COLLABORATING INSTITUTIONS

Forest Trends (http://www.forest-trends.org): Forest Trends is a non-profit organization that advances sustainable forestry and forestry's contribution to community livelihoods worldwide. It aims to expand the focus of forestry beyond timber and promotes markets for ecosystem services provided by forests such as watershed protection, biodiversity and carbon storage. Forest Trends analyzes strategic market and policy issues, catalyzes connections between forward-looking producers, communities, and investors and develops new financial tools to help markets work for conservation and people. It was created in 1999 by an international group of leaders from forest industry, environmental NGOs and investment institutions.

Center for International Forestry Research (http://www.cifor.cgiar.org): The Center for International Forestry Research (CIFOR), based in Bogor, Indonesia, was established in 1993 as a part of the Consultative Group on International Agricultural Research (CGIAR) in response to global concerns about the social, environmental, and economic consequences of forest loss and degradation. CIFOR research produces knowledge and methods needed to improve the wellbeing of forest-dependent people and to help tropical countries manage their forests wisely for sustained benefits. This research is conducted in more than two dozen countries, in partnership with numerous partners. Since it was founded, CIFOR has also played a central role in influencing global and national forestry policies.

Pacific Institute of Geography (http://www.tig.dvo.ru): The Pacific Institute of Geography is a part of the Far Eastern Branch of the Russian Academy of Sciences (FEBRAS) and was established in Vladivostok in 1971. At present, the institute conducts a wide range of fundamental and complex regional studies in the Russian Far East concerning the structure and dynamics of natural and anthropogenic geographic systems, environmental issues, natural resource management, economic activities, and settlements. It actively participates in the development of regional programs for nature management and economic development in the Southern Russian Far East, focusing on resource, environmental, and geopolitical factors in the Asian-Pacific Region.

WWF Russia (http://www.wwf.ru): With several million supporters and a network of offices in more than 90 countries on five continents, WWF is one of the world's largest independent conservation organizations. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in a harmony with nature by conserving the world's biological diversity; ensuring that the use of renewable natural resources is sustainable; and promoting the reduction of pollution and wasteful consumption.

SPONSORING INSTITUTION:

DFID Department for International Development [1]

[1] While the Department for International Development has provided financial support for this publication, the findings and views presented do not necessarily reflect UK government policy.

STATUS AND TRENDS IN FOREST PRODUCT EXPORTS FROM THE RUSSIAN FAR EAST AND EASTERN SIBERIA TO CHINA

by Alexey Lankin

Status and Trends in Forest Product Exports from the Russian Far East and Eastern Siberia to China

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INTRODUCTION

China's rapidly growing demand for timber and associated impacts on harvesting practices and trade in sourcing regions and countries have attracted the attention of many experts. A number of studies have been conducted recently on the issues of forest devastation and illegal logging as direct consequences of China's demand. Among these studies, the recent work conducted by WWF to identify China's 'ecological footprint' in forest producing countries and the BROK-FoE Japan-PERC analysis[1] of illegal logging and timber trade in border areas of the Russian Far East (RFE) merit particular notice.

Building on past efforts, Forest Trends and the Center for International Forestry Research (CIFOR), with support from the United Kingdom's Department for International Development (DFID), have commissioned their own collaborative project entitled "Transforming China's Forest Impacts in the East Asian Region: Strategic Market Intelligence for Sustainable Forests and Livelihoods." The overall goal of the project is to find ways of transforming Chinese timber demand to improve livelihoods and enhance forest conservation in the East Asian Region. As a part of the larger project, this study focuses on the status and trends of Russian forest product exports to China, mainly those from the Russian Far East and Eastern Siberia. It includes a description of and, where relevant, summary statistics on volumes and values of forest product exports to China and Hong Kong, by product category (e.g. hard wood and softwood logs, panels, other products) and by major gateway in the Russian Far East and Eastern Siberia. The study covers:

- Multi-year trends, where possible, for the variables listed above;
- Names, locations, and characteristics of major exporting companies and major intermediaries;
- Names and locations of major end purchasers in China and major destinations in China;
- Description of the export process: steps, chains of custody, types and numbers of intermediaries and brokers involved in shipments to China and Hong Kong; explanation of variations in chains of custody and identification of actors involved in each type of chain;
- Identification of key areas of non-compliance (e.g. which rules, fees, taxes, etc. avoided) and other problems associated with the export trade;
- Assessment of government options to improve administration of the export trade and compliance with export rules.

The report is supplemented with an appendix with all Russian custom statistics reviewed in the text.

[1] Lebedev A. et al. Plundering the RFE Taiga. BROC, FoE-Japan, PERC, 1999.

VOLUMES AND VALUES OF FOREST PRODUCT EXPORTS TO CHINA AND HONG KONG, BY PRODUCT CATEGORY AND BY MAJOR GATEWAY IN THE RUSSIAN FAR EAST AND EASTERN SIBERIA

Since 2001, China has been a top destination of Russian forest product exports to Asia-Pacific countries. In 2002, China imported over half of the total value of Russian forest product exports to the Northeast Asian countries. In 2003, China imported 63 percent of Russian round wood exported to the Northeast Asian countries by volume, as compared with 29 percent imported by Japan and 8 percent imported by the Republic of Korea.

FOREST PRODUCT EXPORTS TO CHINA BY PRODUCT SEGMENT

As shown in Table 1.1, the main types of Russian forest products exported to China in 2002 included raw logs, lumber, pulp, paper and paperboard. The export of other timber products, like fuel wood, wood chips, veneer, particle board, plywood and other secondary wood products was negligible.

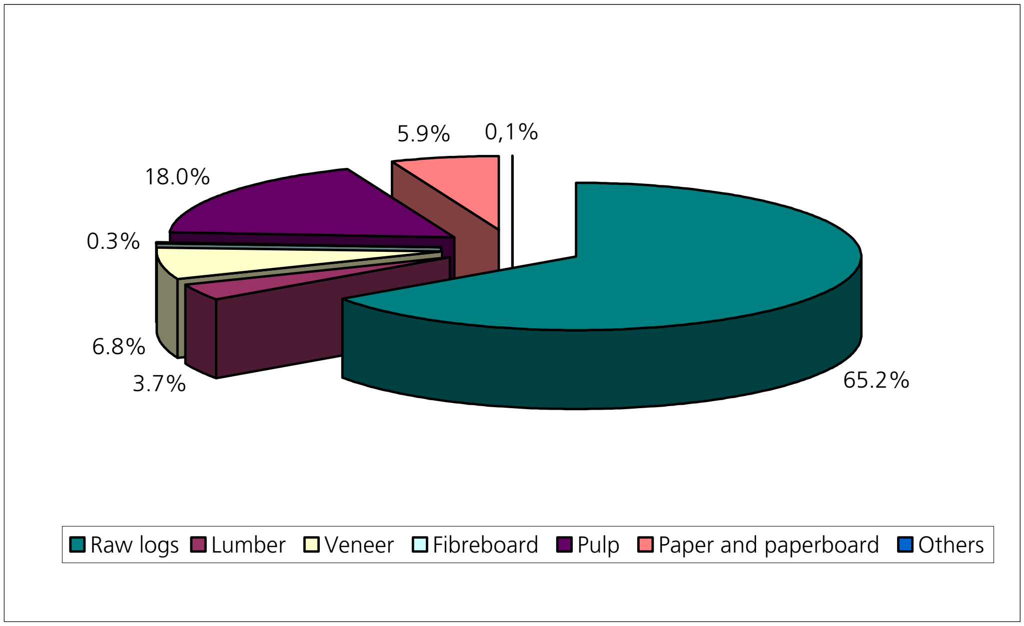
Table 1.1: Forest Product Exports to China in 2002[2]

Item (tariff code)	Volume/Net weight	Declared Contracted Export Value, USD	% of Value of Forest Product Exports to China
Fuel wood, chips (4401), tons	2,157	43,869	0.004
Logs (4403), m^3	14,294,068*	761,051,646*	65.37
Railway sleepers (4406), m^3	1,115	83,257	0.007
Lumber (4407), m^3	567,719*	47,641,640*	4.09
Veneer (4408), kg	599,089	98,964	0.001
Flakeboard (4410), m^3	246	10,853	0.001
Fibreboard (4411), tons	31,223	5,929,581	0.51
Plywood (4412), m^3	1,534	294,299	0.03
Pulp (4702-4704), tons	877,398	274,019,231	23.54
Other (4409, 4413-4421)		1,675,577	0.14
Paper and paperboard (48), tons	289,714	73,354,878	6.30
Total		1,320,134,523	100.00

*Notes: Declared value of exporting commodity is here recalculated for FOB-Russian seaport (i.e. price up to and including loading) or DAF-Russian boundary passage point (i.e. price as delivered at frontier), which is column #46 in Russian cargo customs declarations. * The given data do not include so called temporary and periodic customs cargo declarations, so that the actual volumes may be up to 5 per cent larger.*

Figure 1.1 shows the breakdown in round wood equivalent volume (RWE m^3) of the main Russian forest product exports to China by product segment in 2002. Rough estimates of RWE volume were achieved by applying common conversion factors to masses and volumes given in Table 1.1 for raw logs, lumber, pulp, veneer, fiberboard, and other forest products. As indicated in the figure, raw logs made up 65.2 percent in total volume of Russian timber exports to China in 2002, while lumber made only 3.27 percent.

Figure 1.1: Russian Forest Product Exports to China: Proportion of Main Product Segments by Volume (converted into RWE)



As indicated in Table 1.1 and Figure 1.1, aside from timber products, Russian forest product exports to China in 2002 included significant amounts of pulp, paper, and paperboard. Exported pulp products include pulp produced from coniferous wood and that produced from deciduous wood, both bleached and unbleached. Pulp exported to China comes mainly from large Russian pulp and paper enterprises located in Eastern Siberia and Northwest Russia and mainly following a pathway by rail through to Zabaikalskaya and Naushki customs. Only about six percent of pulp exported to China is delivered via seaports in Northeast Russia.

Russian exports of paper and paperboard to China in 2002 were 289,714 tons in volume and 73.355 million USD in declared value. Main commodities included newsprint – 31,304 tons (net weight) or 8.991 million USD; offset printing and office paper – 8,553 tons or 3.837 million USD; kraft-liner paperboard – 248,933 tons or 60.406 million USD; and "other" (recycled paperboard, etc.) - 923 tons or 108,000 USD. The sources of paper exports to China are similar to those for pulp exports, as described above.

ORIGINS AND PATHWAYS OF FOREST PRODUCT EXPORTS TO CHINA

According to the Russian Federation (RF) customs statistics, Russia exported timber products to China from 27 different provinces in 2003. As shown in Table 1.2, the main provinces exporting to China are

[2] Source – Russian Federation (RF) Custom electronic database of customs declarations in 1998-2002.

situated in the nation's main natural forest regions -- the southern parts of the Russian Far East and Siberia.

Table 1.2: Russian Timber Exports (Logs & Lumber) to China by Main Exporting Provinces 2003

#	Region	Timber Exports Value		Raw logs, m^3		Sawn wood, m^3	
		Thousand USD	%	Softwood	Hardwood	Softwood	Hardwood
1	Irkutskaya	242,859	31.1	4,173,263	15,111	219,036	4,814
2	Khabarovskii	222,835	28.6	3,522,833	758,499	6,915	19,179
3	Primorskii	73,965	9.5	635,931	522,272	6,254	79,143
4	Krasnoyarskii	70,676	9.1	1,135,253	141,949	49,933	5,029
5	Chitinskaya	63,551	8.1	1,302,299	27,561	127,949	8,567
6	Buryatia Rep.	42,248	5.4	722,660	1,074	38,417	0
7	Amurskaya	32,304	4.1	611,407	49,901	2,447	2,658
8	Evreiskaya	5,912	0.8	58,899	71,070	6,305	5,856
9	Tomskaya	6,493	0.8	77,169	45,923	2,261	789
10	Khakassia Rep.	4,985	0.6	61,614	3,963	6,571	157
11	Kemerovskaya	3,591	0.5	38,486	33,600	3,642	3,317
12	Altaiskii	2,800	0.4	47,411	14,105	6,305	1,251
13	Kirovskaya	2,654	0.3	0	43,240	3,568	0
14	Novosibirskaya	2,443	0.3	35,952	14,524	494	198
15	Sakhaliskaya	677	0.1	8,874	0	4,054	0
	Other provinces	1,960	0.3	27,950	6,879	3,557	342
Total		779,953	100	12,460,001	1,747,671	487,708	131,300

Source: RF Customs electronic data base of customs declarations for 2003.

Notes: Logs – under custom code 4403; lumber – under 4407. Export value is given as the declared contracted amount. Shares of each province have been calculated using export volumes declared by exporters located (or with branch offices) in that province. The "Other Provinces" category encompasses provinces with relatively low timber exports to China, including Vologodskaya, Kamchatskaya, Kostromskaya, Krasnodarskii, Kurganskaya, Nizhegorodskaya, Omskaya, Permskaya, Sverdlovskaya, Tyumenskaya provinces, Moscow, and St.Peterburg.

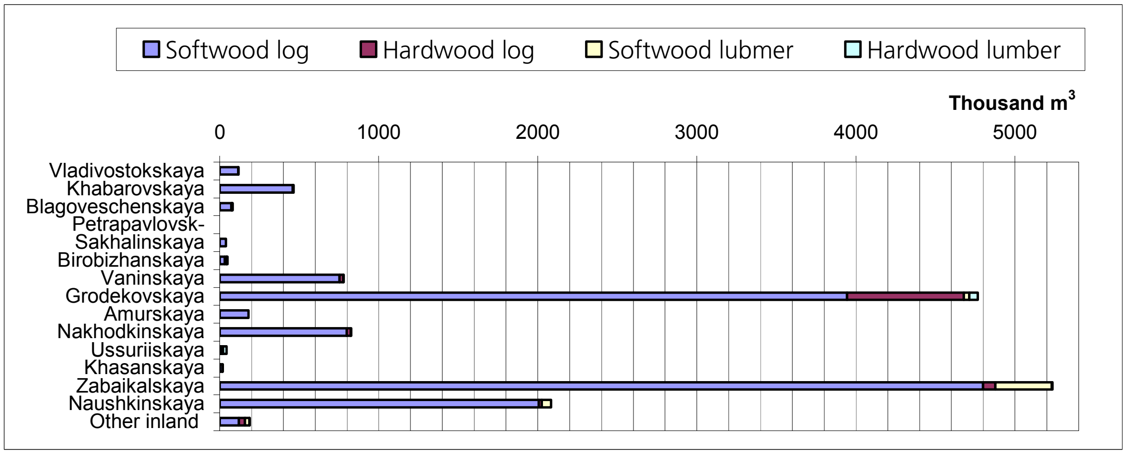
Some of the main exporting provinces to China, like Chitinskaya, Amurskaya, Evreiskaya, Khabarovskii and Primorskii share a border with Northeast China. Others, namely Krasnoyarskii, Irkutskaya, Buryatia, and Khakassia Republic, are rather far from China, but the large distances involved do not raise serious difficulties in transport of timber to China, given developed railway links with the Trans-Siberian main line, which bring products in close proximity to the border. Among these two groups of provinces, the traditional forest products exporting regions of Khabarovskii, Irkutskaya, Primorskii, Amurskaya, Krasnoyarskii, and Chitinskaya Provinces and Burytia Republic are the main contributors to Russian timber exports to China. (See map in Annex III).

The main pathways of Russian timber exports to China have been traced through available data declared by exporters in customs declarations. The customs data used includes: registered address (principal office address) of Russian exporter, registered address of trader or forwarder on the border, place of customs clearance, place of crossing the border (if different from place of customs clearance), and combination of transportation facilities used at the moment of crossing the border and after (e.g. railway -> ocean ship, or truck -> river ferry, etc.). In most cases, the registered address, or location of main (or branch) office, clearly indicates the sourcing area of timber to be exported, but it should be noted that sometimes traders, especially those located in Central Russia, may purchase timber from outside regions and provinces. Also, in some rare cases, exporters or forwarders on the border may export timber that obviously came from an entirely different part of Russia than that in which the exporter or forwarder is located, e.g. an RFE company exporting beech, although beech is not grown in the RFE.

It should also be noted that according to RF customs rules, forest product export clearing documents may be drawn up not only at border customs gateways, but also in hinterland regions. This situation occurs most often in Central Russia and in Siberia, as well. Finally, as a last note on tracing forest product pathways to China, commodities are sometimes exported through a gateway relatively far from the sourcing area, rather than through the closest one. Examples include forest products from Siberia being exported through Zabaikalsk or RFE gateways, especially seaports, instead of the closer Naushki gateway. Reasons for the shifting to farther away gateways include the destination designated in the export contract, limited capacities of cross-border passages, or the desire on the part of businesses to avoid difficulties with customs clearing in some gateways.

Despite some such anomalies, the data generally indicates three principal routes of Russian forest products exported to China, which we term the Siberian, Zabaikalian, and RFE routes, respectively. The Siberian route encompasses timber from Central Russia and Western Siberia, including Krasnoyarskii Province and part of the China-bound forest products from Irkutskaya Provinces and Buryatia Republic. Forest products following this Siberian route exit Russia through Naushki in Buryatia Republic, then cross the country of Mongolia, and end up in China's Inner Mongolia or travel further to central Chinese provinces. Along the second pathway, the Zabaikalian route, forest products come from regions northward and eastward Baikal Lake and from parts of Irkutskaya, Buryatia, and Chitinskaya provinces. Products moving along this route cross the border at Zabaikalsk, directly entering China's Inner Mongolia and then splitting either to remain in Heilongjiang Province or continue southward. The third pathway, the RFE route, encompasses timber sources from the vast spaces of Eastern Siberia, Zabaikalye, and Southern RFE. Timber moving along this route reaches China mainly through the Grodekovo railway station in Primorskii Province and more recently also through the seaports on Russia's Pacific coast. The pathway also branches off to small customs gateways along the Russian-Chinese bounder and then over the border rivers, the Amur and the Ussuri. The main destinations of timber following this third route are China's northeastern provinces and southern seaports.

Figure 1.2: Russian Timber Export Volumes to China through Main Customs Gateways, 2002



As shown in Figure 1.2, the bulk of volume of Russian timber bound for China in 2002 was exported through the land customs gateways of Grodekovskaya, Zabaikalskaya, and Nauhkinskaya (mainly by rail) and through two seaport customs gateways – Nakhodkinskaya and Vaninskaya.

Corresponding to the three main China-bound pathways described above, the customs gateways for Russian forest products entering China can be divided into three groups. These groups, listed geographically from west to east, are: (1) customs points in Central Russia and Siberia (including "Bratskaya and others", and Naushkinskaya, as listed in Figure 1.2); (2) East Siberian customs to the east of Lake Baikal (referred to as Zabaikalskaya Customs in Figure 1.2); and (3) RFE customs (including Khasanskaya, Ussuriiskaya, Nakhodkinskaya, Amurskaya, Grodekovskaya, Vaninskaya, Birobizhanskaya, Sakhalinskaya, Blaogoveschenskaya, Khabarovskaya, and Vladivostokskaya customs in Figure 1.2).

Some customs gateways have several cross-border passages. For example, Zabaikalskaya includes both railway and road passages. As another example, Khasanskaya includes railway, road, and seaport options. The full list of principal customs and cross-border check-points, with corresponding Chinese customs gateways on the other side, is given in Annex I.

SPECIES COMPOSITION OF TIMBER PRODUCT EXPORTS TO CHINA

Timber species composition of exports to China generally reflects the patterns found in forest stands under commercial harvesting in the exporting regions. Thus, the dominant softwood exports originate from the boreal taiga areas prevalent across Siberia and the RFE. Relatively high shares of hardwood logs and lumber come from the Southern RFE's Khabarovskii and Primorskii Provinces, where most of Russia's temperate forests grow.

Softwood species principally include spruce, fir, pine, and larch. Hardwood species are oak, ash, birch, aspen, poplar, elm and beech. Figures 1.3 and 1.4 illustrate export of raw logs and lumber to China by main species, as indicated in customs declarations. The species are grouped together as they are in the relevant tariff codes, with prevailing species represented by separate categories. The category of “other mixed conifers" in both figures includes other and unnamed coniferous species, mostly larch, spruce, fir, and Korean pine.

Figure 1.3: Raw Logs Exported to China by Main Species, Grouped by Main Customs Regions, 2002

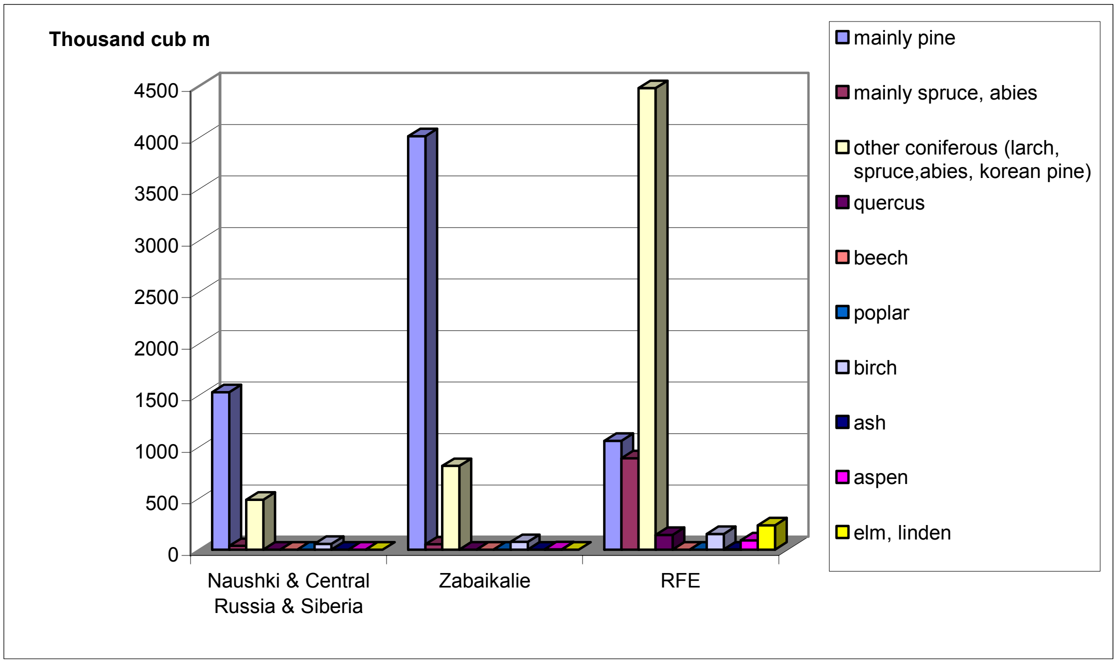
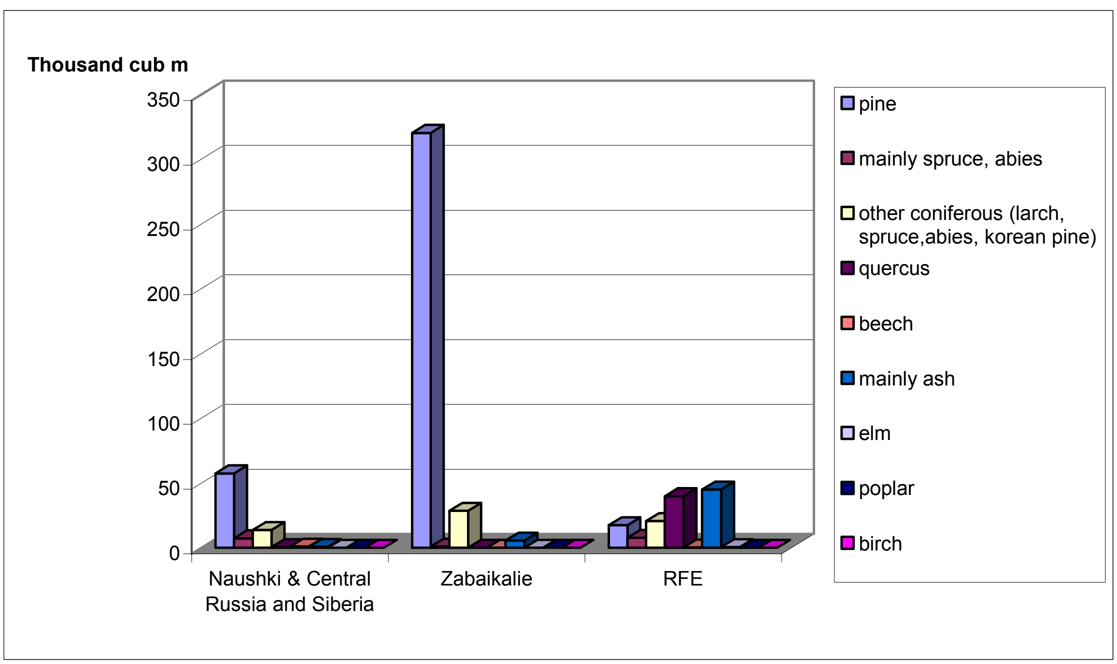


Figure 1.4: Lumber Exported to China by Main Species, Grouped by Main Customs Regions, 2002



TRANSPORT OF FOREST PRODUCTS TO CHINA

Forest products from Siberia to China are delivered mainly through railway directly to China, and sometimes, in the end, through RFE seaports. Wood from the provinces of Eastern Siberia and Southern RFE that border Northeast China is carried by railway and motor trucks via the Argun River bridge (in the Upper Amur) or by ice in winter along cross-border points on the Argun; by river ships and ferries in the summer period all along the Amur River; and by ocean shipping from seaports on the Russian Pacific coast.

Table 1.3 gives mode of transport of Russian forest products exported to China in 2002 at the time of border crossing. Railway predominates for almost all types of forest products, accounting for the transport of 81 percent of logs and lumber exported to China, 94 percent of pulp, and 97 percent of paper. Transport by truck and river shipping play a rather small role because they are used only locally in the framework of near-border timber trade. The share of ocean shipping in total transportation of forest products exported to China is also very low, except in the case of logs, for which it accounts for about 14 percent.

Table 1.3: Russian Forest Product Exports to China by Mode of Transport, 2002*

Export goods	Railway	Road	Ocean ship	River ship/ferry
Fuel wood, wood chips (4401), tons	0	2,157	0	0
Logs (4403), m^3	11,573,667	283,237	1,946,023	491,094
Railway sleepers (4406), m^3	978	137	0	0
Lumber (4407), m^3	462,059	91,573	3,208	10,879
Veneer (4408), m^3	726	11	0.5	89
Particleboard (4410), m^3	246	0	0	0
Fiberboard (4411), m^2	14,605,629	103,411	39,043	4,448
Plywood (4412), m^2	133	1,355	36	9
Pulp (4702-4704), tons	825,776	0	51,622	0
Paper (48), tons	282,107	6,038	2,538	0

** The given data do not include so called temporary and periodic customs cargo declarations, so that actual volumes may be up to 10 per cent larger.*

EXPORTS TO HONG KONG AND TAIWAN

In comparison with exports to mainland China, Russian direct export of forest products to Hong Kong and Taiwan is relatively small in volume and value. In 2002, Russia exported to Hong Kong 14,628 tons of paper, or 5.168 million USD in value, consisting mainly of 11,914 tons of newsprint (or 3.667 million USD in value) and 2,661 tons of office paper (or 1.476 million USD in value). Log exports to Hong Kong were only 3,795 m^3 in volume in 2002, or 147,000 USD in value. Since traditional export flows to Hong Kong in the Soviet period and during *Perestroika* were through intermediates in Japan and offshore companies, it is still difficult to trace forest products flows to Hong Kong by declared destinations.

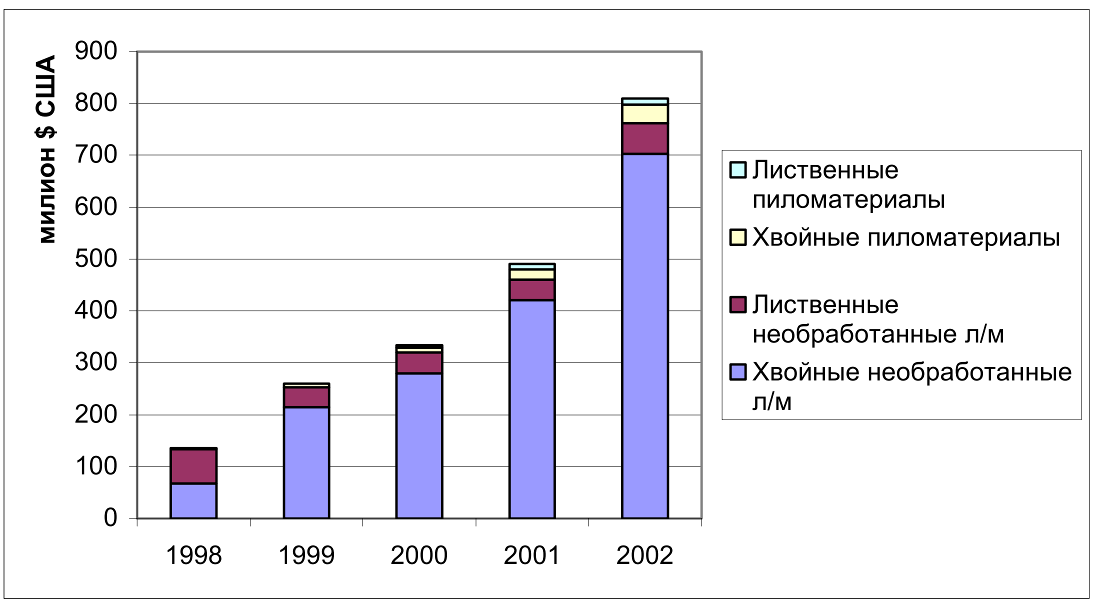
Russian forest product exports to Taiwan in 2002 included 523 m^3 softwood lumber, 151 m^3 plywood, 7,707 tons pulp, and 14,587 tons paper and paperboard, altogether totaling 201 million USD in value of direct exports to Taiwan.

MULTI-YEAR TRENDS IN RUSSIAN FOREST PRODUCT EXPORTS TO CHINA AND PROJECTED TRENDS FOR LOG EXPORTS TO THE CHINESE MARKET

TRENDS IN LOG AND LUMBER EXPORTS TO CHINA

Based on available Russian customs statistics for recent years, the following analysis of multi-year trends in forest product exports to China focuses mainly on logs and lumber exports between 1998-2002. The export of other Russian timber products, such as wood chips, plywood, veneer, etc., was negligible over the five years studied. Russian customs statistics on exports of pulp and paper is available only for the years 2000 to 2002.

Figure 2.1: Raw Log and Lumber Exports to China from Russia in 1998-2002 (by value)



As shown in Figure 2.1, value of Russia's log and lumber exports to China has grown approximately by six times between 1998 and 2002, from 135 to 809 million US$. The total volume log and lumber exports for the same period has increased from 1,712,105 cubic meters to 14,861,740 cubic meters. While lumber exports have remained small in comparison with logs over the period, lumber exports still can be seen to have jumped by over 30 times from 18,176 cubic meters in 1998 up to 567,719 cubic meters in 2002. The largest percentage annual increase in total log and lumber exports occurred in 1999, when exports of these products were 262 percent of the previous year's volume. This increase coincides with a period of foreign trade liberalization in China. On December 1, 1998, China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) abolished restrictions on the import of forest products. In Russia, this time correlates with a period following financial default, when the ruble fell by three to four times, increasing the competitive advantage of export businesses. The relatively large increase in exports of both logs and lumber to China in 2002 can be explained partly by the re-orientation of some large Russian exporters from the Japanese market to the Chinese one, mostly due to the more competitive prices and weaker grading requirements offered by the latter.

Figure 2.2: Russia's Logs Exports to China from 1998-2002

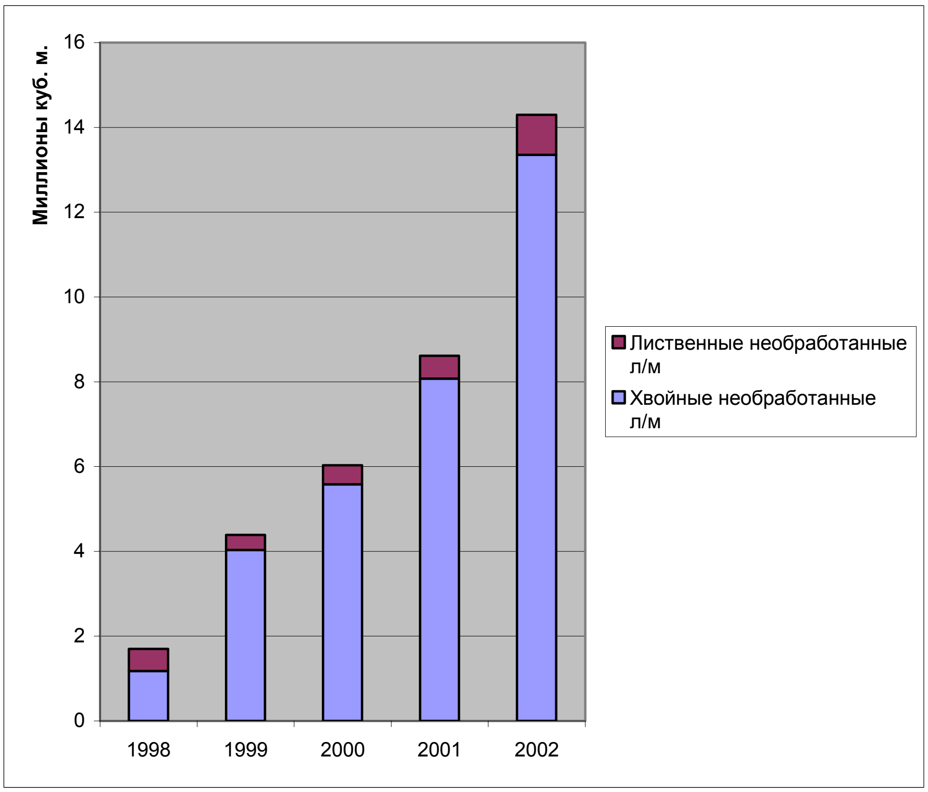
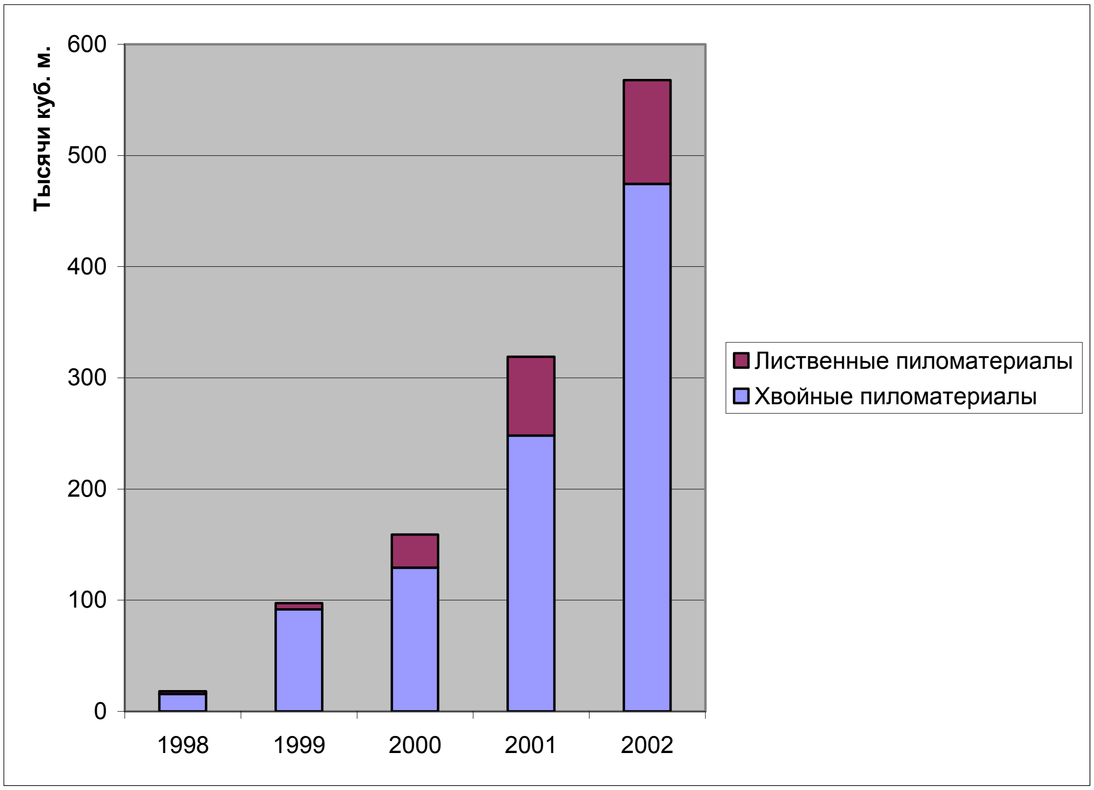


Figure 2.2 shows that growth of softwood log exports to China has been significantly faster than that of hardwood logs. Share of hardwood log exports reduced from 30.5% in 1998 to 6.6% in 2002. For that period the growth of hardwood log exports was 1.8 times while softwood logs exports in 11.3 times. At least three factors have contributed to constraining the share of hardwood logs in total Russian log exports to China to a low level: (1) Nearly all temperate mixed broadleaved forest stands in the southern regions of RFE, the main sourcing base for hardwood, have already been harvested; and new harvesting areas remained limited. (2) Opportunities for hardwood exports from other regions of Russia are insignificant (see Table 1.2). (3) Marketable hardwood species, such as oak, ash, beech, and linden are considered as both commercially and environmentally valuable species; and strict state control in their harvesting and export has resulted. Recent growth of hardwood log exports to China in 2002, however, has resulted from growing exports of birch and aspen.

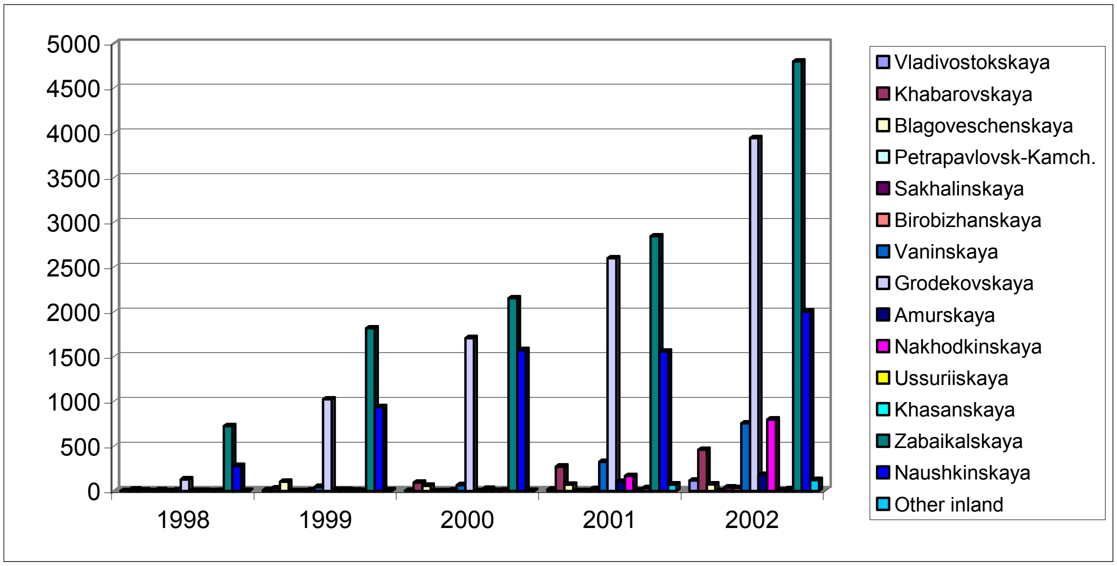
Figure 2.3: Russia's Lumber Exports to China from 1998-2002



As shown in Figure 2.3, growth of softwood lumber exports to China generally followed the trend of softwood log exports. Exports of hardwood lumber, however, grew at a faster rate than exports of hardwood logs, especially in 2000, when hardwood lumber exports to China were 5.3 times those of the previous year. In spite of decreased prices for hardwood lumber in the Chinese market since 2000, hardwood lumber exports have retained their attractiveness due to their relatively large added value and strong market demand. Another factor contributing to the attractiveness of hardwood lumber exports may be that such exports do not require submission of documentary evidences of legal sourcing, as do exports of hardwood logs.

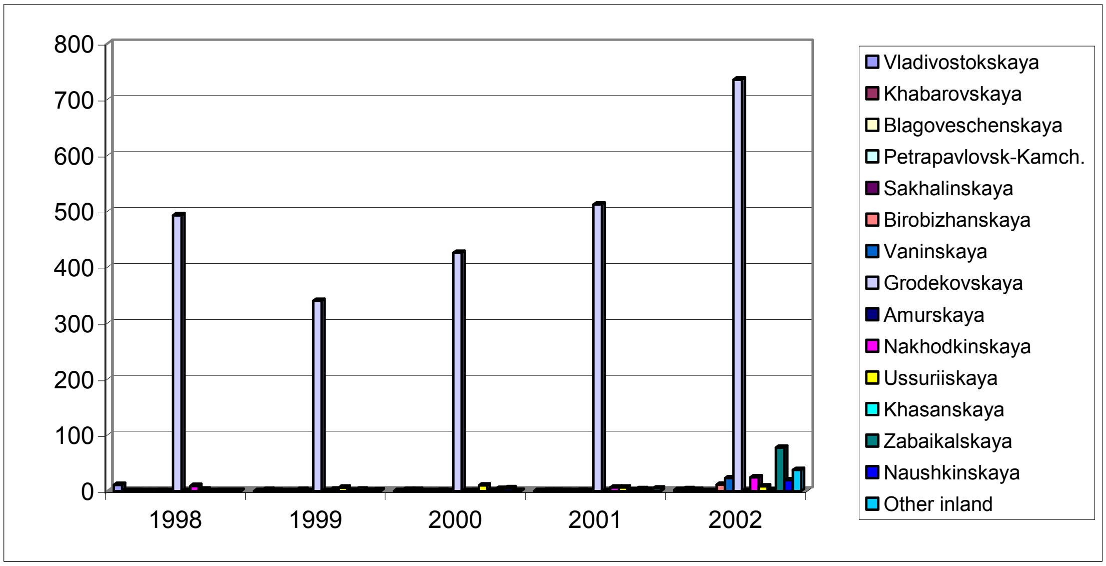
TRENDS IN GATEWAYS FOR RUSSIA'S LOG AND LUMBER EXPORTS TO CHINA, 1998-2002

Figure 2.4: Exports of Softwood Logs to China through Main Customs Gateways (thousand m^3)



As shown in Figure 2.4, Russia exported softwood logs to China through only three customs gateways in 1998, namely: Grodekovskaya, Zabaikalskaya and Naushkinskaya. These three major customs gateways retained their dominant shares in the face of upward trends in Russian softwood log exports to China over the past four years. With the active development of RFE-Northeast China near-border timber trade beginning in 1999, customs gateways situated in provinces along the Russian-Chinese boundary have also begun to play a role. These customs gateways are: Blagoveschenskaya (Heihe on the Chinese side), Khabarovskaya (Fuyuan), Birobizhanskaya (Luobei and Fujin), and Ussuriiskaya (Suifenhe-Dongning). Logs exports through seaport customs sites, like Vaninskaya and Nakhodkinskaya, started to grow in 2001.

Figure 2.5: Exports of Hardwood Logs to China through Main Customs Gateways (thousand m³)



As shown in Figure 2.5, over the five years studied, the Grodekovskaya customs gateway dominated Russia's hardwood log exports to China. This is directly explained by the fact that the majority of exported Russian hardwoods originate from temperate forests in Southern RFE, close to the Grodekovskaya customs gateway, which is considered the RFE's main railway passage to China. In 2001 and 2002, hardwood log exports to China via ocean ports and by near-border timber trade began to grow, so that such ports now trail Grodekovskaya distantly as points of entry for Russian hardwood logs into China.

Figure 2.6: Exports of Softwood Lumber to China through Main Customs Gateways (thousand m³)

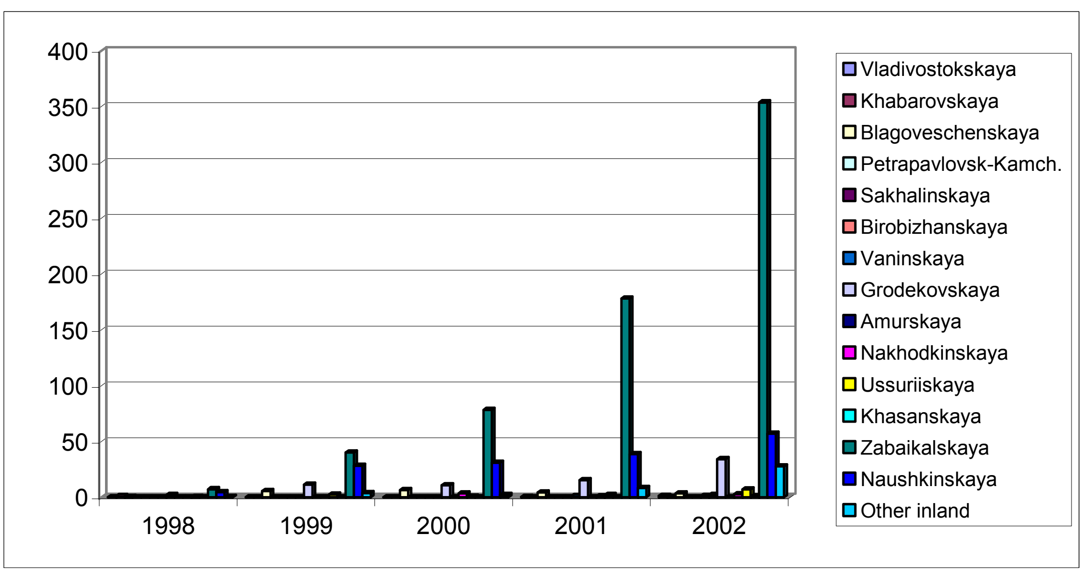


Figure 2.6 shows that, in contrast to Russia's softwood log exports to China, softwood lumber was exported mainly through the Zabaikalskaya customs gateway and, to a lesser extent through the Naushkinskaya customs gateway in Eastern Siberia. The role of Grodekovskaya customs gateway and other RFE customs gateways was rather small. These trends can be explained by the fact that Siberia has a stronger saw mill industry, with large sawmills in the region remaining active after privatization and reform. In contrast, the RFE had an insufficiently developed timber processing industry from the beginning; and many of those sawmills that were built have decayed during the privatization and reform period.

Figure 2.7: Exports of Hardwood Lumber to China through Main Customs Gateways (thousand m³)

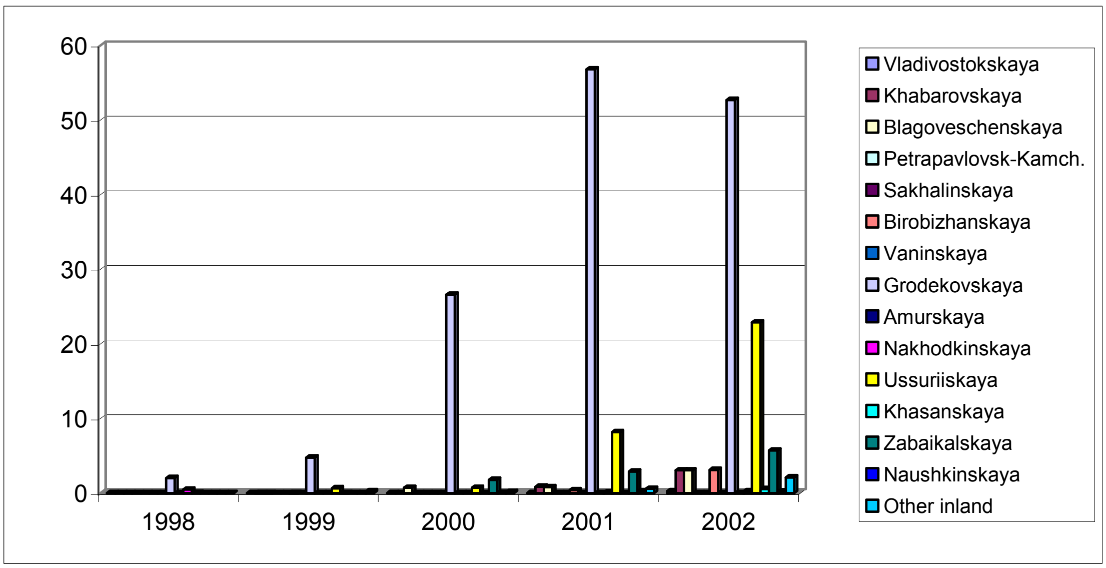
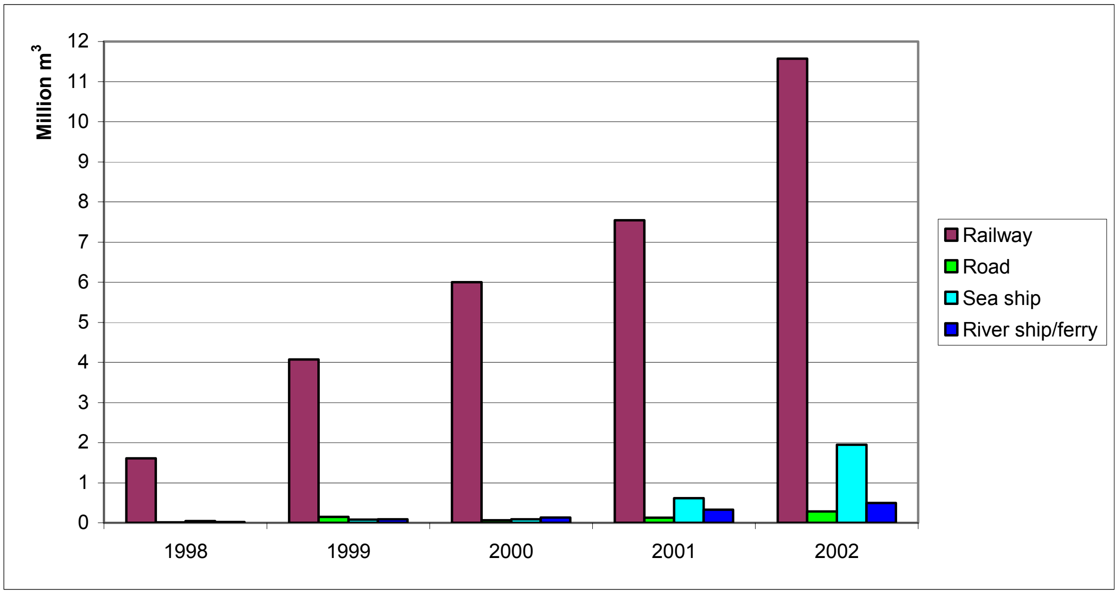


Figure 2.7, showing the main customs gateways for hardwood lumber exports to China, is rather similar to the display of Russia's hardwood log exports to China in Figure 2.5. Grodekovskaya customs gateway plays the dominant role in both cases. Growth in the role of other RFE customs gateways in hardwood lumber exports to China over the last few years, however, reflects an increase in the harvesting of less valuable hardwood species, like birch and aspen, in the RFE.

TRENDS IN TRANSPORT OF LOG AND LUMBER EXPORTS TO CHINA

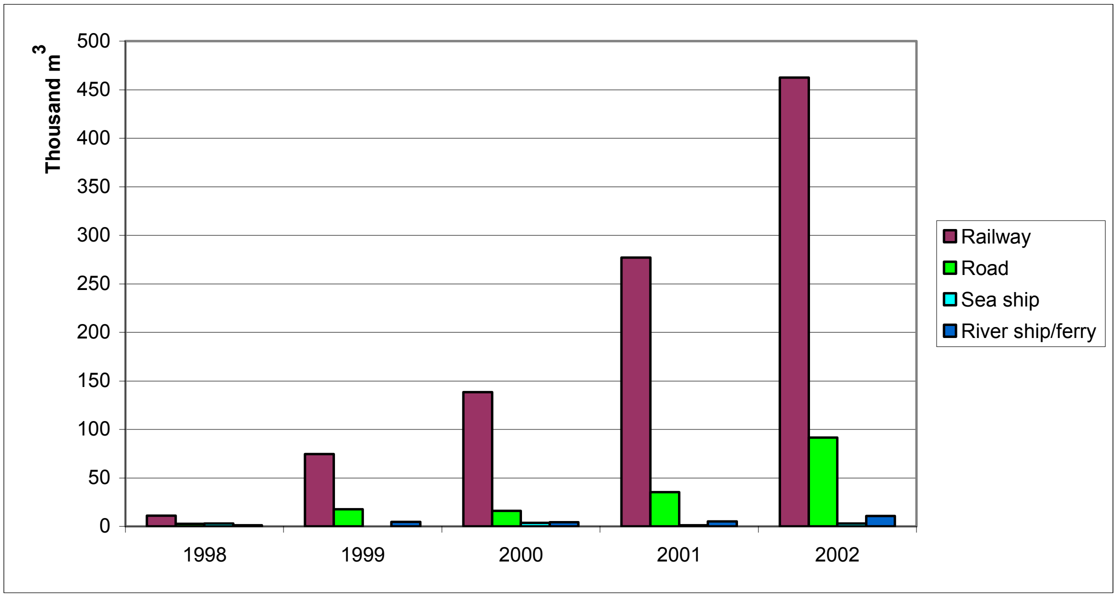
To further enhance the picture of Russia's timber exports to China, it is interesting to consider trends in modes of transport between 1998 and 2002. Figure 2.8 below shows contributions of various modes of transport to the entry of Russian logs into China at the time of border crossing.

Figure 2.8: Modes of Transport of Russia's Log Exports to China at the Time of Border Crossing (1998-2002)



The dominate role of the railway in log exports throughout the whole period is obvious. In 2001, however, transportation became more diversified, with the development of ocean and river shipping operations. Most of the shipping is related to the re-orientation in northern parts of Khabarovskii Province of exports, formerly headed to Japan, to China. The considerable increase in truck deliveries since 2002 is a result of the putting into operation of a motor transport bridge between Olochi Shiwei over the Argun River in Chitinskaya Province in November 2001. At present, this bridge is the only bridge over the Amur and its tributaries between Russian and China that operates year-round. It was built by Chinese companies specifically for the purpose of timber transport. In the absence of bridges, winter transport over rivers is achieved by driving over the ice, while in the summer ferries or barges cross the Amur River. Finally, there are also several motor vehicle roads through cross-border passages in southwestern Primorskii Province, linking it with Heilongjiang and Jilin provinces. These roads are usually used to transport hardwoods.

Figure 2.9: Modes of Transport of Russia's Lumber Exports to China at the Time of Border Crossing (1998-2002)



As shown in Figure 2.9, the growth of road transport is especially strong in the case of lumber exports to China. While the proportion contribution of road transport in total lumber exports to China is still small, trucking plays a significant role in border trade transactions in the provinces directly bordering China.

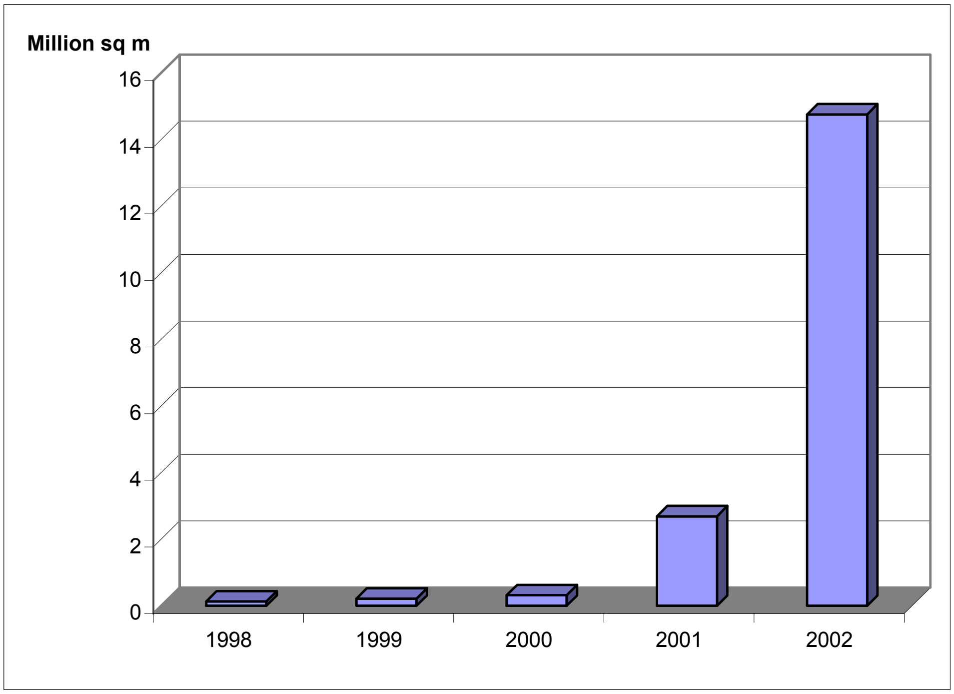
TRENDS IN EXPORT OF OTHER FOREST PRODUCTS TO CHINA

According to available data, Russia's export of paper and paperboard to China grew steadily from 2000 to 2002, rising from 246,610 metric tons in 2000 to 290,684 metric tons in 2002, an increase of about 18 percent over two years. In 2000 transport of paper and paperboard products to China was mainly (72 percent) by rail through Zabaikalskaya customs gateway and by sea (28 percent), but in 2002, the role of rail transport in the Russia's paper exports to China increased to 97 percent.

Russia's pulp exports to China grew from 784,360 metric tons in 2001 to 877,398 metric tons in 2002. In 2001, 95 percent of pulp exports to China were transported by rail, with the other 5% being transported by ocean ship. In 2002, these proportions were 94 percent (rail) and six percent (ocean ship).

Among timber products other than logs and lumber, Russia's fiberboard exports to China are of particular note, growing rapidly in 2001 and 2002. Fiberboard experts to China jumped to 14,752,530 square meters in 2002, almost 47 times more than the amount in 2000. In 2000 and 2001 transport of fiberboard exports to China was only by rail, but in 2002 small amounts (not more one per cent total) were transported by road and by river and ocean shipping.

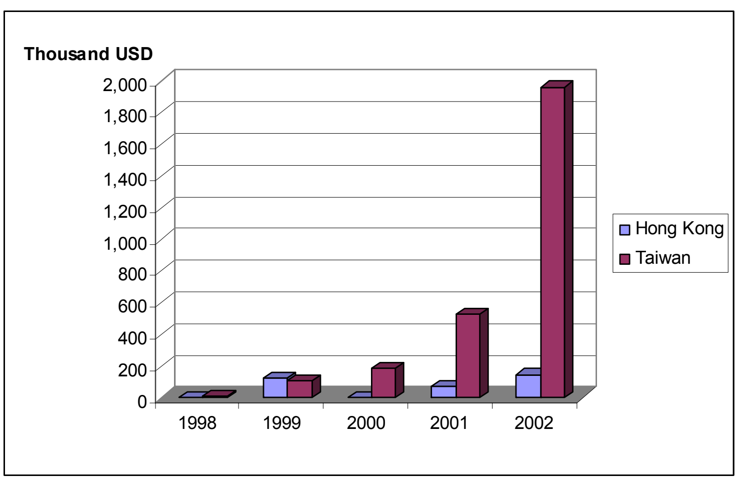
Figure 2.10: Russia's Fiberboard (4411) Exports to China



TRENDS IN FOREST PRODUCT EXPORTS TO HONG KONG AND TAIWAN

As indicated in Figure 2.11, Russia's forest product exports to Hong Kong and Taiwan remained small in value over the five years studied (1998-2002). Towards the end of the period, however, Russia's pulp exports to Taiwan jumped, increasing from 2,349 tons in 2001 to 7,707 in 2002.

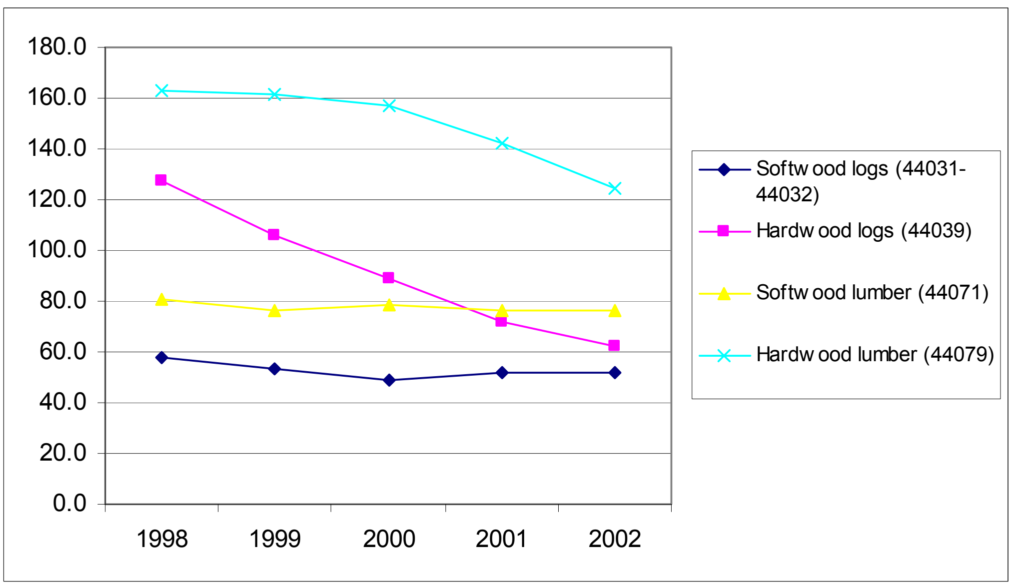
Figure 2.11: Exports Value to Hong Kong and Taiwan



TRENDS IN CONTRACTED PRICES OF RUSSIA'S TIMBER PRODUCT EXPORTS TO CHINA

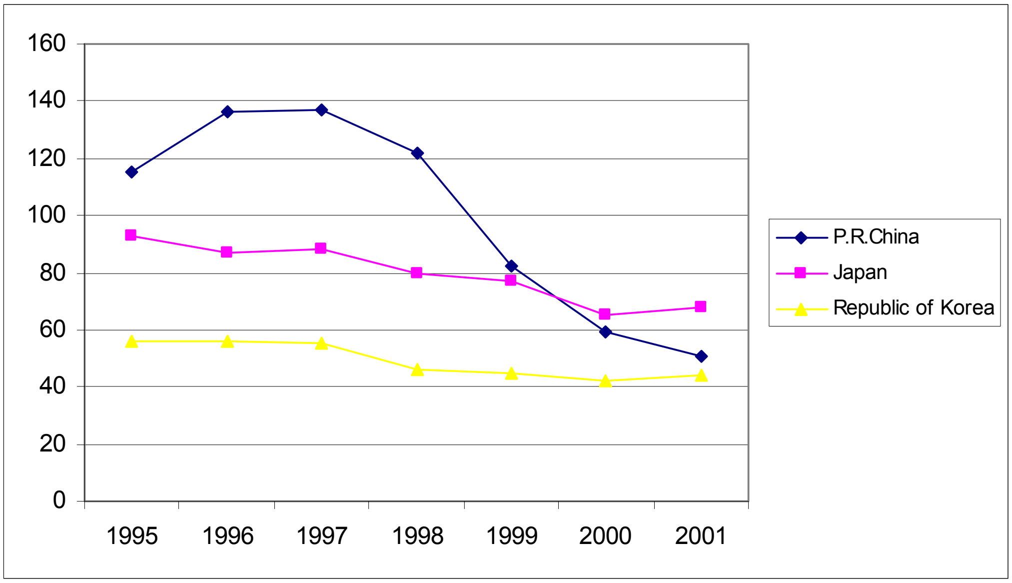
Total declared contract value of Russia's timber exports to China grew at a slower pace than the rapidly increasing volumes of these exports. Based on data from customs declarations, weighted average contracted price per declared volume was calculated in units of USD per cubic meter. As shown in Figure 2.12, the reduction in contracted prices was most serious in the cases of hardwood log and lumber. The average contracted price of hardwood logs dropped from US$128 per cubic meter in 1998 to US$62 in 2002. That of hardwood lumber dropped from $163 per cubic meter in 1998 to $124 per cubic meter in 2002. In contrast, the contracted prices of softwood logs and lumber were relatively steady from 1998 to 2002, with softwood logs falling within the range of $48-58 per cubic meter and softwood lumber $76-81 per cubic meter throughout the period.

Figure 2.12: Weighted Average Contracted Values of Timber Product Exports to China (USD per cubic meter)



Reduction in the weighted-average contract values of timber product exports to China clearly correlates with drops in the prices of Russian timber on Northeast Asian markets more generally (see Figure 2.13). The prices on the Chinese market fell most dramatically after 1997, coinciding with the Asian economic crisis. China and especially Northeast China, the top target of Russian timber exports, suffered less from the crisis than other northeast Asian countries. At around the same time, however, in 1998-2000, peak accumulations of timber stocks were recorded on the Chinese side of the border.

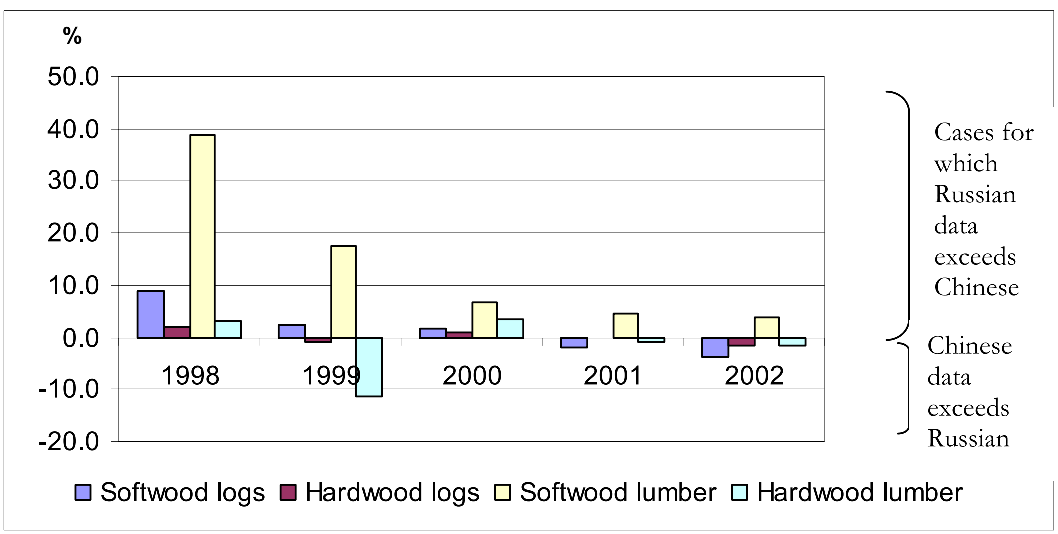
Figure 2.13: Price Trends in Russian Timber Export to China, Japan, and South Korea, 1995-2001 (weighted average contract values in units of USD per cubic meter)



TRENDS IN DISCREPANCIES BETWEEN CHINESE AND RUSSIAN CUSTOMS DATA

It should be noted that some systematic discrepancies exist between the bilateral forest product customs statistics of Russia and China over the period studied. In terms of particular products, the greatest discrepancies between the Russian export data and Chinese import data occur in the volumes of logs and lumber (Figure 2.14).

Figure 2.14: Discrepancies between Russian and Chinese Customs Statistics



Note: Chinese data from Xiufang Sun et al., 2004.[3]

[3] Sun Xiufang et al; China's Forest Product Import Trends 1997-2002: Analysis of Customs Data with Emphasis on Asia-Pacific Supplying Countries; Forest Trends, CIFOR, and CCAP; 2004.

While the Russian customs data given does not include end-of-year shipments that were not entered into the customs database by year-end, the volumes given here still provide insight on the nature of the discrepancies between the data of the two countries. By way of explanation, for each year, the author included customs declarations that had been closed by year-end and disregarded temporal and periodic declarations to avoid double counting. Thus, actual volumes for each year may be somewhat higher (up to 5 percent) due to declarations that were to be "closed" (entered into the statistics database) the following year.

It is rather difficult to explain systematic differences in the two countries' customs statistics for Russian softwood sawn wood exported to China. This gap has been about 10,000 to 15,000 m^3 every year, with the percentage gap decreasing as the volume of Russia's softwood sawn wood export to China grows. Perhaps the gap is due to the supplying of foreign companies in China that are not under Chinese customs statistics, or to the supplying of Chinese vessels with . As for hardwood species, one can see that, for 1999, the Chinese data exceeded the Russian data considerably (by over 10 percent) for sawn wood and less so for hardwood raw logs. At that time, a requirement of licensing hardwood exports had been set on the Russian side, resulting, apparently, in intentional misclassification.

In general, discrepancies in bilateral trade statistics can be explained mainly by the existence of illegal trade practices and various differences on each side of the border, such as differences in methods of measuring round wood and designating grading, lag in shipment, etc. There are no obvious reasons, however, for Russian exporters to overstate exported volumes. It would be more reasonable to assume an understating of volumes on the Russian side to evade export duties or approved quotas in exports of commercially valuable species strictly controlled by the state. Moreover, cases of understating export volumes, particularly logs, have been systematically revealed by Russian customs in the period under consideration (see Section 6). Finally, it should be noted that, according to international practice and current Russian standards for measuring round wood, at least five to seven percent of the discrepancies in log volumes could be attributed to measurement error. Lesser discrepancies are admissible in measuring lumber.

The Russian-Chinese border should be regarded as the final step in a potentially long chain of producing and "legalizing" illegal timber within Russia. There are various assessments of the extent of logging and volumes of timber produced in Russia (e.g. that by the Ministry of Natural Resources and its subdivisions in the provinces, by the State Statistics Committee, by regional and local governments, by business associations, etc); and these differ substantially from one another. It is obvious, however, that only relatively scanty volumes of round wood timber could cross the border without customs clearance and border guard checking, because of the strictness of border guarding on the Russian side. It is true that customs officers, in the course of customs clearance of timber products designated for export, can vary considerably in their estimations of contracted value and grading or classification of species.

The shift to Chinese customs data exceeding the Russian data over the last two to three years can be explained by the recent establishment of stricter customs control on the Chinese side. Earlier, in previous studies on the Russian-Chinese timber trade, some experts have noted the relatively lax nature of import formalities on the Chinese side. In particular, Anatoly Lebedev has mentioned the existence of blank unfilled contracts signed by Russian exporters that could be acquired in the Suifenhe railway station on the Chinese side (A. Lebedev, *Plundering the RFE Taiga*, 1999). According to some Chinese experts, Chinese customs officers sometimes did not record timber imports in the case of border trade if proper documentation had not been prepared or if the imports entered through small customs points that do not have the authority to handle imports of timber from Russia. In spite of zero import tariffs on logs on the Chinese side, Chinese importers must pay a value-added tax (VAT) of 13 percent for logs and 17 percent for sawn wood. Thus, liberal customs control of timber imports on the Chinese side and attempts of Chinese importers to evade VAT can be named as the main reasons for the understating of sawn wood import volumes on the Chinese side in the beginning of the considered period.

PROJECTED TRENDS FOR RUSSIAN TIMBER EXPORTS TO CHINA

Future trends in Russian timber exports to China will be determined to the greatest extent by a number of macroeconomic and social, institutional, and political factors in Russia. The future macroeconomic and social situation in Russia, in turn, will depend primarily on world oil and gas prices, and on corresponding ruble inflation over the next few years. Overall, two general macroeconomic scenarios and their corresponding impact on development of the Russian forest sector and timber exports are most probable.

The first scenario is the positive one; and it assumes the ruble remains stable or is even strengthened. A strong ruble would result in increased harvesting and production costs, thus decreasing the attractiveness of unprocessed exports of raw wood. An environment more conducive to the development of processing industries would be created, mainly as a result of domestic demand for lumber and other half-finished products. Given ongoing difficulties in selling lumber to markets abroad, external demand for Russian lumber would not be a paramount factor in promoting the development of timber processing in southern RFE. Higher export duties on lumber would also constrain the role of the export market in stimulating a domestic processing industry.

The second scenario is the negative one; and it assumes inflation of the ruble, as it falls in comparison to freely converted currencies. In this scenario, Russia's comparative costs for producing timber for export would be low and growing aspirations for hard currency gains would favor the export of raw wood, resulting in plundering of the last remains of national forest riches. The process would be propelled both by state policy to harvest new forest resources and by the actions of regional authorities and local populations taken to impede worsening economic and social living conditions through the use of natural resources. Increases in legal logging and related criminal activities and corruption would also occur as a result.

At the moment key institutional and political factors affecting harvesting and timber export trends in Russia may be divided into those at the federal level and those at the local level:

- A continuation of key current federal level trends would promote the continued plundering of Russian forests and increased exports abroad. These federal level factors include the following:

    - Currently, exploitation of natural resources and log export is encouraged at the federal level in order to increase hard currency revenues. Presently, export duties on logs range from zero to ten percent, while duties on lumber exports are 20 percent.

    - Current federal level policy also encourages foreign investors in the sector at any price.

- Recent regional level trends, however, offer some positive hope for improvement of the situation. These trends include the following:

- Efforts are being made at the regional level to solve social and economic problems through the development of timber processing industries. In the recent years, some RFE regional administrations in attracting foreign, including Chinese, companies to harvest on the Russian side have required in lease agreements that these foreign companies also develop processing and hire Russian local employees.
- Work is also being done at the regional level to hamper the rush to export raw logs and commercially valuable species at low prices.

In addition to these factors above, the following assumptions concerning to future trends in the Russian-Chinese forest products trade might be made:

- It is expected that the demand for timber in China will increase steadily.
- Economically accessible and allowable cutting areas in Siberia and RFE will remain the same. Because of the worsening quality of economically accessible forest stands, however, the supply of commercially valuable softwood species from Eastern Siberia and the RFE and the high-grading of hardwood logs from southern RFE will decrease.
- The development of new harvesting areas in the RFE and Siberia will result in higher costs (building new roads, carrying out resource inventories, etc.).
- Growing demand and tightening of supply will raise Russian timber's market prices, to which the Chinese timber market can be rather sensitive.
- Russian timber producers, including provincial administrations, especially in RFE, do not have enough free capital to invest in deep processing of timber in Russia. It is not clear whether substantial direct foreign direct investment, particularly Chinese, in deep processing will occur over the next 2-3 years, but it will be inevitable in succeeding years.
- Political stability and current state policies in nature management and foreign trade will remain during President Putin's second term.

Based on these factors and assumptions, we can project the future trends in Russia's timber export to China for both macro-economic and social scenarios.

- First, under current contracted prices, it will not make economic sense to develop new remote harvesting areas requiring substantial road construction. As a result, Russian timber exports to China will remain at their present level of about 14-15 million m^3 raw logs per year over the next two to three years. Subsequent trends depend on the macroeconomic situation in Russia and the level of the contracted prices of Russian wood in Asia. In addition, regarding specifically the export of hardwood logs from the RFE, we expect that the role of low value birch and poplar will increase, while high-value oak and ash will either retain or decrease their share in hardwood log exports. These projected trends specific to hardwoods will take place under both scenarios.
- It is also expected that lumber's share in timber exports will gradually increase in both scenarios, with fluctuations in lumber contract prices. Prices for softwood lumber will remain the same in the first scenario, and drop even lower in the second one. Prices of hardwood lumber will grow slightly in both cases. Growing Chinese investments in harvesting and processing on the Russian side are also expected.

- The total number of Russian timber exporters will stabilize in both cases. In the first scenario, this stabilization will be coupled with an increasing share of total exports for large. In the second scenario, it will be coupled with an increasing share of total exports for medium-sized exporters.
- Finally, it is also expected that transportation by ocean and river shipping will grow under both scenarios as these modes of transport become cheaper, and as better opportunities for Russian exporters to approach large timber markets in Central and South China bolster the position of ocean shipping

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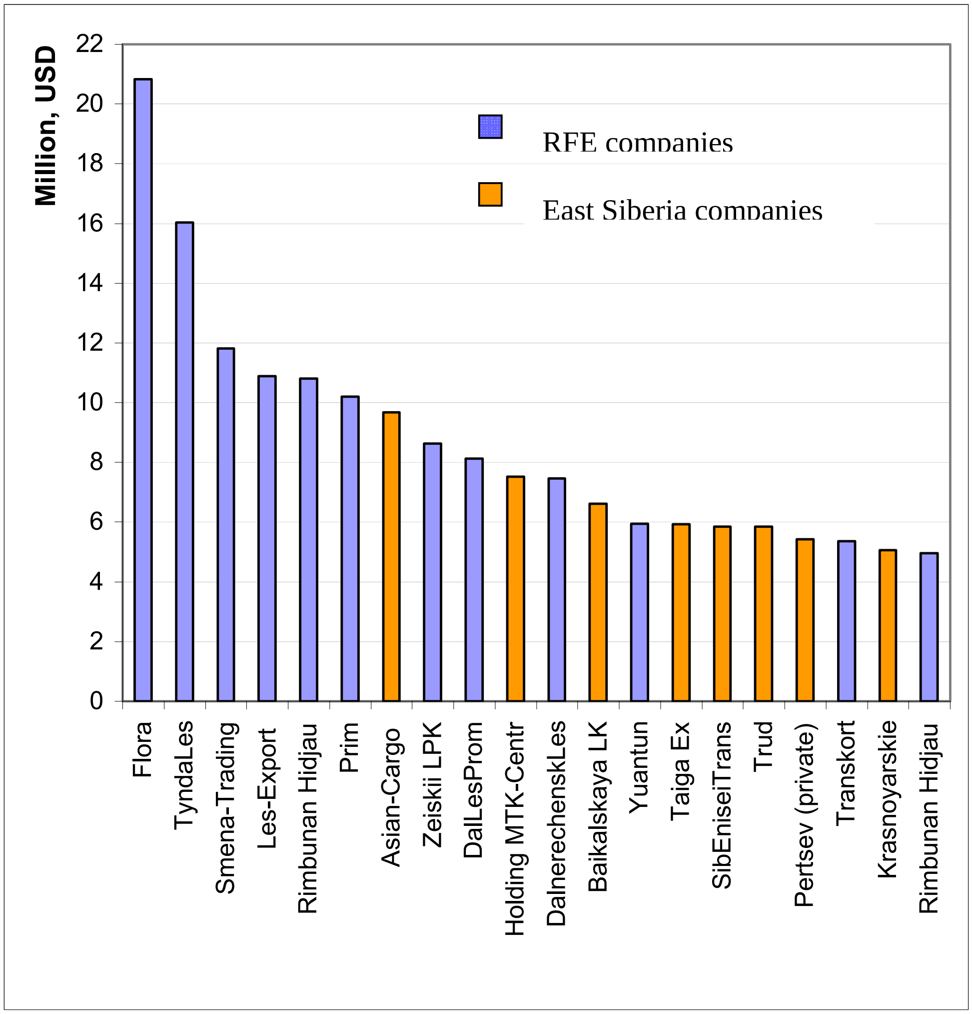
NAMES, LOCATIONS, AND CHARACTERISTICS OF MAIN EXPORTERS AND INTERMEDIARIES INVOLVED IN THE FOREST PRODUCTS TRADE WITH CHINA

LOCATION OF TOP EXPORTERS

As shown in Table 1.2, the main Russian regions exporting timber to China are located in Eastern Siberia and the Russian Far East. The majority of major timber-exporting companies is located in the Russian Far East. Among the top 20 Russian exporters of timber to China, 12 companies are in the Russian Far East, and 8 companies in Eastern Siberia (see Figure 3.1).

Figure 3.1: Top 20 Russian Exporters of Timber to China in 2003 (units: millions of US Dollars of Timber Product Exports to China)



The main exporters of pulp are situated mainly in Eastern Siberia and Northeast Russia. They include Baikalskii Pulp and Paper Complex (Irkutskaya Province), Solombalskii Pulp and Paper Complex (Arkhangelskaya Province), and, with smaller volumes, Pitkyaranta Pulp Mill (Karelia), Ust-Ilimskii Pulp and Paperboard Complex (Irkutskaya Province), Sukhonskii Pulp and Paper Factory (Vologodskaya Province), Vyborgskaya Pulp and Syaskii Pulp and Paper Complex (Leningradskaya Province), and Tseprus (Kaliningradskaya Province).

CHARACTERISTICS OF TOP TIMBER EXPORTERS

As a rule, major timber exporters tend to be either large former state harvesting companies that managed to survive during the reforms and privatization or companies with considerable foreign investment. Most of these companies are also former top timber exporters to Japan that have recently changed their orientation from the Japanese market to the Chinese one due to more competitive prices and less strict quality requirements for exported timber. Except for pure traders, these major exporters have harvesting areas, combined with their own processing facilities, the latter of which are often for the domestic market. These companies have experienced staff, established relations with customs authorities and other government agencies, their own sorting floors and storage sites, and railway or port terminals and are thus able to offer agency services or play an intermediary role for other harvesters or small traders.

Table I of Annex II gives the names of the top ten exporters in each of the major regions exporting to China. The table also lists the location, total timber exports to China, and the main Chinese importers declared by these companies. Finally, the table also includes the primary business of these exporters, namely harvesting, trading or processing.

Apart from the undesirable structure (i.e. lack of processed products) of Russian timber exports to China, another problem leading to the industry's low effectiveness is its large number of exporters. Such multiplicity was generated by foreign trade liberalization and the repeal of requirements that exporters be authorized by the state, which took place eight years ago in the course of market reforms in Russia. The growth in the number of exporters was accompanied with an influx of many unprofessional entrepreneurs that did not have previous experience with the timber business and international trade.

Russian timber exporters can generally be divided into six categories by their origin and legal status according to Russian legislation. These six categories and growth in the number of exporters in each over the period 1998 to 2002 are shown below in Figure 3.2. Private businesses with limited liability and individual persons were the two categories of exporters that developed most rapidly, in terms of numbers of companies. This growth can be explained by the fact that in some cases, one need only submit a standard passport and register with the tax agency to export timber. Private companies with limited liability are flexible and quick to respond to the market, while at the same time requiring little in terms of resources and investment.

Figure 3.2: Number of Russian Timber (Logs and Lumber) Exporters to China by Type of Company

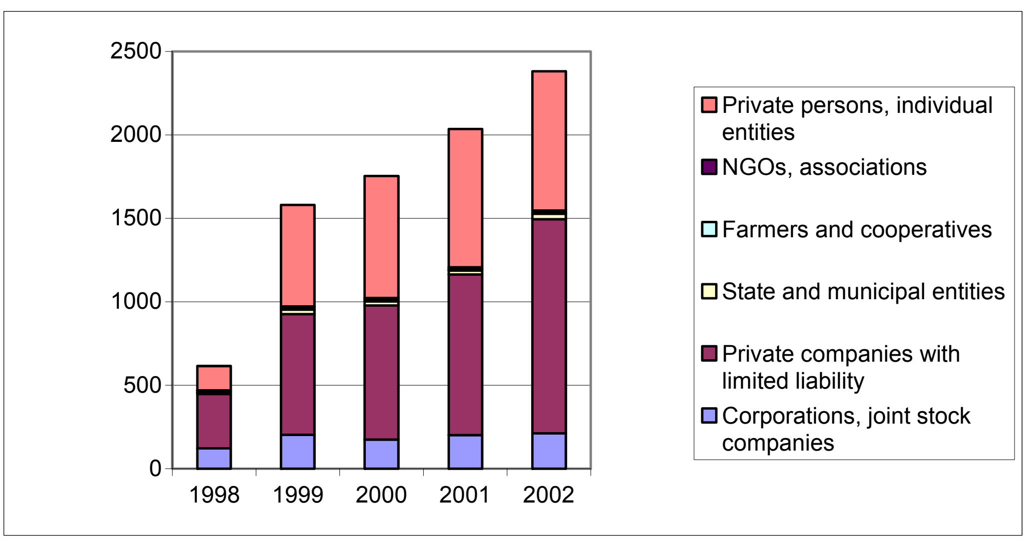
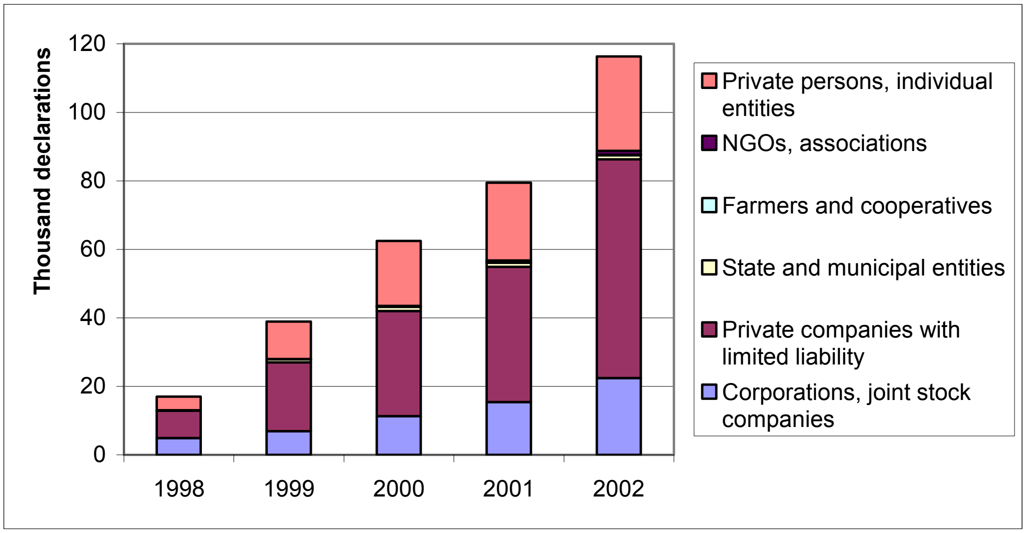
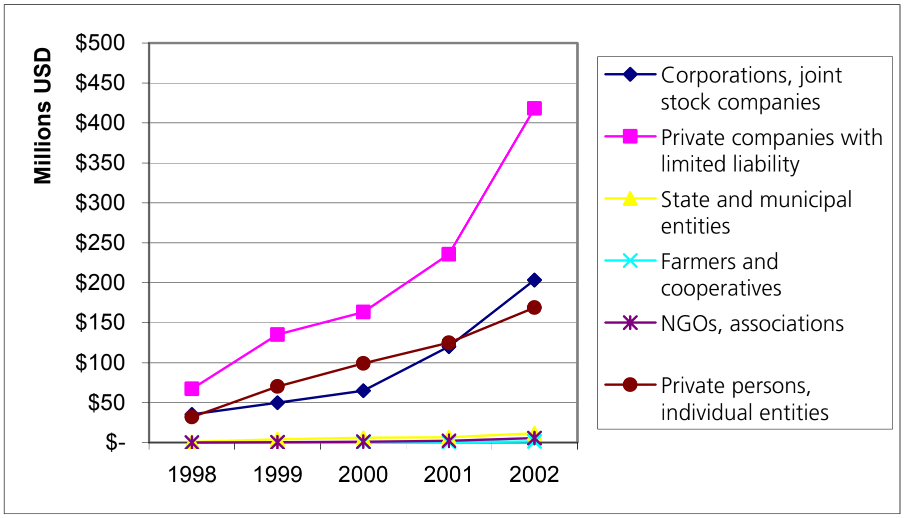


Figure 3.3: Number of Customs Declarations (declared lots) by Different Categories of Russian Exporters of Timber Products to China



Taking into consideration the number of customs declarations and, even more significantly, the total values of exported timber declared by different categories of export companies, one can see that organized business in the form of private limited liability companies are growing faster in their role of timber exports than are private persons/ individual entities (see Figures 3.3 and 3.4). In addition, since 2000, in what may be considered a positive trend, the value of timber products exported by large corporations, which are considered as more professional than small companies and private entrepreneurs, has increased steeply. Export value declared by private persons was also considerable and grew smoothly over the period studied. The large volumes of timber, mainly raw logs, exported by private persons can be explained mainly by the looser accounting requirements and greater opportunities to avoid taxes facing private persons as compared to companies. In fact, sometimes solid trading companies or large Chinese importers can be found behind these private persons, taking advantage of the looser requirements. Volumes of timber exports of the remaining three categories of companies (state and municipal entities, farmers and cooperatives, and NGOs and associations) are marginal. As a rule, timber exports are pursued by such organizations as a means of generating income complementary to their main business. It is expected that the foregoing trends for the different categories of exporting companies will continue. There is some hope, however, of increasing the role of corporate businesses, which tend to be more responsible, and accordingly reducing the role of disorganized individuals.

Figure 3.4: Declared Value of Timber Product Exports to China by Different Categories of Russian Exporters



Lately the role of exporting companies with Chinese capital is growing on the Russian side. The overwhelming majority of these companies have been registered according to Russian legislation as private companies with limited liability in Russian forest regions. Unfortunately, only some of these can be monitored through their Chinese names on customs declarations or by other direct indications of the 100 percent Chinese capital that back them. Numerous small Chinese trading companies commonly have been created by Chinese citizens in nodal stations and cities along the Russian-Chinese border. Because of difficulties, mainly bureaucratic ones, with doing business on Russian territory, these companies often prefer to invite Russian entrepreneurs or hire Russian staff to join them. As a result, a large proportion of the private persons registered as exporters in the Russian-Chinese timber trade will not be found participating in the timber trade between Russia and any other country.

MAJOR END PURCHASERS AND MAJOR DESTINATIONS IN CHINA

MAJOR CHINESE IMPORTERS

The top 20 Chinese importers of Russian logs, based on Russian customs declarations by exporters in 2002, are shown in Table 4.1. All are registered and situated in border cities on the Chinese side of the Russian-Chinese border, which are the main gateways of Russian forest products into China. Judging by their names, it is easy to conclude that they all are intermediates or traders. Among over five hundred Chinese importers in 2002, the author calculates that no more than twenty can be identified by their names as industrial consumers. The other importers are export-import trading companies ranging from state (mainly provincial and, to a lesser extent, prefectural) owned trading corporations (SOTC) with hundreds of employees to collective or one-person privately owned companies registered in border cities. Approximately 60 such trading companies in Northeast China fully control over 80 percent of the Russian-Chinese timber trade.

Table 4.1: Major Importers of Russian Timber as Declared by Russian Exporters in Customs Declarations in 2003

Name of Chinese Importer	Location	Raw logs, m³	Share in total import, %	Sawn wood, m³	Share in total import, %
Huaqiang Foreign Trade Ltd. Company	Manchouli	794,693	5.59	22,643	3.66
Yunchou Industry Trade Ltd. Company	Erlianghote	585,130	4.12	2,440	0.39
Longjiang United Import Export Ltd. Company	Suifenhe	479,524	3.38	22,257	3.60
Futong Trade Ltd. Company	Suifenhe	447,954	3.15	632	0.10
Jintai Trade Ltd. Company	Erlianghote	414,236	2.92	19,029	3.07
Tiansheng Trade Ltd. Company	Manchouli	312,271	2.20	2,790	0.45
Huayong Trade Ltd. Company	Manchouli/Erlian	278,512	1.96	5,742	0.93
Qihong Trade Ltd. Company	Dongning	268,038	1.89	24,634	3.98
Xiaolong Economic Trade Ltd. Company	Tongjiang/Manchouli	256,503	1.81	24,524	3.96
Tianyang Trade Ltd. Company	Manchouli/Suifenhe	255,737	1.80	19,202	3.10
Xiangda Trade Ltd. Company	Suifenhe	248,880	1.75	2,222	0.36
Guicheng Trade Ltd. Company	Suifenhe	241,286	1.70	0	0
Beifang International Trade Ltd. Company	Erlianghote	215,159	1.51	2,667	0.43
Humeng International Trade Ltd. Company	Manchouli	212,114	1.49	18,695	3.02
Hengchang Trade Ltd. Company	Manchouli	197,485	1.39	1,328	0.21
Fangzheng Trade Ltd. Company	Manchouli	196,693	1.38	4,430	0.72
International Economic & Techological Coop. Company	Erlianghote	195,688	1.38	453	0.07
Zhongyun Trade Ltd. Company	Suifenhe	190,721	1.34	614	0.10
Rongtong Trade Ltd. Company	Suifenhe	189,086	1.33	0	0.00
Yipu Trade Ltd. Company	Erlianghote	177,626	1.25	4,318	0.70
Total Chinese imports from Russia		**14,207,672**	**100%**	**619,008**	**100%**

Notes: (1) Names of Chinese companies declared in Russian customs declarations may be misspelled because of translation. (2) Share in total log export volume is based on Russian customs statistics.(3) The given data do not include so-called temporary and periodic customs cargo declarations, so the actual volumes may be larger than indicated by up to 10 per cent.

According to Chinese custom statistics on timber imports, the top 20 Chinese importers of raw logs from Russia are slightly different from those above (Feng Guoqiang et al. 2003)[4].

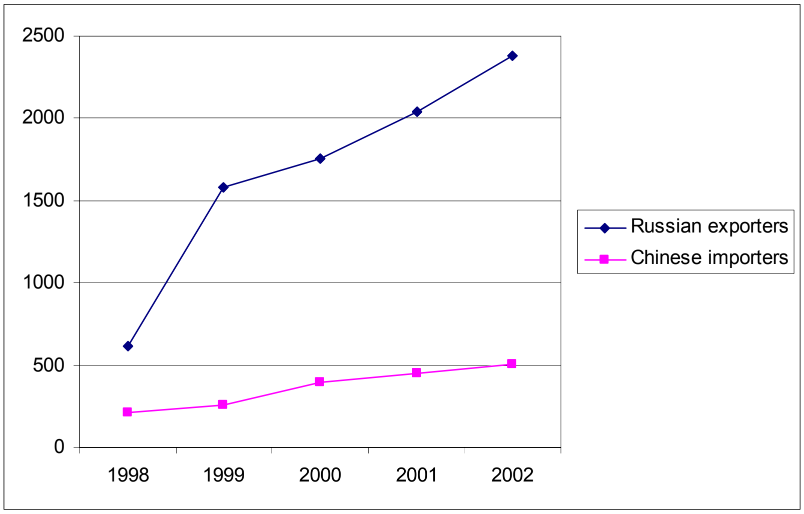
In addition to the most likely reasons for data discrepancies in declared volumes, such as lack of control of importers on the Chinese side, as mentioned in Section 2, differences in the ranking of major importers can be explained partly by the following reason on the Russian side: Since declarations are filled out in Russian, sometimes it is impossible to determine the Chinese partner because of heavy distortions in its name as transliterated from Chinese or English or both, one after another. Sometimes the name of the Chinese company is so abbreviated that it cannot be interpreted unambiguously as a specific company. Such unclear cases were met in about five percent of custom declarations. Apparently, however, this lack of clarity does not seriously impact the top five to ten positions in the ranking of importers.

An attempt to determine the names of Chinese companies, in the case of unclear declarations, by other means, particularly by the declared addresses of main offices as written in export contracts, has been made as well. It was found out that many Chinese importers, especially large ones, have up to dozen of different declared official addresses; and many importers, different according to declared names, have official addresses in the same building, floor, and even room. The most probable explanation of these findings is that large Chinese importers are large holding companies consolidating many small entities and have hundreds of procurement managers on their staffs. The latter have full freedom in seeking and signing contracts with Russian partners on wood supply, apart from clear instructions on purchase prices. These individuals often understate volumes of imported timber in Chinese customs declarations to sell unaccounted wood on the side as an extra source of personal income.

Like Russian exporters, the number of Chinese importers on the Chinese side, as declared in customs declarations of Russian exporters, also increased considerably from 1998 to 2002, especially since 1999 when import licensing was abolished in China. The total number of importers of Russia's forest products in China, however, is at most one-fifth the number of Russian exporters (see Figure 4.1). The steady and more measured pace of their growth indicates proper management and control by Chinese authorities responsible for regulating foreign economic activities.

[4] Feng Guoqiang et al. Analysis on the Legitimacy of Timber Imported from Russia to China. WWF-SFA, 2002 (paper).

Figure 4.1: Number of Chinese Importers in Customs Declarations in Comparison with Number of Russian Exporters



Source: Russian Custom Statistics.

As shown at Figure 4.2, there has been a swiftly growing gap between the number of Russian exporters and Chinese importers. This reflects the influx of mainly unprofessional exporters on the Russian side, while on the Chinese side the pool of importers has remained relatively stable and experienced. This situation can, to a greater extent, explain the falling prices of Russian timber after 1999, as a result of spontaneous mass offers of timber in the markets by the first group, and of correspondingly coordinated trade behavior of the second.

On the Chinese side, most trading companies in Northeast China have close relationships with state forestry bureaus, as they use the available developed infrastructure of transportation and the distribution system remaining from previous days of intensive loggings, and with former state timber industrial bureaus now converted to joint-stock and collective companies, which manage most parts of timber processing, wood working, and furniture enterprises. These traders are actively supported by local and provincial governments, which regard them as additional sources of budgetary income and jobs in the face of high unemployment in the region. As a result, their cargoes are given priority and special treatment and protection. In contrast, the cargos of Chinese companies from other provinces trading with Russian exporters may find their business hampered by unconcealed obstruction or even sabotage by provincial authorities and border trading businesses. For example, unescorted timber cargoes of inland companies during transportation over Northeast Chinese territory are subject to delays, damage, and unscrupulous competition. As a result of this situation, central government authorities in recent years have officially expressed dissatisfaction with the uncontrollability of new border trading capitals.

MAJOR DESTINATIONS

Currently, no specific and reliable information on the distribution of Russian wood products in China is available. At least 60 percent of the total volume of Russian logs imported by China is distributed and processed in three provinces of Northern and Northeastern China, namely, Inner Mongolia, Heilongjiang and Jilin Provinces. By experts' estimations, their shares in utilizing Russian raw log imports are 5 percent, 40 percent and 15 percent correspondingly. The remaining 40 percent of Russian log imports as well as most sawn wood and most pulp and paper, is distributed to other regions in China that are mainly situated in North and Central China. The overwhelming proportion of Russian softwood imported to China is consumed by industrial consumers (mainly in construction) and paper mills. About 80 percent of imported hardwood is consumed by producers of furniture and decorative construction materials, or retailers.

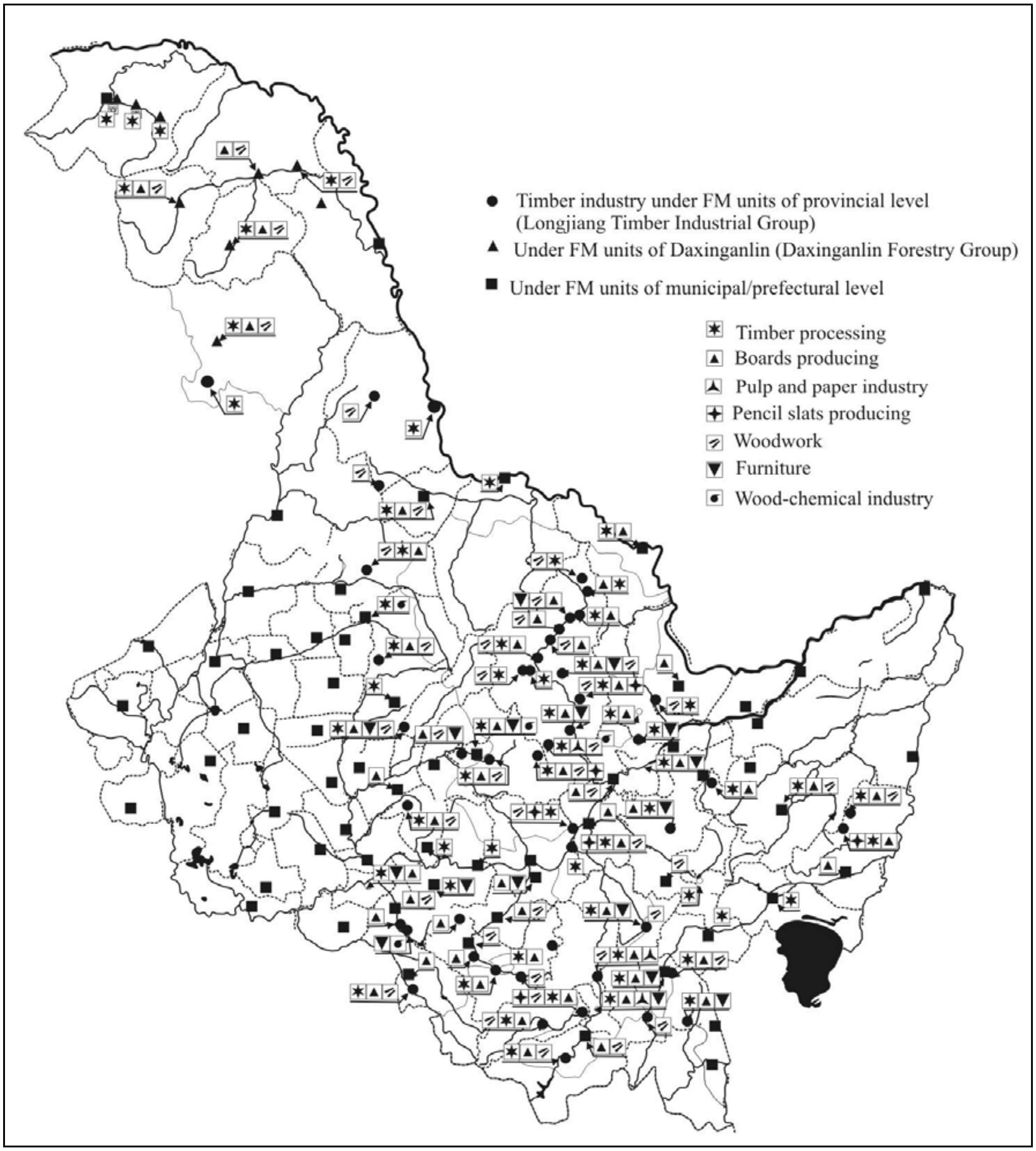
Inner Mongolia, Heilongjiang, and Jilin Provinces are among the most forested regions in China. In spite of an abrupt decrease in harvesting after adoption of China's Natural Forest Protection Program (NFPP) in 1998, intensive logging continues in northern areas of Heilongjiang and Inner Mongolia. Heilongjiang and Jilin Provinces are also known as regions of developed timber processing, board production, and the pulp and paper industry. In comparison with these two provinces, Inner Mongolia has only a handful of timber processing factories and pulp mills. Thus, Inner Mongolia plays mainly a transit role in the distribution of Russian forest products in China. Recently, the Chinese Government has adopted a new state program for the modernization of existing large pulp and paper factories in Northern and Northeastern China. Small pulp mills with a capacity less than 17,000 tons per year will be closed.

Heilongjiang Province processes over 80 percent of the raw logs imported from Russia that are consumed by these three provinces. Jilin Province and Inner Mongolia process about 15 percent and less than five percent, respectively, of the raw logs imported from Russia to destinations in the three provinces.

Heilongjiang has several hundred sawmills and processing workshops built in previous years of intensive harvesting. These are under the jurisdiction of state forest management units and timber industrial bureaus at the provincial and municipal levels (see Figure 4.2). In addition, nearly a hundred new timber processing mills have been set up in the province along the Russian-Chinese border over the last ten years, including the large-scale modern processing factories, such as Nacha Wood, Lanxiang Wood, Mudanjiang Forest Wood, San Gan Ling, and Xin Yang Wood. In the period from 1999 to 2002, volumes of harvesting in Heilongjiang decreased by 60 percent; and the timber processing industry originally oriented to domestic sources of logs has been re-oriented to logs imports from Russia.

At present, with dismantling of China's old planned system, most of these old and new enterprises have been converted from the state-owned enterprises into joint-stock companies, with the state holding controlling shares. Vertically integrated firms, which provided full processing from log to final product, have been replaced by separate enterprises. As an example, Harbin Wood Processing Complex has divided into over ten private enterprises producing diversified products (furniture, glue board, flooring, woodwork, and so on). These old and new enterprises are served by several tens of saw mills producing lumber and semi-finished products for specific enterprises. Due to on-going under-utilization of processing capacities, one-fifth of them are unprofitable.

Figure 4.2: Heilongjiang Province Timber Industries in 1999[5]



According to official Chinese statistics, Heilongjiang Province in 2001 imported 4,466,847 m^3 of logs, 70,735 m^3 of lumber, and 617,664 tons of pulp from Russia. These figure including imports from Russian border trade of 4,127,315 m^3 of logs (92 percent of total Russian log imports to Heilongjiang) and 66,295 m^3 of lumber (94 percent of the total). Heilongjiang's own domestic production of logs in 2001 was 4.246 million cubic meters.[6]

Aside from the local distribution system and direct supplies to processing factories in Northeast China, Northeast Chinese traders sell the other half of the Russian timber they import at their own log storages

[5] Agricultural Atlas of Heilongjiang Province, Harbin. 1999.

or collectively owned large timber exchanges situated in main railway junctions to domestic wood wholesalers from other regions of China. The timber may then be resold two to three times on some of China's over a thousand various sized timber markets, wholesale and retail, in provincial and county cities across the country. In other cases, the wood may be shipped directly from border regions to manufacturers or to the wood market by importers. In parts of China without a history of large-scale harvesting and therefore no available structured system of distribution, very localized wood markets are situated in proximity to large wood processing enterprises or transport terminals. Procurement managers of domestic wood wholesalers or processing factories usually come to Manzhouli, Suifenhe, and Erlianhe to close supply contracts. Contracts for the supply of large lots of Russian wood may be quoted in famous Chinese timber exchanges in Shanghai, Fuzhou, and Guangzhou. In many cases, however, the Russian wood is mixed with wood from domestic or other sources from the very beginning of its shipment across Northeast China.

It is difficult to trace Russian wood after these multiple and distant re-sales. As mentioned above, too few direct links between Russian producers and Chinese final industrial consumers are found in customs statistics. Large wood processors and furniture producers in China may establish their own specific trading firms with different names to purchase raw wood; and this complicates their identification. At present, no official statistics on wood flows have yet been collected in China's emerging free market economy.

ANALYSIS: IMPLICATIONS OF THE NATURE OF CHINESE IMPORTERS

The problem of the monopolistic tendencies of trade intermediates in Northeast China is regarded as very serious by those Russian timber exporters that deliver timber through continental border gateways (i.e. by rail, truck, and river ship). On the one hand, Northeast Chinese provincial authorities and trading businesses impede the involvement of companies from other parts of China, while on the other hand, there are no possibilities for Russian exporters to participate directly in the Northeast China timber market. At present, Russian exporters are not allowed to supply timber to China without the involvement of a Chinese border export-import trading company. Such Chinese border trade intermediaries often work on commission and by order of specific Chinese processors or former state-owned harvesting companies located in certain cities or counties. In other words, principal traders in Northeast China are organized by the geographic area they serve and, as a rule, have no extensive links outside their represented companies or places. Moreover, they are exclusively supported by local and provincial authorities. That makes it difficult for newcomers, either Chinese from other parts of China or Russian, to come in and develop their own business in Northeast China. The difference between average import contract prices and wholesales prices of Russian wood on the Northeast Chinese market indicates that these intermediaries are earning a 20 to 30 percent margin on the price at which they sell timber.

In contrast, in the case of ocean shipping to the seaports of southern China, intermediaries do not play the same monopolistic role. Ocean shipping, however, does not have the advantage of preferential import duties, such as the 50 percent reduction in VAT applied on the Chinese side to inland border trade. Thus, while ocean shipping creates more favorable conditions and higher prices for Russian exporters, it is less attractive to Chinese importers. On the other hand, ocean shipping requires aggregating larger shipping

[6] Heilongjiang Province Yearbook, 2002

lots than in-land railway or trucking deliveries, thus either excluding the involvement of small Russian exporters or compelling them to pool their goods with larger exporters. Aside from avoidance of the monopolistic intermediaries in Northeast China, additional attractions of ocean shipping for Russian exporters include the following: (1) Higher contract prices due to deliveries directly to Chinese consuming enterprises. (2) Direct delivery to the cities of the major timber exchanges, which are known to determine the indicative timber prices for all of China. These major exchanges are situated in Shanghai, Fuzhou and Guangzhou, which are also known as leading Chinese seaports.

Given the nature of importers in Northeast China, Russia's objectives to expand exports of lumber and other products of primary processing and correspondingly reduce raw log exports may be heavily constrained in Northeast China. Russian exporters, as a rule, do not have a good grasp of potential consumers in Northeast China; and there is a lack of Russian networks for distribution of lumber and other half-finished products in the region. China officially encourages the import of raw logs by enacting full import duty and VAT on lumber, as compared to zero import duty and 50 VAT reduction on round wood imported under near-border trade[7].

Because of lower labor costs in China, Russian sawn wood production costs are at least two times as much as those in China. In general, the Chinese side is interested in the creation of its own vertical chains of cheap raw wood processing that employs a large population, creates higher added value, and generates final products for re-export. Chinese intermediates themselves are not ready yet to import lumber, half-finished, or final products from Russia on a large scale, because they do not have enough experience in dealing with the wide assortment of primary processed products and establishing the necessary links with China domestic consumers (e.g. furniture producers, wood works, final product producers and so on). Also, trade in processed products would offer them less flexibility and fewer opportunities for price manipulation than trade in raw logs.

The goal of expanding processing so as to increase the export of lumber and other processed wood products presents huge difficulties for Russian entrepreneurs in terms of selling to Chinese parties. Successful sales of these commodities will be impossible without studying market demand, standardizing semi-finished products, understanding the diversity of products demanded in China, preparing Russian products to meet Chinese market requirements, and establishing direct links with industrial consumers and cooperative links with Chinese secondary timber product producers (manufacturers) and final buyers. Achieving these goals, in turn, will be impossible without immediate work and presence of Russian exporters in China. Russian entrepreneurs should establish their own official representative offices in China, train and send their own Russian professional specialists to China, and carry out aggressive marketing to defend their interests. Creating an appropriate commercial infrastructure, however, will require considerable financial expenditures of the part of Russian exporters.

Despite difficulties, China's accession to the WTO should create a better environment for Russian companies doing business in China. In connection with its WTO entry, China should create equal conditions for businesses of non-residents, allowing Russian exporters to play a more active and direct

[7] Commonly "near border trade" is defined as trade flows between two adjacent bordering regions only (like Primorskii Province and Heilongjiang Province, but not Primorskii Province and Liaoning Province or Krasnoyarskii Province and Inner Mongolia). Although this notion is widely used both in Russia and China, only in China do they have separate statistics, namely calculating flows and incomes within the bordering province and flows going out through the province. In Russia there are no separate statistics concerning border trade and no

role in the Chinese timber market so that they can be first-hand suppliers for Chinese primary and secondary processing industrial consumers or retailers. Russian exporters should be able to sign a contract directly with the Chinese final buyer at an agreed price. If the Chinese buyer has no foreign trade license, it could hire a trade intermediary to perform export-import transactions and other logistics. In this scenario, the intermediary would take a much lower margin and play a much lesser role than at present, when intermediates actually dictate prices to Russian exporters and Chinese consumers. This new scenario, however, will demand great expenditures and efforts by Russian exporters to secure approval and the necessary Chinese partners to establish a permanent presence in China. Today, many of the large Russian producers understand the vital necessity of establishing a presence in China for day-to-day work. In April 2004, one of the leading Russian producers, Ilim-Pulp Corporation, opened a representative office in Beijing. In addition, some of the regional associations of timber producers and exporters already have their own representatives on the ground in China.

With regard to direct supply to Chinese end users by Russian parties, the successful production activity of IKEA in China should be mentioned. IKEA has opened two representative offices in China, one in Harbin (Heilongjiang) and one in Qingdao, and several furniture stores in large cities. IKEA has contracted over 20 Chinese wood processing and furniture enterprises in Northeast China to produce furniture. According to various estimates, about 20 to 30 percent of the wood consumed by these contracted enterprises is Russian in origin. Other wood is bought at forestry bureaus in Heilongjiang and Inner Mongolia. As IKEA declares its environmental and social corporate responsibility, the company is anxious to ensure transparent supply chains and legality of the wood it uses. Given that it is difficult to trace wood through a long chain of intermediates, IKEA has recently been looking for direct suppliers of Russian wood from the RFE and Siberia.

DESCRIPTION OF THE EXPORT PROCESS AND COMMODITY CHAIN ON THE RUSSIAN SIDE OF THE BORDER

Most commercial (industrial forest concessions) harvesting and non-commercial (so called interim loggings, including thinning, sanitation, salvage, fire prevention, maintenance, etc. to improve the quality of growing stands or prepare them for commercial harvesting) logging operations in Eastern Siberia and especially in the RFE are initiated with export as the main target in mind from the very beginning. The whole process from harvesting site to the cross-border point consists of three main phases, namely: 1) harvesting (logging), 2) processing or preparing timber for export (sorting, piling), and 3) customs clearance and transport abroad. The customs clearance can be made by hinterland customs or at the Russian-Chinese border. Transport of export commodities, already cleared by customs, is carried out in Russia by specifically authorized transport companies.

Corresponding to these three phases, all the actors involved in Russian forest products export can be divided into the following categories, namely: (1) in the first phase - commercial harvesters (long-term lease holders), non-commercial loggers (short-term or one-time lease holders), and illegal loggers (no lease

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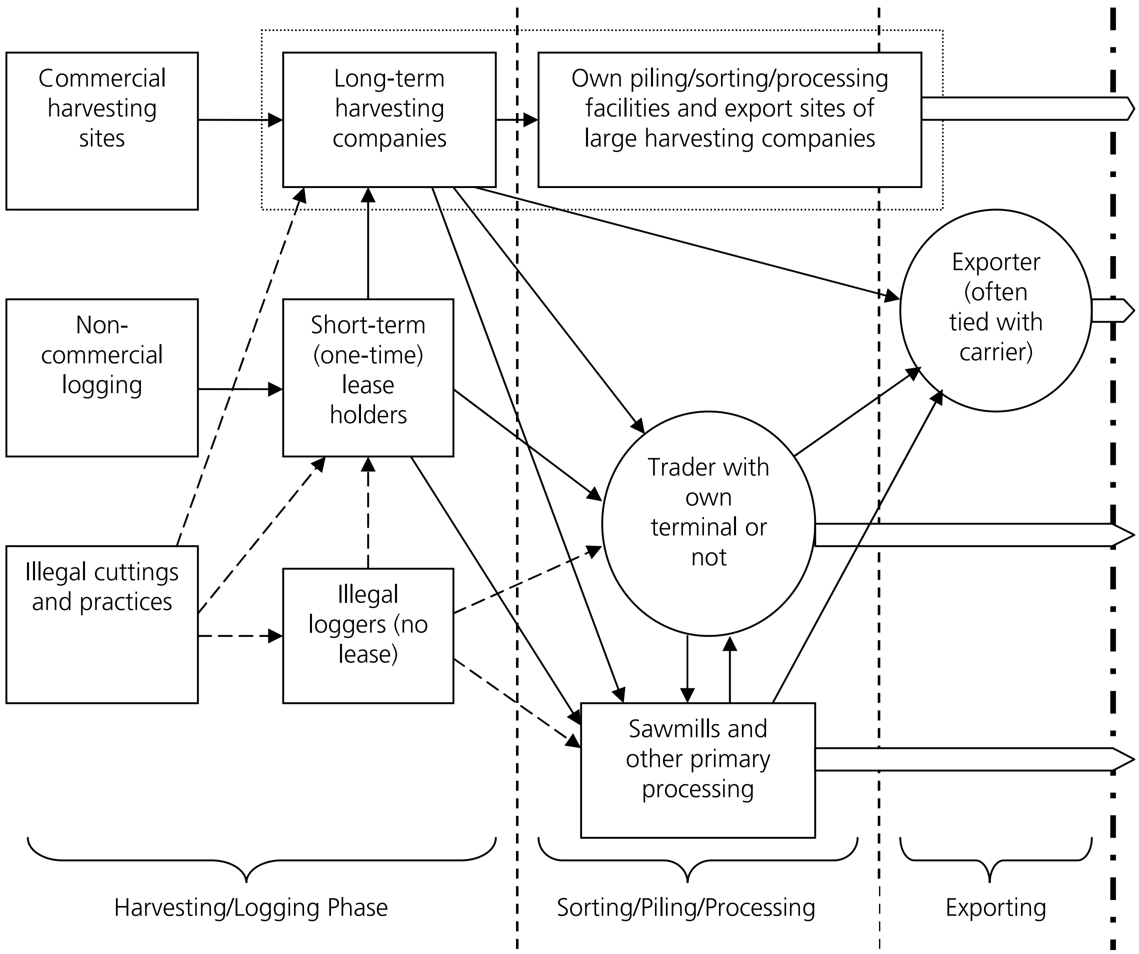
separate accounts for domestic and outer transit flows. In some cases for Russia, we can determine the consumption/production by location of the certain importer/exporter.

at all); (2) in the intermediate phase – traders and processors; and (3) in the exporting phase - export agents and authorized export carriers. Due to varied professional skills or historical position in the market, some of these different roles can be played by a single company, and some of functions can be fulfilled by different actors (see Figure 5.1).

Figure 5.1: Main chains of custody from harvesting site to cross-border checking point in timber export to China



The arrows in Figure 5.1 show the principal timber flows, from forest to cross-border check-point. Thin arrows show links through which it is hard to control volumes or money flows due to certain opacities in the current Russian business environment. Dotted arrows depict flows of illegally harvested timber. Thick arrows, crossing the state border, imply timber flows cleared by customs and carried by authorized carriers. Customs clearance of timber usually takes place at appropriate export sites or terminals, which are connected with railway or highway, or situated in ocean or river ports. Such export sites can be located in deep hinterland regions (far from borders); and, when this is the case, the exported timber is carried along Russian territory to the border or ocean port gateway sealed by customs. The authorized transport companies (railway, ocean and river shipping companies, and trucking companies) play an auxiliary role. Because they usually have a monopoly for crossing the state border, however, they can have a serious impact in terms of transportation and handling costs. Sometimes, the transport companies act as registered export agents for other exporters that do not have an export license or the necessary experience and market links abroad.

Large harvesting companies, which generally have been formed from former state harvesting enterprises and holdings after privatization, as a rule have their own developed infrastructure, such as sorting grounds, sawing facilities, and export sites, and are usually registered as exporters. Small harvesting companies and holders of short-term leases (e.g. salvage leases, sanitary logging leases, etc.) without relevant export infrastructure sell to or ask other large harvesting companies or large traders to handle export transactions and formalities (transportation, sorting and storing, linking with the market abroad, export licensing, customs clearance, etc.) on their behalf.

Large traders have emerged from the former state foreign trade associations, with or without retaining the original infrastructure of the associations. The large traders are registered as exporters and very often act as export agents as well. Small traders, usually private persons, may ask other larger traders or export agents to export on their behalf. Very often, several harvesting companies or traders will pool export lots and financial resources, designating a specific company among them to deal with transport and export operations. Export agents, usually located at the border, are very similar to traders, but they are specialized in export operations only, handling export formalities on lots ready to export at the request of hinterland producers and traders. These export agents are generally independent firms or private persons, involved mainly in the handling of documents, or are border subsidiaries of large harvesters, processors or traders.

Primary processing is represented by a wide range of actors, from the remaining Soviet and now privatized huge wood processing factories and pulp mills, as in Siberia, to the subsidiary saw mills of large commercial timber producing companies or their associates; and to primitive sawmills in RFE border areas, sometimes in operating in open air, that have avoided registration with state engineering supervision, taxation and/or labor agencies to minimize production costs and avoid taxation.

"Shadow" wood (harvested without any license, exceeding the permitted quota, or consisting of forbidden species, etc.) mainly originates from short-term lease areas and from illegal cuttings. It most commonly originates in developed harvesting areas in proximity of roads, especially in border areas with China. As shown in Figure 5.1, the dotted arrow from "illegal cuttings" to commercial harvester ("long-term harvesting companies") means use of timber harvested in violation of adopted harvesting rules or instructions designated in the harvesting license, or of timber not officially registered in order to minimize taxation. "Shadow" timber subsequently becomes "legalized" in the course of sorting, piling and processing, and usually under the guise of available commercial harvesting licenses or logging tickets for sanitary cuttings. If no harvesting license or ticket is available, the "shadow" timber will be lumbered or smuggled through false documents or the bribing of customs officers. Export of lumber in Russia does not require submission of initial harvesting tickets and the ratio of raw wood input and lumber output can vary considerably. Thus, "shadow" timber can be easily legalized, sometimes through several resells, through documentation or a time lag.

Taking into consideration the major actors mentioned above, the numerous variations of existing chains of custody for Russian timber exports to China can be grouped into two major types of timber chains, direct (without intermediaries) and indirect (with intermediaries). The characteristics of each of these two types of chains are described below:

I. Direct chain: Commercial Harvester → Carrier → Importer.

The direct chain is the simplest scheme. It is rather transparent and offers easier control of production and other costs, volumes of exports, and revenues. The direct chain occurs mainly in the case of exports from large commercial harvesting, timber processing, and pulp and paper producing companies with long-term harvesting leases (of not less three years, usually over five years), mostly for softwood in Eastern Siberia and northern areas of the RFE (i.e. Khabarovskii and Amurskaya Provinces). Except for companies in distant hinterland areas, large commercial harvesters or producers with relevant infrastructure are registered as exporters and have relevant licenses issued by the Russian Federation's Ministry of Economic Development and Trade. These large commercial enterprises usually have control of large forest areas, are dominant forces locally, and bear a significant economic and social load, in terms of supporting the local population living in forest areas. Distribution of livelihood benefits to local people is rather clear and can be calculated nominally. The federal and especially regional authorities favor this direct chain and are now insisting on the development of processing when new commercial harvesting contracts are signed. The large commercial companies involved in the direct chain can buy illegally harvested timber from outside, but do not allow illegal cuttings in their own harvesting areas or in other areas under their control. Instead, their main legal infringements are related to understating real volumes of harvesting and processing in order to have discretion in production costs and to minimize taxation. Such "shadow" flows are estimated to make up 10 to 30 percent of these companies' export revenues. Transportation to export sites or to other transport carrier is generally handled by the company itself.

Finally, the authorized transport carrier (hauling, railway or sea/river shipping company) on commission provides border-crossing and delivery to the destination abroad, commonly to timber storage sites in large border railway stations or seaports. The importer gets incoming timber from such storage sites or re-loads it directly from the carrier's vehicle for further transport. In some cases, depending of contract terms and conditions, the importer can buy timber on the Russian side, and then itself ask for the Russian transport carrier to convey it across the border.

II. Chain with intermediaries: Harvester → Intermediary → Carrier → Importer.

Intermediaries are numerous and play a considerable role in the Russian-Chinese timber trade, especially in border areas. The main bulk of timber is exported by large harvesting and processing companies, but most export transactions are, in turn, handled by intermediaries, including numerous private persons and small firms. Of course, professional intermediaries can play positive market roles in aggregating necessary lots and assortments and providing links to buyers that are especially significant in the export of lumber. Most importantly, they may emphasize maintaining their reputation and developing a market share. Given the current environment in Russia, however, most intermediaries tend to focus on pursuing as much money as possible in the short term. The income of intermediaries depends to a large extent on the availability of own sorting, storing or transport infrastructure and on its involvement in illicit practices. Intermediaries that have the relevant infrastructure will usually control the commodity chain from log depot to export site. Those without necessary facilities, contract out intermediate steps to harvesters and carriers. Intermediaries play an exclusive role in laundering illegally harvested timber. Because of this, intermediates can retain from one-third to two-thirds of the final revenues from export, which in many cases are impossible to trace. Some of the more specific chains with intermediaries are listed and explained below:

1) Short-term Lease Logger → Commercial Harvester as Exporter → Carrier → Importer

This chain is common in cases for which the short-term or one-time lease logger, generally a small company or private person, has no relevant export infrastructure (to sort, store, transport, develop links with foreign importers, handle export formalities, handle banking, etc.). As a result, the short-term lease logger sells its timber to the nearest larger, experienced, and known company or asks this latter company to act as an export agent.

2) Short-term Lease Logger or Commercial Harvester → Trader → Carrier → Importer

This is the most common log export chain involving an intermediary. It is rather similar to the foregoing chain, but, in contrast its motivating force is not lack of infrastructure. Instead, it is a traditional scheme remaining in remote areas from the Soviet period (when the chain was harvester -> foreign trade association), where the harvester focuses on cutting, not on export formalities, studying the market, and seeking reliable foreign partners. The experienced trader can offer quick decisions to the harvester, securing export sales and the necessary material and logistic support. Large traders often conclude long-term supply contracts with commercial harvesters and may use the available infrastructure of the harvester. In order to work with short-term lease loggers, however, the trader must have its own minimum infrastructure, at least sorting and storage sites (combined with export site, if the trader is registered as an exporter), to which these loggers can deliver harvested timber.

3) Short-term Lease Logger or Commercial Harvester → Processor → Exporter → Carrier → Importer

This chain of custody is rather developed in Siberia, where large wood processing companies and pulp mills are situated, and less developed in the RFE. The large wood processing companies and pulp mills commonly have their own harvesting areas, but also attract raw wood from any other sources. Since large processors usually have their own export sales departments, it is generally only the smaller ones that ask outside exporters for assistance marketing abroad and this assistance is more essential in the export of lumber and other semi-finished products than it is in the case of logs.

4) Short-term Lease Logger → Trader → Processor → Exporter → Carrier → Importer

This chain is nearly the same as the preceding one, with the difference that a trader link occurs before processing. This chain of custody is included here, because it is universal one across Russia and has become rather common in in-land border areas of the RFE lately, especially in the export of commercially valuable species liable to export licensing. Rudimentary processing is used as a screen to meet the requirements of regional governments to develop wood processing and/or to legalize illegally harvested timber.

5) Illegal Loggers → (Commercial Harvester or Trader or Processor) → Exporter → Carrier → Importer

Illegal loggers can sell illegally harvested timber only to commercial harvesters, traders or processors, which can legalize the timber through available logging tickets or primary processing. Illegally harvested timber can also be exported by means of misclassification or understating of volumes by means of other illicit practices, such as bribing and smuggling (by the carrier).

THE CHINESE ROLE IN THE COMMODITY CHAIN ON THE RUSSIAN SIDE OF THE BORDER

Combined with the foreign economic and trade liberalization that began in Russia from the mid-1990s, high demand for timber in China due to considerable reduction of logging in its main forest harvesting areas since 1998 have stimulated strong activity by Chinese trade capital in RF forested regions and border areas. At the moment, Chinese penetrate the industry through both legal (officially registered) and shady (without registration or through dummy companies or private persons) investments.

In recent years, aspiring for sources of timber, China initiated a number of inter-governmental and inter-provincial negotiations concerning timber supply. The inter-governmental Russian-Chinese Agreement on Joint Development of Forest Resources was signed on November 3, 2000. Under this agreement, the Chinese would invest 400 million USD in development (building new forest roads and harvesting and primary processing facilities) of distant forested regions in Siberia and 500 million USD in pulp production on the Russian side of the border. Announced investments projects in harvesting and processing include investment by Fujian Province to build a 100,000 metric ton per year pulp mill and investment by the Great Xinggang Timber Industrial Group to harvest 500,000 cubic meters annually in Siberia.

Unfortunately, at present, the Chinese side has still not invested in these development projects in the distant regions in Siberia. Instead, they have targeted harvesting in border areas and raw log exports through nearest cross-border passages, minimizing production and purchasing costs on the Russian side by any means necessary. Only the bridge over the Argun River linking border settlements Olochi in Chitinskaya Province and Shiwei in Inner Mongolia has been invested and constructed by the Chinese, with the purpose of facilitating timber hauling from adjacent forest areas. In general, all the other efforts of Chinese companies are focused on investments into easily accessible harvesting areas, with no interest in deep timber processing, or building forest roads to new harvesting territories. These investment preferences of Chinese companies can be explained by the following: for the same quality product, primary processing is cheaper in China than in Russia; and development of new harvesting areas or processing facilities requires considerable investments, which are more efficiently utilized in China than in Russia at present. In general, however, Chinese demands for securing leases to large harvesting areas in Russia before investments are made in updating processing assets are distrusted by the Russian authorities.

Nevertheless, bilateral negotiations on joint exploitation of forest resources in Russia have recently continued at the inter-provincial level. As a result, three Chinese enterprises, namely Star Paper Co., Ltd., Zhuhai Zhenrong Company, and Huacheng International Economic and Technological Cooperation Co., Ltd from Heilongjiang, have announced that they will jointly invest 2.3 billion yuan (278 million US dollars) in a lumber and wood processing project in Chitinskaya Province during the period 2003-2008. Some 1.5 million cubic meters of logs will be processed locally each year to produce 300,000 cubic meters of quality timber products and 400,000 tons of quality pulp. Among other investment proposals, the Chinese company "Xinjiang Hualin" has announced that it will invest up to 10 million USD in a wood processing mill and furniture factory in Barnaul, Altaiskii Province.

Currently, Chinese capital is present in the entire timber export process, from harvesting site to cross-border point in all border provinces of Southern RFE. Senhe-Lesprom Company Ltd., which has 100 percent Chinese investments, in Evreiskaya Autonomous Province can be named as a typical example of legal Chinese involvement in harvesting, processing, and exporting on the Russian side. Typically, Russian-Chinese joint ventures or companies with 100 percent Chinese investment register as traders and exporters; rent or own sorting yards, storage sites or export terminals; and purchase and export wood themselves.

The greater concerns regarding Chinese involvement in the Russian timber industry, however, have to do with the shady activities of Chinese timber merchants in Russia. The Chinese merchants buy up legal or illegally harvested timber for cash, without any documents, and carry out the phase of sorting, processing, and exporting under the guise of dummy private companies or individuals.

Lately, Chinese merchants have begun to develop processing as a way of laundering illegally harvested and purchased timber, because export of lumber does not require submission of harvesting licenses. An inflow of shady Chinese investments into sawmills in border areas of Southern RFE has resulted from stricter control of timber transport, enforcement of the customs regime, complicated export procedures, and the necessity to get special permission to export raw logs, especially of commercially valuable hardwood species. Chinese timber merchants realize that it is easy to buy wood in forest villages for cash and then do minimal primary processing to get rough square beams or boards that can be exported without special procedures. They use primitive sawing facilities in the open air or under a simple canopy, on rented sites, in former state enterprises, in the homes of private individuals in forest villages and so on, without tax registration or engineering supervision. These sawing facilities can be quickly dismantled and moved to another place at any time. For this purpose, these Chinese merchants bring in obsolete sawing equipment, usually second hand, homemade, or produced by local factories like Mudanjiang Engineering Factory, that range from five to ten thousand USD in value. Sometimes, these sawmills are registered under a certain Russian-Chinese joint venture or wholly owned Chinese company as non-operating facilities to evade taxes. In reality, these sawmills are in full operation, but show no profits and thus do not generate revenues for the budgets of local villages. Socially, then, these sawmills, do not provide any support to the community, because usually they employ only Chinese workers.

As compared with Russian traders, Chinese timber merchants are more competitive because they usually buy timber at FOB (including costs through loading at the border) Grodekovo or Zabaikalsk, simplifying sorting and grading requirements on the Russian side. They declare mixed lots of grade one to three wood as grade three wood or pulpwood at a lower price. For small Russian suppliers, the Chinese merchants pay transport expenses through Russian territory, make advance payments, and offer other advantageous forms of accounting. Many Russian private persons registered as exporters have actually been registered for and act on behalf of Chinese traders to provide customs declaration, banking, rail, and delivery services to the latter.

The overwhelming majority of Chinese timber merchants on the Russian side of the border are representatives and purchasing managers of Chinese border export-import trading companies. They act individually in Russia or create trading companies with limited liability there. They are usually more coordinated in their activities than the Russian timber producers and traders. Mainly because of their agile activities close to harvesting areas with always-ready offers to buy timber, these Chinese merchants played a considerable role in re-orientation of Russian harvesters and exporters away from the Japanese market, which is now seen as distant, with complex trading requirements.

Russians are inclined to exaggerate Chinese expansion into the RFE, but there is still no recent reliable and adequate data on the clearly growing Chinese investments, legal or shady, in logging, processing, transportation, and export. Some agencies collect information separately, like the RF Statistical

Committee, Ministry of Economic Development and Trade. Due to lack of inter-agency coordination, however, there is no well organized effort to collect and process appropriate statistics at the regional level.

KEY AREAS OF NON-COMPLIANCE AND OTHER PROBLEMS ASSOCIATED WITH THE EXPORT TRADE.

Annual analysis of export transactions and customs infringements, made by the RFE Regional Customs House, shows that the increasing export volumes of raw logs and lumber to China have been accompanied by growth in the number of customs violations revealed.[8] By December 1, 2002, raw log exports through customs gateways of the RFE Regional Customs House for the year to date were 10.560 million cubic meters, and exports of lumber were 399,000 cubic meters. In 2001, for the corresponding period, 9.341 million cubic meters of raw logs and 332,000 cubic meters of lumber were exported. Illustrating growth in noncompliance, RFE customs officers revealed 471 violations of customs rules for in 2002, while they had only identified 394 violations in 2001. Of these violations, twenty went to court as criminal cases in 2002. The overall value of confiscated illegal timber that had been headed over the Russian-Chinese border in 2002 was over 143 million rubles.

Taking into consideration the rather steady prices for Russian timber in the Chinese market in 2001-2002, the greater growth in total volume of exported timber as compared to total value as indicated by analysis of 2002 export transactions, is another indication of negative tendencies in the China timber trade. In short, it indicates that exporters knowingly underestimated the value of exported timber.

In the course of its own internal investigations in 2001, the RF State Customs Committee ascertained that determination of round wood export volumes according to non-standardized technical specifications differing from GOST (the state standards) had allowed exporters to understate exported volumes by up to 20 percent. This understatement amounts to about 1.8 million cubic meters of unaccounted round wood valued at 36 million USD and represents 1.8 million USD of uncollected export duties.[9] During the same period 1,672 administrative and criminal cases on customs rules offences were initiated by customs officers. The bulk of these cases concerns the non-repatriation of currency revenues, with the total amount under question estimated at 20.5 million USD. Among the regions investigated, the largest sums of non-repatriated currency were revealed in Primorskii Province (6.7 million USD), Irkutskaya Province (1 million), and Khabarovskii Province (0.7 million).

Case-by-case analysis of customs infringements in Russian timber export through RFE customs gateways, as identified by the RFE Customs House in 2002, shows that there were 333 cases in which Article 273 of the RF Customs Code and Article 16.17 part 1,2 of the RF Administrative Code were violated; 88 cases in which Article 279 part 1 and Article 282 of RF Customs Code and 16.2 part 1,2 of RF Administrative Code were violated; 29 cases in which Articles 276-278 of the RF Customs Code and Article 6.1 of RF

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[8] Press-conference on Joint Session of RFE and Siberian Customs Houses about organization of effective customs control for timber products export. Vladivostok, 15/05/2003.

[9] Analytical note on maintenance of RF state interests in round wood exports. In *Bulletin of RF Auditing Chamber* # 5(41) 2001.

Administrative Code were violated; and 21 cases in which other articles were violated. Among the revealed infringements, 86 percent took place on the Russian-Chinese border (see Table 6.1).

Table 6.1: Main Violations of Custom Rules and Currency Control in Timber Trade with China in 2002 through RFE Gateways

Revealed infringements	Total cases
Non-repatriation of export contract revenues (# 16.17 part 1,2 RF Adm. Code) or breaking terms of repatriation (# 16.17 part 2 RF Adm. Code)	287
Submitting false export documents (#16.1 RF Adm. Code)	18
Understating, misclassification of species, under-grading (#16.2 RF Adm. Code)	40
Breaking terms of barter contracts (#16.17 RF Adm. Code)	19
Other	6

In 2002, 115 of the RFE administrative cases on violations of customs and currency control regulations were initiated in Ussuriiskaya Customs, 108 in Khabarovskaya, 52 in Vladivostokskaya, 56 in Blagoveschenskaya, 46 in Grodekovskaya, five in Khasanaksya, six in Birobizhanskaya, one in Nakhodkinskaya, and four in Amurskaya. Three cases were initiated by RFE Operative Customs. Non-repatriation of currency revenues or breaking the terms of such repatriation (i.e. repatriation required within 90 days) made up 70 percent of these RFE-China trade infringements. Non-declaration or inadequate declaration of timber exports made up 19 percent. In general, inadequate declaration involves the understating of volumes or the under-grading of exported wood with the purpose of avoiding export duties. Misclassification of species is rarely met, usually only taking place in the export of species for which cutting is forbidden and which can be easily identified by customs officers, for instance: velvet tree and dimorfant.

Analysis of cases of non-repatriation shows that this infringement is made primarily by so-called "one-day" firms (firms registered with the specific purpose of exporting timber without paying export duties, or through use of fake documents, etc.), including the firms established by foreign citizens or with foreign investments. For instance, in 2002, Ussuriiskaya Customs initiated 28 administrative cases on violations of customs regulations related to requirements to remit currency revenues to the authorized banks or the breaking of terms of such remittances against "Ussuri" and "Phoenix," two companies with 100 percent Chinese investment.

At the same time, criminal prosecutions against companies which violate currency repatriation requirements (according to Article 193 of the RF Criminal Code) on a large scale have been rarely initiated in the RFE. Ten such cases were brought to court in 2002, and only one criminal prosecution was finalized. The prosecution was of Concord-Mix Company, which was accused of repatriation violations of 26,914,763 rubles (about 900,000 USD) in revenues from Xinghang Economic and Trade Company, based in Suifenhe. The reason for the rarity of criminal cases is that criminal liability, according to the Article 193 of the RF Customs Code, takes place only in the case of non-repatriated currency revenues exceeding 10,000 times the minimal sizes of labor payment (which equals now 100 rubles), or currently about 35 thousand USD. As for smuggling, criminal liability takes place only in cases in which the value of smuggled commodities exceeds 500 times of minimal sizes of the labor payment. For this reason, in 2002 only five criminal cases on smuggling of wood according to the Article 188 of RF Criminal Code were initiated in the RFE.

In some obvious cases of non-declaration or inadequate declaration of timber exports, RFE customs can confiscate the exported timber. In 2002, RFE customs confiscated 42 m^3 of spruce, 42 m^3 of fir, 17 m^3 of larch, 59 m^3 of pine, 201 m^3 of oak, 11 m^3 of ash, and 463 m^3 of other wood species. Nearly all the confiscated timber was on the Russian-Chinese border.

The total volume of exported timber with violations of customs rules and currency control regulations, passing through RFE customs on its way to China, was 1,459,810 m^3 for the year to date by December 1, 2002 and 1,158,979 m^3 in 2001 for the same period.

It should be noted that with the adoption of the new RF Administrative Code, the penalties for non-observance of export requirements for remittance of currency revenues to authorized banks, or for breaking the terms of such remittance, will increase because the minimal size of the penalty will be not less than 50 percent of the exported commodities' value. In contrast, before July 1, 2002, according to the RF Customs Code, the penalties for these infringements were very low, only up to 0.01 percent of the exported commodity's value.

In sum, the main infringements of customs rules made by forest product exporters to China in 2002 were:

- Non-observance of customs export requirements to remit currency revenues to accounts in authorized banks
- Breaking terms of repatriation of currency revenues
- Submitting false documents or documents obtained illegally (e.g. licenses of RF Ministry of Economic Development and Trade, and so on)
- Non-declaration, or invalid declaration (understating, under-grading, or misclassification of species)
- Not securing the entry of goods of equivalent value (breaking terms of barter contracts)

ASSESSMENT OF GOVERNMENT OPTIONS TO IMPROVE ADMINISTRATION OF EXPORT TRADE AND COMPLIANCE WITH EXPORT RULES

Problems with Russia's timber exports, ranging from issues of legality and transparency to low economic efficiency, reflect the current social and economic conditions and institutional changes in Russia under its transition to a market economy. Most of these issues have resulted from spontaneous development of the market, emergence of huge numbers of uncontrolled exporters that mostly are in the initial phase of private capital accumulation. Since the federal government has for the most part chosen not to get involved in regulating the timber trade, some measures, mainly administrative, on enforcing control for timber turnover and export and raising the efficiency of the industry have been undertaken by provincial administrations in recent years. Indeed, sound market relations and civilized business practices are only beginning to take shape in Russia.

ADMINISTRATIVE MEASURES

Anxious about low returns from the timber trade, shrinking economically accessible harvesting areas, sky-rocketing of raw log exports, and scanty collection of taxes from harvesting and timber trade enterprises, some provincial governments in the RFE and Siberia have undertaken their own measures for building up administrative barriers to uncontrolled timber export to China, and for stimulating export of higher added value products from their regions.

In Primorskii Province, a system of inter-agency coordination between the militia, tax agency, territorial committee of RF Natural Resources, and provincial administration to control the whole chain of custody from harvesting to storing and transportation of wood for export, to tracing exporters and their contracts has been implemented since 2002. From that time on, every timber exporter has been required to submit to customs the specific accompanying forms issued by the militia to confirm legality of harvesting and transportation of wood. Licenses for harvesting are to be issued only to RF citizens with compulsory notification of the militia. For hardwood species like oak, beech, and ash, an exporter needs an exporting license from the RF Ministry of Economic Development and Trade. To obtain such a license, an exporter should submit all harvesting licenses (logging tickets) or original purchase contracts on all export timber to the Inter-Agency Commission on Controlling Export of Valuable Timber Species under the Primorskii administration.

Amurskaya Province has developed a similar order, in which an exporter must get a temporary one-time permit for export issued by a special operative group under the provincial administration. The main task of the operative group is to check legality of wood, validity of export contract price, terms of revenue repatriation, or fulfilling of barter obligations.

The implementation of the whole of Russia's complex system of confirmation of wood legality is still not effective, due to lack of permanently updated databases on harvesting licenses and logging tickets, and imperfect inter-agency cross-checking techniques. This problem is particularly marked in the case of timber logging and trade of commercially valuable hardwood tree species in southern parts of RFE. Widespread corruption in checking agencies is another crucial barrier to effective implementation of this system.

Control of export sites and decreasing their number has turned out to be a more effective approach. For instance, enforcing pre-customs control for timber export in Northwest Russia raised average contracted prices on raw logs by 25 percent. Most importantly, the number of export sites has been reduced. In Primorskii Province, the number of export sites has been reduced from 200 to 28. Only five timber export sites remain in Evreiskaya Province. In Amurskaya Province, timber cannot be exported without exposition for checking in specifically designated sites. Since February 1, 2003 only 18 specific railway terminals to reload timber for export to China have been set by the provincial administration in Primorskii Province. Loading of timber is permitted only on open railway bays to ensure declared volumes and species are checked by customs officers. Export of round wood by trucking from Primorskii Province to China has ceased. Railway traffic in hinterland regions has also become more controlled than before. Thus, in Irkutskaya Province, customs created 40 specific timber export customs zones to check transportation of round wood for export and created a special timber export transport company supervised by customs.

Lately, according to opinions of exporters, it has become easier to export timber through seaports on the northeastern coast of the RFE than through Russian-Chinese in-land borders or through southern seaports because of stricter requirements on the latter to confirm legality of exported timber.

Due to exposed cases of timber that has been harvested in one province and exported through the gateways of another to avoid checking of the legality of wood, development and implementation of unified forms for the export from all RFE timber-exporting provinces is necessary. Recently, governors of Southern RFE provinces have preliminarily agreed that only the harvester or party officially holding a harvesting lease could export raw logs.

There have still not been any contacts between Russian and Chinese customs on comparing and harmonizing national customs statistics and on establishing coordination on species forbidden for export.

Some other options concerning bilateral timber trade are still under discussion at the federal and provincial levels, namely: licensing or professional certification of timber exporters; establishment of indicative prices for timber with interdiction of export contracts at prices lower than these; compulsory registration of export contracts; implementation of international standards in measuring round wood; a bar-code tracking wood system being developed by RF the Ministry of Natural Resources, etc.

Provincial Administrations have made considerable efforts to promote wood processing in their regions. Amurskaya and Khabarovskii Provinces have restricted the export of raw logs. Nearly everywhere, provincial administrations are demanding inclusion of a compulsory term to process a certain part of harvested wood in new agreements for long-term harvesting leases. In Evreiskaya and Khabarovskii Provinces, stumpage fees are larger for harvesting companies without processing, so as to disadvantage the harvesting and export of raw logs. Khabarovskii Provincial Administration has set a target that 14.5 percent of harvested wood will be sawn in the province. In 2003, Khabarovskii provincial production of sawn wood increased by 21 percent as compared with 2002.

At the federal level, the raising of customs duties on the export of raw logs is still under discussion. As in the case of non-repatriation of export revenues, there is a fear that such a measure would lead to even greater underestimation of real export volumes declared in customs declarations and increase corruption among involved agencies.

MARKET MEASURES

At the moment, there are no convincing market reasons for Russian timber exporters not to hurry forward with timber offers and instead pause to make coordinated efforts to raise export timber prices up to world levels. So far, the competitiveness between Russian timber producers to attract Chinese buyers is stronger than their motivation to ensure self-preservation and future profits. As a result, administrative measures as discussed above are considered a more effective means at present for improving the nature of the timber export trade with China.

A main weakness of Russian timber exporters is their lack of strategic concept for development of their business. Russian exporters are relatively separate in comparison with Chinese importers, which tend to be large trading companies coordinated by China-wide trade policy interests, and, even more so, by provincial level interests. In addition, Chinese merchants from Northeast China are more active on the Russian side of the border in carrying out aggressive marketing than are Russian merchants on the Chinese side.

Russian timber producers can get more revenues if they establish direct links with final consumers in China or enter the all-China timber exchanges in Fuzhou and other large cities in Southern China, where the main consumers of raw logs are situated, and where the final prices for wood products are formed. Thus, there are avenues for RFE timber producers to get around the regional obstacles of Northeast Chinese provinces in proximity to the Russian bounder. It is necessary to insist on moving deep processing of wood to inner Russia, and export semi-finished or final products to China.

Conducting regular international timber auctions that would show indicative prices for other participants in the market is one market measure that could improve the nature of bilateral timber trade with China. In Primorskii Province in the last two years several auctions have been organized for Chinese buyers. These have not, however, been successful because of sluggish interest of Chinese intermediates from Northeast China, who naturally are not interested in raising the prices at which they purchase Russian timber. Already, however, the All-Russia Timber Exchange accredited by the RF Government established its first branch in Irkutskaya Province in October 2003. The exchange plans to create other branches in all forested regions of Russia.

Another possible market measure is to support various means of uniting Russian timber exporters, like the Primorskii Association of Timber Exporters (PALEX). Such professional associations, now being created in every RFE and Siberian province, could deal with responsible agencies in defending the interests of exporters and being responsible for the collection, analyzing and dissemination of full information about timber markets in neighboring countries, and representing the interests of the whole forest sector.

The RFE forest sector is still the least attractive economic segment for domestic and foreign investments. There is still a great need to create favorable conditions for investors in timber processing. Tax and duty privileges should be rendered to those who expand their business from logs export to final processing. In this way, a larger taxation base and growth of value added production can be ensured.

CONCLUSIONS

- Russia's timber exports to China are poorly diversified, raw log exports dominating over sawn wood and other semi-finished products. The projected trends of Russia's timber exports to China indicate that these negative patterns will remain in the short and medium term.
- Another negative trend in Russia's timber export to China lately is that export volume is growing faster than total value. The underdeveloped status of the timber market in Russia at present generates uncoordinated, spontaneous offers by exporters, reducing the prices of Russian timber.

- The low efficiency of Russia's timber exports to China is aggravated by the great number of exporters with a prevalence of small and unprofessional ones. Most of these small exporters are in initial phases of capital accumulation, have no relevant production and export infrastructure, act as simple intermediates, and depend on large Chinese trading companies.
- There are some systematic discrepancies between the customs statistics of Russia and China for their bilateral timber trade.
- The lack of active marketing by Russian exporters in China decreases the competitiveness of Russia's forest products in markets abroad.
- The Chinese timber market is less exacting in comparison with the markets of the other main importing countries of Russian wood. The Chinese market can consume a wider range of forest products, grades, and species. This greater assortment of Chinese demand implies good prospects for the future cooperation between Russian wood producers and Chinese entities under conditions of mutual benefit and environmental and social responsibility.

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ANNEX I: FULL LIST OF CROSS BORDER CHECKPOINTS WITH CORRESPONDING CHINESE GATEWAYS (2002)

Custom point code	Custom point name	Customs location or main type	Chinese/Mongolia opposite customs	# on the Map (Annex III)
10102000	BRYANSKAYA[10]	hinterland/railway		
10102120	Suzemskii	hinterland/railway		
10205070	Kaliningrad	hinterland/seaport		
10219000	KOSTOMUKSHKSKAYA	seaport/railway		
10216040	Turukhtanny	hinterland/railway		
10220050	Krasnoznamyonny	hinterland/railway		
10317000	Novorossiiskaya	seaport/railway		
10317001	Novorossiiskii Seaport	hinterland/seaport		
10413040	Ozinki (Saratovskaya)	hinterland/railway		
10501070	?	hinterland/railway		
10503030	Tobolskii (Tymenskaya)	hinterland/railway		
10510000	MAGNITOGORSKAYA	hinterland/railway		
10510020	Kartaly	hinterland/railway		
10602000	BURYATSKAYA	hinterland/railway		
10602010	Gusinoozerskii	hinterland/railway		
10604000	KHAKASSKAYA	hinterland/railway		
10605000	ALTAISKAYA	hinterland/railway		
10605010	Barnaul Airport	hinterland/airport		
10605060	Kulundinskii	hinterland/railway		
10605070	Malinovoozerskii	hinterland/railway		
10605080	Rubtsovskii	hinterland/railway		
10606020	Achinskii	hinterland/railway		
10606050	Kanskii	hinterland/railway		
10606060	Krasnoyarskii	hinterland/railway		
10606070	Lesosibirskii	hinterland/railway		
10606080	Taezhny	hinterland/railway		
10607020	Angarskii	hinterland/railway		
10607030	Baikalskii	hinterland/railway		

[10] In capital letters are names of regional customs houses

10607040	Irkutskii	hinterland/railway		
10607050	Nizhne-Udinskii	hinterland/railway		
10607060	Sayanskii	hinterland/railway		
10607070	Ussolie-Sibirskii	hinterland/railway		
10608070	Kuzbasskii	hinterland/railway		
10610060	Poltavskii	hinterland/railway		
10611040	Tomskaya	hinterland/railway		
10612000	CHITINSKAYA	near RF-China border/railway		1
10612010	Aginskii	near RF-China border/railway		
10612040	Petrovsk-Zabaikalsk	near RF-China border/railway		
10616000	BRATSKAYA	hinterland/railway		2
10616040	Ust-Ilimskii	hinterland/railway		
10616050	Ust-Kutskii	hinterland/railway		
10617000	ZABAIKALSKAYA	RF-China border	Manzhouli	3
10617020	MAPP Zabaikalsk	RF-China border/motor	Shiwei	
10617030	RW Zabaikalsk	RF-China border/railway	Manzhouli	
10617050	Olochi	RF-China border/motor	Shiwei	
10617060	Solovievskii	RF-Mongolian border/motor	Chulunhuorot	
10617070	Staro-tsurukhaituskii	RF-China border/motor	Heishantou	
10618000	NAUSHKINSKAYA	RF-Mongolian border/railway	Erlian Huote	4
10618010	Kyakhtinskii	RF-Mongolian border/railway	Erlian Huote	
10702000	VLADIVOSTOKSKAYA	seaport/railway		5
10702020	Churkinskii	seaport/railway		
10702030	Churkinskii TK1	seaport/railway		
10703000	KHABAROVSKAYA	RF-China border/river port	Fuyuan	6
10703010	Khabarovsk Airport	RF-China border/airport	Harbin	
10703020	Bikinskii	near RF-China border/railway		7

10703040	Chegdomynskaya	near RF-China border/railway		7
10703050	Bikinskii	RF-China border/motor	Raohe	9
10704000	BLAGOVESCHENSKAYA	RF-China border/river	Heihe	10
10704020	Zhalinda	RF-China border/river	Lianyin	11
10704030	Poyarkovo	RF-China border/river	Xunke	12
10704050	Blagoveschenskii	RF-China border/river	Heihe	
10705000	PETROPAVLOVSK-K.	seaport		13
10707020	Alexandrovsk-Sakhalinskii	seaport		14
10707030	Korsakovskii	seaport		
10707070	Kholmskaya	seaport		
10708000	BIROBIZHANSKAYA	railway/motor/river	Fujin, Tongjiang	15
10708010	Amurzet	RF-China border/river	Luobei	16
10711000	VANINSKAYA	seaport		17
10711010	SovetskayaGavan	seaport		18
10712000	GRODEKOVSKAYA	RF-China border/railway	Suifenhe	19
10712010	Sosnavaya Pad	RF-China border/motor	Suifenhe	
10713000	AMURSKAYA	railway/river/sea		20
10713010	Nikolaevsk-Na-Amure	river/sea port		
10713020	De-Kastri	seaport		21
10714000	NAKHODKINSKAYA	seaport		22
10714010	Bolshekamenskii	seaport/railway		23
10714020	Olginskii	seaport		24
10714030	Plastun	seaport		25
10714040	Vostochny	seaport		26
10716000	USSURIISKAYA	near RF-China border/motor	Suifenhe	27
10716020	Markovo	RF-China border/motor	Hulin	28
10716030	Poltavskii	RF-China border/motor	Dongning	29

10716040	Turii Rog	RF-China border/motor	Mishan	30
10716060	Arseniev	near RF-China border/railway/motor		31
10717000	KHASANSKAYA	near RF-China border/railway/motor/sea	Hunchun	32
10717010	Dalzavodskoi	seaport		33
10717030	Posietskii	seaport		34
10717040	Slavyanskii	seaport		35
10717060	Makhalino	RF-China border/railway	Changlingzi	36

ANNEX II: TOP 10 RUSSIAN EXPORTERS IN MAJOR REGIONS EXPORTING TIMBER TO CHINA IN 2003

Top 10	Name	Location (office)	Main activity	Export Value, thousand USD	% of regional export timber to China	Main Chinese importer
Khabarovskii Province						
1	Flora	Komsomolsk-Na-Amure	Trader	20834	9.35	Longjiang United, Rongtong, Zhongyun, Zhengda, Chengye, Hongfeng, Dacheng, Xiangda
2	Smena-Trading	Sosnovka v.	Trader	11818	5.30	Yongnan, Itochu Corp., Jingyin, Suifenhe Development Zone, Xiangtang, Tenda Chaoyue, Fuyuan Tengfei
3	Rimbunan Hizhau RFE (Malasian)[11]	Khabarovsk	Harvester	10818	4.85	Suifenhe Shenzhan,, Suifenhe Tianfu, Suifeng Trade
4	DalLesProm	Khabarovsk	Harvester/Trader	8131	3.65	Suifenhe Jinhai, Suifenhe Jinying, Sinotrans, Dalian Golden Sun Import, Deluda, Rongtong, Huafeng
5	Yuantong (Chinese)	Khabarovsk	Trader	5939	2.67	Suifenhe Haiyun
6	Transkort			5366	2.41	Maosheng
7	Rimbunan Hizhau International (Malasian)	Khabarovsk	Harvester	4970	2.23	Suifenhe Shenzhan,, Suifenhe Tianfu, Suifeng Trade
8	Damila	Khabarovsk	Trader	4505	2.02	Suifenhe Linyuan, Suifenhe Beilida
9	Asia-Export			4095	1.84	Yili
10	Krona			3753	1.68	Blue Sky

[11] -in parenthesis are known or presumed foreign capital backed companies

Irkutskaya Province						
1	Asian Cargo Company	Irkutsk	Trader	9681	3.99	Manzhouli Liaoshen, Xiaolong, Yunchou, Taifeng, Tiansheng
2	Trud	Shelekhovo, Taishetskii D.	Harvester	5846	2.41	Tongjiang Xiaolong, Erguna Dalin, Fangzheng, Huayong, Tianyan
3	Pertsev S.K. (private person)	Irkutsk	Trader	5424	2.23	Yunchou (E,M), Jintai
4	Baikalskie Vorota			4591	1.89	Jintai, Beifang, Humeng International Trade, Tiansheng
5	YantalLes	Yantal	Harvester	4449	1.83	Jinying, Xiangda, Qihong, Futong
6	JV Igirma-Tairiku (Russian-Japanese)	Novaya Igirma, Nizhne-Ilimskii D.	Harvester/Processor	4083	1.68	Suifenhe Longgang, Manzhouli Tiansheng, Longgang, Futong, Qihong, Xiangda
7	VostSibExportles			3926	1.62	Jintai, Jinying, Futong, Xiangda
8	PIK-89			3627	1.49	Xiangda
9	KirenskLes			3417	1.41	Tiansheng, Xiangda, Qihong, Longgang, Yuanheng
10	Druzhba			3238	1.33	Xiaolong, Huaqiang, Zhongcheng, Langxin
Primorskii Province						
1	Les-Export	Vladivostok		10880	14.71	Longjiang United, Tongyuan, Jiahong
2	Primorskie Lesopromyshlenniki	Vladivostok	Harvester	10196	13.79	Peifeng, Baofa, Yuanheng, Xingjia, Futong, Xiangdali, Zhongyun
3	DalnerechenskLes	Zimniki, Dalnerechenskii D.	Harvester/Trader	7459	10.08	Xingjia, Suifenhe Hongya, Suifenhe Zhongyun, Sanxia
4	Dalintorg	Nakhodka	Trader	2681	3.62	Guicheng, Guangyu, Baoye, Suifenhe Border Cooperation Zone

5	Forest-Star			2550	3.45	Longjiang United, "Friendship", Suifenhe Border Cooperation Zone
6	Iskra	Dalnerechensk		2086	2.82	Baofa, Shanxia
7	TerneyLes	Plastun	Harvester/Processor	1875	2.53	Sumitomo Corporation (branches or contracts in China)
8	KirovskLes	Kirovskii T.	Harvester	1841	2.49	Suifenhe Xinjia, Suifenhe Deluda, Suifenhe Peifeng
9	Service-DV			1643	2.22	Longjiang United, Rongtong, Bingda, Xintai, Deluda, Hongfeng
10	LuchegorskLes	v. Verkhnii Pereval	Harvester	1570	2.12	Huafeng, Xingjia,
Amurskaya Province						
1	TyndaLes LPK	Tynda	Harvester	16033		Shunshi, Guicheng, Hunchun Shanmu, Deluda, Bingda, Shenghua, Baifeng
2	Zeiskii LPK	Zeya	Harvester	8633		S. Border Cooperation Zone, Longjiang United, Guicheng, Xiangda, Jifeng, Daiye, Yunchou
3	AmurLesProm	Blagoveschensk	Harvester/Trader	2273		Yili, Guicheng, Chengye, Daiye, Suifenhe Border Development Zone, Suifenhe Jifeng, Hongfeng, Jitai
4	Bureiskaya Lesoexportnaya Company	Bureiskii D.	Trader	1308		Jitai, Longjiang United, Sinotrans
5	Chirkov A.A. (private person)	v. Solnechnoye, Ivanovskii D.	Trader	849		Yuxing, Longfei,
6	Burkov S.K. (private person)	Blagoveschensk	Trader	839		Fengjia (D), Jitai (S), Baofa (D)
7	Shum A. (private person)			830		Fengxiang, Heihe Foreign Trade
8	Liashenko L. (private person)			744		Longjiang United, Hongfeng, Deluda

9	SibLessProm			677		Suifenhe Tianfu, Longfei, Longgang
10	Valov A. (private person			623		Zhongshi
Krasnoyarskii Province						
1	MTK-Center Holding Company	Zheleznogorsk	Harvester	7519	10.64	Yunlong, Hengtong, Tiansheng, Fangzheng, Xiaolong, Caihong, Dongfang
2	Taiga-Ex	Krasnoyarsk	Trader	5934	8.40	Yongxing, Huaqiang, Zhongmao, Beifang, Xiangfa, Zhengzheng, Dalin
3	SibEniseiTrans	Krasnoyarsk	Trader	5852	8.28	Xiaolong, Humeng, Jinxiang, Huaqiang, Xiandao, Yongxing, Longgang, Fangzheng, Caihong, Zhenbai
4	Krasnoyarskie Lesomaterialy	v. Peschanka, Emelyanovskii D.	Harvester/Processor	5055	7.15	Zet Trading, Yunlong, Tuoda, Yaseng, Huaqiang, Beifang, Erlian International Trade, Xiangfa
5	Maltat	Krasnoyarsk	Harvester/Trader	4889	6.92	Huaqiang, Longjiang United
6	LesSnabSbyt	Krasnoyarsk	Trader	2711	3.84	Zhengbei, Tiansheng, Xiangfa, Hengchang, Futong, Yipu, Yiyuan, Jintai
7	TransCenter			2708	3.83	Guoyun, Huaqiang, Yunlong, Xiandao, Humeng, Futong
8	Huanghe-Group (Chinese)	Lesosibirsk	Trader/Processor	2368	3.35	Yanxin Euro-Asian Society on timber processing, Huaqiang, Jiaxin
9	Enisei Commercial Center	Krasnoyarsk	Trader	2335	3.30	Huaqiang, Zhunsen, Xiaolong, Humeng
10	Yang Jiabing (private person)			1418	2.01	Fukai, Yipu, Humeng,
Chitinskaya Province						
1	Suturina G.V. (private person)	Chita	Trader	3009	4.73	Manzhouli Xinwei, Huangqiu,

2	MK Rassvet	Novopavlovka, P.-Zavodskii D.	Harvester	2443	3.84	Huaqiang, Tianyan, Huayong, Huayong, Dalian Donggang Industries
3	Chitinskaya Company of Foreign Trade	Chita	Trader	2159	3.40	Humeng, Manzhouli Jinjuyuan
4	Bykovskii I.M. (private person)		Trader	1737	2.73	Huayong, Xiaolong,
5	Zagotovitel Consumers Society	Ingoda, Chitinskii D.	Harvester	1730	2.72	Dalin Erguna Border Co, Yongxin, Huaqiang
6	Zabaikalskaya Lesnaya Korporatsiya	Chita	Trader	1332	2.10	Yongxin, Xiaolong, Huaqiang, Lanxin
7	Sosna	Mogocha	Harvester/Trader	1282	2.02	Huaqiang
8	Fyodorov O.A. (private person)		Trader	1226	1.93	Jiaxin, Jinjuyuan, Jianghe, Jinxiang
9	Baranchugov A.V. (private person)		Trader	1166	1.84	Taifeng, Huaqiang, Zhiwei
10	Yakushevskii A.K. (private person)	Balyaga T. P.-Zavodskii D	Trader	1166	1.83	Tianyang, Manzhouli Wangcheng
Buryatia Republic						
1	Baikalskaya Lesnaya Company	Iliinka, Pribaikalskii D.	Harvester	6605	15.63	Yunchou, Huaqiang, DDalian Donggang
2	Tsybenov Yu.V. (private person)			4001	9.47	Jintai, Yipu, Fengrun,
3	Trans Iron	Turuntaevo, Pribaikalskii D.	Harvester/Trader	1818	4.30	Beifang, Dalu
4	MetalOptTorg	Ulan-Ude	Trader	1736	4.11	Jintai, Huaqiang, Liaoshen
5	AgroPromKomplekt	Ulan-Ude	Trader	1612	3.82	Jili, Anli, Beifang
6	SMP-834			1532	3.63	Jintai
7	Fomitskii M.V. (private person)			1466	3.47	Beifang
8	Mega-Trans	Ulan-Ude	Trader	1247	2.95	Jintai, Beifang, Hengtong
9	TransTEK	Ulan-Ude	Trader	1179	2.79	Beifang, Jintai, Zhengbei, Jili

10	Almaz-2000			1065	2.52	Fangzheng
Evreiskaya Autonomous Province						
1	Senhe-Lesprom (Chinese 100%)	Amurzet		2197	37.17	Luobei Border Trade Ltd. Co
2	Luch			404	6.83	Tongyuan, Tongchuang
3	Green Diamond (Chinese)	Birakan	Trader	379	6.41	Shunsheng, Xingjia, Tongchuang
4	Vinogradov M.Z. (private person)			303	5.12	ShunshengNongchuang, Jiangrun
5	Popov G.M. (private person)	Teploozersk	Trader	281	4.76	Wanlong (D), Tongchuang
6	Katen	Birobizhan		240	4.07	Xinjia (S), Heilongjiang Foreign Trade Co
7	Kotryaga N.A. (private person)			231	3.90	Xingjia, Xinlong, Shunsheng, Longjiang United
8	Master-Tour			169	2.85	Jiayin Timber Trade
9	Puzankov V.O. (private person)	Birobizhan	Trader	159	2.69	Suifenhe Yunin, Shanxia, Futong
10	Niyar			137	2.32	Nabaichuan, Guicheng