THE OPEN DOOR:
JAPAN’S CONTINUING FAILURE TO PREVENT IMPORTS OF ILLEGAL RUSSIAN TIMBER
For over 25 years as a non-profit organization, EIA has pioneered the use of undercover investigations to expose environmental crime around the world. Intelligence reports, documentary evidence, campaigning expertise and an international advocacy network enable EIA to achieve far-reaching environmental protection by spurring changes in market demand, government policy and enforcement related to global trade in wildlife and environmental products.
For thousands of years, Japan’s great forests of cedar, cypress, and pine were cut to build houses, furniture, and for fuel, powering the development of Japan’s rich culture and traditions. Since the 1960’s, Japan has become increasingly dependent on imports of timber and wood products as its domestic forest industry has steadily declined. Wood products imports now come from many countries, including Malaysia, Indonesia, and Russia, where legal and sustainable logging practices are often the exception, rather than the rule.

In recent years, Japan has been the subject of increasing scrutiny regarding timber imports from tropical forested countries, the legality of which has at times been questioned by environmental groups. However, Japan’s imports of timber from the temperate forests of eastern Russia, often indirectly via Chinese manufacturers, make up a sizable proportion of total wood product imports but have received less attention in recent years. Illegal logging is estimated to comprise at least 50% of total timber harvests in eastern Russia, with some estimates nearing 90%, and poses one of the gravest threats to both the region’s forest ecology and the future of the Russian forest products industry.

In the 1980s and 1990s, Japan imported more timber from eastern Russian than any other foreign country. Since the early 2000s, China has eclipsed Japan as the number one destination for eastern Russian timber. During the same period, Japan’s imports of wooden furniture, flooring, and other wood products from China have steadily risen. Many of these finished products are made from the very same Russian timber that Japan’s wood products manufacturers once imported directly and manufactured into furniture domestically. Far from having ended their use of Russian timber, Japanese demand continues to be a significant driver of illegal logging practices in eastern Russia.

In 2013, the U.S.-based nonprofit Environmental Investigation Agency (EIA) concluded a multi-year investigation that revealed the full extent and nature of illegal logging in eastern Russia, tracing that illicit timber through Chinese-owned sawmills in Russia, across the border into China to manufacturers of furniture, flooring, and other wood products destined for the domestic market and for export to the United States, the European Union and Japan. EIA’s investigation combined analysis of Russian and Chinese trade data, interviews with Russian based authorities, non-profits and community members, as well as undercover communications and visits by EIA investigators in Russia and China posing as potential buyers of wood and wood products.

EIA investigations revealed that one of the largest Chinese importers of Russian timber, San Xia Economic and Trade Company (三峡木业有限公司, San Xia), knowingly purchased illegally harvested Russian pine deep inside Russia, and transformed this timber into finished products for export largely to the Japanese market. San Xia owns approximately 600,000 hectares of pine and larch forest in Siberia, operates multiple sawmills, and exports sawn pine lumber to its operations in China. San Xia representatives told EIA investigators that much of their Siberian pine is illegal in origin, bought off the black market from small brigades of Russian illegal loggers, and exported using falsified permits.

EIA followed this timber across the border into China to San Xia’s sawmill in Manzhouli on the Russian border, and onwards to the port city of Dalian. In Dalian, San Xia manages two factories, making beds, cabinets, chairs, and tables from pine and ash cut in the Russian Far East and in Siberia. Much of their Siberian pine is also manufactured into structural timber, exported primarily to Japanese trading companies. San Xia officials in both Manzhouli and Dalian independently stated that approximately 90% of their finished products are exported to Japan. In Japan, much of this timber is purchased by housing manufacturers for use in timber-frame houses across the country. Siberian pine directly competes with Japanese domestic timber. Illegal sources artificially depress prices globally and put for Japanese forest holders at a competitive disadvantage.

The United States and the European Union, the largest buyers of Chinese wood products, have recently enacted new policies that prohibit the import of illegally sourced wood and wood products and require companies to conduct heightened due diligence in their sourcing practices. These nascent demand side policies are transforming the global wood products trade and have been credited with significant reductions in global greenhouse gas emissions.

As this investigative report reveals, the current voluntary approach in Japan is failing to prevent illicit timber from entering Japan’s markets. While Japan, the fourth largest consumer of wood products globally, was once considered a leader in global efforts to tackle illegal logging, it has now fallen behind other developed countries by failing to adopt enforceable measures to prevent imports of illegally sourced wood and wood products. Japan must take decisive and immediate action to close its market to the cheap, illegal timber that is undercutting both its domestic forestry operations as well as the forests and livelihoods of its trading partners. The time has come for Japan to join ranks with other developed nations to support legal forest production both overseas, and at home.
Across eastern Russia, well-organized timber mafias bribe and intimidate the chronically under-funded regional authorities in order to establish systematic control over harvesting, processing, trade and export of hardwood logs and lumber in frontier areas of Russia’s “Wild East.” A picture of systemic illegal logging and “legalization” of illegal wood through falsified permits quickly emerged. This system is an open secret among industry members both in Russia and Northeastern China, many of whom showed a clear understanding of the high risk of illegality in the Russian timber trade.

WEAK FOREST LAW ENFORCEMENT AND WIDESPREAD ABUSES OF REGULATIONS

Since the fall of the Soviet Union, Russian forest rangers have seen their funding cut to around 10% of what they received in the 1990s, severely impacting their ability to patrol the vast public forest lands, and making them particularly susceptible to intimidation or bribery. President Putin recently noted that the number of state forest workers has declined to one seventh of previous levels, and that many of these workers are close to retirement age.

Russia’s President Putin recently decried the severity of weak forest governance stating that, “The Federal Forest Management Agency and a number of provinces present deliberately distorted information, and law enforcement agencies work ineffectively or sometimes don’t work at all.” Late in 2012, Putin initiated a crackdown on international organized criminal elements within the Russian forest sector. In an April 2013 meeting in eastern Siberia with President Putin, Russia’s Prosecutor General Yuri Chaika stated that corruption was well established in the forest sector, including abuse of authority by representatives of the federal and local agencies active in forest management, and noted that most of the wood is exported to China.

In June 2014, auditors found that 6.6 billion rubles (USD $190 million) had gone missing from the federal budget of the Russian Federal Forest Agency. In 2010 alone, illegal logging cost the Russian economy nearly $1 billion in lost revenue and resources.

A recent analysis by the World Wildlife Fund (WWF) comparing oak exports to permitted harvest levels in the Russian Far East shows that, over the past decade, at least 50% of all oak exports over the past ten years have been illegal in origin. Given that harvest quotas are based on inaccurate and outdated surveys and include unusable or inaccessible timber, and that much officially harvested timber is actually harvested illegally in protected areas, the actual figures are likely much higher. EIA investigators were told repeatedly by many industry sources across the region that at least 80% of all logging across eastern Russia is conducted illegally.

IMPACTS OF ILLEGAL LOGGING IN EASTERN RUSSIA

Russia’s eastern forests provide habitat for a wide variety of animals and plants, including some of the most biodiversity-rich area in the Russian Federation. Millions of ethnic...
Russians and hundreds of thousands of indigenous people live in traditional villages throughout the region and are dependent on forests for survival. Various forest industries, from logging and wood processing to pine nut gathering and beekeeping, provide a critical source of revenue and sustenance for hundreds of thousands of families. The forests of Siberia and the Russian Far East rival the Amazon in their size and importance as a carbon sink. Clear cutting, a practice that still accounts for more than 75% of all logging in Russia, has caused certain areas of permafrost forests in northeastern Russia to become “virtual deserts,” and the release of methane from these degraded permafrost zones is a major source of greenhouse gas emissions.

In 2010 alone, illegal logging cost the Russian economy nearly $1 billion in lost revenue and resources — and experts estimate that these figures, based only on officially registered losses, represent as little as 5% of actual illegal logging and associated trade. The illegal and uncontrolled harvesting has severe consequences for forest-dependent communities, the region’s rich biodiversity, and the forest sector as a whole in Russia. It also causes negative long-term impacts on the future of wood products manufacturing in Russia, China, the United States, the European Union, and Japan, as cheap illegal timber further undercuts legitimate operators by artificially driving down prices, threatening the viability of all companies that are playing by the rules.

In 2013, EIA concluded a multi-year investigation that revealed the full extent and nature of illegal logging in eastern Russia. EIA’s investigation focused largely on the mixed temperate hardwood forests of the Russian Far East, home to the last remaining wild populations of the Siberian tiger. Hardwood exports of oak, ash, and linden from these forests feed flooring and furniture industries in northeastern China, much of which is exported to the United States, Europe, and Japan. In the 2013 report entitled, “Liquidating the Forests: Illegal Logging, Organized Crime, and the last Siberian Tigers”, EIA tracked illegal oak logs cut by one of the largest operators in Russia’s northeastern Khabarovsk province to a manufacturer in China. This manufacturer cut the oak into solid flooring, most of which it shipped to Lumber Liquidators, the largest specialty flooring retailer in the United States. In September, 2013, U.S. federal agents raided the headquarters of Lumber Liquidators, reportedly investigating violations of the U.S. Lacey Act, banning the importation of illegally-harvested wood products.

Two decades of illegal logging have contributed to rapid depletion of commercially available stocks of valuable hardwoods. Now the best hardwood timber is found in protected forests, where logging is restricted by law. These range in scale, importance, and level of protection from national parks to special hydrological zones along streambeds, to forests set aside for pine-nut harvesting or for traditional use by indigenous groups. Due to the rarity of high-quality, old-growth specimens around the world, these species draw a premium on global timber markets, and are valued three to five times higher than more common, faster-growing hardwoods such as birch and poplar, or softwoods.

The vast majority of Russian hardwoods, 96%, is exported to China. Precious hardwoods are most commonly used in manufacturing of furniture and flooring for both the Chinese domestic and export markets. Most of the furniture and flooring produced in northeastern China is exported through the port of Dalian, although Russian hardwoods and softwoods end up in products manufactured throughout China. Chinese export records show that 7% of all hardwood furniture and flooring exports are destined for Japan.

Precious Hardwoods in the Russian Far East

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Siberian tigers (Panthera tigris altaica) and Far Eastern leopards (Panthera pardus orientalis), both among the rarest large animal species on the planet.

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The Open Door: Japan’s Continuing Failure to Prevent Imports of Illegal Russian Timber

In Siberia’s Irkutsk Province, situated on the western shores of pristine Lake Baikal, EIA investigators met with officials from the Chinese multinational San Xia, who described their Siberian logging operations in detail, showing a keen awareness of the widespread nature of illegal logging throughout the region. San Xia owns forested land and multiple sawmills in Siberia and exports approximately 40,000 m³ of pine boards and logs across the border into China each year.

According to San Xia’s Vice President, Mr. Liu, around 90% of this wood goes into products for the Japanese market. San Xia officials in Irkutsk explained to EIA investigators that almost all of their timber supplies are purchased from local Russians who cut in nearby forests, and that between 50-80% of this timber is actually cut illegally.

SAN XIA’S FOREST CONCESSION — A FRONT FOR LAUNDERING ILLEGAL TIMBER

In eastern Siberia, San Xia operates a rural sawmill approximately 100 km northwest of the city of Irkutsk. EIA spoke with Mr. Xu, the manager of this sawmill, who explained San Xia’s on-the-ground operations. San Xia had recently invested in a forest concession, partnering with another Chinese company called “Ya Bao”. This concession covers 600,000 hectares, which gives the owners the right to cut 1.4 million m³ of wood over the life of the 49-year lease. Mr. Xu, San Xia’s local manager explained that this concession gives them permits to export 30,000 m³ of timber each year. However, in practice, they are able to apply these permits to as much as 80,000 m³ of timber: “[Our concession] is in total the right to cut 1.4 million m³. Each year, they give you permits for over 30,000 m³. In reality, even if you cut 80,000 m³, who will check?”

Mr. Xu indicated to EIA that, in fact, San Xia purchased the concession not for logging within the concession itself, but for the primary purpose of obtaining documentation to launder illegal timber. On the second day of EIA’s visit to San Xia’s Irkutsk operations, San Xia’s local partners arranged a visit to this forest concession, in the mountains 30 km south of the main highway. EIA was accompanied by the company’s forest manager, a local Russian man who had spent over 30 years in the local forest industry.

During the visit, EIA observed that San Xia’s forest concession had already been largely logged out during previous decades, and only a few areas of healthy, old trees still remained, largely near streams and on steeper slopes, areas where cutting was and is prohibited. San Xia’s partners operated a logging team that was actively cutting larch, silver fir, and Siberian pine in these areas. The company’s local forest manager explained to EIA that they were able to cut healthy trees in these prohibited areas using permits for “sanitary” or “intermediate” logging. To obtain these permits, they simply paid a local forest expert to sign documents claiming that he had

According to Mr. Xu, manager of San Xia’s Irkustsk sawmill, the 49-year lease on their forest concession is, “in total the right to cut 1.4 million m³. Each year, they give you permits for over 30,000 m³. In reality, even if you cut 80,000 m³, who will check?”

San Xia’s supply chain for pine and ash for Japanese market.
conducted a forest survey, and had found a large number of diseased trees which required extraction. The company then cuts healthy, old-growth trees and exported them under these permits.20

The abuse of “sanitary” logging permits is widespread in eastern Russia. In exchange for kickbacks, officials allow loggers to extract millions of cubic meters of valuable timber in areas set aside for essential conservation under the guise of “sanitary logging,” or “intermediate logging”, in which diseased, dying and poorly formed trees should be cut to improve overall forest health.21 Given that most commercially valuable timber now exists only in protected forests, the provincial agencies tasked with management of these forests hold a considerable influence over the timber sector in eastern Russia. For decades, local civil society organizations have assembled extensive evidence of gross mismanagement of the forests by these agencies.22 The former head of the Forest Management Agency of Primorsky Province in the RFE, corroborated these allegations in an undercover interview with Russian state TV in 2010 saying “Intermediate logging, that’s when you cut the sick trees and the healthy and quality trees remain. But today the healthy trees get sent to the mill, and all the sick trees get left alone. That is, everything’s abnormal. But that’s how we live today. When this all ends – I don’t know.”23

In addition, the Russian managers on San Xia’s concession said they always take only the best part of the tree, leaving the rest to rot, “To cut trees and to get profit you have to cut and to get only the best part of the wood. Everything else we leave in the forest to rot…whatever we leave at the concession can be used, but we just leave it in the forests.”24 Finally, the managers said that local hunters regularly hunt bears, sable, Siberian musk deer, and other prohibited and endangered species on their territory. Most of these are killed only for parts, such as bear paws, bear bile, and deer musk glands which are sent to China to be used in traditional medicine. They said a local oligarch often brings foreigners and wealthy Moscovites to hunt bear and elk from helicopters.25

**SAN XIA’S ACTUAL LOG SOURCES – ILLEGAL LOGGING BRIGADES**

While clear-cutting, often for pulp and paper production, remains common in more remote northern Siberian forests, selective logging appears to be the norm in the areas around the export-focused mills along the Trans-Siberian railroad. Mill owners told undercover EIA investigators that the only good timber could be found two or three days away, because of past overcutting in more accessible areas. Much of the harvesting is carried out by roving brigades of illegal loggers that operate with impunity throughout eastern Russia, combing forest concessions, protected areas, and national parks for the highest-quality timber and wastefully dragging out only the best and straightest sections, often as little as 10 to 12 feet out of a 60 foot tall tree.26 The branches and timber left behind provides ready kindling for immense forest fires which regularly flare up during hot, dry summer months.27 In many cases, loggers set these fires themselves, to cover their tracks.28 In some cases, these brigades operate independently, selling logs to small local sawmills or traders. In others, these brigades are reportedly contracted by forest concession holders to harvest prime timber in excess of quotas, outside the boundaries of their concessions, within protected areas near their concessions (along riverbanks, or in special nut harvesting zones), or trees unauthorized for harvest. If these illegal brigades are caught by forest police, the large concession holders often deny any relation to these groups.

In remote forest areas, logging brigades drag these illegally cut logs by tractor to nearby village sawmills, which provide falsified harvest permits stamped by local authorities. Sawmill owners or their agents print off documents themselves, often downloaded...
from the internet, and take them to a local official to get stamped for a small bribe. These permits often have little relation to the actual timber they are meant to represent.29 In one example in Primorsky Province, documents provided by a village sawmill claimed its logs came from a remote forest concession 200 km away, separated by two mountain ranges, even though forest experts matched the logs to stumps left at a nearby illegal logging site.30

Mr. Xu, San Xia’s local manager, explained that his sawmill buys wood almost exclusively logging brigades, “because in this area there are many smaller private [logging companies] that make a living in this [cutting and selling stolen wood], thus as long as you have money, you can buy and the supply is not a problem.”31

When asked how widespread the practice of buying illegal timber from private logging companies, Mr. Xu responded, “at least 80%.”32 San Xia officials were keenly aware that most of this wood, purchased from local teams of Russians, was illegal in origin. Both Mr. Xu in Russia, and Mr. Liu, San Xia’s VP in China, talked openly with EIA about these practices.

In other cases, ad hoc roadside markets have developed, at which logging brigades sell their timber to Chinese buyers. Due to the illegal nature of both the product and the transaction, these are very dangerous operations. Another Chinese sawmill owner in a town 200 km farther west of San Xia’s operations, Mr. Pan described these markets to EIA. Mr. Pan said, “I was working for three years with this company whose owner is from the southern China, all their purchases were ‘black wood’. Every day we went out with cash to buy wood, sometimes we were robbed...The robbers pointed a gun at me, three times!”33

Mr. Pan, like many others, now employs a local Russian fixer to purchase logs from these logging brigades according to market demand. Mr. Pan told EIA that he buys around half of his wood from four or five regular suppliers, which he said generally overcut around 50% more than allowed by permits.34 The other half of Pan’s supplies consisted of “black wood”, purchased from the small Russian logging brigades. If these brigades do not provide permits, Mr. Pan’s fixer simply prints off a fake permit and pays the local forest official between $3-6 per cubic meter for an official stamp. When asked by EIA how much of the wood he purchases was illegally cut, Mr. Pan replied simply, “Almost all of it.”35

When San Xia buys wood from local Russian teams, this wood needs to be “legalized” in some way. San Xia can either use permits from their own forest concession, or in some cases the Russians themselves sometimes provide their own permits. In many cases, these permits are meant for small amounts of cutting for firewood or building materials for local uses, but are instead used for industrial illegal logging for export. Mr. Xu explained this process, “You see, we buy wood from private small suppliers, and there are many of them. These small suppliers, for example, were
given permits to cut 125 m³, and are told to
go cut trees at a designated area — 75 m³ for
buildings and the rest for firewood. In reality,
they may cut over 1,000 m³, and when the
authorities check, they would always show the
same permit.”

Mr. Xu continued, “When (the government)
gives him the permit, it’s really a sort of
lease. During the tenure of the lease, they can
actually cut as much as they want.”36

Mr. Xu explained that the local Russian officials
know very well how the system works, “The
government is keeping one eye open and
the other shut. They know that, for this 125
m³ permit, the loggers might have cut 500
m³, or 1,000 m³. But, during the time of the
lease, when they are caught, they just tell the
government this is the first load – it’s always
going to be the first load. In fact the Russian
(government) is very loose in this respect.”37

Mr. Xu told EIA that on one occasion, the
local forest police chief caught him in the
act of buying illegal logs. “Because of all
this, he then wanted some money. He said
I have broken the law, but we knew each
other well, so he said I should then just buy
him two tons of gasoline instead. I gave him
50,000 rubles for the two tons of gas.”38 Mr.
Xu claims that he and the forest police chief
remain good friends, and he hasn’t had any
trouble since this time.39

Such intimate awareness of the illegal and
corrupt practices common in the forest
industry in eastern Russia is not limited to
local operators. San Xia’s Vice President, Mr.
Liu, speaking in his office in China’s border
hub of Manzhouli, demonstrated a very clear
understanding of the illegal nature of timber
sourced from these logging brigades: “It is
illegal to buy wood from the Russians... As
long as you are not caught on the spot, you
just call it your own wood.”40

San Xia, like many other Chinese companies
operating in eastern Russia, processes
most of the logs they purchase or cut at
their own sawmill or in that of a partner
company in the same area. EIA investigators
visited both locations, and found both in
active operation. Both were staffed almost
entirely with Chinese migrant laborers, often,
poor farmers from China’s northeastern
Heilongjiang province. These men worked
twelve hour days, seven days a week, in
open-air mills throughout the Siberian winter,
the main season for logging operations.
San Xia’s mills have internal rail spurs, which
feed directly into Russia’s trans-Siberian rail
line. After quick processing into rough sawn
boards to avoid export tariffs on round logs,
San Xia’s lumber is loaded onto trains and sent
directly across Siberia to China’s main border
gateway of Manzhouli.41

ChInese busInessmen In russIa
Over the past 20 years, Chinese businessmen
have become major players at all levels in
the forestry sector in Siberia. This process
accelerated following the 2007 decision by
the Russian government to increase export
tariffs on roundwood log exports in an effort
to increase domestic processing of timber
resources. The majority of new sawmills that
have sprung up across eastern Russia in the
past five years are Chinese-owned, and often
operate primarily with Chinese immigrant
labor.42 As foreigners face heavy restrictions
from owning businesses in Russia, Chinese
timber traders, forest concession-holders,
and sawmill owners employ well-connected
local Russians to act as their local proxies.
These Russian partners generally have some
combination of experience in the local timber
sector, strong connections to local officials, and
sometimes even relatives in local or regional
government. These actors regularly flout
Russian forestry regulations through bribery
and the use of falsified official documents.43

Expansive Chinese investment in eastern
Russia is carried out by a variety of actors,
including large Chinese state-owned and
private wood products companies that own
hundreds of thousands of hectares of forest
concessions and dozens of sawmills, small
and large trading companies, as well as small
family-run sawmills operating in remote
Russian forest villages. However, even these
small operations are coordinated under
networks run by a small handful of powerful
Chinese operators, with decades of experience
in Russia, as well as both official and unofficial
connections to the government. These
powerful operators function in a structure of
organized criminal activities with ties to both
Russian and Chinese officials, and are often
involved in a variety of illegal activities.44

Pine and larch logs on San Xia’s forest concession.
Most timber cut in eastern Russia is destined for export, and around 75% of these exports flow directly across the border to China. Over the past fifteen years, China has rapidly grown into eastern Russia’s largest timber trading partner, following China’s 1998 ban on most domestic timber harvesting due to severe environmental damage caused by illegal logging in its own forests. In 2012, 18 million m$^3$ of logs, sawn timber, and veneer sheets were exported to China from eastern Russia, making up 20% of China’s total timber imports (Figure 1, below). Softwoods such as pine and larch made up the majority of these imports.

Just over half of China’s timber imports from Russia pass through Manzhouli, a small but bustling city in China’s Inner Mongolia province. On an average day, over 800 train cars full of Russian logs and sawn timber arrive in Manzhouli. Much of this timber is imported by trading companies, bought immediately by large mills, and transported directly to their lumber yards, which sprawl into the steppe to the east of the city. Many of these enterprises operate sawmills to transform logs into sawn timber, but there are few factories for production of finished goods. A majority of this timber is destined for Chinese domestic use, often serving as stints and moldings for concrete buildings sprouting up all around the country. However, vast quantities end up as furniture and other products destined for export to the United States, European Union, and Japan.

The importance of Manzhouli as a trading center is so great that market demand there directly affects production and wood types processed at remote Russian sawmills. A sawmill owner in Irkutsk Province told EIA investigators that he could respond quickly to shifting demands in the Chinese market; “If you send me information that in China now pine is good, give me a call, tell me what specifications you need,...I will move quickly and buy, process and send it to you.”

Even Chinese mill owners and traders in Manzhouli showed a keen awareness of the frequency of illegal business practices in Siberia. EIA met with Mr. Liu, San Xia’s Vice President and manager of their Manzhouli operations. A man with extensive personal experience in Russia, Mr. Liu described the nature of the wood he buys from small Russian logging brigades, and the ease of laundering this wood. Mr. Liu said that it was illegal to cut other people’s trees, but that it was possible to buy from other Russians who did. “You cannot cut trees of others, but you can buy stolen wood from the Russians.”

San Xia’s Manzhouli factory is responsible for drying, sorting and some processing of their Russian pine imports. EIA investigators were given a tour of the facilities, including a timber yard and factory where sawn boards are pressed together into edge-glued structural timber. Mr. Liu, San Xia’s VP in Manzhouli, explained to EIA that 90% of their exports of this timber goes to the Japanese market, where it is used in house and furniture construction.

San Xia’s Manzhouli factory also sends a large portion of their unprocessed Siberian pine boards to San Xia’s partner companies, Long Hua and Shuang Hua, located in the northeastern Chinese port city of Dalian.
CHINA'S TOP 10 EXPORT PARTNERS – FLOORING

Figure 2

CHINA'S TOP 10 EXPORT PARTNERS – WOODEN FURNITURE

Figure 3

JAPAN'S WOOD PRODUCTS IMPORTS FROM CHINA AND RUSSIA, BY RWE VOLUME (M³)

Figure 4
San Xia’s affiliate Dalian Long Hua, (大连龙华木业有限公司), is located in the town of Wafangdian, close to Dalian’s primary container port. Long Hua manufactures a wide range of furniture products, chiefly beds and chairs. Long Hua’s sales manager told EIA that the majority of this product is exported to the Japanese market, mostly to one large Japanese retailer. Their furniture is made from a mix of woods sourced from around the world: ash veneer, sourced from the Russian Far Eastern provinces of Primorye and Khabarovsk; pine boards sourced from Siberia, Canada, and the European Union; and composite board purchased from other manufacturers in central China.53

Hardwoods from the Russian Far East are considered extremely high risk for illegality. EIA was not able to confirm the legality of the ash timber that Long Hua sourced from the Russian Far East. Russian customs figures show that San Xia’s Suifenhe affiliate, located on the Chinese border with Primorye Province, imported 30,000 m³ of ash boards and logs in 2012.54 Approximately half of this timber, 14,000 m³, came from a Russian conglomerate based in Khabarovsk, which is now one of the largest exporters of hardwoods in the RFE. Although this company owns no independently certified concessions for ash, the company has in recent years cooperated with environmental groups about managing their concession areas responsibly.55

The remaining 16,000 m³ of ash was sourced from more than a dozen different trading companies. As documented in EIA’s 2013 report, trading companies are the primary mechanism for laundering illegal wood in the RFE, as they are often not able to provide any documentation of concession of origin for their timber exports.56 Long Hua officials said that they used to use oak, but had switched to ash, since oak was becoming harder and more expensive to obtain. The RFE’s dwindling oak supplies have been intensely targeted by illegal loggers for decades, and commercially-accessible sources of high-quality timber are approaching exhaustion.57

San Xia’s affiliate factory, Dalian Shuang Hua, (大连双华木业有限公司), specializes in edge-glued lumber, post beams, and panels, primarily for housing construction, but also for furniture manufacturing. San Xia officials in Dalian stated that their Siberian pine imports are primarily used for this product.58 As with their other products, San Xia officials report that most of this timber is exported to Japan, while some is sold domestically in China. San Xia officials stated that it is bought by a number of Japanese trading companies, and is used primarily in housing construction.59

Japan was the second-largest buyer of wood products from China in 2013, importing USD $1.2 billion of wooden furniture, and USD $1.5 billion of other wood products (See Figures 2 and 3, p.11).60 Over the past three decades, Japan’s direct imports of logs and lumber from eastern Russia have steadily declined, as imports of finished products from China continue to increase (See Figure 4, p.11). China functions as a “black box” for illegally logged timber, in which the origins of illegally harvested timber are obscured as manufacturers mix it with legal sources. Importers of timber from China cannot rely on documentation from the manufacturer as proof of legality.
EIA’s investigation revealed that Japan’s current policy framework is not effective in preventing the import of illegally sourced wood products. The current approach to addressing illegal logging consists of a public procurement law, called the “Green Purchasing Law,” which requires the procurement of legal wood by the national government, and a set of related voluntary industry standards for legality verification for companies importing wood products.

While these measures were progressive at the time they were established, Japan has now fallen behind other developed countries by failing to adopt enforceable measures to prevent imports of illegal wood products. Although the private sector is responsible for more than 95% of Japan’s total demand for wood products, importers are not obligated to take measures to ensure that wood is legal unless they are supplying public contracts under the Green Purchasing Law.

Any effective law must be accompanied by robust enforcement measures that establish penalties sufficient to incentivize compliance. However, there are no penalties for non-compliance in the current Japanese policy framework, and the government has admitted to weak oversight of compliance in its response to questions presented by a member of the Japanese Diet. Lack of penalties for non-compliance with the Green Purchasing Law and lack of robust enforcement give no reason for importers to take the extra steps necessary to ensure legality.

While the current approach requires a paper trail of basic information from the forest manager to the government procurer, with all actors in the supply chain required to provide documentation of legality, they do not require the Government or its procurers to conduct an assessment of the risk of illegality or to take appropriate measures to mitigate risks. In situations where governance is weak and the risk of illegality high, official documentation may be insufficient to ensure legality, but the current system fails to address this critical point.

The emerging set of timber legality frameworks in major consumer markets provides a powerful case for the feasibility and efficacy of implementing robust laws and regulations to prohibit trade in illegally sourced wood products. In 2008, the United States became the first country to take legal action to halt the flow of illegal wood products into the country. Similarly, the European Union Timber Regulation (EUTR), which came into force in March 2013, prohibits the placement of illegal timber onto the European Union market, and importers are required to undertake due diligence, which includes risk assessment and risk mitigation measures to ensure compliance. The passage and implementation of the Lacey Act amendments and the EUTR is creating a dramatic change in the global timber industry, leading to a systemic shift in the practices of importers, manufacturers, and timber companies.

These policies provide important early lessons for how timber legality frameworks can be effectively designed and implemented. Building on these policies also provides the Government of Japan an opportunity to harmonize its regulations with those of fellow consumer countries, thus minimizing the cost of compliance for industry stakeholders globally by leveling the playing field, while helping to facilitate greater compliance amongst exporting countries. The common elements of these policies indicate the increasing global agreement over the need for robust regulatory approaches by consuming countries to prevent the trade in illegal wood products. These common elements provide a solid framework that can inform efforts by the Government of Japan to develop a regulatory approach consistent with emerging international norms, and include a prohibition on imports of illegal timber with well enforced penalties for non-compliance as well as requirement to conduct due diligence and risk mitigation measures.

Every day, around 800 train cars of Russian timber cross the border into Manzhouli, China.
San Xia’s Dalian-based manufacturers, Long Hua and Shuang Hua, are among the largest Chinese exporters of beds and structural timber to Japan, selling to some of Japan’s largest companies. Nearly every Chinese operator whom EIA spoke with both in Russia and in China showed a high degree of awareness of the frequency and extent of illegal logging in eastern Russia. Almost all indicated that illegal timber made up a sizeable percentage of their timber sourcing. San Xia itself freely admitted to sourcing illegally harvested Russian pine. Japan’s own Forest Agency has commissioned numerous reports on the problem of illegal logging in Russia.64 Yet, this high-risk timber still flows freely in to Japanese markets.

Forest management in eastern Russia is in need of comprehensive reform and funding for forest law enforcement needs to be scaled up significantly. However, all domestic measures to improve governance in the Russian forest sector are unlikely to be successful if major importers continue to purchase products from manufacturers in China that are clearly dealing in illegal wood.

Increasing global awareness of the great risks posed by illegal logging to forest communities, industry, ecosystems, and the global climate as well as the role of international demand in driving this devastating trade, has led many of the world’s consumer nations to adopt legal prohibitions against the import of illegal timber. These new regulations in the United States, the European Union, and Australia have proven to be successful in decreasing illegal logging worldwide.65 However, the positive effects of these laws are fundamentally undermined by the failure of the world’s largest timber importer, China, and the world’s fourth largest importer of wood products, Japan, to take concrete action to prohibit illegally sourced imports.

Illegal and uncontrolled timber harvesting in eastern Russia has severe consequences for forest-dependent communities, the region’s rich biodiversity, and the forest sector as a whole. It also hinders the development of sustainable, long-term wood products manufacturing in Russia, China, and Japan, as cheap illegal timber artificially drives down prices, threatening the viability of all companies that are playing by the rules.

Japan must take decisive and immediate action to close its market to the cheap, illegal timber that is undercutting both its domestic forestry operations as well as the forests and livelihoods of its trading partners. The time has come for Japan to join ranks with other developed nations to support legal forest production both overseas, and at home.
3. The European Commission explains “due diligence” as the notion that operators undertake a risk management exercise so as to minimise the risk of placing illegally harvested timber, or timber products containing illegally harvested timber, on the EU market. (http://ec.europa.eu/environment/forests/timber_regulation.htm#diligence)


11. Personal communication. In original Chinese language: “因为这个地方有很多人。嗨。政府实际上都是睁一只眼闭一只眼的事情，它知道这125方他可能采500方，或者1000方，但是在他租赁期，你咋能怪他，我就在这头啊，什么时候租给我都是头一年，你，实际上，在老毛子这方面管得特别松。

12. Personal communication. In original Chinese language: ‘你只要当时没有警察抓你，或者是没有什么，那就说明没事的。

13. Personal communication. In original Chinese language: “它知道这个125方他可能采500方，或者1000方，你就用这个林票，你每次采伐权有一百四十多万立方米，实际上他可能采1000方，他就用一个林票，你每采伐的时候我就有这里地税。’

