Towards Harmonious Forest Sector Development and Trade between Russia and China

Ensuring Benefits to Local Communities, Local Economies and the Environment

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Forest Trends
<table>
<thead>
<tr>
<th></th>
<th>Timber Products</th>
<th>Logs</th>
<th>Lumber</th>
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<tbody>
<tr>
<td>Russia¹</td>
<td>51%</td>
<td>Russia¹</td>
<td>Russia</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5%</td>
<td>PNG</td>
<td>USA</td>
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<tr>
<td>PNG</td>
<td>5%</td>
<td>Malaysia</td>
<td>Thailand</td>
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<tr>
<td>Indonesia</td>
<td>4%</td>
<td>Myanmar</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Thailand</td>
<td>4%</td>
<td>Gabon</td>
<td>Canada</td>
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<td></td>
<td>¹ 26.4 million m³ (2006)</td>
<td>¹ 20 million m³</td>
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<tr>
<td>Plywood</td>
<td></td>
<td>Wood Pulp</td>
<td>Paper</td>
</tr>
<tr>
<td>Indonesia</td>
<td>54%</td>
<td>Canada</td>
<td>Taiwan</td>
</tr>
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<td>28%</td>
<td>Indonesia</td>
<td>Russia</td>
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<td>Russia</td>
<td>4%</td>
<td>Brazil</td>
<td>S. Korea</td>
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<td>Japan</td>
<td>3%</td>
<td>Russia</td>
<td>Japan</td>
</tr>
<tr>
<td>Finland</td>
<td>3%</td>
<td>US</td>
<td>Indonesia</td>
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Russia: #1 forest products supplier to China

China: #1 market for Russian timber

80% of Russian timber (mainly softwoods) used in Chinese construction – helping the construction boom in China.

5-10% of overall trade between the two countries

Both have large populations dependent on Russian timber (local Russian villages & local economies, gateway towns on border & Chinese internal domestic markets)
Maintaining Environmental Benefits

- Seems to be a vast unlimited resource: 57% of Earth’s coniferous forests or 20% of the world’s standing timber
- However, much of the forest is economically unaccessible

To access these northern forests would require large infrastructure investments and would have higher operational costs (fuel & transportation costs, distance from processing centers, distance from local populations and potential employees).

As one travels further north, the forests become less productive and more ecologically fragile: regeneration will become more difficult.
Many of the more productive forests in the accessible southern areas suffer from landscape degradation.

- Poor logging practices have led to a vicious cycle of degraded forests >> pest outbreaks >> increased occurrence of catastrophic wildfires.
- Secondary broadleaf forests replacing Korean pine and larch.
- Under current system of forest management (based on clear cutting without intensive silviculture), some estimate only 20 years left of economically accessible timber in Siberia & RFE.
The Impact of Climate Change

- Est’d 75% of the world’s boreal forest carbon stored in Russian forests -- 2nd only to the Amazon
- However, in boreal forests, carbon stored in soil. Protecting soil resources very important.
- Climate change will likely lead to more degraded landscapes and melting of permafrost, more pest outbreaks and more fire which in turn would lead to more greenhouse gas emissions (possibly affecting Russia’s ability to reach its Kyoto carbon emission targets)
- Canada is developing scenarios of the impact that global climate change would have on their boreal forest ecosystems and their industry / communities
• It’s in both China and Russia’s interest to ensure the long-term health of these globally valuable resources
  • Long-term sustainability of supply
  • Degraded landscapes, wildfire, pest outbreaks and climate change are all transboundary issues that would require cross-border collaboration between the Russian Federal Forest Agency and the Chinese State Forest Administration
• Need for responsible investment in intensive forest management / restoration of productive southern areas to avoid a “forest resource mining” scenario where southern areas degrade and logging simply expands into northern areas which will not regenerate quickly
Regional populations declining & high unemployment
Access to forest areas important for local peoples for livelihoods and subsistence
- hunting
- Fishing
- Non-timber forest products (herbs, mushrooms..)
- Culturally important

In the past, forest leasees were required to provide social infrastructure and employment – this will not likely be the case under the new Forest Code.
Socio-economic situation (Siberia & RFE)

- In the 1990s, state owned forest enterprises laid off thousands of workers
  - Many started their own timber companies (now 300-500% more logging companies than in Soviet times)
  - Lots of small suppliers (legal or illegal) with small volumes – very difficult to monitor and control
- New processing facilities may not solve the employment problem, as they are more mechanized and thus provide less employment
- Very few alternative jobs (similar situation to western Russia 15 years ago)
• Small- and medium-scale forest enterprises often offer greater opportunities for local employment, but often have the hardest time being “legal” due to difficult licensing, registration and administrative procedures
• Local government often have special programs for small businesses, but at the same time prefer larger logging enterprises to facilitate control and enforcement
• All have found selling logs to be the “easiest” sometimes leading to shortages in raw materials for RU mills
• Lack of value-added processing in Russia itself
Socio-economic situation (eastern Russia)

- Micro-businesses (e.g. women selling mushrooms at local markets) need guaranteed access to forest areas and reduced paperwork to be “legal”

Need for economic diversification and a supportive business environment for large as well as small scale entrepreneurs, for local as well as foreign entrepreneurs
Local communities must benefit

- Periods of economic downturn and perception of unfair profits create poor business environments for investors:
  - political pressures to raise taxes (e.g. log export taxes)
  - social tensions between ethnic groups and foreign workers (legal or illegal)
- Chinese industry recognizes need to ensure cooperative and legal trade and investment relationships
  - Need to combat the “China Theory”: fear of Chinese domination in the marketplace, loss of cultural identity and regional economic control
- Recognition that small-scale illegal Chinese operations can create a bad reputation for legitimate Chinese operations that would like to invest in Russia
Creating positive business environment

• Clear & transparent laws and consistence application of law enforcement to create a stable and predictable business environment necessary to attract responsible investors
• Regional development plans that are mutually beneficial to both Russia and China
• Value added processing within Russia that provides opportunities for Chinese investment but also helps develop Russia’s own capacity and transfers technology
• Eliminate barriers for small and medium sized forest enterprises
Protecting the Environment

- Clear & transparent laws and consistence application of law enforcement
- Internationally accepted systems of forest certification / 3rd party verification of legality
- Resource “intensive” management rather than resource “expansion” model
- Investment in forest management and restoration
- REDD: payments for maintenance of carbon storage as a way to offset opportunity cost of reduced logging
- Explore multiple revenue streams possible from mix of timber, hunting, fishing, tourism, carbon payment schemes
Maintain positive relationship with local communities

- If not required by the new Forest Code, companies can voluntarily involve local peoples in forest management planning
  - Ensuring access to forest areas important for non-timber products and livelihoods (hunting, etc)
- Clarify how important social infrastructure (schools, hospitals, etc) will now be provided
- Support elimination of barriers for micro-, small and medium sized enterprises
- Support local employment, retraining programs, economic diversification
- Cultural sensitivity
No simple answers!

Both Russia and China stakeholders must benefit from responsible investment and trade for mutual socio-economic benefit on both sides of the border and preservation of global and regional environmental values in NE Asia’s key ecosystem.