Opening Remarks -  Chair: Madam Zhang Yanhong, Deputy Director General of the Department of Development Planning and Finance Management, China State Forest Administration

Li Yucai, Deputy Administrator of the State Forestry Administration

Ms. Li Yucai commenced the conference with a general address to the more than 200 attendees present. The Chinese State Forest Administration, the Russian Federal Forest Administration, WWF, Forest Trends and Chinawood have collaborated to bring together representatives of government and industry to talk about the development of the forestry industry in Russia and China. There is a need to recognize the ecological function of forests and the role they provide for not just the economy, but for the human livelihoods and climate change. There are several economic indicators that place the management of forests at the fore of government priorities, including China’s burgeoning population, shifts in the supply and processing of forest products and new trends in investment. Chinese enterprises invested $1 billion in the Russian Far East last year, primarily in processing of fiberboard and furniture. The Chinese government requires that Chinese businesses that operate in Russia abide by Russian law, however, the governments of China and Russia need to continue to work towards “win-win” results, as the forestry industry continues to develop in the RFE.

Giryev M.D., Deputy Administrator of Federal Forestry Agency of Russia

(Speech given in Russian – No translation due to audio technical difficulties)

Duncan Pollard, Global Forests Program Director, World Wildlife Fund (WWF)

The future development of the forestry industry in the RFE, and the export of Russian forest products to China, is faced with three major obstacles: slowing deforestation, effectively managing forest resources as a means to mitigating climate change, and establishing responsible manufacturing and trade. WWF is currently working with over 350 companies involved in forestry around the world in order to address issues of sustainability in the forestry industry. Starting 15 years ago, WWF has focused much of its work on the establishment of certification through bringing together governments, businesses and non-governmental organizations to cooperate and achieve this end. In terms of the trade of forest products between China and Russia, governments play a leading role in providing the foundational regulatory and policy framework in which businesses act. Efforts such as the FLEG process in Europe is an example of how governments and industry can work together, bringing important dialogue and information sharing to the fore. As the trade between China and Russia continues to increase, forest management and certification issues should be considered. WWF will continue to work with governments and industry in order to improve forestry management globally.
Russia new forest code: Forestry Management, Forest Utilization and Forest Resources Usage, Giryev M.D., Deputy Administrator of Federal Forestry Agency of Russia

In the 1980s, Russia began to develop its current legal and regulatory guidelines pertaining to forestry. This culminated in the 1982 charter of forestry management, which established a clear division between privately owned and state owned forestry resources. (Section omitted due to technical difficulties with translation).

At the state/regional level, governments develop there own laws and regulations of management and use of forest resources. Generally speaking, forest are managed through a leasing system (10-49 year leases), consisting of regionally specific laws and regulations regarding the terms of the leasing agreement. All data relating to harvesting is then sent to the federal government for statistical purposes. The federal government then develops appropriate regulations based on this information. (Section omitted due to technical difficulties with translation).

The Russian government has addressed the issue of illegal logging through its participation in various international organizations and through regional and cross-departmental efforts to monitor the situation. There are three tools that are used to monitor illegal activities: monitoring and supervision of illegal felling and export, quotas for legal logging capacity, and electronic systems for surveillance of illegal felling. Those who are caught involved in illegal logging are charged criminally and civilly.

Recently, the federal government introduced plans for the incremental increase of customs tariffs on roundwood exports, starting at 10 Euros/m³ in 2007, increasing to 15 to 15 Euros/m³ in 2008 and to 50 Euro/m³ in 2010. The aim of this tariff increase is to increase investment in the deep processing industry.

In the RFE, the total feeling capacity of the 5 regions is 17 million m³. The regulation of investment in the region will be done by local governments, which have the responsibility of choosing which companies should be allowed to invest. Preference is given to those companies operating in contracted areas and 3rd party contracting is allowed. So far, over 400 investment projects have been integrated into the federal management plan.

China's policies on overseas investment, Li Yaoguang, Department of Foreign Capital Utilization, National Development and Reform Commission (NDRC)

Since the late 1990s, overseas investment by Chinese business has dramatically increased. In 2007, foreign direct investment reached 18billion US$. The state council operates a policy of respect and mutual benefit for all parties subject to Chinese investment. The impact of China’s investment typically results in job creation – In the RFE province of Chita, Chinese investment has created one thousand jobs. The NDRC aims to ensure the safety of people, property and the enterprises involved in investment projects. A working group has been established between China and Russia to coordinate policy and regulation at the macro level. Governments and industry of the two countries need to continue to coordinate on policy and regulation development so that everyone understands the regulations and policies involved in bi-lateral transactions.
There are three ways forward to coordinate enterprise and investment development between China and Russia. First, both governments should establish priority areas, such as ‘green channels’ for customs approval. Second, Chinese enterprises need to pursue mutually beneficial results in their investment. They need to follow local laws and maintain socially responsible operations in terms of their treatment of employees and local livelihoods. As well, issues relating to the environment should be well understood prior to investment. Ultimately, Chinese investors need to invest in processing in Russia with the goal of exporting their products back to the Chinese market. Third, the Russian government needs to work together with local populations to ensure that economic development is achieved and that the interests of Chinese investors are facilitated and protected.

**Status Quo and Prospects for Forestry in Chita**, Belozerov B.I., Lieutenant Governor of Chitaskya Oblast, Chairman of Commission for Chitaskya Oblast International Cooperation, Economic Relations with Foreign Countries and International Tourism

Chita is a region in the state of Irkutsk with 2000km of border with China and Mongolia. There are 31 million km² of forest resources in Chita, primarily consisting of coniferous and birch. The current plant felling capacity is 15 million m³ per year, with a 41% increased in capacity from 2006 to 2007. Existing Russian enterprises involved in deep processing are medium and small; they are poor to adapt to market changes and are not very productive. The total log export in 2007 was only 9.8% of the national total in terms of value – most of this went to China.

The RFRA has recently increasing tariff levels on raw log exports by 20% and will raise it further – up 80% on current levels – in 2009. In terms of the development of the processing industry in Russia, the government wants to increase the overall number of enterprises operating in the region capable of exploitation as well as raising the proportion of enterprises that are involved in processing. In the border areas of Chita, preferential leasing agreements and taxes are available for Chinese enterprises to develop.

**Problems and Trends of Forestry in Irkutsk**, Mikhail Yuri, Deputy Director, Irkutsk Forest Service

Forestry is an important industry in Irkutsk as it contributes to both economic and social development. There are 59 million hectares of forest in Irkutsk, which means there is huge market potential for development. In 2007, Irkutsk produced 3.6 million m³ of sawn wood, 41 million m³ of fiberboards and 1.4 million tones of paper pulp. Most of the products are exported to China. A major problem for the region is Illegal logging, which differs in severity between regions. The state government’s primary means of regulating illegal logging is through the supervision and inspection of logging vehicles. Irkutsk wants more investment in the region, particularly in deep processing. A priority is given to investors who are interested in processing key products that are determined by the RFFA.

**Status Quo and Prospects for Forestry in Tomsk**, Khmelnitsky Bogdan, Chairman of the Commission for Local Forest Politics, Tomsk Economic Development Department

(Section omitted due to technical difficulties with translation). From 2007 onward, new regulations of the forestry sector present many challenges and issues. Since 2007, management of forest resources has been divided between the national and local levels of government.
Several local issues relating to the forestry industry persist, such as the demand for fuel wood from local populations – the government needs to further develop projects that use scrap wood from industry to meet this need. As well, transport is not adequate in the region and efforts need to be made to develop this infrastructure. Increasing investment in the region is promising for the future development of the industry; leasing laws and regulations will be improved to cope with industry demands. Long term planning in the region requires reform of the leasing arrangement as well as a priority on cooperation with Chinese enterprises.

**Inspection and Quarantine Measures of Importing Timber from Russia**, Lou Junwen, Animal & Plant Quarantine Department, General Administration of Quality Supervision, Inspection and Quarantine, China

China needs to find a long-term source for more forest products. A 2005 agreement between the governments of Russia and China means that trade between the two countries will increase to meet this demand.

In terms of the relationship between quarantine requirements and trade, there are various requirements that must be met in order to import wood into China. Wood products must be accompanied with paperwork relating to procedures for disinfection and containment of soil and pests. However, Russia does not have the capability to undertake methyl-bromide disinfection, so there is an MOU (signed in 2001) requiring a 1 year quarantine period in the processing areas along the border between Russia and China. There are some discrepancies between countries in terms of quarantine procedures – the quality of Russia’s inspection is somewhat lower than in other countries. Further cooperation in the development of trade, and quarantine requirements, is important as this helps to ensure that China imports quality forest products.

**Session 2 - Chair: Duncan Pollard, Forests Program Director, WWF**

**Russian Politics on Tariff adjustment in Timber Trading**, Topokov Konstantin, Counselor of Russian Embassy in China, and Representative of Customs Service of Russia in China

Mr. Topokov spoke about the various ways that illegal logging and felling are conducted and the rationale for the tariff increase on log exports. Generally speaking, logs can be smuggled by forgery of documents, or false declarations of export volumes. Much of the time the trains that transport log shipments from Russia to China are overloaded. As well, some companies act as “shell” companies acting for larger corporations, disguising the true nature of the operations of larger corporations. Through the use of various technologies, the Russian government is trying to accurately monitor Russian exports – future efforts should concentrate on improving monitoring technology and techniques. There are currently 128 inspection points between Russia and China; the two countries need to work together to increase inspection capacity, develop new monitoring methods and coordinate data between customs agencies.

**Implementation of Russian New Forest Code: Regional Perspectives – Khabarovsk, Primorye, Krasnoyarsk, Irkustsk**, Mikhail Karpechevskiy, Biodiversity Conservation Center

The Biodiversity Conservation Center focuses its work on Russian forest resources in three areas: sustainable forestry management, mapping of “high value” forest, and certification. In terms of the implementation of the new forest code, Russia is still in a transition period as components of the old code are still in effect until January 2009. There are several regulatory changes that are taking place, such as the reclassification of certain lands from one category to another and changes in customs
fees, leaseholder agreements, fire management and regulation and conservation measures. As far as conservation measures are concerned, management authority will be transferred to local authorities. Measuring the effects of these changes is the intention behind three pilot studies that are currently being conducted in the regions of Irkutsk, Oblast and Khabarovsk. The questions asked seek to reveal the different regional perspectives of the main issues that affect the ability for the governing authorities, businesses and entrepreneurs in their involvement in the forestry sector. Preliminary results suggest that entrepreneurs are skeptical about the ability for the new code to change the face of industry in the RFE, while the business community is still waiting for the final implementation of the new rules and implementations. Several issues are perceived as not being rectified through the reforms, such as customs declarations and the regulation of illegal logging. Moreover, there seems to be a lack of discourse between the various departments of government involved in the implementation of the forest code. There needs to be a commitment to improving infrastructure and the institutions involved in implementing the code in order for the code to have the intended results.

**Forest Logging and Timber Processing in Russia: How to Benefit Environment and Livelihoods of Local Communities, Kerstin Canby, Director, Forest Trade and Finance Program, Forest Trends**

In recent years, Russia has become the number one source for forest products for the Chinese market. Up to 80% of Russian timber, mainly softwoods, is used to fuel the burgeoning Chinese construction industry – this trade represents 5-10% of all trade between the two countries. While Russia’s vast coniferous forests represent 20% of the world’s total, much of these resources are economically inaccessible; this means that these forest resources are both slow to re-grow and require expensive infrastructure and investment in order to harvest them. In the more economically accessible forest to the South, poor management has led to forest degradation: broadleaf forests replace over-harvested coniferous forest and pests and wildfires prosper in these degraded ecosystems.

Conservation is important as the Russian forest represents 75% of the world’s boreal forest carbon sink. It is in both Russia’s and China’s interest to ensure the sustainability of Russian forest resources. This can be accomplished through intensive, sustainable forest management measures in the South, rather than expansive forestry into the Northern regions of the RFE.

Socio-economic issues also need to be resolved, as many local people rely on forestry as their primary source of income. Development of the processing industry may not provide as many jobs as expected, but the deregulation of policies that make it difficult for small and medium enterprises to survive is perhaps the best means of supporting local livelihoods. Management of Russian forest resources should evolve around clear laws and regulations that are strictly enforced in order to provide a sustainable business environment and to attract responsible investors.

**Certified Forests and Timber Sourcing in Russia: Guidelines for Legal Sustainable Operations in the Russian Forest Sector, Elena Kopylova, Russia Forestry Program Coordinator, WWF**

Russian forest resources represent 22% of the world’s forest cover with approximately 81.5 billion cubic meters of standing timber. In 2007 the federal forest agency began to implement a new forest code, consisting of a general decentralization trend of management authority as well as incremental increases of the export tariff on round wood. There are several emerging trends that are encouraging as they are increasing the demand for more sustainably produced timber in Russia. In Europe, many states have introduced procurement policies – this trend will culminate in a requirement for all imported forest products to be certified by 2009. As well, the EU FLEGT process encourages bi-
lateral discourse and agreements on curbing trade in illegal forest products. In Asia, many businesses are turning to chain-of-custody certification in order to enter the market for certified forest products in the West. Furthermore, many governments are becoming increasingly aware of the issues and circumstances that give rise to illegal logging. In Russia, many companies are investment in the forest sector and developing timber tracking systems so that they can compete in the Western and European markets for certified products. Certification, and specifically FSC certification, has grown significantly in Russia in recent years. WWF established the Forest and Trade Network (FTN) in 2000, which is a conglomerate of 48 companies that have agreed to work towards sustainable operations and certification. Through the FTN, the “Keep it Legal” program and further collaboration between the Chinese and Russian governments (specifically, customs agencies), the legal forestry industry can be further supported in order to offset the illegal industry.

Session 3 – Chair: Kerstin Canby, Director, Forest Trade and Finance Program, Forest Trends

Challenges for Sustainable Timber Supply, Josh Newell, Professor, University of Southern California/WWF International Consultant

For Chinese companies wanting an assured legal supply of wood, the options are limited in Russia as few enterprises are certified. In a recent project that examines trade between Russia and China, a typical supply chain was analyzed and effective methods to ensure legality were suggested. In a case study involving trade from the Sikhote-Alin forest in the RFE to China, the movement of logs from the timber sourcing site, to the sorting/storage/processing area, to the loading/export depot and finally to the import yard was analyzed. This analysis revealed that strong log identification systems coupled with strict log segmentation procedures need to be established in order to ensure that chain-of-custody systems are reliable and effective. Furthermore, the analysis concludes that there are simply too many actors along the supply chain creating complex networks of traders, making it easier for illegal transactions to take place.

There are several ways for Chinese companies to ensure the legality of Russian supply, such as ‘risk-rating’ Russian companies, establish document management procedures and consolidating small orders into single large shipment. Strategies for Governments and NGOs to work towards legal trade are to facilitate B2B partnerships, encourage sustainability via certification, and work towards the simplification of supply chains in procurement and trade.

Status and Trends in Trade and Investment in the Far East, Natalia Antanova, Economic Research Institute, Far Eastern Division of Russian Academy of Sciences

In the Russian Far East, 95% of the forestry industry produces wood for export, and 96% (2006) of that export volume is raw, unprocessed logs. Significantly, 55% of logs exported are destined for the Chinese market. The regions of Khabarovsk and Primorye produce 86% of the total of all Russian
timber and the industry continues to grow rapidly. Currently, many companies hold long term leases on the land in these areas, meaning that current levels of economic and trade activity will persist in the long-term. In terms of investment, there is a trend of increasing loans in the forest sector, which is projected to increase. The majority of investment in 2007 was in the processing industry (approximately 55%), while a smaller portion of investment went to harvesting (approximately 47%). The federal government has a program for priority investment projects, which means that state funding is available for those who invest in the production of certain priority goods. However, there are some constraints to investment. The processing industry remains weak, there is low domestic demand for processed products, and there are limited labor resources. As well, the development of large industry is out-competing many of the small and medium enterprises that provide social and economic stability for many of the local populations. Furthermore, the issue over whether foreign companies pursue trade-oriented development versus integration with the local labor force and economy may lead to mixed results for the local economy.

How to Log Legally – for Russian Companies, Lilya Shevlyakova, Chief Expert on Certification and Permission, Lesosibirsky LDK No.1

Lesosibirsky is a Russian forestry company with headquarters in Western Siberia. It is a member of the Forest Stewardship Council, which means it has strict policies on illegal felling. This policy position provides several benefits: it means a reduction in the company’s environmental impact, a duty to respect the rights of its workers, and a more attractive image for business clientele. In 2007, Lesosibirsky processed 1 million m³ of certified products. They currently hold several contracts between 20 and 40 years in length. (Section omitted due to technical difficulties with translation). Lesosibirsky also has strict rules pertaining to contracts, involving supervision standards for tax payments, lease agreements and permits. As well, the company ensures that fire, hygiene, quarantine and other standards are adhered to.

Sino-Russian Relationship in Forestry: Practical Meaning, Status and Prospects, Anastasiya Kopylova, Head of Research, Lesprom Network

Russian exports to China have more than doubled in the last 10 years – this is largely due to increasing demand from China. The majority of demand is for high quality paper/pulp products. (Ms. Kopylova provided general statistics supporting this trend of increasing trade between Russia and China). The Forest industry in Russia needs to increase the proportion of the processing industry relative to the industry for raw logs. Approximately 50% of the world’s supply of logs is from Russia, but due to such high demand for Russian timber, measures need to be taken to ensure this supply remains for the future.

Promising Prospects for Investing in Russian Forestry, Guo Weidong, Chairman, YanTai Northwest Forestry Co., Ltd.

The Chinese and Russian governments need to facilitate cooperation in order to bolster investment in the Russia forestry industry. The YanTai Northwest Forestry Co. has been investing in paper pulp, wood boards and furniture processing. Since 1998, they have been working with a Russian company and have ownership of a holding area of Siberia, where they ship their products by rail to China. The company strictly abides by all Russian regulations relating to forestry conduct, with close attention to regulations on sustainable development. The company is seeking to increase employment as well as increase investment in technology and equipment in Russia. They are seeking to work with other companies to further invest and develop their operations in Russia.
Sino-Russian Investment and Cooperation in the Forestry Sector, Madam Zhang Yanhong, Deputy Director General of the Department of Development Planning and Finance Management, China’s State Forest Administration

Sino-Russian cooperation is very important for the future of forestry in the region. In November 2005, the presidents of Russia and China signed a deal on the development of the forestry sector that included provisions on the mitigation of illegal logging, prevention of wildfires, control of disease and pests, and control of desertification. The development of deep processing is the key area of industry development that the governments are working towards. In 2006, the Chinese SFA took part in a meeting in Saint Petersburg on forestry related issues, and in 2007, the Chinese SFA participated in another jointly initiated workshop on deep processing. The two governments continue to make a concerted effort to meet and cooperate on forestry related issues. As imports of wood products into China continue to increase, the SFA in collaboration with the ministry of commerce have developed a guide to help Chinese businesses who want to invest in Russia, and specifically in the Tomsk region. Further cooperation with regional governments on investment is being planned.

Several issues that affect the ability of Chinese enterprises to invest in Russia must be considered. The increase of the tariff on the export of raw logs means that China must invest in deep processing – there is not tariff on the import of Chinese forestry machinery into Russia. Therefore, it is up to Chinese enterprises to adapt to these new market dynamics. Illegal logging is an issue that the Chinese government has taken several steps to diminish. The SFA assists with measures in supply countries, ensures that Chinese industry abides by local laws and regulations, and prohibits Chinese laws from purchasing illegally procured forest products. The question of ensuring the legality of the log source remains, and the SFA is seeking to develop a schematics system to monitor and track the chain of custody of logs.

The future of the Chinese forestry industry is positive if we adapt to the changing marketplace. Chinese enterprises should focus on the production of wood working equipment; at present, most of the equipment used by the Chinese industry is fabricated in Europe and Russia. To ensure the future supply of Russian timber, the preservation of the forest ecosystem is very important. As well, Investors and interpreters need to pay specific attention to the human capital that is involved – enterprises need to ensure that both Russian and Chinese workers are employed. Conferences such
as this are an important source of information for continuing dialogue between enterprises and government on these very important issues.

Procedures for Examining and Approving Forestry Development Projects in China and Supportive Policies, Sun He, Director of External Cooperation Division, Department of Foreign Economic Cooperation, China’s Ministry of Commerce

The Chinese SFA and Ministry of Commerce have closely collaborated with the Russian government on forest related issues. Chinese per capital consumption is 1/8th of the world average, leaving much room for growth in demand in China. In 1999, the two governments established a standing working group, which has held six meetings thus far. The general framework of the working group is to promote, coordinate, and cooperate on the development of the industry in both countries. In total, there have been 72 joint projects to date and $1.1 billion negotiated in investment deals.

Cooperation between the two governments should be planning oriented – currently they are working on the ‘Tomsk Plan.’ In this plan, Chinese enterprises will invest $720 million in order to produce 4 million m³ annually, which will be used to produce furniture, MDF board and other products (28 different products in total). Ensuring that this project is sustainable is a key component of this plan oriented framework. On the Chinese side of the border, Shendong province will play a key role in the Tomsk project. An economic trade zone/pilot project will be established there that will be entitled the “Sino-Russian Tomsk Trade Zone.” This will be done in the first phase of plan implementation. In the second phase, which has already begun, a task force will be established that will study the forest and timber processing areas as well as liaising with Chinese and Russian enterprises. In the third phase, the identification of other areas for cooperation on investment will be ascertained. Three factors are important for future cooperation: ensuring mutual benefit, providing a good environment for capital flows, and ensuring that collaborative efforts are built upon and responsive to market dynamics.

Financing Policies on Forestry Development in Russia, Chen Weihong, Administrative Researcher, Business Development and Innovation Department, Export-Import Bank of China

The Export-Import Bank of China was established in 1994 by the Chinese State Council. It is responsible for carrying out the financial workings of China’s trade policy, such as the promotion of foreign direct investment (FDI). The bank is primarily involved in processing loans for foreign contracts. The change in Russia’s tariff level provides a real opportunity for Chinese investment.

In terms of financial loans, there are two options: loans for foreign investment and current capital loans for importing foreign goods. Loans for investment abroad, for no less than $1 million and no more than 70% of the total cost of the investment, exist to help Chinese enterprises register with the Chinese government, but only for low-risk investment projects. Enterprises need to have good credit status and operational background abroad, and all the paperwork and registration needs to be complete. Also, there must be a good prospect for return on the loan as well.

In order to establish long term prospects of return, it is important that companies understand the long-term sustainability issues relating to forest resources and account for them. Companies and banks need to understand constraints relating to infrastructure and environmental regulations in order to calculate the prospects for investment.
For current capital loans (for companies importing foreign goods) many of the same prerequisites apply as for other loans: good credit status, solvency etc. Companies seeking this type of loan need to prove that they have/will import more than $10 million per year.

**Financing Policies on Forestry Development in Russia, Chen Tao, Cadre of Heilongjiang Branch of China Development Bank**

Understanding Russian policy in the forestry sector is important for establishing investment and loan policies. The Heilongjiang Bank has 32 branches in China and assists companies by financing infrastructure investments. The bank has sent several working groups to Russia to better understand present economic conditions. Currently, the bank has a loan balance of $5.5 billion in Russia. The bank prefers to do business with Chinese enterprise and will offer loans to those involved in both felling and processing. Loans are available to both large conglomerates for R&D, as well as for SMEs, because of there important role in providing economic stability. The bank has a typical loan procedure consisting of an audit report, a feasibility report of approval from the host country, and approval from the foreign affairs bureau from the host country. (Section omitted due to technical difficulties with translation). There are several areas that need improvement, which would provide for a better investment environment. Information gathering and sharing of enterprises in Russia should continue, as well as self-discipline regulatory practices for businesses, such as certification.

**Concluding Remarks, Hong Fan Li, President, Chinawood**

Chinawood is a service oriented NGO for enterprises working domestically and looking to expand internationally. Chinawood hosts conferences and workshops in China and Russia to provide platforms and networking opportunities for enterprises and governments to share information. Additionally, Chinawood has been commissioned to carry out surveys and market analysis – the forestry market has undergone a significant shift in recent years as China has moved from a net exported to net importing position. Currently, supply chains leading to the Chinese market are too long and slow to adapt to the changing market.

Large enterprises have not been involved in the dialogue process between China and Russia as much as we would like – Chinawood would like to facilitate there participation in the future. Chinawood is planning to hold a conference in September in Irkutsk in order to discuss Chinese forest policy and projects with Russian enterprises and government. Other areas that Chinawood would like to encourage dialogue on are: corruption, processing, the impact of investments from large financial institutions, and the integration of the Chinese market with the wider North-East Asian market.