



# **The features of illegal logging and related trade in the Baltic Sea region**

*Discussion paper*

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WWF Latvia**

This study is prepared by WWF Latvia in cooperation with WWF Denmark for the Forest sector meeting in the Nordic Council of Ministers' Adjacent Areas Programme and the Baltic 21 process, which will take place in Latvia 19-23 October 2003.

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The study including recommendations and conclusions does not necessarily represent the view of the Danish Authorities.

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## Summary

During the last years an increased focus has been put on the illegal logging as a major constraint towards achieving sustainable forest management, and a factor undermining social and economic development.

This concern has mainly focused on tropical forests and several initiatives have been launched to address this problem.

However, illegal logging has also been reported from regions outside the tropics, in particular from countries with economies in transition, for instance, countries in the Baltic Region and Russia.

This discussion paper provides an overview on illegal logging in the Baltic Countries and North-Western Russia and illegal forest products export to the Nordic Countries. The document is based on direct interviews and electronic questionnaires conducted in the three Baltic Countries and NW Russia. Other important source for this document was the existing studies describing illegal logging problem in the region. A short overview of other studies is presented in chapter 5 in this report.

According to the statistics provided by the state forestry authorities, the share of illegal logging in the three Baltic Countries is 0.5 – 2.5%. This illegal logging figure, reported by the state forestry authorities includes the following groups of illegal activities:

- logging without a felling license;
- thefts of wood in forest and from roadside;
- too intensive felling/ignoring normative requirements.

Looking at the problem in the broader terms of illegal logging definition, as used for this study, including violation of tax, social and other legislation issues, the state authorities in the Baltic Countries can provide only fragmented information, estimates or results of indirect calculations. This is explained by several reasons – methods how companies declare their operations to the tax authorities, long chain of operations that is difficult to trace, lack of data and capacity etc.

The interviewed experts generally agreed with the officially provided statistics, but admitted that not all cases of illegal logging are found and documented, thus in reality the amount of illegally harvested or stolen timber could be bigger by 50 – 100 %.

Almost every expert mentioned that figures represented in the official statistics are only a small part of the problem according to broader definition of illegal logging used in this study. In Estonia experts agree that according to broader definition of illegal logging, 40 – 50% of forest products in Estonia are illegal in one way or the other. The experts in Latvia mentioned that according to their estimates, the share of illegal logging in Latvia is 15 – 25%. In Lithuania, the interviewed experts have mostly commented illegal logging in narrow terms and do not include tax issues in illegal logging definition.

Lithuanian experts in general agree with the official statistics.

While commenting the factors that support illegal logging, the Baltic experts mentioned six groups of factors/problems that drive illegal logging. These groups are:

- Difficult socio - economic situation in the rural areas;
- Gaps and problems in legislation;

- Lack of capacity of the state forest authorities;
- Inefficient work of the state tax authorities and customs;
- Fictitious forestry companies and middlemen that are acting illegally;
- Factors related to the owners of the private forests.

This paper includes the opinion of experts about the major damages and operations responsible for generation of illegal forest products and measures taken by all stakeholders to eliminate illegal logging. Experts and the state authorities in the Baltic Countries mentioned various measures taken at governmental, industry, both national and international, and NGO levels to eliminate illegal logging in Baltic countries and NW Russia, but hardly mentioned activities taken by governments in Nordic Countries, excluding Denmark.

It also provides recommendations provided by the interviewed experts on how to eliminate illegal logging.

The study does not include a deep analysis of the situation in the sector, but serves as a tool for further discussions and surveys. It focuses on the opinion of experts about the problem and analyses the factors driving illegal logging.

## **1. Introduction**

### **1.1 Background**

This study is prepared by WWF Latvia in co-operation with WWF Denmark. It is a follow-up to the Session of the Nordic Council of Ministers in Kalmar in June 2003, where the council made funding available for the study and requested Denmark to make the arrangements for its preparation. Subsequently the Danish Forest and Nature Agency licensed this task to WWF Latvia in co-operation with WWF Denmark. While the Danish Forest and Nature Agency is overall responsible for the study, its conclusions and recommendations are not necessarily reflecting positions and policies of the Danish forest authorities.

The study was prepared in August - September 2003 and is to be presented and discussed at the Forest Sector Meeting within the Nordic Council of Ministers' Adjacent Areas Programme and the Baltic 21 process, to be held in Latvia 19-23 October 2003.

### **1.2 Goals of the study**

The goal of this paper is to provide background information for policy discussions at the meeting as well as among all stakeholders in the Baltic and Nordic Countries on illegal logging in the Baltic Region, notably in terms of trade flows, the scale and character of legal violations.

The paper focuses on the following issues:

- overview of the character of illegal logging in the Baltic Countries and export of illegal timber to the Nordic market;
- overview of national, international and NGO assessments of scale of illegal logging;
- summary of measures taken against illegal logging in exporting and importing countries to eliminate illegal logging;
- recommendations for national measures to address illegal logging;
- recommendations for regional (Baltic/Nordic) and EU measures to address illegal logging.

The study does not include a deep analysis of the situation in the forestry sector, but serves as a tool for further discussions and surveys for elimination one of the major obstacles in development towards sustainable forestry – illegal logging.

Illegal logging in North West Russia is briefly described, but due to the complexity of the situation and a different political situation compared to the Baltic Countries we believe, that this issue requires a separate study.

### ***1.3 Definitions of illegal logging and methodology used in this study***

Definition of illegal logging for this study is based on the World Bank definition (as published in the WB CEO forum on forests) - it includes a broad set of illegal activities during the forest harvesting, transportation, processing and consumption cycle.

In this paper illegal logging is defined as logging:

- outside a logging area;
- in excess of quota;
- in a protected area;
- without appropriate permits;
- without complying with bidding regulations;
- without submission of required management plans;
- in prohibited areas such as steep slopes, river banks, and water catchments;
- with duplicate felling licenses/permits;
- reporting high volumes extracted from allowed felling areas to mask that part of the volume is from non-authorized areas outside the boundaries of the allowed areas;
- using bribes to obtain logging concessions;
- using deceptive transfer pricing and other illegal accounting practices to distort prices, volumes, cash flows and debt service levels;
- which involve illegal transport and trade of timber or the smuggling of timber;
- which is processed without the required licenses and not in compliance with environmental, social and labour laws.

During the interviews carried out within this study, respondents had to provide their definition of illegal logging to define the scope of the problem from their viewpoint. The provided definitions show significant difference in the understanding of what illegal logging is, depending on the sector, country, and type of activities.

This paper is based on information from existing studies and interviews with key stakeholders in the region. As the information about illegal logging is fragmented and varies from country to country, the given compilation does not provide a comprehensive overview of the situation but stresses major problems and experts view of the issue.

## 2. Character of illegal logging and export of illegal timber to the Nordic market

### 2.1 Situation background. Share of the Baltic and NW Russia forest products in the Nordic market

Illegal logging as a major constraint towards achieving sustainable forest management and a factor undermining social and economic development is on the agenda of many global forums. This concern has mainly been focused on tropical forests, and several initiatives have been launched to address this problem. However, illegal logging has also been reported from regions outside the tropics, for instance the Baltic Countries and Russia that holds a significant forest products import share in the three countries, Finland, Sweden and Denmark, The following table illustrates the situation in 2001.

**Table 1. Share of import of forest products from the Baltic Countries and Russia to the Nordic Countries in 2001 (cubic meters)**

	<b>FINLAND</b>	<b>SWEDEN</b>	<b>DENMARK</b>
Estonia	10 %	15 %	1 %
Latvia	4,5 %	37 %	2 %
Lithuania	1 %	4,5 %	1 %
Russia* <sup>1</sup>	79 %	22 %	4 %

*Sources: FAO data for Finland and Denmark, Statistics Sweden for Sweden*

The Baltic States will enter the internal EU market in 2004. This will further increase the access of the Baltic timber to the European market, as the border control will be discontinued/significantly simplified.

While Russia will not be a part of the internal EU market, much timber consumed in EU member states will enter the European market through the new member states. As shown in the table Finland and Sweden are particularly dependent on the import of forest products from this region.

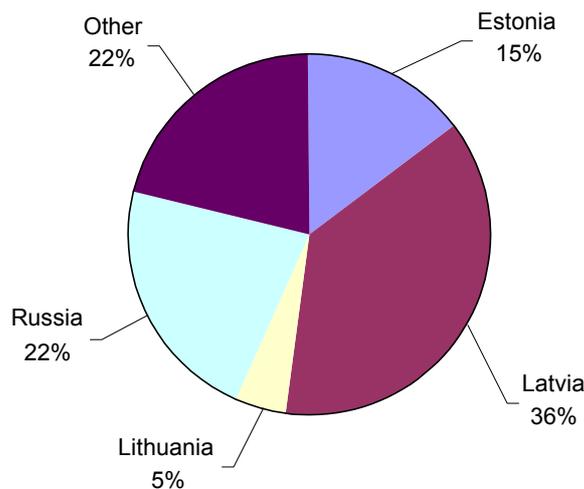
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<sup>1</sup> The figures in the table showing the share of Russia relates to all the Russian territory, but according to estimates, ~ 90% of all forest products that is imported to the Nordic countries come from the Northwestern region of Russia, which is the focus for this study.

## Sweden

Sweden has intensive forest products trade with the Baltic Countries and NW Russia, which accounts for 78% of the forest products import. Latvia could be named the main forest product importer to Sweden and, according to the latest statistics, Latvia's share has increased to 40 % in 2002-2003.

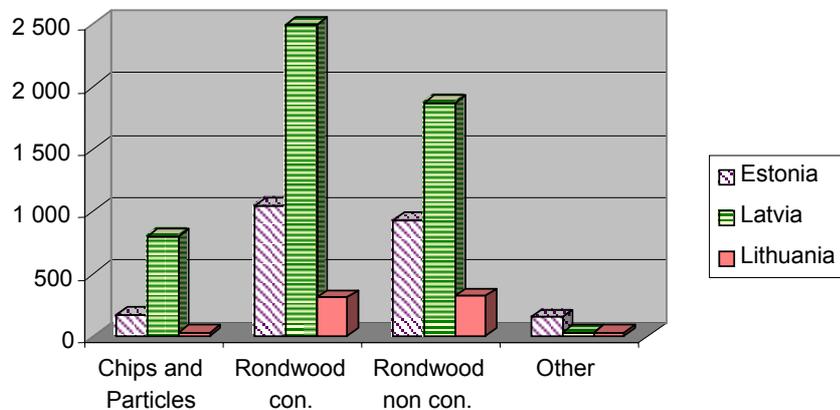
**Figure 1. Swedish import of forest products by exporting country**



*Source: FAO, 2001*

Many large Swedish and local forest companies are operation throughout the full cycle of forestry operations in the Baltic Region, delivering various forest products for export to Sweden. The main product group imported to Sweden is coniferous and non coniferous roundwood, mainly pulp wood that reached 5 million m<sup>3</sup> in 2001 (see figure 2). Chips and particles also contribute a significant share of the import to Sweden with a volume of 1 million m<sup>3</sup>. The latest statistics show that the amount and share of this product group is increasing.

**Figure 2. Swedish import of forest products by category (thousands m<sup>3</sup>)**

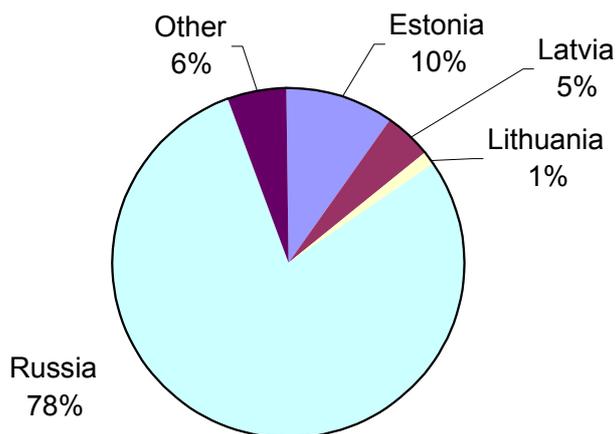


*Source: Statistics Sweden, 2001*

### Finland

The largest exporter of forest products to Finland is Russia with almost 80% share of the overall forest products import. Import of Russian timber in 2001 was more than 13 million m<sup>3</sup>, and the biggest part of it was round wood import. Although there are no separate statistics available about import from the NW Russia region, experts suggest that it constitutes 90% of the total volume imported to the Nordic Countries from Russia.

**Figure 3. Finnish import of forest products by exporting country**

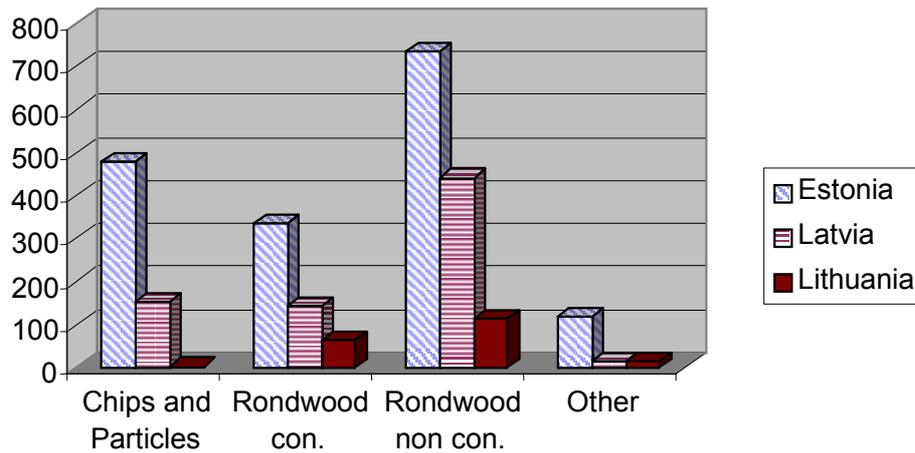


*Source: FAO, 2001*

The major exporter to Finland from the Baltic Countries is Estonia (10%) followed by Latvia (5%). Looking at the specific forest product groups, import structure is similar to

the situation in Sweden, with the biggest share of coniferous and non coniferous roundwood (1.8 million m<sup>3</sup>) followed by chips and particles.

**Figure 4. Finnish import of forest products by category (thousands m<sup>3</sup>)**

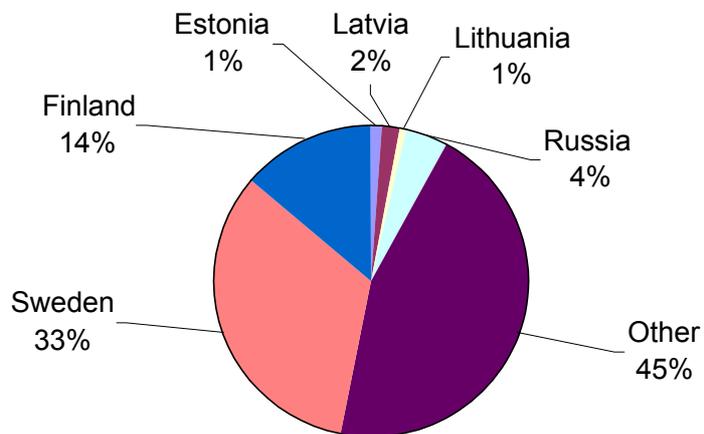


*Source: FAO, 2001*

### **Denmark**

Comparing to the other two Nordic Countries included in this study, Sweden and Finland, Denmark is less dependent on the forest products import from the Baltic Countries and NW Russia. The total import from is region constitute only 8%, but a significant share of forest products (more than 40%) while many products with a higher added value is imported from Finland and Sweden. It could be presumed, that timber from the Baltic Region and NW Russia is processed in Finland and Sweden and consumed in Denmark.

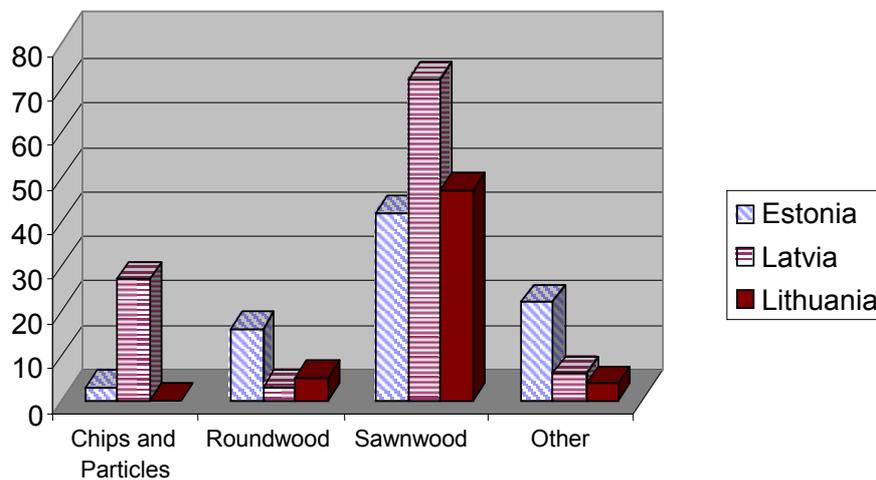
**Figure 5. Danish import of forest products by exporting country**



*Source: FAO, 2001*

The main product group imported from the Baltic Countries is sawn wood, but comparing this import to the other Nordic Countries, the amount of these products is relatively small.

**Figure 6. Danish import of forest products by category (thousands m<sup>3</sup>)**



*Source: FAO, 2001*

## **2.2 Illegal logging in the Baltic Countries**

### **Statistics**

According to statistics provided by the state forestry authorities, the share of illegal logging in the three Baltic Countries is 0.5 – 2.5%. The illegal logging statistics, reported by the state forestry authorities includes the following groups of illegal activities:

- logging without a felling license;
- thefts of wood in forest and from roadside;
- to intensive felling/ignoring normative requirements.

The official statistics gathered by the state authorities in the Baltic Countries from 2002 show the following volume of illegally harvested or stolen timber:

Estonia -	127 000 m <sup>3</sup>
Latvia -	139 000 m <sup>3</sup>
Lithuania -	46 100 m <sup>3</sup>

State authorities in the Baltic Countries can provide only fragmented information, estimations or results of indirect calculations about tax violations in the forestry sector. This is explained by several reasons – methods how companies declare their operations to tax authorities, long chain of operations that is difficult to trace, lack of data and capacity etc.

### **Expert estimation**

The interviewed experts generally agreed with the officially provided statistics, but admitted that not all cases of illegal logging are found and documented, thus in reality the amount of illegally harvested or stolen timber could be bigger by 50 – 100 %.

Almost every expert mentioned that figures represented in the official statistics are only a small part of the problem according to broader definition of illegal logging used in this study. In Estonia experts agree that according to broader definition of illegal logging, 40 – 50% of forest products in Estonia are illegal in one way or the other. The experts in Latvia mentioned that according to their estimates, the share of illegal logging in Latvia is 15 – 25%. In Lithuania, the interviewed experts have mostly commented illegal logging in narrow terms and do not include tax issues in illegal logging definition. Lithuanian experts in general agree with the official statistics.

### **Factors driving illegal logging**

Factors that support illegal logging most often mentioned in the answers of the experts could be divided into 6 groups:

#### **1. Difficult socio - economic situation in the rural areas**

Many experts mentioned this factor – low income level, unemployment, crisis in agricultural sector as one of most important factors – environment for illegal logging activities.

## 2. Legislation problems

This factor is mentioned in almost every questionnaire. Gaps are identified in both - general and special forestry regulations. One of the most serious problems mentioned by the experts is lack of supplementary regulations e.g. round wood measurement standards, forest inventory regulations, etc. Contradictions between legal acts and regulations are common in every country. The state authorities often mentioned issues about penalty system that is too “soft” and difficult to implement. Complexity of legislation, especially tax regulations, is a common issue in every country. Private sector – forest owners and industry representatives stress that it is a problem that frequent changes in legislation makes it difficult be up to date and to follow.

## 3. State forest authority’s performance

Major issues mentioned by the experts are lack of resources and personnel to control illegal logging activities, especially in Estonia and NW Russia, insufficient support for the owners of small forest and corruption of some forest authorities.

## 4. Inefficient work of state tax authorities and customs

Along with the problems mentioned in tax legislation – too complex, unequal for all tax payers, too high taxes, the experts in almost all countries mentioned inefficiency of tax authorities.

## 5. Forestry companies and middlemen that are acting illegally

This factor mainly refers to small, often fictitious forest companies and private persons operating with illegal money (cash). These actors are deforming the market conditions and violating tax regulations.

## 6. Private forest owners

In the Baltic Countries there are almost 400 000 private forest owners with limited knowledge and experience in forestry. One of the major issues mentioned by several experts is the selling of forest stands or forest land by private forest owners without declaring the income and paying taxes. Private forest owners associations unite only 1-3 % of all owners, and that creates difficulties for the state authorities in providing necessary support and guidance.

## **Major negative impacts/damages of illegal logging on environmental, economic and social spheres**

Negative impacts created by illegal logging according to the experts’ opinion could be divided into 4 groups:

1. State financial loss and derived consequences in the economic and social sectors due to uncollected taxes from the forest sector. This issue is stressed by almost every expert interviewed and many experts rank this problem as the most serious problem created by illegal logging.
2. Damage (theft) of forest property also is a common issue mentioned by many experts.

3. Bad image (reputation) of the forestry sector in all levels – local, national and international. This creates a social stress in the local communities and a perception of the forestry sector companies as “bad guys” violating state regulations. As a result of this image the local communities also do not trust the state forest authorities and that influences the market conditions internationally.
4. Market distortion by illegal companies that offer higher prices than economically reasonable for forest resources and sell forestry products at very low price due to not paying taxes.

## **Estonia**

### **Statistics**

#### General

The forest is a very valuable national resource in Estonia. More than half of Estonia's total land area is with forest (without Peipsi Lake); and this means that almost 2.2 million ha (51.5%) are covered with forest.

The dominant tree species in the Estonian forests are pine, birch, spruce and grey alder. The occurrence of tree species varies from one ownership category to another. Pine dominates in the state forests, and birch dominates tree species in the private forests. It is estimated that after finalizing of the land reform, the share of the privately owned forests will be more than 50%.

Estonia has almost 411 million m<sup>3</sup> of total growing stock in its forestland. In the state forests the average gross annual increment is lower than in the private forests. The average gross annual increment is 5.3 m<sup>3</sup> per hectare for all Estonian stands, and annual increment is almost 11.8 million m<sup>3</sup>. In the period from May 2000 to April 2001, the total cutting volume according to the Estonian statistics was 6.4 million m<sup>3</sup>, although the Estonian Forest Survey Centre estimates this figure to ~ 11 million m<sup>3</sup>.

#### Economy and industry

After the restructuring process was started in the early 1990s supported by foreign investments, the wood processing industry has grown at the highest rate in the manufacturing sector of Estonia. Today, primary wood processing, furniture manufacturing and pulp and paper production are the three major sub-sectors. Industry is highly export-oriented, accounting for 17% of the total exports, the major importing countries traditionally being Finland and Sweden, followed by Germany and the UK. (EBRD Investment Profile, 2001)

According to the Estonian Statistical Office, processing of wood and manufacturing of wood products accounted for 12.2% of the total industrial production in 2001, and the share of the forestry in GDP of Estonia was 2%.

#### Illegal logging statistics

According to the official statistics 127 000 m<sup>3</sup> timber was illegally logged in 2002 in Estonia which constitutes ~ 1% of the total annual cut. It is presumed that ~ half of all cases are registered by the environmental inspectors, so the total amount of illegal logging is ~ 2%.

**Table 2. State statistics on illegal logging in Estonia**

Year	Incidents of violation of forestry standards	Incidents of illegal felling	Illegally felled timber, solid meters	Losses, caused by violation of forestry standards,	
				EKK	EUR
1994	797	704	22 802	7 323 469	468 054
1995	1 208	1 001	38, 150	13 035 300	833 105
1996	671	491	18 691	13 094 800	836 908
1997	621	535	26 026	19 444 600	1 242 733
1998	604	549	35 155	23 725 700	1 516 345
1999	1 773			75 810 495	4 845 161
2000	2 267	1 681	172 331	116 707 604	7 458 956
2001	1 981	1 006	141 168	92 250 692	5 895 879

*Source: Ministry of Environment*

### **Expert estimation**

The interviewed Estonian experts, when commenting the official statistics (illegal operations during the forest harvesting stage) admits that the real figures could be 2-3 times bigger, because not all cases of illegal logging are found and documented due to lack of resources in the Environmental Inspectorates.

Several experts mentioned that illegal harvesting is not a major problem in the broader meaning of illegal logging, as more serious violations are tax regulation violations. When evaluating the amount of illegal logging including all tax issues, the experts mentioned that up to 50% of all the Estonian timber could be illegal. Estonian Green Movement has conducted several studies on this issue, and they show the following estimate the share of the most significant illegal logging activities:

- Forest theft - 5% of the felling volume;
- Inadequate or fictitious documentation - 20% of the felling volume;
- Violation of felling and nature conservation regulations - 20% of the felling volume;
- Deceptions of employer's taxes and income tax - 50% of the felling volume;
- VAT frauds: using intermediates, off-shores and concealed personalities; assortment tampering - 10% of the felling volume;
- Overrunning the permitted of the annual logging limit approved by the forestry policy - 40% of the felling volume.

### **Factors driving illegal logging**

The experts mentioned several groups of factors that support illegal logging activities in Estonia.

Firstly, many experts stressed that the overall political, social and public understanding environment supports the existence of illegal logging in Estonia. According to some experts, the reform in the Estonian forestry was made too early, and the principles it is based on were not sufficiently clearly elaborated. The experts mentioned that there is no political will from the politicians to improve the situation, as the sector lobby is very strong and has significant resources. As a result of the above mentioned problems the forestry sector in Estonia is considered to be non-transparent. There is also an opinion that as the situation in the rural areas is very difficult; the state should allow a more liberal approach to the forestry to help the rural inhabitants survive.

One of the most important groups of the factors is the taxation system. Most of the experts interviewed mentioned that taxes are too high, and that does not motivate private forest owners to be legal. The tax system in the forestry operations is not the same to all involved actors. The system is good if you are a registered farmer or a forestry company, but if you are a private person, you can't declare forestry costs as expenses to be excluded from taxes. The experts also indicate that the tax procedures are very complex and it is complicated, especially for private forest owners to be legal. Additionally, the attitude of the general public about taxes and illegal logging is to approve them, as it is accepted not to pay taxes.

Another important group of factors relates to the forestry legislation and enforcement of laws. Estonian forestry legislation is criticized as too soft and liberal, and that it supports "easy forestry". The experts also mentioned that there is a lack of resources in the state institutions responsible to control forest operations and support private forest owners. Another problem identified is that other state legislation e.g. administrative and criminal legislation does not support efficient elimination of illegal logging, because the legislation is too soft and difficult to implement. That results in the presence of many illegal companies and private persons in the forest sector that does not fear punishment for illegal operations.

A factor that relates to the enforcement of laws is the lack of accurate data about Estonian forest resources. Forest inventory in Estonia, according to the experts' opinion is compiled insufficiently, and there is no public access to the forest database to trace illegal logging activities.

Private forest owners do not have enough experience in forest management, thus many violations of forest legislation in privately owned forests occur due to lack of knowledge.

### **Operations in timber production-supply-consumption cycle that generate major amounts of illegal forest products**

The interviewed experts mentioned some operations and actors that are some major generators of illegal forest products, although it was admitted that almost at every stage of the forest harvesting, transportation and processing cycle there could happen activities that are illegal.

Illegal companies and private persons, which are called “tankists” (tankers), are one of the driving forces in illegal logging environment. These players are active in purchasing of forest land and harvesting operations. As these companies often are fictitious, they are not afraid to violate the forestry and tax regulations.

Another common problem is violation of harvesting regulations. Usually it is done with the owner’s permission, but as illegal logging cases are discovered and documented with delay, then it is problematic to find the person who is guilty for violation of regulations. Many private forest owners when selling a forest stand or timber violate tax regulations and are in charge of a significant amount of illegal forest products.

### **Major negative impacts/damages of illegal logging on environmental, economic and social spheres**

The experts mentioned that according to the Estonian environmental legislation, there are no serious environmental damages caused by illegal logging, although some experts are worried about the decrease of old growth coniferous forests, changes in the structure of tree species in Estonia, due to insufficient reforestation activities by the private forest owners.

Some of the interviewed experts stressed that major damages are financial due to the unpaid taxes and market distortion for legal timber. Media interests and some court cases have created a negative publicity for the forest sector in Estonia. The local communities and general public see forestry sector as “bad guys”, and that creates social stress locally. The problems are observed also internationally, and among some international partners there is a perception that the Estonian forestry sector is mostly working illegally.

## **Latvia**

### **Statistics**

#### General

Forests cover almost 2.9 million hectares or 45% of Latvia. The dominant tree species in Latvia is conifers: pine 38% and spruce 19.4%. Birch is the deciduous trees most widespread with 29.3%. The forest cover of Latvia increased during the last century because of abandonment of agricultural fields that have been reverted to forest. According to some experts estimation forest coverage in Latvia could reach 50%.

The forest sector is the second largest industrial sector in Latvia after the food processing industry. The forestry sector currently employs about 4.4% (~50 000) of the Latvian workforce. Total output of Latvia forest industry is 600 million LVL (940 million EUR). Approximately 2 900 enterprises in Latvia are working in the forest sector; 90–95% of these enterprises are small to medium size companies (Latvian Chamber of Commerce and Industry, Woodworking in Latvia 2002). It is estimated that 85–90% of the total annual industrial output of the forest sector are exported. Annual exports of wood products constitute 35–40% of the total Latvian export by value.

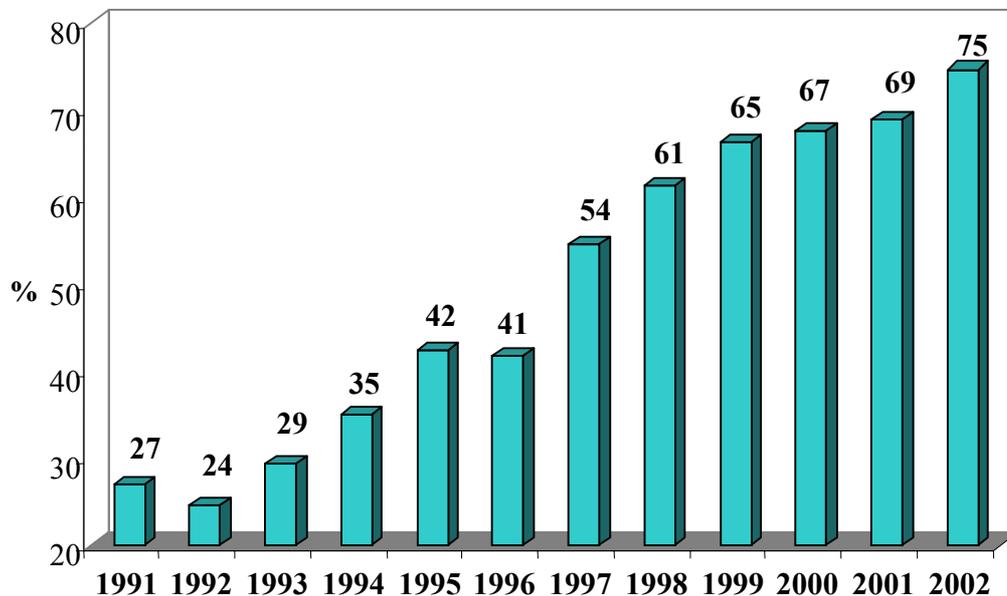
At present approximately 50% of Latvian forests belong to the state and 42 per cent of the forests are owned privately. Currently, in Latvia there are approximately 154 000

private forest holdings with an average size of 8 hectares. Restitution of private ownership is now almost completed.

The total growing stock of Latvia was estimated at 502 million m<sup>3</sup> in 2000 with an annual increment of around 16 million m<sup>3</sup>. The official annual allowable final felling for 2001–2005 in state owned forests is around 16.6 million m<sup>3</sup>.

In 2002 approximately 12.2 million m<sup>3</sup> of timber were harvested in Latvia including thinning and sanitation logging (total felled area in 2002 where 162 789 hectares), from 3.9 million m<sup>3</sup> in the state owned forests and 8.3 million m<sup>3</sup> in forests not owned by the state (Source; State forest service). That is 75% of estimated annual increment (see figure 7).

**Figure 7. Logging percentage of annual increment**



*Source: State Forest Service*

#### Illegal logging statistics

According to official statistics provided by the State Forest Service 2 475 cases of illegal logging were registered in 2002 in Latvia, 389 cases in state forests and the rest in other (mostly private) forests, with 139 000 m<sup>3</sup> of total volume of illegally harvested timber, which is 2% of total cutting volume. In these cases 670 hectares of forest were destroyed and 600 hectares forest damages was documented. In 1 500 cases there was no loss calculated, but in the remaining 1 000 cases the calculated loss was 3 099 million Lats (~5 million EUR). Comparing 2001 and 2002 losses from illegal logging have decreased by 50%.

Table 3 shows dynamic illegal harvesting and calculated losses in Latvia during the last 5 years.

**Table 3. Cases of violation of forest regulations and losses calculated**

<i>Year</i>	<b>Number of offences</b>	<i>Calculated losses (thousand EUR)</i>
<b>1998</b>	4 428	5 259
<b>1999</b>	3 298	5 743
<b>2000</b>	4 133	7 906
<b>2001</b>	3 145	9 547
<b>2002</b>	2 475	5 000

*Source: State Forestry Service*

As shown in table 4 illegal harvesting is a more serious problem in forests with other ownership than state forests which mainly are private forests.

**Table 4. Amount of illegal harvesting in m<sup>3</sup> and losses in state and other forests**

	1998	1999	2000	2001	2002
Illegal logging in state forests (m <sup>3</sup> )	17 700	27 800	23 083	15 779	10 844
Losses due to illegal logging in state forests (thousand EUR)	983	1 072	1 209	656	292
Illegal logging in other forests (m <sup>3</sup> )	81 200	89 600	168 574	213 249	129 027
Losses due to illegal logging in other forests (thousand EUR)	2 555	3 080	6 651	8 726	4 550

*Source: State Forestry Service*

### **Expert estimation**

Comparing to official statistics that shows a 2% share of illegal harvesting in 2002, interviewed Latvian experts mentioned figures of 5 – 6%. This could be explained by differences in declared and real volume of timber extracted from felling areas. Often companies declare less timber outcome than in reality and experts also mentioned that this problem is almost impossible to control. The interviewed persons agreed that illegal harvesting is a problem mainly for private forest owners as the volume of illegally harvested timber in state forests is insignificant.

Commenting illegal logging in wider terms including tax issues, violation of other regulations etc. almost all experts mentioned that the share of illegal logging is 15 – 20% and that its proved by several indirect calculations.

## **Factors driving illegal logging**

As in other Baltic Countries, the interviewed experts in Latvia often mentioned difficult socio - economic situation in the rural areas as part of “environment” for illegal logging. Among other factors the following problems were mentioned:

### Legislation factors

Many experts are critical about the existing legislation at both specific forestry and general level, especially, tax regulations. There are four groups of legislation factors supporting illegal logging that can be singled out:

- Too complex tax regulations. This issue mainly applies to small private forest owners. For a forest owner it is much easier to find an illegal company to sell his forest or timber for cash than complete all procedures required by tax legislation and receive less money at the end compared to illegal way.
- Legal instruments are too “soft” to effectively fight against illegal logging. This factor results in a situation where illegal actors do not fear the consequences, because penalties for illegal logging actions are minor.
- Gaps in legislation. The interviewed experts mentioned many gaps in existing legislation that is used for illegal logging actions. One urgent issue is regulations about unified standard for roundwood measurements and transportation. Other missing regulation concern forest materials accounting in sawmills and for private persons. Some experts mentioned that the existing way of how logging permits are issued and processed is insufficient.
- Frequent changes in legislation. This factor is mentioned by private forest owners that stress the difficulty in following all changes if a person is not involved in forestry operations on a daily basis. Sometimes forest owners violate regulations without knowing it because of recent changes in the legislation. Small forest owners are afraid of new changes that could decrease the value of their forest property and make forestry operations (logging) as soon as possible.

### State authorities do not use all instruments available to eliminate illegal logging.

Many experts both from the state and the private sector mentioned this factor addressing it mainly to State Revenue Service and State Forest Service.

State Revenue Service (SRS). As a major part of illegal logging relates to tax issues almost all experts mentioned performance of SRS as important factors. Major issues stressed by the interviewed experts were: SRS does not control private persons’ forestry related activities and does not work actively enough to eliminate VAT tax fraud schemes and fight against fictitious companies, SRS does not use its analytic capacity to develop proposals for improvements of legislation.

State Forest Service (SFS). Some experts stressed that SFS do not control forestry operations as much as necessary and that not all SFS personnel have capacity to provide support for forest owners due to lack of knowledge but also due to professional arrogance, thus forest owners do not trust forest authorities. One issue mentioned, is that SFS authorities live in local communities thus they do not control their neighbors forestry operations effectively.

Other authorities e.g. custom, Latvian State Labor Inspectorate, courts, police. One problem is that these organizations lack capacity resources and specific knowledge to be

effective in the forest sector. Several experts mentioned that there is too weak collaboration among state institutions involved in the forest sector to eliminate illegal logging.

#### Illegal companies and illegal money

Existence of illegal (fictitious) companies and influx of illegal money are mentioned as a significant factor that drives illegal logging. Illegal or semi-legal companies and private persons are involved throughout all forest operations – buying of forest stands, harvesting, transportation, processing and export. These actors can provide better prices and payment terms, because they gain benefits from not paying taxes and operations with illegal money. These companies create a hypertrophied demand of timber that also supports illegal logging. Part of these companies is involved in tax fraud schemes and deals with illegal money laundering through forestry operations.

#### Private forest owners

During the interviews many experts mentioned private forest owners as a starting point for illegal logging chains. According to experts opinion, private forest owners often tries to avoid taxes, when selling forest, however, according to the Latvian Tax Office, the tax on timber income paid by physical persons (~non industrial private forest owners) was LVL 7.2 million (EUR 12.4 million) in 2001, which is a substantial amount, and suggests that a large portion of forest owners do pay income tax. (WB/WWF, 2003)

Another factor that influence the scale of illegal logging operation is the lack of capacity and knowledge of forest owners. According to SFS much violation of forest regulations are performed by forest owners. Owners often perform forest harvesting without cutting permit and they are not educated to perform forestry operations according to regulations. During last years this kind of violation has decreased and it could be explained by better support from SRS and more experience gained by private forest owners.

### **Operations in timber production-supply-consumption cycle that generate major amount of illegal forest products**

Some of the interviewed experts stressed that all activities are interrelated in the forestry process chain and that it is difficult to highlight one activity or actor responsible for illegal logging, while other experts name many activities and actors (see figure 8) responsible for illegalities e.g.:

#### Inaccurate inventories

Often forest inventories are inaccurate and the planned volume of harvested timber in the logging permit could differ significantly from the real timber volume. The same problem arises, when forest owner sells growing forest. During these actions forest owners often deals with illegal timber trade companies and middlemen that operate with illegal money (cash) and often avoid tax payments.

#### Forest harvesting

Forest harvesting can be done by forest owner or harvesting companies. Many of these companies, especially small size companies employs forest workers illegally without

paying social and other taxes and do not ensure adequate working environment and equipment.

When forest harvesting is done forest owners in their declarations about forest activities often declare less volume than in reality and sells part of the timber illegally. According to experts opinion it is almost impossible to control the real volume of timber extracted.

#### Round wood and forest products purchase and transportation

To improve the situation in transportation, the state has prepared and introduced special regulations for roundwood and forest products transportation and special waybills are issued for these needs. Nevertheless there are many companies that act illegally as middlemen offering better prices for these products. During this stage many tax fraud schemes is used and many of these companies use illegal money. Most “popular” schemes are:

- VAT tax fraud, involving “virtual” timber and fictitious companies,
- Buying illegal timber and legalizing it by increasing the declared volume of legal logged timber,
- Using bank credits, declare company operations with losses and legalize illegal money,
- Using “virtual timber yards” to manipulate (increase) the timber volume before processing in sawmills and ports thus legalize some illegal timber. This is done by changing timber waybills and changing of timber volume in waybills. This illegal action is almost impossible to eliminate within existing legal environment.

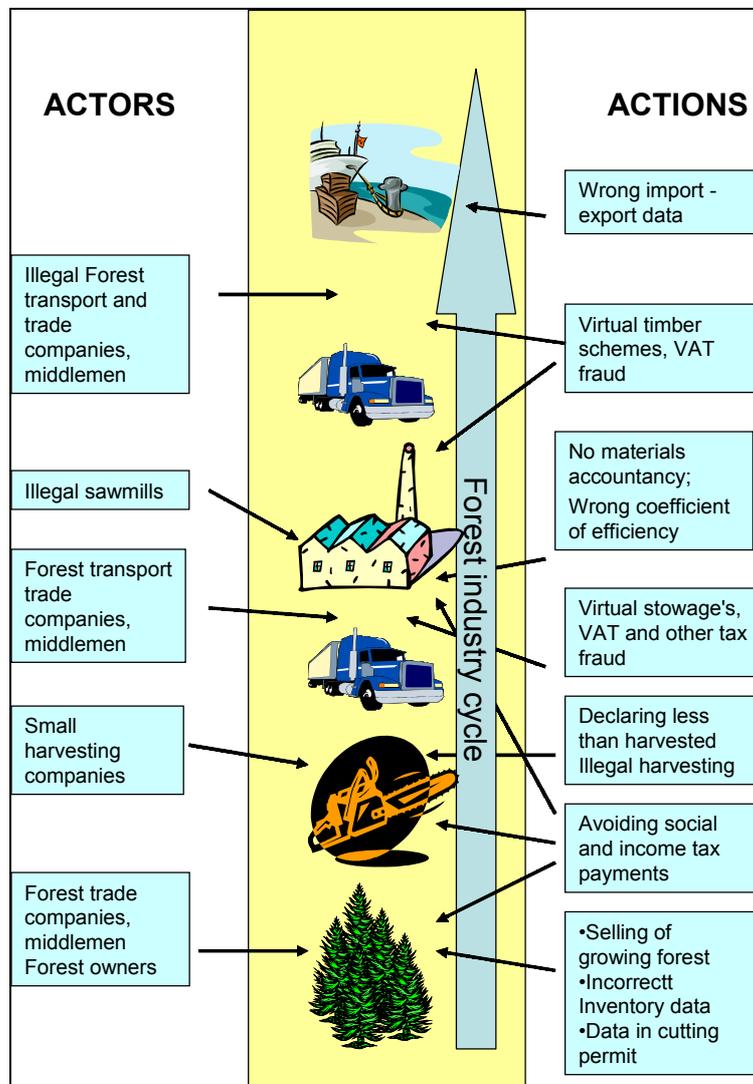
#### Woodworking

There are more than 1 500 sawmills involved in forest processing in Latvia. Experts stress that many small sawmill companies are operating illegally. To compete with large well organized sawmills these companies process cheaper illegal timber and avoid payments of social and other taxes. By declaring incorrect coefficient of efficiency and performing inaccurate materials accounting these companies legalize illegally acquired timber or mask illegally processed forest products.

#### Forest export

A major part of the forest products are exported by sea. As some experts mentioned a difference of 15% between Latvian timber export and import data from other countries can occur. This gap can partly be explained by errors in measurement of harvested volumes and industrial consumption of wood. Declared import may be less than actual imports owing to deficiencies in the custom procedures, and the latter may be exaggerated, because the state pays back the VAT paid on timber that is exported, and inflated figures would provide an unlawful gain.

**Figure 8. Operations in timber production-supply-consumption cycle that generate major amount of illegal forest products in Latvia**



**Major negative impacts/damages of illegal logging on environmental, economical and social spheres**

All experts interviewed mentioned economical damages to the state budget and to forest that are caused by illegal logging activities. Calculated loses caused by illegal harvesting according to the State Forest Service reached 5 million EUR in 2002. According to different estimates social taxes not paid by the forest sector creates another loss, which varies from 6 to 23 million EUR. As a significant issue experts mentioned also income

tax not paid and value added tax fraud. Unfortunately it has not been possible to provide figures estimating the loss related to these two categories of fraud.

The presence of illegal logging and illegal companies in Latvia negatively influences forest industry market conditions. Illegal companies have cost advantage and can offer higher prices for forest resources and sell forest products at lower prices than legal companies. According to estimates this advantage is ~ 15 – 20%. This allows illegal companies to develop projects (e.g. sawmills) that are not economically sound. Expert estimates show that sawmills capacity exceed forest resources available 2-3 times in Latvia.

Damages in social sector are mainly related to no social tax payments and employees in illegal companies do not benefit from social guarantees. Some forest companies do not ensure a safe work environment for workers and adequate equipment leading to high risk of injuries during operations.

Illegal logging has negative impact on the prestige of the forest sector. Society perceives the forest sector as “bad guys” and does not trust forest authorities. Illegal logging also affects the international reputation of the Latvian forest sector in a negative way and decrease competitiveness of Latvian forestry products.

Although there are documented more than 1 000 ha of forest area destroyed or damaged in 2002, the majority of experts do not see environmental damages to forest as a very serious issue compared to economic and social issues.

## Lithuania

### Statistics

#### Forest resources

The description of Lithuanian forest resources is based on the forest inventory data bank and presents data as of 1 January 2002. According to these data, the total forest land area expanded from 55 900 ha to 2 034 300 ha during 1998-2001. Forest coverage in Lithuania increased from 30.3% to 31.2%. Average growing stock reached 195 m<sup>3</sup>/ha in 2002 while in 1998 it was 184 m<sup>3</sup>/ha.

**Table 5. General characteristics of Lithuanian Forests**

	<b>1998</b>	<b>2001</b>	<b>2002</b>
Total forestry area (1 000 ha)	2 150	2 180	2 183
Total growing stock volume (million m <sup>3</sup> over bark)	347.6	371.7	378.1
Mean volume per ha (m <sup>3</sup> )	184	193	195
Gross annual increment (million m <sup>3</sup> o.b.)	11.6	11.7	11.9
Annual current increment per ha (m <sup>3</sup> )	6.2	6.1	6.1
Annual increment accumulating in the stand per ha, (m <sup>3</sup> )	3.5	3.3	3.4
Forest coverage (%)	30.3	30.9	31.2
Forest area per capita (ha)	0.53	0.57	0.57
Growing stock per capita (m <sup>3</sup> )	93	106	109

Source: Forest Inventory and Management Institute; Land Fund of the Republic of Lithuania

Conifers stands covering 1 161 000 ha prevail in Lithuania (59.9%), followed by soft broadleaves (684 000 ha; 35.3%) and hard broadleaves stands (93 000 ha; 4.8%). The annual current increment in Lithuanian forests increased slightly from 11.7 to 11.9 million m<sup>3</sup> during the last year. The annual current increment per ha remained unchanged (6.1 m<sup>3</sup>).

In 2001, forest inventory fieldwork was carried out in 257 700 ha forest of which 40 900 ha was in private forests.

#### Forest economics

Forestry and the forest industry play an important role in the economy of Lithuania. During recent years value added in forest sector has been increasing steadily, annually contributing about 3.5% of gross value added in Lithuania.

**Table 6. Share of forest sector in GDP 1995-2001**

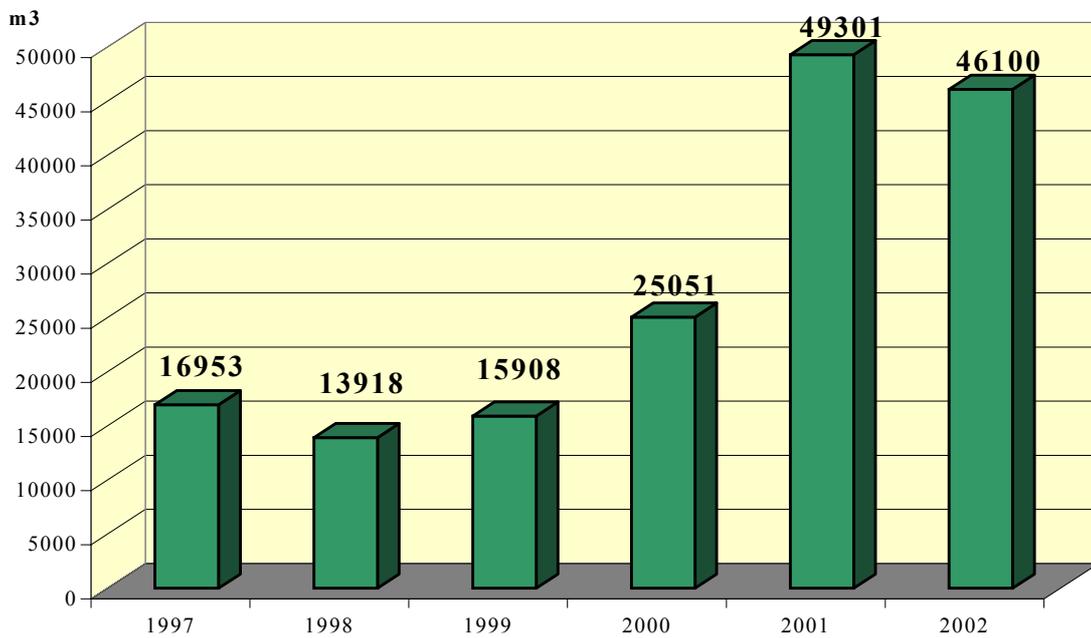
Year	Share of forest activities in country (GDP)	All activities Mill EUR	Value added, gross at basic prices							
			Forestry		Woodworking industry		Pulp and paper industry		Furniture industry	
			Mill EUR	%	Mill EUR	%	Mill EUR	%	Mill EUR	%
1995	2,6	6395	46	0,7	57	0,9	33	0,5	32	0,5
1996	2,7	8414	69	0,8	64	0,8	37	0,4	61	0,7
1997	2,9	9927,537	78	0,8	89	0,9	37	0,4	76	0,8
1998	2,7	11015,67	76	0,7	98	0,9	48	0,4	79	0,7
1999	2,6	11021,11	71	0,6	113	1	27	0,2	89	0,8
2000	3,4	11813,05	78	0,7	156	1,3	48	0,4	120	1
2001	3,6	12554,54	76	0,6	184	1,5	51	0,4	141	1,1

Source: Statistics Lithuania

#### Illegal logging statistics

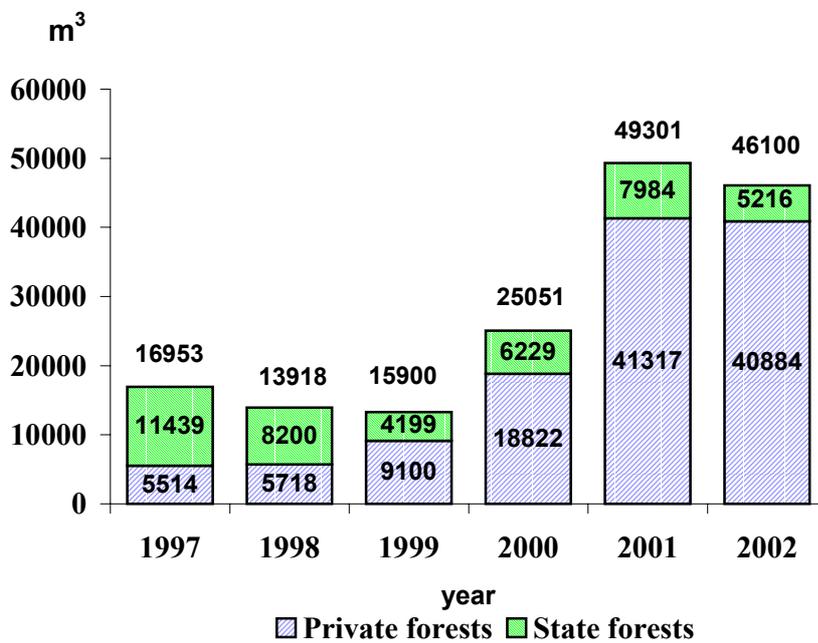
Forest Control Division of State Environmental Protection Inspection is responsible for forest management control in state and private forests and records data about illegal logging in Lithuanian forests. Illegal logging that is calculated as a share of illegally harvested timber from total annual cut in 2002 amounts to 0.7%. The data on illegal logging during the period 1997-2002 are presented in figure 9.

**Figure 9. The dynamic of illegally logged timber (m<sup>3</sup>) during the year 1997-2002**



Source: Ministry of Environment of Lithuania, Department of Forests

**Figure 10. Illegal logged timber in state and private forests, (m<sup>3</sup>)**



Source: Ministry of Environment, Department of Forests

### **Expert estimation of illegal logging amount**

When estimating the extent of illegal logging in Lithuania, experts mainly focused on illegal operations in forest – logging without a logging license, violation of forestry and nature protection regulations. Experts have not included violations of tax legislation in their illegal logging definition, thus no estimations concerning these illegal activities are provided.

As shown in figure 10, most illegal operations took place in private owned forests, where increase of illegally logged timber is documented. The experts have commented official statistics, and the estimated share of illegal logging varies from 0,7 to 2%.

### **Factors driving illegal logging**

As in the other two countries one of the major factors driving illegal logging is the difficult socio-economic situation in the rural areas in Lithuania. Forest owners and other rural inhabitants are forced to violate existing forestry legislation and perform illegal logging for survival.

Compared to the other Baltic Countries, in Lithuania forest owner associations are better organized, but they receive very limited support from the state authorities; and even worse, there are indications that the state authorities hinder emerging of a seriously organized private forest sector. There are still discussions initiated by some politicians about nationalization of forests and until now only 60% of forest private ownership are restituted.

Environmental NGOs and the state authorities have initiated various environmental protection activities, but only few of them support private forest owners with knowledge about nature protection issues.

There is a big demand for high quality timber, and it is possible to sell illegal timber. Lithuania has very strict forestry regulations that are difficult to fulfill, especially for small forest owners. On the other hand, the state forest and other responsible authorities do not have capacity to control enforcement of legislation and eliminate illegal logging.

### **Operations in timber production-supply-consumption cycle that generate major amount of illegal forest products**

The interviewed Lithuanian experts mentioned several activities that are causing the emerging of illegal forest products:

- There are companies that are ready to buy illegal round wood avoiding income and value added tax payments,
- Illegal forest harvesting is often performed by organized criminal groups and is difficult to control,
- Small sawmills that are ready to purchase illegal timber.

## **Major negative impacts/damages of illegal logging on environmental, economic and social spheres**

While commenting major damages the experts stressed that the damages in all three spheres are significant. Some experts also mentioned more specific economic issues such as taxes that are not collected and direct damage to private and state forest ownership.

## **3. Measures taken against illegal logging**

### **3.1 *Baltic Countries***

#### **Estonia**

##### **Governmental measures**

As one of the major initiatives implemented by the state institutions, the experts mentioned preparation of a new forest law that also should improve the fight against illegal logging. The proposals for the new law were prepared by all stakeholders, and it is believed that the implementation of the law will improve the situation. There was also a round table for all stakeholders established in 1998, but some experts commented that work of this institution is inefficient, as it mainly focus on the issues of illegal harvest. Forestry Department of Ministry of Environment has declared illegal logging as one of the priorities in forest policy for 2003-2004. The Department also has conducted analysis on tax issues. This analysis showed that it is possible to decrease the amount of taxes for private forest owners. Based on these results, proposals for changes in the legislation were prepare and submitted.

The state is strengthening the illegal logging control institution, Environmental Inspectorates by providing them with new equipment. Inspectors have established cooperation with local municipalities and police for joint actions to eliminate illegal logging. Currently there are 46 forest inspectors for all Estonia, and it is considered too few to adequately control the forestry operations.

The Estonian Tax Board works actively on illegal logging issues by conducting inventories in the forestry companies. Very often these inventories discover violations of tax regulations. The interviewed experts mentioned that Tax Board could work more efficiently, but there are obstacles e.g. no accurate forestry data, timber tracking and inventory systems. Tax Board personnel lacks specific knowledge of the forest sector; thus they mainly work on very straight tax law violation cases like price differences, etc, the so called “timber laundering”.

##### **Industry measures**

Bigger companies have their own environmental policies that include also initiatives on illegal logging. Stora Enso, one of the biggest Scandinavian companies - has made an internal auditing system to trace timber origin. Companies that have their market in EU

are worried about their reputation, but as it is difficult to get legal timber companies are sometimes forced to work with some illegal actors.

The members of the Estonian Forest Industries Association are trying to control timber sources, but it is difficult due to the lack of forest data. The Association also works with governmental institutions and develops proposals to eliminate illegal logging.

### **NGO measures**

One of active participants in activities against illegal logging is Estonian Green Movement (EGM). EGM mostly works with the government sector by participating in the Forest Policy Board to influence decision-making. During preparation of the new forest law, EGM were involved in joint work with the forest industry and the Ministry of Environment.

One of the fields where EGM is active is international cooperation. The NGO tries to explain adequately the situation to international partners and influence national authorities via international pressure.

EGM has prepared several surveys concerning illegal logging issues and works with the media to raise public knowledge about it. The organisation made a presentation of findings of one study to the state authorities in summer 2003, but according to EGM there is no serious interest from the authorities.

### **International measures**

There is some international pressure concerning illegal logging issues from ministries of foreign countries, although the most significant activities come from the international forest industry that operates in or buys forest products from Estonia. Companies have elaborated their own policies against illegal logging, and there is pressure on local players and the government to work more actively against illegal logging and introduce certification of the forest and chains of custody systems. There is also cooperation established among international players to improve information exchange issues.

## **Latvia**

### **Governmental measures**

There are several state institutions in Latvia that actively take part in the formation of forest policy, development of new legal initiatives and provide control of law enforcement.

The Forestry Policy Department of the Ministry of Agriculture is in charge of development of forest policy and improvement of the legislative environment. The Department analyses the current gaps in legislation and coordinates new initiatives for changes in legislation. Illegal logging is one of the priority issues for the Department, and one of the recent activities is the preparation of the law for accountancy and documentation of round timber flow. The Department officials describe it as a “patch” type legal act to cover one of the most serious gaps in the forest legislation. This legal act

will create some additional administrative work for the authorities and companies, but they believe that it could help to eliminate illegal logging.

Recently the Forest Policy Department agreed to act as a coordinator for the forest sector round table including all the involved state organisations in order to develop new ideas to improve the situation in the sector.

The main tasks for the State Forest Service are to provide support to forest owners and forest industry and at the same time to control implementation of forest regulations. The State Forest Service uses its administrative procedures, locates and documents illegal logging cases, initiates criminal and administrative cases on illegal logging as well as uses preventive methods in work with private forest owners by providing education and support. Furthermore together with other state institutions it develops proposals to improve the existing legislation.

State Revenue Service (SRS) is one of the key organizations in eliminating economic aspects of illegal logging. To tackle the problem of illegal logging, SRS has since 1997 defined the forest sector as a “risk industry” for the SRS. SRS pays special attention to forest industry companies, because there are many cases of violation of tax regulations and amount of surcharges. SRS has established a set of measures to find and minimize illegal logging actions. One of the measures mentioned is a procedure, where a physical person, who receives a logging permit for more than 1000 m<sup>3</sup> a year becomes a subject of special interest for SRS. The same procedure, but with a higher limit, applies also to forest cutting companies.

SRS has good cooperation with the State Forest Service. The institutions jointly organize control actions in forest processing companies and forest products transportation firms. The institutions have a good exchange of information and with the support of the Forest Service, SRS auditors learn about specific industry processes in order to be more effective in providing control actions.

Despite all these positive developments, many experts interviewed, both from the state and private sectors, recommended SRS to use its analytical and control capabilities more efficiently.

Establishment of the State Joint Stock Company “Latvian State Forests”, which is responsible for management of state owned forests, is viewed by the interviewed experts very positively. The establishment of this company has put an end to the conflict of interest when the State Forest Service previously acted both in the forest management and control sectors.

The company works according to its policy and program, and the company management believes that there are fewer problems related to illegal logging in state forests compared to the situation in the private owned forests. The major activities to eliminate illegal logging mentioned by the Company:

- Certification of all state owned forests according to FSC standard;
- Support to partners in introduction of chain of custody certification;
- Control of financial situation of partners that have long term forest management contracts;
- Control of financial situation of companies that participate in forest auctions;
- Contracts about logging services include requirements to ensure safe work environment for forest workers. After introduction of these requirements, work safety has improved significantly in forestry operations.

Following company strategy, Latvian State Forests will increase the volume of round timber sale. In 2003, 760 000 m<sup>3</sup> round wood will be sold instead of sale of forest stands. This activity provides better timber accountancy options and decreases the volume of illegal timber.

The Company also participates in legislation initiatives e.g. support for preparation of regulations about round timber measurement and measurement standards.

Some experts mentioned that co-operation among state institutions in solving specific illegal logging questions is rather good, but there is still a fragmented approach in forming overall policy against illegal logging.

### **Forest industry initiatives**

Latvian forest industry associations and companies are concerned about illegal logging facts/cases, as it distorts the market and negatively influence the reputation of the sector. Companies and associations elaborate policies and programs to minimize the illegal logging share in the Latvian forest sector. Latvian Timber Exporters Association is one of the most active organizations working against illegal logging. The Association participates in the development of new legal acts, for example, recent regulation about accountancy and documentation of round timber flow and promotes introduction of chain of custody certification for companies. The Association implements preventive actions to inform international partners about the measures taken to eliminate illegal logging.

### **NGOs and private forest owners**

The most visible NGO dealing with the illegal logging issue is WWF Latvia, as other environmental NGOs focus mainly on nature protection activities. Since mid 1990s WWF - Latvia has been involved in activities to promote sustainable forestry in Latvia. One of the first initiatives against illegal logging was “WWF Forest Club”, where WWF - Latvia and 5 top Latvian forest industry companies joined to combat violation of tax regulations in the forest sector and other activities to improve the sector towards sustainable forestry.

Continuing its work in promotion of sustainable forest management and elimination of illegal logging the following WWF - Latvia activities should be mentioned:

- Influence the forest industry decision making to “clean” the environment, so that the problems would not hinder development towards sustainable forestry.
- WWF promotes a broader, cross-sector approach in eliminating illegal logging, because this problem is beyond the forest sector only.
- WWF actively promotes development of FSC certification and certification of Chains of Custody.

WWF Latvia is also active in development of studies and surveys concerning illegal logging. During the recent years several documents have been prepared and launched:

- Participation in preparation of the study within WWF/WB alliance “The Impact of Large scale Forest Industry Investments on World Bank/ WWF Alliance Targets, and Recommendations for Investment Safeguards”. The report is based

on a particularly company “Baltic Pulp” plans for construction of a large pulp factory in Latvia.

- Preparation of the study “Forest Cutting and Timber selling – Existing Legal Environment, Procedures and Ways to Evade It” describing existing regulations, possible fraud schemes and giving recommendation for improvements.
- Participation in WWF Sweden study “Responsible Trade in the Shadow of Illegal Logging. Swedish Import of Latvian Timber and Wood Products”,

Internationally WWF has launched a program to fight against illegal logging, but currently it is in the analytic phase.

Other NGOs also have some activities in the field of illegal logging. NGO “Delna”, which deals with corruption and fraud issues, has started some activities against illegal logging. Latvian Employers’ Confederation has activities about safe working environment and social issues.

The Forest Owners’ Association of Latvia sees the introduction of forest certification as an important tool for elimination of illegal logging. The Association promotes a PEFC scheme and works on creation of certified chains of custody. Currently they have 8 chains and 5-6 certified logging companies. It is observed that certified private forests do not suffer from forest theft, because the owners pay more attention to these forests. Although the Association currently represents less than 1 % of all the private forest owners, it is open for registering of new owners for PEFC certification. The Association has limited cooperation with NGOs and would like to receive more support from the state for its development and PEFC.

### **International measures**

International companies are mainly focusing on development of policies against illegal logging and introduction of procedures to trace timber origin including chains of custody, internal audit schemes and FSC certification.

During the last years several international organizations have developed initiatives to combat illegal logging. Although there are no practical results observed until now, some experts mentioned that the development of practical actions should follow soon. EU FLEGT initiative could influence the situation in Latvia, but it could also be ineffective because it is mainly focused on timber imported to the EU from other (tropical) countries. The experts mentioned that there is little attention paid to illegal logging in the EU accession countries, which soon will become the EU internal market problem.

### **Lithuania**

The description of measures taken against illegal logging in Lithuania mainly focuses on two sectors, state initiatives and forest owners associations. Unfortunately, very limited information is available about forest industry initiatives.

## **Governmental measures**

Ministry of Environment, Department of Forests is responsible for forest legislation and policy development and is working on improvements in forestry and related legislation to eliminate illegal logging. The latest initiatives implemented could be mentioned:

- Amendments to Code of Violation of Administrative Law. Since the last year based on the Code, it is possible to confiscate not only illegally logged timber, but also saw-chains, vehicles and other means, which have been used for illegal logging. In addition, the penalty rate for illegal logging has been considerably increased as well;
- Changes in the new Criminal Code that set up the criminal liability not only for stolen timber but also for illegal logging itself.

In order to strengthen control and prevention of illegal logging, the common working plan has been prepared and agreement for common prevention activities has been signed between the General State Forest Enterprise and the Police Department.

The State Environmental Protection Inspectorates Forest Control Division is responsible for control of forest management in state and private forests. The main activities implemented by the Inspectorate in order to eliminate illegal logging are support and control over private forest owners, control over forestry operations and initiation of criminal and administrative cases against persons and companies violating regulations. 8 regional Forest Control Divisions are responsible for the enforcement of the Forest Law. The Inspectorate also participates in forest policy formation and preparation of legal acts. Forest Owners Association of Lithuania has proposed several improvements in regulation to prevent illegal logging itself and the ways for the illegal timber to enter the market. It also organised a meeting with the officials of the Police Department in order to improve activities targeted at prevention of illegal logging.

## **Forest owners associations and environmental NGOs**

The Forest Owners Association are working on illegal logging issue as illegal logging cases are mainly occurring in private owned forests. Associations employ a broad set of initiatives including education of forest owners, establishment of owners' cooperatives to strengthen control over forest properties, development of forest certification, protection of forest biodiversity, etc.

The Forest Owners Association cooperates with large wood industries and has signed agreements about not purchasing illegally logged wood (with Stora Enso, Kaminskas Sawmill, Vakarų medienos grupė, etc.).

The Association also has prepared very concrete proposals to improve legal acts to the Government and the Parliament with the purpose to fill the gaps currently allowing illegal "businessmen" to sell wood in market, avoid taxes etc.

Cooperation with the state authorities is established (police, Environment Protection Inspection etc) in prevention of illegal logging (joint activities in local and national levels).

Lithuanian Fund for Nature is implementing the project "Group Certification for Forest Owners in Lithuania". It also participates in FSC certification of state forests in Lithuania and development of PEFC national certification standard.

## **International measures**

Foreign companies operating in Lithuania have intensified and strengthened the control of the origin of the timber they purchase/process.

Forest certification according to FSC scheme has been initiated and further performed in Lithuania. Forest certification standards are quite strict in relation to prevention of illegal logging. In addition, the Forest Owners' Association shows the initiatives to certified private forests according to PEFC scheme. The documentation of the national PEFC forest certification system is under preparation. The draft of the national PEFC forest certification standards has been prepared and is under discussions

## **3.2 Nordic Countries**

### **Finland**

#### **Government measures**

The Ministry of Agriculture and Forestry is concerned about illegal logging issues globally and in neighboring region, Russia and Baltic Countries. The ministry is involved in international activities e.g. FLEGT development. Internally there are no new legislation initiatives in Finland on illegal trade. It was commented that it is a complex issue and it is difficult for an importing country to influence legislative problems in exporting country that supports illegal logging. Finland is using "soft tools" to address illegal logging/trade: communication, awareness raising, know-how support etc. through e.g. Baltic 21 process and other international forestry processes and by concrete projects in developing countries.

#### **Finnish Forest industry policy on illegal logging**

The Finnish Forest Industries Federation has a policy to eliminate illegal logging. The federation declares that it supports action to eradicate illegal logging that distorts competition and affects the public image of the entire industry.

The Finnish Forest Industries Federation policy against illegal logging is based on three principles

##### A stable business environment

In Finland, Finnish forest companies are working in well established legislative environment, with stable and highly developed private forest ownership traditions. It is advised to Finnish companies when expanding abroad to use the opportunity to promote a similar operating environment within all their business areas.

##### The right focus

According to the Finnish Forest Industries Federation, there are two ways the forest industry can promote legal operations. Firstly by giving expert help to the public administration system in both national and international processes and secondly by developing company-specific guidelines and actions.

The Finnish forest industry has been active on both fronts and companies have done much more than legislation requires. Finnish companies lead the way in verifying the origin of wood. Companies place high demands on timber suppliers and favor dependable long-term partners. The forest industry has also actively promoted voluntary forest certification.

#### The forest industry supports the work of the authorities

The forest industry will continue to monitor development, implementation and enforcement of legislation that are primarily the responsibility of the authorities and collaborate with the authorities accordingly.

(source: home page of Finnish Forest Industries Federation  
<http://english.forestindustries.fi/press/2002/081102.html> )

### **Sweden**

According to the information received from WWF Sweden, the Swedish government does not have any visible national level initiatives for combating illegal logging.

During the study “Responsible Trade in the Shadow of Illegal Logging, Swedish Import of Latvian Timber and Wood Products”, WWF Sweden distributes a questionnaire among the biggest Swedish companies operating in Latvia concerning their policies to eliminate illegal logging. In response to the questionnaire the companies mentioned several mechanisms to trace or verify the geographic origin and the environmental impact of timber and wood products. The mechanisms used include:

- trusting the standard and enforcement of Latvian forest management legislation;
- trusting suppliers’ fulfillment of demands;
- developing company environmental or purchasing policies for wood imports;
- establishing demands in contracts between a buyer and a seller;
- using systems based on data to trace timber to the harvesting site;
- environmental audits, including visits to felling sites;
- owning or having close business relations with the local logging companies;
- educating partners and suppliers;
- promoting openness and dialogue with the third parties;
- using information from Woodland Key Habitat Inventory to avoid logging in the key habitats;
- using certification and third-party verification.

### **Denmark**

The Danish Government and Parliament have actively worked with illegal logging issue during last years. Major attention is paid to illegal tropical timber, but there are also some activities related to the focus area of this study – especially Russia. Following initiatives performed by Denmark could be mentioned:

- In June 2001 the Danish Parliament decided that public institutions should only buy legal and sustainable tropical timber, and at the same time they acknowledged FSC as a credible certification scheme guaranteeing legality and sustainability. Following the parliament decision a guideline for public procurement of tropical timber has been developed through a multi-stakeholder process. It was finalized in June 2003 and FSC and MTCC certification is recommended for procurement of legal and sustainable tropical timber. This guideline is voluntary for the public institutions.
- In March 2003 the Danish minister for the environment sent letters to his colleagues in Russia, Brazil, Indonesia and Malaysia where he propose bilateral collaboration on combating illegal logging. A dialog has been initiated with Russia and a project group with Danish timber traders, WWF-Denmark and the Forest and Nature Agency are now working with development of a project with Russian partners to combat the trade of illegal logged timber between Russia and Denmark.
- Also in March 2003 the Danish minister for the environment sent letters to the EU commissioners for Development, Environment and Trade. The Danish minister informed EU officials about the Danish initiatives and urges the EU commission to finalize the FLEGT action plan.
- After the FLEGT action plan was released the Danish and the UK delegations in Brussels put FLEGT on the agenda at the Environment Council meeting in June 2003 asking for urgent consideration of the proposals for actions in the FLEGT action plan.

Although there are many political initiatives taken by the Danish Government internally and at EU level, according to the opinion of WWF Denmark, there are few practical results until now in elimination of illegal logging.

#### **4. Illegal logging in North-Western Russia**

North-Western Russia is one of the major timber exporters to the Nordic Countries. During this study, the situation in NW Russia and its influence to the region is only briefly mentioned, as the region is very fragmented in terms of administration, information and measures taken. It is advised, to conduct a separate study that would include comprehensive situation analysis of this region.

In this chapter, the description of the situation in the forest sector in NW Russia is based on the information from WWF Russia studies on illegal logging and an interview conducted with the representative of WWF Russia.

##### Amount of illegal logging in NW Russia

The information provided by the state authorities concerning the scale of illegal logging in Russia is fragmented. The Ministry of Natural Resources provides one statistics, the tax administration provides information about tax violations in the forestry sector, the Administration of the President operates with their own figures, and customs authorities give figures about violation of customs regulations. There is no single state estimation about the share of illegal logging in the forestry operations, although the Minister of

Natural Resources recently announced that illegal logging could reach 10 % of all the forestry operations.

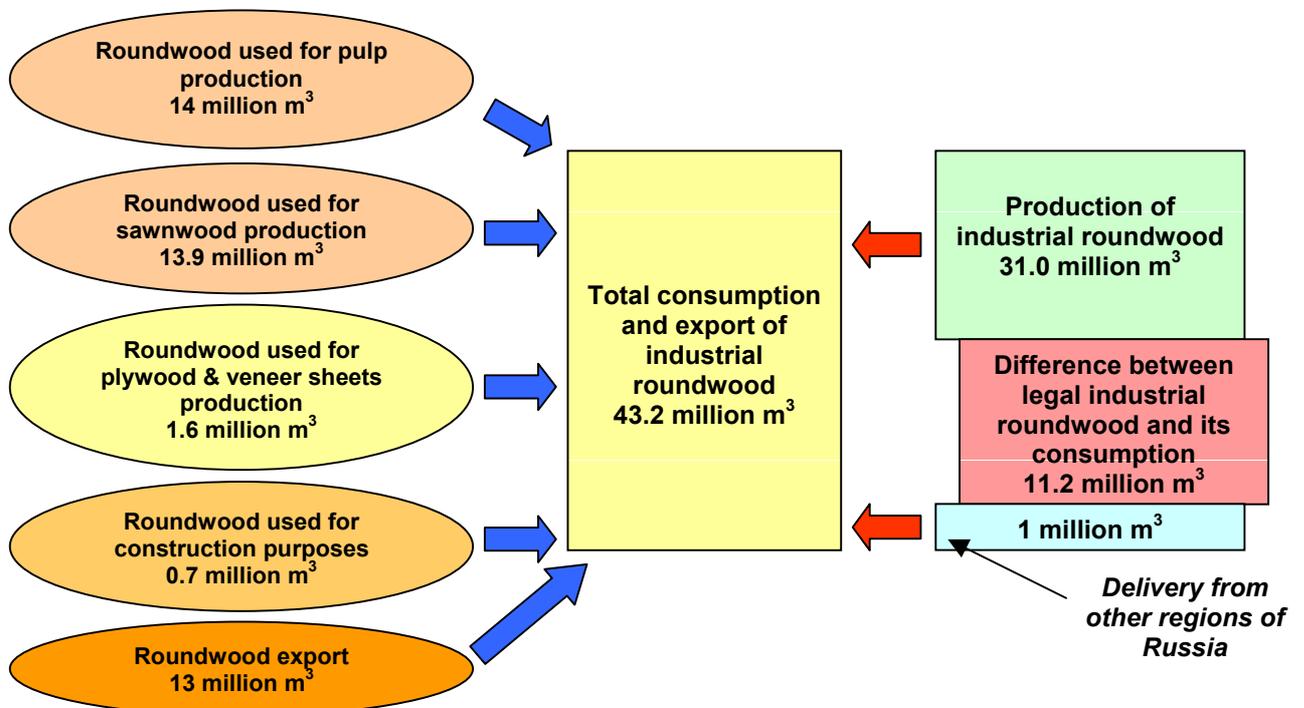
Illegal logging has also a significant social impact because it reduces the income from the forest resources. In 2001, the estimated damage to the forest sector caused by illegal logging was 2.85 billion rubles, or about 100 million USD (Report of the Ministry of Natural Resources of the Russian Federation on activities of the State Forest Service in 2001). The similar data were obtained by the Control and Inspection Department of the President of the Russian Federation – the damage caused only by the recorded violations in the forest sector in 2001 was 2.8 billion rubles and is increasing as much as 5.8 times per year.

WWF Russia estimation of illegal logging in NW Russia

To estimate illegal logging in North-Western Russia, WWF Russia compared wood harvested in the region with the total wood consumed and exported from the region. In case all wood is legally harvested, the volume of harvested wood is equal to the volume of consumed wood in the region and exported wood plus wood delivered from other regions of the country.

Figure 11 shows a difference of 11.2 million m<sup>3</sup> or 27 % of total wood harvest between round wood produced and consumed in NW Russia that could be considered as illegal timber.

**Figure 11, Production and consumption of roundwood in North-West Russia (2001)**



## **Factors driving illegal logging**

Interviewed expert mentioned the following factors that support illegal logging:

- Low stumpage fee 1-2\$ per m<sup>3</sup> – low income from selling a forest stand resulting in small investments in forest.
- Only part of the money received via taxes from the forestry operations returns to forestry as investments. Low salaries for the State Forest Service personnel leads to best people leaving the service.
- Due to lack of resources, the State Forest Service controls illegal logging insufficiently.
- Money from forestry operations does not return to the local municipalities, and there is no motivation to fight actively against illegal logging.
- Difficult socio economic situation in the rural areas. Due to the crisis in agriculture farmers are forced to do illegal logging for survival.
- Illegal operations are routine practice for many of the forestry companies.
- Customs procedures are performed insufficiently.
- Corruption.
- Legislation that is not economically sound. It is complex and needs to be improved.

## **Operations in timber production-supply-consumption cycle that generate major amount of illegal forest products**

According to the WWF Russia expert, there are several activities in the forestry operations cycle that generate significant amount of illegal forestry products:

- A major issue is forest companies that extract more timber during otherwise legal logging than allowed by a logging license. This is due to inaccurate forest inventory that underestimate the volume of timber. Another reason – the state foresters do not take control measurement of standing volume before felling, they prefer not to go to the forest, but use inventory data, which are updated once in 10-15 years, and thus cannot show the volume increase since the last inventory. According to WWF study, this difference is up to 50%, while on average it is 10-15%. According to legislation, companies have to declare the real volume of timber to the Forest Service after logging, but no company does that.
- Forest theft. There are small groups of people usually with one forest transportation truck that illegally log and sell relative small amounts of timber. According to WWF estimates, this illegal logging activity accounts for about 10% of all illegal logging.
- Small sawmills that try to buy timber as cheap as possible, often of illegal origin. After the timber is processed, it is impossible to trace its origin.
- Middlemen that operate before ports. These persons buy illegal timber for a lower price in cash and sell it as legal timber to larger companies.
- Customs. There is significant difference between the volume timber declared for export and information from the importing countries that shows larger volumes.

Custom does not check the volume of timber in ships, and it is a normal practice that there is ~ 10% more timber in the ship/lorry than declared. Another problem is that exporting companies declare less valuable timber to customs e.g. pulpwood instead of saw logs to avoid higher custom duties. According to WWF estimation, the total losses caused by illegal logging in Russia are ~ 1 billion US\$ annually, and 60% of this amount is fraud of customs operations.

### **Major negative impacts/damages of illegal logging on environmental, economic and social spheres**

When evaluating the damages created by illegal logging, the WWF Russia representative mentioned:

- Economic damage, as significant amount of taxes is not collected; there is a serious economic damage that leads to insufficient investments in the forestry operations – protection, regeneration, control etc.
- Nature protection damages. During illegal logging activities protected tree species are harvested e.g. European Larch and Siberian Cedar *Pine (Pinus Sibirica)*.
- Social stress. Local communities in the rural areas perceive forestry sector as “bad people”, as they have more money. Communities presume that this money is received illegally.

### **Measures taken against illegal logging in Russia**

#### Forest industry

During the last years the forest industry companies have started to pay more attention to illegal logging issues. To respond to the FLEGT process, some (5-6) Russian companies that have their market in the EU, have started to develop chains of custody and certification. Also some international companies e.g. Metsallito and Stora Enso have implemented this type of activities.

#### WWF Russia

First environmental NGO that raised the illegal logging issue in Russia was Greenpeace in 1999. During last years WWF Russia has developed its own program to work against illegal logging, which includes the following activities:

- Studies about illegal logging and trade of illegal timber. By now two studies about timber trade with Japan and Sweden are prepared. Two more studies about trade with Germany and Denmark are under preparation.
- Working with FLEGT Bureau in Brussels (via WWF Brussels office).
- Cooperating with the Ministry of Natural Resources and consult the Ministry of Interior about illegal logging issues.
- Establishes mobile teams (Cedar anti-poaching brigades) that work in the forests catching illegal operating individuals and companies. This activity established and financed together with the Ministry of Natural Resources has great results in the Far East region, and now similar teams start to emerge throughout the territory of Russia.
- Working on recommendations for legislation improvement.

### National measures

In 2003 the state organizations have started to pay more attention to illegal logging. There is a new decision of the federal government on fighting illegal logging issues and under that decision a joint state program including 8 ministries is prepared. As this activity currently is in the initial stage, no practical results are observed yet.

Regional authorities (especially, Vologda and Leningrad Oblast) have developed their own initiatives and policies to eliminate illegal logging.

President Putin in his recent speech concerning forestry issues identified illegal logging as one of the major problems in the sector.

There are also some activities in the Ministry of Natural Resources what are directly responsible for forest resources management. Ministry has started to change the existing legislation to prevent illegal logging actions. There are also improvements in customs performance observed.

### International measures

Evaluating international measures that influence illegal logging in NW Russia, the interviewed expert mentioned the following initiatives of EU member countries:

- Government of Finland uses mainly “soft tools” to influence illegal logging in Russia.
- Government of Denmark has initiated consultations with Russian government to eliminate illegal logging.
- Recently government of Germany has expressed interest to cooperate in fighting against illegal logging.
- During the conference of forestry ministers in Vienna, international community expressed serious concern about illegal logging in Russia.

## **5. Overview of assessments on illegal logging in Baltic Region and NW Russia**

The majority of studies about illegal logging in the Baltic Region are prepared by non-governmental organizations. The state authorities mainly provide statistics of illegal logging without analyzing the causes. The reviewed studies clearly show that there is very fragmented information about the illegal logging problem, and there is definitely a need for a more comprehensive approach to analyze the situation and to develop recommendations and further steps to fight illegal logging on the Baltic Region level.

**“The impact of large-scale forest industry investments on WWF /World Bank Alliance targets and recommendations for investment safeguards”**. A report based on an example in the Baltic States. Gland, Switzerland and Washington DC, USA. February, WWF /World Bank Alliance. 2003

The study prepared within WWF/World Bank global alliance address the development of a project for building a pulp mills in the Baltic States. In all three Baltic Countries there

are projects in different stages of development, but the most advanced is arguably in Latvia, where feasibility studies have been completed, and the investment decision is expected in the near future. This study is focused on the situation in Latvia, but the elements that may be relevant to other Baltic Countries are also briefly discussed. The environmental and social effects of the mill have been investigated as part of the feasibility studies conducted by Baltic Pulp. The Latvia EIA State Bureau's program to carry out an environmental impact assessment is also underway. However, none of these studies focused specifically on forest-related impacts. The issues to be analyzed include the impact on wood balance in Latvia, and the timber markets in neighboring countries. The study is intended to be a contribution to the debate concerning the potential impact of the planned pulp mill on the forest environment as well as forest owners and forest workers.

Objective of the study is to identify the impacts of the planned pulp mill investments in Latvia on the World Bank/WWF Alliance targets of sustainable forest management and protected areas.

One problem covered by this study is illegal activities that are emerging, and it is a significant issue connected to pulpwood and is especially widespread in the private sector. The study uses the findings from the work by WWF Sweden and Taiga Rescue Network on Latvian-Swedish round timber trade (1999, 2002) that has identified the lack of adequate policies and systems to ensure sustainable trade and address illegal logging specifically.

The study mentions and comments the official illegal logging statistics as well as analyzes illegal logging issues in a broader sense of understanding, including tax violations and gives several estimations concerning the damage created by different illegal actions in the forest sector in Latvia.

Full text of this study is available at:

[http://www.wwf.lv/doc\\_upl/Alliance\\_Investment\\_Safeguards\\_Final\\_report.pdf](http://www.wwf.lv/doc_upl/Alliance_Investment_Safeguards_Final_report.pdf)

**Responsible trade in the shadow of illegal logging, Swedish import of Latvian timber and wood products.** Taiga Rescue Network, WWF Sweden and WWF Latvia, 2002

The study was prepared by WWF Sweden, WWF Latvia and Taiga Rescue Network (TRN), an international network of non-governmental organizations and indigenous peoples working for the protection and sustainable use of the world's boreal forests. The Swedish import of timber and wood products from Latvia has increased considerably over the last five years, reaching 4.2 million m<sup>3</sup> in 2001. The forest industry corporations as well as the Forest Owners Association SÖDRA account for the majority of imports from Latvia to Sweden. The majority of the import is in the form of pulpwood to supply pulp and paper mills.

The study analyses the presence of Swedish companies in the Latvian timber market and its impact on ecological values of the Latvian forests and economic consequences of the illegal logging.

The study is based on analysis of existing information and interviews with the Swedish companies operating in the forest sector in Latvia.

The findings of the study show that many Swedish forest companies lack knowledge in order to conduct 'responsible trade'. Companies must know the origin of their import and the impact of this raw material procurement on the forest. The Swedish companies are employing a set of mechanisms to attempt to gain knowledge of the origin and impact of their trade. With the mechanisms in place much of the Swedish import from Latvia can be traced back to its origin.

Many Swedish companies depend on logging licenses and transfer waybills issued by the Latvian State to assess and minimize the impact on forests and this is not adequate. The knowledge of high conservation value forests and the key habitats are poor in the Swedish companies. Timber and wood products procured from the trading houses presently cannot be reliably sourced to their origin or assessed of their impact. The steps that companies are taking now to reach a level of responsible trade are overshadowed by the prevalence of illegal logging in Latvia. In order to avoid negative impacts on Latvian forests, additional active steps need to be taken by the Swedish companies.

The study also gives clear recommendations for concrete actions, the actors in the Swedish-Latvian timber trade should implement in order to contribute to responsible trade.

Complete text of this study available at: [http://www.wwf.lv/doc\\_upl/Latvia\\_report.pdf](http://www.wwf.lv/doc_upl/Latvia_report.pdf)

**Illegal Logging in North-Western Russia and Export of Russian Forest Products to Sweden.** WWF Russia. January 2003.

The northwest of European Russia is a region where most of the Russian forest products export to Europe originate. The region consists of Arkhangelskaya Oblast (including Nenets Autonomous District), St.Petersburg and Leningradskaya Oblast, Murmanskaya Oblast, Novgorodskaya Oblast, Pskovskaya Oblast, Vologodskaya Oblast, and Republics of Karelia and Komi.

Sweden is so far the second largest consumer of roundwood (by volume) from NorthWestern Russia, following Finland. The export to Sweden predominantly consists of industrial roundwood (pulpwood and sawlogs) – 2 314 000 m<sup>3</sup> i.e. 6% of the total Russian roundwood export or 15% of the export to Europe in 2001.

The study is focused on illegal logging in NW Russia and forest products (mainly round wood) export to Sweden, analysing amounts, causes, environmental and economic consequences, based on official data and information from independent sources.

It includes evaluation of performance of larger Swedish importers and analyses wood supply chains stressing possible sources for illegal forest products within these chains. The study also includes recommendations for actions towards responsible forestry and timber trade to all involved stakeholders.

Complete version of the study is available at:

<http://www.panda.org/downloads/forests/illegloggingswedenrussia.doc>

**Illegal forestry in Estonia.** Estonian Green Movement-FoE. Rein Ahas, PhD. Estonia 2002.

This discussion paper examines illegal logging in Estonia and provides estimation of the extent of illegal logging by different types of illegal logging activities. The paper is based

on official statistics and expert opinions and briefly analyses the causes of illegal logging activities.

The estimation in the discussion paper shows that 40% of the timber exports from Estonia is illegal. This is a serious problem for Estonian forestry and for the many Scandinavian companies using Estonian timber. If divided by different forestry activities, the estimated share of the illegal actions is as follows:

- Forest theft - 5% of the felling volume;
- Inadequate or fictive documentation - 20% of the felling volume;
- Violation of felling and nature conservation regulations - 20% of the felling volume;
- Deceptions of employer's taxes and income tax - 50% of the felling volume;
- VAT frauds: using intermediates, off-shores and concealed personalities; assortment tampering - 15% of the felling volume;
- Exceeding the permitted annual logging limit approved by forestry policy - 40% of the felling volume.

Complete text of this discussion paper is available at:

[http://www.roheline.ee/forest/illegal\\_logging\\_estonia.doc](http://www.roheline.ee/forest/illegal_logging_estonia.doc)

Estonian Green Movement has also prepared a case study:

“Estonian illegal timber laundered to Europe: case of Lahemaa National Park destruction in 2002. Estonian Green Movement-FoE. November 2002.”

Full text of this case study, that includes also links to other www resources about illegal logging in Estonia available at:

[http://www.roheline.ee/forest/illegal\\_logging\\_lahemaa.doc](http://www.roheline.ee/forest/illegal_logging_lahemaa.doc)

### **Logging and timber trade. Legal regulation, procedures and ways to evade them.**

Tax and finances consulting company “Loze&Kokins”, Publisher: WWF Latvia, Latvia 2003.

The aim of this study is to determine all possible stages in the chain “*pre-logging stage – timber trade*” where activities not corresponding to legal regulations can take place, which result in promoting illegal activities with timber in Latvia.

Within the parameters of this study, activities in the areas of forest exploitation and timber processing are examined in the following aspects:

- legal regulation;
- control arrangements;
- “gaps” in the legal regulation and examination of possible violations;
- responsibility of non-observing/ violation of legal regulation;
- recommendations.

Investigations into timber export, import and transit procedures have not been performed in the research.

The results of the research testify that illegal activities must be observed in the context of the overall “*pre-logging stage – timber trade*” chain. In order to reduce illegal activities

during all stages of timber acquisition and realization, legislators, institutions, social organisations and right protecting instances must act uniformly and in harmony, perfecting not only legal regulations, but also control mechanisms.

The study is intended to promote a discussion and to exterminate the problem of illegal timber flow in Latvia.

This study was recently launched and English version of this document is under preparation. Full text of this study in printed version (in Latvian) is available at WWF Latvia.

**The timber footprint of the G8 and China: Making the case for green procurement by government.** Paul Toyne, Cliona O'Brien and Rod Nelson June 2002

In 1998, the G8 member countries (Canada, France, Germany, Japan, Italy, Russia, the UK and the US) formally recognized that “illegal logging robs national and sub-national governments, forest owners and local communities of significant revenues and benefits, damages forest ecosystems, distorts timber markets and forest resource assessments, and acts as a disincentive to sustainable forest management”. A range of actions was agreed upon, including an assessment of their internal measures such as procurement policies, to control illegal logging and the international trade in illegally harvested timber.

This report highlights trade-flows between the countries of the G8 and China, and those countries with known problems of illegal activities in the forest sector. It also examines current public procurement policies of the G8 member countries and China, and recommends measures to take to combat the import of illegal timber and wood-based products for public procurement.

This study is mainly focused on global issues but it includes relevant information about illegal logging in Russia, as well as information about Latvia and Estonia. The complete text of this study is available at:

[http://www.panda.org/downloads/forests/G8\\_meeting\\_June2002.pdf](http://www.panda.org/downloads/forests/G8_meeting_June2002.pdf)

## 6. Conclusions

Based on interviews, following general conclusions could be drawn related to illegal logging in the Baltic Sea region:

1. There is a growing concern of illegal logging becoming a serious problem in the Baltic region potentially threatening good forest governance and international timber trade.
2. There is different level of understanding and fragmented knowledge about the illegal logging across countries and stakeholders. Currently there is insufficient analytical capacity and critical knowledge base to formulate comprehensive policy against causes of illegal logging in the Baltic Sea region.
3. Many experts agree that illegal logging and other forest crimes are part of a larger problem, which includes issues of rule of law and forest governance.
4. Many interviewed experts believe that introduction of credible certification and timber origin tracking systems could significantly decrease illegal logging.

5. Illegal logging could best be stopped using a combination of existing measures and the development of new policy instruments involving state institutions (beyond traditional forest administration), private sector (both forest industry and banking), private forest owners and NGOs.
6. Current policy development related to control of illegal logging vis-à-vis FLEGT process contains challenges related to Baltic countries becoming members of EU.

## **7. Recommendations**

Recommendations below cover development of governmental policy measures to combat illegal logging at national and international level. Recommendations for private sector, e.g. forest industry and finance sector, as well as private forest owners are not covered within the scope of this study.

### **7.1 *Baltic States and NW Russia***

1. It is necessary to further develop analytical work and create critical knowledge base of illegal logging causes and forms.
2. Facilitate formation of multi stakeholder processes in order to develop constructive policies and implement the action plan eliminating illegal logging.
3. Raise public awareness on illegal logging issues and support creation of efficient public monitoring process of policy success against illegal logging.
4. Support stakeholders' capacity building initiatives to reduce gaps in knowledge and skills to implementation of the action plan.
5. Initiate bi-lateral measures supporting national action plans aiming at eliminating illegal logging.

### **7.2 *Nordic countries***

1. Develop and implement constructive import policies aiming at phasing out illegal timber share.
2. Actively engage in bi-lateral measures supporting national action plans aiming at eliminating illegal logging.

### **7.3 *EU level***

1. Formulate policy towards illegal logging issues in the accession countries, taking into account the EU enlargement in the near future.
2. EU should consider application of financial instruments to promote capacity building in good forest governance and sustainable forestry in accession

countries. EU should consider supporting capacity building of law enforcement institutions in EU accession countries.

3. EU should support the implementation of the voluntary licensing scheme proposed in the FLEGT Action Plan and the negotiation of a partnership agreement between Russia and the EU that would help combating illegal logging in Russia.

## **7.4 National level**

### **Baltic Countries**

#### **Estonia**

Recommendations mentioned by Estonian experts could be divided in five groups:

1. change of tax and forestry legislation,
2. strengthening of control over illegal logging,
3. improvements in forest inventory and implementation of public forest resources data base,
4. support to private forest owners;
5. certification of forests.

- Change of tax and forestry legislation

Existing tax system should be analyzed and better adapted to forestry process thus make taxation process easier and reasonable for private forest owners. There were suggestions to decrease the taxation of private forest owners and to make the tax system easier to understand and follow.

- Strengthening of control over illegal logging

Many of interviewed experts suggested to strengthen control procedures over illegal logging by development of stronger responsibility system against illegal logging actions and introduction of efficient supplementary regulations. It was also recommended to provide more power to environmental inspectors. But, it also was admitted that new control mechanisms with sufficient knowledge of forestry operations should be implemented.

- Improvements in forest inventory and implementation of public forest resources database

Many experts were critical about the quality of forest inventory and absence of mandatory forest management plans in Estonia. Thus it was recommended to improve this situation and, in the Forest Law what is under preparation, there are requirements, that only certified forest inventory enterprises could perform forest inventory. Another recommendation mentioned by several experts was implementation of a forest database. Access to this data should be provided to forest industry and NGO for better tractability of timber origin.

- Support to private forest owners

Strengthening the private owners organizations was also recommended. Estonia has ~ 60 000 forest owners and only 1-2% are organized In order to solve this issue the Forestry Department of the Ministry of Agriculture has planed to spend 10 million kronas ( ~ 700 000 EUR) in Year 2004 for education and support to private forest owners.

- Forest Certification

Forest certification was mentioned as one instrument for elimination of illegal logging. Two certification schemes FSC and PEFC are in different stages of development in Estonia. State owned forests are FSC certified and some private forest owners have PEFC certification. To increase the amount of certified forests in private sector it is recommended to support cooperation of forest owners (see previous recommendation).

## **Latvia**

### Development of forest strategy

There is common understanding among interviewed experts, that illegal logging and overall improvement of forest sector towards sustainability needs a comprehensive and strategic approach. State institutions have to improve cooperation and together with other stakeholders prepare forest sector strategies development plans based on a balance among environmental, economic and social interests. As a method for cooperation several experts suggested establishment of Round table or “Forest club” where all stakeholders could discuss forest sector development issues and agree on necessary decisions. This institution should include also experts indirectly related to forest sector e.g. tax authorities, economists, lawyers to ensure comprehensive understanding of problems and decisions needed in forest sector.

The state should declare and show practical actions that support legal forest companies, by creating an environment, where it is advantageous to work legally.

### Improvements in legislation and law enforcement issues

Experts suggested many practical steps that should be taken to fight against illegal logging. It could be divided in two groups – changes in legislation and enforcement of exiting legislation.

There were mentioned the following suggestions to changes in legislation to eliminate illegal logging:

- Regulations that would improve control of timber volume during harvesting stage. The volume of timber extracted from felling areas should be adequately declared in logging permit and controlled. These data should be used for further tracing of timber without interruptions in the supply chain.
- Special regulations should be introduced for declaration of unmarketable timber.
- Contracts for the selling of forest should be mandatory.
- Introduction and effective implementation of the law that is currently under preparation about round wood accountancy and transportation. Supplementary regulation unified for round wood measurement standards should be introduced as mandatory.

- There should be considered a more strategic approach to forest resources use e.g. decrease of taxes for low value forest products (fire wood, etc). This will make thinning operations more profitable as well increase effectiveness of forest resources use.
- The state should introduce regulations in public procurement that requires procuring certified timber or timber with known origin.
- Changes in income tax regulation – forest seller should pay income tax instead of purchaser.
- Changes in legislation that increase companies’ responsibility for illegal actions should be introduced, and supplementary regulations “tools”, to fight against them.

Experts also mentioned that strict control and more procedures often is not a solution – it is necessary to create mechanism in the forest sector that supports companies that works legally and eliminates illegal logging. Other issue to be considered, when new laws and regulations are planed is: will these procedures deliver more benefits than resources needed to administrate these procedures?

Other group of recommendations relates to law enforcement issues:

- State revenue service should develop capacity for control of forest operations and related taxes.
- Cooperation and information exchange among state organizations should be improved.
- Small forestry companies are a risk group in terms of illegal logging. State authorities should pay special attention in auditing these companies.
- State should provide compensations in nature protected areas to forest owners.

It also was mentioned that state institutions, especially State Revenue Service, should more actively use their analytic resources and come out with proposals for improvements in legislation.

#### Recommendations for forest industry

Recommendations to forest industry are focused on improvement of timber origin tractability by introduction of Chain of Custody and audit schemes and develop or update and implementation companies’ internal policy against illegal logging.

#### Recommendations to private forest owners

Cooperation among private forest owners should be intensified. It should be done by active work of forest owners association and state support to owners’ cooperation. Owners should work on ownership consolidation issues to ensure more efficient forestry operations.

## **Lithuania**

#### Legislation and state institution performance

Interviewed experts recommend some general principles, which should be implemented in Lithuanian legislation and state institutions performance:

- ensure more transparency especially in forest harvesting, timber trade and processing operations
- analyze of results gained from already introduced measures to eliminate illegal logging and develop new measures based on this knowledge
- relating to protection of nature values the legislation should be changed from prohibiting all economical activities to support conservation of existing key-biotopes etc. by keeping and promoting the practice of management of forest resources (as it allows to keep suitable environment for biodiversity)
- provide more support to private forest owners by creating and developing extension services for forest owners, able to provide information, consulting and training to private forest owners of how to manage their forests more effectively and in a sustainable way.
- to revise the existing protected areas in order to find out whether there really are biodiversity elements (important key biotopes) in the particular areas, which need special regime of protection.
- to establish a real compensation mechanism for forest owners when putting restrictions on management of property. It could be done by creating possibility to exchange with the Government privately owned forest in their protected areas to presently state owned commercial forest of equal value. This will concentrate industrial activities in private hands and protected areas to the state.

One recommendation mentioned by experts is stronger control over timber buyers – trading companies and small sawmills to stop market demand for illegally harvested timber.

Relating to private forest owners the government should support the revitalization of private forestry sector trough launching special national forestry program for this purpose. Priority for these initiatives should be support of establishment of forest owners' associations, facilitating the cooperation among forest owners and building extension services for them as essential for the sustainability of private forestry.

In order to prevent illegal logging and negative public opinion about this illegal activity - intensify awareness campaign and relation with the society and NGO's involving them in activities against illegal logging.

#### Recommendations for forest industry

It is recommended to introduce effective wood tracing system by timber trade companies. Certification according to FSC principles should be introduced more in the forest industry sector

### **Russia**

In order to eliminate illegal logging activities in NW Russia, there were the following groups of recommendations mentioned:

#### Recommendations for the state sector:

- The state has to ensure adequate (increased) funding for forestry activities.

- Improvement/ reform in the existing legislation is necessary to simplify the complicated procedures and create legislation that supports sustainable forestry.
- Forest control and management currently performed by the State Forest Service should be separated to avoid the conflicts of interests.
- Customs authorities have to improve their performance and more actively cooperate with other state organizations.

Recommendations for forest sector companies:

- Companies should introduce certification of forest and chains of custody and improve their performance towards responsible forestry.
- Companies should work on elaboration of their policies of purchasing forest.

## Annex 1. List of persons contacted

### Latvia

Name	Organization	Position	Phone	email
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## Annex 2. Source List

Information on illegal logging:

1. Illegal-logging.info <http://www.illegal-logging.info/>
2. FERN <http://www.fern.org/>
3. WWF Europe forest program  
[http://www.panda.org/about\\_wwf/where\\_we\\_work/europe/what\\_we\\_do/forest.cfm](http://www.panda.org/about_wwf/where_we_work/europe/what_we_do/forest.cfm)
4. WWF Russia <http://www.wwf.ru>.
5. WWF Latvia <http://www.wwf.lv/>
6. Estonian Green Movement-FoE <http://www.roheline.ee/eng/index.php3>
7. Finnish Forest Industries Federation <http://english.forestindustries.fi/>

Statistical information:

8. FAOSTAT forestry data <http://apps.fao.org/page/collections?subset=forestry>
9. Statistical Office of Estonia <http://www.stat.ee/>
10. Swedish National Board of Forestry <http://www.svo.se/>
11. StatBank Denmark <http://www.statbank.dk/statbank5a/default.asp?w=1024>
12. Lithuanian Forest Inventory and Management Institute  
[http://www.lvmi.lt/lmis/Engl\\_pagr.htm](http://www.lvmi.lt/lmis/Engl_pagr.htm)
13. The Centre of Forest Protection and Silviculture  
[http://www.metsad.ee/eng/main\\_e.html](http://www.metsad.ee/eng/main_e.html)
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16. The Lithuanian Statistical Yearbook of Forestry 2002  
<http://miskai.gamta.lt/mec/2002/eng/>
17. State forest service of Latvia, [www.vmd.gov.lv](http://www.vmd.gov.lv)
18. Ministry of Agriculture, republic of Latvia, Forest sector  
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Reports:

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21. **Responsible trade in the shadow of illegal logging, Swedish import of Latvian timber and wood products**. Taiga Rescue Network, WWF Sweden and WWF Latvia, 2002
22. **Illegal Logging in North-western Russia and Export of Russian Forest Products to Sweden**. WWF Russia. January 2003
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24. **The timber footprint of the G8 and China: Making the case for green procurement by government.** Paul Toyne, Cliona O'Brien and Rod Nelson June 2002.
25. **Tree logging and realization of acquired timber. Legal regulation, procedures and ways to evade them.** Text - Dace Machulska. Tax and finances consulting company "Loze&Kokins", Publisher: WWF Latvia, Latvia 2003.