

Illegal logging in Eastern Russia and implications for wood products sourcing in China

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David Gehl

*Eurasia Programs Coordinator
Environmental Investigation Agency (U.S.)*

EMAIL: davidgehl@eia-global.org

TEL: +1 202 483 6621



Overview

- Illegal logging in the Russian Far East and Eastern Siberia
- Significance for Japan
- Relevance of Russia to Chinese Supply Chains
- EIA investigative case studies
- Recommendations for Japanese importers about ensuring the legality of wood sourcing

The Environmental Investigation Agency

- U.S.-based NGO committed to addressing the drivers of environmental crime
- Campaigns: Illegal wildlife trade; illegal logging; atmospheric chemicals
- Worked together with U.S. industry and lawmakers to pass key legislation that combats illegal logging

Illegal Logging

- What is it?
 - Timber harvested in contravention of applicable laws and regulations.
- How bad is it?
 - INTERPOL estimates that an estimated 20-50% of timber on the market is illegal.
- Why does it matter?
 - Leads to degradation of forests, contributing to global climate change, biodiversity loss, and destruction of livelihoods for forest-dependent communities.
 - Undermines economic development by depriving responsible companies of profits and robbing governments of more than 10 billion USD in revenue.
- Why is it relevant to Japan?
 - At least 12% of Japan's timber product imports are of possible illegal source, one of the highest rates among advanced countries.



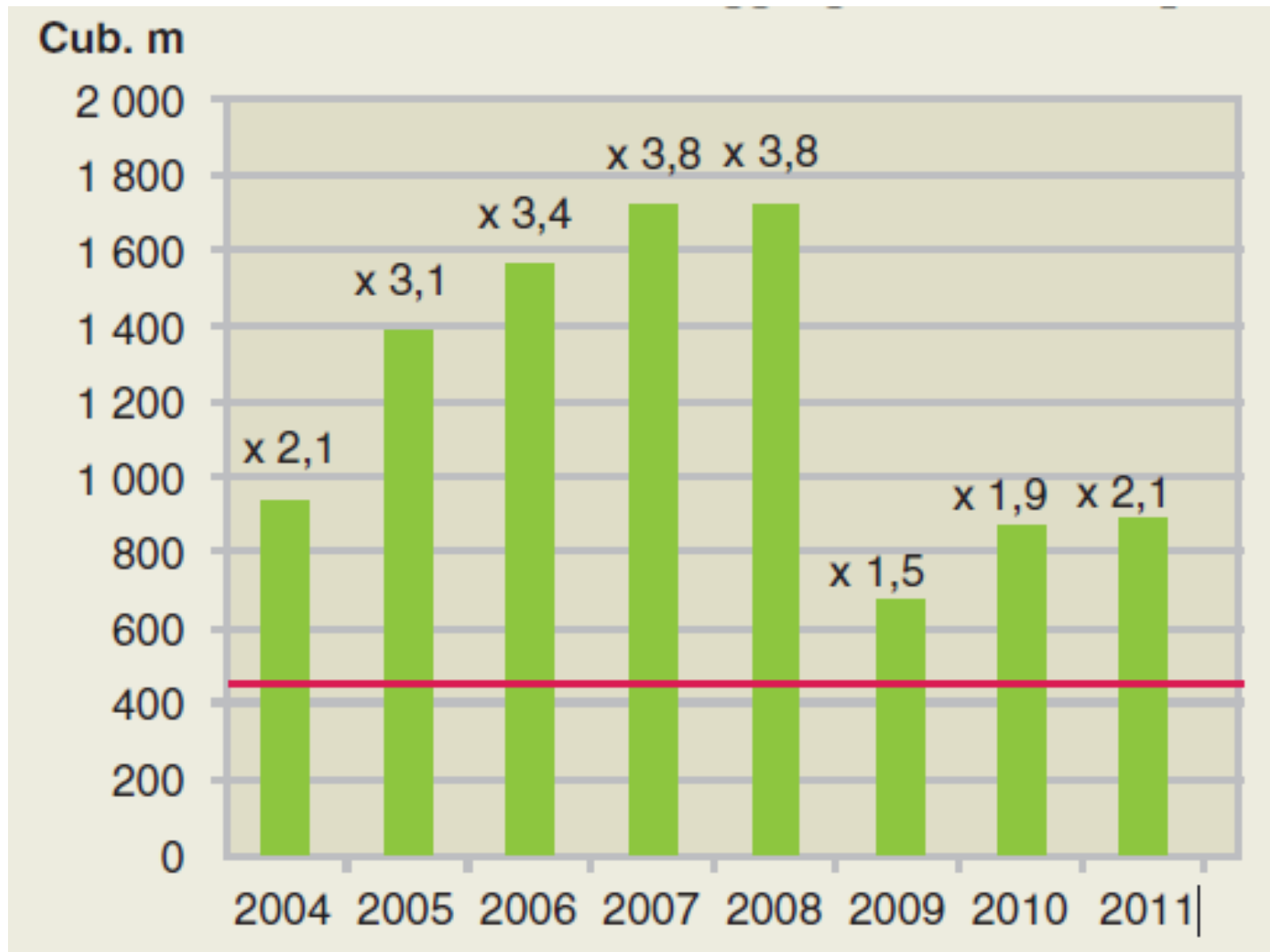
Illegal logging: forest management crisis



- Large scale theft of commercially valuable species (valuable hardwoods, pine)
- Depletion of timber stocks in accessible forests
- Degradation and destruction of key habitats for rare species (i.e. Amur tiger)
- Damaging traditional livelihood of forest villagers (hunting, trapping, pine nut gathering, forest beekeeping)
- Undermining competitiveness of law-abiding forest companies

WWF study – Mongolian Oak in the Russian Far East

Comparison of volume permitted for logging and volume actually logged for export



— officially permitted harvest volume



REVIEW
2013



Illegal logging in the Russian Far East:
global demand and taiga destruction

THE OPEN DOOR:
JAPAN'S CONTINUING FAILURE TO PREVENT
IMPORTS OF ILLEGAL RUSSIAN TIMBER

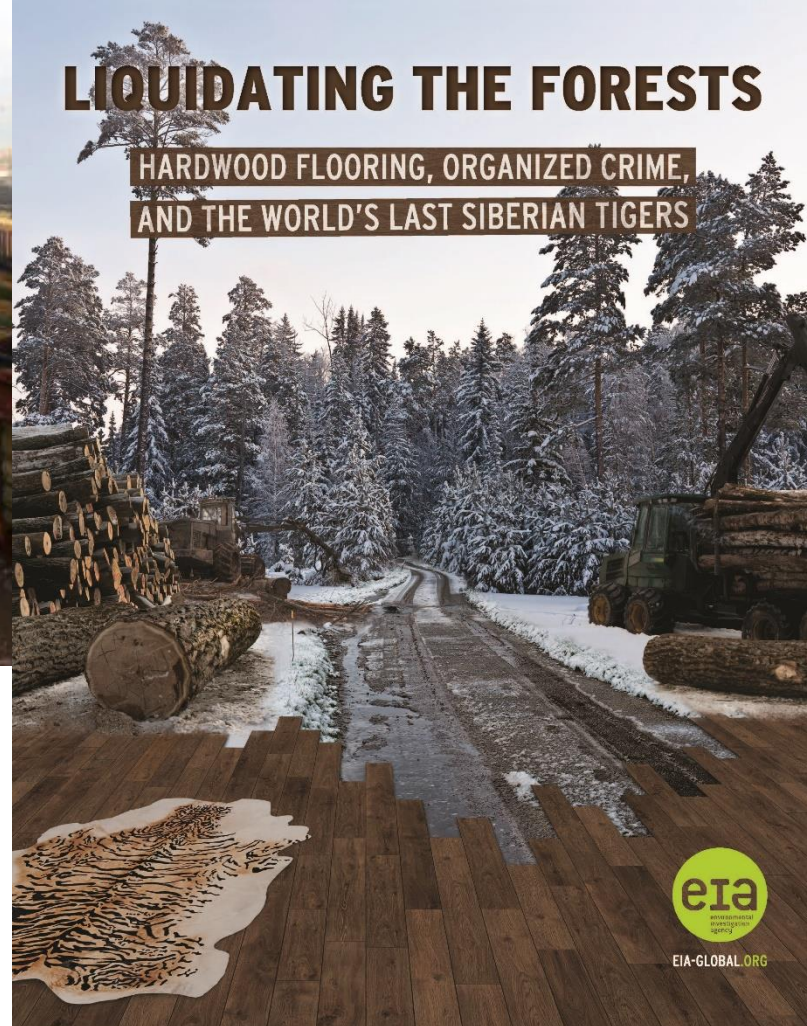


EIA-GLOBAL.ORG



LIQUIDATING THE FORESTS

HARDWOOD FLOORING, ORGANIZED CRIME,
AND THE WORLD'S LAST SIBERIAN TIGERS



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EIA's Investigation in Russia and China

- EIA tracked high-risk timber from Russia, through China, to manufacturers exporting to the US and Japanese markets
- Investigation uncovered widespread illegalities in Russian forest sector, including among suppliers to Chinese manufacturers
- U.S. and Japanese buyers are fuelling illegal logging in eastern Russia (and Chinese and Europeans)

Violations Identified

1. Logging outside of permitted cutting areas, widespread abuse of sanitary harvesting permits for cutting old-growth timber in protected areas
2. Sourcing from small logging brigades and multiple trading companies
 - Very difficult, if not impossible, to know the origins of the timber
 - High risk of illegality
3. Laundering illegally-logged timber through official permits

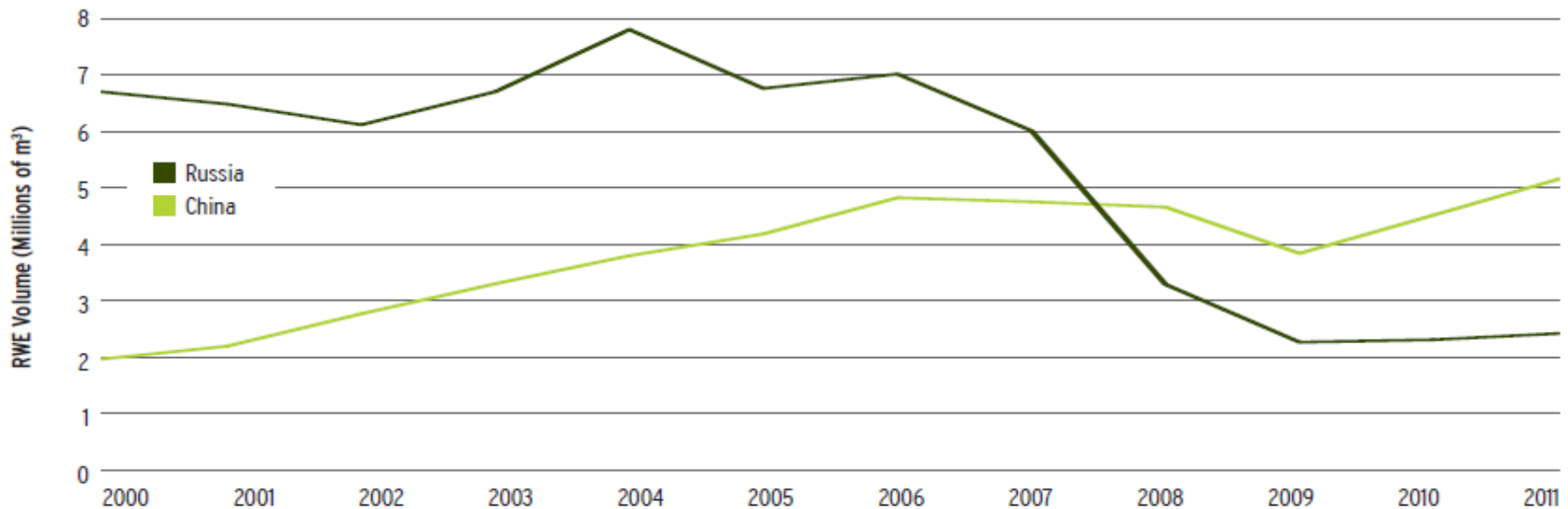
Direct Involvement of Chinese Companies

- By some accounts, a majority of the companies and mills operating in the forest sector in Eastern Russia are owned and managed by Chinese individuals
- Many Chinese importers have invested in forest concessions and sawmills in the Russian forest sector
- Manufacturers in Northeastern China showed a high level of understanding of illegalities present in Russian forest sector

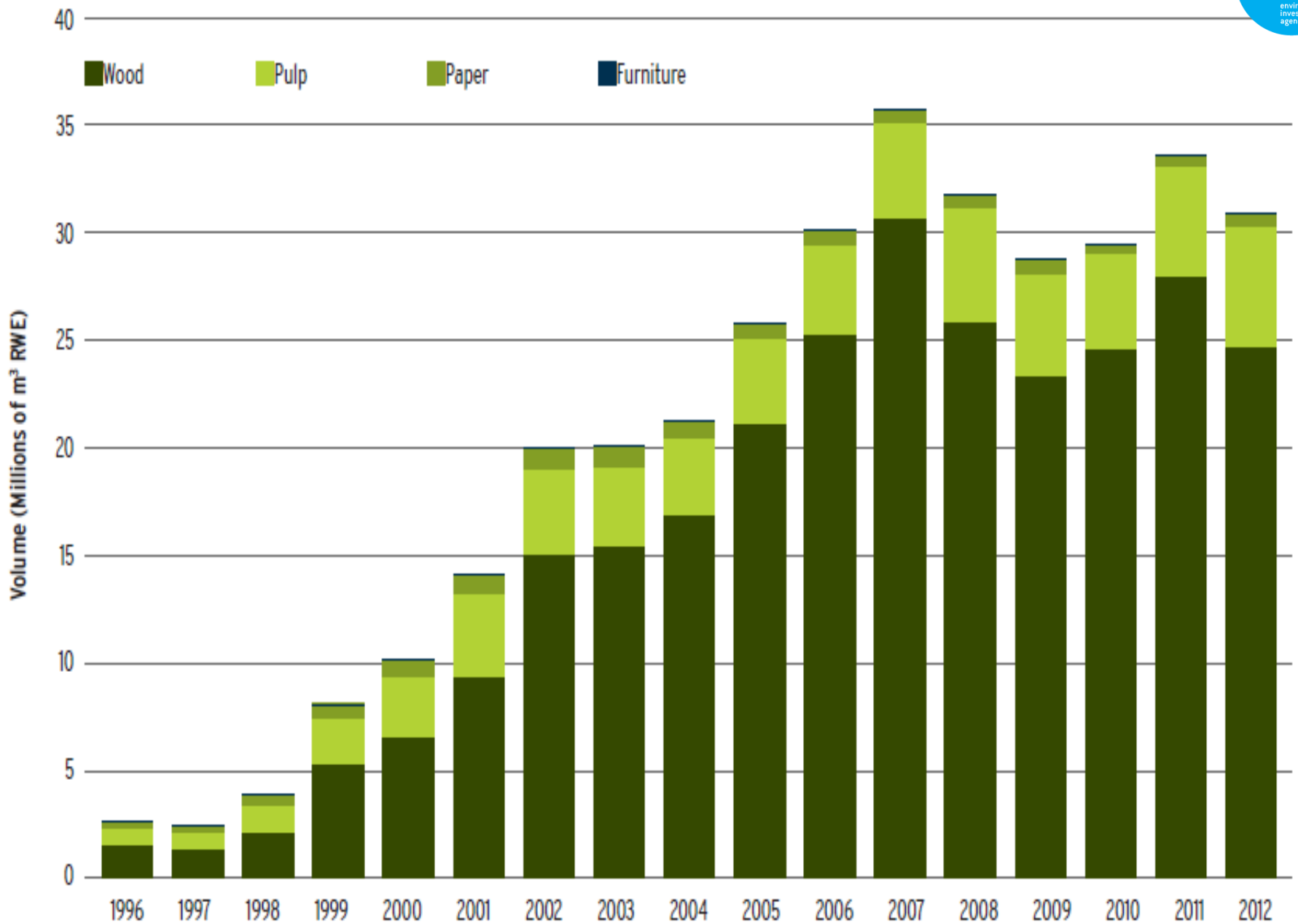
Why should Japanese companies care?

- Direct export of Russian timber to Japan is relatively minor
- But flow of Russian wood **through China** to Japan as finished products is huge. Japan is #3 importer of Chinese wood products after US and EU
- Value of 2011 Chinese exports of solid wood flooring and furniture to US, EU and Japan: \$9.4 billion

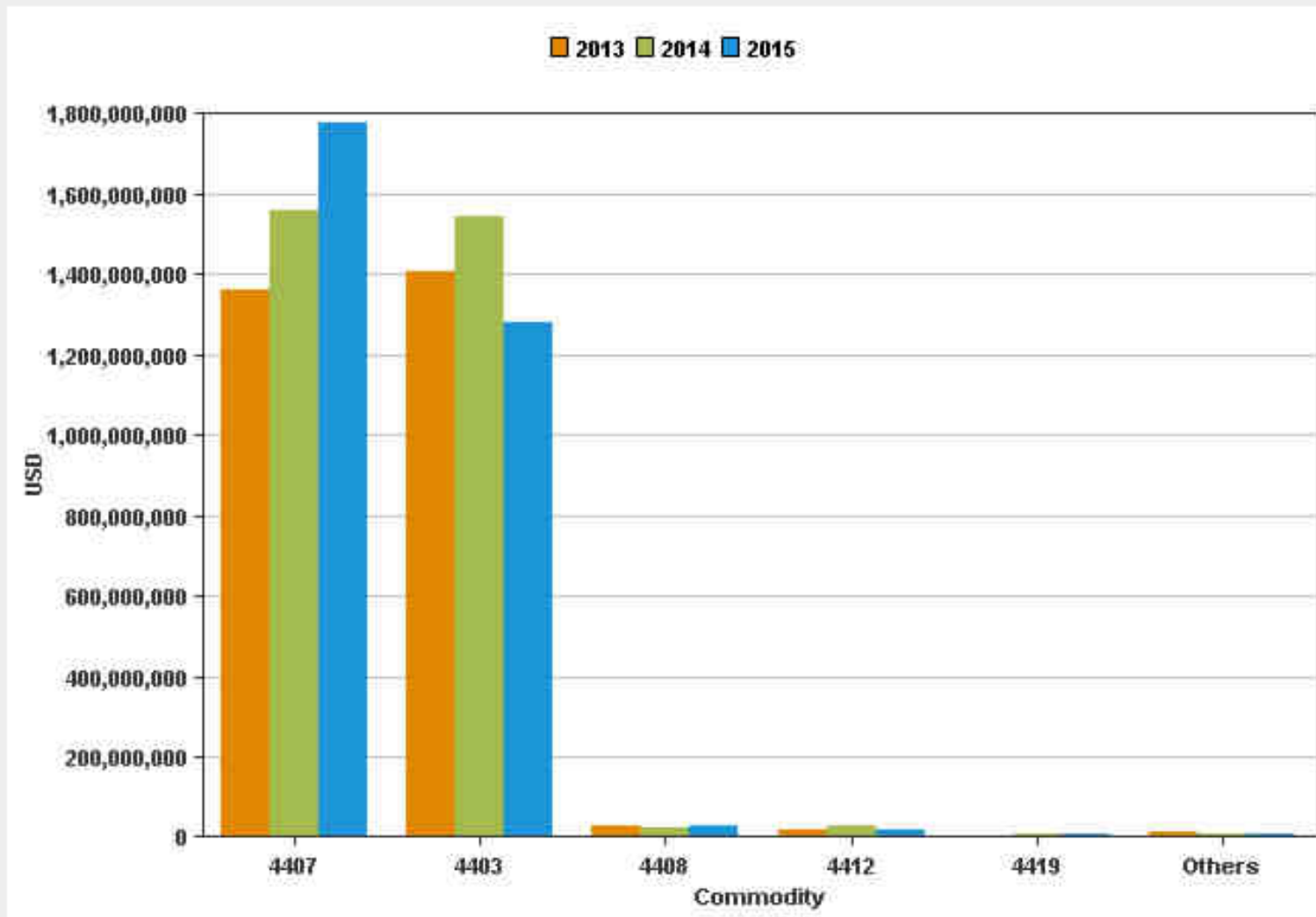
JAPAN'S WOOD PRODUCTS IMPORTS FROM CHINA AND RUSSIA, BY RWE VOLUME (M³)



RUSSIA EXPORTS TO CHINA OF WOOD-BASED PRODUCTS BY RWE VOLUME (M³) IN MILLIONS



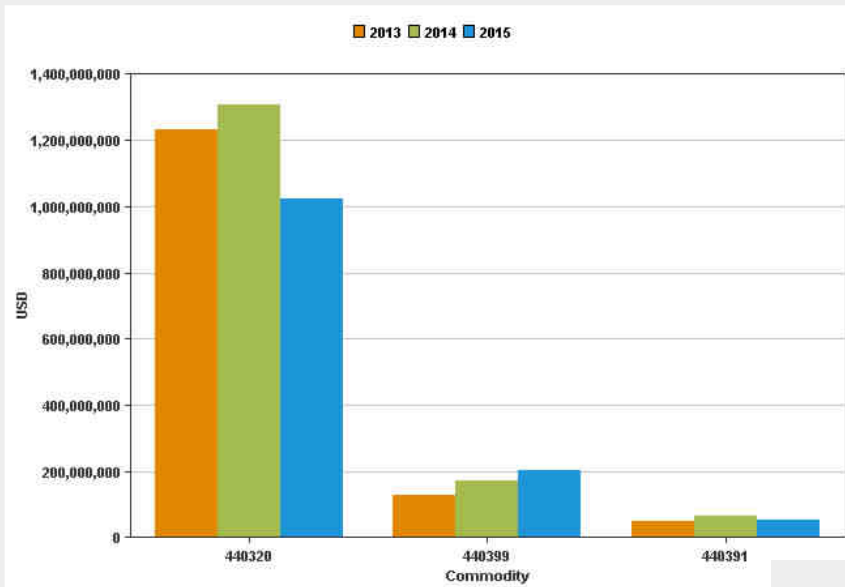
China Import Statistics From Russia
Commodity: 44, Wood And Articles Of Wood; Wood Charcoal
Calendar Year: 2013 - 2015



China Import Statistics From Russia

Commodity: 4403, Wood In The Rough, Whether Or Not Stripped Of Bark Or Sapwood, Or Roughly Squared

Calendar Year: 2013 - 2015



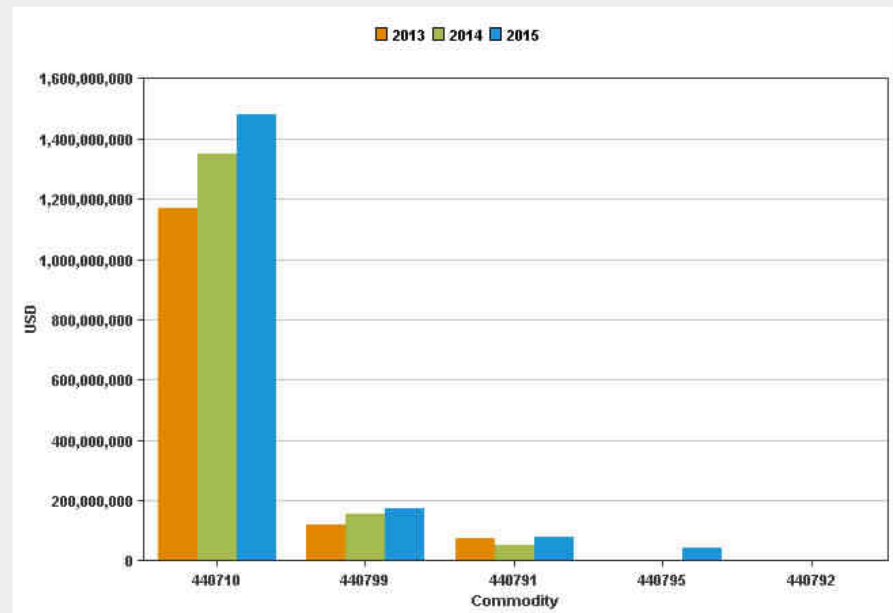
China log imports (left)

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China Import Statistics From Russia

Commodity: 4407, Wood Sawn Or Chipped Lengthwise, Sliced Or Peeled, More Than 6 Mm (.236 In.) Thick

Calendar Year: 2013 - 2015



China sawn wood imports (right)

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CHINA'S TOP 10 EXPORT PARTNERS – FLOORING

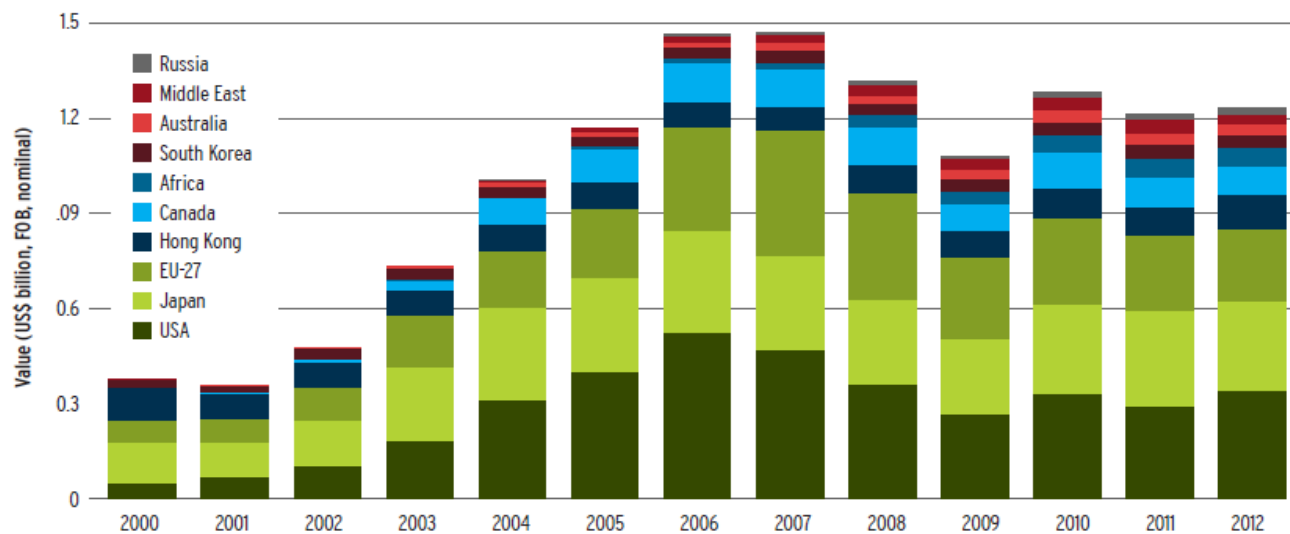


Figure 2

Source: China customs data

CHINA'S TOP 10 EXPORT PARTNERS – WOODEN FURNITURE

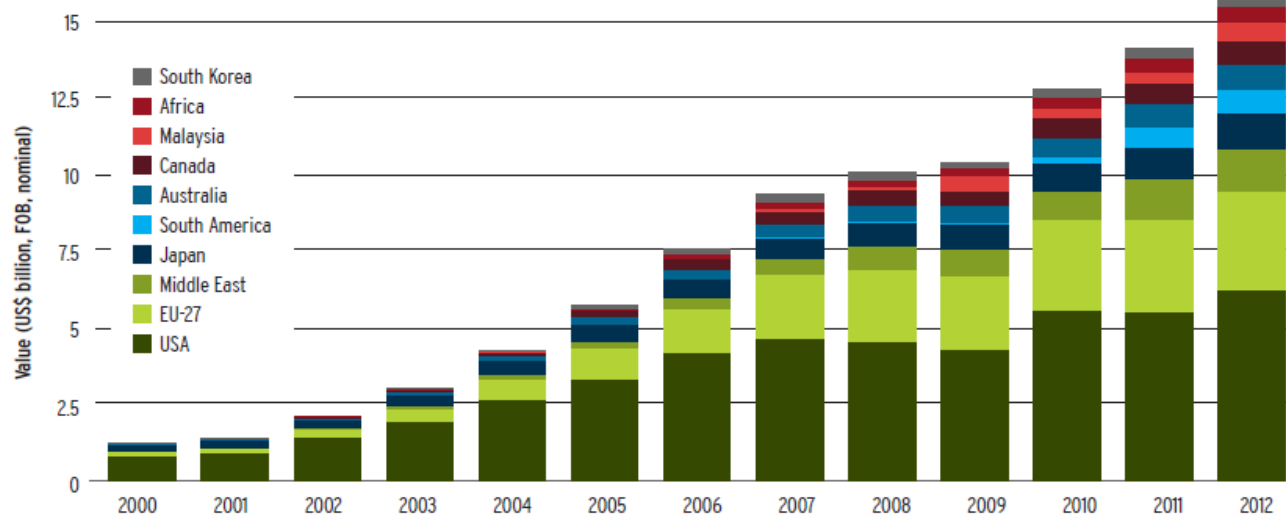
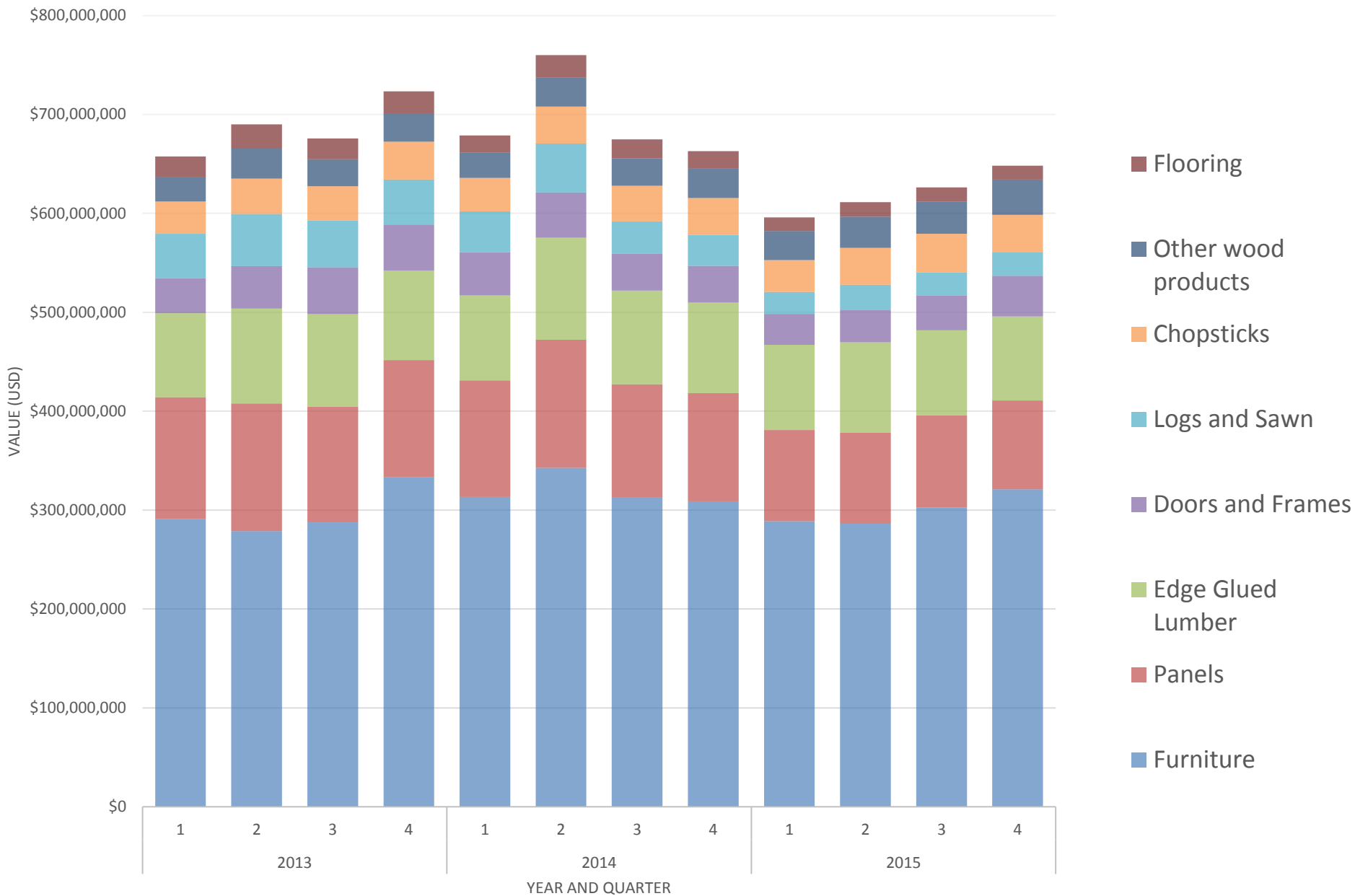


Figure 3

Source: China customs data

CHINA EXPORTS TO JAPAN OF WOOD FURNITURE AND WOOD PRODUCTS



Case #1: San Xia: Illegally Harvested Russian Pine in Japanese Houses

- Largest Chinese importer of Russian timber
- Pine sourced primarily through independent logging brigades
- Intimate knowledge of extensive illegal cutting
- Chinese manufactures: ~90% for Japan
 - Shuang Hua - edge-glued pine lumber for house construction
 - Long Hua – ash-veneer bed frames



組み立て図面



平角（側面）

105/120 x 150~360 x 2980~5980mm

Map of San Xia Supply Chain



0 400 800 Km

International Action and Current Trends


Emerging global norms prohibiting trade in illegal timber

Existing laws delivering significant market transformation and reduced illegal logging rates...

...however...

...Key markets still in need of reform

Enforcement needed to solidify positive changes



*“The problem is that somebody asks me to smuggle...
...no buyer, no smuggling.”*

Franky Chua, Singapore-based timber broker to EIA/Telapak undercover investigators, 2003

U.S. Lacey Act, EUTR, Australian ILPA

- Illegal to import illegally-sourced timber
- Importing companies are responsible for due diligence to understand their supply chains
- Penalties including fines or prison depending on severity and knowledge
- Due diligence: “that degree of care which a reasonably prudent person would exercise under the same or similar circumstances”

Rationale for Lacey Act:

- Seneca Creek study: \$1 billion losses annually to U.S. industry from illegal logging before Lacey Act
- USFS study: 40% price increase and 80% quantity decrease in imports from high-risk countries because of Lacey Act

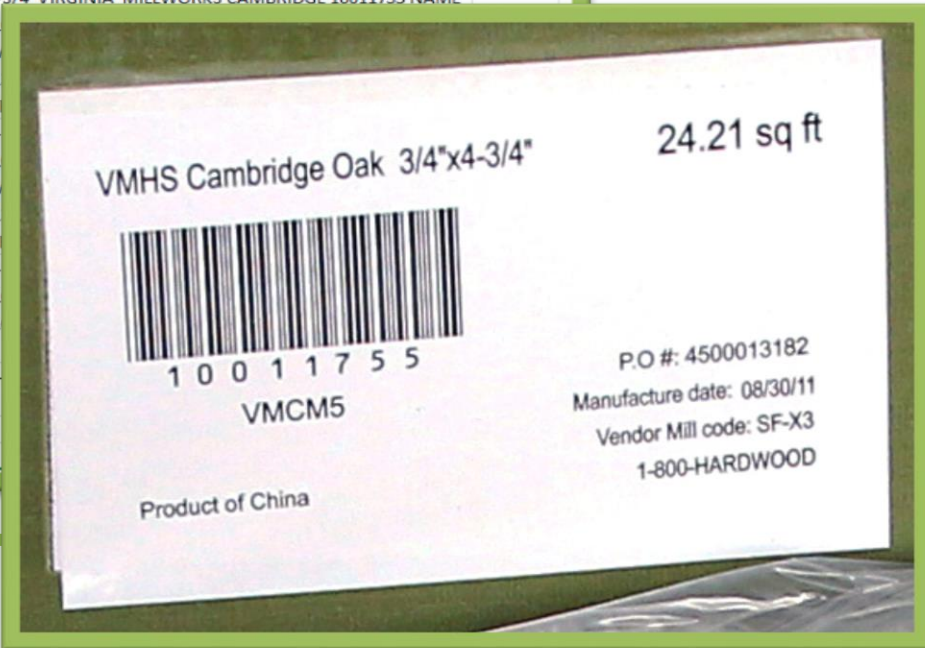
Case Study #2: Lumber Liquidators in the Russian Far East (RFE) and China

Lumber Liquidators – largest specialty retailer of flooring in US

Their largest Chinese supplier of solid oak flooring, Xingjia, directly sourced large amounts of illegal oak in RFE



of 1	Arrival Date	Commodity	Marks Cor N
		SOLID WOOD FLOORING SEQUOIA PO:23319-XIN/LUMB ER PO:4500013271 VMCM5 3/4"X4-3/4"VIRGINIA MILLWORKS CAMBRIDGE 10011755 NAME ACCOUNT : LUMBER LIQUTDATORS,SERVIC	
10	11/14/2011	CAMBRIDGE 10011755 NAME ACCOUNT : LUMBER LIQUTDATORS,SERVIC	
10	11/14/2011	CAMBRIDGE 10011755 NAME ACCOUNT : LUMBER LIQUTDATORS,SERVIC	
10	11/6/2011	SCZU3257740	
10	11/6/2011	ACCOUNT :LUMBER LIQUTDATORS,SERVIC	



- SOLID WOOD FLOORING SEQUOIA
 PO:23315-XIN/LUMB ER PO:4500013182
 VMCM5 3/4"X4-3/4" VIRGINIA
 MILLWORKS CAMBRIDGE 10011755 NAME
 ACCOUNT :LUMBER
 LIQUTDATORS,SERVIC

US import records confirm large numbers of shipments from Xingjia to Lumber Liquidators

(Right) Lumber Liquidators oak flooring at Dalian Xingjia warehouse



(Left) Oak flooring samples collected in Chinese warehouses sent for stable isotope testing

Lumber Liquidators' Case – largest ever Lacey Act penalty for wood products

- October 2015 – U.S. government signed plea agreement with Lumber Liquidators
- Company admitted violations of the Lacey Act
- \$13 million in fines and penalties
- U.S. industry taking note of new enforcement actions

Lumber Liquidators' Compliance Plan

- Risk assessment
 - Each supplier classed as low, medium or high risk.
 - **Medium and high risk suppliers require in-depth evaluations prior to purchasing and quarterly assessment visits.**
 - Lumber Liquidators must **document** this decision-making process clearly.
- Vendor Validation
 - Chief Compliance Officer (CCO) authorizes **every new** supplier, following an **extensive review process**, including risk assessment, sample purchase-order evaluation, and in-person audit.
 - **Self-reported information provided by vendors is not sufficient** - additional procedures are required to independently verify and augment such data.
- Purchase Order Review
 - Unbroken and verified chain of custody from itself back to the product's source using documentation down to the forest level.
 - **Every shipment** of a medium or high-risk product or from a medium or high risk supplier **must undergo a thorough review and sign-off by the CCO** before it can be imported into the US.
- Auditing and Monitoring
 - CCO ensures appropriate monitoring of the compliance program, including **field and desk audits** and **any necessary correction action**.
 - The compliance program will **also be audited by a third party** for at least three of the first four years of probation.

Chinese supply chains are complex

- High risk: China largest timber importer – including illegal timber
- China is a black box for illegal timber
 - complex internal market of thousands of timber importers, sawmills and veneer mills, panel makers, and furniture makers
 - the complexity of the supply chain increases the more finished the product is
- No restrictions on imports of illegal timber
- 3,800 FSC CoC certificate holders in China – doesn't mean that everything (or anything) they sell is a certified product

Key elements of Due Diligence

- **Information Collection**

- Gather information and documentation
- CoC: Collect documents that allow for tracking of a product throughout the supply chain
- Corruption: Countries with a high risk of corruption are rife with false documentation
- Internet searches, consult experts - independent third parties, local and international civil society organizations

- **Risk Identification**

- Look for “red flags” – indicators of risk such as a high level of corruption; suspiciously low timber prices; inconsistent paperwork; confirmed past violations or reports of suspicious activities by a supplier
- Risk at each level: 1) forest management; 2) trade and transport; 3) CoC risks

- **Risk Mitigation**

- If any risk exists, it must be dealt with
- Depending on degree of risk, you may choose a new supplier, work to improve supplier conduct in a time-bound framework, consider sourcing certified timber, conduct audits to ensure compliance



Russian government actions

Enforcement

Roundwood Act – electronic database for tracking concession-level information

CITES

- Mongolian oak (*Quercus mongolica*) and Manchurian ash (*Fraxinus mandshurica*) now in Appendix III of CITES
- CITES permits now needed for all logs and sawn boards for these species
- If your suppliers do not have proper logging authorizing documents, wood can be stopped at the border

Technologies

- DNA / Stable Isotopes
 - Identify species / geographical origin of timber
- Origin App
 - Empower consumers to know what they're buying

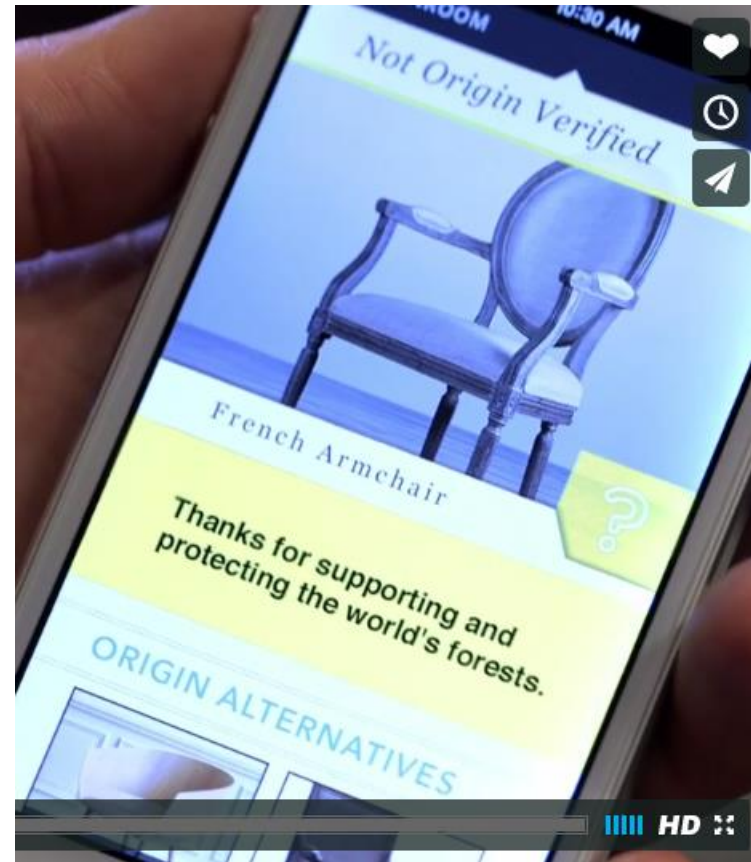


Figure 4: D/H ratios of the reference samples. For a better overview all samples are recalculated with an offset of +100 ‰



Stable Isotope ratios across the China/Russia border region

O16 / O18 ratios



Key Messages and Recommendations

- U.S. Lacey Act has been successful in decreasing high-risk timber coming into U.S. and increasing prices, benefitting U.S. domestic industry
- Large amounts of high-risk timber being exported from eastern Russia to China
- Japanese companies sourcing from China need to be highly attentive
- Need for Japanese government to prohibit imports of illegally-sourced timber into Japan