

**Interim Report**

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**The Flexible Domestic State: Institutional  
Transformation and Political Economic Control  
in the Khabarovsk Krai Forest Sector**

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## **Abstract**

This paper is about the political economy of state control in the forestry sector of post-Soviet Khabarovsk krai. Following the breakup of the USSR in 1991, the Russian Federation government began introducing policies to decentralize administrative and management responsibility to the regions, with President Yeltsin famously urging the regions to “take all the sovereignty you can swallow”. In Khabarovsk krai, located on Russia’s Pacific coast and adjacent to the expanding industrial timber markets of the Pacific Rim, the provincial government took the President at his word and began legislating provincial control over access, revenues, and management of the territorial forest resources. In the process, the provincial state challenged the administrative and financial controls of local state bodies, the municipal governments and the district branches of the Federal Forest Service. This paper looks at the transformation of the state in its multiple levels and associated powers, and seeks to explain the political economic relationships of state power that prevail in the sector. The paper first presents the changing logic of codified authority in the krai forest sector between 1992 and 1998, as legislated authority moved from Moscow to the municipalities and then to the provincial state. It then examines the tensions created among the different state institutions as the result of these reforms, and the responses by the local state institutions to counter the challenges to their fiscal and administrative autonomy.

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## **About the Author**

Marian Mabel is a doctoral candidate in the Department of Wildland Resource Sciences at the University of California, Berkeley, with a specialization on the political economy of natural resource use. Her dissertation research focuses on the interdependencies and outcomes of two dynamic processes of the post-Soviet forestry sector of Khabarovsk krai: the domestic decentralization of political-economic authority in the krai's forestry sector, and globalization of the extractive raw materials industry as foreign capital arrived to harvest and export the forest resources. This interim report will serve as one chapter of the dissertation.

# The Flexible Domestic State: Institutional Transformation and Political Economic Control in the Khabarovsk Krai Forest Sector

Marian Mabel

## 1. Introduction

The Russian Far East<sup>1</sup> — the Pacific littoral of the Russian Federation — is a treasure trove of natural riches, host to a wealth of minerals, oil, gas, and diamonds, and with nearly unbroken *taiga* (boreal forest) covering 273 million mountainous hectares. This natural wealth has persisted in the Russian Far East (RFE) long after the exhaustion of similar storehouses elsewhere in the world, largely because until recently, it served as a remote reserve supplementing existing stores closer to Soviet Russia's main internal markets; also because the Russian Far East remained closed to foreign exploitation during the seventy years of Soviet rule. In 1991, with the breakup of the Soviet Union, the Russian Federation government opened the borders and markets of the Russian Far East to the global economy. Despite dramatic political and economic transformations (including the demise of the redistributive party-state, policies of economic liberalization and administrative decentralization, and the privatization of state property) and its proximity to the industrial markets of the Pacific Rim, the resource-rich RFE has not seen the dynamic processes of economic growth and competitive integration into global markets that neoliberal theorists and Western economic advisors anticipated.

This paper is about the political economy of the Russian transition. It is not about the transition to markets once hailed by expectant neoliberal reformers. Nor does it grant attention to the important parallel transformation of the industrial enterprise sector. Instead, it is about the Russian state's transition from Socialism: the transformation of the institutional capacity of the Soviet state, steered by its *nomenclatura*<sup>2</sup> to appropriate control over the public wealth within its territorial jurisdiction. I refer to the state not as a structure or an undifferentiated whole, but rather as sets of institutions, social processes, and relations that exist in, and reflect their social context (Verdery, 1996; Hsing, 1998; Romm, 2000). The current Russian state is far from a monolithic whole

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<sup>1</sup> The Russian Far East is defined here as including the territories on Russia's Pacific frontier: the Chukotka, Koriak and Yevreiskaia Autonomous *okrugi*, Khabarovsk and Primorskii *kraii*, the Kamchatka, Magadan, Amur, Sakhalin, and Chita *oblasti*, as well as the inland Republic of Sakha (Yakutia).

<sup>2</sup> Historically, *nomenclatura* refers to the system by which the Communist Party made appointments to specified posts in the government or economic administration.

and the transformation of its institutional relationships is taking place at all levels of its vertical hierarchy – federal, *krai* (province), *oblast* (region), and *raion* (municipality or district). Given the cascade of overlapping jurisdiction, tensions have developed among the differentiated state's interests over who gets to control of what, under what conditions, and with what returns. The transitional state is negotiating — or battling — across its own internal boundaries, and the resulting political economy is characterized by a many-layered fragmented state with multiple logics, interests, and strategies.

What does it mean to control public wealth in post-Soviet Russia? In Khabarovsk Krai, located on Russia's Pacific coast, rich in timber, fish, and mineral stores and in close proximity to the industrialized Pacific Rim markets, control over the public wealth means control over the region's raw material resources. Here, eight time zones east of the political center of Russia, proximity translates readily into control. Territorially-based administrators are central to decisions on access, terms of use, the distribution of revenues, and devise the regulations governing the exploitation of the public resources. In addition, however, baseline terms are set by Moscow. The federal state requires regional political allegiance and a share of the returns from territorial wealth in exchange for the regional governments' autonomous control at home (Castells and Kiselyova, 2000). In other resource-rich territories of the RFE, governors have bargained with Moscow for greater economic control over their region's raw material resources. Some have bargained successfully, such as the diamond-rich Sakha Republic; others less so, like the six gubernatorial parties to the 1993 Siberian Agreement. In politically stable Khabarovsk Krai, Moscow is less concerned with political patronage and more interested in the growing economic opportunities from foreign direct investment and trade with the Pacific Rim and China. To this end, Moscow has assured itself a share of the revenues from forest use and established federal ownership of Russia's forests, in light of 1997 federal forest legislation. In turn, the federal government granted the Khabarovsk government relatively untethered control over the raw material forest resources in their territory.

At the close of 1998, codified direct governance over access and exploitation of the territorial forests sat squarely with the Khabarovsk administration. The *krai* allocates long term forest leases, negotiates the terms, receives 60 percent of the revenues among other incomes from forest use, and sets the administrative policy agenda. But in the process of legislating itself control, the *krai* has challenged the existing autonomy and jurisdiction of the local-level state institutions. The municipal — *raion* — administrations have “officially lost their funding, officially lost their jurisdiction, and acquired new social responsibilities”, leaving them with much expanded but sorely underfunded local social-economic mandates (Sheingauz, 1998a). Similarly, the district branches of the Forest Service, the *leskhoz*, lost their financial independence, though not to the *krai* as much as to the shift from state subsidies to the federal government's experiment with market-based allocation of forest fund resources. The *krai*'s centralization of control reflects a direct conflict of interest among the federal, provincial, and local state institutions, where the upper echelons of the state hierarchy have legitimized the expanded provincial control of the public natural resources at the expense of local state institutions. The political-economic tensions have prompted an institutional flexibility at the local level as the *raion* and *leskhoz* persist in their prior practical administrative and economic authority to govern forest use and the returns from exploitation. The political-economic relationships of power that pertain in the Khabarovsk forestry sector are not necessarily those codified by the provincial and

federal legislative reforms, but are more often localized, relative relationships of power held by the local state authorities and practiced at the local level, as they continue to govern access and control over the forest fund resources in their territorial purview.

This paper looks at the transformation of the state in its multiple locations and associated powers, and seeks to explain these political-economic relationships of state power that prevail in the sector. To this end, we can consider the state institutions in terms of the decisions they have made. What is the logic of control over raw material wealth; which state institutions control what, under what conditions, and why? What is the logic of regional negotiations with the Kremlin; what must the provincial state concede to Moscow in exchange for regional economic and administrative autonomy? And what are the implications of change in the control over public wealth; where state interests are not compatible and tensions develop among the different levels, what is the logic of infighting among them?<sup>3</sup> By examining the formal and informal processes of institutional change, and the competitive and differentiated responses by interdependent state institutions, we can get a sense of the political-economic relationships of (formal and informal) state power that prevail in the post-Soviet forestry sector of Russia's easternmost territory.

The role of the state is not the only influence on the organization (and development) of the forestry sector; there are internal and external economic, political, and social forces that also shape the activities in the sector. The state, however, is central in setting the context for the participation and practice by industrial forest users in the sphere of forestry, especially foreign capital investment. And in Khabarovsk the formal and informal transformation of the states' institutional authority has created the context for the arrival of foreign direct investment in the forestry sector and the *krai's* much-anticipated integration into the global markets of the Pacific Rim. The results are manifested in a system of resource use and management characterized by diffuse locations of state power, overlapping jurisdiction, flexible rules and regulations, negotiations at every level of decision-making, and a labyrinth of relative power relationships that govern the processes of participation in the Khabarovsk forestry sector.

The paper is presented in three sections. The first section presents some theoretical context for questions of the state's transition from Socialism and the flexibility of social institutions to accommodate political and economic change in their efforts to protect their access to productive resources. The second section presents the changing logic — and location — of codified state controls in the Khabarovsk Krai forestry sector between 1992 and 1998, as legislated authority moved from Moscow to the municipalities, and then to the provincial state. The third section examines the tensions created among the different state institutions as the result of these reforms and the response by local state institutions to counter the challenges to their fiscal and administrative independence.

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<sup>3</sup> Thanks are due to Manuel Castells for this analytical framework.



## 2. Institutional Transition from Socialism: Some Theoretical Approaches

There is an expansive literature on the processes and directions of the post-Soviet transition from socialism. Among the earliest voices in the transition debate were those of the neoliberal theorists and policy advisors who engaged the newly independent Russian Federation in a normative quest to “liberate the market”. Neoliberal theories of economic transformation begin from the premise that free-market capitalism will follow inevitably on the dissolution of the central party-state and introduction of private property rights (Nee, 1989, 1996; Sachs and Woo, 1994; Aslund, 1994). As Stark and Bruszt (1998:5) put it, “the (neoliberal) road to an advanced capitalist economy is the same road, regardless of the starting point”. Markets will gradually replace state bureaucracies in reallocating surplus, rewarding productivity rather than political loyalty (Nee, 1996), and economic reforms will smooth the transition from the redistributive economy of shortage, stagnation, inefficiency, and “plan bargaining” (Kornai, 1992; Jowitt, 1992) to idealized Western free-market systems of dynamic efficiency, technological innovation, stability, and economic growth.

Other literature on the post-Soviet transition takes exception to this assumed linearity of change and the contextual blinders of static recipes for economic reform. In addition to the shortcomings of systematic blueprints for institutional change, neoliberalism abides by “the myth of starting from scratch” (Stark and Bruszt, 1998), assuming that the collapse of communism left an institutional void in the post-Soviet economic system. Instead, critics of neoliberalism argue, some processes of the transition are deeply embedded in social and economic relationships that have their roots in the Soviet-era bureaucracy (Jowitt, 1983, 1992; Walder, 1996; Szelenyi and Kostello, 1996; Verdery, 1996).

Among these critical voices, Walder (1986, 1996) brings Jowitt’s (1983, 1992) concept of “neotraditionalism” (where Communist Party *apparatchiki*<sup>4</sup> personalize the status and power of their office) into the post-Soviet period. Walder asks whether “cadres are able to develop new sources of power — not as redistributors but as regulators, brokers, middlemen... managers or consultants... all through drawing on influence, knowledge, and connections developed in previous years of power” (Walder, 1996). Writing on the privatization of state enterprises, Verdery (1996) captures this same transposition of institutionalized public authority and associated political networks to personalized, privatized market power with her concept of “entrepratchiks” as the combination of “entrepreneur” and “*apparatchik*”. Stark and Bruszt (1998) characterize this privatization of public power as “*nomenclatura* buyouts”, and Staniszkis (in Verdery, 1996) writes about the transportability of “political capital”. Walder and others thus see the state *nomenclatura* changing from bureaucratic to managerial, making a smooth transition from the public to the private sector — same individuals, same organizations and offices, same networks of relationships — but now in the context of the private sector marketplace rather than the public realm of the state.

You-tien Hsing (1998), writing about economic decentralization in China, approaches the transition from an altogether different perspective and looks at the transformation of

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<sup>4</sup> *Apparatchiki* are Party bureaucrats or operatives.

the state within the state. Instead of focusing on the extension of bureaucrats' public sector rights into the private sector, she writes about the transformation of local state bureaucrats into entrepreneurial agents drumming up deals for the state. "China's new economic decentralization policies have not led to a full-fledged privatization or market economy", she writes, but rather to "the increasing autonomy of local governments and the bureaucrats' direct involvement in local accumulation" (Hsing, 1998). In this, Hsing offers a compelling framework for thinking about the post-Soviet state's transition and its efforts to capitalize on the public wealth in an increasingly open environment of economic exchange. Like her "bureaucratic entrepreneurs", in post-Soviet Khabarovsk I found competitive local state institutions with control over key economic resources such as access to raw materials, and administrative and financial regulatory authority. But in Khabarovsk, a large measure of fiscal sovereignty and administrative powers that rest with the local state institutions is informal and unsanctioned by larger political and economic reforms from above. State-based control of public assets and accumulation is not a coordinated affair; instead, it is internally competitive with multiple state logics, interests, and strategies to realize them.

In such conditions, some institutions win and others get flexible. Hsing frames this and the situation in Khabarovsk when she writes, "There is a multilayered power dynamic among different jurisdictions, among different agencies of the same jurisdiction. Reform coalitions or competition in the newly opened market could happen among provinces, between province and subregional agencies,... Decentralization is practiced in various forms. It is best understood as a process of negotiation and bargaining between the central and local governments, combined with the flexible local interpretation and adaptation of centrally imposed politics" (Hsing, 1998).

Sara Berry's work (1989, 1993) on agrarian transitions in post-colonial Africa is a solid theoretical accompaniment to Hsing's work, arguing that social institutions are flexible and their renegotiation is pervasive as actors try to maintain their access to productive resources in response to political and economic change. Transformation of social institutions in transitional societies is a fluid and interdependent process, the product of influences from different and overlapping social arenas. As a result, we should expect flexible processes of change, not linearity, as new institutions and relationships emerge to fill in where an old social order has collapsed or been otherwise transformed (Berry, 1989). "People seek access to new sources of wealth and power through existing institutional channels and use their newfound wealth and influence in ways which serve to restructure old institutions and social relations rather than to destroy them" (Berry, 1989). Where Berry is writing about individuals manipulating existing social institutions to serve their interest in maintaining control of productive private resources, in Khabarovsk, we are seeing the multiple state institutions — via their own *nomenclatura* — seeking to expand their slice of control over the productive raw material resources in their territory.

### 3. The Changing Logic of Control

#### 3.1 Devolution from the Center:

##### ***“Take all the sovereignty you can swallow”***

Following the disintegration of the USSR in September 1991, the government of the Russian Federation began introducing policies to decentralize administrative and management responsibility to regional and local district administrations, sharply reducing long-standing centralized economic support to the regions. Shrinking governmental subsidies to the Russian Far East in energy, transportation, capital investment, social services, and the military industry had a catastrophic effect on the economic system of the entire region (Moltz, 1996, p. 182). Overnight, Khabarovsk Krai lost its Soviet-era industrial markets in European Russia and the USSR's Central Asian Republics, as newly unsubsidized production and transportation costs made RFE forest products uneconomic in domestic markets as far as 6000 kilometers to the west. At about the same time, central state programs promoting the privatization of state enterprises and liberalization of trade prompted the partial or total privatization of most of the *krai's* 32 state forest industrial enterprises. Hundreds of new firms for the harvest and export of Khabarovsk timber sprang up as entrepreneurs and the new owners of former state enterprises anticipated hard currency and profits from neighboring Pacific Rim markets. For the most part, however, neither the new private nor the former-state enterprises were able to capitalize on the opportunity, given their obsolete infrastructural and insufficient technological capacity to meet international standards in the Pacific Rim markets.

With the collapse of the Soviet-era planned economic system, the Khabarovsk administration found its forest sector with rising costs of production, absent competitive production infrastructure, collapsed domestic markets, losing money from unregulated timber trade with the Pacific Rim countries, and no unifying provincial policy on either harvest or export activities Antonova and Mabel (1998, p. 6). From 1990 to 1994, production of commercial timber fell from 11 million cubic meters per year to less than 3 million cubic meters per year, and forestry's share of industrial production in the *krai* fell from 12 to 8.5 percent. Sheingauz *et al.*, (1996) remarked on the untimely disconnect between RFE capacity and international opportunity: “Such a crisis is leading to distressing losses for the entire forests of the region... Simultaneously, the value of forest resources and its products continues to grow in Pacific Rim countries”. The administration had “doubts as to whether the forest sector (had) sufficient energy to address the challenging goal of acting as a catalyst for regional development” (Sheingauz *et al.*, 1996). Against these doubts, however, was the *krai's* proximity to the timber markets of Japan, Korea and China which, when combined with the post-Soviet policies of openness in international trade and investment, presented expanded opportunities for economic integration into Northeast Asia. In the early 1990s, then, the *krai* administration turned to international timber trade as one way to rebuild and reorient the regional forest economy (Sheingauz *et al.*, 1996; Pominov, 1998, p. 66). To do so, the provincial government would need direct control over the development and direction of the industry and in revenues generated by the trade, responsibilities long

held — and only recently and incompletely relinquished — by Moscow (Efremov *et al.*, 1996, p. 13).

Independent regional initiatives to govern industry were not an option during the Soviet era. With the collapse of the centrally planned economic system, however, regional initiatives for administrative independence were actively solicited by Moscow. In a 1990 radio address, Russian President Boris Yeltsin advised the fishermen of Petropavlovsk-Kamchatskii, on the Kamchatka Peninsula:

“There is no point in counting on investment by the center because the economy is now being decentralized and property is being denationalized, so there will be nowhere to obtain such subsidies, since most of the resources will be in the hands of the producer. You, the fishermen, oilmen, and all the others who work and live here, must decide what this is to entail. (You) will be given the independence to take your own decisions on organizing joint ventures and organizing small enterprises” (FBIS-SOV-90-172, 1991).

In 1992, the President extended this invitation to the provincial governments, urging them to “take all the sovereignty you can swallow”. Laws on the books provided no guidance in this direction, being holdovers from the former USSR and the RSFSR (Russian Soviet Federation of Socialist Republics): strictly centralized and oriented toward social and economic systems organized from Moscow. Soviet-era laws were largely normative without enforcement mechanisms, addressing only a small portion of forest management activities, with little or no accounting for the disparity in regional social, economic, or environmental characteristics. Russia-wide reforestation schedules and volumes were dictated from Moscow, for instance, despite the country’s diversity of climactic seasons and the tremendous variation in area and ecology managed by the district forest service offices over Russia’s one billion hectares of *taiga* (Efremov *et al.*, 1996, p. 13). Soviet-era forest management was legislated to maximize its extractive potential with an eye toward “continuous harvest” of timber resources, a far cry from growing calls in post-Soviet Russia to recognize the broader ecological and economic services provided by the *taiga* resources. In addition, laws on the books did not question the issue of forest resource ownership — the State and the People owned the Forest Fund.<sup>5</sup> Ownership of natural resources was of increasing interest to the provincial governments in the forest-rich regions of the Russian Far East: Given that they now had administrative responsibility for them, many governors wondered, shouldn’t they also have ownership? And yet, Soviet-era laws still on the books were “completely conforming to the (party) ideology, with orders specific to the planned centralized economy” (Efremov *et al.*, 1999). Given the social and economic reforms with a market orientation, officials from the *krai* administration declared these laws to be “absolutely unusable” (Efremov *et al.*, 1996, p. 13).

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<sup>5</sup> The State Forest Fund (*Gosudarstvennyi Lesnoy Fund*) is an official Russian term denoting federal government-owned forest and non-forest lands that are managed by the authorized federal forest management agencies, primarily by the Federal Forest Service of Russia. Forest fund lands are akin to National Forest lands in the United States. About 60% of Russia’s total land base, and more than 90% of Khabarovsk, belongs to this fund (World Bank, 1996, p. 27, footnote 1; Cholyshev and Abe, 1997, p. 2).

The Khabarovsk administration was eager to take the President at his word. Within a year of the collapse of the Soviet Union, the *krai* administration began issuing provincial normative acts to regulate forest resource use and payments systems, introducing competitive mechanisms to allocate access to forest resources, and creating administrative bodies to implement the new legislation (Sekhin and Vachaeva, 1998; Sheingauz *et al.*, 1996, p. 13; Efremov *et al.*, 1996, p. 13). From 1992 to 1998, the provincial administration granted itself increasing controls over forest industrial activity within its territorial borders. According to a collaborative paper by provincial administrative officials within the *krai*:

“An important goal (of these initiatives) is the formation of the legal basis for the economic grounds of forest use, which is connected with the following three main reasons: (1) forest management still does not agree with the new economic relations; (2) forest resources should become a significant source of income for the *krai*'s population, and may facilitate the solution of both economic, and primarily, social issues; (3) all environmental and some social problems of forest use have been caused exclusively by economic activities, and only through the economic activities can they be solved” (Efremov *et al.*, 1996, p. 25).

The *krai* level, post-Soviet, forest legislative acts are numerous (see Appendix). Those initiatives of greatest consequence for increasing provincial control over the forest resources are those that created provincial-level institutions with state-sanctioned governance authority, and which reordered flows of resource control and revenues through the *krai* administration. In the process of codifying authority at the provincial level, however, the *krai* challenged the existing political-economic autonomy and jurisdiction held by other state institutions — the municipal (*raion*) administrations and the Federal Forest Service's provincial office and district branches (*leskhoz*). The resulting tensions have fostered a local institutional flexibility and persistence as the competing state institutions seek to maintain their administrative and fiscal autonomy to govern forest use in their territorial jurisdiction.

The next section presents an abbreviated view of the evolution of codified control over the forestry sector between 1992 and 1998, illustrating the logic of negotiations with Moscow and the changing location of control, as independent authority governing the forest resources and their returns was relocated first from Moscow to the *raiony*, and then to a shared jurisdiction, splitting ownership and control between the federal government and the *krai* administration, respectively.

### **3.2 The Evolution and Relocation of State Authority from 1992 to 1998**

The *krai*'s centralizing initiatives written before 1993 are markedly different than those written after. The earlier legislative acts were drafted broadly in an effort to make up for the absence of regional guidance from the federal center. Provincial acts adopted after the federal government's 1993 passage of the *Fundamentals of Federal Forest Legislation* have been directed more specifically toward filling the gaps where federal laws and regulations fail to elaborate mechanisms for implementation or to account for regional specificity and circumstance (Sheingauz *et al.*, 1996, p. 13).

There are a number administrative initiatives that stand out as explicit in expanding the *krai*'s authority in the forest industrial sector. The first, the 1992 *Regulation on Forest Use Procedures in Khabarovsk Krai*, was largely superseded by the federal forest legislation in the year following its adoption, but is notable because it established a basis for future *krai* and federal forest legislation. Subsequent initiatives of continuing influence include (2) the creation of the *Krai* Commission on Forest Use, a provincial decision-making body to allocate forest fund land for long term lease; (3) the creation of a Department of Natural Resources and Extractive Industries Management, within which is a Division of Forest Industry; the first creates policy and strategy for the development of the industry in the *krai*, and the second implements and manages that strategy; (4) a *krai*-level Certification Commission which certifies forest users for the use of forest lands in the province; (5) the creation of provincial legislation establishing the system of payments and distribution of revenue from forest use; (6) the adoption of the *krai*'s own Forest Law, and (7) restructuring of the forestry enterprises indebted to the *krai*, absolving their debt in return for a controlling state interest in the enterprise.

The administration's effort to extend its jurisdiction in the forest sector did not exist in a federal policy vacuum, however. It was both helped and hindered by revisions to forest policy at the federal level. Since the collapse of the Soviet Union, federal forest policy has been revised twice: once in 1993, as mentioned above, and again in 1997, creating a changing context to which the *krai* initiatives were largely a response, occasionally a challenge, and in some cases, essentially ignored.

### **3.2.1 1992 Regulation on Procedures for Forest Use in Khabarovsk Krai**

The first and most far reaching of the *krai*'s early initiatives was adopted in June 1992, less than a year after the breakup of the USSR. The *Regulations on Forest Use Procedures in Khabarovsk Krai* introduced a number of innovations to forest policy, declaring provincial sovereignty over forest resources in the *krai* and instituting new mechanisms for granting access to forest resources. The *Regulations* introduced the concept of a license granting a forest user the right to lease forest lands. The license was to be issued through a competitive process — open auctions or closed bidding — held by the *raion* authorities in coordination with the management advice of the *leskhoz*. The *krai* legislation also extended the legal grounds for leasing forest fund resources to foreign entities. Though much of the 1992 *Regulations* was largely superseded by the 1993 federal forest code, including the claim to provincial ownership, the *krai* law is generally credited with forming the basis for elements of the 1993 federal code and the *krai*'s own Forest Law adopted in December 1998. Box 1 presents the main points of the 1992 *Regulations*.

**Box 1: Highlights of the 1992  
Regulation on Forest Utilization in the Khabarovsk Krai Territory**

- Forests and forest lands of Khabarovsk Krai are the property of its population and constitute the economic basis for local social development.
- Privatization of *krai* forests is prohibited.
- Forest use is regulated by paid, limited-duration permits, such as concessions and licenses, harvest permits and forest permits. Some mechanisms, such as concessions and licenses, are to be allocated through market mechanisms such as open auctions or closed tenders; others, such as harvest tickets and non-timber forest product tickets are allocated by the *leskhoz*.
- A concession grants permission for overall utilization, and special permits are given for specific activities.
- Subleasing by the forest users is permitted for land use and under-canopy resources, but not for wood resources.
- Permits for forest use are available to any juridical or physical person, including foreigners, who must be juridical persons.
- The society in the *krai* has the right to use the forest for recreation and other non-wood functions.
- All loggers must get permits and must sign agreements with the local administration in order to use the forest resources.

Source: *Priamorski Vedomosti*, 1992 July 4, 1992, in Sheingauz *et al.* (1995) Box 3, p. 8.

### **3.2.2 1993 Federal Forest Legislation of the Russian Federation**

In 1993, the *Fundamentals of Forest Legislation of the Russian Federation* was signed into law by the President of the Russian Federation, and upon its adoption became the highest level legislation governing forestry in the country (Sheingauz *et al.*, 1995, p. 8; Efremov *et al.*, 1996, p. 7). For the most part, the *Fundamentals* was not a dramatic departure from the Soviet-era laws that came before it, and significant sections of the 1993 *Fundamentals* were borrowed directly from the Soviet forest legislation of the 1970s, leaving administrative power still concentrated with the central authorities (Sheingauz *et al.*, 1995, p. 9). In its attempt to combine Soviet-era provisions and accommodate Russia's end to central planning, however, the *Fundamentals* was criticized as internally inconsistent and, according to Sheingauz *et al.* (1996, p. 11), as "in fact, a useless document". Even so, the new legislation introduced a new system of payment and competitive mechanisms for the allocation of forest resources.

Prior to the *Fundamentals*, in the absence of specific legislative direction, *raion* administrations assumed the right to allocate forest resources in their municipalities (Efremov *et al.*, 1996, p. 5). The *Fundamentals* sanctioned this practical authority and expanded it to include setting concrete rates for short-term dues and long-term rental payments, distributing licenses for forest use, and being the conduit and recipient of the revenues earned from forest use in their districts (see Appendix, Box A1) (Sekhin, 1997,

p. 2). *Raion* administrators allocated licenses in cooperation with the *leskhoz*, by closed competitions, open auctions, or through direct negotiations (Article 28), though critics in the *krai* administration complained that this last option was a “loophole for bureaucratic arbitrariness and corruption of functionaries” (Sheingauz *et al.*, 1996, p. 18). Forest dues were expanded beyond stumpage fees to include fees for harvest of secondary forest products<sup>6</sup> and the use of federal forest lands for cultural, recreation, hunting, and tourist activities, with land use taxes incorporated into both dues and rental costs (Articles 66, 68, and 71). Dues could be paid all at once or as regular payments during the term of use, in cash, in kind, or as work or services, and payments went directly to the *raion* budgets in whose territory the forest resources were located (Article 72) (Bardal, 1998, p. 11; Efremov *et al.*, 1996, p. 11; Sheingauz *et al.*, 1996, p. 12).

By granting these practical powers to the municipal administrations, the *Fundamentals* countered the *krai*'s 1992 claim of provincial ownership of the territorial forest resources and set back the *krai*'s efforts to establish its direct control over the forests. That said, the *Fundamentals* also left the legislative door wide open for provincial co-optation of nearly all of the municipality's authority in the forest sector. Even as Articles 28, 69, and 72 grant the *raiony* the authority to allocate licenses and organize forest competitions, set concrete stumpage fees, and determine the distribution of rental payments, each of these same Articles also allow the provincial administrations to revise the rules and procedures governing these controlling mechanisms, in the process overruling the municipalities' jurisdiction; all options that the administration took advantage of over the next two years. In the process, the *krai* almost entirely co-opted the practical authority of the *raiony* to govern the territorial forest resources.

### **3.2.3 *Krai Commission on Forest Use***

The *krai*'s expanded governance of Khabarovsk's forestry sector was most assertively established by its 1994 creation of the *Krai Commission on Forest Use*. Created in response to the *Fundamentals*' call for joint forest management and administrative responsibility between the Federal Forest Service and the subjects of the Russian Federation (Articles 4 and 5), the Commission's reach includes “making decisions, proposals and conclusions concerning the management, disposal, permanent and sustainable use of forest resources, granting (or revoking) forest sites for long term use and solving other questions of forest use” (Section 1, Article 1). With this, the Commission became the main agency for making final decisions on submitting forest timber resources into lease, with the use of all provincial forest resources under its authority (Sekhin, 1997, p. 1; Efremov *et al.*, 1999, p. 11). (For responsibilities of the Commission, see Appendix, Box A2.)

Chaired by the First Deputy Governor of the *krai* and subordinate only to the direct authority of the Governor, the Commission primarily addresses the large scale and long term lease of forest land for industrial harvest (areas of more than 2500 hectares or harvest of more than 5000 cubic meters per year, for a period from 1 to 49 years). In 1996, the Commission allocated eleven lots totaling more than 380,000 hectares; in 1997, these numbers increased more than five-fold (see Table 1). Decisions on forest

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<sup>6</sup> Secondary forest products could include the harvest of pitch, resin, hay, and fodder, as well as the commercial harvest of tree sap, nectar, pollen, berries, mushrooms, medicinal plants, and beehives.



use for less than a year, with volumes under 5000 cubic meters per year, or on areas less than 2500 hectares, remained for the most part under the purview of the *raion* administrations, with management advice from with the *leskhoz*.

*Table 1. Dynamic of Forest Service Lots for Competition, Khabarovsk Krai*

<b>Index</b>	<b>1996</b>	<b>1997</b>
Number of lots presented for competition	11	60
Total area (000 hectares)	384	2,095
Exploitable volumes (000 cubic meters)	18,659	90,857
Annual Allowable Cut (000 cubic meters)	365	2,216

Source: Department of Natural Resources and Resource Extraction Industry, Khabarovskii Krai Administration, 1998; Mikheeva (1999); Bardal (1998).

If there were earlier concerns about bureaucratic arbitrariness in the allocation of forest fund land at the hands of the municipal authorities, they were not dispelled by the transfer of bureaucratic authority up to the Commission. In 1998, the Bulletin of the Russian National Academy of Sciences reported that “more often than not, the land parcels have been distributed among the forest users not by the results of competitions but by direct negotiations, thus turning out to be the object of bargaining between forest users and the *krai* administration” (Antonova and Mabel, 1998, p. 6). The Commission’s broad authority superseded the traditional role of the Federal Forest Service to allocate forest lands, subordinating the provincial branch of the Forest Service to the authority of the Governor and the Commission. At the municipal level, the Commission took advantage of the loopholes in the 1993 *Fundamentals* and appropriated *raion* authority to issue licenses for long term lease, allocate large scale forest lots for exploitation, and negotiate payment rates for the long term use of forest resources. Criticizing the *raiony* for “misuse and causing unreasonable delay in compiling and preparing documents”, the relocation of control from the *raion* to the *krai* promised “a more orderly allocation of forest tracts for rent” (Bardal, 1998, p. 16).

But improved administrative efficiency was not the only reason behind the *krai*’s interest in direct control over the territorial forest resources. By 1994, there was growing international interest in Khabarovsk timber for export to Pacific Rim markets. Of industrial roundwood produced in the *krai*, 84 percent was exported to international markets, and forest products accounted for \$218 million in trade; more than 50 percent of the *krai*’s trade by value (Sheingauz *et al.*, 1996, pp. 38–40). Within three years, the Russian Far East — of which Khabarovsk is the largest timber producer — would be earning 57.2 percent of Russia’s foreign exchange earning from timber exports (Kozlova *et al.*, 1999, p. 108). Further, in 1994 there were 35 Russian-foreign joint ventures in the production and processing of industrial roundwood and furniture for export, half of their authorized capital from foreign sources (Gataulina and Waggener, 1997, p. 54). Along with foreign direct investment, the *krai* administration anticipated new technology, western management skills, expanded employment opportunities, and better market rates for timber sold on the international market. That the *krai* aggressively established control over the lucrative forest resources, and not other raw material resources in the province, was no surprise to the chief of one of Khabarovsk’s largest non-governmental environmental organizations:

“The (*krai*) administration tries to influence the administration of forest activities via the Commission and licensing. The license is from the Department of Natural Resources and Management of Extractive Industry, not from the Forest Service. In contrast, hunting licenses are from the *krai* branch of the Federal Office of Environmental Protection. The *krai* officials saw that timber means money so they wanted to control that. But hunting doesn’t bring in the same kind of revenues so the officials were willing to grant discretion to the *krai* branch of the federal department on that” (Chief of Environmental NGO, 1998).

### **3.2.4 Department of Natural Resources and Extractive Industries Management**

Another initiative by the *krai* was the creation of the Department of Natural Resources and Extractive Industries Management. Under the Soviet system, the *krai* administration had no provincial policy-making body to lend direction and management focus to the forestry complex; forest policy and management were decreed from Moscow and the *krai*’s participation was largely a formality (Sheingauz, 1998c). Seeking to establish its own administrative capacity and authority in the forest industrial sector, in 1990 the *krai* administration created the Division of Natural Resources and Extractive Industries Management (later upgraded to a Department). Broadly speaking, the Department regulates the organization of the forest industrial sector, writes policy governing natural resource use, and houses the licensing department that carries out the decisions of the *krai* Commission on Forest Use (Efremov *et al.*, 1999, p. 6). In this, the administration established its own platform from which to develop policy on natural resource use and to lend longer term direction and strategic development focus to the industry. It also created an administrative liaison for companies and countries seeking to set up operations or forest industrial relations in the *krai*.

In 1997, the *krai* administration also established a Directorate of Forestry and Wood Processing Industries (reorganized in early 1999 as a Division of Forest Industry) within the Department. The new Directorate was charged with supervising the forest industrial sector and implementing *krai* policy in the sphere of wood harvesting and processing, develop industrial potential of the *krai* forest sector, and develop proposals on regional strategy for forest industrial development. As with the creation of the Commission on Forest Use, the creation of the Department and its Directorate altered the flows of state authority in the administration of the forestry sector, filling the policy, strategy, and management niche once dictated from Moscow and implemented by the *krai* branch of the Forest Service. The *krai* Forest Service was now subordinated not only to the higher authority of its own federal offices in Moscow and to the *krai* Commission on Forest Use, but it now also had to coordinate all its major resolutions — including the assignment of forest tracts to the forest users — with this new *krai* Department (Antonova and Mabel, 1998, p. 6).

### **3.2.5 Krai Certification Commission**

A fourth initiative by the *krai* administration also had its origin in the early days of regional independence. At the end of the 1980s, there were 32 state forest industrial enterprises in Khabarovsk Krai and by 1998, the enterprise sector had grown to over

400 independent or semi-state forest industrial enterprises (Sheingauz *et al.*, 1996, p. 18; Pilipienko, 1999, p. 86). Long before this rush of private enterprise, however, the *krai* administration adopted its 1992 *Regulations on Qualification Certification of Forest Users in Khabarovsk Krai* (Sekhin, 1997, p. 1), making Khabarovsk the first province in the Russian Federation to require certification of forest users as a prerequisite to receiving lease rights. *Krai* certification was conducted under the supervision of the provincial Forest Service, by a commission of representatives from various *krai* agencies, the Forest Service, and representatives from the timber industry (Sekhin and Vachaeva, 1998, p. 1). The three-year certification aimed to verify enterprises' technical capacity to comply with forest use regulations, and cleared the way for a license to harvest more than 5000 cubic meters of timber per year. In 1999, supervision of the certification process was moved from the purview of the Forest Service to the *krai's* Department of Natural Resources and Extractive Industries. User certification decisions at the municipal level are now similarly determined by *raion* administrations. Certification was among the *krai's* earliest efforts to assert regional control over the increasingly open access to forest resources, and this latest relocation of the Certification Commission removed another layer of discretion from the Federal Forest Service's authority to determine who may or may not work in the woods.

### **3.2.6 1995 Krai Legislation On Leasing and Payments for Forest Fund Use**

The counterpart to the *krai's* multiple initiatives to appropriate control over forest access is a fifth initiative, this one to control the revenues generated by their use. In June 1996, Governor Ishaev signed into law, *On Principles of Determining Forest Duties and Lease Payment Rates for Use of Timber Resources in Khabarovsk Krai*. In doing so, the *krai* established a fixed schedule of minimum stumpage fees and revenue distribution, and introduced a rent surcharge for the long-term guarantee of forest use. (Payment terms and concessions granted to forest users are listed in Appendix, Box A3.)

Among the legislation's principle departures from the *Fundamentals* was the redirection of revenue flows: instead of all forest use revenues going to the *raiony*, now a share of dues and lease payments were reserved for the *krai* (Sekhin, 1997, p. 5). Under the 1995 *Principles*, 25 percent of revenues from forest dues and lease payments goes to the *krai* non-budget fund for reforestation and protection and to support those *leskhoz* in greatest financial need.<sup>7</sup> Another 25 percent goes to the *raion* non-budget fund for reforestation

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<sup>7</sup> Non-budget funds, or "off-budget" revenue, are funds in the public sector that are not subject to central budgetary control. They were established in Khabarovsk at the provincial and municipal levels to guarantee financing of forest management activities, namely fire prevention and reforestation, and to balance the disparity in revenues from forest use among the 44 *leskhoz*y in the *krai*. (Mikheeva, 1999, p. 9). The non-budget funds were officially discontinued by the federal government in 1995, but the *krai* and *raion* administrations maintained their funds, which are now comprised of revenues from forest use, penalties and fees for forest damage or violation of management rules, and "voluntary contributions" as dictated by the *leskhoz*, the municipal office of environmental protection, or the *raion* administrators (Sekhin, 1997, pp. 5–6). The funds are meant to support reforestation and fire protection, but at the *raion* level, they increasingly go to help municipal administrations meet the needs of the local timber enterprises, infrastructure, and the workers living in forest villages in the district (Sekhin, 1997, p. 6).

and forest protection or for district needs. The remaining 50 percent goes to the *raion*'s general budget (Mikheeva, 1999, p. 5; Sekhin, 1997, p. 5).

The 1995 *Principles* also established new user fees associated with the competitive allocation of long term leases. A guarantee deposit for the lease payment goes to the *Krai* State Property Fund, and a negotiable one-time starting payment goes to cover the organization and implementation costs of the competition (Mikheeva, 1999, p. 5; Sekhin, 1997, p. 3). The distribution of the one-time payment is mandated as follows:

### Distribution of one-time starting payment

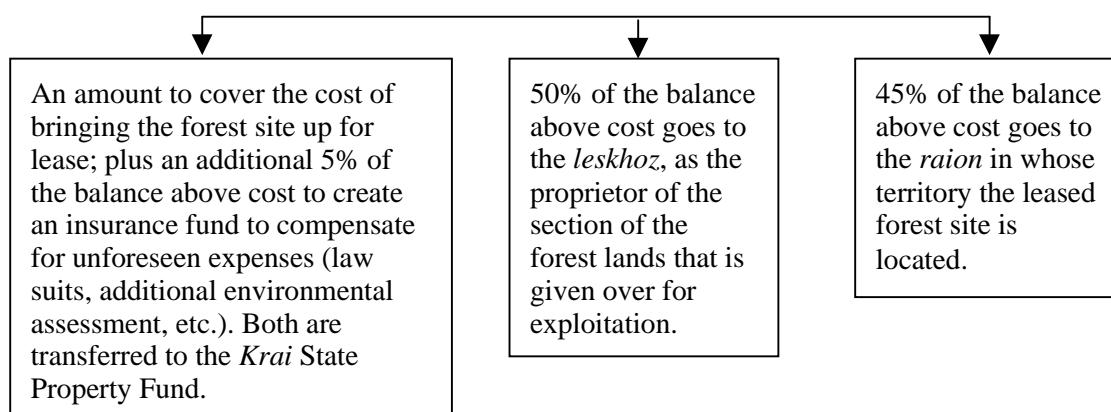


Table 2 shows the distribution of the one-time starting payments for lots put up for competition in 1996 and 1997 (this table corresponds with the information presented in Table 1). The payments increased from 350 million rubles in 1996 to 1.75 billion rubles in 1997, as the number of lots put up for competition increased from 11 to 60, respectively.

Table 2. Distribution of One-Time Starting Payments for Forest Fund Lots Allocated by Competition

Recipient	1996	1997
<u>One-time starting payments received</u> (million rubles)	349	1,755
Including:		
Property Fund		
— for conducting the lease competition	47.8 (13.7%)	221.13 (12.6%)
— 5% of the balance for insurance fund	15.2 (4.3%)	84.42 (4.8%)
<i>Leskhoz</i> — 50% of the balance	150.3 (43.1%)	747.98 (42.62%)
<i>Raion</i> Budget — 45% of the balance	135.7 (38.9%)	701.6 (39.98%)
Total	349 (100%)	1,755 (100%)

Source: Department of Natural Resources and Resource Extraction Industry, Khabarovskii Krai Administration, 1998; Mikheeva (1999); Bardal (1998).

By 1997, then, the majority of direct financial and administrative control over the forest fund resources was located with the offices of the *krai* administration. The *krai* had thus far granted itself the legislative authority to allocate the large scale and long term lease of the forest resources, to rule on who could harvest and where, legislated new incomes from resource use for the *krai* budget, and largely centralized control of the revenues from forest use in the province. But the federal government was not about to let the expansion of extensive provincial controls over a vast regional raw material resource go without comment. In adopting the 1997 Federal Forest Code, the federal government served the *krai* administration notice, granting the provincial centralizing efforts a compromising boost in return for a federal share of the returns from exploitation of the territorial forest resources.

### **3.2.7 1997 Federal Forest Code**

The 1997 federal forest legislation, the *Forest Code of the Russian Federation*, was adopted by the State *Duma* of the Russian Federation on January 22, 1997, replacing the 1993 *Fundamentals* as the ranking federal legislation governing Russian forests. In many ways, the 1997 Code marked a further departure from Soviet-era forest legislation, with its continued decentralization of authority, support for market mechanisms, and explicit reference to the ecological and resource potential of the forest fund, but it did not go so far as to take the federal government entirely out of the mix.

Instead, the federal government reinserted itself back into regional governance of forest use in four important areas: setting the minimum use fees for standing timber and non-timber forest products; taking a cut of revenues from payments for forest use; restricting concession agreements to partnership with the federal government; and declaring the forests to be federally-owned public property. That said, the 1997 Code also sanctioned much of the jurisdiction the *krai* had already granted itself between 1994 and 1997. Box A4 in the Appendix presents federal and provincial governments' respective authority "in the sphere of use, control and protection of the forest fund and forest reproduction", based on Articles 46 and 47 of the 1997 Forest Code.

*Forest allocation.* The new Code relocates allocation authority, for the most part, from the municipal to the provincial authorities. Short term use of forest land can be allocated by the provincial government or by auctions organized by municipal governments and the *leskhoz*. Long term leases are awarded by decision of the *krai* administration or by competitive forest tenders, in both cases in accordance with the *krai* Forest Service and input from municipal governments (Articles 34 and 35). The new Code also introduced forest concessions, which are to be agreed between the federal government and the forest user (Article 38). Concessions grant access to undeveloped forest land for up to 49 years with the understanding that the user will construct and maintain roads and other infrastructure in the concession area, grant some agreed share of the developed products or services to the federal government, and abide by "terms and conditions defined... at the parties' discretion" (Articles 40–41) (World Bank, 1996, p. 172). For the various types of long and short term tenure, the forest user still needs the annual permits from the *leskhoz* to make any actual use of the forest resources (Article 42).

*Payments system.* Minimum stumpage fees are now set by the federal government for all types of forest use. Dues for short term use are still based on a per unit or per hectare basis (Article 103), with anything above the minimum set by the provincial

government or by forest auctions as mentioned above. Long term lease payments are still defined by negotiated or competitive lease terms, with competitive lease rates based on the minimum stumpage fee rate and the annual allowable cut (AAC) of the leased parcel (Mikheeva, 1999, p. 4). Failing a competition, lease fees are to be set in direct negotiations, leaving a “large free hand” to the negotiators. Efremov *et al.* (1999, p. 34) echo the concerns of *krai* economists when they write: “Though the Code preferences competitions, it doesn’t stipulate when and under what conditions negotiation could be used, leaving a loophole for arbitrariness and bureaucratic corruption where bureaucrats might decide themselves what form of assignment to use and when”.

Revenue distribution. The 1997 Forest Code once again redirected the flow of forest use revenues, as the federal government introduced an entirely new mechanism for financing forest administration and management. In territories with an annual allowable cut of more than one million hectares, 40 percent of the revenues from minimum stumpage fees now goes to the general federal budget (not the Forest Service budget), and 60 percent goes to the budget of the provincial subject, earmarked in large part for reforestation activities. Any stumpage revenues above the federal minimum rate go directly to the *leskhoz* to finance forest management and are tax exempt as budgetary funds (Article 106) (HIID *et al.*, 1998, pp. 7–8; World Bank, 1996, p. 173; Efremov *et al.*, 1999, p. 34; Mikheeva, 1999, p. 9).<sup>8</sup> Thus, the 1997 Code took the *raiony* out of the flow of revenues entirely, rerouting all minimum fee revenues to the federal and *krai* government budgets (World Bank, 1996, p. 173).

Leskhoz reform. In addition, the 1997 Code redefined the responsibilities of the *leskhoz*, the district level forest management units. Identifying the *leskhoz* as the state regulator of forest management, the Code emphasized the “incompatibility of commercial logging and timber processing with the regulatory functions of the state over the use, conservation, protection and regeneration of forest” (Article 50). Thus, the Code legislated an end to the commercial activities that had long supplemented the *leskhoz* budget. Being banned from engaging in industrial activities, “the *leskhoz* main activities (were limited to) silvicultural and forest protection measures and the introduction of market-driven features — such as auctions and leasing arrangements — into forestry” (Kopylova, 1999, p. 335).

Though the 1997 Forest Code rearranged important administrative functions and financial benefits to the advantage of the federal state, the new legislation essentially codified the controls that the *krai* administration had legislated for itself between 1993 and 1997, delegating direct control of the forest fund, if not ownership, to the subjects of the Russian Federation. In anticipation of the new Code, the World Bank (1996, p. 171) wrote that “the competence of subnational governments has been so broadened as to cancel almost all the legal rights of municipalities in forest legal relations in the process”. And by banning the *leskhoz* from engaging in industrial forestry activities, in the expectation that competitive forest auctions would push stumpage fees above the federal minimums, the Code dramatically curtailed government financing for forestry administration and management. The *leskhoz* were made dependent not only on the economic health of forest enterprises and their timely remittance of payments for forest use, but also on the depleted federal and *krai* budgetary resources in times of scarcity.

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<sup>8</sup> In territories where there is less than one million hectares AAC, 100 percent of the minimum fees paid go to the provincial budget.

There are two other important initiatives adopted by the *krai* administration to supplement the already substantial legislation in its favor. First, in December 1998, the Khabarovsk *Krai Duma* passed the Khabarovsk *Krai* Forest Law, after six years of debate and revision. And second, in 1998, the *krai* administration started a movement to renationalize forest industrial enterprises and production within the *krai*.

### **3.2.8 1998 *Krai* Forest Law<sup>9</sup>**

The Khabarovsk Forest Law, as adopted, is largely a response to the 1997 Federal Forest Code, elaborating where the federal code lacks specificity and affirming the *krai's* independent authority to govern rights of use and exploitation of the forests. It is more environmentally oriented than the 1997 Federal Code, with attention to protection of the forest ecological systems and sustainable use of the resources as well as specifications for the development of environmental assessments. This was largely in response to the sense by officials and practitioners in the *krai* that federal legislation had led to overexploitation of the forest resource and that to amend this history, the *krai* needed to write its own forestry law.

The *krai* Law describes the powers of the *krai* and *raiony*, affirming the legitimacy of the *Krai* Commission on Forest Use, and proposing to assign forest rights entirely through open auctions and closed competitions. Though the law declares all forest users equal, it maintains the privileged, noncompetitive access for forest users who have worked in the area “for a long time”; the Governor can grant 1 to 5 year leases to these enterprises with the capacity to harvest and process the forest resources, and 1 to 10 year leases for those who harvest with environmentally sound technologies (Article 43). All users must still be certified before they can be granted a license to lease, and though the 1997 Forest Code reserved concession agreements with the federal government exclusively, the *krai* law proposed to allow concession agreements with the *krai* administration.

The minimum rates of forest dues and rental fees are still set by the *krai* legislature (based on the federally-set minimum stumpage fees), and as with the allocation of forest tracts, use payments are to be determined by competitive bidding rather than fixed price lists, as in the past. Payment rates are to be indexed to economic indicators so as to accommodate changes in the economic climate, and payments (and rates) are separated for the volume of harvested wood and the leased land area. And where the 1997 Federal Code denied *raiony* any income from forest dues and lease payments, the *krai* law grants the municipalities half of the *krai's* 60 percent share of these revenues.

### **3.2.9 Forest Enterprise Debt Restructuring**

In 1998, the *krai* administration moved to extend its direct control into the forest industrial sector. After the boom of new forest enterprises following the central government's early privatization and trade liberalization policies, many enterprises found they were unable to meet their lease, tax and other financial payments to the *krai* and *raion* budgets. While *raion* administrations were able to accept payment in kind, taxes and payments to the *krai* had to be in cash, and by the middle of 1998, the debt of

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<sup>9</sup> The discussion of the 1998 *krai* Forest Law draws heavily from Efremov *et al.* (1999), pp. 35–40.

forest users to the *krai* was 100 billion rubles (Antonova and Mabel, 1998, p. 9). In 1998, Khabarovsk introduced a program of debt restructuring to absolve enterprise debt in return for a controlling interest in the company. Vertical integration by the *krai*, reasoned some officials, “would allow for subsequent control of the technological processes of harvesting, processing and transportation, and also enable tax relief at every stage of production and thereby also a reduction of production costs” (Efremov *et al.*, 1999, pp. 21–22).

To this end, the *krai* created *Khabarovskglavles* (Khabarovsk State Forestry Corporation) which is “in charge of all matters regarding the forest product industry” (Russia and FSU Monitor, 1999, p. 5). *Khabglavles* was given “a mandate to organize and rationalize timber harvesting and processing operations within the *krai*, with the objective to increase the level of taxes paid to the *krai*, rationalize and increase production in the harvesting sector, and promote manufacturing and exports by reducing the number of traders and brokers in the export business” (Wood Resources International Ltd. and CARANA Corporation, 1999, p. 32). The *krai* State Property Committee “bought out” two of the most important state holding companies in the *krai* — *Dal’lesprom*, which was the majority shareholder in more than 30 harvesting ventures, 14 timber processing enterprises, and the largest port operation in the *krai*, and *Dal’les*, the marketing agent for *Dal’lesprom* — and essentially replaced them in early 1999 with *Khabarovskglavles* (Wood Resources International Ltd. and CARANA Corporation, 1999, p. 32). Operating on a stated policy of increasing secondary timber processing, as of June 1999 there was a policy in the works that would require logging enterprises to sell 20 percent of their production volume to *Khabarovskglavles*, which would then send it on to domestic mills for processing. It was not clear whether this policy would survive the challenges made to it by the independent harvest and export enterprises operating in the territory, though it is, regardless, an explicit effort to bring the industrial operations under greater control of the administration and a return to a centralized *krai* monopoly in the provincial forest industry.

### **3.3 Centralization of Provincial State Control over the Forest Resources**

“Currently, the prominent feature of Russian social life is the struggle for the redistribution of rights. It occurs along vertical and horizontal axes on all the authority levels and in all spheres. Specifically, it is noticeable on the *krai* level, which, from one side tries to expand its rights at the expense of the federal center, and from another (side), at the expense of the *raion*” (Efremov *et al.*, 1999).

Over the course of six years from 1992 to 1998, the Khabarovsk administration took President Yeltsin’s call for regional sovereignty to heart and legislated its direct authority over the forest wealth in the *krai*. A review of the broad relocation of codified authority governing the forest resources shows that jurisdiction which was centered in Moscow prior to 1991, moved to the municipalities after the collapse of the Soviet Union, and then to the provincial level beginning in 1994 where it remains, save some concessions to the federal government. Even with the recentralizing measures of the 1997 *Federal Forest Code* (federal ownership, minimum stumpage fees, mandated revenue distribution, and limiting concessions to federal partnership), the *krai*



administration maintained its controlling authority in the provincial forest sector, with federal sanction to develop forest industry policy and strategy, establish the payments system above the federal minimum, certify users, allocate land, negotiate lease terms, and collect 60 percent of the stumpage fees and other revenues from forest use. Figure 1 illustrates the organizational structure of forest management in Khabarovsk. Figure 2 illustrates the location of direct control over forest fund use in the *krai* as of the end of 1998. Table 3 gives a sense of the legislated relocation of authority from the municipal to the *krai*. Table 4 illustrates the financial flows of fees and changes levied on forest users for access to the forest resources.

Driving the provincial centralization of control over Khabarovsk's forests was the administration's growing expectations of economic returns to industrial development of the timber resources for export. In 1993, government statistics indicated that there were 30 hectares of forest per capita in Khabarovsk, which some administrative officials characterized as "an excess of forest" from which the *krai* could profit "by letting residents of other regions of the world use the local forest resources" (Efremov *et al.*, 1996, p. 22). Five years later, the Khabarovsk administration, in collaboration with USAID, again identified the forest resources as "one of the most critical components of the economy", and suggested that "...the forest resources make (the region) a traditional forest raw material supplier for Russia and the rapidly growing North East Asian countries" (USAID EPT/RFE, 1998, p. 3). Russian and Canadian industry analysts estimate that regional output of commercial harvest in the Russian Far East amounts to 7 million cubic meters with exports of 5 million cubic meters, with expectations that within 25 years, these regional volumes could rise to as much as 23 million cubic meters of harvest and 19 million cubic meters of exports (Backman and Zausaev, 1998, p. i). Given that the neighboring Pacific Rim countries — Japan, China, and South Korea, in particular — imported \$840 million worth of forest products from the region in 1997, and their demand for forest products is expected to increase, Khabarovsk, as the RFE's largest producer of forest products, stands to be "one of the major players of the Pacific Rim in the decade ahead" (USAID EPT/RFE, 1998, p. 24; Wood Resources International Ltd. and CARANA Corporation, 1999, p. 5).

This changing location — and logic — of control over the forest resources posed a direct challenge to the previously existing governance authority and interests of the Forest Service and the municipal administrators. With the *krai's* self-appointed authority over the forest resources and the passage of the 1997 federal forest code, the *krai* branch of the Forest Service was made subordinate to the *krai* administration on final decisions granting forest resources into use. The *raiony* lost the basis for their financial and administrative autonomy, the receipt of forestry revenues reduced and now predicated on timely and complete payment by forest users into the non-budget funds. And district-level Forest Service agents, the *leskhoz*, became dependent, in part, on the *krai* and *raion* administrations' non-budget funds for financial support for forest management, based on the dubious expectation that once having received the fees into their accounts, the *krai* and *raiony* would transfer the increasingly scarce funds to the *leskhoz*.

These changes have not been met without a struggle. The incompatibility of multiple state interests has led to competition and infighting between the *krai* administration and those local state institutions governing the forest resources in the territory. Despite six years of sweeping legislative reforms that ended local control over forest use and re-

routed essential revenues to *krai* and federal budgets, the *raion* and *leskhoz* have persisted in their prior practical authority. Sanctioned or otherwise, they have continued to allocate forest lands, set the terms of use, and direct the revenues from forest users. In contrast, the *krai* branch of the Federal Forest Service does not seem to have the political-economic room to maneuver to adapt to the challenges to its authority, sandwiched between the strict vertical hierarchy of the Federal Forest Service and the new expanding horizontal authority of the reformed Khabarovsk administration. The next section looks at these tensions created by the provincial and federal states' appropriation of powers from the *raion* and *leskhoz*, and the morphing of local state authority to hold onto or expand control of the forest wealth within their territory.

**Horizontal levels**

**Authority verticals**

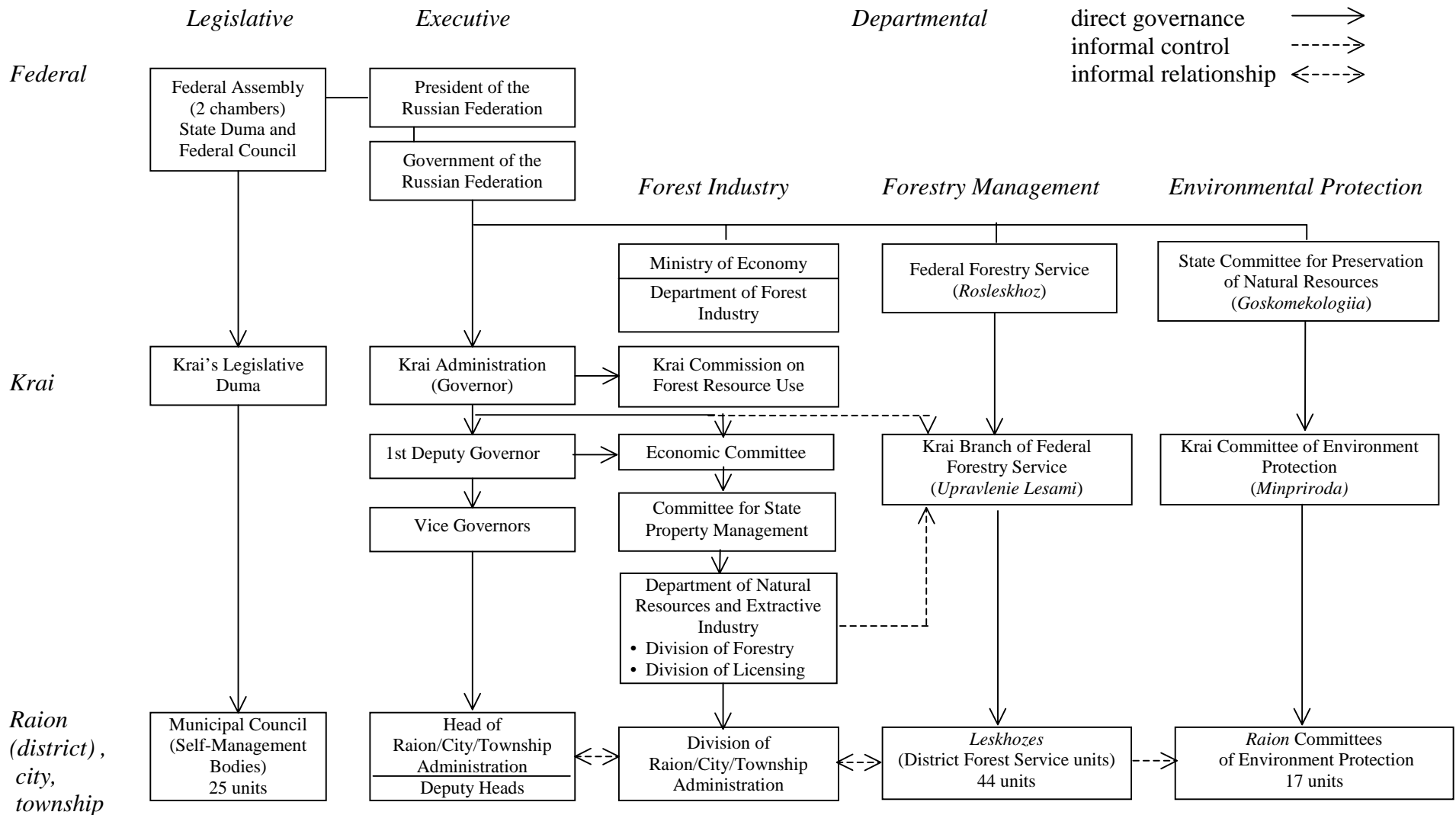


Figure 1. Organizational Structure of Forest Resource Management in Khabarovsk Krai, as of December 1998

Sources: Based on Efremov *et al.* (1999) and Sheingauz (1998a,b,c).

Table 3. Evolution of Codified State Authority and Revenues Governing the Control of Forest Fund Resources in Khabarovsk Krai

Codified authority	Pre-1992	1993 <i>1993 Fundamentals</i>	1994 <i>Krai Commission on FU</i>	1995 <i>Krai Principles on Leasing</i>	1997 <i>1997 Federal Forest Code</i>	1998 <i>1998 Krai Forest Law</i>
<b>Federal</b>	Determines harvest, payments, distribution of revenues in plan				sets minimum stumpage fees; federal ownership of forests; concession agreements; 40% of <u>dues and lease fees</u>	<i>dues and lease fees: 40% to federal budget</i>
<b>Krai (provincial)</b>			<u>long term use</u> : issues license, negotiates lease terms or via competition, allocates lots w/KFFS  KCFU negotiates lease payments or set in competition	<u>long term use</u> : issues license, negotiates lease terms or via competition; allocates lots w/KFFS;  sets minimum stumpage; KCFU negotiates lease payments or set in competition; Guarantee deposit; One-time starting fee.  <u>dues and lease fees</u> : 25% to <i>krai</i> NBF <u>Guarantee deposit</u> to KCSP <u>One-time starting fee</u> : cover costs to KCSP; 5% balance to KCSP;	<u>short term use</u> : may allocate lots in collaboration w/KFFS  <u>long term use</u> : issues license, organizes competitive or negotiated lease terms, allocates lots in collaboration w/KFFS  sets differential rates for stumpage above fed. min.; or prices set by bidding.  <u>dues and lease fees</u> : 60% to <i>krai</i>	
<b>Raion (municipal)</b>	Allocates lots, in collaboration w/ <i>leskhoz</i> ; Determines concrete forest use payments Receives forest use revenue directly; discretion to share with <i>leskhoz</i> .	Issues license and allocates lots, in collaboration with <i>leskhoz</i>  Determines payment in negotiations with forest users, with <i>leskhoz</i>  Receives forest use revenue directly, with discretion to share with <i>leskhoz</i> ; receives forest dues and lease payments; cash or in-kind payment	<u>short term use</u> : <i>raion</i> allocates lots or via auction with <i>leskhoz</i>	<u>short term use</u> : allocates lots or w/ <i>leskhoz</i> auction Short-term fees determined by <i>raion</i> negotiation or <i>leskhoz</i> auction  <u>dues and lease fees</u> : 75% to <i>raion</i> <u>one-time starting fee</u> : 45% balance above costs	<u>short term use</u> : allocates lots in collaboration w/ <i>leskhoz</i>  <u>dues and lease fees</u> : 0% to <i>raion</i>	<i>dues and lease fees: 40% to krai NBF</i>
<b>Leskhoz</b>	Financial support from federal budget, own funds Allocates annual permits	Support from federal budget, own funds Allocates annual permits		<u>short term use</u> : auctions; annual permits  <u>one-time starting fee</u> : 50% balance to <i>leskhoz</i>	<u>short term use</u> : quarterly auctions, annual permits  <u>dues and lease fees</u> : balance above min. stumpage fee	<i>dues and lease fees: 20% to raion NBF</i>

KFFS: Krai branch of the Federal Forest Service; KCFU: Krai Commission on Forest Use; KCSP: Krai Committee on State Property; NBF: non-budget funds.

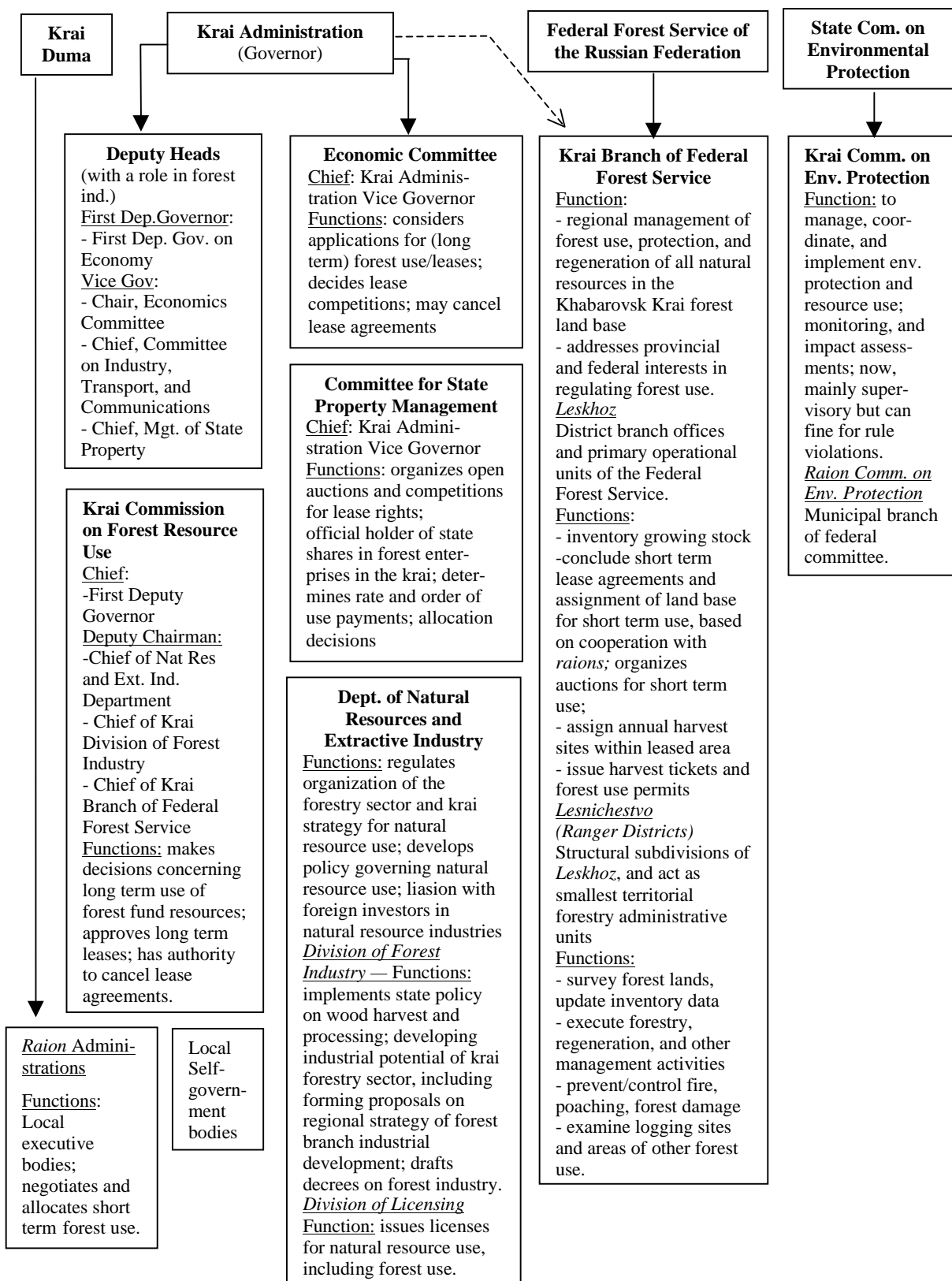


Figure 2. Direct Regulation of Forest Use in Khabarovsk Krai, as of December 1998

Table 4. Financial Flows of Forest Use Fees, as of the close of 1998

Tax/Revenue Base	Fee or Tax Form	Method of Determination	Method of Charging	Paid to Whom?
<u>Use rights</u>	License fee	Based on stock volume of leased area	Paid once	To <i>krai</i> Committee of State Property <sup>2</sup>
<u>Use Charges</u> <i>Short term use, up to 1 year:</i>	Stumpage fee for extracted resources (standing timber, secondary use, non-timber forest products)	minimum stumpage fee set by <i>Rosleskhoz</i> <sup>1</sup> , based on species, distance to transport, etc.; <i>Krai</i> sets differential rates; <i>leskhoz</i> and <i>raion</i> can raise above minimum by auction or negotiation.	Paid annually, for short term use before get annual timber ticket; paid through banks, but may be in cash, kind, or in services to <i>raion</i>	40% of minimum to federal budget; 60% of minimum to <i>krai</i> , which may send 20% to <i>raion</i> ; above minimum to <i>leskhoz</i> , tax exempt as non-budget funds for management only
<i>Additional charges for long term use, for 1–49 years:</i>	Land rent	5% of stumpage costs + 5% +/-	Paid annually	To <i>raion</i> budget
	Auction participation fee		Paid at auction	To <i>krai</i> Committee of State Property
<i>If lease competition:</i>	Lease Payment (includes land rent)	fixed annual payment for leased territory; based on AAC of leased parcel; determined by negotiation or competition	As negotiated in lease terms	Same distribution as for stumpage fees
	Guarantee deposit	determined by <i>krai</i> Committee on State Property	Paid once	To <i>krai</i> Committee of State Property
	One-time starting payment	negotiated with Competition Commission (one time body); not less than assessed value plus sales expenses	Paid once	Costs of competition and 5% of balance above cost to KCSP <sup>2</sup> ; 45% of balance to <i>raion</i> ; 50% of balance to <i>leskhoz</i>

<sup>1</sup> *Rosleskhoz*: Russian Federal Forest Service.

<sup>2</sup> *Krai* Committee on State Property (KCSP) is a division of the Khabarovsk *Krai* Administration.

## 4. The Logic of Infighting: Tensions Created at the Local Level

“This strong knot of contradictions bound up with the redistribution of powers and rights is undoubtedly provoked to some extent by (an) arrogance of authority of some organs and individuals. However, the real state of affairs is the struggle for managing financial flows, including budgetary ones. This (financial) management provides real power and to a definite extent allows personal enrichment” (Efremov *et al.*, 1999).

“In former times, all revenues from the forest user went to the *raion*. Now, not a penny” (Sheingauz, 1998a).

### 4.1 The Apparent Order

In her chapter on state autonomy in local China, Hsing (1998, p. 109) writes that “the central theme of the central-local relationship, be it a socialist or non-socialist country, is fiscal politics: how the revenue shall be shared and the expenditure split”. Accordingly, in Khabarovsk, the struggle between the *krai* and the *raiony* is essentially over who controls the benefits from territorial forest use, and for the *raiony*, a key source of economic independence and financial self-management. In addition to losing the obvious benefits of direct payment for forest use, the *raiony* are also fighting to maintain their position as arbiter of resource allocation and pricing, and with it, opportunities to negotiate and bargain for additional incomes — in cash, in kind, in infrastructure investment — in exchange for access. Similarly, by banning the *leskhoz* from engaging in industrial activities, federal reforms deprived the district forest management bodies of a main source of independent income. In response, these local state bodies have adapted their institutional powers to hold onto their financial and administrative autonomy. The political-economic relationships of power that now pertain in the Khabarovsk forestry sector are not necessarily those codified by the provincial and federal legislative reforms, but are more often localized, relative relationships of power held by the local state authorities and practiced at the local level, as they continue to govern access and control over the forest resources in their immediate purview. At my questions about this recognized informal authority in the face of legislated reforms, my mentor at the Economic Research Institute in Khabarovsk shrugged his shoulders and remarked, “*Yavochni par'yadok*,” literally, the apparent order, explaining that the current system bypasses the formal order and has been accepted as a matter of practical reality. The next section looks first at the practical implications of the formal order for local state autonomy and then at the informal extension of authority by the *raion* administrators and the *leskhoz* to get around it.

### 4.2 Raiony: “There is a new crisis every day... We now have less than we had before”

According to Natalya Shulyakovskaya (2000), writing for the *St. Petersburg Times*, timber is “the blood trickling through the soggy veins” of the small and failing timber

towns in the Russian Far East: “Without timber, there would be nothing to pump life into the endless cycle of barter deals that make it possible for (towns) to survive. Because of timber, bread is still baked here, kindergartens are still heated, new houses go up and sparkling four-wheel-drives roar along the wide bumpy roads of town”. But, as explained above, local control over the local forests came to an official end in Khabarovsk when the *krai* legislation combined with the 1997 Forest Code to “cancel almost all the rights which *raiony* had in forest legal relations” (Efremov *et al.*, 1999). The municipal non-budget funds were cancelled and *raion* authorities were entrusted only with collecting forest dues, none of which were reserved for their budgets. Administrators lost their traditional jurisdiction over large scale and long term allocation of forest resources, and now had to collaborate with the *leskhoz* on the allocation of short term, small scale lots (Sheingauz, 1998c). Forest users were directed to pay directly to the *krai* account and the *krai* was to disburse it accordingly (Sheingauz, 1998c).

The reduction of municipal authority was criticized by some officials in the *krai* Forest Service as unjustified, and the Chief of the State Forest Research Institute in Khabarovsk added, “The *raiony* have been vested with great authority for allocation of forest resources for use... Their role in forest use management on their territory is really great and it is not possible to ignore their opinion” (Efremov, 1998, p. 103).

Actually, the *krai* administration suggests, it is possible to ignore the *raions*’ opinion, and argues that it is the *krai*’s prerogative to establish the degree of *raion* administrations’ involvement in forest management, use, collection of fees, and corresponding regulations. According to the director of licensing:

“...with the Federal Code, the *raiony* were deprived of all of their responsibilities and rights, but they’ve preserved the scheme of their work. The *raiony* cannot make big decisions; for instance, they can only send their proposals for forest use to the *Krai*. They can no longer make those decisions independently... Oftentimes the opinion of the *raion* is not taken into consideration by the *Krai*. It’s not a matter of disrespect, but rather one where the *Krai* sees problems at a different level. Because unfortunately our responsibilities and interests are different” (Director of Licensing Department, 1998b).

Concurrent with this loss of fiscal and administrative independence in the sphere of forestry, municipal administrations found themselves facing an expanded fiscal-administrative mandate to support social, economic, and infrastructure investments once paid by locally-based harvesting enterprises. In Soviet times, when a state forest industrial enterprise, a *leskpromhoz* (*LPX*), arrived in a place to harvest, if there was no community or settlement there, the state enterprise was funded largely by Moscow to meet all the logistics for the creation of a working community in the woods. Once established, the *LPX* became an integral part of the social-economic community. If a forest enterprise came into a pre-existing community, the *raion* administration would try to get its directors to take on responsibility and funding for various aspects of social infrastructure. State forest enterprises built roads, cut fuelwood for community heating needs, built housing for workers, and provided transportation, among other social services. Revenues from their forest use paid for local education and public health services. The Chief of Natural Resource and Infrastructure Problems at the Economic



Research Institute told me, “The plans used to indicate the local social needs and how much fuelwood was required. Often when a new *LPX* was created, the local administrations would try to get them to improve their water supplies, their roads, basically to take on social expenditures”. The companies did not always have much choice in the matter. Anatoly Shvidenko, at the International Institute for Applied Systems Analysis, explained: “If the head of the hospital ran out of wood, he would call the director of the *LPX*, say I need a thousand cubic meters of wood, and the director would have it sent over and write it off as a loss from the harvesting volumes. Because if he didn't (send the wood over), he would lose his post as the head of the *LPX*.”

With the early post-Soviet reforms to privatize state industrial enterprises, many of the *LPX* were privatized and forced to operate without the Soviet-era subsidies that covered everything from production to transport to sales. As part of this movement to “market efficiency”, the enterprises were relieved of their responsibilities to meet the social, economic, and infrastructural needs of the districts, leaving the *raion* governments with the fiscal burden.

This loss of state subsidized infrastructure investment, coupled with the loss of local fiscal and administrative authority to the *krai*, created a crisis for the municipal governments, especially in the regions of the *krai* where the forest industry is the central economic activity. An administrator from Periyaslavka Raion described their present straits:

“If we speak of the 1990 plan — we maintained the roads, schools, hospitals, all according to the plan. And then, when the *LPX* started collapsing, they couldn't provide the necessary support. ...With the arrival of *perestroika*, it was impossible for the *LPX* to support all social structures in the municipality. ...Now we face poverty because the roads and buildings are not being maintained. All structures have come to nothing... There is a new crisis every day. We now have less than we had before” (Administrator, 1999).

In addition to the unfunded mandates, many forest enterprises fail to pay their dues and lease payments and are in considerable debt to the *krai* and *raiony*. In 1997, only 46 percent of payments owed for forest resource use were received by the *krai* non-budget fund, and the average share of payments received into the *raion* budget and non-budget funds was 57 percent and 53 percent, respectively. Table 5 illustrates that, in 1997, eight of 14 *raiony* reporting in the *krai* received less than 50 percent of the forest payments due to their general budget fund, and only one *raion* had received full payment.

Table 5. Forest Payments in Khabarovsk Krai, 1997

Raion	Estimated Payments Due, million rubles				Receipts, %			
	Raion Budget	Raion NBFund	Krai NBFund	Total	Raion Budget	Raion NBFund	Krai NBFund	Total
Ayano-Maiskii	129.0	64.4	66.4	259.8	33.9	33.9	8.8	27.5
Nikolaevskii	1197.7	495.8	584.5	2278	0	47.1	92.5	34.0
Ul'chskii	4704.1	2385.0	2262.7	9351.8	82.1	49.6	31.5	61.6
Imeno P. Osipenko	1086.5	537.2	534.8	2158.5	105.8	88.2	30.1	82.7
Verkhne-Bureinskii	2042.4	1032.5	914.4	3989.3	47.7	68.8	79.8	60.5
Solnechnyi	6129.5	3357.0	3202.3	12688.8	82.4	70.3	54.6	72.2
Komsomol'skii	3060.0	1688.3	1636.0	6384.3	31.3	57.4	74	49.2
Vaninskii	5612.5	2821.7	2822.3	11256.5	59.4	59.1	60.7	59.7
Sovetsko-Gavan'skii	2460.1	1230.7	1214.2	4905.0	12.5	10.7	14	12.4
Amurskii	56.5	28.2	28.2	112.9	9.4	295.7	9.6	81.0
Nanaiskii	1351.2	677.8	652.5	2681.5	41.7	37.3	20.4	35.4
Khabarovskii	840.2	420.4	420.2	1680.8	32.2	35.9	47.9	37.1
Imeni Lazo	4990.0	2487.0	2504.0	9981.0	52.1	33.1	17.7	38.7
Vyazemskii	292.2	142.7	136.2	571.1	72.6	64.7	38.7	62.5
Total for Krai	33951.9	17368.7	16978.7	68299.3	56.9	52.7	46.1	53.2

Note: Only 14 of 17 raiony in Khabarovsk Krai are represented here.

Source: Department of Forests, Khabarovskii Krai, 1998, in Mikheeva (1999), p. 7.

#### 4.2.1 "Plan is Plan. Fact is Fact"

So said the administrator from Periyaslavka by way of explanation that, despite the far-reaching reforms from above, by 1998, *krai* control over the forest resources existed more on paper than in practice. The *raion* administrations have essentially ignored what they could and accommodated what they must. Many *raion* officials have expanded their income base, maintained a share of the revenues generated by forest use, and continue to allocate forest lands for harvest in the municipality. The Chief of Licensing, despite her consistent advocacy for expanded *krai* authority, explained one reason for the *raions'* persisting governing authority:

"The 1997 Forest Code gives the *krai* authority to distribute the functions between the *krai* and the *raion* authorities. But the old system (1995) is now in use, and when the new system (1997) is introduced in the future there will be some conflicts. One reason for this is the Law of Self-Government, which grants many rights to the local authorities.<sup>10</sup> It's out there. No one is

<sup>10</sup> The Law of Self-Government, adopted by the federal government in August 1991, refers to the local self-governing bodies, elected or otherwise designated by the local population, and grants these bodies the authority to decide issues of local importance (Article 1, 2). They do not constitute a part of state power and are separate from the *raion* administration as the municipal state executive authority. Only a small portion of municipal forests might be under this local popular jurisdiction, and the local self-government bodies have no state power to manage or make decisions regarding federal forest lands. That said, however, the bodies of local self-government could rule on the use of what was declared municipal property, alongside the local state executive authorities.

going to change it. It covers all spheres of the local authorities, not just the forestry sphere. And this law gives the right to the *raion* authorities to distribute and use the natural resources. ...The new system doesn't work, and that's why there are no conflicts so far... People are working now and production must not wait for the time it takes to develop the new law. That is why they are still using the old system" (Director of Licensing Department, 1998a).

Continuing to operate under "the old system," then, the *raion* administrators continued to divide the forest dues between *krai* and *raion* budgets, rather than split them 60/40 between the *krai* and the federal budgets as mandated in the 1997 Forest Code. And, according to the licensing director, even the old rules are up for flexible interpretation. The 1995 *krai* law legislated that 50 percent of user fees go to the *raion* non-budget fund, 25 percent to to *raion* budget, and 25 percent to the *krai* non-budget fund. In reality,

"...it's more like 75 percent remains at the *raion* level and 25 percent goes to the *krai* Forest Service. Of the *raion's* 75 percent, 25 percent goes to the *leskhoz*, and 50 percent goes to pay for the *raion's* needs. This is not a rigid distribution. (*and don't talk about this in scientific material*). For instance, if the *raion* sees that the *leskhoz* needs more financial support for administrative purposes or for fighting fires, or whatever, the *raion* will give the *leskhoz* what it needs" (Director of Licensing Department, 1998b).

In addition to this sizeable share of revenues from dues and lease payments, the *raion* administrators continue to collect charges and fees and infrastructure investments from forest users to shore up the local budget. From 1993 to 1997, the *raion* administrations demanded approval of all forest allocations and forest users were required to make additional payments to the *raion*, such as social payments to the municipal non-budget fund or adding as much as \$5 per cubic meter to the stumpage fees (Sheingauz, 1998c). The 1997 Code removed these rights even as the *raion* were required to cancel their non-budget funds. Thus, in addition to frequent trips to the *krai* administration's offices in downtown Khabarovsk city to seek financial support, *raion* administrators now finance their budgets with now unsanctioned "add ons". In the course of negotiations for municipal permits, local administrators continue to charge enterprises with "voluntary" contributions to the "social fund", or to solicit additional payments from forest enterprises, though now only amounting to about \$1.50 per cubic meter (Sheingauz, 1998c). Once forest users have been awarded the right to lease a particular forest fund tract, they still need to register their enterprise with the municipality, get permission to develop leased tracts and to operate their businesses; permissions often granted in exchange for much-needed infrastructure investment in roads, hospitals, boilers, or fuelwood for the community that used to be provided by the *LPX*. One *raion* administrator explained:

"In logging companies' lease agreements with the *leskhoz*, it says they have to provide social support to the *raion*. Amounts and types of support are agreed with the *leskhoz* and the heads of the villages, who let the administration know what they need. Almost every company has such a clause saying what type of support they will provide to the village or *raion*... and the *raion* makes the decisions about where to direct their money, to which villages."

The chief of one harvesting joint venture concurred:

“The law says responsibility for the social sphere lies with the municipal government, but in reality, the boiler and the generator are located at the camp, and the enterprise located there is responsible for various sections of town. There was 100 percent resistance from all the people — the local government, the mayor — nobody wants this burden. We had to meet with the mayor to get the license signed, so we negotiated somewhat. We agreed to take over their boiler and firewood, daycare center and the kindergarten. Had to buy an apartment for some employee. We had to compromise.”

Such “local add-ons” to the municipal budget can take many forms. An executive from one foreign harvest and export enterprise complained that their authorization for constructing a new warehouse was held up by a *raion* official hoping to have a stolen computer replaced at the expense of the enterprise. His company, he said, contributed \$12,000 for hospital equipment to the district, and pays about 2500 rubles a month to support the *raion* kindergartens. Upon winning a large lease competition, the head of one Malaysian firm went to the *raion* and gave \$100,000 to the administration, re-built the boiler, bought vehicles for the indigenous Udege community and ambulances for the hospitals in the district. The general manager of another firm, with headquarters in Komsomolskii *raion* and harvest operations in Vannino *raion* was pressured to pay full taxes and other fees in both, though technically the enterprise was supposed to pay only in the *raion* where it was registered. The head of another firm, also a foreign timber export enterprise, made a common complaint that all banking information is available to those who want it, so when a city administrator sees an account with positive economic turnover, the tax inspectors arrive. During my visit to this enterprise on the seacoast, a tax inspector arrived one afternoon to collect 43 rubles in taxes levied “for some technicality” (for comparison at the time, a loaf of bread cost about three rubles; a bottle of vodka about 26 rubles; a pensioner's monthly wages about 400 rubles). He sat down for conversation, some vodka and fresh king crab that another visitor had brought in that day, and after a while left with 43 rubles, which everyone assumed would not make its way back into the municipal coffers. The head of the enterprise told me that earlier in the year, the company was visited by the tax inspectors and charged a road tax for a portable crane on the log yard and loading dock because it had wheels and a steering wheel; the tax bill, retroactive to 1994 when the enterprise was founded, came to \$100,000, but was not paid out all at once. “Rather, the city got in line once the account was tapped so they got a certain percentage every month, about \$300.” His accountant complained: “Every time anyone is making any money, everyone shows up at the door!”

The *raion* administrations have also maintained their voice in the allocation of land in the municipality. Federal and provincial laws specify coordination between the *raion* and the *leskhoz* in allocating forest land for short term lease, but the *raion* administrators have other more independent ways to allocate land with more direct returns to the local budget. While the *raion* can allocate only short-term, small-scale tracts of forest land (up to 5000 cubic meters per year), enterprises can apply for permission on several lots, so they may be able to harvest much larger amounts through a combination of smaller parcels. An administration official explained that:

“Now the local laws are in force. ...The user pays for the harvest permit issued from the *raion*, and a *raion* bank transfers the funds to the *krai* budget. But the funds are actually split between the *raion* and the *krai*; it doesn't all go to the *krai*. This is a big source of revenue for the local budgets and a big struggle between the *krai* and the *raion* administrations, especially in (forest rich areas such as) Imini Lazo, Sov Gavan, and Vannino *raiony*” (Sheingauz, 1998b).

Local processes of forest allocation have also become flexible. In an article on the lucrative but illegal business of harvesting ash for export, a writer for the daily regional newspaper, *Priamurskiye Vedomosti* (Priamouri Gazette), wrote that “it became known to all the... enterprises that the requested volumes of forest resources could be easily received at the *raion* (Certification) Commissions after promising something”, and as the prices for ash rose, “implicit bargaining became particularly gainful” (Khoroshilov, 1998). In addition to allocating annual harvesting permits to commercial enterprises, *raion* administrators can grant harvest permits for civilian use, mainly to families to build or repair the hand-crafted wooden houses in which most rural villagers live. Often, the deputy chief of the *raion* administration is responsible for approving the villagers' timber requests and lobbies the provincial administration for new timber permits. According to Shulyakovskaya (2000) in *The St. Petersburg Times*, the federal governmental regulations helped “to concentrate enormous powers in the hands of” the *raion* deputy chief. Under the 1997 Forest Code, each villager has the right to cut down 125 cubic meters of timber to build a house, and every three years, each family is entitled to an additional 20 cubic meters of timber to fix their homes. When villagers receive their timber-cutting permits, they pay around 12 to 17 rubles per cubic meter of uncut timber, about 1 percent of the market value. Some local district authorities have increased the allotted amount of timber to 300 cubic meters, bringing a flood of villagers — and some revenues — to the administrator's offices: “From dawn to dusk”, at the offices of the district administration, Shulyakovskaya writes, “*babushkas* (grandmothers) dressed in their very best line up for hours to get their timber requests signed. The bureaucrats from neighboring, timber-less districts come by, driving sparkling sport-utility vehicles and escorted by bulky men in track suits to plead for their own bit of timber ‘pie’ to keep their districts' own barter cycles going”. The local returns to negotiated access may take the form of a Toyota Land Cruiser, a cut of the profits, or simply a few bottles of vodka.

In addition to its changed relationships with the *krai* and federal governments, the *raions'* horizontal economic relationship with the *leskhoz* have also changed. Until 1997, the *raiony* and the *leskhoz* had essentially separate financing and functions within the forestry sphere, and generally separate agendas. A *krai* official distinguished them: “local administrators strive to improve the economy of the district, think about employment, and whether enterprises are able to pay their taxes and other payments in full, including payment of wages to labor. They consider the user as a whole. ...The *leskhoz* is interested in silviculture, forest use and payments, not labor” (Vachaeva, 1998, p. 2). Both are interested in expanding their budgets.

With the changing locus of control over the forest resources, however, the *raion* administrations and the *leskhoz* now more often compete with each other for the economic returns to forest use within their respective and overlapping jurisdictions: “The relationship (between us) is absolutely different now than before”, reflected one

local administrator. In Soviet times, for instance, payment for the *leskhoz*' transfer of forest land between different categories of use went through the *raion*'s budget, and consequently the *leskhoz* depended on the municipal authorities to pass the funds on to them (Mikheeva, 1999, p. 10). With the passage of the 1997 Federal Forest Code, however, many *raion* administrators were well aware of the Code's discontinuation of direct local payments from forest use, and in one district, the administrator simply refused to transfer fees to the *leskhoz*' accounts (Mikheeva, 1999, p. 9).

Thus, despite the reforms to the codified system that meant to limit the municipalities' role in the forestry sector, *raion* administrators continued to allocate forest lands, demand social and infrastructure investment from forest users as conditions for working in the district, and collect revenues from forest users, if not as a share of stumpage fees, then in the form of taxes or charges for their continued operation in the district. The *leskhoz*, facing similar external challenges to their independent authority, have followed suit with an institutional flexibility to counter political and economic changes, and have managed to maintain a fair degree of administrative and fiscal autonomy as well as direct control over the forest resources in their districts. As with the *raiony*, the *leskhoz*' flexibility to accommodate significant financial limitations appears to be a function of their adaptability to political and economic change, the good fortune of being in a forest-rich district, and their ability to work apart from the externally codified organizational system.

### 4.3 The Leskhoz as Controller

The Russian Federal Forest Service celebrated its two-hundredth anniversary in 1998. Comprised of a hierarchy of state offices at the federal, provincial, and district levels, it is the latter, the district-level *leskhoz*, that is the workhorse in the state management of federal forest fund lands. The *leskhoz* are responsible for the use, protection, monitoring and regeneration of the state forests, which involves the inventory of growing stock, administering forest fund leases and their documentation, organizing auctions for short term forest fund use, preparing harvest plans with the forest user, issuing annual allotments of felling sites and issuing logging tickets and supply orders, among other responsibilities. The *leskhoz* used to be divided into minimal administrative units called *lesnichestva* (ranger districts) which — where they still exist — are generally responsible for the execution of forestry operations, including forest regeneration, prevention and control of forest fires, poaching, pests and disease, and examining logging sites and areas set aside for other types of forest use (Efremov *et al.*, 1999, p. 14). In Khabarovsk Krai, there are 44 *leskhoz*, each of which manages an average area of 1.6 million hectares. At the end of 1999, some 2,800 people were employed by the Forest Service in the *krai* (Efremov *et al.*, 1999, pp. 12–13).

In the late 1960s, the newly created Ministry of Forestry reorganized the *leskhoz*, which had been dedicated to forest inspection and protection, into self-financing industrial units. “So, they began to harvest for money”, one *leskhoz* director told me; “*leskhoz* turned from units of control and environmental support to units that provided income”. In Soviet times, the *leskhoz* had three types of financing from two separate accounts: the forest management account and the industrial account (Sheingauz, 1999). Within the first, funds came from the central state budget and from the *leskhoz*' “own means” and went exclusively toward forest management, protection, and reforestation. *Leskhoz*

earned these “means” by selling tree and garden seedlings, offering services to state harvesting enterprises, selling timber from thinnings, leasing tractors to the *kolkhoz*, etc. The earned revenues comprised about 20 percent of the forest management account, with the other 80 percent coming from the federal budget. The second account, the industrial account, was funded by *leskhoz*’ industrial timber activities. *Leskhoz* could sell themselves the timber via the “forest management” account and harvest it via the “industrial” account. Roads built under the forest management budget provided access for forest industrial activities, and with revenues earned from their industrial activities, the *leskhoz* could build buildings, invest in equipment, maintain transportation networks, etc.

In 1993, the *leskhoz*’ industrial account was abolished and they were no longer allowed to undertake commercial industrial harvesting. In 1997, the federal forest code returned the *leskhoz* to being, first and foremost, state forestry management bodies “in the area of use, conservation, protection, and reproduction of the Forest Fund”, responsibilities deemed “incompatible with harvest and processing of timber”(Articles 50 and 53). Forest management continues to be funded by federal and *krai* sources, as well as the *leskhoz*’ “own means”, but under conditions of chronic budget deficit, and with the increase in the number of users by five to six times, as compared with pre-*perestroika* levels, “this (has proved) disastrous for forest management and control” (Minaker and Mikheeva, 1997, p. 2). In 1997, the federal budget provided only about 40 percent of the Khabarovsk forest management budget. The *krai* was supposed to fund reforestation and salvage operations, “but so far this year”, a director at the Khabarovsk Forest Service lamented in May, “there has been no money from the *krai*”. The *leskhoz* are “compelled to search for the deficit funds themselves”, explains the Chief of the Khabarovsk Forest Service, by selling timber from thinnings or sanitary harvest from plantation forests within their districts, growing and selling hay, harvesting and selling mushrooms and berries and other non-timber forest products, renting out equipment and means of transportation, selling information and services, collecting fines and charging fees, as well as collecting a percentage of the lease starting payments (Pominov, 1997, p. 4; Sheingauz, 1999; Antonova, 1998). From 1995 to 1997, the federal budget’s share of financing forest management activities fell by almost 15 percent, with an increase in 1998 to combat the catastrophic summer fires that consumed more than 2 million hectares in the *krai* (United Nations, 1998) (see Table 6). *Leskhoz* “own means” have expanded each year, from 8.6 million rubles in 1995 to almost 28 million rubles in 1998, comprising nearly 37 percent of forest management funding before the 1998 fires. The role of lease payments has also increased as a source of financing for forest management and in 1997 comprised half of the *krai*’s non-budget funds for forest management, though only 12 percent of funding for forest management generally. “Mostly we are poorly financed from Moscow... so we are largely supported from money earned and from the *krai*”, one director told me, adding with a shrug, “We got our uniforms from Moscow!”

Table 6. The Structure of Financial Sources for the Forest Sector in Khabarovsk Krai

Source	Volume (000 rubles)				Portion, %			
	1995	1996	1997	1998*	1995	1996	1997	1998*
Federal Budget	20183,0	32508,0	29487,0	53660.5	56,2	49,5	41,4	59.2
“Own Funds”	8637,2	17125,2	26274,8	27941	24,0	26,1	36,8	30.8
Unappropriated Budget Funds	7111,8	16039,8	15513,2	9008	19,8	24,4	21,8	9.9
Including:								
Forest Assessments	3648,7	8955,6	5588,8	4679	10,2	13,6	7,8	5.2
Lease Payments	1216,2	3846,7	8383,2	3251	3,4	5,9	11,8	3.5
Fines and Forfeitures	2246,9	3237,5	1541,2	1078	6,2	4,9	2,2	1.2
Total	35932,0	65673,0	71275,0	90609.5	100.0	100.0	100.0	100.0

\* Note: 1998 only January through September, and includes emergency federal funds to fight the catastrophic fires of 1998. Source: Khabarovsk Krai Forest Service, 1998; Mikheeva, 1999.

With the 1997 Forest Code, the federal reformers expected that the newly introduced market mechanisms — competitive allocation of forest fund land — would drive stumpage fees above the federally-set minimum rates, in turn providing the *krai* non-budget funds with sufficient revenue to cover the cost of forest management, protection, and reforestation. Unfortunately, the government’s market-based approach to financing public forest management has not worked and revenues from forest use fees are not enough. “*Ni khvatet*” (It’s not enough), *leskhoz* directors insist, “We appear to be in a market economy, but we are still weak. We have to limit activities that bring in money, and we have no money to plant or to control forest fires. We don’t have the resources to operate”. According to a study by the Harvard Institute of International Development (HIID) on reforestation in Khabarovsk:

“...A functioning and predictable auction system has yet to be introduced on a broad basis. Experience already suggests that auction prices will not reflect fair market values for some time...because there is a lack of reliable information about the resources being auctioned and a lack of competition among bidders. Both factors depress prices. Plus, high access and production costs will prevent bid prices from being much higher than the minimum stumpage fees, even if conditions do become more competitive. Consequently, auctions have not yet become a significant source of revenue for the *leskhoz*” (HIID *et al.*, 1998, pp. 4–8).

Khabarovsk Forest Service officials insist that “stumpage rates are already so high and the companies are so poor that the *leskhoz* can't raise the prices”. Further, the forestry sector is just as rife with non-payments as all other sectors of the economy. Even if the stumpage fees bid by forest users were above the federally-set minimum rates, the *leskhoz* would still be strapped for funding unless a greater share of forest users paid the assessments that were due (see Table 6) and the *krai* and *raion* administrations' non-budget funds were actually disbursed to support *leskhoz*' forest management operations.



By 1998, the *leskhoz* financial support from Moscow had dwindled, the *krai* had discretion in its distribution of the non-budget funds, the *leskhoz* faced restrictions on the generation of its own operating funds, forestry enterprises were not paying their bills, and *raiony* were under no obligation to support the *leskhoz* since expenditure of the municipal non-budget funds were, in practice, also discretionary, and municipalities were more likely to support industrial enterprises that provide local jobs, infrastructure, and pay local taxes.

#### **4.3.1 “If a *leskhoz* has forests, it has access to financing”**

This is not to say, however, that all *leskhoz* are without financing. Despite the diminished finances and the real crisis this has fostered in forest management, I was told: “(i)f a *leskhoz* has any forested area in its territory, it has access to financing” (Shvidenko, 1999). *Leskhoz*y in forest-rich territories have persisted in their practice and evolved in their means to cope with the lost financial resources from the federal budget, the *krai* budget, and their own industrial options. As one forest manager said, “The economy has become a very difficult science today. The state took care of the forest establishments before, but today, we get only 12 to 13 percent of the money we need from the government. The rest we earn ourselves” (Smekalina, 1998).

Though the *leskhoz* still have many sanctioned forms for earning their “own means”, it appears that unsanctioned activities do a lot to keep them funded. In a conversation with two *leskhoz* directors, one explained his sources of income: “At the *leskhoz* we have beehives. We are making hay to sell to the population. We fish salmon for people that work at the *leskhoz*. The (USAID) program gave us a dryer for drying mushrooms for the local market. And we salt ferns and sell them through a special kiosk”. When I asked what percentage of his financing comes from these activities, selling berries and mushrooms and making hay, he replied “Fifty percent,” at which his colleague laughed, held up his hand, palm to me, sketched “50” and then added a comma, indicating it is 5 percent, not 50 percent. More likely, I was told more explicitly by others, *leskhoz* make ends meet by selling the “thinings” from harvest on the forest fund lots in their districts for commercial sale to whomever will buy.

Central among district forest offices’ enduring responsibilities not lost under the 1997 Forest Code is the intermediate harvest of forest lands to boost forest productivity, “when there are no industrial enterprises available to do the thinning independently” (Article 91). Intermediate harvest or any other harvest undertaken by the *leskhoz* in the context of “forest management work, inventory and planning, research and design work... harvest of secondary forest resources and ...minor forest use” is tax exempt, and the proceeds go directly into the *leskhoz*’ accounts, leaving little incentive for the *leskhoz* to seek out independent contractors to do the thinning for them (Petrov and Lobovikov, forthcoming). It is no surprise, one director explained to me, that “instead of sanitary thinning the *leskhoz* began to harvest for money... And anyway”, he said, “the money from stumpage fees is only a small source of financing. The *leskhoz* have no choice but to harvest. They can’t export the logs — *leskhoz* are not permitted — but they can sell to whomever will buy (Khabarovsk Krai Forest Service Official, 1999). According to one forester, “our sanitary harvesting has increased sevenfold since 1993. In 1998 alone, forestry officials cut down 1.5 million cubic meters of timber under the pretense of doing necessary sanitary cuts” (Shulyakovskaya, 2000).

But the *leskhoz* have little more than land, and without the equipment for industrial harvest, they must join forces in an exchange of access for equipment. “The (*leskhoz*) Controller goes to the logging company for help because he needs fuel, trucks, equipment, etc., so how can the Controller control logging? Its like barter”, said one *leskhoz* director (Leskhoz Director, 1999). He explained:

“The *leskhoz* makes the land available to the logging companies, uses the *leskpromhoz* workers and machinery because the *leskhoz* have none of their own. The *leskhoz* pays for the fuel and parts and repairs, etc., and the *leskpromhoz* harvests the trees and splits the profits with the *leskhoz*. ...But there is still not enough revenue to buy new equipment, pay for new aircraft surveillance in the fire season, so the (management) situation gets worse and worse... The *leskhoz* cannot be an industrialized company, but they need to harvest because they don’t get enough money” (Khabarovsk Krai Forest Service Official, 1999).

Despite what might appear to be mutual dependency between the *leskhoz* and the enterprise, as Shulyakovskaya (2000) writes, “these ‘forestry gods’ have the power, free from any right of appeal, to decide the life or death for timber producing enterprises. They issue the forest tickets that set logging quotas for forest industry enterprises”. The chief foresters decide where logging can take place and where it cannot, whether a company is allotted a tract with “ripe tall trees close to roads or a remote marshy patch with few trees and dense bushes”, and how much is available for commercial harvest. In Khabarovsk, as elsewhere, transportation expenses can run as high as 80 percent of the production costs for timber, and unexploited tracts near rivers, rail lines, or roads come at a premium. But with the *leskhoz* own interest in accessible and marketable timber and disinterest in the expense of building roads into unexploited territory, forest enterprises complain that *leskhoz* foresters allocate only the second-best or dispersed lots to the forest users, reserving for themselves the most commercially valuable and accessible tracts. The general director of one foreign joint venture complained, “The *leskhoz* can log now, so they want to give companies Grade 3 forests to work so they can have access to the Grade 1 forests. If companies get a large area of low-grade forests, they’ll need to invest in infrastructure and roads, and the *leskhoz* can follow to get better access to the higher grade forests”. Enterprises also insist that district rangers’ estimation of standing volumes are often arbitrary and inflated, and that a commercial harvest below the estimated stock volumes can simultaneously bring fines for high-grading and for leaving waste-wood on the lot. Forest rangers have been known to dictate harvest plans for clearcutting areas despite rules of harvest that would dictate otherwise, providing fuelwood for the *leskhoz* and the community. Enterprises complain that the foresters charge seemingly discretionary harvesting penalties as an added source of income, moreso to foreign joint ventures, which are viewed as wealthy, than to domestic harvesting enterprises.

Other *leskhoz* incomes include under-the-table sales of forest tickets and harvest permits. Outside of Khabarovsk Krai, in neighboring Irkutsk, “the going price for a permit is about 30 rubles per cubic meter. But the best export-quality timber can fetch between \$40 and \$55 per cubic meter at the local warehouses of a foreign export joint venture. Sold at about 1,000 rubles per cubic meter, export timber costs no more than a third of its sale value, bringing in 65 percent profit” (Shulyakovskaya, 2000). In Khabarovsk, whose ash logs have commanded upwards of \$600 per cubic meter on the Japanese market, unsanctioned permission to log 1000 cubic meters may cost \$1000; in

another instance, the fee was half of that but for only 20 cubic meters. Illicit permission to log and transport non-ash timber is somewhat less expensive, only about \$300–\$500 for the documentation.

## 5. The Local is Occupied: Prevailing Political-Economic Relationships of Power

Eight years after the central government's decentralization of administrative and management responsibility to the regions, and the provincial state's broad legislative efforts to gain direct control over the territory's forest wealth under its jurisdiction, in Khabarovsk there is a diffuse system of power and multiple locations of state institutional authority that govern access, use, and control over the forest fund resources.

As the administrator of Pereyaslavka *raion* said to me, “Plan is plan. Fact is fact”. While the changing location and logic of control at the provincial level may be sanctioned by codified reforms, at the local level, the institutional transformation of the state reflects a flexibility to work outside the codified challenges to its control of locally-based forest wealth. Thus, despite the legislated disempowerment of the local state, in Khabarovsk these institutions have largely persisted in their prior authority and continue to control the relationships of access and exploitation at the point of interaction with the forest users. What has emerged, in practice, are multiple locations of authority manifested in multiple processes of authorization, overlapping jurisdiction, a flexibility and negotiability of terms at every level of decision-making, and a labyrinth of relative power relationships within the state apparatus that govern the processes of participation. Where the *krai* administration has recognized decision-making power on questions and terms of long term use; *raion* administrators weigh in on questions of local access and short-term use and general enterprise operations within the municipality. *Leskhoz* directors and foresters do the same in the woods. In this sense, the local is “occupied”; relative relationships of power held by local state authorities and practiced at the local level continue to govern access and control over the forest fund resources. The local state institutions are not, in practice, wholly disempowered and subordinate, but are instead vested with immediate practical control to establish the terms for exploitation of the forest fund resources within their territorial jurisdiction.

Regardless of the form of institutional flexibility that the state has employed to accommodate to political-economic change – whether by the provincial state's legislated expansion in response to opportunities from the decentralizing center, or the local states' unsanctioned morphing of authority in response to external challenges to existing autonomy — common among them is that each seeks to appropriate control over the productive raw material wealth and returns to their exploitation within their jurisdictional territory. What we are seeing is a fragmentation and privatization of the disaggregated state and its various interests, while still operating within the context of the state apparatus. The consequent tensions among the state institutions and diffuse system of authority governing the forestry sector has fostered an environment of political-economic instability that does not lend itself well to the *krai* administration's hopes to embrace capital investment — especially foreign capital investment — and profit from the globalized trade networks of the Pacific Rim markets.

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## Appendix

### Selected List of Territorial Normative Acts Governing the Forestry Sector in Khabarovsk *Krai*<sup>11</sup>

#### 1992

“On regulations on the order of forest use procedures on the territory of Khabarovsk *Krai*”, June 14, 1992.

“On regulations for a special procedure of assigning the forest fund to harvest and forest use enterprises”.

“On regulation on forming and use of *krai* non-budget fund for protection and regeneration of forest resources”.

“On regulation on preparing and organizing license (concession) tenders”.

“On regulation on procedures of exercising a qualification certification of forest users in Khabarovsk”. Appendix to the decision by a smaller Soviet, #190, September 25, 1992.

“On rules and regulations for leasing out forests and for forest fund use payments”.

#### 1994

RESOLUTION of the Khabarovsk *Krai* administration head, April 1994, “On the regulations pertaining to forest fund lease in Khabarovsk *Krai* and principles for the rate of forest dues and rent of forest utilization in Khabarovsk *Krai*”.

DECISION of the Khabarovsk *Krai* Duma, of July 28, 1994, No. 64 A, “On regulations pertaining to preparations for and holding commercial competitions and tenders for forest fund site leasing and for selling timber on the stump in Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* Duma, of October 16, 1994, No. 105, “On the regulations pertaining to the procedure of and the requirements for Khabarovsk *Krai*’s forest fund use for cultural, health improvement, tourist, and sporting purposes”.

RESOLUTION of the Khabarovsk *Krai* Duma, of October 26, 1994, No. 106, “On the regulations pertaining to the procedure of forest roads use on the territory of the Khabarovsk *Krai*’s forest fund”.

RESOLUTION of the Khabarovsk *Krai* Duma, of October 26, 1994, No. 104, “On the regulations pertaining to the procedure of and the requirements for Khabarovsk *Krai*’s forest fund use research purposes”.

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<sup>11</sup> Efremov *et al.* (1999); Sekhin (1997); Sheingauz *et al.* (1996); Sheingauz *et al.* (1995); Russian-American Educational-Scientific Center – Fund Eurasia (1999).



LAW of the Khabarovsk *Krai*, December 28, 1994, No. 10, “On the Territorial Commission on Forest Use”.

## 1995

ORDER of the Khabarovsk *Krai* administration head, of February 20, 1995, No. 73-p, “On allocation of the logging forest fund in 1995” (together with “Plan for the assignment of the logging forest fund of the Khabarovsk *Krai*’s forest sites designated for the needs of the regions for 1995”).

LAW of the Khabarovsk *Krai*, of March 1, 1995, No. 2, “On leasing of forest fund sites in Khabarovsk *Krai*”.

LAW of the Khabarovsk *Krai*, of March 1, 1995, No. 3, “On the procedure of Khabarovsk *Krai*’s forest fund use for the purposes of performing forest subsidiary uses, procuring secondary forest resources and growing forest resource plantations”.

DECISION of the Khabarovsk *Krai* Duma, of April 26, 1995, No. 8, “On the *Krai* non-budgetary fund for preservation and regeneration of forest resources”.

RESOLUTION of the Khabarovsk *Krai* administration head, of June 1, 1995, No. 230, “On measures to be taken to supply raw material to wood processing enterprises of the *krai*”.

LAW of the Khabarovsk *Krai*, of June 28, 1995, No. 11, “On guidelines for setting rates of forest dues and of rent charges for forest fund sites use on the territory of Khabarovsk *Krai* (the wording of June 25, 1997, revised).

RESOLUTION of the Khabarovsk *Krai* administration head, of July 24, 1995, No. 290, “On the transference of first category forest lands to non-forest lands for the purpose of granting them to the Vostok-Energo Far East Energy System Amalgamation”.

RESOLUTION of the Khabarovsk *Krai* administration head, of October 30, 1995, No. 428, “On the transfer of first category forest lands to non-forest lands, granting them to the Nanai Road Construction and Repair Department”.

RESOLUTION of the Khabarovsk *Krai* Duma, of November 29, 1995, No. 144, “On the proposal of compositional alteration of the membership of the *Krai* Committee on Forest Use”.

RESOLUTION of the Khabarovsk *Krai* administration head, of December 19, 1995, No. 487, “On rehabilitation of the *Krai*’s forested areas damaged by winds”.

## 1996

RESOLUTION of the Khabarovsk *Krai* administration head, of January 15, 1996, No. 24, “On measures to be taken to ensure the protection of forests from fires on the territory of Khabarovsk *Krai* in 1996”.

RESOLUTION of the Khabarovsk *Krai* administration head, of January 15, 1996, No. 25, “On the compositional alteration of the membership of the *Krai* Committee on Forest Use and the confirmation of the regulations for its operation”.

RESOLUTION of the Khabarovsk *Krai* administration head, of March 18, 1996, No. 126, “On confirmation of principal guidelines for the development of the Khabarovsk *Krai*’s forest sector during the period of 1996 to 1998”.

LAW of the Khabarovsk *Krai*, of March 28, 1996, No. 27, “On the krai non-budgetary fund for preservation and regeneration of forest resources (the wording of January 27, 1999, revised).

RESOLUTION of the Khabarovsk *Krai* administration head, of May 17, 1996, No. 233, “On the imposition of a state of emergency on the territory of Khabarovsk *Krai* in connection with fire hazard”.

RESOLUTION of the Khabarovsk *Krai* administration head, of August 6, 1996, No. 380, “On the program for reforestation and forest preservation in Khabarovsk *Krai* for the period of 1996 to 2000 and for the period until 2010”.

RESOLUTION of the Khabarovsk *Krai* administration head, of November 25, 1996, No. 522, “On the Far East Association of Small Private and Non-Governmental Forest Use Businesses”.

RESOLUTION of the Khabarovsk *Krai* administration head, of December 15, 1996, No. 564, “On measure to straighten out the activities performed by enterprises, institutions, and individual citizens, related to harvesting, processing, and selling timber of valuable deciduous species from the territory of Khabarovsk *Krai*”.

## **1997**

RESOLUTION of the Khabarovsk *Krai* administration head, of February 7, 1997, No. 43, “On the beginning of the preparation for international competitions for a forest fund site lease right”.

RESOLUTION of the Khabarovsk *Krai* administration head, of March 27, 1997, No. 115, “On withdrawal of lands out of the Gos-Les fund’s jurisdiction and the transfer of first category forest lands to non-forest lands”.

LAW of the Khabarovsk *Krai*, of May 28, 1997, No. 20, “On the procedure of holding international commercial competitions (tenders) for natural resource use rights in Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of August 13, 1997, No. 364, “On approval of the regulations for the procedure of small-volume standing timber sales in the revised wording”.

RESOLUTION of the Khabarovsk *Krai* administration head, of August 13, 1997, No. 364, “On the organization of the fire control propaganda system among the population of the krai for the purpose of lowering the number of areas vulnerable to hazardous fires”.

## **1998**

RESOLUTION of the Khabarovsk *Krai* administration head, of January 21, 1998, No. 21, “On the confirmation of the price list for the transfer of forested lands into non-forested ones”.

RESOLUTION of the Khabarovsk *Krai* administration head, of February 13, 1998, No. 59, “On fire control measures to be taken on the territory of Khabarovsk *Krai* in 1998”.

RESOLUTION of the Khabarovsk *Krai* administration head, of May 18, 1998, No. 217, “On principal guidelines for the sustainable environmental development of the ‘Gassinski’ Model Forest area during the period of 1998 to 2005 and the status granted to that area”.

RESOLUTION of the Khabarovsk *Krai* administration head, of August 4, 1998, No. 304, “On the procedure of charging for timber sold on the stump on the territory of Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of November 30, 1998, No. 456, “On holding auctions for selling valuable and hard-leaved species of wood”.

“The Khabarovsk *Krai* Forest Code” of December 25, 1998, No. 87.

## **1999**

RESOLUTION of the Khabarovsk *Krai* administration head, of February 11, 1999, No. 99, “On measures to be taken to ensure the protection of forests from fires on the territory of Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of February 22, 1999, No. 81, “On additional measures to be taken by the government to control harvesting, selling, and exporting valuable wood species timber”.

RESOLUTION of the Khabarovsk *Krai* administration head, of April 13, 1999, No. 164, “On the procedure of licensing timber harvesting operations in the forest fund of Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of April 14, 1999, No. 171, “On the procedure of performing intermediate felling operations on the territory of Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of March 26, 1999, No. 129, “On acknowledgement of the invalidation of the Resolution of the *Krai* Administration Head”, of June 15, 1998, No. 248, “On contractual timber harvesting carried out on the rented sites of the forest fund in the territory of Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of June 8, 1999, No. 235, “On the procedure of the replacement of certificates (Attestation) with licenses for the right to harvest timber in Khabarovsk *Krai* forest fund”.

RESOLUTION of the Khabarovsk *Krai* administration head, of June 18, 1999, No. 242, “On the application of increasing coefficients for the minimum payment rates for timber to be sold on the stump”.

RESOLUTION of the Khabarovsk *Krai* administration head, of June 22, 1999, No. 245, “On the quotas of subsidiary use of the forest to satisfy citizens’ personal needs on the territory of Khabarovsk *Krai*”.

RESOLUTION of the Khabarovsk *Krai* administration head, of June 22, 1999, No. 247, “On additional measures to be taken to improve the *Krai*’s forest industrial sector management”.

### **Selected List of Federal Acts Governing the Forestry Sector in the Russian Federation**

“Russian Fundamentals of Forestry Act”, adopted by the State Duma of the Russian Federation, March 6, 1993.

ORDER of the Government of the Russian Federation, No. 712, July 23, 1993, “Regulation on the Forest Land Lease in the Russian Federation”.

“Forest Code of the Russian Federation”, adopted by the State Duma of the Russian Federation, January 22, 1997.

ORDER of the Federal Forest Service of Russia, No. 99, August 11, 1997, “On confirmation of the statute of regulations on holding timber auctions”.

RESOLUTION of the Government of the Russian Federation, September 19, 1997, No. 40, Article 4587, “On minimum payment rates for standing timber bought on the stump”.

ORDER of the Federal Forest Service of Russia, No. 123, September 30, 1997, “On approval of the statute of forest competition regulations for assignment of Russian Federation forest stock parcels for leasing”.

LETTER from the Federal Forest Service of Russia, No. Mg-1-17-3/8, January 16, 1998, “On some issues pertaining to the organization of forest use activities in 1998”.

ORDER of the Federal Forest Service of Russia, No. 55 of April 8, 1998, “On procedures of assigning forest fund parcels for lease”.

*Sources:* Sekhin, N. (1997); Sheingauz, A.S. *et al.* (1995); Russian-American Educational-Scientific Center – Fund Eurasia (1999).

**Box A1: Powers of Local Authority under the 1993 *Fundamentals***

Responsibility granted to local government authorities and district Soviets of People's Deputies in the sphere of forestry.

- Participation in the writing of federal and regional forestry development programs.
- Coordination, with the provincial government, of the principles of fixing the rates and amounts of forest tax (dues) and rental charges for the use of forest stock.
- Fixing rates and amounts of forest tax (dues) and rental charges, granting exemptions to some categories of use, and deciding on forms of payment of tax and rental charges.
- Adoption, jointly with the *leskhoz*, of decisions to allot forest stock for long term use (lease), with the participation of decisions being limited to defining the conditions in conformity with established forestry requirements.
- Control of the use, reproduction, conservation, and protection of forests.
- Decision on the forms of selection of forest users (direct negotiations, forest tenders, competitive bidding).
- Restriction, suspension, or termination of the right to use forest stock.
- Forest fund inventory.
- Allocation of the established cutting and felling limit to forest users, in conformity with the recommendations of the state forest service, including the delivery of timber for state needs.
- Fire control measures and protection against pests and disease.
- Forest regeneration and protection, and collaboration on environmental protection (cleaning sites, protecting the water during logging, observing the rules of harvest, etc.) with state agencies for environmental protection.
- Collaboration with owners of the forest fund (*leskhoz*) on decisions allocating forest tracts for short term use.
- Limiting, suspending, or canceling the rights for forest fund use.
- Organizing and implementing forest tenders and competitive bidding for the allocation of forest stock into use, with the participation of the *leskhoz*.

Source: 1993 Fundamentals of Forest Legislation of the Russian Federation, Articles 6 and 7.

**Box A2: Basic Functions of the 1994 Krai Commission on Forest Use  
(Chapter 2, Article 4)**

1. Working out and consideration of the regional programs on forest management and development
2. Consideration of the programs of scientific research on forest resources and on possibilities of their future use on the Khabarovsk territory.
3. Making proposals on changes and additions to statutes and ordinances on forest use in the organs of *krai* legislative power.
4. Evaluation of the modern state of the forest fund and forest use in the territory.
5. Consideration of proposals and preparation of the decisions and proposals on approving the limits of forest parcels between forest users of the territory of all forms of property (state, private, etc). taking into consideration proposals made by the territory or city organs of local authority and taking into consideration different parcels in different forest groups.
6. Preparation of proposals on redistribution of limits of forest parcels in case they are not utilized or in case the forest users have not met the requirements on use of the given resources.
7. Preparation of recommendations on improvement of forest resource use in the territory and on rational/reasonable organization of forest use.
8. Attest to scientific research and manufacturing organizations in enterprises in establishments which implement forest use for scientific purposes.
9. The general coordination of enterprise activity which indulge in questions of forest use, protection and reproduction of forest resources, studying/investigation of their state, and control of their forest management and forest production.
10. Preparation, consideration and submitting to the territory admin and local authorities of proposals on limitations, temporary and final end to enterprise activity, organizations and private firms which damage the forest fund.
11. Making proposals to the legislative power organs of the territory about processes of forest use on the territory of the forest fund with specific regime of forest management in the territories of the local minorities of the North and the Amur territories.
12. Consideration of materials on leasing the forest parcels for rent of plots greater than 2500 ha from which more than 5000 m<sup>3</sup> must be produced each year, and on this parcel more than 5 tons of non-forest food resources.
13. Preparation after agreement with local authorities of proposals of the territorial administration about leasing forest plots for rent to foreign legal entities/persons and enterprises with foreign investment.
14. Making proposals to forest fund owners and forest users about changes in the contract project about renting parcels.
15. Organization of holding commercial competitions about leasing the forest fund for rent according to the “Statue on Preparation and Holding of Commercial Competitions and Bidding on Leasing on Forest Fund for Rent and Selling the Timber in the Khabarovsk Territory” which was approved by the Khabarovsk *Krai* дума.
16. Consideration of debatable questions and conflict situations while implementing forest use on the territory and making decisions on them.
17. Making public the questions of state use and protection of forest.

Source: Law of Khabarovsk *Krai*, No. 10, December 28, 1994, “Concerning the *Krai* Committee on Forest Use”, adopted by the Khabarovsk *Krai* Дума Decree No. 142, December 28, 1994; published in *Priamorski Vedomosti*, January 21, 1995.

**Box A3: 1995 Khabarovsk Krai Principles on Determining Forest Duties  
and Lease Payment Rates for Forest Use**

System of payment terms and concessions:

- High, species specific coefficients for ash and Korean pine are adopted;
- The payment rate for timber is doubled for short-term use;
- When exercising principle cuts by non-clearcut method, tariffs are reduced by 20 percent;
- When wood is removed during intermediate harvest (thinning), tariffs are reduced by 50 percent;
- If the forest allocated for harvest is situated on mountain slopes with a steepness of 20 degrees or more, tariffs are reduced by 40 percent;
- While working in forests damaged by fire, insects, fungus, diseases, in locations with rolled timber slash (wind breaks), wind blowdown, dead standing trees, tariffs can be reduced depending on a loss of technical qualities of wood, by a decision of the district administrations based on information provided by *leskhozy* with regard to local conditions of wood sales;
- Mark-ups are added to the lease payment depending on the period of the lease: one to five years – 46 percent of the assessed value (payment plus rent) of one cubic meter of timber; six to twenty-five years – 40 percent; twenty-six to fifty years – 35 percent;
- The rate of payment for the lease of non-timber forest products is set based upon an assessed value (payment plus rent) of the potential volume of resource on the leased territory;
- In cases where the lease holder takes responsibility for conducting other “timber business works” and services, the rate of payment for the sections of the forest leased can be reduced equivalent to the cost of such work;
- If new technologies are introduced to improve environmental and forest management conditions when using the forest fund, lease payments can be reduced (*amount of concession not stipulated in the law*);
- When facilities are built to harvest and process forest products at sites that are once again being developed, the payment can be reduced to 10 percent over the period needed to put production capacity for the deep timber processing into operation;
- The lease payment for simultaneously using several resources can be lowered to 20 percent when a single operator undertakes integrated use of forest resources on a lease site;
- With the exception of commercial timber harvest, payments for integrated use of forest resources on territories of traditional nature use for indigenous peoples of the north are reduced.

Source: *On Principles of Determining Forest Duties and Lease Payment Rates for Use of Timber Resources in Khabarovsk Krai*, Law #4 11, June 28, 1995, in Sekhin (1997) p. 4.

**Box A4: Distribution of Functions on Forest Use Management  
According to 1997 Forest Code of Russian Federation**

<p align="center"><b>Powers of Russian Federation in the use, control, and protection of the Forest Fund and forest reproduction (Article 46)</b></p>	<p align="center"><b>Powers of the Russian Federation Subjects in the use, conservation, and protection of the Forest Fund and forest reproduction (Article 47)</b></p>
<p>Determining the principle directions of State forest management policy.</p> <p>Developing and adopting Federal laws and other standard legal documents of the Russian Federation and verifying compliance with them.</p> <p>Ownership, use, and disposition of the Forest Fund.</p> <p>Following a uniform investment policy in the area of use, conservation, and protection of the Forest Fund and forest reproduction.</p> <p>Developing, approving, and implementing Federal programs for the use, conservation, and protection of the Forest Fund and forest reproduction.</p> <p>Organizing and establishing an order of the activity of the Federal body of the forest administration and its territorial agencies.</p> <p>Establishing the order of dividing the Forest Fund by groups of forests, for dividing first-group forests by protection categories, transferring forests from one group to another, and first-group forests from one protection category to another.</p> <p>Establishing standards and rules for use of the Forest Fund.</p> <p>Establishing and approving the annual allowable cut.</p> <p>Establishing types of payment for use of the Forest Fund, and minimum payment rates for sold standing timber.</p> <p>Establishing the order of making parcels of the Forest Fund available for use.</p> <p>Approving rules for making available sold standing timber, felling operations, conservation and protection of the Forest Fund, and forest reproduction.</p> <p>Organizing and coordinating scientific research and engineering work in the area of forest management.</p> <p>Implementing State inspection of use, control, and protection of the Forest Fund and forest reproduction, and establishing the order for such control.</p> <p>Establishing the order of and organizing State accounting of the Forest Fund, record-keeping of the State forest cadastre, forest monitoring and forest inventory and planning.</p> <p>Implementing international cooperation of the Russian Federation in the sphere of use, control, and protection of the Forest Fund and forest reproduction.</p>	<p>Developing, approving and implementing territorial State programs for the use, conservation, and protection of the Forest Fund and forest reproduction.</p> <p>Developing and adopting laws and other standard legal documents of the Subjects of the Russian Federation.</p> <p>Participating in exercising the rights of ownership, use and disposition of the Forest Fund on the territory of the relevant Subjects of the Russian Federation.</p> <p>Participating in developing and implementing Federal programs for the use, control, and protection of the Forest Fund and forest reproduction.</p> <p>Adopting decisions on making parcels of the Forest Fund available for lease, free-of-charge use, and short term use in accordance with this Code.</p> <p>Establishing the boundaries of parcels of the Forest Fund with a special forest management and forest use regime in areas traditionally inhabited by small numbers of native populations and ethnic communities.</p> <p>Establishing rates for forest fees and leasing rates (except for minimum rates of payment for sold standing timber), as well as the rate of payment for converting forest lands into non-forest lands.</p> <p>Implementing State inspection of the condition, use, control, and protection of the Forest Fund and forest reproduction.</p> <p>Suspending, restricting, and terminating operations that are hazardous to the condition and reproduction of forests.</p> <p>Organizing measures to protect forests from fires, pests, and diseases.</p> <p>Organizing training, education, and instruction of the population in the area of use, conservation, protection and reproduction of forests.</p> <p>Providing the population with the necessary information on issues concerning the use, conservation, protection and reproduction of forests.</p> <p>Converting forest lands into non-forest lands for purposes unrelated to forest management and use of the Forest Fund, and (or) withdrawing lands of the Forest Fund in second- and third-group forests.</p> <p>Other powers not delegated to the Russian Federation.</p>



<p>Concluding and organizing implementation of international treaties of the Russian Federation in the sphere of use, conservation, and protection of the Forest Fund and forest reproduction.</p> <p>Establishing the procedure for State statistical accounting in the area of forest management.</p> <p>Suspending, restricting, and terminating rights to use parcels of the Forest Fund, and suspending, restricting and terminating operations that are hazardous to the condition and reproduction of forests.</p> <p>Converting forest lands into non-forest lands for purposes unrelated to forest management and use of the Forest Fund and (or) withdrawing lands of the Forest Fund in first-group forests.</p> <p>Declaring parcels of the Forest Fund ecological emergency zones and ecological disaster zones</p> <p>Other powers granted to the Russian Federation by the Constitution of the Russian Federation and by Federal laws.</p>	
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