# The Russian Far East

## Foreign Direct Investment and Environmental Destruction

by

Josh Newell and Emma Wilson

*The Russian Far East has long been regarded by Moscow as a natural resource base. Under the Soviet regime, huge industrial complexes were set up to exploit the region's abundant reserves of timber, coal, diamonds, gold, oil and gas. With the collapse of the Soviet Union, the area is now being opened up to foreign investment. Powerful national and multinational interests are seeking to turn the region into a "natural resource colony" for the Pacific Rim economies.*

The Russian Far East — an area equal in size to two-thirds of the continental United States — is one of the world's last remaining wildernesses; it covers 6.63 million square kilometres, or 40 per cent of the Russian Federation.[1] Home to some 9.2 million people, including 88,000 indigenous people, the region has a high geographical and biological diversity, with climate zones ranging from Arctic to subtropical, and provides a habitat for many endangered and endemic species of flora and fauna, including the Amur tiger, Far Eastern leopard, Japanese crane, Himalayan black bear, grey whale, Siberian snow goose, Korean pine and gingseng. It also boasts some of the richest riparian and marine fisheries in the world. Forests make up 45 per cent of the territory, stretching from Lake Baikal in the southwest to the Kamchatka Peninsula in the west, and play a vital role in regulating global climate.

### A Resource Colony

Under the Soviet authorities, central government planners viewed the region primarily as a source of raw materials for European Russia, constructing entire cities — with names like Uglegorsk ("coal town") or Neftegorsk ("oil town") — around the extraction of one or more resources. Little money was reinvested to diversify regional economies or to develop locally-based processing capabilities. Although the region produces just five per cent of Russia's total industrial output, it provides more than 50 per cent of the gold mined in the country, all the diamonds and tin, 53.3 per cent of fish and marine products, and 7.9 per cent of forest products.[2] The largest industry is fishing, followed by mining of precious metals, machine building and forestry.

After the dissolution of the Soviet Union, shrinking federal subsidies coupled with high fuel costs, declining domestic demand, the transformation of state-owned enterprises into joint-stock companies, and a lack of competitiveness crippled industry in the Russian Far East (RFE). Industrial output declined by 21 per cent in 1994. In a mad dash for hard currency, all industries are reorienting themselves toward the export market and trade is booming.

Almost 90 per cent of exports from the RFE now go to Pacific Rim countries. South Korea has been active in developing economic ties, but Japan is the region's largest trading partner (as it was before the collapse of the USSR), exports to the country increasing by 25.7 per cent in 1994.[3] Fish shipments to Japan, which almost tripled from 1990 to 1994, account for 62 per cent of Russia's total fish exports.[4] In 1994, one-quarter of all Japanese log imports came from Russia, the bulk of them from the RFE. Together, Japan and China take 70 per cent of the RFE's raw log exports.[5]

Barter trade is also growing, as Russian companies trade coal, timber, gold and fish for products they can sell on the domestic market — mainly foodstuffs such as canned food and alcohol and consumer goods such as electronic equipment and automobiles. Critical raw materials such as coal are being exported at the expense of local residents. The *oblast* (administrative district) of Primorskiy Krai, for example, suffers from a chronic shortage of fuel for heating while its ports export millions of tonnes of coking coal each year.

Direct foreign investment has so far been less vigorous than trade but is increasing as powerful national and multinational interests size up the RFE as a "natural resource colony" for the Pacific Rim economies. Foreign oil and trading companies, including Exxon, Texaco, Royal-Dutch Shell, Marathon Oil, Mitsubishi Corporation and Mitsui, plan to pump over US$30 billion into four offshore oil developments near Sakhalin Island in the Sea of Okhotsk, with pipelines running the entire length of the island to supply refineries in Japan. Foreign mining companies have formed joint ventures to mine gold in Kamchatka, Magadan and Amur, copper in Chita and coal in Yakutia. In June 1995, the Global Forestry Management Group (GFMG), a consortium of ten US wood-product companies from Oregon, Washington and northern California, established the first large-scale US logging joint venture in the region, supplying logs to Japan.

### Clearcutting the Forests

Foreign direct investment is bringing few benefits to the people of the RFE, whilst threatening widespread environmental destruction.

In the forest sector, between 40 and 60

**Josh Newell** and **Emma Wilson** are coordinators of Friends of the Earth-Japan's Russian Far East Hotspot Project.

per cent of all timber cut is never used — four times more than in "developed" countries.[6] Foreign capital could (in theory) help to reduce such waste by supplying more efficient, ecologically-sound equipment; it could also be used to create a more sustainable forest industry that focused on local value-added processing, securing jobs for the numerous communities that depend on logging, hunting and other forest uses.

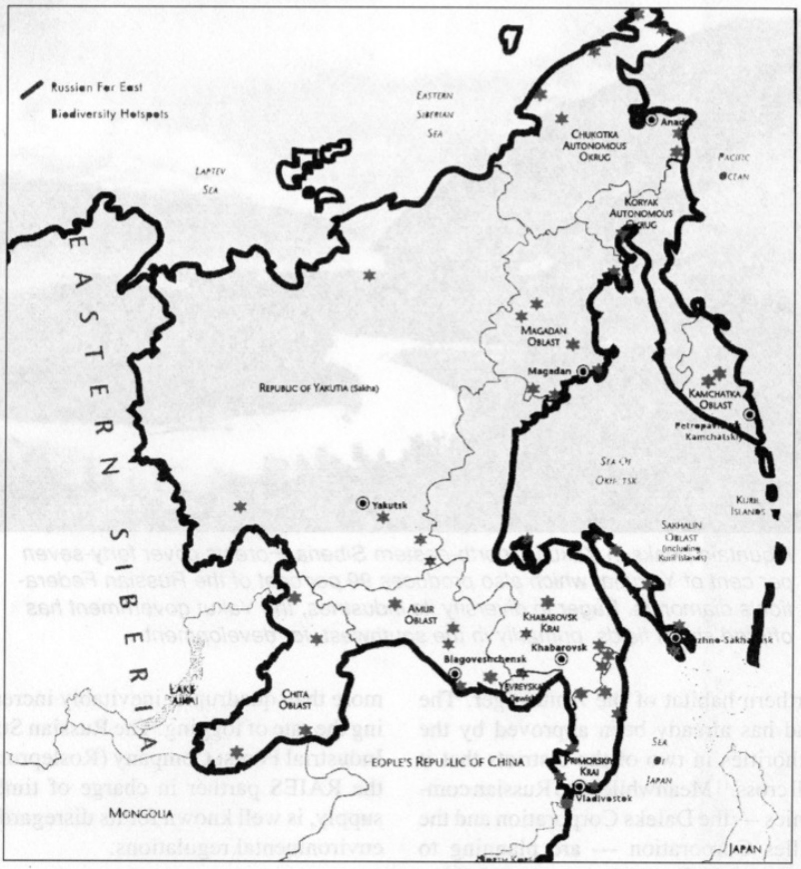
However, the equipment being supplied by joint ventures operating in the RFE is aimed primarily at industrial logging. GFMG, for instance, is to supply its Russian partner with $4.5 million worth of equipment including Timberjack 2520 and Caterpillar 518G harvesters[7] which will allow the Russians to log forests more rapidly and along steeper slopes. Meanwhile, South Korea's Hyundai Corporation and two Russian companies are clearcutting approximately 200,000 cubic metres a year near Svetlaya in Primorskiy Krai. The logging has been permitted by the local and regional authorities despite the project's receiving a negative environmental impact assessment from the federal government.

Foreign investors do not appear committed to developing local processing. All the timber from the Hyundai joint venture, for example, has been exported as raw logs — mainly to Japan[8] — as has that from GFMG's joint venture. Although GFMG is considering building sawmills to process timber locally, the consortium's lawyer, Mike Haglund, has said that the venture wants to keep its own mills in the US Pacific Northwest operational and is therefore seeking to:

> "replicate, by importing [logs] from overseas, the Japanese formula for maintaining a strong manufacturing base despite an inadequate supply of local raw logs."[9]

Significantly, Japan's hostility to local processing is believed to be one of the reasons why negotiations for a massive trade deal between Japan and Russia — the KS Sangyo project[10] — have stalled. The Japanese participants have strongly resisted Russian demands for Japanese companies to import more processed wood products instead of raw logs.

With substantial short-term gains to be made from raw log exports, timber companies are looking to open up roadless wilderness to find new sources of timber. The Sikhote-Alin' mountain range and the Sea of Japan coast, which has some of the richest forests in the RFE, appear to be their next targets. AO Trassa Sukpai-Nel'ma, a consortium of Russian timber companies, is planning to build a 160-kilometre logging road from Nel'ma on the east coast of Khabarovsk Krai to the town of Sukpai on the Trans-Siberian Railroad. If built, the road would open up a million hectares of near-roadless wilderness and fir, spruce and larch forests in the Samarga and Sukpai River basins. In the process, it could destroy the traditional hunting grounds of the Samarga Udege peoples, who are opposed to the project, and damage a key range of the




The Russian Forest Service estimates that there are over 21 billion cubic metres of timber reserves in the Russian Far East (RFE). Over half these forests are in Yakutia, but the most productive and accessible ones are in the southern administrative districts of Khabarovsk, Primorskiy, Amur and Sakhalin). There are 18 billion tonnes of coal in the RFE, 80 per cent of which lie in Yakutia. Oil and gas reserves (308 million tonnes of high-grade oil and 1.5 trillion cubic metres of gas) are found mainly on Sakhalin Island and in Yakutia, but there are also significant off-shore reserves on the continental shelf bordering Khabarosvsk, Magadan, Sakhalin Island, and the Kamchatka Peninsula. The Kuril Islands and Kamchatka have geothermal energy resources.

Gold and silver reserves are mainly in Yakutia, Magadan, Khabarovsk, Amur and Kamchatka. Yakutia boasts the world's second largest reserve of diamonds — providing Russia's entire supply. Most of the RFE's confirmed 4.4 billion tonnes of iron ore deposits are in southern Yakutia. Other important metals found in the RFE include tin, antimony, tungsten, mercury, lead and zinc.

Marine resources may be the RFE's greatest wealth, with fish stocks estimated at 29 million tonnes. Pollack and a sardine called *ivasi* make up 85 per cent of the RFE catch. Other important species include salmon, crab shrimp, scallops and sea urchins. These resources are distributed in the Sea of Okhotsk (46 per cent), in the coastal waters around the northern Kurils (18 per cent), in the Sea of Japan (12 per cent), the Bering Sea (11 per cent) and the eastern shores of Kamchatka (7 per cent).