

## Forest Sector Study of the Russian Far East

### A Roadmap for Promoting Value Added Investments in the Forest Industry

**Preamble:** EBRD and FAO encourage the Russian policymakers to consider a Roadmap and Action Plan for improving investment climate and governance in the Russian Far East forestry sector. Key objective is to promote sustainable economic development in the sector while keeping a balance between commercial forestry and conservation of biodiversity. It is crucial to value forests for their important environmental and social contributions in keeping the RFE economically viable.

#### Context

Forest Sector Study of the Russian Far East is an initiative of the European Bank for Reconstruction and Development (EBRD), as part of EBRD activities in the forest-product sector of the Russian Federation. EBRD has engaged the Food and Agriculture Organization of the United Nations (FAO) to implement the Study in collaboration with Indufor, an independent forest consulting company. The Study was funded jointly by EBRD Special Shareholder Fund and FAO.

#### Study Process

FAO Forestry Department and Indufor carried out the study with the help of Russian Federal Forest Agency, Rosstat, Russian Customs Office, local forest administrations and scientists, NGOs, and international and Russian forest industry experts. Detailed assessments were made on policy frameworks, use and management of forest resources, and on market potentials. Situation Analysis and conceptual feasibility studies were prepared in order to understand better the financial viability of potential investments in new sawmilling, particleboard, glulam and liquid biofuel production. A Project Video was produced for wide international dissemination and for the purpose of raising awareness of the unique forest sector in RFE.

Video in English <https://www.youtube.com/watch?v=q9osY4M767k>

Video in Russian <https://www.youtube.com/watch?v=ZQbZ90f-d8U>

#### Unique Forest Domain

Forest Fund area of the RFE extends to 497 million hectares, of which *Production Forests* (219 mill. ha) are the main source of industrial roundwood for domestic forest industry and log exports. Annual logging volume in mature forests is around 12 mill. m<sup>3</sup>, added with wood from thinnings of 4.3 mill. m<sup>3</sup>. Presumed illegal logging is excluded from these figures, and it is a significant problem in some parts of the region, especially concerning high-quality hardwoods. In the Southern parts of the RFE the degrees of endemism in plants and vertebrates is extremely high. Iconic animals in nature conservation such as Amur tiger depend on the RFE forests as their critical habitat.

## **Opportunity**

The value of wood product exports from RFE amounted to 988 mill. USD in 2012, which was 15% of the wood exports value from the Russian Federation. Wood products are among the important export goods in the Russian Far East with a 12% share of total export value from the region, if export of oil, gas and minerals are excluded.

Stemming illegal logging and trade, and converting a growing share of legally harvested logs into higher value added wood products represent a major opportunity in RFE. Better quality-consciousness and marketing skills are required to enable this transition and support investments. A higher efficiency is needed in the use of industrial roundwood, lesser-used species and residues from logging sites and sawmills. At the same time, improved methods in forest regeneration, management of young forests, and selective logging and thinnings are necessary steps to increase forest productivity. A sustainable wood products industry would trickle down benefits to local rural communities who depend on the sustainable use of forest resources for their livelihoods.

## **Policy**

The latest forest policy document was adopted on 26 September 2013 under a title *Foundations of the State Policy in the Field of Forests Use, Conservation, Protection and Regeneration till 2030*. Several tasks of the state forest policy are closely aligned with the Goals of EBRD-FAO Study and Investment Roadmap: for example (i) improving forest governance and legality; (ii) increasing exports and competitiveness of the Russian forest industry; (iii) developing human resources; (iv) international cooperation in forestry and forest industry; (v) participatory processes in decision-making processes.

## **Investment Analysis**

Conceptual feasibility studies were done with the best possible information on raw material availability and cost, market potential, and best available technology in a modern industry. Some investments show a good profitability level, especially if integrated with Forest Industry Complexes.

Main advantages for forest industry investors in the Russian Far East include high quality of sawlogs, availability of processing by-products at low cost, and access to fast-growing Asian markets. By-products of solid wood processing operations are underutilized or not utilized at all in the region, making them an untapped low-cost raw material reserve. China's wood product demand will continue to grow, and export potential for timber products, in particular for larch logs, to Japan and Korea is forecast to increase.

The most limiting factors for realizing investments include poor basic infrastructure, unstable business climate, failures in long-term planning and execution of operations, shortage of qualified workforce, as well as exploitative and illegal log exports, which has led to resource constraints in some parts of the region.

## **Investment Roadmap and Action Plan**

EBRD and FAO drafted an Investment Roadmap with Action Plan on the basis of the study results. Attracting sustainable long-term investors to the Russian Far East forest industry requires changes in the operating environment. Policymakers' action is a prerequisite for kick-starting the Investment Roadmap and Action Plan implementation in 2015-2020. Aim is to keep the forest industry cluster in RFE viable and productive amidst conflicting demands on forests from numerous stakeholder groups.

The main Goals of the Investment Roadmap are provided below with concrete steps for each of the Goals listed in the Action Plan (Attachment 1):

## **Improved Legal / Policy Frameworks for Enabling Conditions**

*Adopt a stable policy framework for a consistent guidance to forestry and forest industry on sustainability, and for removing obstacles to value-added investments in RFE.*

### **Sustainable Management of Forest Resources**

*Arrange a more timely and accurate multi-source integrated forest inventory data for better forest valuation, economic planning and good governance across the forestry sector.*

*Prepare conditions in the forest industry to shift focus on alternative wood species and wood residues, and improve their efficiency in resource use.*

*Align the RFE logging companies and forest industries with responsible trade practices and procurement rules in export markets, and conduct more sustainable logging, demonstrate legality, and promote forest certification.*

### **Developed Infrastructure**

*Adopt public-private partnerships and non-punitive cost-sharing models for transport infrastructure, utilities and community services, to allow industry stay competitive and retain workforce.*

### **Qualified Human Resources**

*Induce a culture of public-private innovation in the forest sector, encourage the youth to develop careers in the forest sector (especially on new technologies), and facilitate the mobility of foreign experts to transfer critical skills.*

### **Next Steps**

EBRD and FAO are committed to follow up and help the Russian forest authorities and the private sector in setting the Roadmap and Action Plan into motion:

1. Disseminate study results, summary and recommendations on EBRD and FAO websites and communicate to potential partners, clients, investors and to the federal and regional authorities:
  - Federal Forest Agency (Rosleshoz)
  - Council on the Development of Forestry Sector under the Government of the Russian Federation
  - Ministry of Natural Resources (Department of forestry regulation)
  - Ministry of Development of the Russian Far East
  - Minpromtorg (Department of forest industries)
  - Foreign Investment Advisory Council (FIAC) – Working Group on Development of Far East and Siberia
  - In seven Far Eastern Regions: (a) Regional forest management agencies and forest sector committees, and (b) Governor's Offices
2. Arrange presentations on the study results with the government authorities and Forest Council and help them organising a working group for the implementation of the Roadmap and Action Plan.
3. Present study to the local stakeholders and industry associations in specialised conferences.
4. Conduct a multi-stakeholder forest sector policy dialogue assisted by WB, EBRD and FAO.
5. Upon further request by the authorities and other stakeholders, EBRD and FAO may facilitate access to the additional technical assistance funding from various international donors aiming to support the implementation of the Action Plan, including (a) collaboration in forest inventory in RFE, (b) development of amendments to the current forest policy, regulations and legislation, (c) consultant services on sustainable forest management, energy efficiency and bioenergy, and (d) facilitating public-private partnerships (PPP) for improving infrastructure and transports.

6. EBRD will be ready to consider business plans for large investment projects in the forest-product sector, including opportunities to provide long-term financing.
7. EBRD could provide consultancy support to SMEs working in the forest product sector including assistance in business plans preparation, strategy development and facilitating access to financing.

**List of Attachments and Annexes:**

Attachment 1: EBRD - FAO Investment Roadmap and Action Plan for Sustainable Forest Industries in the Russian Far East