



ATTENTION WAL-MART SHOPPERS

HOW WAL-MART'S SOURCING PRACTICES ENCOURAGE
ILLEGAL LOGGING AND THREATEN ENDANGERED SPECIES

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EXECUTIVE SUMMARY

Despite Wal-Mart's newfound corporate emphasis on sustainability, undercover investigations in China by the Environmental Investigation Agency (EIA) have found that Wal-Mart is turning a blind eye to illegal timber sources in its supply chain which threaten some of the world's last great natural forests. Wal-Mart's 'no questions asked' sourcing policy is having particularly dangerous consequences for the high conservation value forests of the Russian Far East and the endangered species dependent on them, including the world's largest cat, the Siberian tiger.

EIA's investigators see Wal-Mart's footprints around the globe, but nowhere more so than in China, which produces 84% of Wal-Mart's wood products (see figure 1). The Chinese manufacturing sector relies on large quantities of high-risk timber imported from the world's illegal logging hotspots. In the north, thousands of train cars of wood cross the Russian-Chinese border daily from Russia's vast Far Eastern forests. Experts estimate that 35-50% of the logging in this region is illegal under Russian law.

EIA investigations into Wal-Mart's links to this highly criminalized trade have revealed the company's inattention to the legality of its raw materials. During 2007, undercover investigators met with eight Chinese manufacturers that supply Wal-Mart with wood products ranging from baby cribs to toilet seats. All suppliers independently attested to Wal-Mart's strong influence and their emphasis on price as the dominant consideration for raw material procurement. All of them used wood from the Russian Far East, most exclusively so.

Wal-Mart's giant size gives it tremendous influence in this part of the world. The forest industry and manufacturing sectors support thousands of Russians and Chinese who are eager to supply the goods to meet Wal-Mart's demand. Despite Wal-Mart's control over its manufacturers and their standards, the company has not concerned itself with the origin of the timber used for its products. Considering both the lack of questioning along with an emphasis on low price in a region where government oversight is sparse and bribes routine,

it is inevitable that Wal-Mart's sourcing practices will contribute to the depletion of Russia's "protected" forests unless concerted changes are made.

All products that EIA investigators examined were found to be highly vulnerable to containing unsustainably and in many cases illegally-logged wood. One example involves one of the largest wood manufacturers in China, which produces over 200,000 baby cribs a year for Wal-Mart, made of Russian poplar and birch. The company's dominant wood supplier from Russia, called Chuguevskaya LPK, is buying wood from areas that have the highest illegal logging rates in the Russian Far East and cuts its own timber, whether legally or not, in the middle of tiger breeding habitat. In December 2007 LPK employees were observed handing cash to Russian police officers after local conservation experts suspected them of smuggling illegally logged timber.

The baby cribs are one example of a much larger problem. When EIA undercover investigators visited Wal-Mart's leading furniture manufacturers in the south of China, they found that a common source of wood was from Suifenhe, the major Chinese timber gateway on the Russian border. An EIA undercover investigation into the leading supplier in Suifenhe revealed

protection payments to the Russian mafia and illegal cutting in the most valuable and protected forests of Siberian tiger habitat. Diverse products like toilet seats and craft sticks also raised concern. At least 31,000 trees reach Wal-Mart each year in the form of solid wood toilet seats made in Dandong, China on the border with North Korea.

EIA's investigation makes clear that Wal-Mart's customers currently risk financing criminal timber syndicates and forest destruction through their purchase of basic home goods. However, the leverage that Wal-Mart has over its suppliers was also revealed to investigators. This leverage gives the company an enormous opportunity to improve governance in China and many developing countries whose natural forests sequester enormous amounts of carbon and sustain unparalleled biodiversity. This opportunity remains inexplicably wasted at the present, despite Wal-Mart's stated intention "to sell products that sustain our natural resources and the environment."

EIA calls on Wal-Mart to commit to eliminating illegally sourced wood from its supply chains, and to implement a rigorous purchasing policy for wood products that includes auditing and tracking mechanisms.

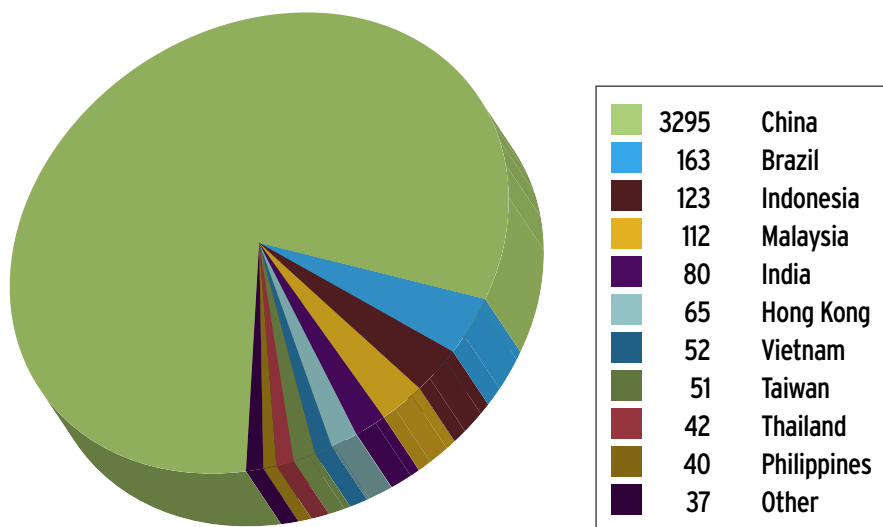


FIGURE 1 Based on U.S. customs data, this graph shows the number of import transactions of wood products, based on export country, going to Wal-Mart between May 2006 and April 2007.



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INTRODUCTION: WAL-MART IN THE WOODS



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One of four aisles of wooden furniture in a typical Wal-Mart.

From furniture to picture frames, candle holders to hammer handles, although Wal-Mart is not a wood products company per se, the world's largest retailer has an enormous footprint in the forest. The combined factors of its sales volume and its vast network of highly-controlled supply chains gives Wal-Mart the potential to generate enormous negative impacts for biodiversity, forest-dependent communities, and the global climate – and, conversely, the opportunity to positively influence the international timber sector.

Ninety percent of Americans live within 15 miles of a Wal-Mart. There were 7.2 billion visits to Wal-Mart in 2006 – more than Earth's

population.² Almost ten percent of China's exports to the U.S. now go directly to Wal-Mart stores.³ The dramatic trade stream growth in furniture and other wood products in the past decade – since 1997, U.S. imports have increased over 1000% from China alone⁴ – is fueled in part by the demand for inexpensive mass-produced products sold in the aisles of big box retailers like Wal-Mart, which have seen explosive growth during this same period.

It is not inherently bad that more people can afford to buy more furniture, especially made from a material that is, in theory, a renewable resource. The problem is that timber is currently being harvested illegally from forests around the world to meet this demand. This harvest is not sustainable, and what's being lost is anything but renewable. Illegal logging and associated trade have well-documented environmental, social and economic impacts.

Illegal logging is fueled by a global market where few actors – factory suppliers, importers, retailers, or consumers – have the incentive to ask questions. Wal-Mart, with a business strategy that has insisted on low prices before all else,⁵ is currently a central participant in this “no questions asked” market. Although the company has stated its aim, to “develop transparency” in its wood sourcing,⁶ EIA investigations documented in this report reveal the use of illegal and high-risk wood in a wide variety of products on Wal-Mart's shelves.

On November 15, 2007, Wal-Mart released its “Sustainability Progress Report”, a



comprehensive overview of the company's commitments and initiatives to address the environmental and social impacts of its business operations. Recognizing the enormous reach of its supply chain, one of Wal-Mart's primary stated goals is "to sell products that sustain our natural resources and the environment." Forests are part of this vision, as the company's Sustainability Report materials assert the importance – "first and foremost" – of avoiding illegally harvested wood.⁷

But despite proclaiming this new vision of sustainability, EIA's investigations reveal a lack of concern on the part of Wal-Mart and its suppliers as to the legality or sustainability of its wood sourcing. This is of particular concern, as wood in Wal-Mart's products comes from some of the world's hotspots of illegal logging, including the Russian Far East, Indonesia, and parts of Central and South America. As long as Wal-Mart continues to turn a blind eye to its wood sources, its customers are at risk of supporting criminal timber syndicates and forest habitat destruction through their purchase of basic home goods.

On the other hand, Wal-Mart's legendary control over its supply chain can be harnessed for positive change. In this report, EIA provides both a snapshot of how the world's largest company is currently at high risk of selling illegally logged wood products, and a vision of the broad change that Wal-Mart could initiate by committing to ask the right questions.



ABOVE (top to bottom):

The frame aisle in a Wal-Mart in the Washington, DC area.

An EIA survey found 66 different wood products being sold in Wal-Mart that are made in Indonesia, where 73% of the logging is illegal, according to their own Forest Minister.



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THE IMPACTS OF ILLEGAL LOGGING

Illegal logging is not only a serious environmental problem, but an activity that promotes corruption, undermines governance systems, can lead to human rights abuses, and hurts the U.S. domestic timber sector.

ABOVE:

This road, built by illegal loggers in Papua, Indonesia, to extract merbau for China, will allow loggers to enter previously inaccessible rainforest.

PAGE 5 (left to right, top to bottom):

Transporting illegally cut timber in Honduras.

Almost all of the remaining Siberian tigers (*Panthera tigris altaica*), the world's largest cat, are found in the Russian Far East.

In November 2001, notorious timber baron Abdul Rasyid is widely suspected to have ordered an attack on investigative journalist Abi Kusno Nachran after his information led to a government seizure of Rasyid's timber shipments. Kusno was hijacked by a gang of hired thugs who hacked him with machetes in the back, arms, and head.

Environmental Costs:

Illegal logging activities catalyze a chain reaction of environmental damage. When illegal loggers enter a forest, they are not abiding by management plans, sensitive to stream buffers, or taking care not to disturb any local endangered species. Typically, such operations are after a select suite of timber species whose value on the international market is worth the risk of harvest. Often the only places where substantial quantities of these species remain are indigenous community lands, national parks, or the final remote tracts of wilderness left – critical habitat for far-ranging, low-density species like tigers, jaguars, and orangutans.

The prices fetched by export-quality wood products justify the economics of illicit extraction activities: building new infrastructure, (see picture above) bribing local officials and/or community leaders, and creating elaborate smuggling arrangements.

The creation of road networks and extraction facilities in frontier forest regions precedes more extensive logging and, frequently, conversion to industrial agriculture (often through intentional burning).⁸ Large-scale deforestation not only destroys wildlife habitat, but causes topsoil

exposure and subsequent erosion of the sort that ruins waterways and contributes to flooding and landslides. Deforestation and conversion are also direct drivers of climate change – deforestation accounts for over 18% of global carbon emissions, more than the entire global transport sector or industrial manufacturing sector.⁹

Social Costs:

In several country case studies, illegal logging is financed and conducted by criminal syndicates and mafias with high-level connections. Bribery and impunity undermine the rule of law in developing countries and cripple the enforcement functions of government agencies. The timber barons who run logging and trafficking operations are willing to swindle local communities and use forced labor, political intimidation, and violence (see picture on opposite page) to ensure their uninterrupted flow of product.¹⁰

In Papua Province, Indonesia, a region known for its widespread corruption and natural resource exploitation, EIA exposed timber companies using local police and military personnel to intimidate community leaders into agreeing to grossly unfair compensation for their timber. For example, a community in western Papua was promised more than \$10,000 for its timber but was given only \$2,750. On the adjacent island of Salawati, a company paid a community \$22,000 for \$3 million worth of merbau (*Intsia spp*) logs.¹¹

In Peru, where a single mahogany tree, at U.S. market value could build and staff a village clinic, illegal loggers pay less than 0.02% of the international price and harvest the trees to depletion in one season.¹² Loggers are penetrating the protected territories of several voluntarily isolated, 'uncontacted' tribes, risking catastrophic outbreak among people who lack immunity to common diseases.¹³ A 2005 study by the International Labor Organization found that approximately 33,000 people were working under forced labor conditions in the Peruvian Amazon, principally involved in the illegal harvest of mahogany and cedar.¹⁴

Intimidation and violence towards those who speak out against illegal logging is common. In Honduras, for example, where extensive illegal logging of pine forests has been documented by EIA and other organizations, the leaders of the grassroots Environmental Movement of Olancho (MAO) have received repeated death threats.¹⁵ Between 1996 and 2007, at least five members of MAO have been killed for their activism.¹⁶

Economic Costs:

Illegally harvested or traded timber avoids the costs of managing a forestry operation in compliance with forestry and environmental regulations, permits, labor laws, and appropriate taxes and tariffs.

Subsequent wood products benefit from a cheaper raw material source, allowing producers to out-compete legal timber industries. For example, a 2004 report commissioned by the American Forest & Paper Association concluded that illegal timber in the international market costs its U.S.-based members \$460 million annually from the lost ability to export to foreign markets, and another \$500 to \$700 million from depressed domestic prices.¹⁷

These costs have rippled out in the loss of U.S. forestlands and forest sector jobs. As American timber sees a competitive disadvantage in the international market,

forestlands in the U.S. become more valuable as real estate than as production forest. In the next 25 years, over 44 million acres of private forestland – an area twice the size of Maine – will be sold to developers, according to a study by the U.S. Forest Service.¹⁸ And since 2001, the U.S. has lost more than 200,000 forest sector jobs.¹⁹ The low cost of labor factors strongly in the outsourcing of wood product manufacturing to countries such as China and Vietnam, but cheaper raw material benefited by illegal logging plays an important role.



LOW PRICES, HIGH CONTROL: WAL-MART'S BUSINESS MODEL



ABOVE (top to bottom):

Undercover meeting with Ausmart, former supplier of baby cribs to Wal-Mart: "Their price is very low, so their quality is also very low...The most important [thing] for them is price."

Undercover meeting with Dongguan Guangrun, furniture supplier to Wal-Mart: "They just ask about price. Lower, lower, lower, lower. Nothing to do with quality."

Wal-Mart is, in many important ways, the most powerful company in the world. It is the largest retailer in the U.S., Canada, and Mexico, the largest private employer in the world, and its annual revenue would make it the 27th largest country by GDP. It is larger than The Home Depot, Kroger, Target, Costco, Sears and K-Mart combined.²⁰ Wal-Mart's suppliers represent 35 countries, and its retail stores, or those chains controlled by Wal-Mart, are found in 13 countries. The past two years saw acquisitions of major grocery retail chains in China, Central America, and Brazil, augmenting a portfolio that already included Japan's Seiyu and the United Kingdom's Asda stores.²¹

Behind Wal-Mart's size and market clout lies a business model that is driven by the mandate to lower costs, an imperative that the company aggressively implements via unparalleled leverage over its suppliers. Understanding these two basic elements of Wal-Mart's business model – and their ripple effects beyond store walls – is necessary in order to appreciate the retailer's global environmental footprint. EIA's investigations showed these elements at play everywhere that was visited.

Rewriting the rules of the supplier-retailer relationship

Over the past few decades, retail sector consolidation into large national chains, the weakening of labor unions, and better inventory-tracking technology has allowed retailers to shift the power to shape global supply chains away from the manufacturing sector.²² Today it is Wal-Mart, Target, The Home Depot and other big box retailers that decide where products are made, at what price, and how fast they need to be transported. A supplier either meets these demands or loses a substantial portion of its market.

Upon entering into a relationship, Wal-Mart quickly commands about 30% of most of its suppliers' business.²³ Wal-Mart consistently ends relationships with companies if they cannot meet its demands for a price freeze or decrease, even in the face of external factors such as an unfavorable exchange rate or bad crop year. The combination of being a large percentage of

a supplier's business and maintaining a fluid and unstable relationship allows Wal-Mart to hold incredible leverage over its suppliers. As Wal-Mart becomes a supplier's largest customer, the supplier often becomes dependent on Wal-Mart's business for its survival.²⁴

These conditions allow Wal-Mart to shape the choices and day-to-day operations of its suppliers. Some 66,000 companies supply goods to Wal-Mart,²⁵ more than 700 of which now maintain offices in Bentonville, Arkansas where Wal-Mart is headquartered. Procter & Gamble has a 250-person Bentonville team devoted to maintaining the companies' relationship.²⁶ With this kind of influence over the world's largest consumer products company, one can appreciate the leverage Wal-Mart has over a small manufacturer in Shanghai.

Squeezing the supply chain

Wal-Mart's corporate behavior is explained succinctly by its previous, long-standing slogan: *Always Low Prices. Always.* "From the beginning, [Sam] Walton had bought goods wherever he could get them cheapest, with any other considerations secondary," writes Bob Ortega, author of the Wal-Mart history *In Sam We Trust*.²⁷ While recent years have shown Wal-Mart to be genuinely examining the impacts of its business operations, the basic philosophy continues to underpin its business model.

The price-cutting mandate has resulted in positive effects within both Wal-Mart and its competitors: increased efficiency in global supply chains, eliminated unnecessary costs and waste, and minimized lavish executive behavior. However, costs must be cut from somewhere. A supplier might redesign its product, marketing strategy, or manufacturing process; attempt to cut labor costs; start procuring its raw material from cheaper sources, or turn a blind eye to how and where this raw material is being acquired. Low prices also translate into lower wages and inadequate benefits for employees of both Wal-Mart and its competitors and suppliers, and the squeezing of suppliers in ways that encourage unethical, unsustainable, and sometimes illegal practices.²⁸ This chain of financially strategic decisions is precisely what facilitates and encourages illegal logging.

BIG FOOTPRINT, BIG PLANS: WAL-MART'S ENVIRONMENTAL IMPACT

The footprint of a giant

While the direct impact that Wal-Mart's infrastructure has on the landscape and climate is enormous, its greatest environmental impact is ultimately through its supply chain.

As much as 80% of the retailer's global footprint is created by the products on its shelves, manufactured by many of the largest factories in the world.³⁰ A typical Wal-Mart sells 60,000 different items; a Supercenter doubles that to 120,000 items,³¹ and each of these products and its accompanying packaging requires energy and natural resources to produce.

In recent years, battered by organized labor and corporate watchdog organizations, Wal-Mart has endeavored to deflect criticism and reposition itself as a leader in corporate sustainability activities. Wal-Mart has initiated relationships with environmental groups including Environmental Defense, World Wildlife Fund, and Conservation International, and in 2005 launched a broad initiative to commit to lowering energy use, reducing waste, and selling more environmentally friendly products. Among the most noted goals were to double new truck fuel efficiency by 2015; cut greenhouse-gas emissions by 20% at existing stores worldwide within eight years, and reduce packaging and shipping.³²

Wal-Mart's enthusiasm for sustainability appears to be rooted in a conviction that it can take measures that will not only conserve natural resources but simultaneously increase operational efficiency and lower costs. There is no denying that the company's impact can be impressive when directed towards initiatives such as, for example, cutting its suppliers' use of paper. In 2005, Wal-Mart asked some of its toy suppliers to reduce the packaging of just 300 items. This small measure apparently saved 1,358 barrels of oil and 3,425 tons of corrugated cardboard,³³ or more than 58,000 trees.³⁴

Steps Forward

On November 15th, 2007, Wal-Mart released a comprehensive progress report on its Sustainability Initiative. Under the rubric of its broad goal "to sell products that sustain our natural resources and the environment," Wal-Mart has created "Sustainable Value Networks"

wrapped around major product categories (seafood, chemicals, textiles, electronics, jewelry, food and agriculture, and wood and paper). These networks are charged with creating and implementing sector-specific objectives.

Wal-Mart's Wood and Paper Network conceptualizes "Good Wood" as that material that is "first and foremost, not illegally harvested."³⁵ Acknowledging that the company does not know where its wood products are coming from, Wal-Mart buyer Kristen Stevens states "One of the things we want to make sure of is that as we go into more and more countries, and as we go into places that have their natural forests intact, that we are sourcing wood in a way that helps keep forests intact." The Network's aims include "develop[ing] transparency to the wood fiber source" and "creat[ing] incentives for more suppliers to convert to certified wood", as well as making production and shipping changes to reduce wood and fiber usage.

It is commendable that Wal-Mart emphasizes supply chain transparency and the need for legally harvested wood. However, while the company has laid out strong talking points, it has thus far avoided taking any firm action to eliminate even illegally logged timber from its supply chain, much less to source from sustainably harvested forests. Nor has the company publicly set any firm targets for itself or its suppliers, or explained the process it will undertake to achieve the Network's aims, beyond a general claim to give future preference to suppliers that can verify use of sustainable or recycled wood fiber.

Without concrete goals and greater transparency about its own activities, Wal-Mart's purported commitment to "good wood" cannot yet be taken seriously, especially in light of documented evidence that the company's current supply chain includes suppliers who speak openly about paying protection money to the Russian mob, and do their logging in some of the most high conservation value forests in the world (see case studies below).

GLOBAL REACH: WAL-MART'S SALE OF WOOD PRODUCTS

"One of the things we want to make sure of is that as we go into more and more countries, and we go into places that have their natural forests intact, that we are sourcing wood in a way that helps keep those forests intact."

Kristen Stevens, buyer, Wal-Mart Home Division (online video)

A snapshot into Wal-Mart's wood buying and retail

During 2007, EIA toured two Wal-Mart stores (not Supercenters) in Maryland and Virginia, and identified 918 different products containing wood. These products were "made in" 15 different countries (see figure 2), supplied by 171 different companies. More than half of the types of woods products sold by Wal-Mart are picture frames and furniture, but there is in fact quite an array of wood products on Wal-Mart's shelves, from ceiling fan blades to toy blocks to curtain rods.

Wal-Mart and Chinese exports

Not surprisingly, China dominates as the major supplier of Wal-Mart's wood products. A full 61% of items containing wood were last manufactured in China, according to the EIA survey. The figure points to Wal-Mart's special relationship with China, since mainland China is the source of only 24% of the United States' total wood products imports.³⁷

According to Xu Jun, Wal-Mart-China's Director of External Affairs, "if Wal-Mart were an individual economy, it would rank as China's eighth-biggest trading partner,"³⁸ ahead of every G-8 nation except the United States and Japan.³⁹ With one-way trade from China to the U.S. worth \$196 billion in 2006,⁴⁰ it is amazing to see that almost 10% of all Chinese imports go to a single company.⁴¹ The growth will continue: Wal-Mart CEO Lee Scott told China Daily in November 2004: "We expect our procurement stock from China to continue



to grow at a similar rate in line with Wal-Mart's growth worldwide, if not faster."⁴²

The Chinese government has acknowledged its inability to enforce its own environmental laws.⁴³ By expert accounts, there is a current lack of capacity and incentive for either private firms or government authorities to track or regulate the wood processing industries' raw material sources (although the State Forestry Agency has begun to take steps such as developing draft standards for Chinese companies operating in foreign countries).⁴⁴

The rise of China's wood products industry

In 1998, devastating floods of the Yangtze River left over 3,000 people dead and 14 million homeless. Much of the damage was blamed on extensive logging of the river's upper watershed, and in response, the Chinese government imposed tight restrictions on domestic logging. This limit has since dramatically increased Chinese demand for foreign wood. Between 1997

and 2005, China's forest products imports went from \$6.4 billion to \$16.4 billion and tripled in volume. During that period, China went from the world's 7th-largest to its 2nd-largest forest products importer, behind the U.S.⁴⁵ It leads the world already in imports of raw material (logs and sawn timber).⁴⁶

China is also the world's largest exporter of wood products, worth over \$17 billion in 2005. This represents almost 500% growth in less than a decade,⁴⁷ the U.S. being the main destination with imports of \$7.9 billion in 2006.⁴⁸ Chinese exports of wooden furniture alone grew to 12.7 million cubic meters in 2005, of which the US imported 40%.⁴⁹

Wal-Mart's massive growth and increased foreign sourcing coincided with the escalating wood products trade stream from China to the U.S. And the company's reliance on Chinese-produced wood products is significant from an environmental perspective, as China is widely recognized as the leader in illegal wood imports (see box on page 11).⁵⁰

ABOVE:

Siberian tiger strolls through the forests of the Russian Far East, which are particularly impacted by Wal-Mart's sourcing.

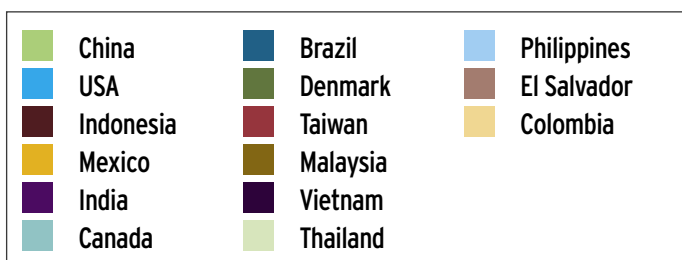
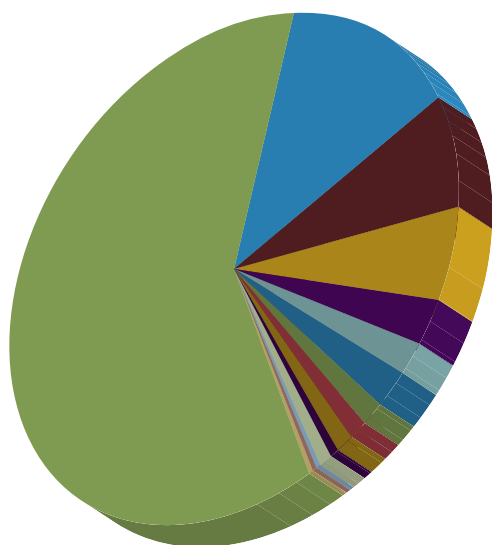


FIGURE 2 Where Wal-Mart's wood products are made, based on a survey of two Wal-Marts in the Washington, DC area.

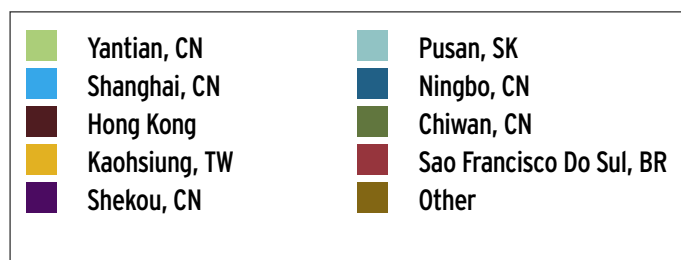
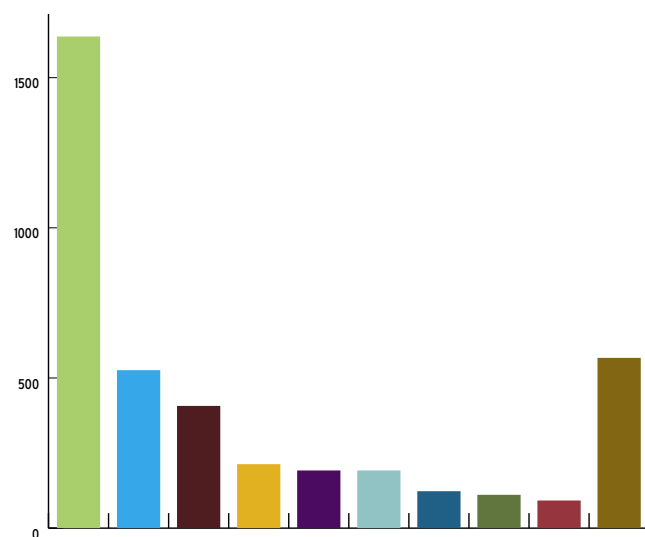


FIGURE 3 Based on U.S. customs data between May 2006 and April 2007, this graph shows the top nine ports where Wal-Mart bound wood products last were before entering the U.S.

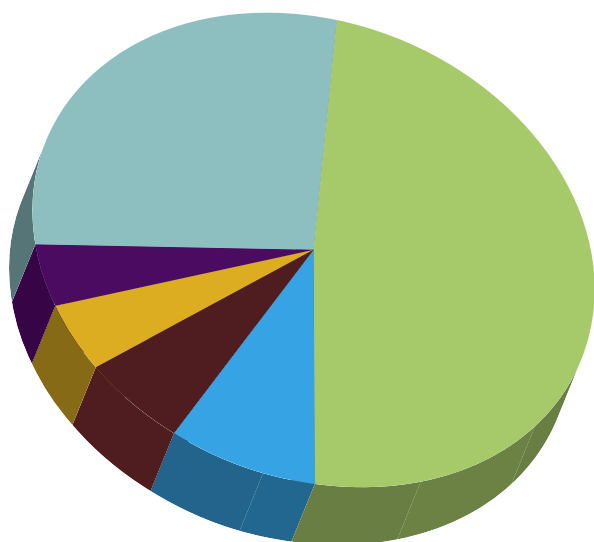


FIGURE 4 China Timber Imports, as a percentage of total. (Based on Chinese customs data, adapted from tables in White, et al 2006)

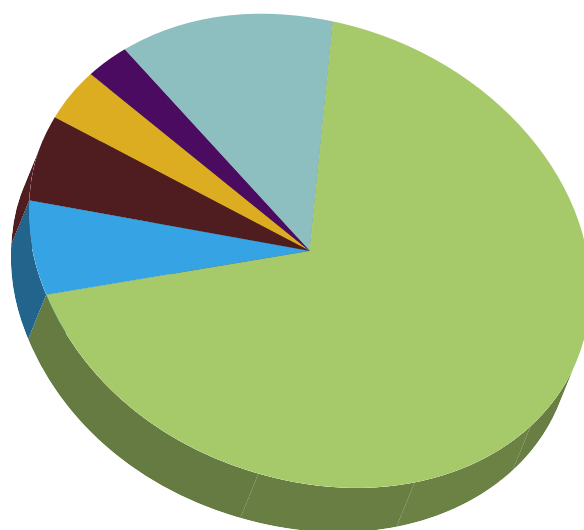


FIGURE 5 China Log Imports, as a percentage of total. (Based on Chinese customs data, adapted from tables in White, et al 2006)

CHINA IMPORTS RUSSIA'S GREAT EASTERN FORESTS

The remote borderlands of northern China and eastern Russia are the site of a booming cross-border trade in timber logged from high conservation value forests, most of it environmentally damaging, and a large proportion clearly illegal. Russia alone supplied China approximately 26.4 million cubic meters of wood in 2005 – 49% of China's total timber product imports and fully 68% of its logs⁶⁶ (see figures 4 & 5). The growth in this trade has no end in sight, as China's domestic timber shortage is only predicted to rise.⁶⁷ In the first half of 2007, Russian imports had risen 18% over the previous year.⁶⁸ The population of gateway towns along the key timber trade routes, including Manzhouli near the Mongolian border and Suifenhe in Heilongjiang province, have grown as much as 500% in the past decade.⁶⁹ U.S. wood producers watch these statistics with desperation, as Russia's temperate hardwood species are the most direct competition with U.S. hardwoods.⁷⁰

The Wild Wild Far East

Magnificent conifer-broadleaved forests grow along the Sikhote-Alin Mountain Range, a series of rolling, low-lying mountains that extend more than 1000 kilometers north to south through two administrative regions of Russia's Far East (most of the Primorsky Region and into southern Khabarovsk Krai; see figure 9).⁷¹ Russian ecologists call these forests the Ussuri Taiga. Escaping the last glacial period, this region's forests have evolved to become one of the most diverse assemblages of plant and animal species in temperate forests anywhere on the planet and the most productive in the former Soviet Union.⁷² Boreal forest species thrive here together with temperate and subtropical species such as Korean pine or cedar (*Pinus koraiensis*), ash (*Fraxinus mandshurica*), varieties of maple (*Acer spp*),

poplar (*Populus spp*), birch (*Betula spp*), fir (*Abies spp*), and lime (*Tilia spp*).⁷³

These forests support one of the highest densities of endangered species in the Russian Federation.⁷⁴ Most of the planet's estimated four hundred remaining Siberian tigers (*Panthera tigris altaica*), our largest wild cat, are found here.⁷⁵ In recognition of the ecosystem's global importance, in 2001, the Sikhote-Alin Nature Reserve and some adjacent forests were declared a United Nations World Heritage Site. Similar "frontier forests" once covered areas of China, Korea, and Japan, but have since been heavily logged or converted for agriculture.

Today, these Russian Far East (RFE) forests are the locus of Russia's large-scale illegal logging problem. In the Primorsky region, 35% to 50% of the total harvest is estimated to be illegal or suspicious,⁷⁶ and around 35% in Khabarovsk Krai.⁷⁷ Data from the Rosselkhoz nadzor (Russian Federal Service for Veterinary and Plant Control) show timber exports of over 4 million m³ in 2006, whereas customs records show a 1 million m³ discrepancy. The Russian government is unclear exactly how many companies export timber to China, with estimates ranging from 230 to

380.⁷⁸ While swaths of southeast Siberia along the Mongolian border are also seeing a dramatic rise in timber traffic, the Korean pine and hardwoods of Primorsky and Khabarovsk Krai are uniquely desirable in the export trade, as well as being the closest forests to China. EIA discovered pine and hardwoods including poplar, birch and oak to be the source material for a variety of Wal-Mart products.

Irregularities from forest to frontier

Illegal logging and trade in the RFE has proliferated in the post-perestroika era and is fueled by numerous causes: a crisis of the forest management system, an explosion in the number of timber harvesters and exporters, runaway demand in China for higher quality Russian logs, and forest service corruption. Legal Chinese brokers and export companies who have established a permanent presence in the region are shadowed by the presence of Chinese organized crime gangs, which function in parallel with the Russian mafia's grip on many native entrepreneurs.⁸² More than 1,000 cases were opened in 2005 in the region against

RIGHT:

Devastating fires swept through Khabarovsk Krai in 1998. The Khabarovsk Forest Service estimates that 70 - 85% of fires in the Russian Far East are human-induced.

PAGE 11

Logging trucks lined up to unload in Primorsky Krai.





© Pacific Environment

illegal loggers but only one conviction was made.⁸³ A “wild east” mentality in this remote region, combined with the painful aftershocks of Russia’s free market reforms, makes law enforcement complex and contentious.⁸⁴

The Primorsky region is facing declining reserves of those species in highest demand on export markets - oak, ash, birch and Korean pine. Illegal loggers targeting these species, therefore, are cutting in restricted areas such as along river banks,

fish spawning sites, and other areas protected for conservation. Both large and small companies are involved in illegal logging, as are the numerous regional and federal state entities (e.g. border guard, forest service, and police).⁸⁵

Smaller companies, in particular, rely on individuals within these institutions to help ensure that illegally logged timber is “legalized” before it is exported, as they do not often have the necessary logging or export documents.⁸⁶ Such legalization

can be secured at virtually every node of the timber chain by bribing the relevant officials. It is most advantageous to start by getting logging permits from the Forest Service. If permit papers are not available, then police at subsequent checkpoints must somehow be coerced, bribed, or avoided. Logs are then sold to a wholesaler who acquires or forges customs export documents.⁸⁷ In May 2007, two high-ranking officials within the interior directorate and police directorate of the Khabarovsk Territory, which shares a border with China, had charges brought for “providing protection for some Chinese companies involved in illegal logging and export of timber.”⁸⁸

One common form of illegal logging involves cutting commercially with a sanitary logging license, which are supposedly issued to remove old and ill trees and trees posing fire threats. Some of the most desirable species may by law only be cut in this manner.⁸⁹ To augment meager post-perestroika forest service budgets or to enrich unscrupulous forestry officials, many *leskhozy* (forest management units) regularly issue such licenses to the highest bidder. Sanitary logging, allowed within protected territories, is exempt from lease payments and stumpage fees.

China’s global sourcing

As a 2004 study commissioned by the American Forest & Paper Association explained, “China’s sources for hardwood log imports reads like a ‘Who’s Who’ of countries with problems with illegal logging.”⁵¹ In each of China’s major source countries, illegal logging and/or trafficking has been well documented:

- **Russia (49% of Chinese logs and sawn timber imports⁵²):** China’s primary source of raw wood material is a remote region in which illegal logging and criminal timber trade are rampant (see expanded section on pages 10-16).
- **Malaysia (8%):** Although Malaysia has illegal logging problems within its borders,⁵³ the larger problem is its role in trafficking illegal wood from its southern neighbor, Indonesia. In 2004, it was estimated that 70% of Malaysia’s log imports were of suspicious origin.⁵⁴ As recently as 2006, EIA investigators observed large amounts of banned Indonesian squared logs and sawn timber traveling across the Malacca Strait from Indonesia to Peninsular Malaysia.⁵⁵
- **Indonesia (6%):** In perhaps no other country has illegal logging been more destructive.⁵⁶ The Indonesian government has pleaded with the international community to not buy its illegal timber, as the country has been losing \$4 billion per year and 5.2 million acres of forest from the illicit trade.⁵⁷ Illegal logging is occurring in 37 of the nation’s 41 national parks, and accounts for 73% of harvest, according to Indonesia’s Minister of Environment.⁵⁸ China is the destination for more than half of Indonesia’s log exports.
- **Thailand (5%):** In 2003, over 1.4 million cubic meters - 91% of Thai sawn wood - went to China or Hong Kong.⁵⁹ With a logging ban on its own natural forests, Thailand imports both logs and sawn wood primarily from Malaysia,

Burma, and Laos, despite log export bans in the latter two countries. Illegal cross-border trade is evident along the Thai-Laos and, to a lesser extent, Thai-Burma border, as is laundering of illegal Cambodian timber through Laos. An unknown quantity of ‘Malaysian’ sawn timber imports is also thought to be of questionable origin.⁶⁰

- **Papua New Guinea (4%):** There is overwhelming evidence that the large, foreign-owned timber companies shipping mostly raw logs out of PNG are involved in corruption throughout the government bureaucracy and are able to buy the right to log wherever and however they choose. Given this reality, “the majority of forestry operations cannot credibly be characterized as complying with national laws and regulations and are therefore ‘unlawful,’” according to an exhaustive 2006 study by Forest Trends.⁶¹ China is the destination for over half of PNG’s log exports.
- **Burma (4% of raw log imports):** The world’s final remaining stands of old-growth teak (*Tectona grandis*) are being stripped from Burma’s forests to finance the repressive military regime.⁶² Despite a recent agreement between the Chinese government and the Junta that reduced cross-border timber shipments, the shipping trade remains strong. China’s portion of Burma’s log exports, already well more than half, is likely to increase as the regime is further isolated by new trade sanctions after its bloody crackdown in October 2007.
- **Gabon (3% of raw log imports):** In Gabon, where the government has mandated that 85% of trees should be processed locally, over 80% are instead exported to China as raw logs.⁶³ Gabon’s illegal timber exports were estimated to be costing this poor nation \$10.1 million in 2002.⁶⁴ More generally, China’s share of West Africa’s log exports increased from 25% to 42% between 1998 and 2003, all from a region where illegal timber harvest hovers around 50-60%.⁶⁵

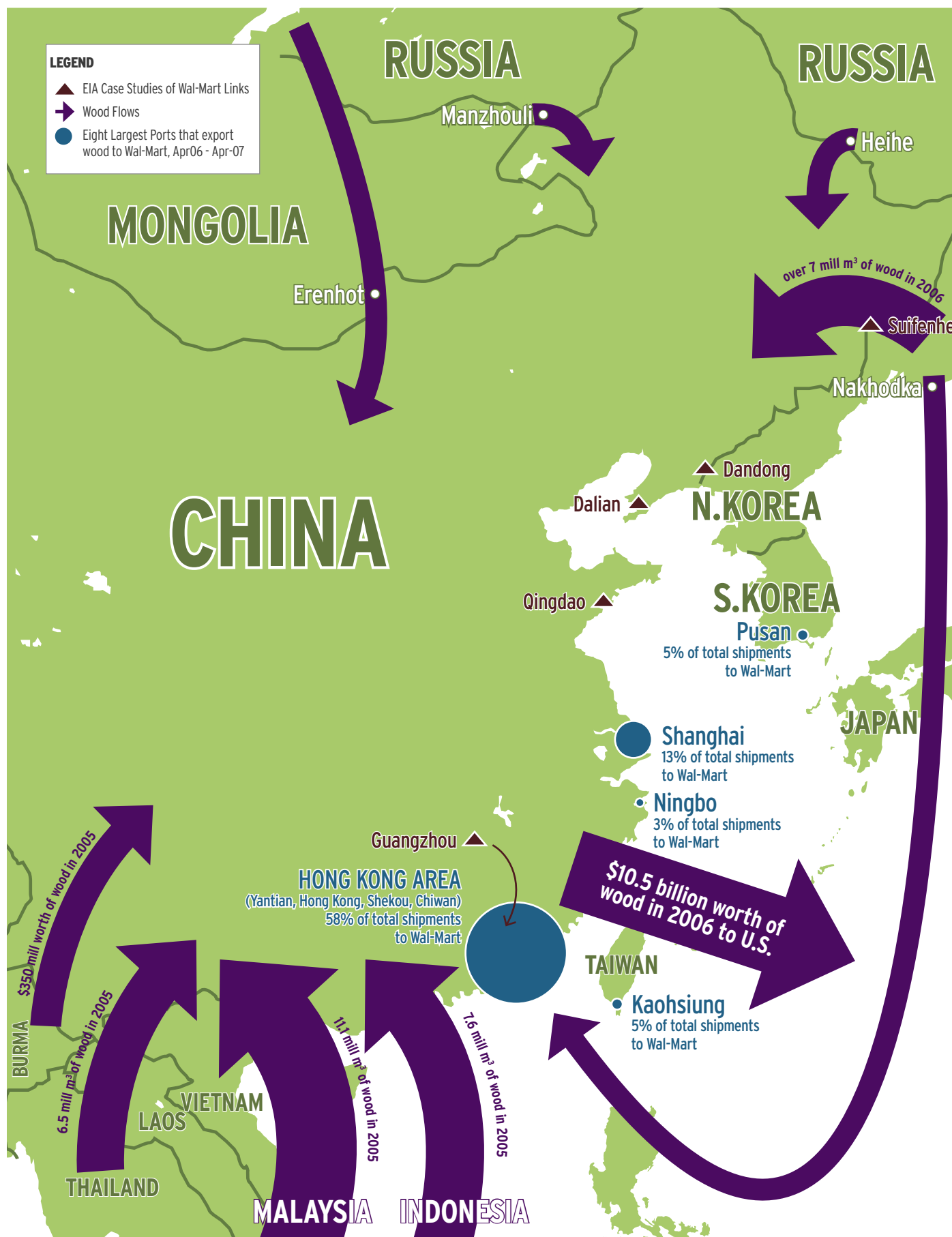


FIGURE 7 Timber imports into China, EIA investigation case studies, and top ports shipping wood products to Wal-Mart. China imported 134 million m³ of wood in 2005, with Russia's share equalling 65.4 million m³ (White et al, 2006). The U.S. is the #1 destination for Chinese wood products exports.

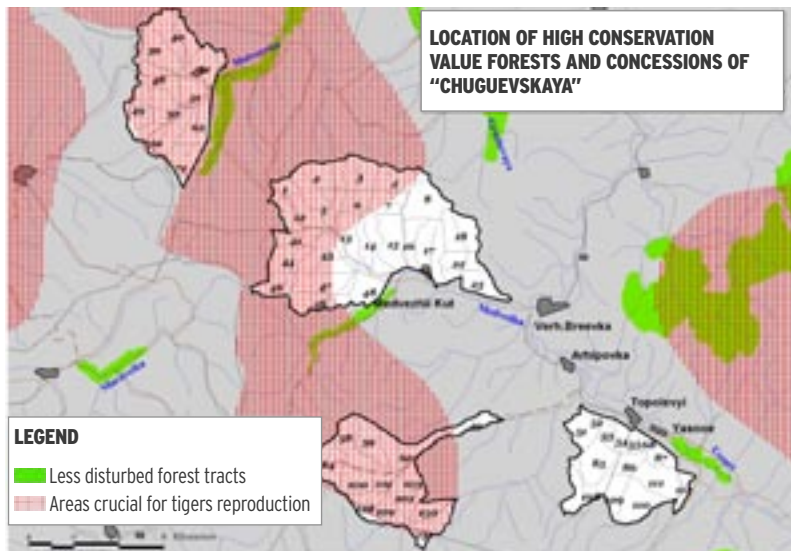


FIGURE 8 Logging concessions of Chuguevskaya LPK, the dominant supplier to Dalian Huafeng, according to Russian customs data. Huafeng makes over 200,000 baby cribs for Wal-Mart every year. LPK also buys from other third sources, but this map shows that even its own concessions are situated in some of the most valuable breeding habitat for the highly endangered Siberian Tiger. Source: WWF Russian Far East.

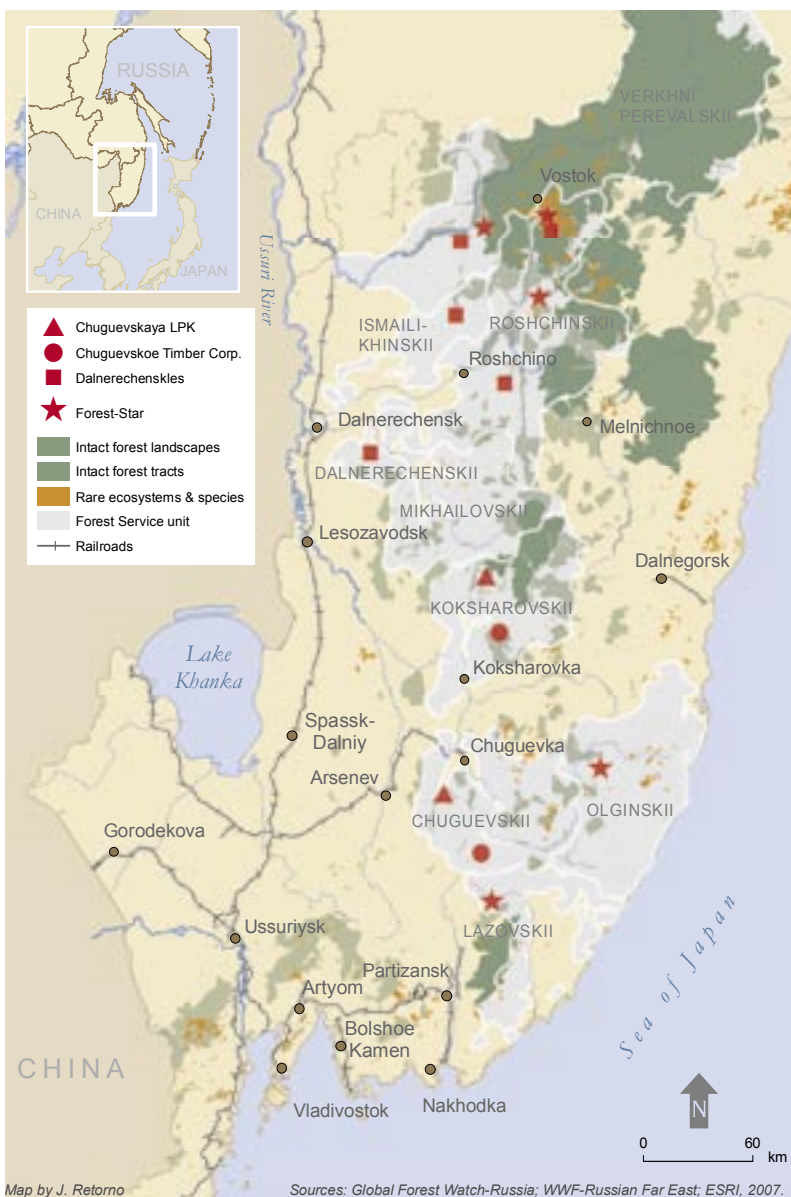


FIGURE 9 Areas of logging activity of Russian logging companies highlighted in this report. Chuguevskaya LPK and Chuguevskoe Timber Corp sell to one of Wal-Mart's major crib manufacturers (see above). Dalnerechenskles and Forest-Star sell to the dominant importer in Suifenhe, Longjiang (see page 17). Suifenhe was the most common source of wood for Wal-Mart furniture encountered in this investigation.

“The scale of the illegal plunder already surpasses the production of people who obey the law.”

BBC excerpts from a report by Rossiya TV, May 19, 2007.⁷⁹

“According to estimates, probably 1 million cubic meters of the most valuable timber is stolen and exported to China every year.”

Denis Smirnov, head of the forest program of WWF Russia, 2007.⁸⁰

“Everybody knows about the crime, but the crime is still going on.”

“‘Timber companies’ is too sonorous a phrase as most of them do not deserve it. For most part they resemble gangs with skidders and saws, [who] either without any documents at all or using forged ones log whatever they like.”⁸¹

Aleksandr Velikanov, journalist with a Vladivostok newspaper, 2007.



ABOVE:

A clear-cut forest in the Russian Far East.

PAGE 15 (left to right, top to bottom):

The Bikin River, a tributary to the Amur River, flows through some of Russia's most biologically diverse forests.

More than 90% of all Eurasian Lynx (*Lynx lynx*) are found in Siberia.

Illegally cut poplar in a streambed, as seen here, degrades crucial habitat for tigers and other wildlife

Exporters deploy various bribes and techniques to cross the border and lower their export tax bill. Logs may be hidden by using rail cars with solid sides and ends, or by covering high-value hardwood logs with lower-value timber.⁹⁰ High-quality timber is intentionally mislabeled as “pulp logs” to avoid a high contract price.⁹¹ The total value of a given truck load is understated, either to avoid questions of over-logging or to avoid the value added tax.⁹² Several years ago, the Audit Chamber of the Russian Federation estimated that a third of the wood and products sold to Japan and China were not reported to Customs.⁹³

Ecological and social impacts

Perhaps the most striking aspect of illegal logging in eastern Russia is the scale, both of the cutting and of the corruption that allows it to occur. Russia's Interior Minister and Natural Resources Minister, upon visiting the Chita Region of southeastern Siberia in May 2007, described the situation in the timber sector as

“catastrophic”⁹⁴ and fired the regional head of the Rosprirodnadzor (Federal Service for Regulation of Use of Natural Resources) three days later.⁹⁵

Logging in the RFE is characterized by over harvest, high-grading of valuable protected species, including in riparian zones (see picture on page 15), and a disregard for silvicultural practices that includes widespread clear cutting in the northern regions. The collapse of domestic processing and a shift to raw log exports has meant that more waste wood – woodchips, branches and smaller logs – is left at logging sites.⁹⁷ The ecological impacts of these practices are manifest in biodiversity loss, increased erosion, and higher risk of catastrophic fires.⁹⁸ The excessive cutting of Korean pine removes a valuable food source, pine nuts, from the Ussuri taiga ecosystem.⁹⁹

Logging opens up frontier habitat, making it more accessible to poachers in search of protected species like Himalayan and Asian black bears, whose bile is a valued product on the Chinese traditional medicine market. Clear cut softwood logging in the fragile permafrost regions has caused certain areas to become “virtual deserts,”¹⁰⁰ and the release of methane from such degraded permafrost zones is a source of carbon emissions.

The potential effect of Russian forest degradation and destruction on the global climate is serious.¹⁰¹ The Siberian/RFE forests are second only to the Amazon in their size and significance as a carbon sink. In addition to the increased risk of fires that logging brings, intentional fire setting in order to secure subsequent sanitary permits occurs. In 2003, a particularly bad year, ash from Russia's fires was identified as far away as Seattle.¹⁰²

Current rates of harvest, legal and illegal, are totally unsustainable; a recent analysis determined that at the current rate of harvest

and with today's practices, the RFE's stocks of economically viable wood products could be depleted in 20 years.¹⁰³ This trend threatens the social fabric of a remote and poor region where forestry is an important economic option. In Khabarovskiy Krai, for example, 30,000 people – one-fifth of the population – are dependent on the forest sector for their livelihoods.¹⁰⁴ Such depletion, needless to say, also threatens the long-term viability of China's wood products industry.

Honest timber companies and secondary processing facilities struggle to compete against the flow of illegal wood.¹⁰⁵ Illegal practices also rob tax revenue and degrade the rule of law in a country trying to create a more sustainable economy and fight its Mafioso image. President Vladimir Putin has compared the export of unprocessed timber to embezzlement, and has threatened to ban log exports if value-added processing is not increased.¹⁰⁶

It is possible that the government's current plan to place high tariffs on raw log exports in the near future will begin to create this shift, but it will also increase incentives for importers and exporters to evade taxes by under-declaring and employ other smuggling tactics. It is clear that a strong market signal from Chinese buyers (coming, initially, from the retailers they supply) will be necessary to set in motion the changes in industry structure necessary to develop a more sustainable and legal forest sector in the RFE.

The flood of logs across the border

The scale of trade is most vividly seen in exploding border towns like Manzhouli and Suifenhe, which grew 500% in the last decade.¹⁰⁷ A drive from Mudanjiang airport towards Suifenhe reveals a landscape covered mostly in scrub, as the Chinese side has been largely logged out in previous decades. Yet saw mills proliferate and increase in frequency in the lead up to the border. Suifenhe itself has sprawled up the valley slopes, fed by a single rail line coming in from Russia, which spreads into an ocean of rail cars filled with logs in various states of sorting, sale, and reloading for distribution within China. Every log must be unloaded in Suifenhe because the Russian train tracks are a different size than the Chinese. A log coming into Suifenhe might be bought on the spot market, milled, or shipped onwards by rail, truck, and perhaps eventually boat, to reach the thousands of Chinese factories making wood products from Beijing to Shanghai to Guanzhou, the furniture making capital of the world.

Once across the border, the railcars fan out into the first rail yard where some are sorted, including those going directly to the largest



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© Konstantin Mikhailov



© Anonymous

company in town, Longjiang Shanglian Import & Export Company (Longjiang) (see box on page 17). Railcars then go further into town and are surrounded by the massive yellow cranes which shift the logs from Russian to Chinese wagons. Annual imports through Suifenhe are at least 7.6 million m³ – equivalent to filling four football fields to the top of their 30 foot goalposts every day of the year.

The Russian timber coming into Suifenhe, whether to Longjiang or other distributors, comes from some of the worst actors in Russia.

The vast majority of the timber on sale in Suifenhe and its environs is from Russia, but some continues to be cut on the Chinese side. It tends to be lower quality logs, as old growth is harder to come by. For this reason, the large mills rely almost exclusively on Russian logs, while smaller mills supplement their supply with local sources. Logging on Chinese soil is also plagued by illegal activities and organized crime. While in Suifenhe, EIA investigators were offered contact with an alleged triad member who logs illegally in China and could produce forty to fifty trucks full of birch every week.

“The impression you get there is that illegal logging has become an everyday economic affair and common practice... Everybody sees it and nobody does anything.”⁹⁶

Yuriy Trutnev, Russian Natural Resources Minister, upon firing the local Natural Resources Minister after his visit to the Chita region on the Chinese border, May 2007





Longjiang Shanglian: Briefcases of cash for forests

As the largest, most powerful company in Suifenhe, Longjiang Shanglian Import & Export Company, Ltd (Longjiang) is the most likely vendor for large-scale export oriented manufacturers. While Longjiang has the resources and cross-border reach to avoid illegal timber, EIA found that they buy from Russia's logging companies most notorious for abusing the environment. Established in August 1998, Longjiang is a private import-export company that has branched out into processing. The company also has offices in the wood trade centers of Manzhouli, Vladivostok, Nakhodka and Khabarovsk. Longjiang indirectly leases forests in Khabarovsk and Primorsky regions and owns or co-owns three sawmills in Russia, including in the Dalnerechensk region. In Suifenhe itself, the wood processing facilities are more developed. The company created the subsidiary, Suifenhe Zhaofeng Wood Co., Ltd, in 2002.

When EIA undercover investigators posing as buyers contacted Longjiang by phone, owner Mr. Sun was initially reluctant and asked if they were from "environmental groups" worried about "illegal logging". When investigators asked what he meant, he said "if you don't know, you're ok," and agreed to set up a meeting at their headquarters.

Longjiang's office building in Suifenhe rises above a woodworker slum on one side and the Russian border on the other. Executives have a prime view of the flows of timber coming daily through a canyon into China on Longjiang's own rail spur, the first one on Chinese soil.

Because Mr. Sun was in Russia on business, EIA visited with five members of the senior management team, including Sun Laiyong, one of Mr. Sun's younger brothers. They discussed their business with the EIA undercover team in an impressive wood paneled office room that overlooked several hundred thousand cubic meters of timber, mainly mixed oak, pine and birch, awaiting processing in the railyard below.

According to their presentation, Longjiang receives over 600,000 cubic meters of logs from

Russia every year, primarily oak, pine, birch, larch and ash. This arrives in about 600 railcars every day. The managers said it was the largest timber importing company in China and that they sell mainly to the Chinese manufacturers in Dalian, Qingdao, Shanghai, and Guangzhou. These are the cities where EIA encountered Wal-Mart's current and past wood product manufacturers. The majority of them bought wood from Suifenhe. While manufacturers are loath to reveal their sources, two crib makers (Huafeng and Ausmart) are known to have bought specifically from Longjiang.

EIA investigators were told that Longjiang works closely with Russian companies to secure logging concession areas. Mr. Sun said he routinely travels to Russia with suitcases of cash and pays for timber upfront, something that according to him, the Japanese and other traders attempting to travel to Russia could not match.

He also explained in Chinese that it is necessary for them to make payments to the Russian mafia in exchange for exporting timber (see picture below).

According to experts in Russia and customs data obtained by EIA, Longjiang buys from companies



directly involved in some of the most damaging logging in Russia. The Vostochnaya Protected Nut Zone, which lies west and east of the road from Rosshino to Vostok (see figure 9), was established to protect Korean Pine forests. The seeds of the Korean Pine cones are a vital link in the Sikhote-Alin forest food chain. Logging was prohibited in the nut zone for years. In 2004, the Rosshinskiy Forest Service (Leskhov) issued sanitary logging permits to three entities, including the Forest Service itself, to log 708 hectares of the nut zone. Although such licenses are supposedly to enable limited cutting of damaged or dead trees, their abuse for commercial harvest of protected species has become widespread. In 2005, the Forest Service expanded logging in the nut zone by issuing 95 more sanitary logging licenses to 23 companies.

Two of these companies were Forest-Star, specializing in timber export to China with close ties to the Primorsky government, and Dalnerechenskles, based in the key timber consolidation center of Dalnerechensk. In addition to commercial logging in the nut zone, these companies have long-term timber leases, including in old-growth forests that are recognized as high-conservation value forests and forests that are recognized as vital for the Siberian tiger. One such area is the upper part of the Malinovka river basin, where Dalnerechensk currently logs. Russian customs data obtained by EIA document that these companies export logs (oak, ash, poplar, Korean pine, etc) to Chinese import giant Longjiang.

Alarmed by the expansion of logging in this nut zone and increased reports of the abuse of sanitary logging policies, WWF-Russia initiated a campaign to ban logging in the nut zone in 2005 and continues these efforts today. But environmental groups are not the only citizens concerned about the logging. An executive working in a local timber company in Vostok had this to say about logging in the protected nut zone:

"Criminals log in the nut zone...most people in our town do not like the companies that log there. The local people feel the situation is dangerous and write letters to the local administration."

PAGE 16 (top to bottom):

The Udege of northern Primorsky are a community of forest-dwelling hunters and fishers. Traditional lifestyles such as these are threatened by illegal logging.

4 football fields worth of logs, filled to the top of the 30 foot goal posts, enter China from Russia through the Suifenhe depot every day.

ABOVE:

Longjiang Shanglian, their headquarters seen in the upper left, is the largest company in Suifenhe with their own rail spur leading into their lumber yard.

LEFT:

Undercover meeting with Longjiang Shanglian: "[When] importing timber from Russia, there are transportation costs, customs fees, mafia protection money, and other miscellaneous costs...We bring cash there and pay up front."

A LANDSCAPE OF WAL-MART SUPPLIERS: INVESTIGATION CASE STUDIES

EIA investigations into a cross section of Wal-Mart suppliers in China have revealed the company's total inattention to the legality of their raw materials. During 2007, undercover investigators met with six Chinese manufacturers that supply Wal-Mart with wood products ranging from baby cribs to toilet seats. These suppliers consistently and independently attested to Wal-Mart's emphasis on price and lack of concern for the wood's origin. And yet, for every product encountered, the supply chain was riddled with high risk sources of wood.

Baby Cribs:

On September 21, 2007, news broke that Simplicity Inc. was recalling one million baby cribs due to poor design and assembly instructions, following the death of three babies and other incidents.¹⁰⁸ Wal-Mart is the biggest retailer of these cribs. After some adjustments, they continue to be sold in vast numbers. Today, the continued production of these baby cribs needlessly poses a threat to Siberian tigers and other endangered species, as the manufacturers get their wood from the most damaging sources in the Russian Far East.

During its investigation in northern China, EIA visited two crib manufacturers selling to Wal-Mart, combining for over 400,000 cribs per year, and another manufacturer that had terminated its contract a few years earlier due to declining profits. In a shifting and adaptable marketplace, one thing was constant: wood was bought from high risk sources with no concern for its legality. The largest of the three, Dalian Huafeng Furniture (Huafeng), told EIA investigators that their cribs are made of poplar and birch from Russia. Russian customs data revealed that Huafeng's largest Russian supplier was Chuguevskaya LPK, whose truck drivers were observed passing cash to police at checkpoints. The second company, Qingdao Hongyang, said they continue to use significant amounts of Russian poplar, despite their assertion that New Zealand pine, which is sustainably managed, works just as well. The third supplier, Ausmart, which last sent cribs to Wal-Mart in 2004 before it quit due to price



pressure, received some of its timber from Longjiang in Suifenhe during that time.

Dalian Huafeng Furniture Co.

Dalian Huafeng Furniture (Huafeng) advertises itself as the biggest furniture manufacturer in China. By its own estimates, it stands to make over half a billion dollars in revenue in 2007. Their promotional materials state that "Huafeng has the biggest raw material storing base in the furniture manufacturing industry in the world" and that "various excellent lumbrs (sic) are transported into storage warehouse from Northeast China and Russia" (see picture on page 19). The brochure states their turnover of raw materials is 300,000 cubic meters per year.

Wal-Mart is one of Huafeng's leading customers. When approached by EIA undercover investigators posing as potential business partners, sales staff immediately brought up Wal-Mart and said that if it came to cribs, it would be difficult to do business in the U.S. because of their existing relationship with the large retailer. An EIA investigator was told he could not see any pictures because they were proprietary for their U.S. customers. (see picture page 19). The manager for Huafeng's exports, Jenny Xu, explained to EIA investigators that she sells over

200,000 cribs to Wal-Mart per year as well as small dressers. These items are sold under the brand name Simplicity, but U.S. customs records confirm that Huafeng shipments are sent directly to Wal-Mart. Ms. Xu explained that the cribs are inspected directly by Wal-Mart personnel at her factory. In an email to EIA, Simplicity denied "utilizing illegally obtained Russian wood for the manufacture of the 200,000 cribs supplied to Wal-Mart".

The statements of Huafeng's managers indicate that the materials used to make Huafeng's cribs are of extremely high risk. Ms. Xu said they source all of their timber from Russia but refused to give any further information. A colleague revealed later during a phone conversation that they source specifically in Primorsky Krai (see figure 9). She said that Wal-Mart, despite inspecting shipments routinely, has never asked where the wood is from. She said that the cribs are made from Russian poplar and birch, and that the wood had to be from Russia to be strong enough and still meet price specifications set by Wal-Mart. When EIA investigators began asking for the specific origin of the wood, she said they did not keep those records and that Wal-Mart had never asked for this information:



EIA: Big clients like Wal-Mart, they don't ask where the wood is from?

Ms Xu: No, no, never. Never.

When undercover investigators explained that they needed this information to ensure that it did not harm the environment, the manager laughed, asked why they needed to know that, then continued:

Ms Xu: No, we never record that kind of information and also we don't know.

EIA: You don't know where it's from?

Ms Xu: We only know it is imported from Russia. We already made many many pieces for Wal-Mart, so we know the standard.

Finding the 'Secret Source'

When EIA investigators looked for the apparently mysterious sources in Russia, the trail led to valuable tiger breeding habitat and to illegal logging practices. Russian customs data obtained by EIA document a variety of shipments of timber directly to Huafeng in 2006 and 2007. The majority of these come from Chuguevskaya LPK (LPK), including large amounts of poplar and birch, which are the dominant material used in Huafeng's cribs. LPK is one of the major companies logging in Primorsky Krai, and considered by local conservationists to be a typical example of a company abusing the local environment.¹⁰⁹ Concession data obtained by EIA reveal that three out of four LPK concessions are located in tiger breeding habitat (see figure 8).

Russian poplar, the dominant species used in Wal-Mart's cribs according to its manufacturers, is of particular concern. While there are numerous poplar plantations in China, all poplar trees coming out of Primorsky Krai are from wild forests. They grow primarily along river and stream beds, where it is illegal to cut under Russian law, in order to protect ecosystems and water resources. Stumps

of illegally cut poplar trees are routinely found along stream beds and river banks throughout the area (see picture on page 15). Such selective cutting, especially illegally in riparian areas, can be very damaging over time as it systematically degrades forest habitat.

Field investigations into LPK's areas of operation documented direct and indirect evidence of illegal practices. The markings on the trucks indicated highly irregular transport routes which suggested they were attempting to avoid key export processing check-points because they lack appropriate documentation. Suspecting smuggling, the investigation followed these log trucks and observed the drivers making what appeared to be illegal payments to Russian police at numerous check points. Industry sources revealed to investigators that LPK also buys from two other companies, Araliya Ltd. and Svetlyanka Ltd. These companies have their concessions in the northern Bureau of Koksharovskiy, which is also known by local experts as a hotspot for criminal logging activities within the Chuguevskiy district.

While the majority of Huafeng's Russian timber is recorded to come from LPK, Huafeng has other suppliers as well, including Longjiang in Suifenhe, which buys its timber from some of the most notorious timber companies in the Russian Far East (see box on page 17).

According to its staff and competitors, Huafeng intends to increase its supply of cribs to Wal-Mart over the coming years. One owner of a competing manufacturer complained that Huafeng had also received "unfair" support from the government, including hundreds of millions of dollars in development loans. On their website, Huafeng states that in 2002 it invested \$482 million into an industrial zone which covers 4.5 square kilometers, specifically for the U.S. furniture market.



PAGE 18

The Simplicity baby crib: Dalian Huafeng makes over 200,000 of these for Wal-Mart every year. Dalian Huafeng makes the cribs out of Russian poplar and birch. Their suppliers in Russia source in tiger habitat and were seen making cash payments to police.

ABOVE:

Dalian Huafeng receives its wood from both Longjiang Shanglian in Suifenhe, and directly from Russian companies accused of illegal logging.

RIGHT (top to bottom):

A stack of Simplicity cribs in the Hongyang factory, ready for shipment to the U.S.

A concession owned by Chuguevskaya LPK, which is a supplier of Huafeng and is considered by conservationists to be a leading example of the illegalities and abuses that occur in the region.

PAGE 21 (top to bottom):

Many furniture companies in southern China buy timber on the spot market, from places like the Guangzhou Timber Market pictured here, without concern of its source or legality.

Whalen Furniture buys most of their wood from spot markets in southern China, where buyers have no way of knowing if it was sourced legally.

Dongmen Group (Qingdao Hongyang)

Dongmen Group was founded in 1990 as a lumber trading business and has its factory in Yichun, Heilongjiang, about 60 miles from the Russian border. Two subsidiaries, Qingdao Hongyang Wooden Industry and Qingdao Shen Quan, both located in Qingdao China half way between Beijing and Shanghai, currently supply Wal-Mart with about 40 containers of cribs per month, according to their owners, Mr. and Mrs. Hu. They expect to increase to 60 containers per month over the next year. When EIA investigators posing as potential buyers visited their Hongyang plant, Mr. and Mrs. Hu told them that their cribs were made of birch, poplar, and pine. The poplar and birch were from Russia, and the pine from New Zealand. His wife added that the slats in the cribs were usually birch.

New Zealand pine is generally considered well-managed, showing that alternatives to high risk sources are not only available, but appear already to be used. This illustrates a great potential: if Wal-Mart insisted on verified legal sourcing of its wood, it would be reasonable to assume that this company could shift entirely to New Zealand pine, at least until better alternatives become available as the Russian sector begins to adjust and clean up its practices. Instead, the use of high risk material from virgin forests continues despite the availability of legal and sustainable alternatives.

Ausmart

Ausmart Trading, located near Qingdao was established in 1997. In 2003, they started making baby-cribs for Wal-Mart, but the shipments ended abruptly the following year. In a meeting with EIA undercover investigators, the manager complained about Wal-Mart's pressure on price and said they were glad that they have been able to move on to other trading partners.

The Ausmart manager, Helia Su, said to EIA that they had been sending about 20 containers of baby cribs to Wal-Mart every month. She openly acknowledged that they continued to receive Russian timber, particularly oak, pine and birch, and that they receive it from the border town of Suifenhe. She said that while the

tariff system is now changing, "Before, as long as you go up to the mountain to log, it's free of charge...you could just go there [to Russia] and set yourself up..."

Unfortunately, the 'pressure' exerted by Wal-Mart was about price, not the legality of its raw materials. EIA investigations into the suppliers of lumber to Ausmart show that during its relationship with Ausmart, Wal-Mart was exposed to a high probability of receiving illegal timber: one of Ausmart's leading suppliers of lumber at the time was Longjiang in Suifenhe (see box on page 17).





FURNITURE

EIA investigations found a variety of furniture being made in China for Wal-Mart or its suppliers that contained high-risk wood, including from the Russian Far East, and the border town of Suifenhe in particular. These include office furniture, entertainment centers, and other items that consumers can find displayed in the furniture aisles in their local Wal-Mart and online (see picture on page 2).

Whalen Furniture

Whalen Furniture (Whalen) is a major furniture producer for the United States market, and Wal-Mart/Sam's Club is one of their major clients, receiving a variety of desks, hutches and entertainment consoles. U.S. customs data show 182 shipments from Whalen to Wal-Mart in a one year period starting in May 2006. EIA undercover investigators visited one of their manufacturing facilities in southern China and found that, while Wal-Mart had great influence on their manufacturing specifications, there was no apparent concern for the legality of the material used. The executive vice-president of Whalen Asia told EIA investigators they were sourcing from all over the world. Other managers stated that Wal-Mart had never made a request to change the materials used.

EIA investigators posing as furniture traders also visited one of the three factories producing for Whalen Furniture in southern China, called CEO Furniture. The factory manager, Mrs. Liu, told EIA that at the time of the visit, 100% of the factory's

production was for Wal-Mart and Sam's Club. She said that each piece of furniture is made of a combination of timber species and types, and that all of their timber is sourced locally from the timber markets in Dongguan (see picture above). During the tour, EIA discussed with Mrs. Liu the components of a desk that was going to Sam's Club, with cherry veneer and drawers made of Russian poplar. A random phone survey of six traders in the Jilong Timber Market, which is situated close to the factory, found that four out of the six offered Russian timber. All the Russian wood was said to come from Suifenhe, and at least one specifically remembered selling wood to CEO Furniture.

Guangrun Wood Products

Guangrun Wood Products Company (Guangrun) is also situated in southern China, near Guangzhou. It supplies Wal-Mart 20-30 containers per month of office furniture and entertainment consoles via the Z-Line brand. Another line of desks and entertainment consoles destined for Wal-Mart UK subsidiary, Asda, filled an entire level of a four story show room.

When EIA undercover investigators arrived posing as potential clients, the marketing supervisor, Steffer Lee, proudly described the company's resourceful wood supply projects. He explained how the boss of the company, who is also the president of the regional furniture association, was actually away in Russia to develop a project to build a major factory on the Russia-China border. Another colleague in the sales



and marketing department confirmed to investigators on the phone that they have a 'branch' in Suifenhe where they purchase their timber. Interestingly, Mr. Lee further boasted of another high profile delegation having just traveled to Madagascar, to secure high-volume sourcing there.

The export manager told EIA investigators that Wal-Mart regularly checks the shipments but that they care primarily about price and not the origin of the materials.

He added that a delegation of his company had explored sourcing high quality wood from Pennsylvania, but the pressure from customers to keep the price down killed the deal. Instead, Guangrun's wood continues to come from the border town of Suifenhe with few questions asked. "How the people in the north of China, how they get their lumber from Russia – we're ok." said the export manager.

TOILET SEATS TO POPSICLE STICKS

Although furniture is the most visible component of Wal-Mart's wood products, the company's volume is so large that the sale even of small items may generate illegal and unsustainable logging. For example, at least 31,000 oak trees at high risk of having been illegally cut end up on Wal-Mart shelves each year as solid wood toilet seats.

Dandong Maisaifu Trade Co.

The main office of Dandong Maisaifu Trade Company (MSF) is located in Dandong city center, on the border of North Korea. The owner, Zhou Chun Shou, told EIA investigators he was the biggest toilet seat trader in a city famous for the industry of making toilet seats. He said he works directly with the International Economic and Trade Corporation, based in Kansas. Initially, he said, the U.S. parent company paid for the entire overhead of the Dandong office, but he has since become independent.

Zhou said that Wal-Mart is his largest client, and that he personally signs the contracts with Wal-Mart directly. Mr. Zhou showed EIA investigators Wal-Mart's product requirements and bills of lading, explaining that Wal-Mart demands quality control checks on 80% of the products it buys but does not ask about the origin of its timber.

Mr. Zhou said he exports roughly 24 containers of toilet seats to Wal-Mart every month. The material used is primarily oak. When asked about the origin of the oak, he said it was from northern China, but when investigators went to the factory, the manager stated that the wood is from Russia and China. He went on to say that although all the toilet seats are sold as 'oak', many are made of ash. He pointed out a specific production line in the factory that was ash. In Suifenhe, ash comes exclusively from Russia where its demand causes some of the most ecologically damaging illegal logging due to its occurrence in protected riparian zones. The factory manager indicated they get the material from traders in Heilongjiang, where Suifenhe is the dominant timber town.

EIA investigators were shown an oak tree in MSF's yard that the owner estimated to be over one hundred years old. Mr. Zhou

explained that this factory alone made ten 40-foot containers of toilet seats every month and that each container is packed with about 5,400 toilet seats. He added that one oak tree made about 50 toilet seats, and that in total he was exporting about 24 containers per month to Wal-Mart. According to the owner's estimate, these would contain almost 130,000 toilet seats, corresponding to almost 2,600 oak trees per month, or 31,000 oak trees per year.

EIA also encountered another toilet seat manufacturer, Dandong Anmin Wooden Products, which had recently quit its contract with Wal-Mart due to price pressure. Dandong is a large kitchen cabinetry and toilet seat manufacturer, located twenty minutes outside Dandong, on the North Korean border with China. The manager confirmed to EIA investigators that Anmin's oak comes from Russia and showed them large whole logs in their yard.

Dalian ASL Wooden Co.

The owner of a craft stick company, Mrs. An told a classic story for the region to EIA investigators: her small factory, Dalian ASL Wooden Co., grew into a major operation over the last ten years to supply U.S. demand for this niche product. Wal-Mart has become her most important customer, and they are constantly pressuring her to lower the price. She has been sending about two containers per month to Wal-Mart.

Mrs. An said she is finding it increasingly difficult to meet the price demands of

Wal-Mart, particularly because of rising timber prices. Sourcing in China is drying up and the taxes on the Russian border are increasing. She has had to sign long-term agreements to fix the price, but they do not take into account changes in timber prices. Mrs. An has contemplated importing birch from the U.S. but said it is too expensive. As a result, she continues to source her birch from a mill on the Russian border. EIA found Mrs. An's craft sticks for sale in the local Wal-Mart outlet near Washington, D.C.

A nearby factory in the same town, Dalian Xingliu Wooden Products, sells toothpicks and skewers to Wal-Mart. According to Mrs. An, the owner tried to set up a factory in Russia last year but was unsuccessful.



WAL-MART'S OPPORTUNITY FOR IMPACT

Wal-Mart's market power and control over its suppliers mean that the company has an unparalleled ability to shape how its products are made: where the raw materials come from, what manufacturing standards are used, what transportation is involved. The secondary impacts of its supply chain production are within its ambit of control.

Wal-Mart's approach, as outlined in its Sustainability Report, represents an initial step towards promoting greater supply chain transparency, increased sale of certified wood, and product innovations that reduce the amount of wood fiber used. But selling extended roll toilet paper, one of Wal-Mart's publicized efforts, isn't enough when the toilet seats may well be illegally harvested oak. For Wal-Mart to meaningfully address its role in the supply chain of illegally sourced wood products, and the driving role it plays in the Chinese market for procuring cheap raw material, the company will have to take a more comprehensive and committed approach – one that is focused on asking questions of material sourcing, not demanding the lowest-cost answer.

Wal-Mart must commit to eliminating illegally sourced wood from its supply chain, ending relationships with suppliers who are found to be sourcing bad wood, and removing products from its shelves if they are at high risk for illegal origin. The global ripple effects of establishing and implementing these policies would reach through China, to the forests of Russia, Indonesia, Mexico, Brazil and beyond.

Selling extended roll toilet paper isn't enough when the toilet seats may well be illegally harvested oak

Developing such systems is a forward-thinking business strategy, given that most major consumer nations' governments are seriously considering legal frameworks to curb consumption of illegally sourced wood products, while consumers are increasingly interested in the legality and sustainability of their products. The E.U. has begun to negotiate so-called Voluntary Partnership Agreements with major supplier countries to create licensing systems that will restrict imports to legal timber.¹¹⁰ New Zealand, Japan, and five

European countries have established public procurement policies with some form of legality standard. And the U.S. Congress is considering an amendment to the Lacey Act that would prohibit commerce in illegally sourced timber and wood products. Meanwhile, the general public is growing more educated and concerned on the issue through increasing media attention, including exposes in major outlets like the Washington Post, Popular Mechanics and the Economist.¹¹¹

The Chinese industry's potential for rapid change

Wal-Mart sources wood from all over the world, but the effects of a change in its sourcing policy would be felt nowhere more strongly than China – and, by extension, the Russian forests that provide much of the raw material for Wal-Mart's products. Indeed, triggering the adaptability of the Chinese wood products industry is a key element of Wal-Mart's opportunity to effect positive change. As major wood distributors in northern China and furniture manufacturers in Hong Kong and Shanghai put in to place the internal mechanisms and/or technology to meet Wal-Mart's standards, it would become correspondingly more feasible for other retailers to ask for the same transparency or to give preference to those suppliers with reliable legality tracking systems.

There is no denying that the current state of the Chinese and Russian industries presents a considerable challenge to companies and other stakeholders trying

to create legal supply chains. Obstacles include the high number of intermediate steps in supply chains and companies' lack of capacity and desire to pay for wood control tracking systems.¹¹² Current distribution systems – for example, the wood exchanges along the Russian border, in which timber from many sources is irrevocably mixed – function precisely to obscure the origins of raw wood material.¹¹³ One major factor, according to a recent evaluation of Chinese supply chains by the Tropical Forest Trust (TFT), is the lack of

incentives for companies to source legally or to implement tracking systems, due to lack of demand from overseas customers for verifiably-legal materials.¹¹⁴

But Chinese manufacturers are extremely sensitive to the volume and policy changes of their American customers, especially those as big as Wal-Mart.¹¹⁵ TFT's evaluation emphasizes Chinese manufacturers' propensity to quickly imitate other firms' business models if they prove successful. The study concludes, "it only takes a few examples of 'first-movers' who are seen to be gaining an advantage by changing the way they operate for more companies to move in that direction." Imagine, then, the impact of the world's largest retail company becoming one of these first movers. Wal-Mart's market power enables it to create sufficient demand to justify the front-loaded cost of a supplier implementing systems that allow it to track raw materials back to their source.

Chinese companies, looking to both cut costs and control for quality, as well as quell the growing stigma of the "made in China" label, appear increasingly interested in shortening and better monitoring their supply chains. Over 300 Chinese companies now have FSC chain-of-custody certification.¹¹⁷ The growth of American- and European-owned wood product retailers like B&Q and The Home Depot in China is also expected to improve industry incentives for better legality.¹¹⁸ But ultimately, this incentive will only be sustained if questions about origin and legality are asked far more often, and if access to the American market is dependent upon the answers. Wal-Mart can lead the way in sending this message.

PAGE 22 (top to bottom):

The owner of this Wal-Mart supplier showed EIA investigators a tree in his lumber yard that he thought was over 100 years old. He was about to turn it into toilet seats.

Dandong Maisaifu Trade Co. sends 24 containers per month of toilet seats to Wal-Mart made of high-risk wood, equivalent to 31,000 trees per year.

Once a small operation, Dalian ASL Wooden Co. dramatically expanded after its U.S. customers began selling to Wal-Mart. ASL sources high-risk birch from a factory on the Russia-China border.

CONCLUSION: TOWARDS TRULY GOOD WOOD

“We have found that there is no conflict between our business model of everyday low costs and everyday low prices and being a more sustainable business.”

Lee Scott, Wal-Mart president and CEO, introducing the Sustainability Update report.

EIA's investigations of Wal-Mart's wood product sourcing demonstrate that the drive for “everyday low prices” to the exclusion of other questions has a serious cost. Despite the company's claims that sustainability can be achieved in harmony with its price-cutting practices, the mandate to provide ever-cheaper products in the absence of any pressure for legal sourcing currently incentivizes the use of illegal and high-risk timber from the valuable natural forests of Russia's Far East.

Given that factories in Indonesia, El Salvador, Mexico and Vietnam are receiving the same message from Wal-Mart, it is probable that forest ecosystems in other parts of the developing world are being similarly affected. And when forests disappear, the world's carbon stocks, buffers against climate change, disappear as well. The type of logging pervasive in

the RFE damages the environment, robs the government of revenue and promotes corruption. There is nothing sustainable about this model.

As Wal-Mart has begun to acknowledge, with market power comes social responsibility. Wal-Mart's leverage within the global economy gives the company an unparalleled opportunity to make policy and business decisions that will change the way its wood suppliers operate – and instigate broader change in global wood sourcing.

Wal-Mart's Sustainability Report shows that it understands the need for increased transparency and better incentive structures for legal and sustainable wood sourcing. But despite a laudable corporate vision, the company has made few concrete commitments, and there have been no signs of implementation, least of all on the ground, where Wal-Mart suppliers continue

to source their wood with total disregard for its legality.

It is now time for Wal-Mart to commit to eliminating illegal wood from its shelves, and communicate this policy to its suppliers of furniture, frames, toys, paper and packaging and any other wood products. Wal-Mart shoppers do not want to be an inadvertent party to forest crimes. Through setting strong and transparent policies, and proactively working to implement them, Wal-Mart has the ability to limit the destruction of some of our planet's final frontier forests and the wildlife and people who depend upon them, as well as support the growth of a market in products derived from well-managed forests worldwide.

Wal-Mart's Untapped Potential: Lessons from Previous Encounters with Illegal Wood

EIA's investigations into the trade of an endangered wood from Southeast Asia demonstrates the adaptability of Chinese suppliers in response to a changing business and law enforcement climate, and the untapped power of Wal-Mart to encourage responsible practices.

Ramin, (*Gonystylus spp*) a blond hardwood found only in Southeast Asian peat swamps, has been a major commercial export species from Indonesia and Malaysia, used in products like baby crib spindles, pool cues, and picture frames because of its particularly straight grain. Illegal and unsustainable cutting of ramin has been a driver in the devastation of the favored habitat of the endangered orangutan (*Pongo pygmaeus*), whose populations are dwindling at an alarming rate.¹¹⁹ To slow the cutting, ramin was listed on the Convention on International Trade in Endangered Species (CITES) in 2004, making it a requirement that shipments of ramin be accompanied with a CITES export permit.

In 2003, EIA and its Indonesian partner, Telapak, documented several firms exporting baby cribs made of illegal ramin to the U.S. Working on the basis of this and other information, U.S. authorities were able to seize several illegal ramin shipments in 2004 (currently CITES-listed species, which make up 0.2% of total U.S. wood products imports, are the only wood whose imports U.S. authorities are able to regulate).

The information was also passed to Wal-Mart who was receiving many of the cribs. When EIA/Telapak investigators returned to China in 2004 and met with the company that had been exporting the cribs to Wal-Mart, they found that the company had completely switched its crib wood sourcing from ramin to legal New Zealand plantation pine. Unfortunately EIA's investigation in 2007 shows that this potential for change remains largely untapped because Wal-Mart remains oblivious to other risks of illegal wood in its supply chain, such as that posed by wood from the Russian Far East.



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RECOMMENDATIONS

EIA CALLS ON WAL-MART TO:

- Commit to eliminating illegally sourced wood from its supply chains, and establish a timeframe for communication and implementation of this policy by all wood and paper products suppliers.
- Establish a system of third-party monitoring and factory audits of its wood products supply chains, prioritizing high-risk regions such as China, Indonesia and Central America.
- Require all suppliers of wood products to inform Wal-Mart of the country of harvest of the wood fiber material utilized, in order to facilitate supply chain transparency and auditing priorities.
- Establish and communicate to suppliers a company policy for dealing with instances of illegalities or likely illegalities as they arise.
- Establish a timeframe for
 - (a) phasing out suppliers' wood purchases from "timber exchanges" or "spot markets" and
 - (b) increasing sourcing from forests that have been certified for sustainable management.
- Build long-term relationships with wood products suppliers who implement tracking systems to ensure the legal and/or sustainable origin of their wood fiber.
- Establish an open dialogue with civil society in countries where wood products are produced and sold as part of the learning process of sourcing "good wood".
- Support legislation in consuming countries to prohibit the import and sale of illegally sourced timber and wood products.

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LARGE MAP SOURCES (p12)

Burma arrow: "Global Witness. Cambodia's Family Trees: Illegal logging and the stripping of public assets by Cambodia's elite, 2007." Thai, Malaysian, Indonesian arrows: "White, Andy, et al. China and the global market for forest products. *Forest Trends*, 2006."; size of "port dots": U.S. Customs data; Erenhot, Manzhouli, Heihe, Nakhodka arrows: "Newell, 2004"; Suihenne arrow: EIA U/C information; wood to U.S. arrow based on query run on U.S. Int'l Trade Commission's DataWeb.