

# 1. Executive Summary

Foreign Investment Advisory Service (FIAS), a joint service of the International Finance Corporation and the World Bank, designed this study for the Russian Ministry of Economic Development and Trade and the Federal Forest Agency to analyze voluntary forest certification in Russia as a tool of Corporate Social Responsibility (CSR), to measure the economic benefits, if any, to promote these practices in the forestry sector, if warranted, by suggesting the removal of administrative barriers, and to find applications to other sectors of the Russian economy.

The study describes the world-wide development of voluntary forest certification as a mechanism to provide international and domestic buyers with an assurance that Russian forest products are not derived from environmentally destructive practices. The development of forest certification is shown to be market driven and demand is increasing for certified forest products (CFP) as corporations become more environmentally aware at the board level. Concurrently, government procurement agencies are also demanding ethical forest products and political initiatives such as Forest Law Enforcement, Governance and Trade (FLEG(T)) seek to inhibit trade in illegal logging.

Russia continues to be a major player in the forest products trade -- it contains vast forest resources of global ecological significance which also play a significant social and economic role in the Russian Federation.

The Russian forest industry mirrors the reaction internationally to market demand for CFP as evidenced by a dramatic increase in voluntary forest management certification by the Forest Stewardship Council (FSC) and other ratings agencies across the globe. Other CSR indicators in Russia such as eco-rating schemes are becoming increasingly important.

Traditional forest management practice in Russia falls well short of international standards but the effects of certification are leading to positive improvements in silvicultural practice. The study analyses the costs of implementing certification, as the main CSR indicator, against the benefits achieved based on the increased competitiveness of Russian companies. The model developed shows a short term economic cost to companies against long term economic gain.

Costs of certification have been significant for the companies carrying out this CSR initiative but there is scope for the public sector to aid the streamlining of certification by creating regional centers to offer companies training in certification implementation and offering e.g. more cost effective High Conservation Value Forests (HCVF) mapping and other ecological expertise on a regional basis. Opportunities exist for smaller companies to certify more cost effectively through the SLIMF (Small & Low Intensity Managed Forests) program, the certification of Leskhozoes and the application of Group Certification, rather than through the certification of individual harvesting concessions. This would also benefit small producers.

Certification results in a great improvement in silviculture, mainly as a result of better planning, but this still falls short of international best practice because of under funding in infrastructure and new technologies and contradictions in legislation. There is a clear public sector role to review stumpage fees and forest management funding, to create legislation and the necessary enforcement mechanisms to inhibit illegal logging, and to better protect HCV forests.

Most certification has been carried out by the industry leaders and this has masked the chronic lack of investment in planning, infrastructure and machinery that the forest management and harvesting sectors need. Targeted public sector involvement in infrastructure improvements, the creation of a good investment climate that supports corporate upgrading of harvesting technology, and the promotion of certified forest management would bring the Russian forest sector into line with international best practice.

For added value producers, market access as a result of certified wood supply can bring high returns as certification opens up new and more lucrative markets, or allows these producers to maintain an existing customer base in markets that demand more and more certified products. The public sector could take the lead, or at least be pro-active, in promoting the image of Russian forests as global reservoirs of sustainable forest products in the key markets for Russian forest products.

There are opportunities in other economic sectors to develop CSR practice on the basis of the experience in the forestry sector. The Marine Stewardship Council certification system exists and is being implemented by pioneering companies in Russia. The public sector could facilitate and promote this initiative based on the current success of FSC certification today in Russia.

As a result of lack of finance, the Russian agriculture industry is mainly organic. It is not the explicit focus of Russian agriculture to meet the needs of organic consumers, this fact is more the byproduct of an agricultural system lacking the finance, technology and know-how to apply large-scale industrial farming methods employed across Europe and North America. However, this situation could be harnessed, and the promotion of international labels for Russian agricultural products could be a key initiative for the public sector to aid agricultural exports.

The study provides a set of recommendations for action in the following fields:

- Adapting forest legislation and norms to achieve international standards
- Creation of public/private partnerships and capacity building to reduce certification costs
- Investment in brand image of Russian forest products, including training in and awareness of CSR
- Support for small forestry companies to market certified products

- Dissemination of information from the developments in CSR in forestry into the agricultural and fisheries sectors

## 2. Recommendations

### Adapting legislation and norms to CSR requirement:

1. To develop a National CSR and certification policy in the forest sector
2. Encourage long-term leasing and transferring of responsibilities of forest management to concession holders. Use certification or commitment to it (and other CSR indicators) as a preferred bidder status in forest leasing competition.
3. Harmonize Russian forest legislation, especially the normative base, with the requirements of the Russian environmental legislation using certification requirements as the bridge.
4. Promote and encourage ecosystem based forest management, based on landscape planning through adaptation of necessary norms and regulations.
5. Revise Forest inventory instruction and practices to correspond to CSR requirements.
6. Revise the existing felling and reforestation rules within the framework of preparing new forest practice regulations. Seriously consider the revision of existing thinning rules to make them commercially viable (based on the example of the Pskov model forest).
7. Lower customs taxes on a variety of imported silvicultural and harvesting equipment.
8. Support the implementation of new harvesting technologies by adapting existing harvesting rules.

### Partnerships and capacity building:

9. Develop Government & corporate partnerships (co-funding) of forest CSR programs, including mapping and conservation of high conservation value forests and protection of biodiversity in commercial forest areas.
10. Develop Governmental and Corporate sector partnership in developing the forest road network and the upgrading of harvesting technology.
11. To create a framework and investment climate to stimulate outside investment from IFC, EBRD and other donors into infrastructure development such as forest roads and upgrading of harvesting machinery into forest companies
12. Support the development of regional centers of certification excellence to reduce costs for individual companies by providing: programs of capacity building in social aspects of certification; biodiversity and rare species monitoring; regional programs of HCVF's mapping and conservation; training in controlled wood procedures
13. To focus development of such centers in regions where certification is in its early stages or market demand is low (e.g.

areas associated with Russian-Chinese timber trade, such as Russian Far East, Chita and Buriatia).

#### Investment in brand image and training

14. Implement a campaign promoting Russian forests and Russian certified forest companies abroad
15. To develop a programme within MEDT for State Procurement of Russian Certified forest products on a preferred supplier basis for companies with good CSR practice, including staff awareness training programs
16. To promote certified wood within internal markets together with companies such as IKEA, Obi, Auchan and others.
17. Development of wide scale training programs, aimed at raising CSR capacity inside the corporate sector and state bodies, including the Federal Forest Agency and Rosprirodnadzor.
18. Support specific CSR product marketing training programs for private sector marketing managers.
19. Specialized government forest organizations (Forest protection service, forest fire service) to offer training to the private sector.
20. Promote and encourage participation of local population in forest management planning and respect the rights of indigenous peoples.

#### Support for small and medium size companies

21. Wider application of group certification and SLIMF certification to involve small and medium sized businesses in CSR programs.
22. Support certification of 'leskhozes' to improve the performance of small and medium size companies.

#### Application of forestry sector experience into other sectors

23. Organize a Ministerial CSR seminar to illustrate the benefits of CSR practice in the forest sector in terms of improved practice and the possibilities of utilizing international certification as an aid to state monitoring of the exploitation of natural resources.
24. Organize private sector CSR seminars for agriculture and fisheries to disseminate the benefits of international certification on management practices and market penetration learned from the forestry experience.

The prototype of Oil and Gas standards should be developed and promoted to bring Russia to the forefront of CSR in this sector.