Problems and prospects in the development of institutional arrangements for forest use in contemporary Russia

G B Kozyreva and M V Sukharev*

*Institute of Economics of the Karelian Research Centre of the Russian Academy of Sciences, 50 A. Nevskogo Avenue, Petrozavodsk 185030, Russian Federation

*Corresponding email: suharev@narod.ru

Abstract. The article is devoted to the study of the problems of the transformations in the forest use system over the past 30 years for depressive lumber cutting territories (in the case of the Republic of Karelia). One of the ways to understood problems is through the prism of the system of institutional arrangements regulating the relations between forest use actors, which obliges forest companies to formulate economic strategies. The obtained results indicate that today forest companies do not set the implementation of social policies regarding the local population as a key goal. The economic interests of business and their management decisions regarding forest management are not related to the problems of the local population. However, this is not an obstacle to obtaining a forest certificate. This situation calls for a research that would substantiate the basic methodology for building an efficient institutional system for forest use in contemporary Russia.

1. Introduction
The economic and social outcomes of the forest reform indicate a poor performance of the current institutional arrangements for forest use in contemporary Russia. The profound transformations in the forest use system over the past 30 years failed to fulfill their goals. The forest sector is not a priority area for the national economic policy. It contributes a little over 1% to the country’s GDP. Although Russia owns 25% of the world’s forest resources, forestry at the moment is one of the least profitable industries in its economy. An intelligent forest policy can only be developed on the basis of efficient institutional arrangements. This situation calls for a research that would substantiate the basic methodology for building an efficient institutional system for forest use in contemporary Russia.

2. Methods and Materials
The research methodology proceeds from the provisions of the institutional theory [1, 2]. Issues in the development of the forest use system in Russia are studied through the prism of the system of institutional arrangements regulating the relations between forest use actors. For instance, R Coase [3] treated property as a bundle of rights. As applied to the forest use system, these are the right to own forest resources (conferred to the state), the right to manage forest resources (distributed between federal and regional authorities), and the right to use forest resources (belongs to forest leasers). The efficiency of property rights is corroborated by their specification, implying that each legal power has its exclusive owner [4].

This study also employed the methodological principles of the theory of rent, introduced in papers by [5, 6], and other classical political economy authors. We believe the natural rent has a dual role in
the Russian economic system. On the one hand, considering the inefficient natural resources ownership model, the rent can be seen as a factor for the rise of opportunistic interest groups gaining illegal income from the use of natural resources. On the other hand, natural rent can serve as a tool for bargaining the interests of both corporate natural resource users and large citizen’s groups. This requires an efficient governmental institutional arrangement for distribution [7, 8]. The research toolkit included the institutional analysis and quantitative sociological methods. The empirical background for the study was data from socio-economic surveys of the residents of the Republic of Karelia forest-resource areas implemented in 2004 and 2018.

3. Results and Discussion
The institutional analysis of the processes taking place in the Russian forest sector over the past 30 years revealed a poor performance of the current institutional arrangements for forest use. As mentioned above, the efficiency of a property right is corroborated by its specification. Each legal property of property must have its exclusive owner. It must be enshrined in law to avoid the risk of alienation of property. The most important specified rights are: the right to own – physical control over property, rent appropriation; the right to manage – the right to decide how and who can use the resource; the right to use – the right to personally use the thing or resource.

Speaking of the ownership right, which specifies the main owner of the forest resources, the first question is which property regime is laid down in the institutional system – public or private. The forest use regime stipulated by the 1997 Forest Code was strictly public. The current, 2006 Forest Code, on the contrary, is not so unequivocal about this issue [9]. The methodological approach to the “forest fund” concept has changed. The forest fund used to be construed as an integral (indivisible) natural complex comprising the plot of land and the forest stands growing thereon [10, 11]. These two concepts have been separated in the current forest law, resulting in a mixture of forest-, land-, and civil-law regulations. The separation of the land plot and the forest stand concepts renders such a plot fully tradable, with the possibility to transfer the forest from public to private property. This issue was highlighted by N Moiseev [12], who wrote that “In the new Forest Code, for the first time in the bicentennial history of forest management in Russia, forests are turned into an object of land relations, into movable property. Hence, forest can be plucked out of land, like radish, and sold anywhere, say for cottage construction”.

The ownership right in the current forest law has an issue of rural forests. There is no legal category for such forests, so interpretations for the benefit of various interest groups are possible. Rural forests usually occupy land areas intended for agriculture (“agricultural land” category), which are not part of the forest fund. Several practices have formed for their institutionalization.

Firstly, rural forests can be transferred to the forest land category through a forest management inventory procedure. Since then, they are used as any other forest land, e.g. leased out.

Secondly, some rural forests that had already undergone forest management inventory procedures are transferred back to the agricultural land category through covert manipulations, and sent back to free circulation. Private owners are not restricted in the use of such forest – they can log it down and engage in farming, continue growing the forest to be used for recreation, or sell it.

Thirdly, rural forests that have not gone through a forest management inventory are included in free circulation.

Fourthly, the status of rural forests being ambiguous, local officials sometimes let forest fund patches pass as rural forest, and use them for their personal needs. Such sites, especially near a body of water, are often turned into estates with second homes in forest settings. This is a common practice e.g. in the Russian Siberian taiga zone.

The ambiguity of the ownership right in the forest legislation paves the ground for opportunistic behavior (misconduct) of both officials and forest users. Thus, the right to own forest resources is not specified in the current legislation.

The trickiest element is the right to manage forest resources, which is divided between the Russian Federation and its regions. The experience of implementing the current Forest Code shows that the
altered rules in forest relations did not help to achieve the goal of raising the profitability level in forestry. The Forest Code lacks detailed provisions for realization of the legal powers of Russian regions in forest resource management, such as forest planning, agreements on the transfer of rights from the federal to the regional level, and a fixed checklist of targets to monitor forest management efficiency [13]. In reality, the current forest legislation does not envisage any mechanism for agreements between the Russian Federation and a Russian region. In regional forest planning, utilization of the forest resource potential is addressed without a mandatory estimation of the market value of the forest products. Besides, the function of the Russian Federation in this matter is limited to giving consent. Only two of the eleven targets contain value estimates and can, to some extent, reflect the results of forest management mandate implementation by Russian regions, viz.:

- Ratio between the fee per unit timber volume set by the RF Government and the price of 1 cubic meter of logged timber
- Amount of payment to the RF budget system for the use of forests per 1 ha of forest land [14].

The rest of the targets cannot act as obvious indicators of how efficiently regions realize their forest management rights. The lack of transparency in legal norms, i.e. non-specification of rights, generates the grounds for unscrupulous officials, who appropriate the right to manage forest resources and establish a private property regime in their workplace, i.e. they behave like entrepreneurs.

The right to use forest resources belongs to the lessee of a specific forest parcel. Forest fund allotment in 1997-2006 was done through forest tenders, and since 2007 – through auctions. The problem with the current forest law is that forest auctions do not pinpoint the most responsible forest lessee. The forest is leased out to the company with more money. Small companies, which are among the most efficient in logging small forest sites situated away from major logging areas and avoided by large forest users for economic reasons, leave the market.

As a result, the right to use forest resources can be two- or even three-tiered, involving the lease holder, lease contractor or even sub-contractor. Apart from its major logging activity, the lessee is obliged to perform silvicultural operations. On the other hand, the mechanism for planning such operations agreed by the parties (i.e. the lease holder and the lease grantor) is not institutionalized. Hence, the lessee’s silvicultural operations are not incentivized, controlled very formally, most of the time ineffective, and often prone to corruption. In reality, the right to use forest resources is not specified either, hindering the formation of efficient forest use practices.

Thus, the current Forest Code merely outlines the mode of specification of property rights to forest resources, defining the legal subjects, but not dividing the legal powers between them in a transparent way. The specification of property rights has not been property elaborated, and the powers are in most cases vague.

The entire history of the forest policy reform proves it has been implemented without regard for the interests of the society. Forest resources, being a national asset by constitution, in reality provide income to a narrow circle of officials and large entrepreneurs, who use their monopoly right to appropriate the forest rent. Thus, generating the conditions for opportunistic behavior, the inefficient institutional arrangements for forest use create a system of institutional inequality in access to public goods in the form of income from forests. The conclusion about the inefficiency of the model of public property to forest resources is verified.

Yet, our surveys show that the share of the population supporting the public forest property model is manifold greater than the share of private property proponents. This ratio increased substantially over the past 15 years (82% vs 9% in 2004, 93% vs 4% in 2018). People feel that public property will secure guarantees for the society. The private property model, on the other hand, focuses on enabling officials and businesses to derive illegal income from forest use instead of the actual economic and social efficiency.

The question of the implications of introducing private property to forest raised concerns about the forests becoming inaccessible to people. The proportion of respondents sharing this opinion increased from 36% in 2004 to 48% in 2018. The expectation that the forest will be logged down and sold out by the private owners was shared by some 40% of respondents during the 15 years. Only 3 to 5% of
respondents were confident that the forest would finally have a “true master”. Thus, people reprobate the model of private property to forest. This model is associated with that same illegal appropriation of forest income by both officials and the forest business.

The results of surveys suggest there is no demand for private property to forest in the society. This demand is lobbied by a limited group of senior officials and large forest businesses, which possess an enormous administrative and financial capacity. In doing so, they argue that the efficiency of the forest sector is high in western countries and low in Russia. That is why the question of private property to forest in Russia remains open.

Meanwhile, the legal powers of a private forest owner in the western model are strictly restrained by governmental control institutions, up to expulsion from property for violation of forest laws. Besides, forest cultivation, reforestation, forest protection and conservation processes get substantial funding from government programs. In the model of private property to forest resources, the role of the state in the development of the forest sector is not just active, but decisive. This context makes the debate regarding the benefits of private property to forest in Russia less acute.

With the rules regulating economic activities in the Russian forest use system today, forests cannot reproduce themselves even to maintain previous volumes, which jeopardizes the functions of the forest as a resource, in recreation, environmental protection, waterside protection, etc. The challenge in transforming the Russian forest sector into a profitable sphere arises from the lack of efficient institutionalized forest rent. “Essentially, the forest rent is the key driver of institutional development in forestry. It is the forest rent that distributes interest groups in the forest use system, the rights of property to forest, and financial flows. Paradoxically, there is no legitimate framework for this distributive mechanism” [11].

The forest rent is the superprofit generated owing to the natural quality of forest resources. The function of the forest rent is to be the main source of the forest income for covering all sorts of costs related to forestry operations.

4. Conclusions

Studies have shown that the Russian forest use system is being reformed on a permanent basis. Although the forest legislation has been profoundly altered, the Russian forest use system did not acquire efficient tools for forest management.

Throughout the time that forest legislation was acting in Russia during the market economy period, the forest income was being redistributed without regard for the interests of the society. Forest resources, being a national asset by constitution, in reality provide income to a narrow circle of officials and large entrepreneurs, who use their monopoly right toappropriate the forest rent.

Generating the conditions for opportunistic behavior, the inefficient institutional arrangements for forest use create a system of institutional inequality in access to public goods in the form of income from forests. The conclusion coming to mind is that the model of public property to forest resources is inefficient.

Research shows that public forest property is inefficient because of the weaknesses of the forest legislation and fuzziness of legal powers in regard to property rights to forest, which generate a favorable environment for the opportunism and irresponsibility of officials. Private property fails to produce positive effects because of social immaturity and opportunism of the big business.

There is no call for private property to forest on the part of the populace. The change of model can cause massive social upheavals. Furthermore, the professional community does not favor the change of the forest property model, believing the key problem is the system of forest payments, which does not depend on the property model.

Institutionalization of the rental approach can stimulate the establishment of a transparent system of forest relations. In particular, it will help transform the institutional arrangements for property to forest resources by integrating specialized legal powers in regard to property rights, and to create efficient tools for allocating forest resources.
Introduction of the rental approach will lead to an efficient institutional system for forest use, which will raise the forestry profitability level in Russia and the performance of its forest industries. Regrettably, the forest policy of contemporary Russia shows no conditions for relevant institutional change so far.

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