Changes and Challenges in the Russian Forest Sector

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Forest Policy Being Redefined

Russia's forest policy has been in continual flux since the early 1990s. Although the concept of a forest policy did not exist in Soviet times, in practice such a policy was operated via the production plans, for example, and the emphasis was on judging the extent of felling that would satisfy the industry's roundwood needs. Today, forest policy is understood more broadly as a somewhat fragmented entity encompassing forest legislation, various target programmes, strategy documents and international agreements.

The Russian Federation's first forest legislation was passed in 1993, and subsequently reformed in 1997 (as the Russian Federation Forest Code) and again in 2004. Preparation of a new Forest Code is already under way, and this is proceeding in parallel with a reorganisation of the administrative apparatus. The principal aim of the new Forest Code is more efficient economic utilisation of the forests by promoting investment and encouraging long-term forest lease agreements.

The role of the private sector in the use and management of Russia's forest resources is to be significantly expanded. The period covered by long-term forest leases, which are a key component in the economic utilisation of the country's forests, has already been extended to 99 years. The lessee's responsibilities will be increased in regard to forest regeneration, management and thinning, and construction of forest roads. Set against this, lessees will also be given greater freedom to plan and to do business. As lessees, they will be required to pay for the right to utilise forest resources and for the roundwood harvested. In addition, short-term roundwood harvesting rights (without any silvicultural obligations) will be auctioned.

Decision-making authority on forest resources has been concentrated with the national authorities at federal level, at the expense of regional and local administrations. Regional forest legislation has been annulled and forestry funding matters have been transferred to the Federal Forestry Agency. Concentration at national level is aimed at ensuring common standards and practices in forest management and use throughout the country. In the preparatory work on the new Forest Code, the possibility of privatisation has also been given serious consideration but has been abandoned, at least for the time being.

The reform of the administrative apparatus is aimed at clearly separating the state's forest asset administration, monitoring and business functions. Set up in 2004, the Federal Forestry Agency together with its regional units represents the executive organ of the Government's forest administration and operates under the Ministry of Natural Resources. At local level, there exists the network of leskhozes, or local forest management units. Although the practices of the leskhozes have remained almost unchanged since the 1930s, their roundwood harvesting function was transferred in 1993 to the forest users themselves, i.e. those granted the right to utilise forest resources. This left the leskhozes with the duties of silviculture, conservation and monitoring, and they have also been permitted to conduct thinnings, the sales income from which must be used for financing their administrative duties. The role of the leskhozes as state forest administrators, leasing managers, business operators and monitoring authorities all rolled into one has been widely criticised. Monitoring has already been transferred to a separate federal service for nature utilisation control. A new organisation is being planned to replace the leskhozes, and this would be responsible at regional level for arranging silviculture and conservation.

Improvements in Forest Management and Roundwood Harvesting

Changes in forest management and roundwood harvesting are being made in response to pressures both from within Russia and from outside the country concerning the ecological, economic and social sustainability of forestry. From the viewpoint of commercial forest users, the main problem has been the short-term nature of the leases, which has not facilitated long-term planning of forestry work.

Russia's total surface area of forest classified for full commercial use has decreased over the years, whereas the area of forest classified for limited commercial use has increased. The forests are softwood-dominant, although the proportion of birch and aspen in the total volume of growing stock and in relation to the surface area has been increasing. The proportion of the forest classified as mature or over-mature is high, at about 55%.

The greatest problem in silviculture has been inadequate financing. An indication of the problems in successfully dealing with such issues is that treeless forest land accounts for about 12% of Russia's total surface area of forest. Thinnings have accounted for only a small proportion of all fellings, at just 13% of the felled area. A substantial increase in the amount of thinnings carried out at the appropriate growth stage is required if the composition and growth of forests is to be managed more effectively. Otherwise, the effects of thinnings on the growth of the remaining trees in older forests and especially in previously unthinned forests are very small. Thinnings have traditionally been carried out by the leskhozes, because under the Forest Code they have not been permitted to perform any final cutting. With the spread of harvesting technology from the Nordic countries, logging enterprises (leskpromhozes) have recently shown greater interest in carrying out thinnings. The amount of thinnings undertaken has so far remained fairly low, however, because of the lack of domestic demand, especially for small-diameter hardwood timber, and because of the higher costs of harvesting in thinnings stands by comparison with final cutting. The abundance of final cutting undertaken and the minor amount of thinnings has led to extensive areas being used for roundwood procurement. This is increasing the need for road construction, raising the costs of harvesting and transportation, and affecting the profitability of roundwood production and harvesting. It is also leading to a decrease in the amount of economically accessible forest. This is despite there being an abundance of forested land close to good road connections, because much of this is subject to felling restrictions.

Only 22% of the annual allowable cut throughout the country was used in 2003. The same year, fellings amounted to 174 mill. m^3, of which 72% was from final cutting. A lot has been said in public about illegal fellings, which are estimated to account for anywhere between 5% and 30% of total fellings, depending on the definition. The problem is acknowledged by the authorities, and the prevention of illegal fellings has become one of the key aims of the Federal Forestry Agency's work. It has already introduced a fellings monitoring system based on satellite and aerial images, and plans are being made for a forest transportation control system and monitoring arrangements for wood-processing companies.

More than 90% of the former state logging enterprises (leskpromhozes) have been turned into limited liability companies. Most roundwood is harvested using traditional Russian methods. The Nordic cut-to-length harvesting method has become more widely known, and in the Republic of Karelia this is used in almost 50% of all fellings. The main problem in roundwood harvesting is the poor network of forest roads, and especially the lack of roads suitable for use all year round. Poor profitability means that companies are also unable to invest in new machinery. A further problem has been the difficulty in obtaining a trained and motivated labour force.

Russia's guidelines on forest management are currently being revised. It is important that these should take account of the need to improve the efficiency and profitability of roundwood production and forest management in the longer term, so that a given quantity of roundwood can be procured sustainably from a smaller area. This means focusing more attention and resources on the different stages of roundwood production, beginning with the tending of seedling stands and thinnings, and going on to final cutting and forest regeneration. Increasing the proportion of fellings in areas accessible from the existing network of adequate roads would reduce pressure on more distant regions and would quickly improve the profitability of forestry.

Forest Sector Exports Based on Products with Low Added Value

Russia's forest sector exports since the end of the Soviet Union have been dominated by products with low added value. Roundwood exports from Russia almost quadrupled in 1992–2004, from approximately 10 mill. m^3 (under bark) to over 40 mill. m^3. Indeed, Russia has become the world's biggest roundwood exporter, and there has also been a revival in its sawnwood exports. Roundwood and sawnwood together accounted for 60% of Russia's forest industry exports by value in 2004. The Government's aim is actually to reduce this high proportion accounted for by forest industry raw materials and products with low added value. In political debate, demands are regularly voiced for raising the export duties on softwood roundwood, for example.

Developments in the production and consumption of forest industry products in Central and Eastern Europe have brought structural changes to the European market, and the return of Russia to Europe's sawnwood market has intensified competition and had a major influence on the fortunes and market shares of other producer countries. However, the success of more highly processed Russian forest industry products on the export market has been hampered by inefficient production and product quality problems due to outdated processing capacity.

If Russian domestic demand for roundwood were to increase significantly and restrictions were to be placed on roundwood exports, this would naturally reduce the proportion of roundwood in the country's forest sector exports. Russia's forest resources provide the country with a firm basis for transforming itself from its present position as low-cost raw materials supplier to being a significant exporter of highly processed forest industry products with considerable influence on the world market. The realisation of such a goal will require not only political will but, above all, major investment in infrastructure, forestry and forest industry production capacity.

Forest Industry Investment Requires Foreign Capital

Russia aims to develop its domestic wood processing industry in order to increase exports of forest industry products with a higher added value than roundwood. It aims to establish strong new vertically integrated forest industry complexes. However, the country's forest sector still lacks the domestic or foreign capital to achieve this.

Domestic investment is hampered by the undeveloped nature of the banking sector, the difficulty in obtaining credit, and the general lack of interest in the forest sector among investors. Returns available in the forest sector are smaller than, for example, in the energy sector, which has attracted the bulk of investment. Foreign investment therefore has a potentially key role in the development of Russia's forest sector. Of interest to investors are the country's massive forest resources, the prospect of high consumption on the domestic market, and the low price of wood raw material and other production inputs. Factors deterring investors are the undeveloped infrastructure, lack of clarity on forest ownership rights and right of use, obligations related to forest use, logistics, cultural differences, bureaucracy, obligations to society that come with making investments, and the lack of general agreements protecting investments. However, the most serious of these factors in the case of pulp and paper industry investments is the uncertainty surrounding the continuity and reliability of roundwood procurement. If greater investment can be attracted, this will help provide jobs and livelihoods in many regions and communities in Russia.

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