinese bribes. Although Mr. Qian was initially accused under a law that could have resulted in 10 years in prison, the charge was later reduced to a violation that could have cost him a maximum of two years. In August 1999, DFOC gave the case to the Krasnoarmeiskii District Police, who closed the investigation.

On November 3, 1999, the head of the Investigations Department of the Primorsky Region Police ordered the District to re-open the case because of its poor procedural compliance. If this investigation could be brought to court with results, the Primorsky Region could set a valuable precedent and start a large-scale war against Chinese illegal timber traders.

– based on an article by Pavel Kushchenko, “Konkurent,” November 1999

## Flows to Japan

The six to seven million cubic meters of timber annually exported from Russia to Japan flow mainly through the large ports of Vanino and Sovietskaya Gavan’, in Khabarovsk Region, and through the ports of the southern Primorsky region. Nakhodka alone handles about one-third of the timber trade, exporting from 1.5 to 2.5 million cubic meters of timber to ports throughout Japan. In Nakhodka, these exports leave through as

many as 100 private ports, terminals, and piers, which makes customs and inspection control difficult, if not impossible.

Just over half of the exports from Nakhodka – 1.1 million cubic meters in 1997 – consists of Siberian pine logged primarily in the Irkutsk Region, in Eastern Siberia near Lake Baikal, and to a lesser degree from the Amur Region. The remainder comes from logging operations throughout the southern Russian Far East, particularly from Khabarovsk and Primorsky Regions. The ports of Vladivostok and Vostochny (in southern Primorsky) annually export from 600-700,000 cubic meters and 400-500,000 cubic meters, respectively. As with Nakhodka, about half of this timber comes from Eastern Siberia; the remaining logs originate in southern RFE forests.

In 1997, the port of Vanino exported 1.4 million cubic meters of timber, logged mostly in Khabarovsk and Amur Regions. Just south of Vanino, the port of Sovietskaya Gavan' exported about 350,000 cubic meters of timber, originating in Khabarovsk Region, in 1997 (Yamane & Sheingauz)

In addition to the larger ports, there are a number of smaller coastal ports in the Khabarovsk, Sakhalin, and Primorsky Regions. Many of these ports exclusively export timber that is logged from accessible forests near the port itself. Among the largest of these timber ports are Plastun (400-500,000 cubic meters annually), Nikolaevsk (300,000-400,000 cubic meters) De-Kastri (250,000-300,000 cubic meters), and Olga (100,000 cubic meters). Sakhalin ports, including Korsakov, Poronaisk, and Kholmsk, export a total of 400,000-500,000 cubic meters each year. Other ports along the coast of the mainland, such as Siziman, Nelma, Svetlaya, and Lazarev, require further research to determine export volumes.

In the last five years, a number of newspaper articles have outlined corruption and illegal export connected with these smaller ports, which are often remote and not subject to the same level of government scrutiny as the larger ports. Those articles have described the export of illegally logged ash and Korean pine logs along with fake export contracts on a regular basis. Further research is required to confirm these claims.

### Flows to South Korea and North Korea

How much Russian timber flows as exports to South Korea is not well known. Timber is exported by ship to the major Korean ports of Incheon (near Seoul) and Pusan. In 1998, 13.5 percent of Korea's annual imports from Russia were shipped from Sakhalin ports. This volume reflects a close business relationship between South Korean companies and a large local Korean community in Sakhalin.

North Korea specifically imports Russian Far East timber from North Korean-managed timber concessions in Chegdomyn (Khabarovsk Region) and Tynda (Amur Region). Historically, North Korean loggers have badly damaged areas of the Siberian and Russian Far Eastern taiga. The Chegdomyn and Tynda logging agreements were first signed between the Soviet and North Korean federal governments. Now, regional officials who are interested in currency and timber revenues, have extended these agreements. One major export route runs via the Tumen River railroad crossing near Khasan. Timber is also shipped from Vladivostok and Posyet to the commercial ports of Rajin and Chajin. Official statistics in 1998 showed 17,000 cubic meters exported, yet local observers claim that the 1998 timber volume logged in North Korean concession areas was far greater. Also, in 1998 North Korea exported 219,000 cubic meters of raw logs to China, or 4.5% of that country's total log demand. One could conclude that a portion of that timber was of Russian origin and harvested by the Russian-North Korean joint ventures.

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## Efforts to Address Illegal Logging and Export

### Government Efforts

Government efforts to control illegal activities have been hamstrung by a number of problems. Underlying them all is the current “Wild East” or “frontier” mentality of the Russian Far East, which means that citizens routinely ignore laws and regulations. Further, economic crisis has forced people to fend for themselves, including loggers, traders, police, Forest Service officials, customs officials, and even government officials in Moscow.

Indeed, controlling illegal logging and trade in the Russian Far East has proven to be extremely difficult due primarily to the complicity of the very government officials and structures charged with protecting the forests. Nonetheless, some government officials, NGOs, and journalists have begun to focus the public eye on illegal logging and trade issues. One timber industry representative expressed the following opinion:

*“The federal forest service wants to fight illegal logging and export of ash by increasing the stumpage fee. But it is obvious that that will force into bankruptcy most of the official logging companies that are working relatively legally by paying taxes and maintaining the social and road infrastructure in the small timber towns. This will not affect the small logging operations that are working criminally and illegally, since they work primarily by cash and with no documents or with falsified ones. A raw log export ban would be a much more effective measure. Northeast China is developing ash-processing facilities capable of producing about 200,000 cubic meters per year. If we adopt a ban on raw log exports, exporters will be forced to come to the Russian Far East to process the timber. That would provide jobs and bring in greater revenue. The key point is to force customs to implement this ban. Now we are trying, through the federal government, to push the federal customs service to accept the ban, though there is obvious reason for opposition: Customs receives too many profits from raw logs and doesn't want to lose that.*

*“In the interim, I support the move by the Far East Customs Regional Department in Vladivostok to require a 10-day holding period for timber exports. That will give us time to research the chain of custody for the consignment. In collaboration with the Primorsky Regional*

*government, we are trying to develop a separate trading code that lists ash separately from other hardwoods. Customs should heed local authorities in the administration and permit timber transfer only after full confirmation of its legal production. Currently they don't care enough about it. We [in Khabarovsk Region] are in an easier position than Primorsky Region because we have the infrastructure to more easily control ash flow at several points. In customs declaration documentation, there is a place for special remarks. We have agreed to include the name of the specific export point. Also, places for sorting and storage of ash should be limited in both regions. Railroad officials should be responsible for transporting ash-transport cars only to specified export points. There should be certified exporters of ash. The only freedom should be the exporters' selection of ash importers/ consumers. Now we are awaiting a resolution from the federal government on this issue. There are 300 logging companies and 67 exporters of ash in Khabarovsk Krai alone." – Georgii Viktorovich Markov, Deputy Chairman of the Timber Industry Department, Khabarovsk Region Administration (Interview with Newell and Lebedev, November 1998).*

Some Primorsky and Khabarovsk regional agencies have launched efforts to prevent illegally logged timber from being transported to an export point where it can achieve "legal" status with forged documents. For example, some agencies establish roadblocks where they can check transport documents. Unfortunately, the roadblocks, which are generally run by local police, are extremely susceptible to both bribery and forged documents.

Meanwhile, timber and trading companies are unconcerned about fines or criminal punishment for forest destruction. Both the criminal and civil legal codes assign weak penalties for environmental destruction; fines are so low that it is often more profitable for companies to continue illegal logging and timber transfer and pay the fines than to change their practices. Criminal timber dealers worry only about having their timber confiscated; however, bribes can usually resolve that problem.

The Primorsky Region is attempting to solve the problem at hand. For example, the region has instituted a system of transport certificates that track chain of custody, so it is theoretically possible to check the source of the timber and ensure that it was legally logged. In Krasnoarmeiski District of Primorsky Region, the police have been somewhat effective at confiscating illegally logged timber shipments; however, powerful people within the timber industry have managed to pressure government officials to halt year-round roadblock inspections.

Meanwhile, if the Forest Service or police do confiscate timber, they can make money by then selling it. There is therefore no incentive for the agencies to put an end to illegal logging practices; rather, they allow them to continue and confiscate some of the logs to augment their own budgets.

Khabarovsk Region has an even more difficult time controlling the illegal timber trade. Unlike Primorsky Region, transportation permits there do not include the data from the logging license. There is therefore no way to track chain of custody in Khabarovsk and verify that trees were logged on legally licensed sites.

However, Khabarovsk Governor Ishayev recently decreed that Khabarovsk Krai will stop exporting raw logs within three years. By the year 2003 timber-producing companies in Khabarovsk will export only processed and structural lumber. The gradual phase-out relies on investment in the paper and timber-processing sectors. Projects in those areas are expected to create new jobs and increase profits ten- to fifteen-fold (U.S. & Foreign

**Fines are so low that it is often more profitable for companies to continue illegal logging and timber transfer and pay the fines than to change their practices.**

Commercial Service and the U.S. Department of State, 2000).

The Ministry of Internal Affairs has created special departments to target illegal forestry practices. However, due to infighting among government agencies, the new departments have been unable to cooperate effectively with the regulatory agencies — the Committee on Ecology, the regional Forest Service departments, and regional environmental prosecutors. Further, none of the regulators has the right to confiscate shipments or arrest loggers and traders, who often carry firearms. At best, the regulatory agencies can write up a grievance that is equivalent, essentially, to a parking ticket. Thus, without support from the police and the Ministry of Internal Affairs, it will be difficult to halt illegal logging and trading activities.

The Primorsky government attempted to launch its own initiatives for controlling illegal activities in the timber sector. To promote local processing, the Primorsky Regional Administration passed a decree in 1998 that banned the export of raw ash logs. However, after complaints from industry about limiting free trade, the decree was overturned by the regional prosecutor. Khabarovsk has also taken steps to limit ash log exports by setting the export quota at 150,000 cubic meters in 1998. However, it is unclear whether this restriction was effectively implemented.

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## Reasons for Breakdown in Government Efforts to Control Illegal Logging and Trade

- Absence of positive collaboration between three federal bodies – Customs, the Forest Service, the Foreign Trade Ministry – and the regional administrations
- Failure to release information on timber trade and export to the public and other agencies;
- The inspecting agencies' financial dependence on fines and payments from logging and exporting companies
- Budget shortfalls for inspecting agencies;
- Small foreign companies' ability to register in Russia and receive logging and export licenses;
- Unlimited permission to register timber export contracts without showing the relationship to logging licenses and annual allowable cut;
- Too many export points for timber leaving the Russian Far East;
- Poor customs enforcement when checking raw log export shipments;
- Lack of incentive to promote exports of processed wood while simultaneously reducing logging quotas;
- Poor government policies for reinvesting revenues in the forestry sector, in order to ensure responsible forest management and trade controls;
- Difficulty in tracking chain of custody from logging to export;
- Cutting and export bans passed without commensurate increases in resources for enforcement;
- Failure of importing countries to impose reciprocal import restrictions to the export restrictions in the Russian Far East;
- A complicated tax system, with a vast array of charges collected at different stages, that forces companies to work illegally in order to avoid taxation and possible bankruptcy;

- Lack of necessary checks and balances on government agencies responsible for the forest sector and consequent corruption;
  - Lack of political clout among the agencies in charge of controlling the forest sector and consequent overruling by other, more powerful government agencies;
  - Understaffed forestry departments with poorly trained, poorly paid staff, and without necessary equipment and infrastructure in the field or sufficient support from their headquarters;
  - Negligible fines and punishments for logging and trade violations;
  - Secretiveness of customs and foreign trade regulators who guard export contract prices.
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## Public Efforts

Russia has a strong tradition of citizen-based monitoring and inspecting programs. In the 1960s and 1970s, such work was carried out by the All-Russian Society for Nature Protection. In the 1980s and 1990s, those responsibilities were transferred to government agencies. Citizen inspectors lost their authority. In the past few years, citizens' groups (NGOs) have emerged to step in and fill the growing need for inspection and enforcement. Often government agencies welcome the volunteer assistance.

Citizens' monitoring efforts are also an effective way to help prevent government corruption in Siberia and the Russian Far East. Throughout the region, Russian and international NGOs are training "citizen inspectors" to monitor logging practices. Groups such as the "Druzhina" student groups in university towns have conducted hundreds of raids in recent years to uncover illegal timber harvesting and wildlife poaching, and they are able to both document illegal logging practices and uncover government corruption. And by publicizing their activities, these groups can pressure the government to enforce its own laws.

Citizens' groups have worked in alliance with sympathetic government officials within their regional Committee of Ecology, Forest Service, or environmental prosecutor's office to promote better compliance with environmental regulations. Bringing violations to the attention of local administrators or local Forest Service officials has been an effective means for generating corrective action. The current changes in the government make it unclear, however, with whom NGOs should now work on these issues.

Effective citizen monitoring programs must be implemented throughout Siberia and the Russian Far East, to prevent further degradation of pristine taiga ecosystems. Reasonable laws exist on paper, but citizens must help ensure that they are enforced. And NGO efforts need financial and institutional support from the international community and the Russian government.

**Effective citizen monitoring programs must be implemented throughout Siberia and the Russian Far East, to prevent further degradation of pristine taiga ecosystems.**



## Recommendations and Conclusion

To crack down on corruption and bribery, the Russian government should:

- Institute a zero tolerance policy for corruption, bribery and illegal trade.
- Make bribery, illegal logging, and illegal trading – including under-grading, creating double invoices or contracts, and misclassification – punishable by incarceration and complete loss of logging and trading rights through the Russian Criminal Code.
- Launch immediate government investigations into illegal logging and trade activities, including corruption within government agencies.
- Establish a system by which the money from sales of confiscated wood does not go to district organizations, but instead accumulates in special funds on the regional level for use, under public control, in financing inter-agency task forces.

To ensure full enforcement of its laws and regulations, the Russian Government should:

- Strengthen police checkpoints on strategic roads by involving the public and all interested parties;
- Create an inter-agency task force including the wildlife administration, police, NGOs Forest Service and Committee on Ecology (if the latter two are reinstated), that will regularly inspect the logging sites that are most tempting for criminal brigades;
- Place representatives from the Committee on Ecology and Forest Service, if those agencies are reinstated, at each region's main export points;
- Establish a 10-day holding period for timber prior to export, in order to check the validity of the documents;
- Increase fines on illegal logging and timber trade to discourage potential offenders, so that they can no longer profit by continuing illegal practices and paying fines;
- Teach border officials to distinguish the more valuable trees from the low timber declared under more general names, in accordance with Customs rules (ash from other hardwoods, Korean pine from pine);

- Ensure that documents establish the entire chain of custody from logging site to consumer;
- Make documents more difficult to forge;
- Ensure concordance between permitted volumes of timber for export by species and origin and the limits of the given wood-cutting area;
- Provide needed resources and budget support to enforcement agencies;
- Encourage and defend the citizens' monitoring efforts now being launched by NGOs.

### To prevent the abuses of salvage logging, the Russian government should:

- Forbid the receipt of commercial revenue from salvage logging;
- Eliminate all of the loopholes in the rules and instructions regarding Russian sanitary and salvage logging operations which allow numerous contrived types of forestry measures and potentially yield sawlogs;
- Provide the Forest Service with an adequate budget for salaries and transportation, and forbid supplementing that budget with salvage logging revenues;
- Transform the Forest Service solely into an oversight organization by prohibiting it from carrying out salvage logging operations.

### To decrease the region's dependence on raw log exports, the Russian government should:

- Over a 5-year period, gradually phase in a raw log export ban for all species of timber;
- Immediately ban all raw log exports of Korean pine and ash;
- Immediately institute higher tariffs for raw log export of other timber species;
- Provide tax incentives to promote local processing facilities, in order to create more Russian jobs and more income per tree.

### To ensure accurate and transparent data, the Russian government should:

- Make customs data fully open to inspection by any individual or organization;
- Launch intergovernmental efforts to compare accurate export statistics from Russia with import statistics in Japan, China, Korea, and the U.S.;
- Ensure that regional export quotas for timber are determined only after holding open public debate and thorough environmental reviews;
- Review and better define the principles of assigning stands that contain ash and oak to ash-elm and oak sections in wood construction materials of the southern RFE, taking into account the increased market value of these particular species. Incorporate ash as a separate species within the forest inventory and customs statistics.

### To raise awareness about illegal logging and trade, NGOs should:

- Publicize illegal logging and trade in the Russian Far East through local and international media;
- Educate consumers in such export markets as Japan, China, Korea, and the U.S. about the negative effects of timber consumption on Russian forests.
- Render any assistance necessary to regional government initiatives directed at preserving forests and halting illegal logging and raw log export.

## To promote sustainable forestry in the Russian Far East, international entities should:

- Focus on implementing the G-8 “Forest Action Programme,” with its suggested measures on illegal logging and trade, in Siberia and the Russian Far East;
- Make Russian membership in entities such as the WTO contingent upon halting illegal logging and trade;
- Make further IMF loans contingent upon halting illegal logging and trade;
- Focus bilateral and multilateral aid programs on forest management – such as current programs under development by the World Bank and the U.S. Agency for International Development – on halting illegal logging and trade;
- Re-calculate the annual allowable cut so that it encourages sustainable forestry practices;
- Provide for independent environmental and social impact assessments for trade agreements that Russia may enter into on a bilateral or multilateral level, including the WTO and IMF;
- Support the development of independent, third-party certification, such as that developed by the Forest Stewardship Council, in Russia, China, Korea, and Japan;
- Launch a consumer campaign in Japan to develop a market for certified, legally and sustainably harvested wood products through government incentives and public awareness;
- Create strong and internationally supported efforts to research and publicize logging and trade issues in Siberia and the Russian Far East, including research into criminalized logging.

## Conclusion

The Siberian and Russian Far Eastern taiga includes many of the world's last forest frontiers – large, intact forest and wildland ecosystems that are under threat of exploitation. With more than half of the world's coniferous forests, the Siberian taiga is vitally important for its globally significant biological diversity, as well as its huge stores of carbon that mitigate climate change.

However, deforestation is increasing throughout Siberia and the Russian Far East. Deforestation will accelerate even more rapidly as Siberia and the Russian Far East open increasingly to international commerce. Increasing and uncontrolled illegal logging and illegal timber trade activities are behind much of this deforestation.

Siberia's forests are globally important. And they are in real danger. Siberian forests are threatened by inappropriate management, illegal logging, and Russian and international logging companies. An even greater concern, however is the government's control over forest management – this is a government that is riddled with corruption and is interested primarily in gaining financial benefits from its natural resources. Yet, a window of opportunity exists to protect the forests from these pressures, if government and citizens can act together to protect their common heritage.

Russian and international governments, along with NGOs, need to act now to stop the crisis of illegal logging and trade that is devastating the forests of Siberia and the Russian Far East.

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