



China and Forest Trade in the Asian Region: Implications for Forest Governance

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Presentation to the USAID Forestry Team
September 7, 2005
Washington, DC

Outline

1. Introduction: our collaboration in China
2. Key findings from research on markets and trade in China and East Asia region
3. Implications for forest governance
 - Governments involved in trade
 - Private sector industry
 - Financial sector: public and private

China / East Asia Work Program



'00 – '02

- Collaborate with CCAP to advise Forest and Grassland Task Force (CCICED)



'02 – '05 Two Major Initiatives

- China and Forest Trade in the Asia-Pacific Region: Implications for Forests and Livelihoods (CCAP)
- Chinese Forest Policies – Impacts and Implications for Collective Forestry Sector (CAU)



Collaborators

- Collaborators in China:
 - Forest Economics and Development Research Center (SFA)
 - Chinese Academy of Forestry (CAF)
 - China Agricultural University (CAU)
 - Beijing Forestry University (BFU)
 - Other, regional universities, NGOs and forestry agencies
- Collaborators in Region/International:
 - World Agroforestry Center, Kunming (ICRAF)
 - IIASA
 - Univ. British Columbia, Canada
 - World Bank
 - WWF
 - Regional Community Forestry Training Center (RECOFTC)
 - Russia (4), PNG (2), Indonesia (2)

What We've (Together) Produced (www.forest-trends.org)

Studies:

- Chinese import and export trends
- Pulp and paper sector
 - Production, Demand, Costs, Policies/Finance, Case studies (CIFOR)
- Impacts on forests and livelihoods in supplier countries in Asia Pacific Region:
 - Burma, PNG, Russia, Indonesia, Vietnam, Cambodia, Thailand
- Livelihood dimensions of commodity chains: Russia, Indonesia, Burma
- Analysis of key Chinese forest policies (CAU):
 - Annual Allowable Cut (quota), Alternatives to the Natural Forest Protection Program (logging ban), Forest Ecosystem Protection Program, Company-Community Partnerships

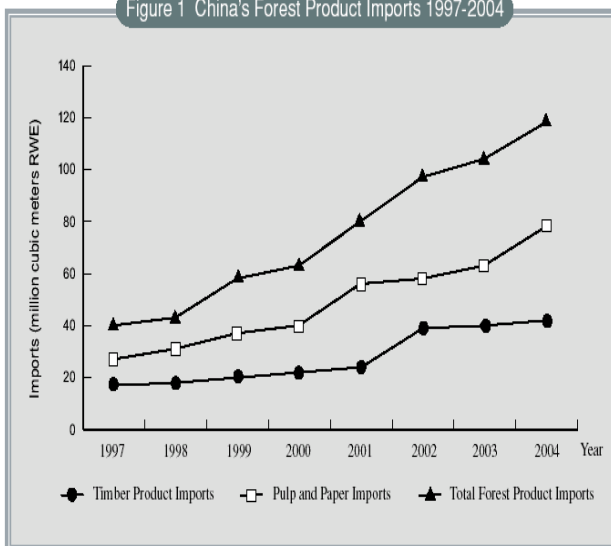
Informal Network: of market, trade and policy analysts across region - workshops in Indonesia and Beijing

Policy/Market Conferences:

- "International Forum on Chinese Forest Finance" (Beijing, 9/04)
- "Property Matters: Collective Forest Issues and Opportunities (Beijing, January '05)

Key Findings (1): Dramatic Increase in Imports by China – Will Continue

Figure 1 China's Forest Product Imports 1997-2004

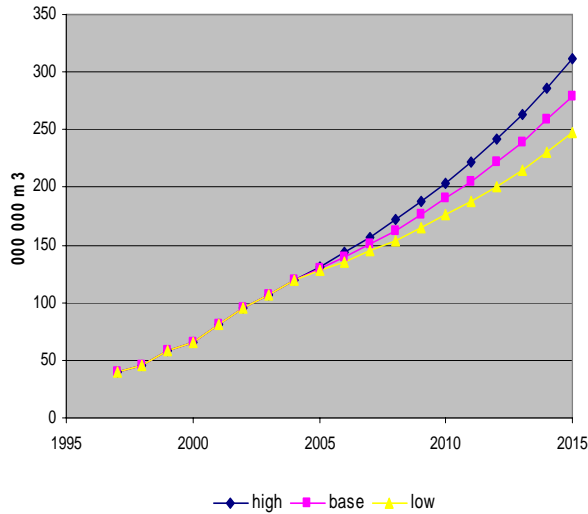


1997 - 2004

- China suddenly a world leader in wood imports (from 7th to 2nd in last 7 years)
- World's leading importer of tropical wood
- 2 X increase in pulp, waste and recycled paper
- 3 X increase in timber
- 80% of timber is logs and sawnwood – and an increasing share of the total

Import Growth Continues – Could Double in 10 Yrs

China's Wood Import Trends (RWE)



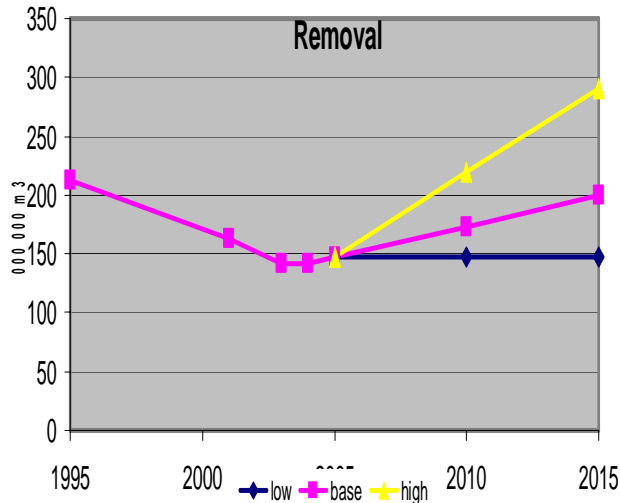
Base assumes a GDP growth of 8%; low- 7%, high -9%

Why Continue?

- Domestic production constrained (ecological focus, policy constraints)
- Booming international demand (66% of all timber import volume is exported)
- Booming domestic consumption

Key Finding (2): Domestic Production will Remain Much Less than Demand (and Targets)

China's Domestic Industrial Roundwood



- Official projection: total roundwood removal **328** million m³ by 2015.
 - **195** million m³ from current forests
 - **133** million m³ from new plantations (fast growing)
- Official projection much higher than our most optimistic scenario **280** million m³ – **200** or less much more likely

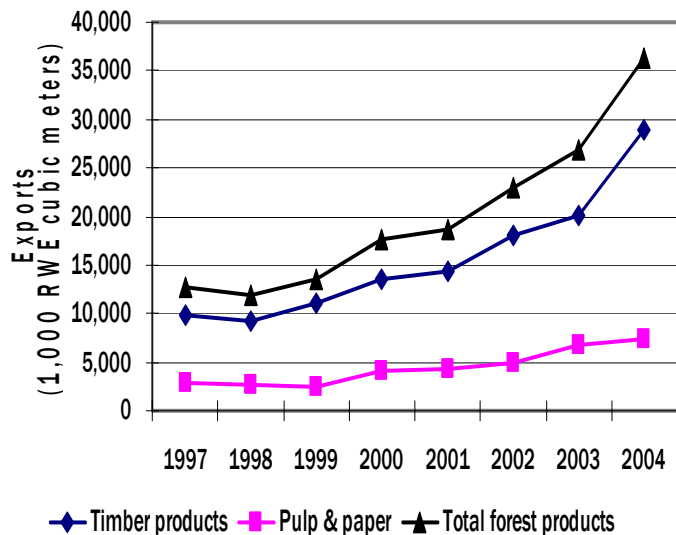
Sources: Zhou (SFA) 2001, Bull and Nilsson 2004

Challenges to Meeting Wood Production Targets

- Overharvested public forests, slow pace of reform
- Large age-class gap: 75% immature (SFA Inventory)
- Rapid expansion and investment in collective forests – but either shut down (ban) or constrained by policy (taxes, quota (AAC))
- HYFG - plantation sector constrained (Cossalter, Barr CIFOR):
 - high delivered costs, (land, labor, transaction)
 - Not competitive to many other plantation countries
 - poor quality planting material, (limited genetic resource base)
 - vulnerable to storm damage
 - poor infrastructure, plantations dispersed, small blocks
 - policy constraints – quota, etc.
- International investors/industry not meeting goals
 - APP, Sino-Forest, UPM-Kymene



Key Finding (3): Booming Exports - China in Middle of Global Commodity Chain – Will Continue



285% increase
by volume
(36.2m m³)

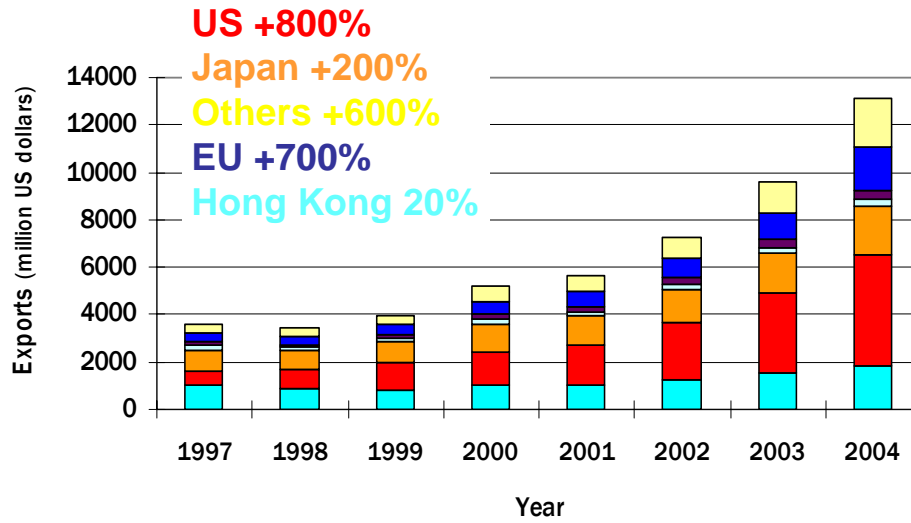
364% increase
by value
(\$13.1b)

- 1/3 of volume of all forest product imports exported

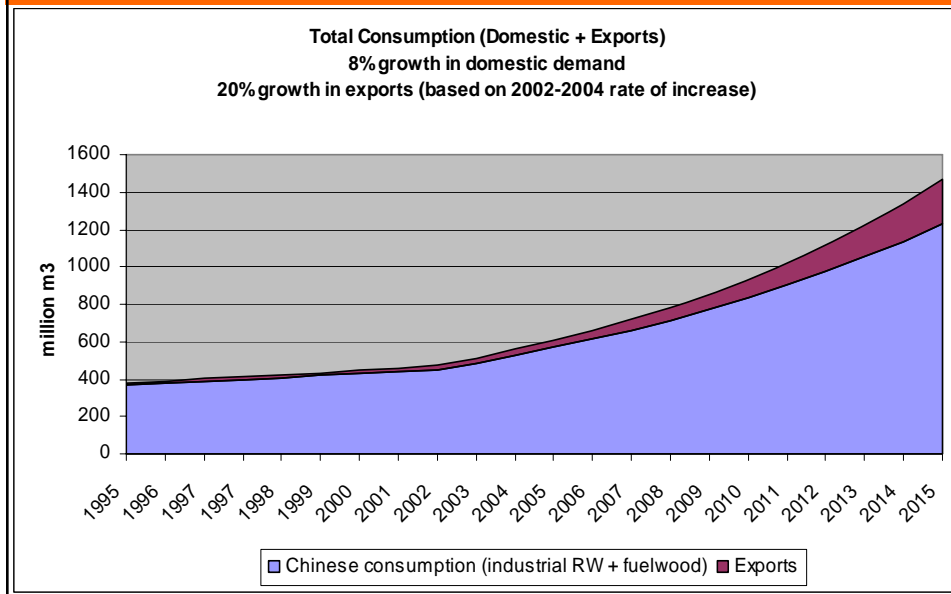
- 2/3 of volume of *timber product* imports exported



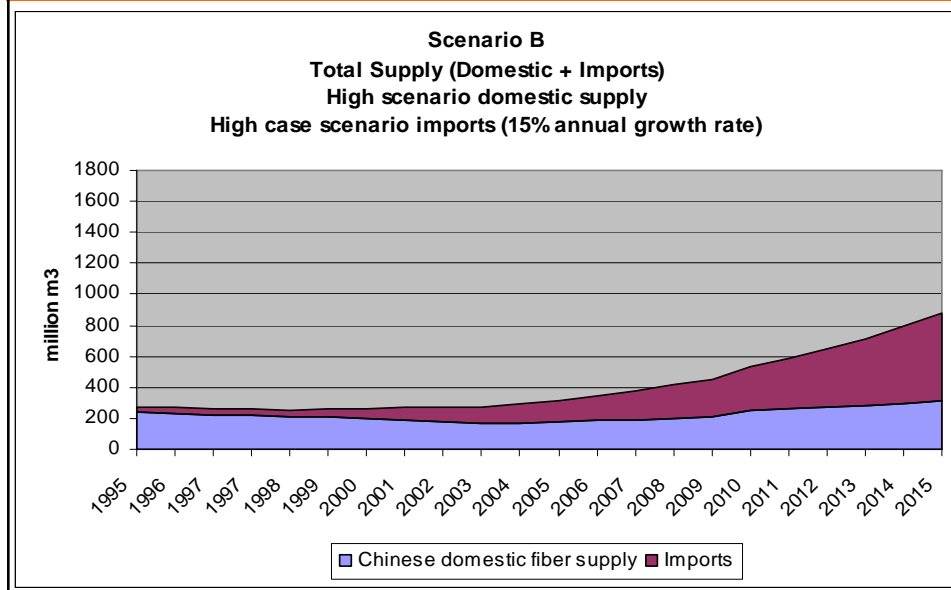
Who is Buying from China?



Scenarios: Consumption



Scenarios: Supply



Strategic Issues for Chinese Industry

Chinese industry vulnerable from both sides of chain:

– Supply side:

- Insecure supply
 - as forests dwindle in SE Asia
 - illegal logging campaigns increase
 - plantations not yet on-line
- Rising prices (for wood from other regions, and for “legal” and “sustainably produced” wood)

– Consumer side:

- Changing buyer preferences (legal verification, certification) in some of its fastest growing markets (EU and USA)



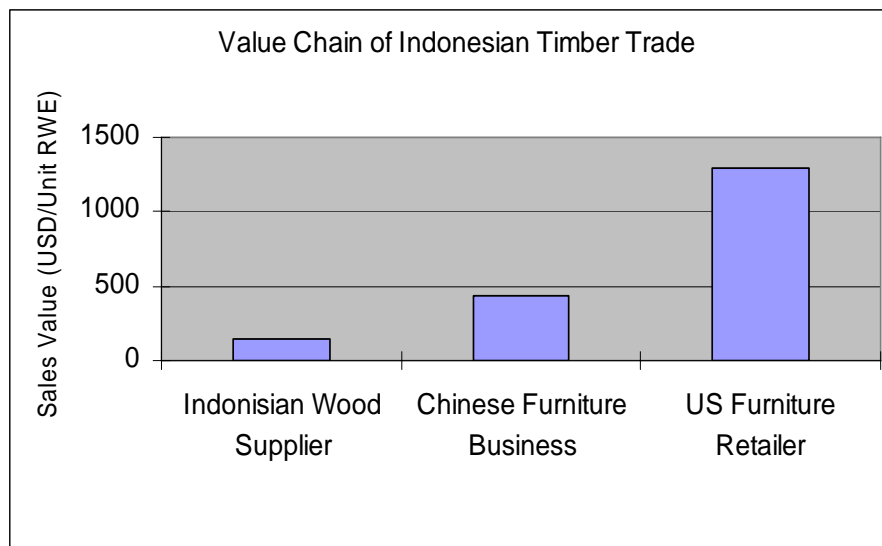
Strategic Issues for Ultimate Consumers

China long blamed as “driver”, or at least “magnifier” of illegal logging and trade.

US, EU and other major importers who are benefiting from low-cost imports from China are critical “drivers” and have important leverage, and responsibility to transform market



Who is Benefiting from the Trade?



Source: Dr. Xu, Jintao, CCAP

Key Finding (4) Magnifying Degradation, Negative Impacts on Livelihoods, Particularly in Asia

Timber Products Overall	Logs	Lumber
1. Russia (38.0%) 2. Malaysia (12.3) 3. Indonesia (8.3%) 4. New Zealand (5.8%) 5. Thailand (3.8%)	1. Russia (56.4%) 2. Malaysia (11.5%) 3. New Zealand (7.5%) 4. PNG (5.4%) 5. Gabon (3.7%)	1. Indonesia (19.7 %) 2. US (12.3%) 3. Thailand (12.2%) 4. Russia (10.2%) 5. Malaysia (7.9%)
Plywood	Wood Pulp	Paper
1. Indonesia (67.0%) 2. Malaysia (17.2%) 3. S. Korea (3.8%) 4. Japan (2.5%) 5. Cambodia (2.3%)	1. Canada (23.2%) 2. Indonesia (20.3 %) 3. Russia (15.2 %) 4. Brazil (10.6%) 5. US (8.7%)	1. Taiwan (14.2%) 2. S. Korea (13.3%) 3. US (10.9%) 4. Indonesia (8.5%) 5. Japan (6.8%)

Magnifying Degradation, Illegal Logging, Social Conflict

Russian Far East/Siberia

- 38-70% harvesting illegal, corruption the norm
- China # 1 market

PNG

- Forest Department review (2004): illegal logging, illegal labor, human rights abuses and corruption pervasive
- Estimated years before natural forest depleted: 10-15
- Rimbanan Hijau # 1 owner of concessions and exporter to China

Myanmar

- Human rights abuses, illegality, corruption the norm
- Shan State already depleted; perhaps 10 years left

Indonesia

- 70-90% timber, 60% pulp illegal, money laundering, corruption
- Huge trade discrepancy with China
- Estimated 10 years of lowland forest remaining
- Abuse of indigenous and other community rights pervasive

Magnifying Degradation, Illegal Logging, Social Conflict

- Malaysia
 - Maintained more natural forest than most, small amount of illegal domestic logging, but concerns of illegal trade (from Indonesia)
 - Ongoing conflicts with indigenous and other communities over property rights
- Thailand
 - Estimated 70% of lumber exports illegal, problems of wood illegally imported from Myanmar, Cambodia, Laos
 - Intense social conflict-exclusion over land rights, pressure to increase plantations to supply China
- Cambodia, Laos, Vietnam
 - Natural forest being lost or threatened, conflicts over land rights, government support of large industry and new plantations

Implications for Governance

- Governments:
 - In/by supplying countries
 - In/by China (both production and processing)
 - In/by consuming countries
- Private sector industry
- Investors (public and private)

Improve Governance: Supplying Countries

- Reform laws, enforce those that are good
 - tenure
 - Regulations
- Encourage independent verification, certification of production and trade
- Rethink subsidies to large industry and address corruption - military involvement in forest industry

In China: Improve Governance (Production) – Advance Planned Reforms

Boosting sustainable domestic production is key (for conservation, improved well-being and poverty alleviation in China and beyond)

- Implementing Policy No. 9
 - Collective forests (60% of total)
 - Regulations, fees, taxes discourage production and forestry's contribution to rural development
 - Estimate that reforms could lead to 15-40 million m³/yr (>all "illegal" imports)
 - Public forests: still managed by state-owned enterprises, great amount of variation and some innovation
 - Market liberalization getting ahead of institutional reforms necessary to "guide" markets, risks of increasing inequity
- Clarifying/strengthening property rights of households and collectives
- Ensuring local participation in policy and program development, design, monitoring, evaluation (including certification)
- Clarifying roles and responsibilities of different levels of government (adm village, village, township) in policy, program implementation

Consuming Countries

- Public procurement policies
 - Most European countries are now drafting or implementing policies requiring public projects to procure only legally verified or certified wood products
- Agreements for bi-lateral cooperation
 - Indonesia's log export bans complemented by Malaysia's ban on logs imported from Indonesia – response to call for assistance from Indonesia's ministers
 - Implementation of MoUs between Indonesia and UK; Indonesia and China to work on issues of joint interest
- Examples:
 - G-8 Action Plan on Forests
 - European Union FLEGT Action Plan
 - By Voluntary Partnership Agreements with producer countries to ensure only legal products are imported into the EU

All Governments Involved in Trade

- Linking existing laws to illegal logging & trade:
 - Anti-Money laundering laws to illegal logging (Europe, Indonesia)
 - Anti-bribery legislation covering national engaged in illegal activities abroad (US, OECD)
 - Lacey Act: illegal to import goods obtained illegally in source country (US)
- Regional cooperation on customs enforcement:
 - Mechanisms for prior notification of legal & illegal shipments destined for ports
 - Collaboration between governments to train customs officers to distinguish between legal and illegal shipping documents
 - Legal basis to seize illegal imports
 - Regional enforcement workshop (Philippines Nov. 2005)
- FLEG Processes

Retailers & Industry

- Buyer policies / purchasing preferences
 - Virtually all do-it-yourself chains have buyer policies or purchasing preferences: Home Depot, Lowe's, B&Q UK, Intergemma, IKEA, Kingfisher, Habitat, Kwantum
 - WalMart announcing “green policies”
- European retailers aggressively eliminating “bad actors” from supply chain
- Most if not ALL European & N. American industry trade associations have illegal logging / trade policies, guidelines, or statements
 - AF&PA, IWPA, UKTFF, CEPI, ATIBT....
- Firms developing own codes of conduct and tracking systems

Conclusions

- China has huge (and growing) role in global forest trade:
 - imports and exports will continue to grow
- This trade has huge impacts on forests and livelihoods globally – magnifying negative impacts on forests and people, challenging the establishment of decent governance in the world's forests
- This trade benefits those in the world who want cheap forest products – those consumers and governments need to get more involved
- Trade can also be of benefit – income for the poor, source of investment in sustainability and conservation
- Transforming this trade to improve governance requires much stronger efforts by all in global commodity chain