

HARMONIOUS FOREST SECTOR DEVELOPMENT AND TRADE BETWEEN RUSSIA AND CHINA STAKEHOLDER STATEMENT

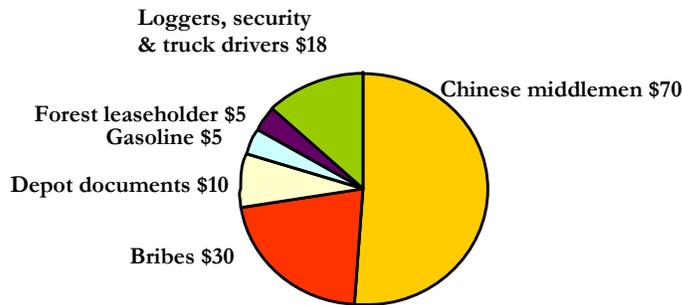
Participants at a recent international workshop on Sino-Russian timber trade call on the Baikal Economic Forum and other stakeholders in the Russian Far East, Siberia and China to better understand the impact of the timber trade between Russia and China and prepare a strategic vision for forest sector development based on mutually advantageous Sino-Russian trade and investments. The Baikal Economic Forum is encouraged to establish a broad-based working group (with associated dialogue process) of Russian and Chinese officials, business and civil society to develop an Action Plan for the long-term sustainable development of trade and investments for the mutual socio-economic benefit of the people of both countries and preservation of global and regional environmental values of North-East Asia's key ecosystems.

On August 17-18, 2006, stakeholders representing Russian, Chinese and international leaders in business, international investment, government, environment and academia (listed below) convened in Burduguz, Irkutsk Oblast, Russia near Lake Baikal to discuss the forest products trade between Russia and China and its long-term impact on the economy, environment and society on both sides of the border. Recognizing the influence of global forest products demand on the situation with respect to the forest sector development in Russian – Chinese border regions, the meeting, convened by Forest Trends¹, aimed to identify how responsible trade and investment policies can foster sustainable forest sector development on both sides of the border -- with positive contributions to local economies and livelihoods.

Findings: Important trends which participants would like to highlight to the Baikal Economic Forum:

- *Booming log trade between Russia and China:* China has become the number one importer of timber products in the world over the past seven year, and Russia has become the number one supplier to China, supplying approximately 26.4 million m³ (or 50%) of China's total timber product imports. This trade represents 10% of the total trade between the two countries. The majority of Russian timber exports are sent to China unprocessed (90% of Russia log exports are to China), prompting the Russian government to impose log export taxes in 2006;
- *Uncertainty about the Russian forest resource base:* Russia's forests are so vast that one could easily believe that they harbor an inexhaustible supply of timber. However, there is currently only a small amount of commercially valuable timber remaining within economically accessible zones. Degraded forests dominate the current forest landscape which are increasingly susceptible to fire and other damages, due in part to poor logging practices. At current harvesting rates, the Russian Far East could be logged out in 20 years. The large capacity processing industries developing on the Chinese side of the border could be left with little raw material input.
- *Uncertainty in the legal status of timber exports:* Estimates of the extent of illegal logging in Siberia and the Russian Far East ranges from 15 to 70%, depending on the definition and methodology used. Recent research tracking an illegal Russian log sold at the border for US\$140 per m³ shows that bribe-takers and foreign middlemen take the majority of the profit (see Figure 1) with little or no revenue generation for local government and communities (New Scientist, Aug. 12, 2006.) It also results in higher prices and reputational risk for China-based entrepreneurs, especially those wishing invest in Russia or to re-export to environmentally sensitive markets in Japan, Europe and North America;

Figure 1: Who Benefits from the sale of 1 m³ of illegally harvested Russian log (US\$140 price at Chinese border)



- *Superior efficiency of Chinese processing mills:* The large-scale processing industries rapidly developing on the Chinese side of the border is famous for its state-of-the-art equipment, efficiency and global competitiveness. The Russian industry will need a long-term strategic vision to be competitive or at least complementary with this high-end processing efficiency.

Participants warned that without clarifying the legal status and extent of the resource base in the Russian forests, timber harvesting in the Russian Far East and Siberia will continue to run under a “resource mining model” which will not last more than 20 years – leaving both the Russian and Chinese industries without raw materials. Keeping Russia’s forests and economies healthy is in the best interest of both Russia and China: with degraded forest landscapes and climate change, transboundary problems such as fire and pest damage may increase. Alternatives to timber extraction, such as the rapidly developing tourism industry, non-wood forest products, or developing markets for carbon, could be threatened as the natural resources on which they are based begins to degrade. With little value-added processing capacity, the forest sector will contribute little to the RFE and Siberian regions’ economic development, possibly raising political incentives to raise economically inefficient export taxes or log export bans. The influx of foreign workers (often illegal, operating illegal or outside local social norms) already causes social tensions in a region with high unemployment, while illegal foreign operators ruin the reputation of responsible Chinese entrepreneurs wishing to invest in Russia.

A Vision Forward: Long-term harmonious forest sector development and trade between Russia and China needs to be protected. A vision for the future would need to include regional development plans which would be mutually beneficial to both Russia and China, such as the development of value-added processing within Russia itself that also provides opportunities for Chinese investment to help develop this capacity and bring in technologically efficient equipment, promote internationally acceptable systems of voluntary forest certification, and crack down on illegal operations. Clear and transparent laws and regulations as well as appropriate law enforcement would help to create the stable business environment necessary to attract international investment.

Participants call on the Baikal Economic Forum to better understand the long-term impact of the current directions of the forest industry in the RFE and Siberia and prepare a strategic vision for forest sector development based on harmonious Sino-Russian trade and investments. The Baikal Economic Forum is encouraged to establish a broad-based working group (with associated dialogue process) of Russian and Chinese officials, businesses and civil society to develop an Action Plan for the long-term sustainable development of trade and investment for the mutual socio-economic benefit of the people of both countries and preservation of global and regional environmental values of North-East Asia’s key ecosystems.

Participants at the meeting applaud the Government of Russia and the Government of China for recent commitments made to combat the trade of timber products of illegal or unknown provenance. Both

countries signed on to the St. Petersburg Ministerial Declaration on Forest Law Enforcement and Governance (FLEG) in November 2005, committing themselves to combating this trade. Both countries have recently re-energized their bilateral forestry cooperation. China's Ministry of Commerce has initiated a Task Force on Sustainable Development and Trade which will look specifically at the impact of its trade in forest products. Russia has drafted a National Action Plan to combat illegal logging and associated trade and corruption.

Meeting Participants:

- David Brand, President, New Forests Pty. Ltd.
- James Brumm, Executive Vice President and General Counsel, Mitsubishi International
- Richard Burrett, Managing Director, Sustainable Development, ABN AMRO Bank N.V.
- Tony Brunello, Director, Europe and Eurasia Programs, U.S. Forestry Service
- Kerstin Canby, Finance and Trade Program Manager, Forest Trends
- David Cassells, Asia Forest Program Director, The Nature Conservancy
- Victor Dolgov, Deputy Governor, Irkutsk Oblast
- Dong Ke, Forest Program Associate, World Wildlife Fund China
- John Earhart, Chairman of the Board, Founding Partner, Global Environment Fund Management Corp.
- Olof Johansson, Director, Environmental Affairs, Sveaskog
- Michael Jenkins, President, Forest Trends
- Mikhail Karpachevsky, Chairman, National Working Group on FSC Certification
- Elena Kopylova, Program Coordinator, WWF-IKEA Partnership on Forest Programs
- Andrey Kushlin, Senior Forestry Specialist, World Bank
- Andry Laletin, Friends of the Siberian Forests, Russia
- Shi Miaomiao, Deputy Director General, Department for WTO Affairs, Ministry of Commerce, China
- Sun Changjin, Livelong Corp.
- Andrey Rudykh, IKEA-Russia
- Victor Teplyakov, Head of Temperate and Boreal Forest Programme, IUCN
- Sergey Tsyplenkov, Executive Director, Greenpeace Russia
- Bettina von Hagan, Vice President, EcoTrust
- Xu Jintao, Professor of Natural Resource Economics, Department of Environmental Science, Peking University
- Alexey Yaroshenko, Greenpeace Russia
- Sergey Zhyrkov, Head of Federal Forestry Agency for Irkutsk Region
- Grace Chen, TNC China

For more information, contact Ms. Kerstin Canby at kanby@forest-trends.org, Victor Teplyakov at victor.teplyakov@iucn.org or Mr. Andrey Kushlin at akushlin@worldbank.org.

ⁱ Forest Trends is a non-advocacy nongovernmental organization based in Washington, DC (U.S.A.) whose Board includes senior members of leading industry, nongovernmental and intergovernmental organizations (see <http://www.forest-trends.org>).