



Responsible trade in the shadow of illegal logging

Swedish import of
Latvian timber and
wood products



Taiga Rescue Network



Taiga Rescue Network (TRN) is an international network of non-governmental organizations and indigenous peoples working for the protection and sustainable use of the world's boreal forests. TRN was established in 1992 to give voice to those wanting to see sensitive development in the boreal region. Today, more than 180 organizations are participants of the network.

WWF Sweden (Världsnaturfonden WWF) is one of 27 independent national organizations (NO) of the World Wide Fund for Nature, the world's largest independent nature organization. WWF Sweden was founded in 1971. With the Financial backing of over 140,000 supporters WWF Sweden annually funds more than 100 conservation projects in Sweden and abroad – especially in the Baltic region and the tropics. WWF Sweden is focusing its conservation work within five programs: Agriculture landscape, Education and Youth, Freshwater, Oceans and Coasts and Forests.

WWF Latvia (Pasaules Dabas fonds). Since 1991 WWF has been legally registered as a non-profit Permanent Representative Office of WWF-International. In June 2002, WWF Latvia underwent reorganization and its legal status was changed to a open public foundation called WWF Latvia (Pasaules Dabas fonds). WWF Latvia is developing four main nature conservation programs: Forests, Sustainable Rural Development, Freshwater and Species.

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Swedish Import of Latvian Timber and Wood Products: An assessment of responsible trade in the shadow of illegal logging

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The report is available in electronic form from TRN's website at www.taigarecue.org WWF's websites www.wwf.se & www.wwf.lv, or on request from TRN or WWF.

A summary brochure is available in print form, from WWF Sweden and TRN.

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Foreword

SWEDISH IMPORTS OF TIMBER AND WOOD PRODUCTS from Latvia have increased considerably over the last five years, reaching 4.2 million m³ in 2001; this increasing trend in import is expected to continue.

Latvian forests are high in ecological value, providing habitat to a number of threatened and endangered species. The forestry sector is also highly important to the Latvian national economy. Sweden's position as a major importer of Latvian timber and wood products in conjunction with their reputation as actors taking responsible forest management seriously, warrants closer scrutiny of the origin and impact of the Swedish import from Latvia.

Swedish timber and wood product import was first investigated by TRN and WWF Sweden in 2000, resulting in the report entitled, *Towards Responsible Timber Trade? – A Survey of Actors and Origin of Timber from Russia and the Baltic States*.

As a follow-up investigation to this report and taking into account the problem of illegal logging in the Baltic States, Taiga Rescue Network, WWF Sweden and WWF Latvia have undertaken extensive research. The research, compiled in the following report, has sought to highlight the specifics of current Swedish imports through analysis of the level of knowledge of Swedish companies as to the origin and impact of their trade.

Current mechanisms mean that a significant amount but not all of the Swedish import from Latvia can be traced back to its origin. However the impact on forests is less clear. Additional active steps need to be taken by Swedish companies to improve their knowledge of impact if they aim to achieve a level of responsible timber trade.

A gap does remain in tracing the origin of timber procured due to the growing problem of illegal logging in Latvia. Such illegal activities have only recently been uncovered and documented across Latvia, the Baltic States at large and Russia. When considered together with guidelines for responsible trade and current mechanisms to trace timber origin, Swedish companies have a unique position and very important role to play in the campaign to eliminate illegal logging.

Swedish companies have the capacity to fully develop programs establishing systems to trace timber, specify and enforce company environmental and purchasing policies to the ecological and socio-economic conditions of Latvia and obtain FSC chain-of-custody certification.

Furthermore, it is our hope that this report will provide the basis for and encourage openness and dialogue among all stakeholders in Sweden and Latvia alike. Thus, developing transparent trade channels, eliminating illegal forestry activities and promoting the exchange of environmentally and socially sustainable forest management within the region.

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Summary

THE DOMINANT PRESENCE OF SWEDEN in the Latvian timber market, the ecological value of the Latvian forests, and the Swedish companies' reputation as global leader in sustainable forest management warrant a closer look at the origin and impact of the Swedish import from Latvia. Swedish imports of timber and wood products from Latvia have increased considerably over the last five years, reaching 4.2 million m³ in 2001. Forest industry corporations as well as the forest owners association SÖDRA account for the majority of imports from Latvia to Sweden. The majority of the import is in the form of pulpwood to supply pulp and paper mills.

The forestry sector is an important part of the Latvian economy, second only to the food processing industry. Approximately 85–90 per cent of the total annual industrial output of the forest sector is exported. The coniferous dominated forests of Latvia, which cover 45 per cent of the country, represent an important timber resource for the country and the region. In addition the Latvian forests are home to many rare, threatened and endangered species as well as rare forest types. Non-timber forest products also provide for residents' recreation and subsistence needs. During Soviet rule all forests were state-owned. Since becoming independent from the Soviet Union in 1991 there has been a reversion of forest ownership back to the private sector. Forty-three per cent of the forest is now privately owned.

The Latvian State Forest Service (SFS) oversees and monitors all forest management. The state-owned forest company *Latvijas valsts meži* (LVM) manages all state owned forests in Latvia. Logging and transport of timber and wood products from both private and public land is regulated by legislation as well as SFS issued felling licenses and State Revenue Service issued transfer waybills. Despite government monitoring illegal logging continues to be a problem in Latvia on both state and private lands. The problem of illegal logging jeopardizes for-

est ecosystems and also reduces tax revenue available for forest management and other general government programs.

Third-party certification systems are active in Latvia, providing a potential tool to verify forest management practices. Both Forest Stewardship Council (FSC) and Pan-European Forest Certification (PEFC) systems are being developed. The state-owned LVM has already certified 845,00 hectares under the FSC system with plans to certify its entire holdings by 2003. FSC chain-of-custody certificates have been granted to 32 Latvian forest enterprises by 1 June 2002.

There are two levels of knowledge that Swedish companies must reach in order to move towards 'responsible trade'. Companies must know the origin of their import and the impact of this raw material procurement on the forest. Swedish companies are employing a set of mechanisms to attempt to gain knowledge of the origin and impact of their trade. With the mechanisms currently in place much of the Swedish import from Latvia can be traced back to its origin. However, the impact on the forest is less clear.⁴

Many Swedish companies depend on felling licenses and transfer waybills issued by the Latvian state to assess and minimize the impact on forests. This is not adequate. Knowledge by Swedish companies of high conservation value forests and key habitats is poor. Timber and wood products procured from trading houses presently cannot be reliably sourced to its origin or assessed of its impact. Steps that companies are taking now to reach a level of responsible trade are overshadowed by the prevalence of illegal logging in Latvia. In order to avoid negative impacts on Latvian forests additional active steps need to be taken by the Swedish companies. Clear recommendations are given in the report for concrete actions which actors in the Swedish-Latvian timber trade should implement in order to contribute to responsible trade.

Sammanfattning

(Summary in Swedish)

SVENSK IMPORT AV VIRKE och skogsprodukter från Lettland har ökat markant under de senaste fem åren och omfattade 2001 4,2 miljoner m³. Huvudsakligen importeras massaved till massa- och pappersindustrin och majoriteten av importen från Lettland görs av skogsbolag och skogsägareföreningen SÖDRA. Svenska företags dominerande närvaro på den lettiska virkesmarknaden, den lettiska skogens höga biologiska värden och de svenska företagens goda anseende som världsledare i miljöanpassat skogsbruk motiverar en granskning av ursprunget för och de ekologiska och sociala effekterna av Sveriges virkesimport från Lettland.

Skogsindustrin är den näst viktigaste sektorn i den lettiska ekonomin efter livsmedelsindustrin. 85–90 procent av den totala produktionen av skogsprodukter exporteras. Lettland täcks till 45 procent av skog, i första hand barrträd vilka är en viktig virkesresurs för landet och regionen. Den lettiska skogen innehåller dessutom flera sällsynta skogstyper och är ett hem för många hotade och sällsynta arter. Andra skogsprodukter som t ex bär och svamp ger också möjligheter till rekreation och hushållsförsörjning. Under sovjettiden ägde staten all skog. Sedan Lettlands självständighet 1991 har skogen delvis återlämnats till tidigare ägare och 43 procent av skogen är nu privatägd.

Den lettiska statliga Skogsvårdstyrelsen (SFS) övervakar och kontrollerar allt skogsbruk i landet. Det statliga skogsbolaget *Latvijas valsts meži* (LVM) sköter all statligt ägd skogsmark. Avverkning och transport av virke och virkesprodukter från statliga och privata skogar regleras av lagstiftning, liksom SFS avverkningstillstånd och skattmyndigheternas transportbiljetter. Illegal avverkning är trots detta ett problem i Lettland på såväl statlig som privat skogsmark. Illegal avverkning äventyrar skogens naturvärden samt minskar de skatteinkomster som kan användas till insatser inom skogsbruket och andra offentliga utgifter.

Skogscertifiering är en möjlighet att verifiera skogsbruksmetoder och virkets ursprung.

Skogscertifiering både enligt Forest Stewardship Council (FSC) och Pan-European Forest Certification (PEFC) utvecklas nu i Lettland. Bl a har det statliga LVM har redan certifierat 905 000 ha under FSC-systemet och planerar att certifiera samtliga sina skogar under 2003. 32 lettiska företag har redan erhållit FSC:s spårbarhetscertifikat.

Om svenska företag ska kunna utveckla en ansvarsfull virkeshandel måste de för det första känna till det importerade virkets ursprung och i nästa steg att känna till vilka ekologiska och sociala effekter skogsbruket för med sig. Svenska företag använder idag en rad mekanismer för att skaffa kunskap om ursprunget för och effekterna av sina virkeshandel. Det mesta av Sveriges import från Lettland kan följas tillbaka till sitt ursprung med de mekanismer eller metoder som nu utnyttjas. Kunskapen om de ekologiska och sociala effekterna av skogsbruket är dock begränsade hos de svenska företagen.

Många svenska företag förlitar sig på avverkningstillstånd eller transportbiljetter utfärdade av de lettiska myndigheterna för att verifiera ursprunget för virket och minska påverkan på skogen. Detta räcker dock inte. Kunskapen om skogar med höga bevarandevärden och nyckelbiotoper är dålig. Virke som anskaffas från mellanhänder – sk trading houses – kan i dagsläget inte spåras till sitt ursprung på ett tillförlitlig sätt och det går heller inte att bedöma påverkan på skogen. Förekomsten av illegal avverkning i Lettland överskuggar de åtgärder svenska företag hittills vidtagit för en ansvarsfull handel. För att undvika negativa effekter på de lettiska skogarna måste de svenska företagen införa ytterligare aktiva åtgärder.

I rapporten ges tydliga rekommendationer på konkreta åtgärder som aktörer i den svensk-lettiska virkeshandelskedjan bör vidta för att bidra till en ansvarsfull handel med skogsprodukter.



Photo: Ola Jennersten, WWF

I. Introduction

Problem Statement

Swedish imports of Latvian timber and wood products have increased over the past years from 2.7 million m³ in 1995 to almost 4.2 million m³ in 2001. Latvia is the largest source of imports to Sweden, accounting for 37 per cent of the total Swedish import in 2001. The majority of the import from Latvia is pulpwood used by the large Swedish forest industry companies. Latvia is an important source of deciduous or short-fiber pulpwood used in papermaking.

Many Swedish companies importing timber and wood products from Latvia continue to position themselves as global leaders in sustainable forest management. Swedish companies are certified under the Forest Stewardship Council (FSC), Pan-European Forest Certification scheme (PEFC), and the International Organization for Standardization (ISO) certification systems for their forest management and operations domestically.

Independence from the Soviet Union in 1991 has moved Latvia into a period of economic, political, and social transition. This transition is evident in changes in forest ownership, forest management, and increased timber exports. Questions about illegal logging continue to pose a threat to forest ecosystems, sustainable forest management, rule-of-law, and overall Latvian economic development.

The dominant presence of Swedish companies in the Latvian timber and wood products market joined with the Swedish companies' public commitment to sustainable forest management warrants closer scrutiny of the activities of Swedish companies and their impact on the forests of Latvia. This study intends to highlight the specifics of the current imports of timber and wood products from Latvia to Sweden and to analyze the level of knowledge of the Swedish companies as to the origin and impact of their trade. It is the ambition of WWF Sweden, WWF Latvia and Taiga

Rescue Network to raise awareness among large Swedish companies importing wood products from Latvia about issues associated with their trade. The report also hopes to provide a base for open dialogue between Latvian and Swedish NGOs and the Swedish forest industry to find ways to further develop responsible wood procurement practices.

Methodology

This study of Latvian timber imports to Sweden was carried out from October 2001 to July 2002. General information for the study was collected through questionnaires and semi-structured interviews with representatives of Swedish companies importing timber and wood products from Latvia. Quantitative statistical data was collected from established sources. Company-specific data was collected through a questionnaire (see appendix 1). The questionnaire was sent to 20 potential Swedish importers of timber from Latvia, based on information from the previous study published by Taiga Rescue Network and WWF-Sweden in 2000, *Towards Responsible Timber Trade? – A Survey of Actors and Origin of Timber from Russia and the Baltic States*. Follow up telephone interviews were carried out with representatives from 8 companies (see appendix 2 for list of those companies contacted and those responding). Field visits to ten sites of recent illegal logging operations in Latvia were carried out as part of this investigation. Each site visited was documented with photos and information was noted on violations and ecological damage (see Appendix 3).

Previous Reports

The first attempt to gain information on the trade of Baltic and Russian timber and wood products with Sweden was published in November 2000 by Taiga Rescue Network (TRN) and WWF-Sweden, in the report *Towards Responsible Swedish Timber Trade? – A Survey of Actors and Origin of Timber from Russia and the Baltic States*. The report examined the current level of knowledge obtained by the Swedish actors involved in the import of timber from Russia and the Baltic States regarding the origin and impact of their imports. One of the main conclusions from this report was that the level of knowledge of the Swedish actors did not allow for a sufficient evaluation of the ecological and social impact of their timber import.

Guidelines for responsible timber trade with the Baltic States and European Russia were developed by a number of environmental NGOs in Europe and Russia in November 2000 and published as part of the TRN and WWF-Sweden report. The NGOs listed the following guidelines that provide the basis for a stepwise approach:

1. Companies have an active policy and take active measures to avoid using:
 - Timber that has been illegally harvested,
 - Timber from areas where there is a clear demonstration of violation of traditional, customary or civil rights, or of serious extant disputes with indigenous people or other social stakeholders,
 - Timber from old-growth forests and other high conservation value forests, unless FSC certified,
2. Companies have active and transparent tracking mechanisms to ascertain and verify the geographic origin of imports,
3. Companies ensure that timber comes from well-managed sources and introduce methods to assess the environmental and social impacts of forest management supplying the trade,
4. Companies should use timber from FSC certified forests only.



Illegal logging at Udrishi.
Photo: WWF Latvia.

II. Forests and forestry in Latvia

The Latvian Forest and Its Resources

Forests cover almost 2.9 million hectares or 45 per cent of Latvia. The dominant tree species in Latvia are conifers: pine (*Pinus sylvestris*) 38 per cent and spruce (*Picea abies*) 19.4 per cent. When compared to Finland and Sweden, the Latvian forests have a relatively high percentage of deciduous trees, primarily birch (*Betula* sp. 29.3 per cent). The forest cover of Latvia increased during the last century because of abandonment of agricultural fields that have been reverted to forest (Sustainable Forestry Around the Southern Baltic 2002).

The forest sector is the second largest industrial sector in Latvia after the food processing industry. The forestry sector currently employs about 4.4 per cent of the Latvian workforce. Approximately 2900 enterprises in Latvia are working in the forest sector, 90–95 per cent of these enterprises are small to medium-size companies (Latvian Chamber of Commerce and Industry, Woodworking in Latvia 2002, 2002). It is estimated that 85–90 per cent of the total annual industrial output of the forest sector is exported. Annual exports of wood products constitute 35–40 per cent of the total Latvian export by value.

The collapse of the agricultural economy in Latvia, in many cases, has left logging and other economic activities in the forest as the only source of income for people living in rural areas. In addition to timber, the Latvian forests are a source of significant non-timber forest products and values. Outdoor-activities, like hunting and picking of berries and mushrooms are important both for recreation and household subsistence. Precise figures for the level of the non-timber forest product harvest in Latvia are not available at present.

In the 1990's, dramatic changes in the ownership structure of Latvian forests took place. As part of the Soviet Union all land in Latvia was state owned. The break-up of the Soviet Union leading to the independence of Latvia has brought a return to private ownership of land and forests. At present approximately 50 per cent of Latvian forests belong to the State and 42 per cent of the forests are owned privately. Currently, in Latvia there are approximately 154,000 private forest holdings with an average size of 8 hectares. This restitution back to private ownership is now largely completed.

Forest Management in Latvia

The total growing stock of Latvia was estimated at 502 million m³ in 2000 with an annual increment of around 16 million m³. The official annual allowable final felling for 2001–2005 in state owned forests is around 16.6 million m³. In 2001 approximately 3.8 million m³ were harvested, including thinning and sanitation logging, in the state owned forests and 6.7 million m³ in forests not owned by the state (State Forest Service Public Report 2001). Felling is usually confined to the winter months when the ground is frozen and harvesting is done both by chainsaws and with mechanized harvesters. Clearcutting is the dominant logging practice. The maximum legal clear-cut size is 10 hectares, but the average size is closer to 2 hectares.

The National Forest Policy, approved by the Latvian Cabinet of Ministers in 1998, governs the management of the Latvian forests. Formulation of the Policy involved a multi-stakeholder process including business and environmental interests. The official goal of the Latvian National Forest Policy is sustainable management of forests and forestlands. The



Policy defines sustainable forest management as "the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biological diversity, productivity, regeneration capacity, vitality, and an ability to fulfill, now and in the future, relevant ecological, economic and social functions, at local, national and global levels, and that does not cause damage to other ecosystems" (Ministry of Agriculture of the Republic of Latvia, 2000).

Management of all Latvian forests is regulated by the *Forest Law of 17 March 2000*. The Forest Law is supplemented by additional regulations dictating final cutting and conservation requirements. In addition to the Forest Law management of forests, other existing laws and regulations also control the creation and protection of protected areas. These laws include the *Law on Species and Habitat Protection*, the *Law on Protection Belts*, and the *Law on Specially Protected Nature Areas*. Latvia has legally defined areas known as Nature Reserves, Biosphere Reserves, National Parks and Nature Parks.

The State Forest Service (SFS), operating under the Ministry of Agriculture, enacts these laws and oversees and monitors forestry mana-

gement activities in Latvia. The SFS also offers consulting on forestry and organizes education for private forest owners. The SFS issues felling licenses required by law. A database of micro-reserves is maintained by the SFS, however these areas are not mapped at present. Third party stakeholders can ask the SFS to declare new micro-reserve sites. The State Revenue Service issues transfer waybills that must accompany all transported timber. The transfer waybill states the registration number of the felling license (indicating the initial supplier of the timber), the logging site, the volume logged, and the assortment of products removed from the logging site or timber yard.

The Latvian state-owned joint stock company *Latvijas valsts meži* (LVM) carries out the actual management of the 1.4 million hectares of state-owned forests. Before site management activities are started by LVM, a site evaluation is done, including consultation with local people affected by forest operations, for example community representatives and hunting clubs. Public summaries of the forest management plans are sent for reference to the local governments. Normally, there is a feedback from the local governments and their comments or suggestions are taken into account. LVM's legal department keeps written grievances from local people and is obligated to respond within 15 days to complaints.

LVM has in the past initiated contact with local organizations to attempt to identify and catalog sites in need protection. LVM has voluntarily protected some key habitats, which is not a legal requirement at present. A national Woodland Key Habitat inventory in all state-owned forests is currently being carried out, set for completion in 2002. LVM has trained specialists performing the inventory, which is a cooperative project between LVM and the SFS.

Human impact over time has resulted in some structural transformations of the Latvian forests. Continual management for coniferous tree species valued for timber production have given the Latvian forests a "more boreal" appearance than would be expected from the soils and climate. Despite changes in the general forest makeup, the Latvian forests are habitat for many species. Sixty-three per cent of the mammals in Latvia are considered forest inhabitants. Latvia hosts many species that are considered rare, threatened, or endangered from

a national and European standpoint (Latvian Environmental Agency 2002). The forests still include large areas of internationally rare swamp and wetland forests (WWF and IUCN, 1997).

Some aspects of common Latvian timber management differ from standards in place in Sweden. The following management practices, which are recognized in Sweden as components of more ecologically sustainable forest management, are currently not part of general forest management practices in Latvia. They include; retention of live large diameter standing trees, retention of standing and fallen deadwood, maintaining percentages of deciduous tree species, environmentally sensitive operations around water resources and in wet areas, as well as issues of chemical and pollution control.

There is evidence that forest owners often have an interest in sustainable forest management but lack knowledge of sustainable forest management practices. Recently, several education activities have been organized for private forest owners. Latvia is also the site of the Mezola Sustainable Forestry Project that was implemented by WWF-Latvia and the SFS on a 14,000 hectares site in northwest Latvia. The project came to an end in 1998. However, initiatives like the Mezole Project work to demonstrate sustainable forestry practices, raise ecological awareness in the forest sector and have proved influential in the development of new forestry legislation and regulation in Latvia.

Illegal Logging

Despite developments in forestry legislation and regulations, illegal logging is a problem in Latvia today. Work is underway to better document the volume and scope of the problem. In 2000, 3 763 illegal logging cases were registered, with a logged volume of 191 657m³. 23 083m³ of these were logged in state-owned forests. In 2001, there were 2 757 registered cases of illegal logging with a recorded volume of 229 028m³. 15 779 m³ of these were logged in state-owned forests (State Forest Service Public report 2001).

These figures only depict those illegal logging cases that were registered. It is not possible to provide a complete picture of the extent of illegal logging today in Latvia because much illegal logging goes unreported. In an attempt to shed some light on the situation, field

visits were made to ten sites of reported illegal logging. The detailed cases documented through this study can be seen in Appendix 3. Nine of the cases in the study document illegal logging in private forests and one case is taken from state-owned forests. Four of the ten cases documented highlight illegal logging in protected nature areas.

Illegal logging takes place in many ways. According to a position paper issued by WWF, illegal logging occurs when timber is harvested, transported, processed, bought or sold in violation or circumvention of national or sub-national laws (WWF 2002). The most common cases of illegal logging in Latvia can be grouped into three general categories:

1. Timber theft – in which a third party logs the forest without authorization from the land owner or land holder,
2. Logging without legal felling licenses,
3. Logging with legal felling licenses but ignoring normative logging requirements.

In the second case logging may take place in the absence of felling licenses or with the use of fraudulent felling licenses. It is generally accepted that in today's Latvia, as in other Baltic countries, fraudulent paper documentation can be purchased without difficulty. The last category of illegal logging listed above includes, for example, cases in which clearcutting is carried out when felling licenses for thinning have been issued or when logging of mandated buffer zones takes place. Illegal logging creates negative pressure on forest ecosystems when logging in fragile areas or logging in a way that is harmful to the forest ecosystem.

Illegal logging also creates problems that reach beyond the forest ecosystem. The definition of "illegal logging and forest crime" also includes: transfer pricing, breaching tax rules, any illegal aspect of timber sourcing and circumvention of concession agreements through bribery or deception (WWF 2002). Circumvention of the payment of taxes and fees in the system translates into foregone tax revenue to the State Revenue Service. Reduced revenue decreases effectiveness in forestry management but also decreases revenue for state programs impacting on the rest of society. Illegal logging can also lead to the creation of an unbalanced market with unfair competition.

Latvian Forest Certification

The problem of illegal logging highlighted above shows that despite laws, policies and controls of logging and transporting timber, not all activities in the forest are being monitored or managed. The Latvian government and the companies active in logging make efforts to ensure that their practices are sustainable and legal. However, this cannot be verified without some sort of third-party evaluation. Forest management certification and chain-of-custody certification are tools that could be used to verify sustainable management and legality. Currently FSC and PEFC systems are being developed in Latvia.

The first working group for the development of a forest management certification standard was organized in 1997, with WWF-Latvia as one of the initiators. The Latvian Forest Certification Council is now a registered organization approved by the FSC. The Council includes members from the economic, social and environmental sectors. The main objective of the Council is to support and facilitate environmentally friendly, socially beneficial and economically viable forest management in Latvia by means of forest certification. The 3rd draft of the Latvian FSC standard has recently been published.

The Latvian state-owned forest company LVM is today well under way with FSC certification of the State forests. Approximately 845,000 hectares of state forests were certified according to the Principles and Criteria of FSC in Latvia by 1 May 2002. LVM plans to have all

of the forests it manages (1.37 million hectares) FSC certified by the beginning of 2003. One other large forest owner, the City of Riga, has received FSC certification for its forests (57,000 hectares). Small private forests are also being certified through group certification schemes.

Chain of custody certification for forest enterprises has also been initiated. As of June 2002, FSC chain-of-custody certificates have been granted to 32 Latvian forest enterprises. The chain of custody certification enables a final product to be traced back through distribution, processing, to the harvest site. This audit can verify that a final product is made of raw materials from a certified forest. The product can then bear the FSC logo.

In 1999, a Latvian PEFC Council was founded. The Latvian PEFC Scheme for forest management claims to incorporate principles of economic viability, the preservation and enhancement of forests' ecological functions, and ensuring the functioning of forests as social environments. The Latvian environmental NGOs have not participated in the PEFC process.

There are considerable differences between the essential structural, procedural and forest management components of the FSC and PEFC standards. The FSC certification system is supported by environmental organizations internationally as the only system available currently that provides the standard and framework necessary to meet their demands for sustainable management of forest resources (Statement of European NGOs on Certification 1999 and 2000 and WWF 2001)

III. Trade of timber and wood products from Latvia to Sweden

THE RUSSIAN AND BALTIC share of the Swedish timber and wood products import has been rising continually over the last decade, from 26 per cent in 1990 to 81 per cent in 2000. The Latvian share of the import has increased the most.

Latvia is at present the largest exporter of wood products to Sweden with a total of 4,2 million m³ in 2001. See table 1 below for a representation of the growth in Latvian exports to Sweden. As the total volume of Latvian exports has grown so has its percentage share in the total Swedish import of timber and wood products. Latvian exports made up 37 per cent

of the total timber and wood products imports to Sweden in 2001. This is a considerable increase from Latvia's 28.5 per cent share of imports in 1995 (Swedish National Board of Forestry 2002).

The import of roundwood greatly dominates the Swedish import, and most of this is used as pulpwood by large Swedish forest industry companies.. In 2001 deciduous roundwood accounted for 37 per cent or 1.5 million m³ of Sweden's total imports from Latvia. Of this 1.5 million m³ of deciduous roundwood, 86 per cent was birch (Swedish National Board of Forestry 2002).

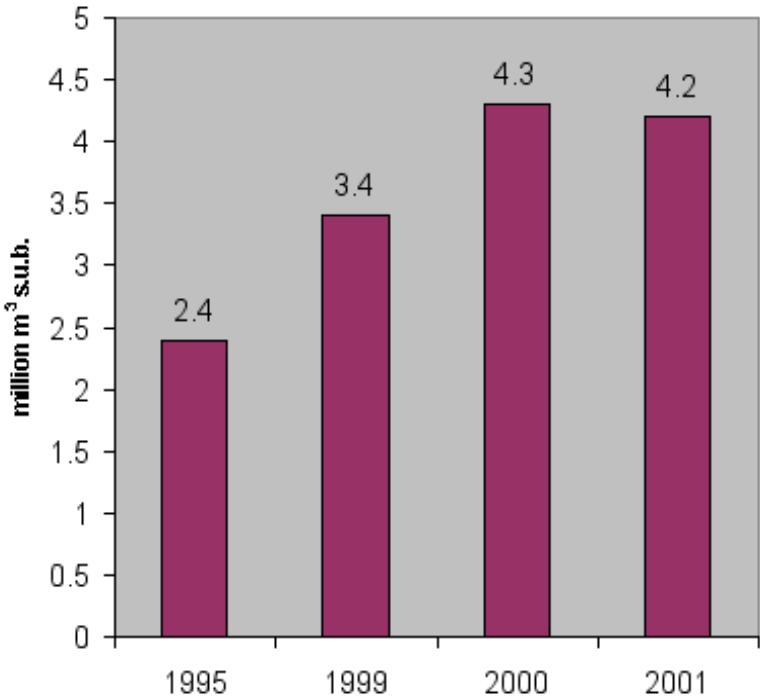


Table 1: Latvian Timber and Wood Products Exported to Sweden

Source: Swedish National Board of Forestry 2002

Just as Latvia is the largest exporter of wood products to Sweden, Sweden is the largest importer of timber from Latvia. When counting by volume, Sweden imported 51 per cent of the total timber exported from Latvia in 2000. Measured by value, Sweden is the second largest importer of wood products from Latvia, with 19 per cent of total wood products exports in 2000. The largest importer measured by value is the United Kingdom, with 39 per cent of the total in 2000. While over 90 per cent of the UK imports are sawn wood, around 70 per cent of the imports to Sweden in 2001 were in the form of roundwood (Latvian Ministry of Agriculture, 2001).

When compared, the Latvian statistics of roundwood exported to Sweden differs somewhat from the Swedish statistics of roundwood imported from Latvia. Both for 1999 and 2000, the records for exported roundwood from Latvia to Sweden are lower than the records for roundwood imported to Sweden from Latvia (as much as 15 per cent lower in 1999). While there may be various reasons for the differing figures, it is possible that some or all of the difference lies in illegal timber being exported from Latvia without being registered by the Latvian authorities.

Photo: Ola Jennersten, WWF



IV. The actors and general trends in their trade

Import Levels and Products

Companies importing timber from Latvia can be separated into four main categories: forest industry corporations, forest owners associations, import agents and independent sawmills. Table 2 below provides a summary of

- the level of import reported by the companies, the
- types of products they are importing, as well as a
- general indication of the future trends in their level
- of trade. For a complete list of those companies
- contacted as part of this inquiry and those
- responding see Appendix 2.

Table 2. Timber imports to Sweden from Latvia reported in March/April 2002

Company	Type of Company	Present import from Latvia (m ³ sub, approximate figures)	Type of products	Expected changes next 5 years
Stora Enso Forest Sweden	Forest Industry Corporation	1 200 000	pulpwood, saw logs, fuelwood and chips	no major change
Thomesto Oy/ Metsäliitto	Forest Industry Corporation	880 000	pulpwood and chips	dependent on market
Södra Skogsägarna*	Forest Owners Association	600 000 –700 000	mainly pulpwood	decrease expected
Sveaskog/Assi Domän	Forest Industry Corporation	400 000 –500 000	pulpwood	no major changes
Rottneros AB	Forest Industry Corporation	340 000	pulpwood, chips	no major change
Korsnäs AB	Forest Industry Corporation	250 000	pulpwood	slight increase
Domsjö Fabriker AB**	Forest Industry Corporation	100 000 –150 000	pulpwood	no information
UniTimber AB/ ScanComp Forest AB	Import Agent	120 000	saw logs	some increase in processed and finished products
Holmen Skog AB	Forest Industry Corporation	15 000	not specified	no major change
SCA Forest Products AB	Forest Industry Corporation	'business proprietary'	pulpwood	'business proprietary'
Västskog Sågråvaru AB	Independent Sawmill	6 000	saw logs	decrease expected
Billerud AB***	Forest Industry Corporation	no information	pulpwood	no information

*Södra skogsägarna is the owner of the corporation SÖDRA which includes pulp mills and sawmills.

** Domsjö Fabriker AB was earlier part of the MoDo group and until the end of 2001 received its raw material supply from Holmen Skog AB. The company is currently in the process of developing its own procedures and policies for timber imports. Domsjö Fabriker AB stated in its response that it would respond to the questionnaire at a later time when these procedures are developed.

*** Billerud AB has a raw material supply agreement with the previous owners Sveaskog/AssiDomän and Stora Enso. Volume totals on their import are included in these firm's responses.

Forest Industry Corporations clearly account for the majority of the imports from Latvia. Södra skogsägarna is also a major actor in Latvia procuring wood products to fuel its corporation SÖDRA. Some of the Swedish import comes via import agents, and there is also considerable trade of timber between Swedish companies. Imported timber and wood products from Latvia are used for both pulp and paper production and in the sawmills. While information on separate volumes of wood used for pulp and paper and that used for sawn products was not specified, the major share of the imported timber is pulpwood. In general the companies did not anticipate major changes in the volumes imported to Sweden during the next five years. Swedish timber imports will continue to be a dominating factor in the Latvian forestry market.

The responses received do offer a picture of the main flows of wood imported from Latvia to Sweden. There may be some double counting because of the trade between companies. The sum of the figures supplied by the companies is between 3,941,000 and 4,191,000 m³. Statistics from the Swedish Forestry Board state the total import from Latvia to Sweden at 4,290,861 m³ in 2000 and 4,162,903 m³ in 2001.

Suppliers and Origin of the Import

Seven of the twelve forest corporations responding to this inquiry have established logging operations or procurement entities on the ground in Latvia, either with their own subsidiary companies or by owning shares in Latvian companies. The companies receive timber and wood products from these subsidiaries but also source from trading companies. The exact volume of timber procured from trading companies is not known but estimates indicate that it is not unsubstantial. Geographically, the Swedish companies are sourcing their raw materials all across Latvia. For a summary of the company responses to questions of origin see table 3.

Table 3. Suppliers, main areas of origin of Latvian timber reported March/April 2002

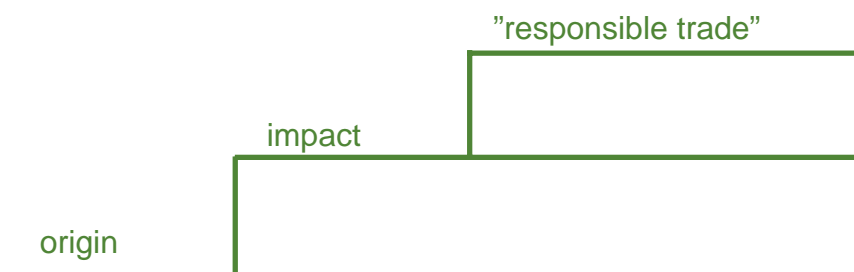
Company	Subsidiary in Latvia	Additional Suppliers	Main areas of origin
Stora Enso Forest Sweden	SIA Stora Enso Mezs	six larger trading companies, several smaller companies	All parts except Southwest
Sveaskog/Assi Domän	SIA Baltfor	several logging- and trading companies	Not specified
Thomesto Oy/Metsäliitto	Silva Ltd.		Mainly from the Western part of Latvia
Rottneros	Rottneros Baltic SIA	"business proprietary"	Not specified
Korsnäs AB	shareholders in the Latvian company Latsin SIA	a) Korsnäs logging on land with long term felling right, b) Latvian companies	Mainly from Aizkraukles and Jekabpils regions
Holmen Skog AB		trading houses	Not specified
Västskog Sågråvaru AB	Daughter company of Lemex Estonia	one other company	Northeast and Southwest
SCA Forest Products AB		mainly Finnish trading houses	'not public information'
Södra Skogsägarna	Sodra Latvia SIA	also buys from Laskana; All from private vendors, 50% private forest, 50% state forest	Middle Latvia: ~200 km radius around Skulte; Laskana: Southwest Latvia
UniTimber AB/ ScanComp Forest AB	UniTimber Latvia SIA	farmers, forestry, sawmills	Northeast
Billerud AB		import via Sveaskog and Stora Enso	Not specified

V. Origin and impact of trade

Steps Towards Responsible Trade

As was established in the earlier study, *Towards Responsible Timber Trade*, companies need to achieve at least two levels of knowledge about the raw materials and products they buy in order to move towards 'responsible trade'. The figure at left illustrates these steps. The first level of knowledge is the geographical origin of their imports, down to the actual forest management unit. The second level of knowledge is the forest type, species mix, age, conservation values, and the impacts of the local forest management and harvesting processes on the imported products. These two levels primarily refer to ecologically responsible trade. Socially responsible trade further requires knowledge about the social conditions and impacts of forestry operations and practices.

At the heart of this inquiry is the assessment of the Swedish companies' level of knowledge regarding their Latvian imports, based on the illustration shown above. Tables 4 and 5 below present a summary of some of the responses received in this study from the companies. Table 4 summarizes the responses from the companies regarding their systems for tracing of origin, certification status and other mechanisms for gaining knowledge about their imports. Table 5 provides the specific responses from the companies when asked if they could guarantee that they do not buy illegally logged timber and wood products or raw materials from high conservation value forests. Following the tables is a presentation of the mechanisms used by the respondents to verify the origin and impact of their trade with Latvia. This section uses the information from tables 4 and 5 as well as additional information obtained during the investigation.



Steps towards Responsible Trade

Table 4. Systems for tracing of origin, certification status and other mechanisms for gaining knowledge about imported timber and wood products

Company	Routine or system to verify origin of timber	Plans for certification of imported timber	Environmental program/ policy for Latvian imports	Other mechanisms for environmental management
StoraEnso Forest Sweden	<ul style="list-style-type: none"> Copies of cutting permits required for all wood raw material purchased. Control routine is used to secure that cutting permits are available. Field audit procedures to check origin and quality of forest management will be introduced 2002. 	<ul style="list-style-type: none"> Environmental program specifies active participation in development of national forest certification standard. No plans yet for FSC certification. 	<ul style="list-style-type: none"> Environmental program for Stora Enso Baltic, Wood Procurement: mission – to supply mills with sustainable, competitive and environmentally and socially acceptable raw wood from Baltic and Belarussian sources. Strategic actions – to create environmental Strategic actions – to create environmental principles for each company in line with mother company policy. 	<ul style="list-style-type: none"> Meetings with subsidiary several times/year, environmental education and dialogue part of these meetings. Plan to introduce ISO 14 000 certification of SIA Stora Enso Mezš Access to information from the Woodland Key Biotope inventory. A routine for use in the different regions is being developed.
Sveaskog/ Assi Domän	<ul style="list-style-type: none"> Logging companies required by law to show cutting tickets. Tracing from trading houses more difficult. Requirements with regard to origin are stated in the agreement with each supplier. This entitles AssiDomän to visit felling sites and immediately terminate purchases if supplier fails to conform with agreed environmental standards. 	<ul style="list-style-type: none"> Supports idea of being able to show some portion of certified raw materials in the future. Does not have active system now in place. Policy for timber purchases supports introduction of certification systems with independent evaluation. 	<ul style="list-style-type: none"> Environmental policy for timber purchases outside Sweden. No timber purchased from old-growth forests with high conservation value, known key habitats or areas with significant natural values. Acts to promote and gain understanding of need for environmental consideration. 	<ul style="list-style-type: none"> Purchases from trading houses have been reduced. Cooperation with logging companies prioritised. Policy supports the active participation of stakeholders outside the forestry industry.
Thomesto Oy/ Metsälitto	<ul style="list-style-type: none"> Requirements with regard to origin are stated in contracts. A new system for tracking of origin of timber is being developed. Environmental audits are carried out, with visits to felling sites, including control of environmental aspects 	<ul style="list-style-type: none"> Supports forest certification systems for local conditions. No certification yet of imported timber from Latvia 	<ul style="list-style-type: none"> Thomesto's policy specifies Baltic countries, principles of ecological, economical and social sustainability in wood procurement, local legislation, internal environmental audits. Silva has guidelines for forest management including environmental considerations but does not yet have a specific an environmental policy. 	<ul style="list-style-type: none"> Environmental audits also provide opportunities for dialogue and learning regarding environmental and safety issues. Environmental objectives highlight open discussion and exchange with local interest groups and authorities. Support to Latvian projects for sustainable forestry. Thomesto Oy is being certified according to ISO.
Rottneros	<ul style="list-style-type: none"> Waybills with cutting right numbers are filed. Plans for environmental audits with field inspection are being discussed but nothing is actively in place today. 	<ul style="list-style-type: none"> Rottneros Baltic SIA is in the process of being FSC chain-of-custody certified. 	<ul style="list-style-type: none"> Each company and mill has or will have environmental policy in accordance with ISO 14 001. 	<ul style="list-style-type: none"> Rottneros Baltic SIA was ISO 9001 certified 2001, in process to be ISO 14001 certified in 2002.

Domsjö Fabriker AB ? (see note ** in table 2)

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Company	Routine or system to verify origin of timber	Plans for certification of imported timber	Environmental program/ policy for Latvian imports	Other mechanisms for environmental management
Korsnäs AB	<ul style="list-style-type: none"> • Cutting tickets and waybills are filed. • All wood purchases reported to tax authorities. • No wood purchased without documents and signed contracts. • A considerable share of timber from forest areas comes from areas in which Latsin SIA has long term felling rights. Korsnäs notes that this enables full information on origin and management of timber 	<ul style="list-style-type: none"> • Latsin SIA, has received its FSC chain-of-custody certification. Certified wood is preferred. Wood from FSC certified areas will be kept separate and supplied as FSC- wood to Sweden. 	<ul style="list-style-type: none"> • Environmental policy does not specify Latvia. 	<ul style="list-style-type: none"> • Korsnäs is ISO 14001 certified
Holmen Skog AB	<ul style="list-style-type: none"> • Requirements for tracing of origin in contracts with trading houses. 	<ul style="list-style-type: none"> • No plans for certification of imported products from Latvia. Rely on trading houses' products. 	<ul style="list-style-type: none"> • Environmental policy for wood procurement. • Holmen's guidelines for Sustainable Forestry have been translated to the Baltic languages. 	<ul style="list-style-type: none"> • Dissemination of information about, and seeking support for, Holmen Skog's policy guidelines for sustainable forestry.
Västskog Sägråvaru AB	<ul style="list-style-type: none"> • Requirements for tracing of origin in contracts; sample controls of cutting tickets. 	<ul style="list-style-type: none"> • No plans for certification of imported products from Latvia 	<ul style="list-style-type: none"> • Environmental policy does not specify imports. 	<ul style="list-style-type: none"> • Policy emphasises an open dialogue with interest groups, the public and media.
SCA Forest Products AB	<ul style="list-style-type: none"> • Requirements for tracing of origin in contracts with trading houses; implementation is the responsibility of trading houses 	<ul style="list-style-type: none"> • No plans for certification of imported products from Latvia. Rely on trading houses' products. 	<ul style="list-style-type: none"> • Environmental policy: assessment of environmental impacts includes suppliers and subcontractors in the process. 	<ul style="list-style-type: none"> • Policy emphasises an open dialogue with interest groups, demands the same commitment from its suppliers and subcontractors
Södra Skogsägarna	<ul style="list-style-type: none"> • Waybills, cutting tickets received from logging companies. • From trading companies, waybills & contracts sometimes shown; sometimes contracts not shown for timber stored 'in bulk' at terminals. Tracing from trading companies is more difficult. • No payments until documents required by law are received. 	<ul style="list-style-type: none"> • No plans yet for certification of imported products from Latvia. • Plans for 'chain of custody guarantee' from suppliers 	<ul style="list-style-type: none"> • Sodra Latvia follows Södras environmental policy with emphasis on environmental considerations in choice of suppliers, ecologically sustainable forest management, environmental education etc. 	<ul style="list-style-type: none"> • Policy emphasises an open dialogue with interest groups.
UniTimber AB/ ScanComp Forest AB	<ul style="list-style-type: none"> • Manager in Latvia checks legal documents; trust suppliers. 	<ul style="list-style-type: none"> • No plans for certification of imported products from Latvia. 	<ul style="list-style-type: none"> • No environmental policy specifying imports from 	<ul style="list-style-type: none"> • Legality and environmental sustainability regarded important by manager in Latvia.

Table 5: Company Guarantees Regarding Illegal Logging and High Conservation Value Forests

Company	<i>Can you guarantee that you do not buy wood or products from timber that has been illegally harvested? How do you verify this information?</i>	<i>Can you guarantee that you do not buy wood or products from high conservation value forests, e.g. key habitats, unless FSC-certified? How do you verify this information?</i>
StoraEnso Forest Sweden	"No, but it is our ambition and the process is improving" "The requirements of cutting permits and environmental demands in contracts ensure legality." For verification the company refers to its routine for verifying origin by tracking felling license. Audit procedures will be introduced in 2002.	Refer to answer to question on illegal logging
Sveaskog/ AssiDomän	"not 100 per cent" "uncertainty lies for the most part in timber from trading companies that currently account for a smaller portion of the supply. Logging companies, according to Latvian law, must show 'ticket' (felling licenses) and the logging site is given in the 'waybill'. If a similar rule applied to trading companies the source of the material could be tracked 100 per cent"	Refer to answer to question on illegal logging and "we are working currently to institute a system to track the origin of timber. Cooperation with logging companies is prioritized."
Thomesto OY/ Metsäliitto	"In our contracts we demand that our wood suppliers operate in accordance with the local legislations, we audit our wood suppliers." "We gather information of wood suppliers and have a detailed register of them."	"We check that our wood suppliers have cutting rights, we point out the importance of audits, we are all the time developing our origin management." "We have our origin management system."
Rottneros AB	"In 2002 we will have these guarantees from each supplier." "We will be chain-of custody certified in 2002 and verifying is a part of the system"	"Yes", refer to answer to question on illegal logging.
Korsnäs AB	"No such guarantee can be given. What can be guaranteed is that we do not buy wood for cash, and do not buy wood without documents and we report all wood purchase to tax authorities"	Refer to answer to question on illegal logging.
Holmen Skog AB	"No"	"No"
Västskog Sågråvaru AB	"in our contracts" "sample audit of cutting tickets even in the field"	"No" "Nobody not even in Sweden can give that guarantee"
SCA Forest Products AB	"in the contract we sign with suppliers there is a very clear demand on the supplier to follow national laws and present origin."	Refer to answer to question on illegal logging
Södra Skogsägarna	"No, random audits are not carried out. It is quite possible to sell timber which has been illegally logged or stolen, with the 'right' documentation" Verify by "showing documentation and following the chain to the logging site."	"No" Verify by "showing documentation and that authorities control the forest"
UniTimber AB/ ScanComp Forest AB	"Check and trust suppliers who are 100 per cent legal" "Registration documents + cutting shares documents"	"YES", "Suppliers information"
Domsjö Fabriker AB	? (see note ** in table 2)	?

Mechanisms to trace geographic origin and environmental impact

In response to the questionnaire sent to the Swedish companies involved in the timber trade with Latvia different mechanisms were identified to trace or verify the geographic origin and the environmental impact of timber and wood products. The mechanisms identified include, but are not limited to:

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

Trusting the standard and enforcement of the Latvian forest management legislation

In response to the questionnaire several companies responded that adherence to the Latvian forestry legislation is their base requirement for imports of timber from Latvia. This is stated in the wood procurement policies of many companies. State control and audits were considered to be strong by some respondents. Other respondents expressed concern about illegal logging. Some companies pointed out that it will take time for the Latvian state to develop sufficient resources for enforcement of legislation against illegal logging. Sveaskog/AssiDomän pointed out in its response that logging companies are required by Latvian

law to register and present logging permits. They stated: "If the same rule applied to trading companies, the origin could be traced in 100 per cent of the cases." Korsnäs AB specifically mentioned in its response that all wood purchases are reported to the tax authorities.

Trusting suppliers' fulfillment of demands

Some companies replied that they rely upon and trust their suppliers in Latvia. Holmen Skog, buying their wood from Latvia through trading houses outside Latvia, responded, "We rely upon the trading houses' assurances that they fulfill our demands concerning origin of pulpwood." Demands are established in contracts with the suppliers, and fulfillment of the demands is promoted through dialogue with the trading houses. The trading house UniTimber AB/ScanComp Forest AB said that beside the controls of their personnel in Latvia, they trust their suppliers, who are "100 per cent legal".

Holmen Skog relies on its trading houses yet at the same time, the company representative expressed some concern stating; "The official administrative systems of Latvia today concerning origin of wood, sellers and buyers are not giving us a complete and true chain of custody. The government must be given time to create new systems, not least systems for taxation control, before we can guarantee the origin of all deliveries."

Developing company environmental or purchasing policies for wood imports

All ten companies except UniTimber AB/ScanComp Forest AB have their own environmental policies. StoraEnso Forest Sweden also has environmental principles for wood procurement, and an environmental program specific to their Baltic wood procurement. Furthermore, Sveaskog/AssiDomän and Holmen Skog have policies for their wood procurement.

Some common features of most of the environmental policies are:

- commitment to sustainable development economically, environmentally and socially;
- existing laws and regulations in the country of origin are a minimum requirement for demands set;
- promotion of an understanding for the

company's view of the need for environmental consideration in contacts with suppliers and authorities;

- commitment to open dialogue with authorities, third parties and organizations
- assessment of the environmental impacts of products and
- promotion of environmental awareness among employees
- realization of policy goals through environmental management systems and setting regular goals for environmental work.

Some of the policies include requirements with regard to origin, stated in the agreement with each supplier. These agreements entitle the company to visit felling sites and terminate deliveries if the supplier fails to conform with the agreement's environmental provisions.

Some points in individual policies which merit specific mentioning are the following:

- In accordance with Sveaskog/AssiDomän's policy for wood procurement, timber may not come from old-growth forests with high conservation value, known key habitats or other areas which are publicly recognized as containing significant natural values;
- The stated environmental objectives of Thomesto Oy include internal environmental audits of logging sites in order to authenticate the origin of timber;
- Södra's policy states that environmental aspects shall be considered in choice of suppliers and purchases.

It is also worth mentioning here that Holmen Skog points out in the background to their policy that "There is at present no totally reliable method of identifying the origin of all timber imported by us. An important task facing [Holmen Skog] is therefore, to develop reliable methods for determining origin of imported timber."

Establishing demands in contracts between buyer and seller

Most of the companies replied that they have demands for tracing the origin of timber and wood products drawn-up in their contracts with suppliers. For example, Sveaskog/AssiDomän agree on requirements with regard to origin in an agreement with each supplier in accordance

with their policy for timber purchases outside Sweden. "This agreement also entitles AssiDomän to visit the felling sites and to terminate deliveries if the supplier fails to conform with the agreement's environmental provisions." Sveaskog/AssiDomän pointed out that such visits to felling sites have not yet been started.

SCA Forest Products AB purchases most of its wood from Latvia from trading houses outside Latvia. There are requirements for tracing of origin in the contracts with the trading houses. According to SCA, implementation of the requirements is the responsibility of the trading houses.

Using systems based on the filing of data to trace timber to harvesting site

The demands in contracts are increasingly based on systems for filing of data tracing timber back to the harvesting site. StoraEnso requires copies of cutting permits for all timber purchased and has a control routine to secure that cutting permits are available. Thomesto Oy/Metsäliitto is currently developing a new system for tracing of origin with filing of data. Korsnäs has a system for filing cutting permits and timber transfer waybills for wood cut by their own company and from other logging companies. Rottneros AB has a system for filing timber transfer waybills and the numbers of cutting permits. Västskog Sågråvaru AB carries out sample controls of cutting permits. Södra Skogsägarna receives timber transfer waybills and cutting permits when timber is purchased from logging companies.

Documents indicating origin are not always present when dealing with trading companies. Some respondent companies pointed out difficulties in tracing origin of timber back to individual timber shipments and their logging sites when timber is stored at terminals, "in large piles". When purchasing timber from a terminal, the presentation of felling licenses is not required by law. Both Sveaskog/AssiDomän and Holmen Skog recognized this issue of trading companies and terminals in their response. UniTimber AB/ScanComp AB responded that it relies on their manager in Latvia to check legal documents. Details regarding procedures were not available at the office in Sweden.



Photo: Lasse Olsson

Black stork.

Environmental audits, including visits to felling sites

Of the responses received, Thomesto Oy and Västskog Sågråvaru AB are the only companies reporting active internal environmental audits, which include visits to felling sites on a sample control basis. However, Västskog Sågråvaru's imports from Latvia have been considerably reduced over the last year, and currently they carry out field checks mainly in Estonia. The field visits of Thomesto Oy are also done to felling sites of timber procured from trading companies. Thomesto responded that site visits to these areas are prioritized. Thomesto views the visits to felling sites not only as instruments for audits but also as important opportunities for environmental education, discussions and mutual learning.

StoraEnso Forest Products are in the process of introducing audit procedures to check origin and quality of forest management. This will be done during 2002. The introduction of environmental audits with field visits is being discussed at Rottneros AB. The wood purchasing policy of Sveaskog/AssiDomän specifically mentions that the requirements with regard to origin in each contract entitles the company to visit felling sites and immediately terminate purchasers if the supplier fails to conform with agreed environmental standards. Audits have not yet been carried out in the field. Södra Skogsägarna reports both internal and external environmental audits for the company Sodra Latvia but no further details were given.

Owning or having close business relations with local logging companies

Seven of the companies have subsidiaries or shares in companies on the ground in Latvia (see Table 3). According to several of the responses, the companies feel that presence on the ground in Latvia enables more detailed knowledge of, and influence over forest management practices than is otherwise possible. For example, Thomesto Oy reported that the staff responsible for environmental management in their subsidiary Silva ensures that Thomesto is well aware of the legal and environmental developments in Latvia.

Korsnäs' Latsin SIA and SIA Stora Enso Mežs have their own logging operations in Latvia. The ambition of Korsnäs is to increase the amount of forest leasing, in order to have full control over a bigger part of the total volume of Latvian imports. StoraEnso reports that the share of their own cuttings on privately and state owned forests is increasing.

Educating partners and suppliers

Several of the companies include in their environmental policies the development of adequate environmental knowledge among their staff. StoraEnso also includes their suppliers and contractors in their objective of improving environmental knowledge through training and cooperation. Some companies, for example Thomesto Oy also mention that they actively support and participate in Latvian projects that promote sustainable forestry.

StoraEnso holds meetings with the staff of SIA Stora Enso Mežs several times per year, and according to the company environmental education and dialogue on environmental issues form an important part of these meetings. As mentioned above, the field visits to logging sites that have been introduced by Thomesto Oy have the dual function of audits and opportunities for environmental education in the field.

Promoting openness and dialogue with third parties

As was highlighted above, most of the companies' environmental policies state their commitment to openness regarding environmental issues, and the promotion of dialogue with authorities, different interest groups and organizations. The companies' environmental policies and programs have generally been translated to English. Holmen Skog has also translated their guidelines for sustainable forestry to the Baltic languages. It should be noted that for the most part these are direct translation of guidelines prepared originally for the Swedish context. StoraEnso has specific written environmental policy regarding Baltic wood procurement. AssiDomän has a specific environmental policy for wood procurement outside of Sweden.

Using available information to protect ecosystems and species

Only one company responding to this inquiry and reported that they have used the results from the Latvian Woodland Key Habitat inventory. Stora Enso reports that it has started to use the inventory information and plans further use in the regions where SIA StoraEnso Mežs operates.

Sveaskog/AssiDomän specifically mention in their environmental policy for timber purchases outside Sweden that purchased timber must not originate from known key habitats or other areas, which are publicly recognized as containing significant natural values. It was not validated in this study whether Sveaskog/AssiDomän as yet has accessed information from the Woodland Key Habitat inventory, or whether mechanisms to use this information are being developed.

Using certification and third-party verification

Among the Latvian subsidiaries of the Swedish forest companies, Latsin SIA, in which Korsnäs AB holds shares, has received its FSC chain-of-custody certification. Rottneros Baltic SIA is in the process of being FSC chain-of-custody certified. Sveaskog/AssiDomän reports plans to introduce chain-of-custody certification in the near future.

Thomesto's subsidiary Silva Ltd. has not yet been FSC certified, but the company is a member in the Latvian Forest Certification Council. SIA Stora Enso Mezs and StoraEnso Forest Products report that the company has good information exchange with the Latvian Forest Certification Council. However, there are no plans yet for FSC chain-of-custody certification of SIA Stora Enso Mežs.

It can be noted that all of the forest product industry companies with forest holdings in Sweden responding to the survey are FSC certified for their Swedish forest management, except Södra skogsägarna which is PEFC certified for many of its members' forest holdings in Sweden. In addition several of the companies have or are in the process of environmental certification according to ISO 14001 or ISO 9001 of their mills and operations in Sweden and Latvia. In Latvia SIA Stora Enso Mežs, Sia Baltfor (Sveaskog), Rottneros Baltic SIA and Sodra Latvia have also been or are in the process of being ISO certified.

VI. Conclusions and recommendations for responsible timber trade

THERE ARE TWO LEVELS of knowledge that Swedish companies must reach in order to move towards 'responsible trade'. Companies must know the origin of their import and the impact of this raw material procurement on the forest. With the mechanisms currently in place much of the Swedish import from Latvia could be traced back to its origin. The impact on the forest is less clear to the companies. The prevalence of illegal logging in Latvia overshadows attempts by Swedish companies to climb these two steps towards responsible trade.

Origin

It can be said that with two important exceptions, Swedish companies know the origin of their import. Documentation issued by the state as well

as company systems developed or in development for tracking the origin of timber and wood products would in most cases successfully provide a trail back to the logging site in Latvia. The first exception to this is for timber and wood products purchased from trading companies. Several respondents pointed out that the fact that legal documentation is not needed by trading companies and that timber mixed in "large piles" in terminals does not make it possible to trace the origin of all timber purchased from trading companies. Trading companies account for an important portion of the overall Swedish import from Latvia. If the documentation problems pointed out by respondents can not be addressed and solved, buying timber and wood products from trading companies will prevent companies from

Illegal logging in Usma Municipality, District of Ventspis.
Photo: WWF Latvia





Photo: Ola Jennersten, WWF.

progressing towards responsible trade. The second exception is for timber that has been illegally harvested. The issue of illegal logging is discussed below.

Several companies stated that they trust their suppliers to verify the origin and impact of their wood procurement. This may also be viewed as a passive measure. However, most companies have actively developed environmental or purchasing policies that dictate standards for origin and ecological impact of timber procurement. Such standards are enforced through contracts between buyer and seller. Companies have the option of paying field visits and pulling out of contracts if demands are not met.

Environmental and purchasing policies as well as formal contracts are important in providing objectives and direction for sustainable for-

est management and trade. It is vital that such policies are relevant for the context on the ground. Several companies have made efforts to translate policies into Latvian as well as writing procurement policies specific to the Baltic countries. These policies and contracts in any language are however only as strong as the actions taken to implement and enforce them.

Most companies state that they have developed or are developing their own internal systems for tracking the origin of their import, which would make it possible to trace their timber back to the logging site. A couple of the respondents test the effectiveness and reliability of their own systems and that of their suppliers with random tests and field visits. Other companies' claim that a program for such tests and visits is under development.

Impact

With regards to the second step towards responsible trade, knowledge of the impact on the forest, the conclusion about actor's knowledge is mixed. Not much has happened in the past years to move the companies to this next step towards responsible trade assessing the "impact" of the trade. Companies are employing a blend of mechanisms to obtain knowledge to reach this second step. These mechanisms are a mix of both active and passive measures.

Passively, companies rely on the standard and enforcement of Latvian forest management laws to ensure the origin and impact of their import. This includes reliance on state issued logging tickets and waybills. Depending on logging tickets and waybills is not enough. Obtaining proper legal licenses and permits to log and transport timber and wood products is of course an important activity and should be continued. However for a company to move towards real responsible trade, this "paper exercise" needs to be complemented with more active measures such as independent field visits and third-party verification.

In order to legitimately assess the impact of the trade a company needs to know the ecosystem values of the forests being logged to supply this trade. Companies may know where geographically their timber is coming from but do they know what kind of forests it is being sourced from. Knowledge of *high conservation value forests* is lacking. Many companies refer to the notion of *high conservation value forests* or *known key habitats* in their environmental and wood procurement policies however there are no systems in place to actualise these written policies. StoraEnso has made an active move in its operations by consulting the Latvian Woodland Key Habitat inventory.

In addition to the mechanisms summarized above, companies advocate that owning or having close business relations with local logging companies is an effective way to verify the origin and impact of their import. If owning or having close business ties with a Latvian company ensures that the Swedish company can monitor and dictate forest management practices to ensure sustainability then this mechanism would provide a company with knowledge of the impact of their trade. Initiatives educating part-

ners and suppliers, promotion of an open dialogue with other stakeholders and use of available information on forest characteristics strengthen a company's ability to know and control the impact of its timber procurement.

The Shadow of Illegal Logging

All of the mechanisms used consciously by Swedish companies bring them closer to responsible trade with Latvia. However the current problem of illegal logging in Latvia casts a shadow on this potential progress. Nine of the ten companies responding to this inquiry admitted that they could not guarantee that their timber import did not come from illegally logged forest areas. The tenth company replied that it trusted its suppliers to ensure this.

Swedish companies must find ways and create systems, which ensure that they are not purchasing illegally logged timber and wood products. Efforts to avoid illegally logged products will reduce the impact on forest ecosystems. Logging and sale of timber and wood products through the proper and legal channels will also help to bring mandated taxes and fees into the government coffers. This has potential positive impacts for all of Latvia.

Third party verification in the form of certification is a tool that may be used to ensure the origin and impact the Swedish import. Latvia's state forests, which make up half of Latvia's forest area, are in the process of being FSC certified. Swedish companies and their Latvian subsidiaries obtaining FSC chain-of-custody certification will be better able to ensure the origin of their import as well as the forest management impacting these forests.

Credit should be given to many of the Swedish actors who seem to have advanced their understanding of the situation in Latvia. When asked in 2000 as part of the research behind the report *Towards Responsible Timber Trade*, companies were quick to state their reliance on Latvian state systems to verify the origin and impact of their import. The Swedish companies who have been active in the country for several years have increased their awareness of the complexities of the timber markets and the Latvian systems. The companies have begun to

develop and implement their own systems of verification. This increased awareness does not excuse them from making improvements but it can be noted as a sign of movement forward.

In conclusion, it is evident that several of the Swedish companies are actively developing mechanisms to ensure that their timber trade with Latvia is environmentally and socially responsible. However, there is the need for further development. The Swedish companies are in a position, given the size of the Swedish timber imports and the recent history of dialogue and cooperation between Sweden and Latvia regarding sustainable forest management, to make use of available means to develop a fully responsible trade of timber with Latvia.

Principles and Recommendations for Responsible Timber Trade

As introduced earlier in this report, principles for responsible timber trade include the following main points constituting the basis of a stepwise approach:

1. Companies have an active policy and take active measures to avoid using:
 - Timber that has been illegally harvested,
 - Timber from areas where there is a clear demonstration of violation of traditional, customary or civil rights, or of serious extant disputes with indigenous people or other social stakeholders,
 - Timber from old-growth forests and other high conservation value forests, unless FSC certified,
2. Companies have active and transparent tracking mechanisms to ascertain and verify the geographic origin of imports,
3. Companies ensure that timber comes from well-managed sources and introduce methods to assess the environmental and social impacts of forest management supplying the trade,
4. Companies should use timber from FSC certified forests only.

In order to meet these guidelines it is recommended that companies develop fully programs:

1. Establishing systems (including sufficiently detailed demands in contracts) that enable tracing of timber to harvesting site, and mechanisms for auditing of these systems which include field visits to felling sites on a sample basis. These systems need to deal also with timber procured from intermediary trading companies. Programs should support the development of systems to differentiate timber shipments stored at terminals. It is also important to develop systems that allow transparency towards authorities regarding payment of fees and taxes earlier in the chain of trading to avoid illegally logged timber;
2. Developing and updating company environmental or purchasing policies for timber and wood product imports which specifically relate to Latvian conditions;
3. Obtaining FSC chain-of-custody certification of subsidiaries and of imported FSC certified timber, to enable all timber from FSC certified forests to be sold and further processed as FSC-certified timber;
4. Promoting openness and dialogue with third parties, in Sweden, in Latvia and internationally; this could be done actively for example by providing information on timber-tracing systems on Internet, seeking dialogue with local stakeholders, NGOs and other involved actors, as well as initiating round table discussions around common problems;
5. Exchanging experience on environmentally and socially sustainable forest management with partners and suppliers in a spirit of mutual learning. This could include support to suppliers in the form of raised demands, education, encouragement, assistance to initiate forest management certification etc.

Source List



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State Forest Service Public Report 2001, Latvia

Ministry of Agriculture of the Republic of Latvia, 2000,
Latvia's Forest Sector 2000.

Questionnaire on Swedish timber import from Latvia

Name of company:.....

Contact person:.....

Telephone:.....

Email:.....

Type of Company:.....

Annual flow of raw materials:.....

1. Does your company buy timber or wood products from Latvia?
- Yes
- No

2. Do you own or have shares in companies in the forestry industry in Latvia?
- Yes. Please specify:.....
- No

If the answer to 1 or 2 is yes, please answer the questions below.

3. How much do you buy and of which type of raw material/product (pulpwood, saw logs, finished products, other)?

4. How do you expect your import from Latvia to change within the next five years?

5. Who are your suppliers in Latvia?

6. Do you have information on the whole chain of production from forest owner, logging operator to dealer?

7. What is the geographical origin within Latvia of the raw materials and products that your company purchases? Do you keep records of the origin of your imports down to site level? What routines do you have to verify the origin of the raw materials/products?

8. How do you ensure that these routines are followed?

- 9 a) Can you guarantee that you do not buy wood or products from timber that has been illegally harvested?
- b) If so, how? What is your source of information? How do you verify this information?

- 10 a) Can you guarantee that you do not buy wood or products from high conservation value forests¹, e.g. key habitats, unless FSC-certified?
- b) If so, how? What is your source of information? How do you verify this information?

11. What end use do the raw material/products have in Sweden?

12. Does your company have a documented environmental policy which includes relevant aspects of your Latvian import?
- Yes
- No

13. If yes, please enclose a copy or describe the general goals and very briefly what mechanisms you have for implementation of this policy (routines/procedures, education, investments, etc.).

- 14 a) If the answer to question 2 is yes, what environmental policy does this company/do these companies have?
- b) Has this company/have these companies joined the Latvian national FSC group?

15. Is your Swedish production/raw material certified? Totally/partially/not at all/planned?

16. Which certification system do you use (FSC, PEFC, other)?

17. Do you demand that your Latvian imports are certified?

18. Do you have information on the recent developments in Latvia in respect of the new Forest Law, recent FSC development, FSC chain-of-custody development etc?

19. What are your short term and long term plans to guarantee legality and environmental sustainability of Latvian imports?

20. What difficulties or potential problems do you find in trying to achieve your goal of operating in an environmentally and socially responsible way when importing timber from or doing business in Latvia?

¹High Conservation Value Forests are forests that possess one or more of the following attributes:

- a) forest areas containing globally, regionally or nationally significant: concentrations of biodiversity values (e.g. endemism, endangered species, refugia); and/or large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species coexist in natural patterns of distribution and abundance,
- b) forest areas that are in or contain rare, threatened or endangered ecosystems,
- c) forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control),
- d) forest areas fundamental to meeting basic needs of local communities (e.g. subsistence, health) and/or critical to local communities, traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities)

(Source: Forest Stewardship Council, Report of the Principle 9 Advisory Panel, Draft Recommendation (version 1), 2000;p 19)

Companies contacted as part of this investigation

Company	Responded to Questionnaire	Follow-up interview	Importing timber or wood products from Latvia
StoraEnso Forest Sweden	Yes	Yes	Yes
Thomesto Oy/Metsäliitto	Yes	Yes	Yes
Södra Skogsägarna	Yes	No	Yes
Sveaskog/Assi Domän	Yes	Yes	Yes
Rottneros AB	Yes	Yes	Yes
Korsnäs AB	Yes	Yes	Yes
Domsjö Fabriker AB	Yes ¹	No	Yes
UniTimber AB/ ScanComp Forest AB	Yes	No	Yes
Holmen Skog AB	Yes	Yes	Yes
SCA Forest Products AB	Yes	Yes	Yes
Västskog Sågråvaru AB	Yes	Yes	Yes
Billerud AB	Yes	No	no information
MP bolagen, Vetlanda	Yes	No	No
Skogsägarna Mellanskog	Yes	No	No
Baltic Woodproducts AB	Yes	No	No
Gotlands Flis	No	Yes	No
Scaninge Timber AB	Yes	No	No
Wasawood AB	No	No	–
Munksjö AB	No	No	–
Klippan AB	No	No	–

¹ Domsjö Fabriker AB previously imported timber via Holmen Skog AB. Domsjö Fabriker AB is now in the process of developing its own structures for timber imports. Hence, the company will give more detailed information when these structures have been developed.

Case Study of Illegal Logging in Latvia

The description of the illegal logging cases depicted in this report is not scientifically based. The case study calls to attention the seriousness of illegal logging in Latvia and should be used as a source of information. Much of the illegal logging in Latvia goes unreported making it difficult to provide a full overview of illegal logging. The case study focuses on registered cases of illegal logging. The case study is to be used as a source of information for the companies importing timber and wood products from Latvia as well as to facilitate and develop corporative responsibility and transparent timber trade in the forest sector in Latvia. The case study does not include the analysis of information about payment of state fees on timber logging, processing and trade.

The 10 cases of illegal logging documented below cover all regions of Latvia (see Map – *Location of illegal logging cases in Latvia*). Nine cases are located in privately owned forests and one in the State-owned forest. Four illegal logging cases are located in protected nature areas. The illegal logging cases can be defined as following:

- Timber theft – in which a third party logs the forest without authorization from the owner or licenses from the state,
- Logging without legal felling licenses, and
- Logging with legal felling licenses but ignoring normative logging requirements.

In 2000, there were 3 763 registered cases of illegal logging accounting for a logged volume of 191 657m³. 23 083m³ of these were logged in State-owned forests. In 2001, there were 2757 registered cases of illegal logging, with total logged volume of 229 028m³. 15 779 m³ of these were logged in State-owned forests¹.

¹ Information prepared by the SFS, 2001.



1. Usma Municipality, District of Ventspils.



Photos, all in App. 3, WWF Latvia

Illegal logging case:

Illegally logged private forest in 2001. Timber logging has performed without issued felling confirmation – 16,2ha of forest is destroyed, incl. 1,9ha of buffer zone for the Lake Laksi. Requirements of Forest Law (17.03.2000) and The Law on Protected Belts (05.02.1997) are violated.

Source of information:

Field inspection by WWF Latvia, information provided by State Forest Service (SFS).

2. Ugale Municipality, District of Ventspils



Illegal logging case:

Illegally logged private forest in the Abava River Valley Nature Park in 2001. Timber logging is performed without issued felling confirmation in the protected area – 1,4ha of forest is damaged and 5,5ha of forest stand destroyed. Requirements of the Regulations on the General Protection and Use of Specially Protected Nature Territories (No.354/21.10.1997) are violated.

Source of information:

Field inspection by WWF Latvia, information provided by SFS.

3. Gudenieki Municipality, District of Kuldīga.



Illegal logging case:

Illegally logged private forest in 2001. Timber logging is performed with issued felling confirmation for thinning –14,1ha of forest is destroyed. The edge between the forest and meadow is felled. Requirements of the Regulations on Tree Felling in Forest Lands (372/24.10.2000), Regulations on Environmental Conservation in Forest Management (189/08.05.2001) are violated.

Source of information:

Field inspection by WWF Latvia, information provided by SFS.

4. Grobina Municipality, District of Liepāja.



Illegal logging case:

Illegally logged private forest in 2000. Trees theft in the forest - 13,3ha of forest is destroyed.

Source of information:

Field inspection by WWF Latvia, information provided by SFS.

5. Garkalne Municipality, District of Riga.



Illegal logging case:

Illegally logged State forest in 2001. Trees theft in the forest -1,2ha of forest is damaged.

Source of information:

Field inspection by WWF Latvia, information provided by The State Joint Stock Company "Latvijas valsts meži".

6. Koni Municipality, District of Valmiera.



Illegal logging case:

Illegally logged private forest in 2000. Timber logging is performed with issued felling confirmation for thinning –1,1ha of forest stand is destroyed.

Requirements of the Regulations on Tree Felling in Forest Lands (372/24.10.2000) are violated.

Source of information:

Field inspection by WWF Latvia, information provided by SFS.

7. Staicele Municipality, District of Limbazi.



Illegal logging case:

Illegally logged private forest in the protected belt of Dzerve Swamp Reserve in 2001. Timber logging is performed without issued felling confirmation – 0,4ha of forest is damaged and 0,5ha of forest is destroyed.

Requirements of the Regulations on the General protection and Use of Specially Protected Nature Territories (Nr 354/21.10.1997) are violated.

Source of information:

Field inspection by WWF Latvia, information provided by SFS and North Vidzeme Biosphere Reserve.

8. Ranka Municipality, District of Gulbene.



Illegal logging case:

Illegally logged private forest in 2001. Timber logging is performed with issued felling confirmation for thinning of 3,2ha. 9,5ha of forest is destroyed. Requirements of the Regulations on Tree Felling in Forest Lands (372/24.10.2000) are violated.

Source of information:

Field inspection by WWF Latvia, information provided by SFS.

9. Udrisi Municipality, District of Kraslava.



Illegal logging case:

Illegally logged private forest in the Nature Park "Daugavas loki" in 2001. Illegal logging is made in the area of Landscape and Culture-historical heritage protection zone of Nature Park. Timber logging has been performed without issued felling confirmation – 3,1ha of forest is destroyed. Requirements of the Regulations on the General protection and Use of Specially Protected Nature Territories (Nr 354/21.10.1997) and Nature Protection plan of Nature park "Daugavas loki" (approved by the Ministry of Environmental Protection and Regional Development, 15.07.1998) are violated.

Source of information: Field inspection by WWF Latvia, information provided by State Forest Service and Latvian Fund of Nature.

10. Arona Municipality, District of Madona.



Illegal logging case:

Illegally logged private forest in the Nature Park "Gaizinkalns" (the highest hill in Latvia, 311,6m) in 2001. Timber logging performed without issued felling confirmation – 0,8ha of forest is destroyed. Requirements of the Regulations on the General Protection and Use of Specially Protected Nature Territories (Nr 354/21.10.1997) and Nature Protection plan of Nature Park "Gaizinkalns" (approved by the Ministry of Environmental Protection and Regional Development, 11.04.1997) are violated.

Source of information: Field inspection by WWF Latvia, information provided by SFS and Regional Environmental Board of Madona District.