



This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

Activity 1.2.

ANALYSIS OF THE OVERALL ENVIRONMENT IN THE FOREST SECTOR

The total area of forest fund lands in the RK makes 14759.9 thousand hectares, or 82% of the total area of the republic, including 9356,4 hectares of wooded lands. The most valuable conifers dominate in tree species composition (89%); pine makes 5,9 mil. hectares (64%), spruce makes 2,3 mil. hectares (25%), and birch - 1.0 mil. hectares. The total standing timber volume equals to 935,09 mil m², what is much less than in adjacent Republic of Komi. The total standing timber consists of 30,3% of the 1st quality class forests, 30,8% of the 2nd class and 38,9% - of the 3rd class. However, the share of forests suitable for use is 84%. In the total timber stock, mature and over-mature stands make 435,84 mil. m² where conifers prevail (383, 26 mil. m²). Allowable cut in the RK is 8,9 mil. m² in 2004. Species and assortment composition of the cutting areas is given in the table below.

Thousand cubic meters

Species	Merchantable wood				Firewood	In total allowable cut
	Large	Middle-sized	Small-sized	Total		
Pine	827,8	1730,9	695,7	3254,4	507,8	3762,2
Spruce	209,6	1413,2	958,6	2581,4	414,2	2995,6
Birch	91,3	790,7	318,5	1200,5	564,9	1765,4
Aspen, alder	92,8	99,0	37,1	228,9	187,3	416,2
Total	1221,5	4033,8	2009,9	7265,2	1674,2	8939,4

In accordance with the Statute on the State Committee on Forest and Mining Industry of the Republic of Karelia, the Committee being the executive power agency of the Republic coordinates operations of forest industry complex of the republic. Goslestorprom of the RK, as a state power agency of the Republic of Karelia, directly exercises the authority of the subject of the RF delegated to the subject of the RF by Art. 47 of the Forest Code of the RF (decision-making on providing forest fund areas



Development of the operational environment of the Karelian forest industry SME's

Развитие предпосылок эффективного функционирования малых и средних предприятий лесного комплекса Республики Карелия

This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

for rent for up to 5 years, short-term use, putting forest fund areas up for forest tendering, setting forest fees etc.). As the Action Program of the Government of the RK on Enhancing the Forest Industry Complex (FIC) Management stipulates provision of forest fund areas for rent on a tendering basis, and Goscomlestorprom is responsible for conducting tendering procedures, the Committee makes the interest of the state (republic) – among others - of the highest priority when defining the conditions for participation in tendering and the conditions of selecting winners

The Decree of the Government of the RK of 09.02.2004 No. 70p-II establishes the policy and strategy of the Government of the RK in the area of forest use and FIC development for 2004 – 2010. The first stage of the policy are the activities of the Action program of the Government of the RK on Enhancing the Forest Industry Complex Management. Logging and wood processing companies are joint stock ventures (of both open and closed types), i.e. they are totally independent economic units. Logging companies develop their strategies of operations and investments proceeding from availability of long-term rent of forest fund areas. In parallel to monitoring, analysis and regulating current operations of the FIC, the efforts of the Committee are aimed at increasing future effectiveness of respective industries. The key growth “points” have been identified, and the Committee executes control over the projects on developing existing production capacities and establishment of new enterprises.

The Committee can influence operations of JSC by defining conditions for providing forest fund areas for rent. The Legislation of the Russian Federation gives two ways for providing forest fund areas for rent, i.e. by the decision of executive power agency of the subject of the RF for the period from 1 to 5 years, and on the basis of a tender for the period from 1 year to 49 years.

Besides, civil servants are members of Boards of Directors of the enterprises, a part of shares of which belong to the state, and they influence the decision-making process.

Forest fund areas are provided (awarded) (for rent and short-term use) in compliance with the Forest Code of the RF and the Decree of the Government of the RK No. 73-II of August 12, 1999 “Procedures for Providing Forest Fund Areas for Rent and Short-term Use”.



Development of the operational environment of the Karelian forest industry SME's

Развитие предпосылок эффективного функционирования малых и средних предприятий лесного комплекса Республики Карелия

This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

The Decree identifies procedures for providing forest fund areas for rent in the RK and procedures for providing forest fund areas for short-term use. The Decree in more detail interprets the requirements of the Forest Code of the RF.

Thus, the following requirements are set forth for the forest user who aspires to get forest fund areas for rent:

1. experience of logging activities on given territory (district and republic of minimum 10 years);
2. availability of production capacities for wood harvesting and processing, which are ample for not less than 90% of allowable annual volume of forest use.

Forest users which have the right to rent forest fund areas are logging companies, agricultural companies, enterprises formed as a result of privatization or reorganization of former Roslesprom, Rostopprom or Ministry of Defense, as well as the enterprises established on the basis of the property of bankrupt companies.

Procedures of considering the materials:

1. Written application by a forest user to a forestry with all necessary documents attached (state registration papers, the charter, taxation agency registration certificate, certificate from taxation agency confirming lack of debts for forest fee payment, brief economic and technical description (according to a given format).
2. Investigation and approval of areas (compartments) in question in the forestry, Local Administration of the district (session decision), and nature resource department of the RK (statement).
3. Investigation and making an evaluation of the availability of production capacities by Goslestoprom of the RK.
4. Discussion of the issue at a meeting of the Forest Resource Commission and registering the decision-recommendation in the minutes.
5. If the decision is positive, draft Decree of the Government of the RK is prepared and signed by the Head of the Republic of Karelia.
6. On the grounds of the Decree the rent agreement is made with the forestry and registered at the Ministry of Justice of the RK.

For short-term use forest fund areas are provided for meeting the needs of budget-financed organizations (educational facilities, kindergartens and other settings

Lieksa Development Agency Ltd
Kerantie 26, 81720 Lieksa, Finland
tel: +358 13 689 4046
fax: +358 13 523 165

The Oulu Region Joint Authority for Vocational Training
PL 213, 90101 Oulu, Finland
tel: +358 8 3126 111
fax: +358 8 3126 199

The State Committee of the RK on Forest and Mining Complex
Andropov street 2, 185035 Petrozavodsk, Russia
tel: +7 8142 76 81 63

ООО Учебный Центр
Andropov street 2/24, 185670 Petrozavodsk, Russia
tel: +7 8142 76 62 72
fax: +7 8142 76 24 99



This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

funded solely from federal, republican or local budgets) in repairs and construction; they are also provided to agricultural entities and people located on relevant territories.

Preparation of the application in every district starts with Local District Administrations. Application for the next year with attached package of documents should be submitted by LDA to the forestry before July 25. The documents should necessarily include the application (justified proposal), economic calculations for the need in forest fund areas (must be agreed with Goslestoprom if the applicant is a legal entity).

Then a forestry prepares and submits an overall plan of forest fund distribution (before August 1) to Natural Resource Department (NRD) of the RK. The latter (before August 20) prepares a draft plan of distribution for the next year and brings it for discussion at the meeting of Forest Resource Commission. After approval by the Commission (in 20 days) of a decision-recommendation a draft Resolution of the Government of the RK is developed (in 10 days after receiving the minutes from the Commission).

This practice of forest fund provision complies with the requirements of pp. 33 of the Rules of allocating standing forest in the RF:

“The pool of cutting areas for next year is designated for allocating cutting areas for forest users in turn:

- a) on the grounds of agreements on long-term use of forest fund areas;
- b) for meeting the needs of educational facilities, kindergartens and other budget-funded organizations, agricultural entities and population in wood;
- c) on the grounds of the results of forest auctions.

Besides traditional rent and short-term use forest fund areas can be obtained on a tendering basis.

Forest tendering commission and its membership was formed and approved by the Decree of the Government of the RK of 26.01.2000 No. 7-p-II in accordance with Art. 34, 35 of the Forest Code of the RF and the Statute on Conducting Forest Tenders for Providing Forest Fund Areas for Rent approved by the Order of the



This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

Federal Forest Service of Russia No. 123 on September 30, 1997. New members of the commission were approved by the Decree of the Government of the RK of 23.06.2003 No. 241p-II.

As of 01.01.04, forest fund areas with timber stock of 2,2 million cubic meters were provided for rent, what makes 35% of the total calculated volume of forest fund areas intended for rent (6,1 mil. m²).

All issues concerning providing forest fund areas for rent are considered at Forest Resource Commission meetings.

The commission was formed in November 1998 with the aim to bring order in the issues of allocation forest fund areas and increase the effectiveness of forest resource use.

The new membership of the commission was approved by the Decree of the Government of the RK of 25.08.2003 No. 102-II.

Government of the RK is interested in effective operations of forest users, complete use of allowable cut, increase of output from each cubic meter of harvested timber.

That is why requirements to forest users are getting tighter in terms of effective use of forest fund areas. This concerns both leasers (transfer to competitive rent, payment of forest fees for the whole rented forest fund, control over current operations and payment of taxes and tax burden) and "short-term users" (agricultural entities, district administrations etc.). The Committee was directly involved in developing conditions for competitive provision of forest fund areas for rent. Liabilities and historical traditions on supporting the social sphere of forest settlements are taken into account during forest tenders.

Because of that there are some concerns about draft new Forest Code of the RF proposed by the Ministry of Economic Development of the RF, which lacks provision of forest fund areas for rent on forest tender basis and allows only forest auctions. Implementation of this principle will bring negative consequences for the population of forest settlements.

One of the major differences of the new draft Forest Code of the RF developed by the Ministry of Economic Development and Trade of the RF is provision of forest areas on the basis of auctions. This solution is aimed only at increasing budget resources but it implies no enhancement of effectiveness of



Development of the operational environment of the Karelian forest industry SME's

Развитие предпосылок эффективного функционирования малых и средних предприятий лесного комплекса Республики Карелия

This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

keeping and using the forest fund of the country, upgrading of industrial potential of the FIC branches, development of social sphere of forest regions, implementation of investment projects on technical upgrade of the industry, what in turn will bring no doubling of the GDP in forest industry.

In case if this draft Forest Code is adopted, any legal entity can become a leaser or a owner of a forest fund area, including foreign entities, entities having no production capacities for exploiting forest fund areas, no experts, production means; it can be a newly established legal entity and therefore having no budget debts.

Art. 3 of Draft “Principles of Forest Legislation” proclaims division of functions:

1. normative and legal regulation of forest use, preservation and regeneration (no forest protection)
2. forest fund management
3. control over abiding by forest legislation.

Respectively, three federal entities are mentioned in the text:

1. Authorized federal executive power agency in the area of normative and legal regulation of forest use, preservation and regeneration (art. 6, 20, 30, 31, 42, 43, 52, 70, 71 of the Draft)
2. Authorized federal state (in other places executive) power agency in the area of forest fund management (art. 26, 30,31,41,49,51,54,58,64,65,66 of the Draft)
3. Federal executive power agency on control over abiding by forest legislation (art. 30,31,45,46,47,48,53 of the Draft).

The structure of the above listed agencies is not identified, and it is not clear how these agencies are presented at the level of subjects of the RF, forestry or forestry units. Interrelations among the agencies is not clear either, e.g. there are two state forest preservation units (art. 74 and 75), one is accountable for the federal executive power agency on control over abiding by forest legislation and it deals with guarding forest against forest violations, and the other is responsible to a federal executive power agency on managing forest funds and it deals with fire safety in the forests.

8. The Draft lacks an article similar to Art 58 of the current Forest Code of the RF “Federal Agency of Forest Economy Management”. The Draft lacks any mentioning of forestry, forestry units, felling license, and forest coupons. It is not clear how forest will be provided for other types of felling (felling on civil construction sites,



This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Lieksa Development Agency Ltd and can under no circumstances be regarded as reflecting the position of the European Union.

electricity transmission lines etc.), to local people and for short-term use for main felling operations.

On the whole, proposed Forest Code of the RF dramatically changes the system of forest economy management.

Lieksa Development Agency Ltd
Kerantie 26, 81720 Lieksa, Finland
tel: +358 13 689 4046
fax: +358 13 523 165

The Oulu Region Joint Authority for Vocational Training
PL 213, 90101 Oulu, Finland
tel: +358 8 3126 111
fax: +358 8 3126 199

The State Committee of the RK on Forest and Mining Complex
Andropov street 2, 185035 Petrozavodsk, Russia
tel: +7 8142 76 81 63

ООО Учебный Центр
Andropov street 2/24, 185670 Petrozavodsk, Russia
tel: +7 8142 76 62 72
fax: +7 8142 76 24 99