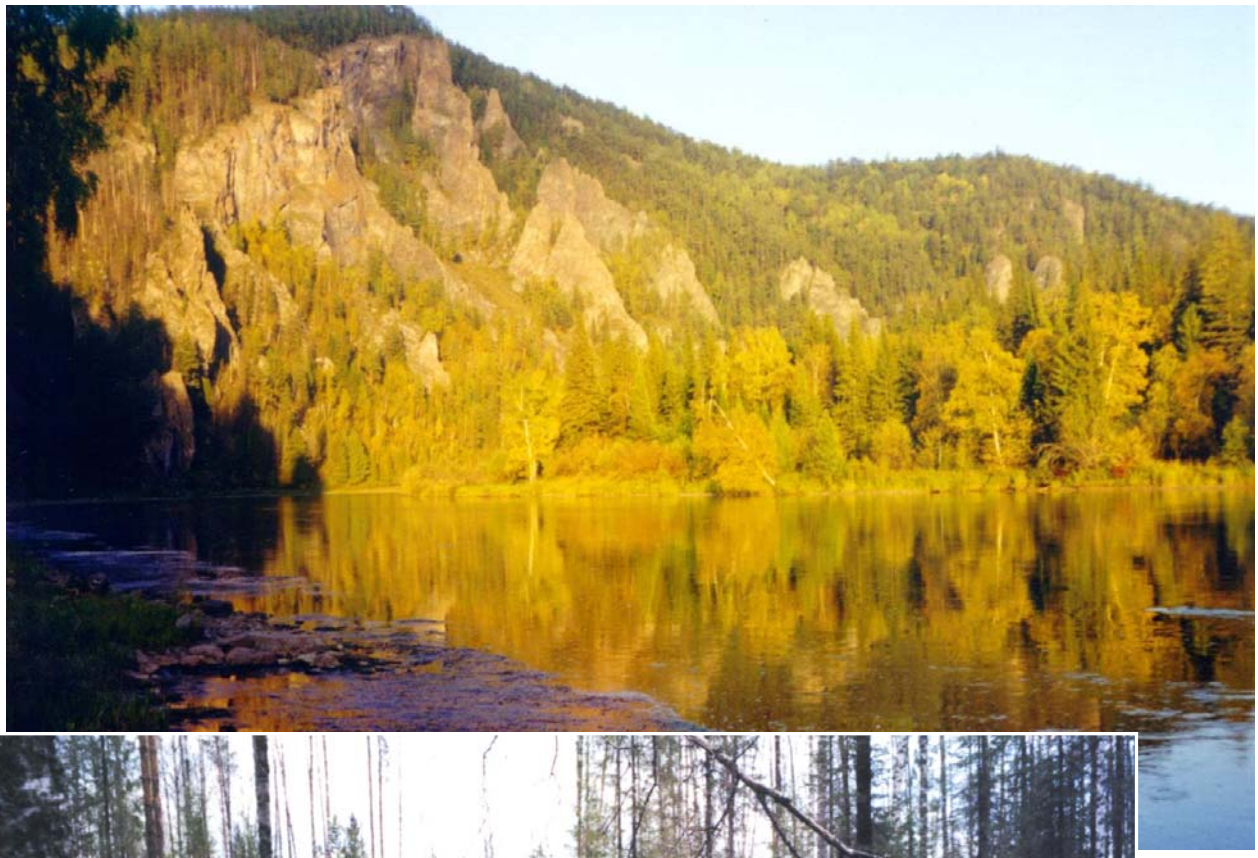
The Russian-Danish trade in wood products and illegal logging in Russia



WWF's Approach to Forest Conservation

WWF's mission is to stop the degradation of the natural environment and build a future in which humans live in harmony with nature by:

- Conserving the world's biological diversity;
- Ensuring that the use of renewable natural resources is sustainable;
- Promoting the reduction of pollution and wasteful consumption.

The protection target is: The establishment and maintenance of viable, representative networks of protected areas in the world's threatened and most biologically significant forest regions, by 2010.

The forest management target is: 100 million ha of certified forests by 2005, distributed in a balanced manner among regions, forest types and land tenure regimes.

The forest restoration target is: By 2005, undertake at least twenty forest landscape restoration initiatives in the world's threatened, deforested or degraded forest regions to enhance ecological integrity and human well-being.

Particular attention will also be paid to issues that cut across the targets, including threats (forest fires, illegal logging, climate change and conversion), policy issues (subsidies, trade barriers, investment flows) and opportunities (community forest management).

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Preface

The present report has been prepared by WWF Russia in cooperation with WWF Denmark. The findings and analyses presented in the report are based on official information from the Russian authorities, literature, interviews, and the knowledge and experience of the illegal logging experts in WWF Russia.

In preparing the report WWF have identified three Danish companies among the ten leading importers of wood products to Denmark: DLH A/S, IECD Timber A/S and Limtræ Danmark A/S. These companies have agreed to open their business to WWF regarding their supply chains and general trade in Russia. Furthermore these companies have commented on the findings in the report and added valuable information to the report. Nevertheless, the analyses, conclusions and recommendations of the report do solely represent the views of WWF.

As a logical follow-up to a direct contact in April 2003 between the Danish Minister for the Environment and his Russian counterpart the Forest and Nature Agency of the Danish Ministry for the Environment in August 2003 initiated a project with focus on illegally logged timber. The aim of the project is to develop a practical tool, which can help purchasers to avoid procurement of illegally logged timber. The project is being developed by:

- The Danish Forest and Nature Agency
- The Danish Timber Trade Federation
- DLH A/S
- IECD Timber A/S
- Limtræ Danmark A/S
- WWF Denmark
- WWF Russia

This cooperation between the stakeholders mentioned above, presents a unique opportunity to make real improvements implemented directly into the existing business methods. For more information on the Danish/Russian project on illegal logging, contact Mr. Peter Iversen, the Danish Forest and Nature Agency, on e-mail: piv@sns.dk, or Jacob Andersen, WWF Denmark, on e-mail: j.andersen@wwf.dk.

Executive summary

Illegal logging is a threat to forests worldwide with high economic and environmental costs. Increasing attention has been given to finding political solutions to the problem in many different international fora in recent years, including in the G8, at the World Summit on Sustainable Development, and recently by the EU.

About 22% of the world's forests are found in Russia and many of these are primeval forests with a high conservation value. Most of the forests are boreal forests dominated by coniferous species. Protected areas cover about 7.6% of the forests, which is less than the recommended 10% but more than in most western European countries. Only about 0.2% of the forests are certified according to the principles and criteria for responsible forest management of the Forest Stewardship Council (FSC) but the area increases every year.

Illegal logging has become a significant problem in Russia within the last two decades. The Russian government loses very significant amounts of money due to illegal logging, and illegal logging threatens the Russian forests in general and the large primeval forests in Russia in particular. The main underlying causes to illegal logging in Russia are: imperfect legislation and forest policy; inadequate control with forestry operations; low wood processing; the behaviour of large timber traders; and low standard of living and high unemployment in wood-producing areas.

About 4% of the total Danish wood import comes from Russia making Russia the forth largest supplier of wood products to Denmark. Most of the wood products imported to Denmark come from Northwest Russia (47%) or Siberia (35%), and most of it is sawnwood and plywood made from coniferous species. It is estimated that there is a risk that on average about 20% of the Russian wood products exported to Denmark are illegally harvested. Logging of high conservation value forests threatens Russia's unique and rich biodiversity, and there is a significant risk that Danish importers purchase Russian wood which is harvested in high conservation value forests.

DLH A/S is the largest importer of Russian wood products to Denmark holding about 15% of the total import of Russian wood products to Denmark. DLH also imports Russian wood products to many other countries and has a total of about 70 suppliers in Russia.

Based on analyses of their supply chains the 10 leading importers of Russian wood products to Denmark are classified into three main types: Importers with a large and diverse group of suppliers in Russia; importers with a limited number of suppliers and one major permanent supplier; and trading agents of Russian producers. A rating of the leading importers of Russian wood products to Denmark reveal great variation in the importers' current performance with regard to ensuring legality and sustainability of the wood products they purchase in Russia.

It is recommended that the Russian government initiate a forest policy reform to address illegal logging and trade, and logging in high conservation value forests. The Danish and Russian governments should support the EU's efforts to address illegal logging and work together to ensure that the Russian/Danish trade in wood products is legal and sustainable. The Danish government should ensure that the Danish public procurement of Russian wood products is legal and sustainable.

It is recommended that the suppliers of Russian wood and the importers of Russian wood products to Denmark develop and implement procurement policies with an aim to ensure that they only purchase legal and sustainable timber and wood products. The suppliers of Russian wood and the importers of Russian wood products to Denmark should also develop and implement supply chain management systems to improve their legal and environmental performance.

1. Introduction

Illegal logging is one of key threats to forests worldwide. The trade in illegally harvested wood is a multi-million dollar industry going on in over 70 countries, in all types of forests, from Brazil to Canada, from Cameroon to Indonesia, and from Peru to Russia. Since illegal logging often occurs in natural forests that are rich in biodiversity, the environmental costs are high. Illegal logging is a barrier for achieving sustainable forest management, and it leads to market distortion by making it difficult for law-abiding companies to compete with the law-breaking ones. Furthermore, governments annually lose significant amounts of money due to illegal logging through lost revenues, tax evasion etc.

Illegal logging is on the agenda in many international fora. It has recently been debated at meetings in the Convention on Biological Diversity, the United Nations Forum on Forests, and the International Tropical Timber Organisation, and the Plan on Implementation of the World Summit on Sustainable Development (2002) called on governments to:

> *"Take immediate action on domestic forest law enforcement and illegal international trade in forest products, including in forest biological resources, with the support of the international community, and provide human and institutional capacity-building related to the enforcement of national legislation in those areas"* (Article 43c)

In 1998, the G8 launched an action programme on forests, which gives high priority to eliminating illegal logging and illegal timber trade. The action programme seeks to complement actions undertaken at regional and international levels, and expresses the G8's commitment to identifying actions in both producer and consumer countries. The action programme is currently being implemented through the regional processes on forest law enforcement and governance (FLEG) in Southeast Asia and Africa. The United Kingdom, with Indonesia, has taken further steps to address illegal logging in Indonesia through a Memorandum of Understanding between the two countries.

At the 4th Ministerial Conference on the Protection of Forests in Europe (2003), the European governments committed themselves to:

> *"Take effective measures to promote good governance and forest law enforcement, and to combat illegal harvesting of forest products and related trade, and contribute to international efforts to this end"* (Vienna Living Forest Summit Declaration, Article 20)

At the EU level, the European Commission released an Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) in May, 2003. With the action plan the EU sets out a process to address illegal logging and related trade through a variety of proposed measures (See Box 1). In October 2003 the Agricultural Council of the EU adopted a set of conclusions endorsing the Action Plan and endorsing its proposals for political action.

There are significant problems with illegal logging in Russia as will be documented in this report, and in 2002 nine ministries and governmental agencies of the Russian Federation[1] developed and adopted a plan for combating the illegal logging trade in wood products in Russia.

The Danish government acknowledge that illegal logging is a problem that calls for political action. In June 2003 a guideline for public procurement of tropical timber was published, which give guidance on how to ensure procurement of legal and sustainable tropical timber[2]. The government has also recognised the need to address the problems of illegal logging in Russia. In March 2003, the Danish Minister for the Environment sent a letter to the Russian Minister of Natural Resources with a proposal to *"initiate a process of dialogue and information sharing on*

[1] The nine ministries and government agencies were: Ministry of Natural Resources; Ministry of Economic Development and Trade; Ministry of Transportation; Federal Service of Fiscal Police; Ministry of Internal Affairs; Ministry for Taxes and Duties; Ministry of Railroad Transport; State Customs Committee; and Ministry of Industry, Science and Technologies.

[2] See the guideline for public procurement of tropical timber at: http://www.sns.dk/udgivelser/2003/tropical/default.htm

how to best facilitate the efforts of our authorities in mitigating illegal logging and associated trade." In his reply, the Russian Deputy Minister of Natural Resources welcomed the Danish initiative and proposed to initiate a dialogue between Russian and Danish experts to discuss the problem of illegal logging and work out measures for address it.

Danish companies are increasingly importing Russian timber and wood products to Denmark. There is therefore a risk that Danish companies are directly or indirectly supporting or contributing to illegal logging in Russia. This report is an attempt to examine the Danish-Russian timber trade. The problems of illegal logging in Russia will be described and analysed, with particular emphasis on those regions where timber for the Danish market is sourced. The main actors importing Russian timber and wood products to Denmark are identified and their trade in Russian timber described and analysed.

BOX 1: Summary of the EU Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT)

The EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT), sets out a process and a package of measures through which the European Commission proposes to address the growing problem of illegal logging and related trade. Addressing this issue is one of the European Commission's priorities in the follow-up to the 2002 World Summit on Sustainable Development (WSSD).

The Action Plan is the start of a process which places particular emphasis on governance reforms and capacity building, supported by actions aimed at developing multilateral co-operation and complementary demand-side measures designed to reduce the consumption of illegally harvested timber in the EU (and ultimately major consumer markets elsewhere in the world).

Development co-operation: Efforts will be focused on promoting equitable and just solutions to the illegal logging problem which do not have an adverse impact on poor people; helping partner countries to build systems to verify timber has been harvested legally; promoting transparency of information; capacity building for partner country governments and civil society; and promoting policy reform.

Trade in timber: The EU will initiate a longer-term process of dialogue with wood-producing and wood-consuming countries to extend international collaboration to tackle illegal logging and to develop a multilateral framework on which actions could be based. In the immediate term, a voluntary licensing scheme is proposed, whereby partner countries issue a permit attesting to the legality of timber exported to the EU. This will require a Council Regulation for implementation. The Commission will review options for, and the impact of, further measures, including, in the absence of multilateral progress, the feasibility of legislation to control the imports of illegally produced timber into the EU.

Public procurement: Practical information will be provided to guide contracting authorities on how to deal with legality when specifying timber in procurement procedures.

Private sector initiatives: Measures are proposed to encourage private sector initiatives for good practice in the forest sector, including the use of voluntary codes of conduct to source only legal timber.

Financing and investment safeguards: Banks and financial institutions which invest in the forest sector should be encouraged to develop due diligence procedures which take account of the environmental and social impact of forest sector lending; including conformity with relevant legislation. Export Credit Agencies should be encouraged to develop guidance on improved project screening procedures and codes of practice for forest sector projects.

Implementation: To support implementation of the above activities, a co-ordinated EU response is proposed, drawing on the different strengths and capacities of the Commission and EU Member states. A joint work programme will be prepared with Member States to facilitate this.

Download the FLEGT Action Plan: http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0251en01.pdf

2. Russian forests and forestry

2.1 Main characteristics of the Russian forests and forestry

The total forest area in Russia is approximately 1,179 million ha [3]. Some of this land is not forest-covered but consists of other nature types as well as areas with various types of land uses within the forests. The total forest-covered area is 774 million ha [4]. About 22% of the world's forests are located in Russia, and the country holds about 21% of the world's wood resources[5]. The Russian forests are mainly boreal forests and part of the so-called taiga – the world's largest forest biome stretching around the Northern Hemisphere. Approximately 70% of the world's taiga is found in Russia. In Europe the taiga covers Norway, Sweden, Finland, and northern European Russia, up to the Ural Mountains. In Asian Russia, this belt becomes wider, extending north and south.

The natural boreal forest is a mosaic of upland forests and wetlands, with lakes and rivers interspersed. The dominant species in the European taiga are coniferous – Norway spruce (*Picea abies*), Scotch pine (*Pinus sylvestris*), and deciduous tree species such as European aspen (*Populus tremula*) and birch (*Betula spp*.). Spruce (*Picea* sp.), fir (*Abies sibirica*), and Siberian pine (*Pinus sibirica*) are typical of West Siberia. Species of Larch (*Larix gmelini* and *Larix sibirica*) appear in northern West Siberia and becomes dominant in East Siberia.

Natural boreal forests naturally have a diverse age structure and are characterised by gap-phase dynamics generated by windfall and forest fires, wetlands and lakes. Some boreal species (birds, lichens, fungi, etc.) require specific habitats and can survive only in natural and relatively undisturbed forest. Human disturbances, such as logging, human-induced fire and pollution, may lead to local extinction of such species. Today, there are still vast areas of primeval forest in Russia, amounting approximately 25% of the world's primeval forests.

Siberian taiga. © WWF Russia / A.Brukhanov

Forest fires are necessary for boreal forest ecosystems but their occurrences in Russia are much above the natural level. It is estimated that humans induce more than 90% of all forest fires in Russia, and human-induced forest fires are a serious threat to the Russian forests. Forest fires are of particular significance in the Russian Far East and in Siberia, whereas it is less of a problem in Northwest Russia. The total area of forests which were burnt up in Krasnoyarskiy Kray in 2002 was 145,360 ha[6]. The hot spot for forest fires in Krasnoyarsk is the region's southern taiga, i.e. the area where the most intensive logging takes place. In this area approximately 180 ha of forest is annually burnt per 100,000 ha of forest. In Northwest Russia the area of burnt-up forests in 2001 was about 30,700 ha [7].

[3] The State Inventory of the Forest Fund of Russia of 1 January 1998
[4] The State Inventory of the Forest Fund of Russia of 1 January 1998
[5] FAO (2001): State of the world's forests 2001.
[6] Data of the Krasnoyarsk Air Base of Forest Protection
[7] The Ministry of Natural Resources of the Russian Federation: Report of On Activities of the State Forest Service in 2001

Figure 1. Governance of the Russian Forests

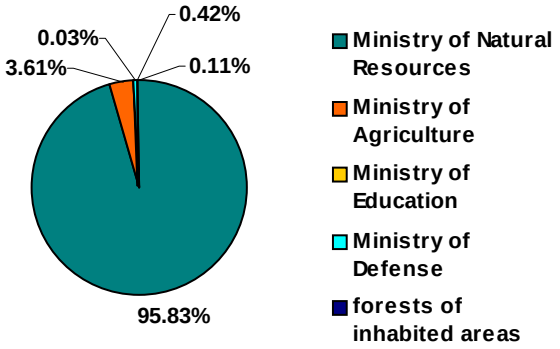
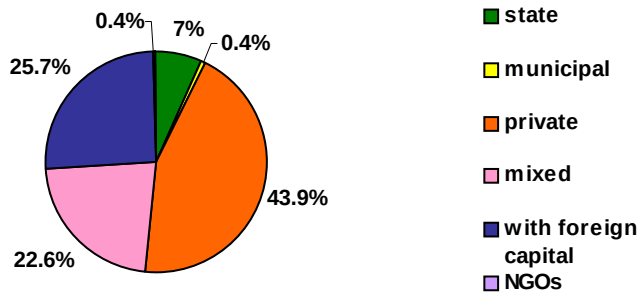


Figure 2. Ownwership of the Russian Forest Industry



All Russian forests are owned by the Russian state[8]. Most of the forests are in federal ownership (99.89%), governed by different agencies (Fig.1), and only forests that are located in populated areas are in municipal ownership. Most of the forests are managed by the state forest management units (*leskhozes*), which are supervised by regional committees of natural resources accountable to the Ministry of Natural Resources. The legislation allows granting federal forests to regional ownership. The ownership structure of the Russian forest industry is very much different from the state dominated ownership of the forests, with prevailing private ownership (Fig. 2).

Forests may be leased by legal entities (juridical or natural persons) for commercial logging for periods ranging from 3 to 49 years. A new draft federal law '*On Leasing Forests'* proposes to increase the leasing period up to 80–90 years. The total leased forest area for logging was 87.3 million ha in 2001[9].

According to the Ministry of Natural Resources, based on data from the state forest management units, the total wood harvest in Russia was about 118.5 million m^3 in 2001. However, according to the State Statistics Committee, based on data of wood producers, the total wood harvest was only 89.2 million m^3. Part of this difference is caused by the fact that the data of the State Statistics Committee does not include wood logged by local people for local needs (for fuelwood or other purposes). In 2001, such wood accounted for 12.8 million m^3 (nearly 11% of the total harvest)[10]. Also, harvested volumes below 100 m^3 are not included in the data from the State Statistics Committee.

There are great differences in the logging intensity between the different regions in Russia. The most intense logging takes place in the regions of Northwest Russia[11] west of the Ural Mountains (Fig. 3). However, compared to northern European countries, the intensity of logging and forestry operations in Russia in general is much lower. Russian secondary forests are poorer than natural coniferous old-growth forests but they are still much richer and more viable than Fennoscandian mono-cultural forests.

[8] Forest Code of the Russian Federation (1997)
[9] The Ministry of Natural Resources of the Russian Federation (2002): Report On Activities of the State Forest Service in 2001
[10] Research and Design Institute of Economy, Production Management and Information on Forest, Pulp and Paper and Woodworking Industries, Moscow (2002): Forest Sector of the Russian Federation, 2001
[11] "Northwest Russia" is here defined as the area comprising the following regions: Murmanskaya Oblast, Republic of Karelia, St. Petersburg/Leningradskaya Oblast, Pskovskaya Oblast, Novgorodskaya Oblast, Vologodskaya Oblast, Republic of Komi and Arkhangelskaya Oblast with Nenets Autonomous District

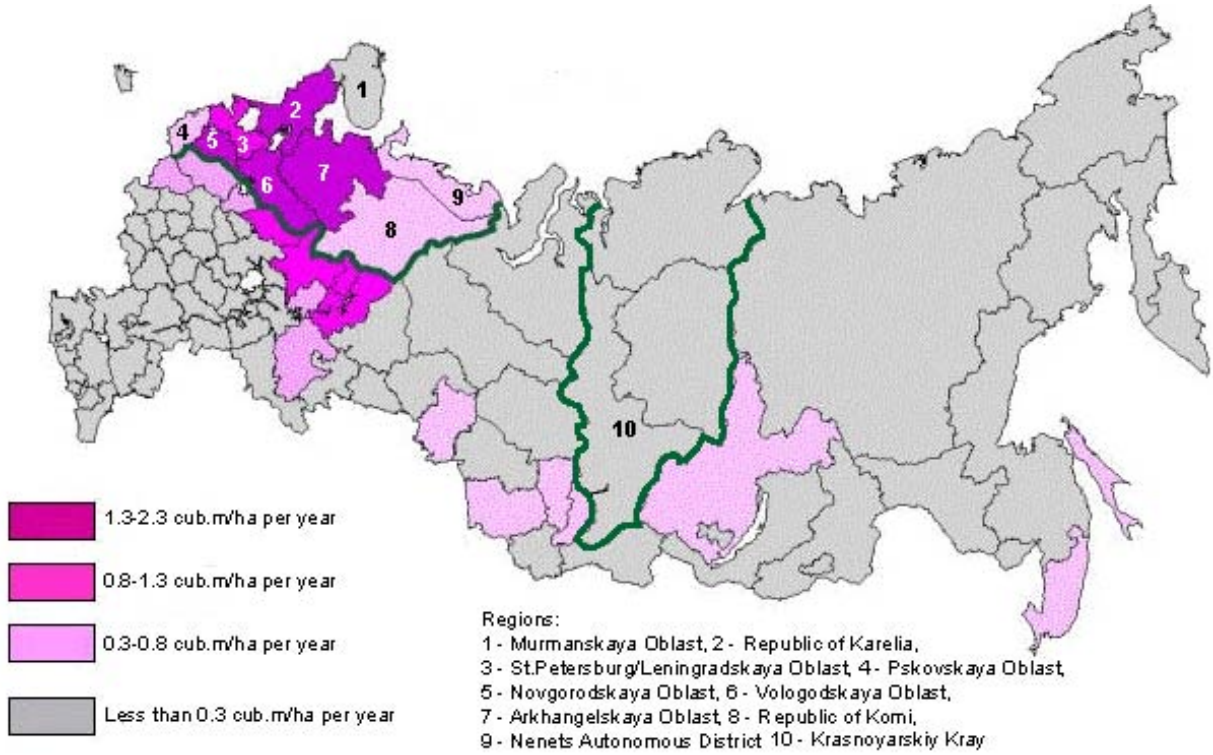


Figure 3. The intensity of wood harvesting in Northwest Russia and Krasnoyarskiy Kray (Burdin, Myllynen & Strakhov, 1998)

The following two sections will briefly describe the forests and forestry of Northwest Russia and Krasnoyarskiy Kray[12] as these regions together supply most of the Russian wood products imported to Denmark (see chapter 4).

Northwest Russia

Northwest Russia is characterised by the most intensive wood harvesting in Russia, and logging has been identified as a major factor threatening the region's biodiversity[13]. Historically, selective logging began in the region in the 18th century to build the fleet of Tsar Peter the Great, and to produce tar, charcoal and potash. The impact on the forests was insignificant at that time. The industrial forestry began by the end of the 19th century, and large-scale clear cutting was launched in Northwest Russia in the 1930's to supply pulp and paper mills. At the same time, the export of forest products to Europe began to grow. Large-scale clear-cuts of more than 1,000 ha and logging in excess of official allowable cut levels became widespread. The motto of the period was "cut and run" without any attention to forest regeneration. As a result of the high logging intensity, the area of mature and overmature forests with high environmental and commercial value was considerably reduced. The area of low-value species (e.g. aspen) increased, and many primeval forests were converted into secondary forest. The pine forests in southern Karelia and Vologodskaya Oblast has been cut to less than 25% of their original extent within the last 40 years. Reforestation and thinning methods were introduced in some areas in the 1970s and 1980s but they are still not very commonly used.

Today, Northwest Russia is still quite forest rich with a forest cover of about 66% (about 84 million ha). Coniferous species, mostly Scotch pine and Norway spruce, account for about 50% of the forest area, and aspen and birch are widespread too. A recent survey by Global Forest Watch[14] mapped the large primeval forests of Russia. They found that large tracts of primeval

[12] Krasnoyarskiy Kray comprises administrative regions (Russian *rayon*) directly subordinate to the Administration of Krasnoyarskiy Kray, Taymyr Autonomous District and Evenk Autonomous District.
[13] The development of forestry in Northwest Russia and its environmental impact is analysed in Aksenov et al. (1999): The Last of the Last: The Old-Growth Forests of Boreal Europe.
[14] Global Forest Watch (2002): Atlas of Russia's intact forest landscapes.

forest of at least 50,000 ha today make up about 10% (or about 8 million ha) of the region's forest. However low this percentage might seem this means that Northwest Russia holds more primeval forests than all other countries in Europe together. The remaining primeval forests of Northwest Russia are thus a unique natural heritage, being a pool of biodiversity and providing habitats for viable populations of many species which are extinct or endangered in the rest of Europe. It is the only place in the European continent where large tracts of primeval forests of more than 50,000 ha still remain.

Krasnoyarskiy Kray

Krasnoyarskiy Kray holds about 14% of the Russian forests (about 99 million ha) of which about 44% are classified as primeval forests[15]. Despite this the region accounts for only 6% of the total Russian wood production, which indicate that the overall logging intensity in the region is relatively low. However, most of the logging activity in the region is concentrated in a quite narrow zone stretching from east to west along the Angara River and the neighbouring portion of the Yenisey River. This area of Krasnoyarskiy Kray accounts for 80% of all the wood produced in the region. It is located on the southern border of the remaining primeval forests. These primeval forests are actively exploited and two large isolated primeval forest fragments may be completely logged out within the next ten years.

2.2 Forest conservation

Protected areas

Protected areas can be established by federal, regional or local acts, and they are managed by duly authorised environmental or other departments at various levels. The Federal Act *'On Specially Protected Natural Areas'*[16] defines 7 categories of so-called "specially protected natural areas,": 1) state strict nature reserve (zapovednik), 2) national park, 3) state nature reserve (zakaznik), 4) nature park, 5) natural monument, 6) arboretum and botanic garden, and 7) curative and sanative lands and resorts. Only the first category ensures a strict protection regime in the forest. An additional eighth category was established by a special federal act in 2001 as *'areas of traditional nature management of indigenous peoples of the North, Siberia, and the Far East'*[17]. Regional and local authorities may define their own categories of specially protected natural areas of regional or local importance. The list of *'Specially Protected Natural Areas'*[18] totals more than 250 categories with various levels of protection status. Most of them have been established by regional and local authorities. Other protected areas are established and managed in accordance with other laws and by-laws and these do not have status as specially protected natural areas.

The total forest-covered area in Russia with management regimes corresponding to the IUCN (World Conservation Union) Protected Area Categories I–IV makes up 58,590,700 ha or 7.6% of the total forest-covered area. This percentage is much higher than in Europe (where it is about 3%) but lower than the 10% recommended by international organisations.

Protected forest on the shore of the White Sea. ©

[15] Global Forest Watch (2002): Atlas of Russia's intact forest landscapes.
[16] Federal Act *On Specially Protected Natural Areas*, No. 33-FZ of 14.03.95
[17] Federal Act *On Areas of Traditional Nature Management of Indigenous Peoples of the North, Siberia, and the Far East of the Russian Federation*, No. 49-FZ of 7.05.01
[18] Ochagov et al. (2001): The list of 'Specially Protected Natural Areas of the Russian Federation.

Logging is prohibited in protected areas, and the ban is enforced by special state services, such as the *State Inspection for Safeguarding State Strict Nature Reserves and National Parks*, or by regional or local authorities. There are no overall statistics on the occurrence of logging in protected areas but cases have been recorded even in areas with very strict protection regimes. According to the Forest Protection and Law Enforcement Authorities, most logging in protected areas are practiced by private harvesters or small logging companies. This is particularly the case in the Russian Far East and Caucasus. Reported cases of logging in strict protected areas are not very common in Northwest Russia and Siberia and volumes of logged wood are not high. Cases of logging in protected areas with less strict protection regimes are more often found and even in considerable volumes.

Protected species

Some species are prohibited for logging by federal law[19], including: Chestnut (*Castanea* spp.), Plane Tree (*Platanus* spp.), Wild Apple (*Malus* spp.), Pear (*Pyrus* spp.), Cherry (*Prunus serasus*), Apricot (*Prunus armeniaca*), Karelian birch (*Betula pendula var. carelica*), Japanese red pine (*Pinus funebris*), Sachalin spruce (*Picea glehnii*) and Olga bay Larch (*Larix olgensis*), totalling 34 species. It is also prohibited to log species that are included in the Russian Red Book of threatened species and regional Red Books. Furthermore, regional authorities may choose to ban logging of other species (e.g., Larch in Northwest Russia, oak in Novgorodskaya Oblast, Linden and Korean pine in Primorskiy Kray, Siberian pine in Kemerovskaya Oblast, etc.).

It is very difficult to control logging and trade in protected species, as so-called sanitary cuttings are allowed, and because the species quite easily can be transported and sold from neighbouring regions where it is legal to harvest the species. In practice almost all of the protected species banned for logging are harvested to some extent. This is particularly a problem in the Russian Far East and Caucasus.

High Conservation Value Forests

High Conservation Value Forests (HCVFs) are defined in broad terms by the Forest Stewardship Council[20] as forests of outstanding and critical importance due to their high environmental, socio-economic, biodiversity or landscape values (see Box 2). HCVF are found across all forest biomes – it may be old-growth or primeval forests in Siberia or habitats of threatened orang-utans in Southeast Asia. Although originally designed as a tool to assist in biodiversity protection in forest certification, the HCVF concept is being extended to more general conservation planning including the design of representative networks of protected

BOX 2: High Conservation Value Forests

High Conservation Value Forests are those that possess one or more of the following attributes:

a) *Forest areas containing globally, regionally or nationally significant: concentrations of biodiversity values (e.g. endemism, endangered species, refugia); and/or large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance*

b) *Forest areas that are in or contain rare, threatened or endangered ecosystems*

c) *Forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control)*

d) *Forest areas fundamental to meeting basic needs of local communities (e.g. subsistence, health) and/or critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities)*

FSC Principles and Criteria (Document 1.2, Glossary). See http://www.fscoax.org

[19] Decision of the Government of the Russian Federation: On the Endorsement of the Regulations of Stumpage Sale in Forests of the Russian Federation, No. 551 of 1 July 1998

[20] For more information on the Forest Stewardship Council (FSC): http://www.fscoax.org

areas and buffer zones, and WWF believes that forest protection should be focused on HCVF.

Many HCVFs, including most primeval forests are not legally protected in Russia. This means that they are open to commercial logging, such as clear-cutting, despite the fact that they hold unique natural values. In 1996 a group of NGOs suggested a moratorium on purchase of wood from primeval forests of Karelia and Murmanskaya Oblast, which was supported by a number of foreign companies purchasing wood in the area. Voluntary protection of HCVF is also practiced by the European Platform for Ecological Russian Timber established by six European companies operating in Arkhangelskaya Oblast[21]. In Komi the regional forest authorities has established a moratorium on leasing new logging areas in primeval forests. Another example of HCVF protection is the Pskov Model Forest Project (See Box 5). These initiatives are not sufficient to ensure the conservation and sustainable use of primeval forests in Russia. Only amendments of forest laws and establishment of protected areas will ensure their long-term protection.

2.3 Forest certification

Forest certification is a tool to achieve sustainable forest management. Forests which are certified by the Forest Stewardship Council are managed responsibly and the HCVF is effectively protected. In Russia the FSC certified forest area is still limited (1,395,479 ha), accounting for only approximately 0.2% of the forest-covered area. However, the amount of FSC-certified forests seems to be on the increase (See Box 3)[22].

BOX 3: FSC-certified Russian forests

Kosikhinskiy Forest Enterprise	32,712 ha
Holz Dammers GmbH Arkhangelsk/HDM Holz-Dammers Moers GmbH	65,905 ha
Madok GmbH	31,200 ha
Koverninskiy Leskhoz	116,368 ha
Priluzje Leskhoz Model Forest	794,409 ha
JSP Maloshuykales	336,445 ha
STF Strug in Pskov Model Forest	18,400 ha
Total	**1,395,479 ha**

- Kosikhinskiy Forest Enterprise in Altayskiy Kray was certified in 2000. Alongside with the FM/COC certificate awarded to the logging company, two COC certificates were awarded to the Kosikha and Nolobikha Sawmills and Timber Production. The latter sells wood articles manufactured by the sawmills to British Pricebatch Ltd., purchasing FSC-certified forest products in Russia for The Body Shop International.
- The logging companies and sawmills of German Holz-Dammers Moers GmbH (a supplier of OBI and Praktiker stores in Germany) in Arkhangelskaya Oblast were certified in 2001. The certificates were initially issued for 232,000 ha but IMO suspended one certificate at their annual auditing.
- Malovisherskiy Sawmill of Austrian Madok GmbH in Novgorodskaya Oblast was certified in 2001.
- Koverninskiy Leskhoz in Nizhegorodskaya Oblast was certified in 2002. The company is a wood supplier of Volga, one of the biggest Russian newsprint producers, which initiated the certification.
- The WWF-initiated Priluzje Model Forest in the Republic of Komi was certified in 2003.
- JSP Maloshuykales, which is part of the big Orimi Concern, was certified in 2003.
- STF Strug in the Pskov Model Forest, located in Strugi Krasnye between St. Petersburg and Pskov, was certified in September 2003.

[21] The companies are: German Cordes GmbH & Co.; Belgian Van Hoorebeke NV; Dutch Jansen Nielsen Pilkes BV, Satim BV / Halba Houtimport BV and Lubox BV; and British Jansen Nielsen Pilkes Ltd. These companies work together with Greenpeace to identify primeval forests that are particularly important for biodiversity and which therefore should not be logged.

[22] See the complete list of FSC-certified forests in the world at FSC's website: http://www.fscoax.org

2.4 Forest industry and wood processing

The Russian forest industry is today mainly oriented to the export of roundwood. According to the State Customs Committee the total export of wood products[23] was about 55 million m^3 in 2002. The roundwood export makes up 81% of the total export, and sawnwood about 16%.

According to the Russian Ministry of Natural Resources, only about 50% of the wood harvested in Russia is processed in the country. However, for exported wood products it is much less than that. Most other large forest countries process 80-100% of their wood products. The low level of wood processing in Russia results in low revenue to the state from the forest industry. This may at least partly explain the fact that Russia only holds a 3% market share in the world's forest products market (measured by value)[24] despite holding 21% of the world's wood resources (See Fig. 4).

Russia is by far the world's leader in roundwood export by volume with a market share of about 32% (second is the US with 9%). However, measured by the value of the roundwood export, Russia holds only 22% of the market share, whereas the US on the second place holds 16%, hence Russian roundwood is cheap compared to roundwood from other countries. Various estimations show that current roundwood trade neither provides enough revenue for good reforestation and silviculture, nor benefits local communities involved in the forest industry.

Figure 4: Russia's share of the world's forest products export by value (left), roundwood export by value (centre), and roundwood export by volume (right) in 2001 (FAOSTAT Forestry Data (Bilateral Trade Matrices)– http://www.fao.org)

3. Illegal logging in Russia

3.1 The magnitude and impact of illegal logging in Russia

Illegal logging is a broad term used to describe crimes relating to wood harvesting and the related trade. The term includes economic crimes such as tax evasion and corruption (see Box 4 for definitions). Illegal logging has become a significant problem in Russia within the last 10-15 years. Illegal logging in Russia has many faces and it is very difficult to give precise estimates of its impact and magnitude. Illegal logging occurs throughout Russia but it is particularly pronounced in wood-exporting regions. Illegal logging has severe impact on the environment as it often results in the degradation of ecologically valuable forest areas.

The Russian Ministry of Natural Resources estimate that about 941,500 m^3 of wood were illegally harvested in 2001, amounting to approximately 1% of the total wood harvest. It is important to stress that this only includes registered instances of illegal logging, and that the

[23] The following wood products are included in this estimate: roundwood, sawnwood, plywood, veneer sheets and particle board. Other wood products (wood pulp, paper and fuelwood) are only measured on tons.
[24] Russia is on the ninth place following Canada, USA, Germany, Finland, Sweden, France, Indonesia, and Austria.

BOX 4: Illegal logging definitions

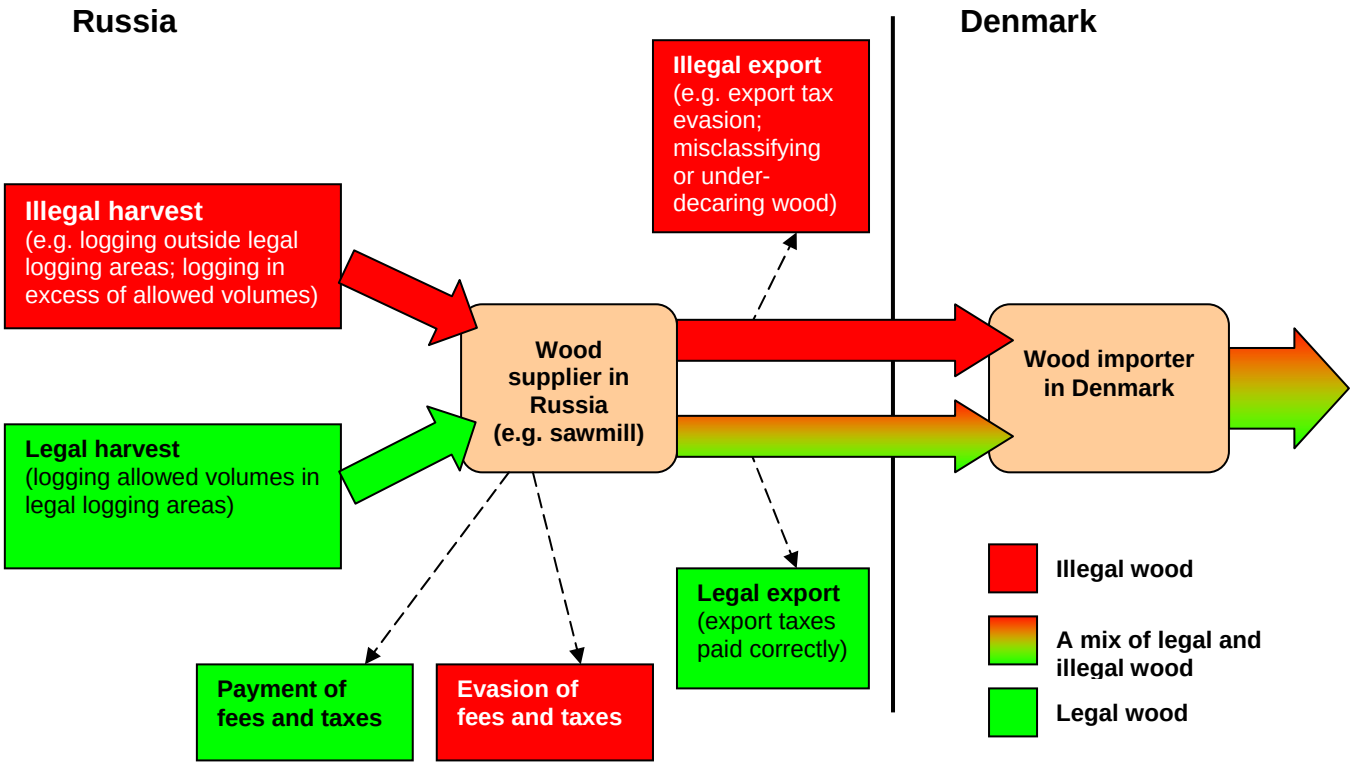
Illegal Logging and Forest Crime – WWF Definition:
"Illegal logging occurs when timber is harvested, transported, processed, bought or sold in violation or circumvention of national or sub-national laws."
WWF Position Paper on Illegal logging and forest crime, April 2002

Illegal Logging – Decision of the Supreme Court of the Russian Federation:
"Illegal logging is harvesting of trees, shrubs, and lianas without a felling licence, order or logging with a felling licence, order issued with violation of the standing felling rules as well as logging in other (than allowed) areas or outside their boundaries, over allowed volume, logging of other (than allowed) species or trees, shrubs, and lianas prohibited for harvesting…"
Ruling of the Plenum of the Supreme Court of the Russian Federation "On Court Application Practice of Laws Concerning Liability for Environmental Offences," No. 14 of 5.11.98

real figure is likely to be much higher as most cases of illegal logging are not detected by the ministry according to our assessment. However, based *only* on the registered cases of illegal logging, the Ministry of Natural Resources estimates that the direct economic losses caused by illegal logging in 2001were 2.85 billion roubles, or about 100 million USD[25]. We may note that the Ministry calculates their losses based only on the unpaid stumpage fees, which make up less than 10% of the actual market price. According to the Presidential Control Department the economic damage to the forest sector resulting from illegal logging is increasing rapidly.

Evasion of royalties, taxes and other forest charges is also a problem. In a recent report the Russian Count Chamber notes that forest users have not paid forest charges totalling 1.3 billion roubles (about 40 million USD) as of 1 January 2001[26]. The state forest units responsible for protection, regeneration and maintenance of forest resources are financed from these sources,

Figure 5: Example a simplified Danish/Russian supply chain indicating the major sources of illegalities.



[25] The Ministry of Natural Resources of the Russian Federation (2002): Report On Activities of the State Forest Service in 2001.
[26] Report of the Count Chamber (2002): Efficiency of Forest Resources Use of the Russian Federation.

and the Russian Count Chamber has estimated that the shortage of funding for forest management measures in 2000 were 1.5 billion roubles (about 50 million USD). Following this nearly 20 million ha of the 80 million ha of commercial forest (25%) is being not properly reforested, and as a result of this the forest structure degrades: the share of high-quality forest stands decreases and the share of low-quality stands increases[27].

Illegally harvested wood is laundered through subsequent transportation and trade, which often imply additional illegal practices, such as:

- Misclassification of wood to avoid profit taxes (e.g. stating pulpwood instead of sawn wood);
- Signing double invoices or contracts to avoid taxes: One invoice for the customer indicating the correct price, and another invoice for the fiscal bodies indicating a much lower price;
- Dollar payment in cash without registering the trade;
- Undervaluing export prices and volumes in the "official" contracts to hide profit. Additional money may then be paid by the customer in cash or remitted to a secret bank account;
- Documenting export through short-lived companies or export by faked documents;
- Underdeclaring wood volume by bribing customs officers.

The illegal export of wood products is significant. When the Federal Service of the Russian Fiscal Police carried out the "Operation Forest" in 2001, during which they inspected 1,400 companies in 75 cities in Russia, they estimated that 21 million m^3 or about half of the Russian roundwood export was illegal. The estimate concerns only tax evasion in relation to export of wood products. According the Federal Service of the Fiscal Police the illegal roundwood export represented a value of about 1 billion USD of which export taxes had not been paid.

Figure 5 illustrates an example of a simplified supply chain of a Danish importer of Russian wood products. Note that illegalities may occur at many separate points in the supply chain, and that a wood product may only be considered legal if all of the following three main issues are credibly documented:

1) The wood has been legally harvested in a legal logging area
2) All fees and taxes relating to harvesting, handling and processing have been paid
3) The wood has been legally exported

The following two sections are attempts to estimate the regional magnitude of the illegal harvesting in Northwest Russia and Krasnoyarskiy Kray. The estimations are based on data collected by the State Statistics Committee of the Russian Federation, data of the wood producing companies, and WWF expert assessments.

3.1.1 The magnitude of illegal logging in Northwest Russia[28]

The regional Departments of the Ministry of Natural Resources in the Northwest Russian regions Vologodskaya and Pskovskaya Oblasts state that 20,800 m^3 and 20,900 m^3 of wood were illegally harvested in the first 9 months of 2001, amounting to 0.5% and 3.5% of the total wood harvest in the regions, respectively. However, these estimates reflect only registered violations. To make an estimate of the real magnitude of illegal harvesting in Northwest Russia, we have compared the official volume of wood produced in the region with the volume of wood that is consumed, imported and exported from the region.

The baseline figure for legal wood production in Northwest Russia

According to the State Statistics Committee the region harvested 30.6 million m^3, whereas the Ministry of Natural Resources reported 63 million m^3 of wood harvest. The data of the State Statistics Committee are based on annual reports of producers of their actual harvest, whereas the data of the Ministry of Natural Resources are obtained from the state forest management units and based on cutting licences issued, i.e. logging permits. In this report we use the data of

[27] Report of the Count Chamber (2002): Efficiency of Forest Resources Use of the Russian Federation
[28] Lopina et al. (2003): Illegal logging in Northwestern Russia and export of Russian forest products to Sweden.

the State Statistics Committee because these are based on annual reports of producers. The wood harvest reported by the producers is officially declared and can therefore be assumed to be legal harvest.

There are inconsistencies in within the data from the State Statistics Committee as the volume of wood removed from the forests apparently is greater than the total wood harvest. This is probably due to inconsistent reporting of producers as these data are based on the reporting of producers. In our calculations we use the volume of industrial roundwood reported to the State Statistics Committee as our baseline figure for our estimation of the magnitude of illegal logging. This is the volume of wood which is sold as roundwood or used by the forest industry to make pulp and processed wood products.

Production:
According to the State Statistics Committee, Northwest Russia produced **31 million m^3** of industrial roundwood in 2001.

Consumption:
According to the reports of the pulp and paper mills, they used about 14 million m^3 of roundwood to produce about 3.2 million tons of pulp in 2001. The sawmills used at least 13.9 million m^3 of roundwood to produce 6.7 million m^3 of sawnwood, and about 2.5 million m^3 to produce 0.5 million m^3 of plywood and veneer sheets[29]. About 0.7 million m^3 of roundwood were used for construction. Hence the total volume of industrial roundwood consumed in the region in 2001 was **31.1 million m^3**.

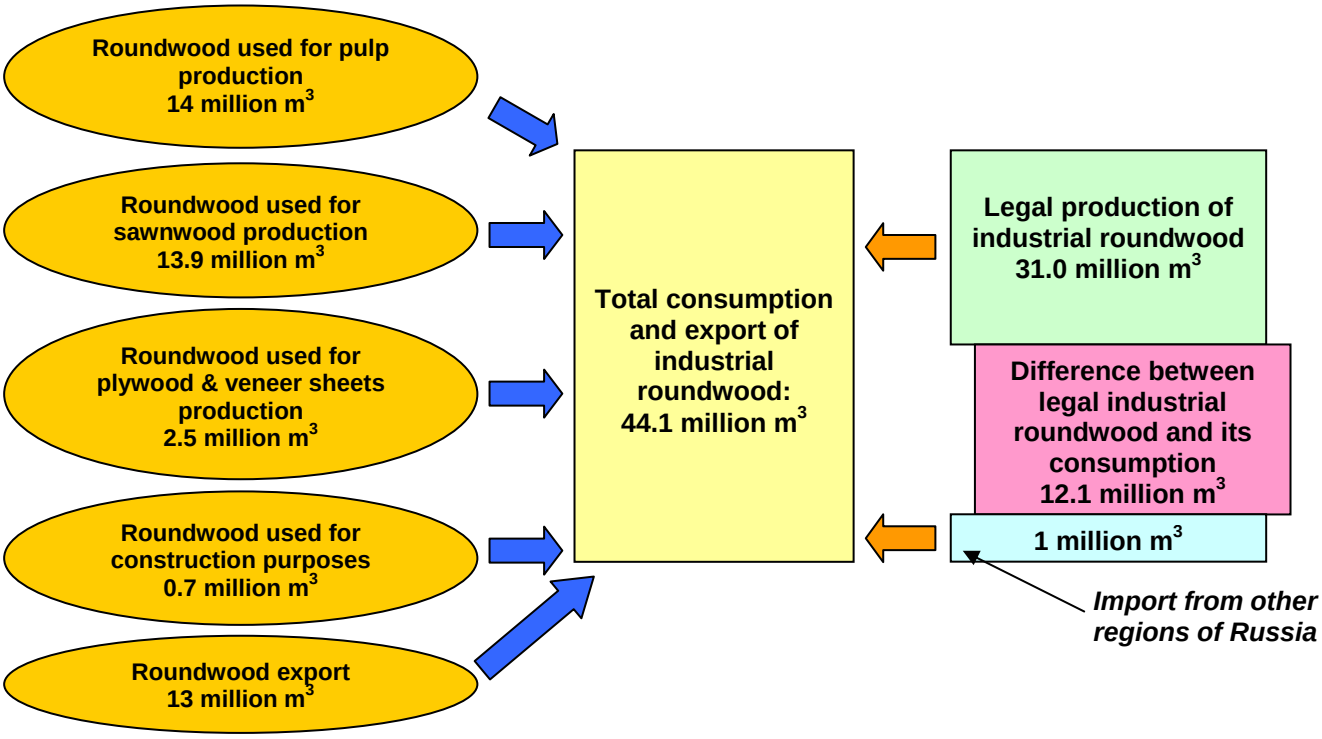


Figure 6. Production and consumption of roundwood in Northwest Russia

[29] The figure for plywood is calculated from the coefficient determined by the Russian Research Institute of Economy of Forest Industry Complex for reducing plywood to RWE (roundwood equivalent shows how much roundwood is used for the production of 1 m^3 of forest products in a country) – factor 5.

Import and export:
According to the Russian customs, the region exported about **13 million m^3** of roundwood in 2001. Some roundwood might be imported to the region from neighbouring areas, and the six nearby regions[30] legally produce about 12 million m^3. These regions have well-developed wood-processing industries and we estimate that these regions consume nearly all legally harvested roundwood inside the region and that the roundwood export is low (10%). We approximate that the import of industrial roundwood from nearby regions to Northwest Russia does not exceed **1 million m^3**.

Calculating the magnitude of illegal logging:
The total volume of roundwood consumed in or exported from the region 2001 was about 44.1 million m^3 but the region only produced and imported 32 million m^3. Hence the region would need to produce another **12.1 million m^3** of industrial roundwood to meet this demand. This volume is not accounted for in the official statistic for industrial roundwood, i.e. not declared by the logging companies, and is therefore possibly obtained from illegally harvested wood. Following this we estimate that about **27%** of the wood harvest in Northwest Russia is illegal (See Fig. 6).

3.1.2 The magnitude of illegal logging in Krasnoyarskiy Kray
In Krasnoyarskiy Kray official data state that 96,500 m^3 of wood were illegally harvested in 2001[31]. However, the official data reflects only the registered violations, and the real magnitude of illegal logging in the region is considered much higher. We estimate the real magnitude of illegal logging in Krasnoyarskiy Kray using the same method as for Northwest Russia.

Production:
According to the State Statistics Committee, Krasnoyarskiy Kray produced **4,084,400 m^3** of industrial roundwood in 2001.

Consumption:
In 2001, the region produced 48.3 thousand tons of pulp (for newsprint and paperboard production) using about 211,000 m^3 of roundwood. The region produced 1,630,400 m^3 of sawnwood from 3,059,900 m^3 amount of roundwood consumed was **3,329,500 m^3**.

Import and export:
According to the Russian customs, the region exported about **1,013,100 m^3** of roundwood in 2001. Krasnoyarskiy Kray also exports at least **200,000 m^3** of roundwood to neighbouring Irkutskaya Oblast, which has the highest concentration of wood-processing industries in East Siberia. The import of wood products from neighbouring regions is considered insignificant.

Calculating the magnitude of illegal logging:
The total volume of roundwood consumed in or exported from the region 2001 was about 4,542,600 m^3 but the region only produced 4,084,400 m^3. Hence the region would need to produce another **458,000 m^3** of industrial roundwood to meet this demand. This volume is not accounted for in the official statistic for industrial roundwood, i.e. not declared by the logging companies, and is therefore possibly obtained from illegally harvested wood. Following this, we estimate that about **10%** of the wood harvest in Krasnoyarskiy Kray is illegal.

Comparing the estimates it seems that Krasnoyarskiy Kray is less affected by illegal logging than Northwest Russia.

[30] These regions are: Tverskaya, Yaroslavskaya, Kostromskaya, Kirovskaya, Permskaya, and Tyumenskaya Oblasts
[31] The Ministry of Natural Resources of the Russian Federation: Report On Activities of the State Forest Service in 2001

3.2 Causes and solutions to the illegal logging problem in Russia

Illegal logging crimes are committed by many different actors ranging from large logging companies to local people. The main problem of illegal logging in Russia is not poachers cutting a few trees here and there. The main direct causes of the problem is logging companies which log in excess of limits allowed by felling licenses, logging outside established felling areas and harvesting of locally protected species[32].

There are multiple underlying causes to the illegal logging in Russia, which can be organised in five main groups:
1) Imperfect legislation and forest policy
2) Inadequate control with forest operations
3) Low wood processing
4) Behaviour of large timber traders
5) Low standard of living and high unemployment in wood-producing areas

Imperfect legislation and forest policy
There are several inconsistencies and gaps in the current legislation and policy regarding forests and forestry in Russia. The Russian government and the World Bank are currently discussing the need for a major forest policy reform to ensure more coherent and efficient forest management in the country. Gaps and inconsistencies make it difficult to judge whether a particular forestry operation is legal or illegal. A few examples of imperfect legislation and policy are:

- **Conflict of interest.** State forest management units perform both control of forestry and actual forestry functions. The units often conduct thinning of forests in a way that is more similar to commercial logging. Since it is the units themselves that control the thinning, the exaggerated thinning is not stopped.
- **Issuing of short-term forest concessions.** Despite the fact that it is possible for forest authorities to lease forest areas for up to 50 years periods to logging companies, short-term leasing (3-5 years) prevail due to law gaps. Short-term concessions result in very intensive logging activity to “mine” all forest resources within the short leasing period. Longer leases would promote more sustainable forest exploitation.
- **Tax free wood for local needs.** The current law allows for tax free use of forest resources by local people for local needs. However, timber traders often buy such wood for commercial purposes thereby avoiding paying taxes.

Inadequate control with forest operations
Illegal logging can to a large extent be explained by the weaknesses in state control in relation to forestry operations. In principle, any forest operation is controlled by the state forest management units – even in the areas that are leased to companies for commercial logging. Logging is allowed only by cutting licences issued by state forest management units and must be performed only by the terms specified in the licences, and state forest management units shall control all steps of harvesting – from the assignment of cutting areas to their subsequent reforestation.

However, the state forest management units often do not fulfil these functions properly, which is mainly due to lack of sufficient funding for control of forestry operations. In accordance with the Forest Code of the Russian Federation, forestry control operations are funded through payment of royalties and other forest charges. This means that evasion of forest charges may result in less effective control and thereby more illegal logging practices.

[32] These are the findings of official inspections, forest management units and NGOs.

Another cause of poor forestry funding is very low stumpage fee[33]. The mean stumpage fee in 2001 was 38.5 roubles per cubic metre of wood (about 1.30 USD) and the minimum stumpage fee was 17.9 roubles[34]. This is a very low stumpage fee making up only about 7% of the mean roundwood price in Russia. In many developed countries the stumpage fee makes up 30-70% of the roundwood price. In recent years there has been an increase in the stumpage fee, but the increase has not even been enough to compensate for the inflation in the same period, which means that the stumpage fee effectively has been decreasing. An attempt to increase the minimum stumpage fee in 2002 to at least compensate for the inflation was halted by the very powerful forest industry lobby, which does not want to lose their increasing profits. However, increasing the stumpage fee could increase the funding available for controlling forestry operations.

Low wood processing

Russia has today a relatively low level of wood processing compared to the soviet era. This is mainly due to an increasing demand for roundwood from Sweden and Finland, which have increased the roundwood prices and made it difficult for the local wood processing industry to compete. In Asian Russia, with its lack of processing capacity, huge amounts of roundwood are bought by Chinese companies. This means that the share of roundwood in the wood export has increased on the expense of more processed wood products. It is well known that export of processed wood products is more profitable for national economies than export of roundwood.

An increase in the domestic wood processing would raise export revenues and create jobs – both could assist in raising the standard of living in Russia. Also, as the roundwood trade in Russia is notoriously the most criminal sector of the forest industry, decreasing this sector would contribute to combating illegal logging.

Behaviour of large timber traders

Foreign timber traders buying Russian wood products can contribute to illegal logging if they do not ensure that the wood products they buy are legal. If wood products are bought from suppliers which cannot credibly document the legality of the wood then it should be assumed that the wood products are illegal. Some timber traders operating in Russia purchase wood products in cash (which make it easier for the wood seller to avoid paying taxes) and do not ask for the origin of the wood products (which increases the risk of purchasing illegally harvested wood products). These practices are especially common in ports of Northwest Russia, such as St. Petersburg and Vyborg, where so-called middlemen often sell their wood products. From the ports the wood products are shipped off to various countries.

Timber traders should implement systems to ensure that the wood they purchase is harvested in accordance with national Russian laws and that all royalties and other forest charges are paid. It is not as straightforward to do this as it might sound; it often requires commitment and resources from the timber trader to implement measures to ensure that they only purchase legal wood. There are some examples of a responsible attitude to forestry in Russia, e.g. the Association of Environmentally Responsible Timber producers of Russia. Also, WWF is

Illegal logging in Krasnoyarskiy Kray. © WWF Russia / A.Brukhanov

[33] Stumpage fee is a royalty paid by harvesters for an piece of standing timber
[34] Data of the Ministry of Natural Resources of the Russian Federation

conducting a project in Pskovskaya Oblast on improving forest management practices in collaboration with the forest industry (See the Box 5).

Low standard of living and high unemployment in wood-producing areas

The low standard of living in many wood-producing areas in Russia may lead to increased illegal logging, at least in the smaller scale. Solutions to the low standard of living are mainly to be found outside the forestry sector. However, expansion of the wood processing industry will create jobs and thus foster socioeconomic development.

BOX 5: Pskov Model Forest – a case study

The Pskov Model Forest (46,000 ha) is located in Strugi Krasnye between St. Petersburg and Pskov. It is established to introduce environmentally appropriate, socially beneficial, and economically viable forest management to Russia and its huge forest area. As the current legislation supports clear-cutting and traditions of economically viable thinning are poor, and the overall goal of the project is to develop and demonstrate methods of sustainable forest management, using the area in Pskovskaya Oblast as a model.

There is a number of demonstration areas established in the forest to show advantages of forest landscape planning. Cutting and reforestation instructions are developed within the project, which are revolutionary new for the country. Wood quality is raised by cutting all aspen and by thinning the forest on a regular basis. The emphasis is on shifting from clear-cutting to thinning, and improving silvicultural quality of the forest. Currently, only 20% of the rough wood can be used for sawn wood, but new planning and silvicultural methods, based on the Scandinavian model will allow the output of 60% of sawn wood in the future. The aspen occupy about 40% of productive forests; however its commercial value is very low. The new planning system foresees decreasing of aspen and increase of spruce, pine and birch as main commercial species. This should increase the net profit from one hectare significantly during a silvicultural cycle.

Part of the area of the model forest has recently been FSC certified (September 2003), which provides a good opportunity for marketing wood products in Western markets. StoraEnso now has country-wise policy on certification and will hold the FSC certificate for the operation of its Joint venture in Russia.

The project findings are highly promising and can be applied in forest planning and management and used by large forest companies. All major stakeholders demonstrate considerable interest in the project findings. The activities attract new stakeholders such as Russian Institute of Advanced Training of Senior Foresters, Swedish National Board of Forestry, corporate sector, including leading wood exporter to Sweden Lemo Concern, IKEA, etc.

The project was initiated by StoraEnso and WWF in 1999. StoraEnso is the owner of local STF Strug Company, which is the part of Model forest operations. The project is supported by SIDA, StoraEnso and WWF Germany.

http://www.wwf.ru/pskov

4. The Russian-Danish timber trade

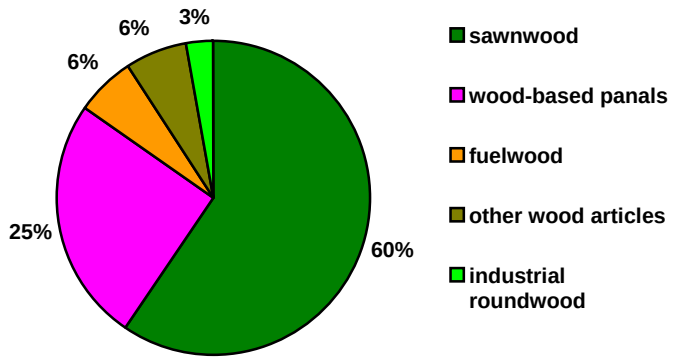
4.1 Main characteristics of the Russian-Danish timber trade

According to the Russian State Customs Committee the Russian export of forest products to Denmark was nearly 20.5 million USD in 2002, which is 0.5% of the total Russian export of wood products[35]. However, according to Statistics Denmark the total Danish import of Russian timber and wood products were 40 million USD in 2002. In volume, the export of Russian wood products to Denmark was 127,436 m^3 in 2002 according to Russian customs data. However, according to Danish import data the actual import of Russian wood products to Denmark is 218,210 m^3. For discussion of the differences between Russian export data and Danish import data see section 4.2. In this section we describe the Russian/Danish wood products trade using the Russian export data of the central Russian customs database because this is the only comprehensive dataset available, which include data on importing and exporting companies. The figures for wood products trade cover industrial roundwood, fuelwood, sawnwood and wood-based panels (mainly plywood). Additional to this is a total export from Russia to Denmark of 6,464 tons of wood products (sawdust and wood waste, paper and other wood products) which are not measured in volume by customs.

Most of the wood products exported from Russia to Denmark are sawnwood and wood-based panels, with 82,831 m^3 and 35,270 m^3, respectively. The volume of exported roundwood[36] and fuelwood was 9,335 m^3. Rough logs make up only 562 m^3, whereas fuelwood make up 8773 m^3 (See Fig. 7). Denmark is the third largest importer of Russian fuelwood (4.5% of this sector of export), following Finland and Sweden. It is considered a positive aspect of the Danish import of Russian wood products that Danish importers mainly purchase processed wood products in Russia (sawnwood and wood-based panels). Other Scandinavian countries, such as Sweden and Finland, mainly import roundwood from Russia[37].

According to FAO's bilateral trade data from 2000 Russia is the fourth largest supplier of wood products to Denmark following Sweden, Finland and Poland. Approximately 4% of the total import of wood products to Denmark comes from Russia[38]. Russia is the most important supplier of plywood to Denmark accounting for about 40% of the total plywood import to Denmark and also an important supplier of sawnwood[39]. However, the figures above only cover the direct trade between Denmark and Russia. There is also a significant amount of Russian wood being imported to Denmark through third countries as re-export or processed products. It is estimated that Russian wood accounts for 15-18% of the total wood consumption in Finland[40], and in Sweden it is estimated that up to 10% of the consumed wood is Russian[41].

Figure 7. The Russian timber export of wood products to Denmark in 2002



[35] All Russian export data is by the State Customs Committee of the Russian Federation, if other is not mentioned.
[36] In this report, industrial roundwood cover only "rough logs". Wood chips and wood residues are not included as they are not measured by volume by the Danish customs.
[37] WWF Latvia (2003):The Features of illegal logging and related trade in the Baltic Sea Region.
[38] Wood products included here are: Plywood, sawnwood, roundwood, chips and particles, veneer sheets and wood pulp.
[39] FAOSTAT Forestry Data (Bilateral Trade MAtrices), data from 2000 (http://www.fao.org)
[40] Finnish Forest Industries Federation (2003): Forest Industry of Finland, 2002.
[41] Lopina et al. (2003): Illegal Logging in Northwestern Russia and Export of Russian Forest Products to Sweden.

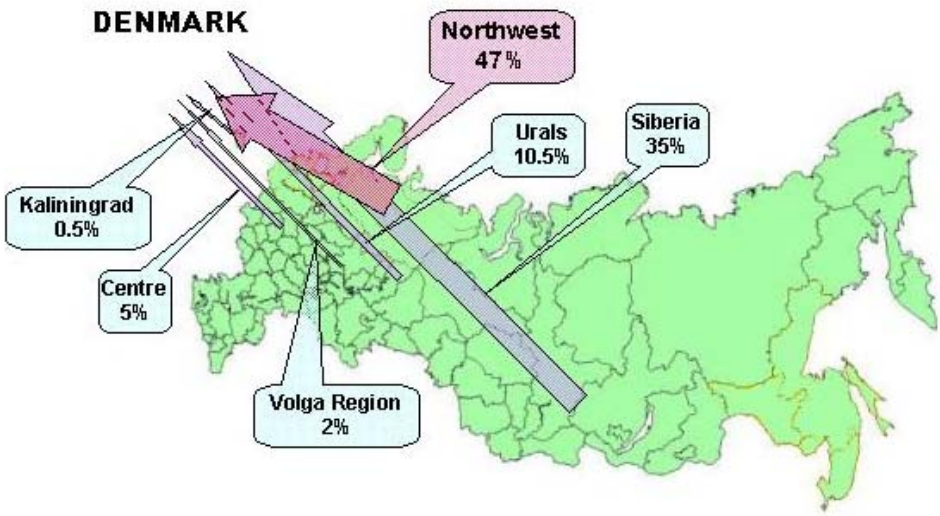


Figure 8. Russian timber export to Denmark (by volume)

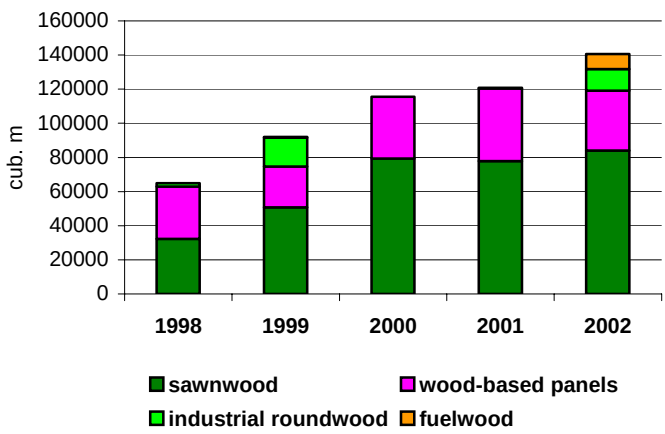
The Baltic countries are 'transit' countries for Russian wood products as well but the magnitudes have not been estimated at this point. As Finland, Sweden and the Baltic countries are important suppliers of wood to Denmark, it is very likely that the share of Russian wood on the Danish market is somewhat higher than the 4% indicated here using data on the direct wood import from Russia.

The timber exported from Russia to Denmark is sourced in many different regions in Russia. However, most of the timber is sourced in Northwest Russia (47%) or in Siberia (35%) (See Fig. 8). The key administrative regions in the timber export to Denmark are Krasnoyarskiy Kray (Siberia) with 26% of the total timber export (and 43% of the sawnwood export) and Vologodskaya Oblast (Northwest Russia) with 18% of the total timber export to Denmark. The leading plywood-exporting region is Permskaya Oblast (Urals) with 39% of the plywood export to Denmark.

The Danish share of the total timber export in these regions is generally not very high – about 2% in Krasnoyarskiy Kray and Vologodsdkaya Oblast, and about 6% in Permskaya Oblast. However, Denmark accounts for 15% of the plywood export from Permskaya Oblast, being the second largest importer after the United States.

The total export of Russian wood products to Denmark has been increasing for the last five years (see Fig. 9). The volume of sawnwood has been more or less stable for the last three years whereas the trade in plywood (wood-based panels) has fluctuated from one year to the other. Industrial roundwood only formed a significant part of the trade in 1999 and 2002, and export of fuelwood only became significant in 2002.

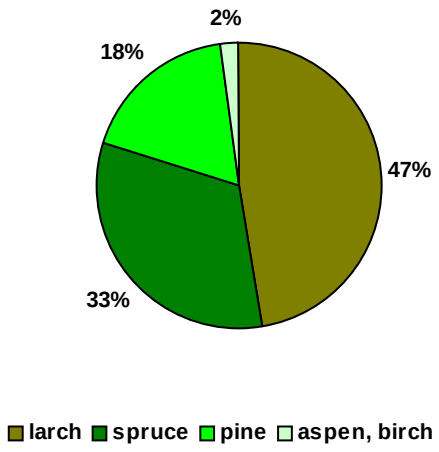
Figure 9. The development in the Russian Timber Export to Denmark



Denmark predominantly imports conifers (98%) from Russia (Fig.

10). The most common species in the trade is larch (47%), which is mostly sourced from Siberia (Krasnoyarskiy Kray and other regions)[42]. However, some larch is sourced from companies based in other regions, including in Northwest Russia where larch logging is prohibited. The companies are trading agents so it is difficult to determine the actual source of their larch it might be outside Northwest Russia. Other commonly traded species include spruce, pine, aspen and birch. These are mainly sourced in Northwest Russia.

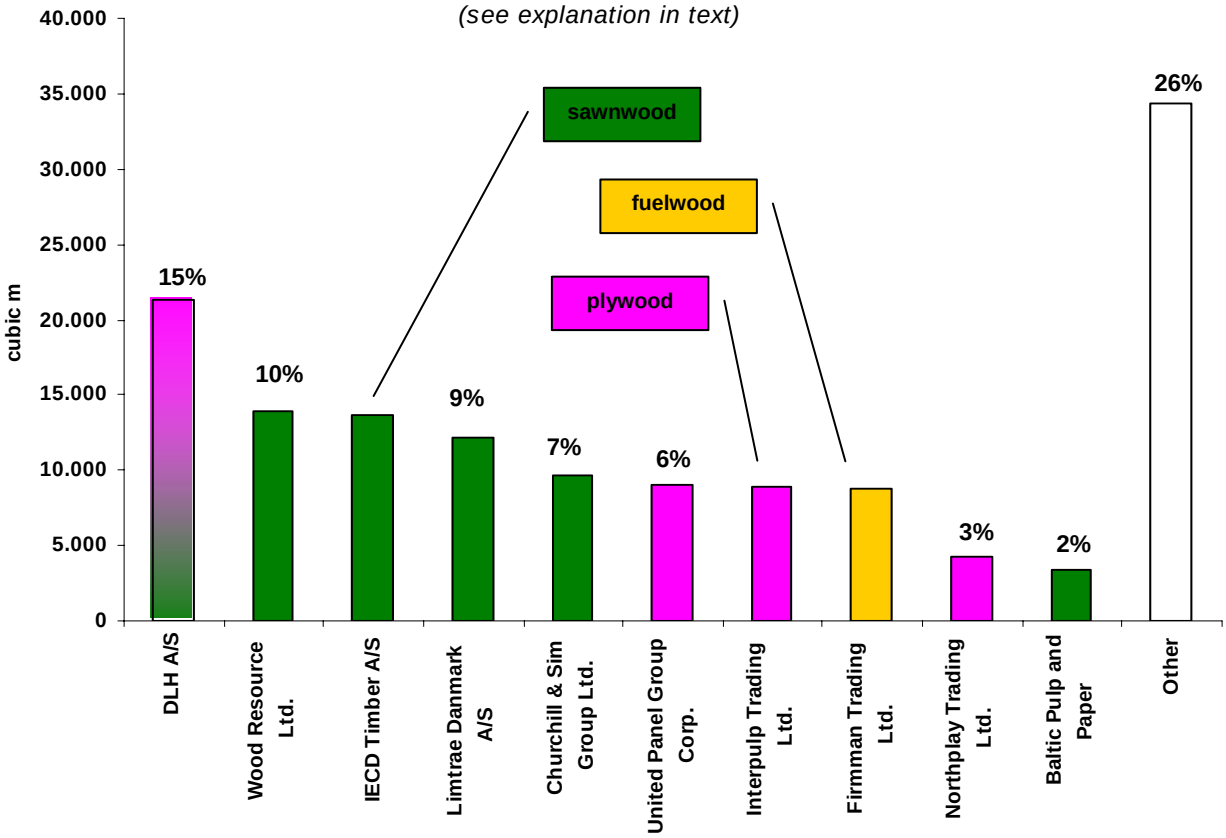
Figure 10. Species composition in the Russian export of sawnwood and roundwood to Denmark



In 2002, the top ten leading importers of Russian wood products to Denmark (by the Russian customs information) all imported at least 3,000 m^3 of Russian wood to Denmark. Altogether the top ten importers accounted for as much as 74% of the total Russian wood import to Denmark (See Fig. 11). The leading importer of Russian wood to Denmark in 2002 was DLH A/S.

As noted above we use the Russian export data in this section as this is the only comprehensive dataset available on companies' export of Russian wood products to Denmark. It is important to note here that some of the volumes shown in Figure 11 to some extent are

Figure 11. Leading Importers of Russian Timber to Denmark (2002)
(see explanation in text)



[42] The data on species composition in the Russian export of wood products to Denmark is only based on export of sawnwood and roundwood.

Table 2. List of Danish Leading Timber Importers in 1998–2001

2001	2000	1999	1998
DLH A/S	**DLH A/S**	**DLH A/S**	**DLH A/S**
Limtræ Danmark A/S	Mentha Trading Ltd.	Hans-Peter Helm	**IECD Timber A/S**
Wood Resource Ltd.	Golden Age Securities Ltd.	**IECD Timber A/S**	EA Trading APS
Churchill & Sim Group Ltd.	**Wood Resource Ltd.**	Danske Traelast A/S	Ove Anderson Holding AF
Interpulp Trading Ltd.	**Churchill & Sim Group Ltd.**	**Churchill & Sim Group Ltd.**	Interswez SA
IECD Timber A/S	OY Nino Lincoln Ltd.	Claro Holz GmbH	Velux A/S
Mentha Trading Ltd.	**IECD Timber A/S**	EIE Guards AS	Showman Wood
Plus A/S	Plus A/S	Velux A/S	Swilats Timber Co.
United Panel Group Corp.	Danske Traelast A/S	F.A.B.T. Holzhandel	Danske Traelast A/S
Danske Traelast A/S	Velux A/S	Ove Anderson Holding AF	Maritrade Commercial Ltd.

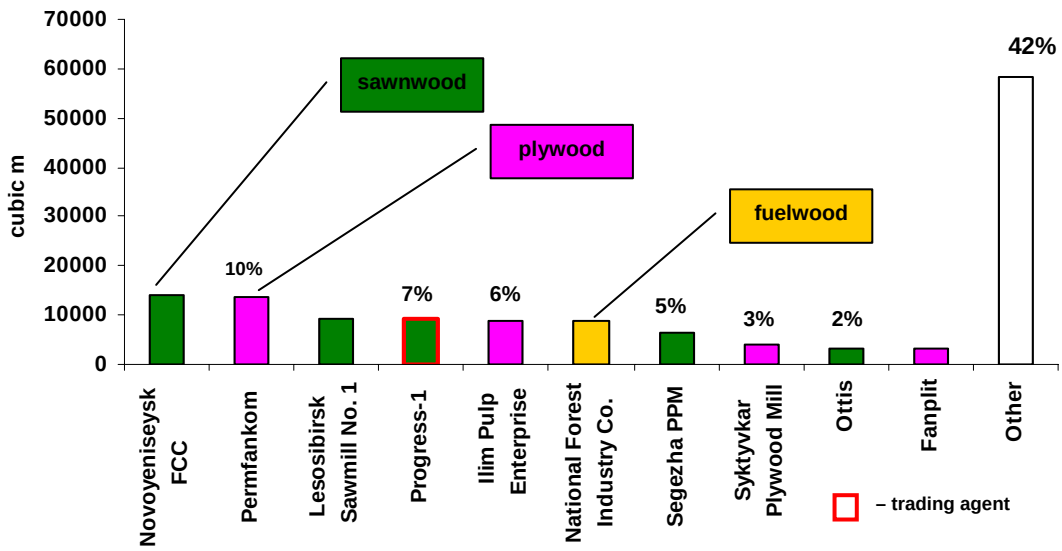
Note: Companies which were among the top ten importers of Russian wood products to Denmark in 2002 are in bold.

underestimated. The real import to Denmark is somewhat higher than indicated in Figure 11 and DLH's share of the import is also higher than indicated here. The underestimation in the Russian customs data are probably related to practices in the reporting of destination country in the declaration of wood exports (see the explanation in section 4.2).

The actors on the market for import of Russian wood to Denmark have varied a lot over the last five years (see Table 2). Only two of the top ten companies in 2002 were also in this group in the previous four years. DLH has been the leading importer of Russian wood to Denmark for all five years whereas IECD Timber A/S has changed its position in the top ten over the years.

One of the largest Danish timber companies, Danske Trælast A/S, have been reducing its direct imports from Russia since 1999, and in 2002 it left the top ten importing less than 800 m^3 of Russian wood products to Denmark. Also the Danish companies Plus A/S and Velux A/S seem to have phased out their imports from Russia. Whether these companies have effectively

Figure 12. Leading Exporters of Russian Timber to Denmark (2002)



reduced their purchase of Russian wood products have not been investigated. If they import wood products through other importers (such as foreign trading agents) this will not be revealed in this analysis.

Only three of the top ten importers of Russian wood products to Denmark in 2002 were actually Danish companies. These were DLH A/S, IECD Timber A/S and Limtræ Danmark A/S. The remaining seven companies are UK-based (Wood Resource Ltd. and Churchill & Sim Group Ltd.), British Virgin Islands-based (United Panel Group Corp.), Ireland-based (Interpulp Trading Ltd.), Cyprus-based (Firmman Trading Ltd. and Northplay Trading Ltd.), and Estonia-based (Baltic Pulp and Paper). In the previous four years before 2002 at least half of the companies in the top ten were Danish companies.

In 2002, the top ten leading Russian companies exporting Russian wood products to Denmark accounted for 42% of the total export of timber to Denmark (Fig. 12). The Russian timber export is less concentrated on few companies than the Danish import. In 2002 the leading Russian exporter was Novoyeniseysk Forest and Chemical Complex with approximately 10% of the market. The Russian companies exporting wood products to Denmark are mainly large Russian wood producing or holding companies which produce the wood products themselves. There is only one trading agent among the top ten companies.

4.2 Illegal logging and the Russian-Danish timber trade

The Danish importers of Russian wood products to Denmark mainly source the wood products in Northwest Russia and in Krasnoyarskiy Kray. Both of these regions suffer from illegal logging and trade in illegal forest products, as outlined above in chapter 3. It is estimated that 27% of the wood produced in Northwest Russia is illegal whereas in Krasnoyarskiy Kray the estimated proportion of illegal wood on the market is 10%. Combining the estimated magnitudes for illegal harvesting in Northwest Russia and Krasnoyarskiy Kray with the data for the Danish import of wood products from different Russian regions, we calculate that there is a risk that on average about **20%** of the Russian wood products exported to Denmark are illegally harvested[43]. This estimation covers only the illegal harvesting, not evasion of fees and taxes and illegal export.

It is important to note that this estimate does not prove that Danish importers are involved in illegal logging or that they purchase illegal wood products. As mentioned above the Danish trade constitute only a small fragment of the total wood trade and Danish companies may be able to avoid purchasing illegal wood products given that they have better supply chain management systems in place than the average trader on the Russian market. The Danish importers' efforts to exclude illegal wood from their supply chains are analysed in chapter 5.

In the official data there is no indication that Danish importers buy tree species that are protected species in Russia in general. However, Danish importers do purchase species which are protected locally in some regions, e.g. larch is procured in Northwest Russia where it is illegal to harvest this species. However, as the timber can be moved relatively easily from one region to the other it is difficult to assess the problem of harvesting locally protected species. The larch purchased in Northwest Russia could have been harvested in a region where it is legal to harvest the species.

In order to try and estimate the magnitude of illegal export of wood products from Russia to Denmark we compared Russian customs data on timber export to Denmark and the Danish

[43] The estimated average risk of occurrence of illegally harvested wood products in the Danish import of Russian wood products is a weighed average, which is calculated based on our knowledge about the magnitude of illegal logging in the different Russian regions and the Danish trade in the regions. The magnitude of illegal harvesting has only been calculated for two of the Russian regions where Danish importers purchase wood products – Northwest Russia and Krasnoyarskiy Kray. For the four regions west of the Ural Mountains (Centre, Kalilingrad, Urals and Volga) we assume that the magnitude of illegal harvesting is [(27%+10%)/2] 18.5%. For Irkutsk we assume that the magnitude of illegal harvesting is the same as in neighbouring Krasnoyarskiy Kray.

customs data on timber import from Russia in 2002[44] (see Fig. 13). The import of Russian forest products to Denmark (218,210 m^3) is apparently 71% greater than the export of forest products from Russia to Denmark (127,436 m^3). This is a very significant difference, and it is worth noting that this difference is much greater than in the Russian-Swedish and in the Russian-German timber trade.

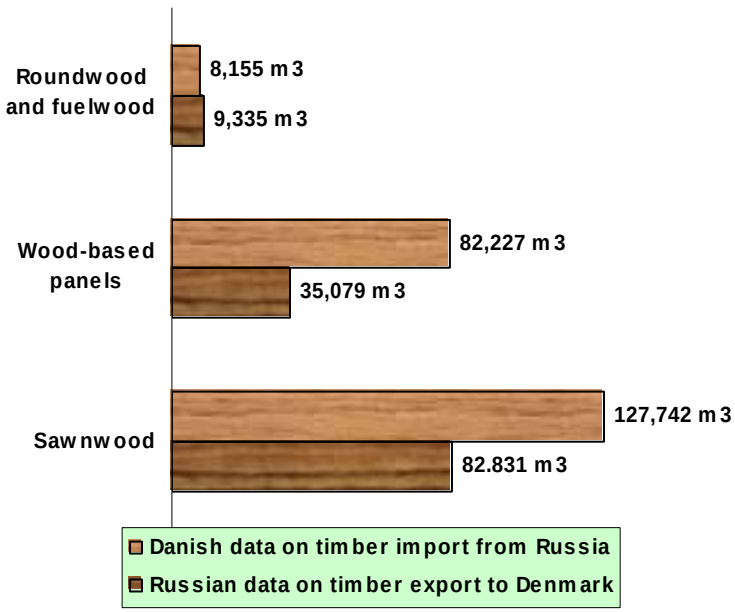
The difference immediately seems to be indicating that there is a significant undeclared (i.e. illegal) export of Russian wood products to Denmark as 42% of the Russian wood products that is imported to Denmark apparently have not been registered by the Russian customs.

The explanation to the differences might be found in the practices of companies in the reporting of the destination country in the declaration of wood exports. The declaration of wood export sometimes takes place in the region of the sawmill before transport of the wood to the border, because goods that are subject to export, are offered a 20% discount on the railroad transportation[45]. For most of the companies the final destination country will be known at this point, but for some companies using this practice the destination country is sometimes not known. A 'preliminary' destination country is thus reported by these companies to the central customs database (some sawmills e.g. put Greece as 'preliminary' destination country per default). When the wood products reach the border – and the actual destination country is known – it is the obligation of the exporting company to report any change in destination country to the central database. Apparently this does not always happen either because the companies do not consistently report the changes or because of lack of data collection by Russian customs authorities. Since much of the wood traded by Danish companies is actually exported to Denmark (while some times 'preliminarily' declared e.g. to Greece in the central customs database) this practice means the official data for the export of Russian wood products to Denmark in the central customs database becomes lower than they actually are.

It may be noted that the destination country is important for taxation in some situations. When wood prices are very low, so-called 'indicative prices' are used to calculate the tax instead of the declared price of the wood. This is in order to avoid that companies declare artificially low prices to avoid taxes. The indicative prices vary for different destination countries and different customs directions, e.g. the indicative prices for wood exported to Greece are slightly lower than those for wood exported to Denmark. This might explain why some sawmills declare Greece as 'preliminary' destination country when there are uncertainties regarding the actual destination country.

Part of the differences between import and export data might also be due to differences in the measurement

Figure 13. Russian Timber Export to Denmark By Russian and Danish Data (2002)



[44] All the Danish data are by StatBank Denmark – http://www.statbank.dk.
[45] When the export tax is paid to the administration in the region of the sawmill, part of the tax will benefit the people in this region.

systems in Russia and Denmark but this is not a likely explanation for much of the differences, especially not since it is processed wood product like wood-based panels (of which most is plywood) and sawnwood.

The volume of the import of roundwood and fuelwood to Denmark from Russia is of the same magnitude as the corresponding export from Russia to Denmark, the import data being slightly lower than the export data. However, when these data are analysed in detail it becomes clear that there are some irregularities. According to the Danish customs data, Denmark did not import any fuelwood from Russia in 2002 at all. However, Russian customs data state that 8,773 m^3 of fuelwood were exported to Denmark. On the other hand, Denmark imported as much as 8,155 m^3 of rough logs (roundwood) from Russia whereas Russian customs data state that only 562 m^3 were exported to Denmark. The reason for this irregularity could be that Danish and Russian customs systematically categorise these types of wood differently. However, it could also be that roundwood exported from Russia to Denmark to a large extent is declared as fuelwood to achieve lower customs duty in Russia.

There are irregularities regarding declaration of species between the Russian and the Danish customs data. The Danish list of species imported from Russia is longer than the Russian list of species exported to Denmark. The Danish list includes oak and poplar, which are not mentioned in the Russian customs declarations at all. This may be due to undeclared Russian export, e.g. oak is prohibited for logging in some Russian regions, or simply poor customs account.

4.3 High conservation value forests and the Russian-Danish timber trade

Logging in high conservation value forests (HCVFs) is not necessarily illegal but it can contribute to the destruction of unique forest areas if the forests are not managed sustainably. WWF have identified those companies who lease forest areas for logging purposes in primeval forests in Arkhangelskaya Oblast (Northwest Russia) and in Krasnoyarskiy Kray.

The greater part of the primeval forests of Arkhangelskaya Oblast is leased by logging companies, and some of these forests are leased by or supply wood to large companies, such as Solombala Sawmill, Arkhangelsk Sawmill No. 2, Titan Group, Ilim Pulp Enterprise and Onega Sawmill. Other leaseholders are smaller companies supplying wood to various customers. Three Danish companies operate in the region: DLH A/S, IECD Timber A/S and Velux A/S. IECD Timber A/S purchases sawn products from two companies, which use wood harvested in large primeval forests.

Three of the major exporting companies in Krasnoyarskiy Kray – Novoyeniseysk Forest and Chemical Complex, Lesosibirsk Sawmill No. 1, and Maklakovskiy Sawmill – use wood from primeval forests. The companies, which make up about 73% of the regional sawnwood export to Denmark, purchase wood from at least three logging companies – Pashutinskiy, Shiverskiy and Angarskiy – which harvest wood in forests that have been identified as large primeval forests (at least 50,000 ha) in the recent Global Forest Watch study[46].

In conclusion several of the companies importing wood products to Denmark from Russia purchase wood products from suppliers which are known to be sourcing at least part of their wood products in HCVFs. This does not imply that the Danish companies are necessarily sourcing wood from HCVF, but it does imply that there is a significant risk that they do so if they do not have effective systems in place to ensure that wood from HCVF does not enter their supply chains. Wood from HCVF should only be used if it is documented that it comes from sustainably managed forests.

[46] Global Forest Watch (2002): Atlas of Russia's intact forest landscapes.

5. Analysis of the leading importers of Russian timber to Denmark

5.1 The wood supply of leading importers of Russian timber to Denmark

We have analysed the suppliers of the top ten leading importers of Russian wood products to Denmark. The analysis was made mainly using the Russian customs data, and supplemented by investigation by WWF experts. Interviews have been made with managers of the Russian exporting companies as well as with the Danish importing companies[47].

The largest importer of Russian wood products to Denmark is DLH A/S. Therefore we have analysed DLHs activities in Russia as a whole, i.e. also investigated its purchasing of Russian wood products that are destined for other countries than the Danish market.

Some of the importers listed below are not the real destination company for the wood import from Russia to Denmark. This is particularly the case for those importers which are trading agents for Russian companies. It is a normal practice that a Danish company purchases wood products from a Russian sawmill through their foreign trading agent. In this analysis we are generally not able to name the Danish companies purchasing wood through these trading agents, we are only able to name the trading agent as these are the formal importers of wood products to Denmark.

WWF knows the identity of the suppliers of Russian wood products to the leading importers of Russian wood products to Denmark. However, in the sections below we have chosen to blur the identity of the suppliers as to not damage the business foundation of the timber traders unnecessarily. For the same reasons we have chosen to blur information about destination markets or specific customers.

5.1.1 DLH A/S

DLH's import of Russian wood products to Denmark

DLH A/S was the leading importer of Russian wood products to Denmark in 2002 and in the previous four years as well. DLH accounted for 74,562 m^3 of the total export of Russian wood products to Denmark in 2002[48]. About 85% of DLH's import to Denmark is plywood, 15% is sawnwood. DLH purchases wood products in many different regions in Russia, including: Siberia (mostly Krasnoyarskiy Kray), Northwest Russia, Urals, and Volga Region.

DLH's import of Russian wood products to Denmark originates from 9 Russian sawmills and 10 plywood mills[49]. Three mills make up 80% of DLH's import of the wood products to Denmark. Some of the wood imported to Denmark is re-exported to other countries. DLH mainly purchases wood products from wood producing companies or from the exclusive trading agents of wood producing companies. Their list of suppliers includes large Russian companies as well as smaller and relatively newly established modern sawmills. DLH also purchases wood products from sawmills which are small or unknown to WWF, do not have their own logging facilities, and which may process wood from doubtful sources. Read about DLH's efforts to ensure their performance with regard to legal, environmental and human rights issues in Box 6.

[47] The interviews with DLH, IECD Timber and Limtræ Danmark were conducted by Jacob Andersen, WWF Denmark. The remaining interviews were conducted by Ekaterina Zaytseva, WWF Russia.

[48] According to the Russian customs database DLH's import of Russian wood to Denmark was only 21,300m^3 in 2002. The difference between the Russian customs data and the actual wood import of DLH is probably related to practices in the reporting of the destination country in the declaration of wood exports (see section 4.2 above). Also, the figure 74,562 m^3 includes wood purchased through foreign trading agents.

[49] The Russian customs data show that DLH purchase Russian wood products from 23 different Russian suppliers. This is because the Russian customs data include a mix of sawmills and trading agents. The data from DLH is only the supplying sawmills.

DLH's overall trade in Russian wood products
Denmark is DLH's most important market for Russian wood products (32%) but DLH also import wood products from Russia to seven other EU countries as well as to countries outside the EU. DLH purchased approximately 234,563 m^3 of wood products in Russia in 2002[50]. Out of the total volume 56% were sawnwood and 44% were plywood.

For Russia as a whole DLH A/S has a very extensive supply chain with a total of about 70 suppliers. DLH is the third largest importer of Russian sawnwood with approximately 2% of the Russian sawnwood export, following Japanese Tairiku Trading and Interpulp Trading Ltd.

BOX 6: DLH's Good Supplier Project

DLH is currently implementing their "Good Supplier Project" (GSP) in various countries worldwide where DLH purchases wood products. The project sets out a process by which DLH will increase their knowledge about their suppliers' performance with regard to legal, environmental and human rights issues. Based on the assessment of their suppliers, DLH state that they will give priority to suppliers with high performance and gradually try to phase out suppliers with low performance or help them improve.

The implementation of the GSP started in 2002 in Africa, and its implementation in Russia began in September 2003. As of October 2003 about 80% of DLH's Russian suppliers have been introduced to the GSP and DLH state that the rest will follow very soon. The long-term objective of DLH regarding the GSP is to make their suppliers ready for a Chain-of-Custody certification, and in the process of achieving this they intend to ensure that steps are taken in the right direction improving the performance of their suppliers with regard to legal, environmental and human rights issues.

The project seems to be a good initial attempt by DLH to better control their supply chain and to better ensure that the wood products they procure do not come from illegal sources. WWF acknowledge that DLH within the GSP ask quite detailed questions to their suppliers regarding wood origin, environmental policy, use of wood from HCVF, etc. However, it is crucial for the impact of the project that it is implemented effectively, especially with regard to exclusion of suppliers which have low performance and a lack of will to change their practices with regard to legal, environmental and human rights issues. It is also important to note that the GSP is merely DLH's own assessment of their suppliers. The project would have much greater credibility if it included third-party verification of their suppliers or as a minimum of the supplier selection system as a whole.

5.1.2 Wood Resource ltd.
Wood Resource Ltd. is a UK-based Russian-owned company, which imports sawnwood from one large sawmill in Krasnoyarskiy Kray. The wood products are mainly exported to countries in Europe, Northern Africa and the Middle East. In 2002 Wood Resource Ltd. imported 13,916 m^3 of sawnwood to Denmark according to Russian customs data.

5.1.3 IECD Timber A/S
IECD Timber A/S is a Danish company with a quite complicated supply chain consisting of 18 direct suppliers and a large number of sub-suppliers. Their three largest direct suppliers make up about 65% of their total import of Russian wood products to Denmark. The company operates only in Northwest Russia and it purchases a wide range of products, including sawnwood, wood articles, veneer sheets, and a small volume of roundwood. In 2002 IECD Timber imported 13,656 m^3 of wood products to Denmark according to Russian customs data.

IECD Timber states that in total they purchase about 20,000 m^3 of wood products in Russia annually. Denmark is their main market but the wood is destined for a total of 12 countries in Europe and Asia.

[50] According to the Russian customs data DLH purchased approximately 183,900 m^3 of wood products in Russia in 2002. The difference between the Russian customs data and the actual wood purchase of DLH is most likely to be explained by the fact that the volume stated by DLH also includes wood purchased through trading agents that take care of the actual import themselves. Note also that this volume only covers the import of wood products to Europe and Northern Africa. Some wood is also imported to North America and elsewhere.

Most of IECD Timber's suppliers are producing or holding companies, including some large Russian companies. The supply chain of IECD Timber indicates that most of their suppliers are small sawmills, which do not have their own logging operations and therefore may purchase roundwood from "unknown" sources. IECD Timber does not purchase much of their wood products from trading agents, and the trading agents they do use declare their suppliers. Due to the complexity of IECD Timber's supply chain it seems that the company would need a very good system for tracing wood origin, taking into account their great number and different types of suppliers. IECD Timber states that they have a high level of knowledge of the chain of custody, i.e. they know exactly what forest the wood comes from.

The supply chain of IECD Timber A/S is relatively stable in recent years. From 2001 to 2002 the company extended its number of suppliers from 13 to 18 while keeping a core of 9 suppliers. In previous years it seems that there were more changes in their supply chain. Only two companies have been suppliers of IECD Timber A/S since 1998.

5.1.4 Limtræ Danmark A/S

Limtræ Danmark A/S has a very local procurement area as all of its sawnwood is purchased in the Republic of Komi, Northwest Russia. The company imports wood products directly or through a terminal in Latvia. In 2002 Limtræ Danmark imported 12,128 m^3 of sawnwood to Denmark. The company has a relatively small number of suppliers, and all of them are small producers and traders. Limtræ Danmark A/S appeared on the Russian market in 2000 and became the second largest importer of wood products to Denmark in 2001. Two of the suppliers in 2002 have been among their supplies for all three years. In 2001, the company had 12 suppliers of which four remain in 2002.

The person in charge of Limtræ Danmark's import of Russian wood products is also responsible for the import of Russian wood products to two other Danish companies, Hoeg Hagen & Co. A/S and Plus A/S. All three companies are part of the Danish holding company, ITH Industry Invest. He states that he annually purchases a total of about 40,000 m^3 of wood products from a total of about 20 suppliers located in the regions of Komi, Kirov, Perm, Irkutsk and Krasnoyarsk. He further states that he only purchases wood products from sawmills, and that he always knows where, when and how the wood has been harvested.

5.1.5 Churchill & Sim Group Ltd.

Churchill & Sim Group Ltd. has three suppliers which all are wood producing companies. The company mostly imports sawnwood but also a bit of roundwood from Siberia. Its major supplier is one of the largest Russian sawmills. In 2002 Churchill & Sim Group Ltd. imported a total of 9,693 m^3 of wood products to Denmark. The company includes environmental requirements in all their supplier contracts and they regularly inspects the cutting areas (twice a year).

5.1.6 United Panel Group Corporation Ltd.

United Panel Group Corporation Ltd. is a Russian-owned trading agent which represents two large Russian plywood mills (Perm Plywood Mill and Zheshart Plywood Mill) on foreign markets. In 2002 the company imported 9,006 m^3 of plywood to Denmark all of which came from only one of these plywood mills. United Panel Group Corporation Ltd. appeared on the Danish market in 2000 and has increased its market share since then.

5.1.7 Interpulp Trading Ltd.

Interpulp Trading Ltd. is the largest foreign trading agent of the largest and most rapidly developing Russian forest holding company, Ilim Pulp Enterprise, which is a leading Russian exporter of pulp and paper products and plywood, and one of the largest exporters of sawnwood and fibreboard. Interpulp Trading Ltd. appeared on the Danish market in 2001 and in 2002 they imported 8,922 m^3 of plywood to Denmark. Ilim Pulp Enterprise is a member of the Association of Environmentally Responsible Timber Producers of Russia and they state that they intend to implement an environmental policy.

5.1.8 Firmman Trading Ltd.

Among the top ten companies for import of wood products from Russia to Denmark is one fuelwood importer – Cyprus-based Firmman Trading Ltd. The company is a trading agent of a Russian company. In 2002 Firmman Trading Ltd. imported 8,733 m^3 of fuelwood to Denmark.

As noted above in chapter 4.2 there was no registered import of Russian fuelwood to Denmark in 2002 according to the Danish customs, and the import/export data indicate that the wood that was classified as fuelwood when exported from Russia was classified as roundwood when entering Denmark. This could be due to misclassification by the customs in Russian or Denmark, or it could be caused by misdeclaration by the Russian exporter.

Firmman Trading Ltd. became an actor on international markets in 2002, where it also began importing Russian wood to Denmark. The company represents a large and rapidly developing Russian holding company abroad and is one of several foreign partners of the company.

5.1.9 Northplay Trading Ltd

Northplay Trading Ltd. is a trading agent of one of the largest Russian plywood mills. In 2002 the company imported 4,222 m^3 of plywood to Denmark. The company appeared on international markets, including Denmark, in 2001 and became the major importer of plywood products in 2002.

5.1.10 Baltic Pulp and Paper

Baltic Pulp and Paper, an Estonia-based company, is one of the major trading agents of a Russian sawmill. In 2002 Baltic Pulp and Paper imported 3,334 m^3 of sawnwood to Denmark, which all came from this sawmill.

5.2 Classification of the leading importers of Russian timber to Denmark

Based on the above analysis of their supply chains, we classified the importers of Russian wood products to Denmark into three main groups:

1. **Importers with a large and diverse group of suppliers in Russia:**
   - DLH A/S
   - IECD Timber A/S

   These companies need to have in place an extensive system to ensure the legality of the wood that enters their supply chain. This may be somewhat difficult due to the great variability of their suppliers and the fact that they often are of relatively minor importance to their Russian suppliers and therefore may experience difficulties in putting pressure on them to document the legality of their wood products.

2. **Importers with a limited number of suppliers and one major permanent supplier:**
   - Limtræ Danmark A/S
   - Churchill & Sim Group Ltd.

   For these companies it might be relatively easy to ensure the legality of the wood products they procure as they basically need to concentrate on verifying the legality of the wood production of one supplier. Especially if the companies purchase a large part of their main supplier's production, they might be able to influence their business practices. On the other hand, if their major supplier for some reason is not able or willing to verify that the wood products he sells is legal; the importer is faced with the challenge of changing to other suppliers that are able to ensure the legality of their wood supply.

3. **Trading agents of Russian producers:**
   - Wood Resource Ltd.
   - United Panel Group Corporation Ltd.
   - Interpulp Trading Ltd.
   - Firmman Trading Ltd.
   - Northplay Trading Ltd.
   - Baltic Pulp and Paper

These companies depend on their Russian 'holding' companies and they usually do not have their own environmental policies. Only the Danish customers of the wood products they import to Denmark can demand that they ensure credible verification of the legality of the wood products.

5.3 An assessment of the leading importers of Russian wood to Denmark

In 2002 a group of leading NGO's in Russia developed a set of "Principles for Responsible Trade in Russian Wood"[51]. The principles are based on the experience of the NGOs and on the practical experience of several forest companies operating in Russia. Based on these principles we have made an attempt to assess the level of "responsibility" of the top ten importers of Russian wood products to the Danish market. The following sources were used to make the WWF experts' assessment of the companies:

- Interviews conducted with the importing companies[52].
- Data from the State Customs Committee of the Russian Federation
- Information available through media and relevant websites

[51] For more information, see: http://www.forest.ru/eng/sustainable_forestry/vision/guide.html
[52] The interviews with DLH, IECD Timber and Limtræ Danmark were conducted by Jacob Andersen, WWF Denmark. The remaining interviews were conducted by Ekaterina Zaytseva, WWF Russia.

In cases where the importer is a trading agent of a Russian exporting company, the Russian mother company was interviewed, or the results of assessments made by Greenpeace were used[53]. A simplified questionnaire for the assessment, together with the criteria used for the rating is presented in Box 7.

BOX 7: Criteria used for the rating of the importers of wood products to Denmark

1) The company does not purchase wood from doubtful sources (source: interview, WWF survey)
3 – Company purchases all wood only from reliable logging or trading companies
2 – Company purchases the most of wood from reliable logging or trading companies but some wood is bought from doubtful sources[54]
1 – Company purchases the most of wood from doubtful sources
0 – Company purchases all wood from doubtful sources

2) The company purchases wood by contracts with clear requirements for legality and ecology (source: interview, WWF survey)
2 – Company purchases all wood only by contracts with clear requirements for legality and ecology
1 – Company purchases the most of wood by contracts with clear requirements for legality and ecology but some wood is bought by contracts without such requirements
0 – Company purchases all or the most of wood by contracts without requirements for legality and ecology

3) The company collaborates with environmental NGOs, has a website indicating the procurement areas, and makes an external audit of the procurement areas (source: interview, WWF survey, Internet)
2 – Company fulfils all these requirements
1 – Company fulfils only some of these requirements
0 – Company does not fulfil these requirements

4) The company has a documented policy of suppliers selection and successfully implements it (source: interview, WWF survey)
2 – Company completely fulfils this requirement
1 – Company partially fulfils this requirement
0 – Company has no such policy

5) The company does not use wood from high conservation value forests (source: interview, WWF survey, Internet, local media screening)
2 – Company has a system to verify that wood is not harvested in high conservation value forests
1 – Company has elements of a system to verify that wood is not harvested in high conservation value forests
0 – Company has no system to verify that wood is not harvested in high conservation value forests

6) The company has trained environment personnel and makes open annual environment reports (source: interview, WWF survey, Internet)
2 – Company fulfils these requirements
1 – Company partially fulfils these requirements
0 – Company does not fulfil these requirements

7) The company's suppliers has not been guilty of logging and/or customs violations (source: customs information, local media screening)
1 – Logging and/or customs violations are unknown
0 – Logging and/or customs violations are found

The results of the rating of the importers of Russian wood products to Denmark are found in Table 4. There is a great variation in the rating of the importers of Russian wood products to Denmark. It was found that most companies mostly purchase wood products from relatively reliable logging or trading companies.

Half of the importers to some degree put specific requirements for legality and environmental considerations in the contracts with their suppliers. Only four of the importers have a documented policy for supplier and none of the importers have fully implemented the policy. Regarding external audits, collaboration with NGOs, and disclosure of procurement on a public website only Firmman Trading Ltd. (through their exclusive Russian supplier) get the highest score, whereas all other importers partially fulfill these requirements. Six of the importers purchase wood products from Russian suppliers which have been found guilty in customs violations.

None of the importers have a fully functioning system to verify that they do not purchase wood products from high conservation value forests (HCVF), whereas half of the suppliers have

[53] For details on the Greenpeace assessment, see http://forest.ru/eng/problems/companies-list.html.
[54] The term "doubtful sources" is used for any kind of company which sell or make use of wood of unknown origin.

elements of such a system. DLH apparently purchases no wood from any of the large tracts of HCVF that has been identified by Global Forest Watch but they do not have a system in place to verify that HCVF does not enter their supply chain; IECD Timber states that they try to avoid procuring wood products from HCVF but research show that some of their suppliers do use wood from HCVF, and IECD Timber do not have an effective system in place of tracing the origin of their wood. Following the rating most of the companies need to improve on several issues to be able to ensure that their purchase of wood products in Russia is legal and does not come from HCVF. Note, however, that even though the rating is based on principles developed by experienced NGOs, the rating is a subjective assessment open for discussion.

The rating presented here and the findings with regard to the importers' supply chains cast light on different aspects of the importers' wood purchase in Russia, and may be best used together in the importers work to improve their legal and environmental performance. All importers are advised to use the website: http://www.ruswoodorigin.ru to obtain information about transparency and environmental responsibility of Russian wood suppliers.

Table 4. Rating of the leading importers of Russian wood products to Denmark.

Rating characteristics / Importers	Company does not purchase wood from doubtful sources	Company purchases wood by contracts with clear requirements for legality and ecology	Company collaborates with environmental NGOs, has a website indicating procurement areas, and makes an external audit	Company has a documented policy of suppliers selection	Company does not use wood from HCVF	Company has trained environment personnel and makes open reports	Logging and/or customs violations of suppliers	**Responsibility rating**
DLH A/S	2[1]	1[2]	1[3]	1[4]	1[5]	2	0	**8**
Wood Resource Ltd.	3	0	1	0	0	0	1	**5**
IECD Timber A/S	2[1]	1	1	0	1[6]	0	0	**5**
Limtræ Danmark A/S	3	0	1	0	0	0	1	**5**
Churchill & Sim Group Ltd.	3	2	1	1	1[7]	1	0	**9**
United Panel Group Corp.	3	0	1	0	0	0	0	**4**
Interpulp Trading Ltd.	3	1	1	1	0	0	0	**6**
Firmman Trading Ltd.	3	1[8]	2	1	1	1	1	**10**
Northplay Trading Ltd.	3	0	1	0	1	0	0	**5**
Baltic Pulp and Paper	3	0	1	0	0	0	1	**5**

Note: In cases where the scores resulting from the interviews and the scores resulting from WWF expert assessments are different, we use the experts' scores and explain their decisions (see below).

[1] *Some of the company's suppliers are small sawmills or trading agents with limited transparency, which may obtain wood from doubtful sources.*
[2] *The company has recently developed a system which provides for signing of a supplier agreement by all DLH's Russian suppliers. However, it will take some time before it can be assessed how this works in practice.*
[3] *The company does not make an external audit of its procurement areas.*
[4] *The company has developed a good policy of supplier selection, which is 80% implemented in Russia as of October 2003. However, it will take some time before it can be assessed how this works in practice.*
[5] *It seems that the company does not use wood from any of the large tracts of high conservation value forests that has been identified by Global Forest Watch, and the Good Supplier Project can assist in verifying this.However, there is no system in place to verify that wood does not originate from HCVF.*
[6] *Although the company states that it tries to avoid purchasing wood from high conservation value forests, some of its suppliers use wood from HCVF, and the company has no effective system of tracing the wood origin.*
[7] *At least one of the company's suppliers use wood from high conservation value forests, we do not know if the company is able to exclude this wood from their supply chain.*
[8] *The company announced* that they will implement a set of environmental principles in the work with their wood suppliers.

6. Conclusions and recommendations

Conclusions

The main conclusions arising from investigating the Russian-Danish trade in wood products are:

- Illegal logging has become a significant problem in Russia within the last two decades. The Russian government lose very significant amounts of money due to illegal logging, and illegal logging threatens the Russian forests in general and the large primeval forests in Russia in particular.
- The main underlying causes to illegal logging in Russia are: imperfect legislation and forest policy; inadequate control with forestry operations; low wood processing capacity; the behaviour of large timber traders; and low standard of living and high unemployment in wood-producing areas.
- About 4% of the total Danish wood import comes from Russia making Russia the forth-largest supplier of wood products to Denmark.
- Most of the wood products imported to Denmark come from Northwest Russia (47%) or Siberia (35%), and most of it is sawnwood and plywood made from coniferous species.
- It is estimated that there is a risk that on average about 20% of the Russian wood products exported to Denmark are illegally harvested.
- Logging of high conservation value forests threatens Russia's unique and rich biodiversity, and there is a significant risk that Danish importers purchase Russian wood which is harvested unsustainably in such high conservation value forests.
- DLH A/S is the leading importer of Russian wood products to Denmark. DLH also imports Russian wood products to many other countries and has a total of about 70 suppliers in Russia.
- Based on analyses of their supply chains the 10 leading importers of Russian wood products to Denmark are classified into three main types: Importers with a large and diverse group of suppliers in Russia; importers with a limited number of suppliers and one major permanent supplier; and trading agents of Russian producers.
- A rating of the leading importers of Russian wood products to Denmark reveal great variation in the importers' current performance with regard to ensuring legality and sustainability of the wood products they purchase in Russia. The rating and the supply chain analysis may be used together by the importers to improve their legal and environmental performance.

Recommendations

On the basis of the findings in this report, we have the following recommendations:

- The Russian government should initiate a forest policy reform to address illegal logging and trade and unsustainable logging in high conservation value forests. Possible partners in this process are the EU, the Worldbank and WWF.
- The Danish and Russian governments should support the EU's efforts to address illegal logging through the EU action plan on Forest Law Enforcement, Governance and Trade (FLEGT).
- The Danish and Russian governments should develop and implement measures to ensure that the Russian/Danish trade in wood products is legal and sustainable.
- The Danish government should ensure that the Danish public procurement of Russian wood products is legal and sustainable.

- The suppliers of Russian wood and the importers of Russian wood products to Denmark should develop and implement procurement policies with an aim to ensure that they only purchase legal and sustainable timber and wood products (see Appendix 1 for suggested principles for an environmental wood purchase policy developed by WWF Russia).
- The suppliers of Russian wood and the importers of Russian wood products to Denmark should develop and implement supply chain management systems to improve their legal and environmental performance. This may be done in a stepwise manner as outlined here:
  1. Exclude wood products from their supply chain that may be sourced from controversial sources, such as high conservation value forests, protected areas and protected species.
  2. Ensure that wood products entering their supply chain are from known and non-controversial sources.
  3. Ensure that wood products entering their supply chain are from known and non-controversial sources, and are harvested, transported, processed and exported in compliance with all relevant Russian laws.
  4. Give preference and support to suppliers that are progressing towards credible certification of their wood supply, e.g. through FSC certification, and encourage other suppliers to move towards credible certification as well.
  5. Give clear preference to suppliers that have their wood supply FSC-certified.

  It is crucial that the implementation of these steps is documented and verified in a credible manner. This is best achieved through third party independent verification of progress.
- The suppliers of Russian wood may consider applying for membership of the Russian branch of the Global Forest and Trade Network (see Box 8) to get access to expertise and advice in relation to legal and sustainable production of wood products.

BOX 8: The Global Forest and Trade Network

The GFTN currently consists of 19 local Forest and Trade Networks active in nearly 30 countries, mainly in Europe and North America. There are also networks in Japan and East Asia open to members in Hong Kong, China and South Korea. More than 800 companies are members of the GFTN, including forest owners, timber processors, construction companies, retailers, investment agencies and local authorities. Members are committed to gradually producing, trading and/or sourcing independently certified forest products.

The Association of Environmentally Responsible Timber Producers of Russia is a member of the WWF Global Forest and Trade Network (GFTN). It was established in 2000 to assist Russian timber producers improve forest management standards and achieve independent certification. Members of the Association must sign up to the Association's ecological policy principles (see below). Non-certified members of the Association are required to demonstrate legal origin for their timber prior to joining. In addition, members are regularly monitored by independent auditors to ensure they make clear, sustained progress towards certification within a defined time period. In return the Association provides a range of benefits, including information and training on certification, and links to foreign markets. The Secretary of the Association can provide foreign buyers with credible information about members, enabling them to purchase from producers who can demonstrate legality of timber origin and clear progress towards certification.

For more information:
- The Global Forest and Trade Network: http://www.panda.org/forestandtrade
- Association of Environmentally Responsible Timber Producers in Russia: http://www.wwf.ru/about/what_we_do/forests/aeol

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URL: http://www.johannesburgsummit.org

WWF International (2002): Position Paper on Illegal logging and forest crime.

WWF Latvia (2003): The Features of illegal logging and related trade in the Baltic Sea Region.

Relevant websites:

Association of Environmentally Responsible Timber Producers in Russia:
http://www.wwf.ru/about/what_we_do/forests/aeol

Greenpeace's assessment of Russian companies:
http://forest.ru/eng/problems/companies-list.html

FSC: http://www.fscoax.org

The Global Forest and Trade Network: http://www.panda.org/forestandtrade

Pskov Model Forest: http://www.wwf.ru/pskov

Statistics Denmark: http://www.statbank.dk

Tracing Russian Wood Origin: http://www.ruswoodorigin.ru

WWF Denmark: http://www.wwf.dk

WWF Russia: http://www.wwf.ru

Principles for an environmental wood purchasing policy

Principle 1. ***All wood used by the company is legally harvested or the legality of origin is monitored and beyond any doubt***

1.1 The company has a transparent wood supply policy

Wood supply policy includes:

- Ceasing the purchase of wood in cash, without relevant documents, and from doubtful suppliers
- Purchasing wood by contracts with clear requirements for origin legality and ecology
- Transparent wood tracing procedure and the company's readiness to verify it

1.2 The network of suppliers is optimised in accordance with the supply requirements of responsible forest management

Optimisation of the supply network includes:

- Careful selection of wood suppliers in order to influence the quality of their forest management
- The number of suppliers is balanced with the company's capacity to check them qualitatively
- Purchasing wood at trading agents which have, in turn, a transparent system of tracing wood origin

1.3 Mechanisms of monitoring suppliers are implemented

Wood origin monitoring mechanisms consist of:

- There is an internal system of monitoring wood supply, including a cutting area inspection procedure
- Verifying the internal monitoring system by a third party

Principle 2. ***The company does not use wood from protected areas and supports the protection of high conservation value forests***

2.1 The company is aware of restrictions of the forest use regime and roundwood procurement and accurately meets them

- The company does not use wood from protected areas, except such felling (main cutting) is legally allowed
- The company does not use wood from the following categories of protection forests of Group I where commercial (main) cutting is prohibited: spawning-ground protection zones of valuable fish species, valuable forest sites, reserved forest sites, subtundra forests
- The company does not use and project to utilise wood from areas which are included in the prospected list of new protected areas and special protection sites endorsed by the Government of the Russian Federation or regional Administrations
- The company does not use wood from large primeval forests until interested parties arrive at a mutually acceptable social, economic, and environmental solution to conserve or use of them

2.2 The company supports the identification and protection of high conservation values forests in leased areas

- If a region of the Russian Federation has no justified maps of high conservation value forests, the company initiates their identification or actively supports it
- The level of protection and use of leased forests is in compliance with their conservation value
- Basic biotopes and ecologically significant sites are identified in each cutting area when granting, marked in management plans and flow charts

Principle 3. ***The company operates in compliance with the principles of inexhaustible forest management (applicable only for leaseholders)***

3.1 The harvesting practice of the company does not exhaust forest resources in leased areas in the long term

- The company has and implements a programme of inexhaustible forest management

Principle 4. ***The company's trained personnel ensures the transparency of ecological policy***

4.1 The company ensures that the implementation of ecological policy is transparent

- The company ensures that its economic activities regarding the implementation of ecological policy are transparent
- The company promotes its ecological policy
- The company makes publicly available annual reports, preferably made by a third party

4.2 The personnel is trained to implement ecological policy

- The company has an environment director (top manager) responsible for the ecological policy of forest use and procurement
- The company has an item of expenses in the budget to implement the ecological policy of forest use and procurement
- The personnel is trained for implementing ecological policy

WWF is working with large companies exporting timber from Russia – as well as with other companies consuming large amounts of timber – to make their activities more transparent with the aim to stop illegal logging.

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 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
- ✓ Promoting the reduction of pollution and wasteful consumption

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Let's leave our children a living planet!