



CHATHAM HOUSE

China and the Global Forest Products Trade: Trade of Legal and Sustainable Wood in China

Third Update Meeting

18-19 June 2008

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1. Opening remarks

Mr. Seth Cook, IUCN China Programme Coordinator, welcomed participants and provided an overview of the meetings series. He also noted the progress internationally and in China on forest law enforcement and governance (FLEG) related initiatives to combat illegal logging and associated trade over the past 6 months.

2. Sourcing of China's Paper Fiber Supply & Recent Trade Trends – Kerstin Canby, Director, Forest Trade and Finance, Forest Trends

Ms Kerstin Canby gave an overview of the trends in supply of China's wood products imports, with a focus on pulp and paper sector. Although a significant proportion of China's paper production relies on the imports of waste paper, there is a small but growing percentage of China's paper fiber sourcing coming from both from threatened natural forests, in particular pulp and pulpwood originating in Russia and Indonesia. These fiber sources are being used primarily for the production of export grade high quality paper. In order to minimize reputational risks to the export-oriented paper industry, Ms Canby recommended that China's paper industry needs to know the origin in particular of its pulp, pulpwood and wood chip imports, and to address the apparent weakest links – supplies from Russia and Indonesia.

Ms Canby also provided an overview of China's wood products and log imports, which continue to increase, with the major supplier continuing to be Russia. Interestingly, the Solomon Islands are now China's 5th largest supplier of logs, and Papua New Guinean imports are also increasing. African supplies also moderately increased in 2007. Exports to the US increased only slightly, while exports to the European Union (EU) continued to increase at historical rates. An important emerging market for Chinese wood products is the Middle East, which if the trends continue, will become as important as the EU. China's domestic market is also significantly important, with domestic consumption higher than consumption for exports.

PRODUCER COUNTRY ISSUES

3. Borderlines: Timber Smuggling in the Mekong Region – Julian Newman, Campaigns Director, EIA

Mr. Julian Newman introduced EIA and its recent work on the illegal timber trade in the Mekong region. EIA's study focused on the Lower Mekong (Vietnam, Laos, Thailand, and

Cambodia), a region that is characterized by deforestation. The report in particular focuses on illegal timber flowing from Laos into Vietnamese factories.

Mr Newman gave an overview of the forest sector in a number of countries in the lower Mekong region, noting the rapid growth of Vietnam's wood processing industry, which has expanded tenfold in the last 7 years. Laos remains predominantly rural, although the country's forest cover is falling, and law enforcement and governance is weak. Vietnamese companies are active in Laos, and balua/keruing woods are being used in Vietnamese outdoor furniture factories. EIA estimates that about 500,000 logs from Laos cross the border into Vietnam per year – and are all illegal given the Laos' log export ban. Some wood is also exported on to manufacturing centers such as China, and Thai businessmen are often involved in the export of Laos' logs.

In his conclusion, Mr Newman noted that Vietnamese businesses are very adaptable and can supply certified timber if consumers demonstrate demand. In this way, consumers also have responsibility for eliminating market incentives for illegal logging and associated trade. He recommended that Vietnam and Laos begin a discussion to solve this problem, and that Vietnam needs to tackle high-risk species in its industry. International developments, such as FLEGT and the Lacey Act, should signal to Vietnam that by being a market lead, its industry can profit from solving these problems.

4. Overview of FLEGT in Vietnam and Management of Forest Products Processing by 2020 – Pham Ngoc Mau, deputy director, Vietnam Ministry of Agriculture and Rural Development

Mr Pham introduced Vietnam's forestry situation and its engagement in the FLEG/T processes. Vietnam's forest cover is 38% and has increased significantly since 1994. Forest resources are particularly important to the country's 24 million upland people. Mr Pham outlined key forest policies and noted challenges such as constraints to local level implementation due to low capacity; overlapping responsibilities, land disputes, etc.. There is also a lack of effective monitoring and legal information available to local communities. A more serious problem is continuing slash and burn agriculture. Mr Pham also noted opportunities, such as the ability to learn from other countries' FLEG experiences, to access international support, and to promote the devolution of forest management to communities.

Vietnam's wood processing industry is important to the economy and includes about 1600 factories exporting to 120 countries. Mr Pham introduced Vietnam's National Strategy for Forestry Development by 2020, which aims for 2-3% of GDP to come from the forest sector. Vietnam is also considering engaging in the EU FLEGT/ Voluntary Partnership Agreement (VPA) process, and is currently taking some initial steps, such as undertaking a survey of Customs data, a national FLEG assessment, a wood processing survey, enforcement training, etc. Mr Pham also noted some key concerns regarding any potential VPA: the actual costs of VPA negotiations and implementation are still unclear; and the need for EC's support to develop a FLEGT roadmap.

5. Update on EU FLEGT Voluntary Partnership Agreement (VPA) Processes - Vincent van der Berk, FLEGT attaché, European Commission (EC Malaysia)

Mr. Vincent van der Berk's presentation focused on trade and market trends. End-users are increasingly aware of the environmental and social issues related to the international trade in wood products, and increasingly require legal/sustainable timber, meaning that retailers and their suppliers need to manage risk of illegal or unsustainable wood products entering into their supply chains. In the EU, increasing pressure from the public, industry, and the EU parliament has prompted a policy response which recognizes the need for a stepwise approach to sustainable forest management (SFM) and producer country measures which are complemented by demand-side measures.

Mr van der Berk outlined the EU FLEGT Action Plan, and its centerpiece, the Voluntary Partnership Agreements (VPAs), which aim to guarantee legal timber trade between the EU

and partner countries. VPAs are based on Timber Legality Assurance Systems, beginning with a definition of legality which is defined by the Partner Country itself after being developed with the involvement of civil society and other stakeholders. Additional legislation needed to strengthen VPAs and prevent the import of illegal timber into the EU is currently under consideration.

The Malaysian VPA process began with consultations in 2004, and by the end of 2006 both parties had agreed to start formal negotiations. Malaysia hopes to finalize its VPA by the end of 2008. It will then take 1-2 years to implement the VPA, making the whole process 3-4 years long. This is the first set of VPA negotiations, and it is hoped that with the development of standardized processes and texts, subsequent VPAs should be reached faster. In Malaysia's view, FLEGT is about a long-term market strategy and a step towards sustainable forest management. Indonesia also hopes to reach a VPA by the end of 2008, and is considering extending its reach to pulp and paper. Likewise, Ghana and Cameroon aim to finish this year or early 2009. VPA consultations have started in Gabon, the Democratic Republic of Congo, the Republic of Congo (Brazzaville), Liberia, and some Latin American countries. Exploratory talks with processing hubs like Vietnam and China will also continue.

Discussion:

- A participant directed a question at EIA regarding the market for wood products and furniture in the USA. The US remains the biggest timber products market, and is the biggest market for Vietnamese furniture, as well as many Chinese products.
- A participant commented that at the recent London Chatham House meeting concerns were raised regarding the steel and concrete industries positioning themselves as sustainable alternatives to wood. Also, it was noted that EU imports from emerging VPA countries have been declining and non-VPA country imports are increasing – leakage is a concern. Mr van der Berk responded that as there is no VPA in operation yet, and thus the VPAs themselves are unlikely to be influencing imports.
- A question for Mr van der Berk raised the issue of what the European Commission (EC) is discussing with consuming countries. VPAs are only under negotiation with producers at the moment, but to be effective, FLEGT needs collaboration as well as legislation in Europe.
- A participant asked Mr van der Berk about the long Malaysian VPA process - its depressing to think how much forest has been lost in the 6 years time since the VPA concept was first developed. How could actions be prioritized against illegal logging to best prevent deforestation? In addition, China is the world's 2nd largest timber products consumer, and is thus a big loophole in the VPA scheme. Mr van der berk agrees that the Malaysian VPA process has been long, but noted that VPAs do not replace other initiatives, such as FLEG or certification processes such as the Forest Stewardship Council (FSC) standard. Malaysia has advanced infrastructure for VPA implementation, but it still takes time to roll out. Discussions are underway with countries like China about jointly tackling problems.
- Mr Pham was asked why the costs of a potential VPA in Vietnam are unclear. He replied that the Vietnamese wood processing is quite simple now, but implementing a VPA would mean adding procedures and restrictions – this adds to production costs. Vietnam also needs to consider how it maintains rural livelihoods. Mr van der Berk noted that Vietnam is still not a timber producing country, so it is engaged in a different kind of discussion with the EU. The EU does not want to increase costs, but it will cost to put in new control systems. The EU provides support in this process, but its up to the market to decide prices.
- Mr Pham also elaborated on Vietnam's 2020 strategy for forestry, which has involved mobilizing many stakeholders in the sector. To achieve its goals, law enforcement must be improved in some areas.

- Regarding the trade issues between Vietnam and Laos, a participant asked what would be the most helpful thing on ground. Mr. Newman responded that the first step is discussions between the two countries, and for Vietnam to ensure that its industry understands the law. There are good intentions in Laos but policy doesn't always reach local government/military and capacity building is needed at these levels. For example, Association of Southeast Asian Nations – Wildlife Enforcement Network (Asean-WEN) style training for customs officials. For importers, pressure is needed to make sure the statements of origins to public are accurate and clear. Mr Pham noted that Vietnam is still a developing country, and that poorer rural people lack an understanding of forest governance. The first priority is to educate rural people and local level officials about illegal logging, as well as to mobilize the private sector. It takes time to change ideas about how to do business, but Vietnam is thinking about a mechanism for reaching out to the private sector and needs EC support.
- The panelists were asked about the effects of rising consumption in the Middle East. Ms Canby noted that the region is a growing, non-environmentally sensitive market. No governments from the Middle East have joined any of the FLEG processes or dialogues to date. However, the US is also not engaged in the EC FLEGT Action Plan initiatives, yet on its own has already passed significant new legislation regarding timber imports (the revised Lacey Act). Mr Newman added we can add India's consumption growth to this challenge as well. Mr van der Berk pointed out that the EC is starting to look at other major players and reaching out to India. If China is a major Middle East supplier, perhaps joint efforts could work?

TOOLS (CERTIFICATION, TRACKING)

6. Sustainable Procurement of Wood and Paper-based Products – Ruth Noguerón, associate, World Resources Institute (WRI)

Ms Ruth Noguerón introduced a guide for sustainable timber procurement, published by WRI and the World Business Council for Sustainable Development (WBCSD) in April 2008. The guide helps users understand how to implement a 'green' procurement policy. There has been a proliferation of guides, tools and labels to assist on this topic, and the information can be overwhelming for laypersons.

The WRI guide includes an overview of another 23 existing initiatives. Ms Noguerón noted that the proliferation of approaches has continued even since the guide was released. She commented that sustainable procurement is more than just forest certification – it needs to consider the whole supply chain. Social issues are also emerging as more important. WRI is planning updates, as well as considering adapting the guide for Chinese needs in the hopes that the guide helps Chinese companies to start asking their suppliers for more information on sourcing issues and to manage the risks of international markets.

7. WWF's Business Approach towards Legal & Sustainable Timber Trade in China – Han Zheng, Forest Program Director, WWF China

Ms Han Zheng provided an overview of WWF's work to promote sustainable forestry and timber trade in China. She noted that the market and companies are playing an increasingly important role in fostering environmental protection.

WWF's work on forest issues in China is concentrated in the northeast, as logging still occurs here. WWF promotes sustainable forest management (SFM) and to help companies achieve FSC certification. As well as providing technical support and carrying out demonstration projects, WWF has established a network to source/sell sustainable products. The high-conservation value forests (HCVF) approach is also important to their work; in NE China, WWF has evaluated HCVFs across several regions and worked with range partners to build understanding and develop HCVF monitoring plans. WWF is also involved in

analyzing and improving supply chains. Analysis of the Russia–China trade shows that timber sources are often unclear, involving complex chains of many traders and intermediaries and a lack of records. The fragmentation and complexity means that even if problems are identified, it can be difficult to change suppliers.

Ms Han also introduced the Global Forest Trade network (GFTN), which has about 400 members round world. The Chinese branch (CFTN) covers 60 companies and focuses on large-scale flooring and furniture companies, with an influential demonstration role. GFTN's strengths are provision of a communication platform and the links it promotes to facilitate sustainable trade. In the Russia-China case, it has also simplified the supply chain.

8. EU Timber Trade Action Plan on the Ground - Lewis Du, project officer, Tropical Forest Trust (TFT)

Initiated by the EU timber trade associations, the EC and TFT, the Timber Trade Action Plan (TTAP) is implemented by TFT and has a global reach. It aims to strengthen the relationships between buyers and suppliers to increase the number of verified legal products going into the EU market.

Mr Du noted that quality, price and delivery have been key factors for the private sector in the past, but sustainability, legality and traceability are becoming more important. He gave an overview of the constraints and challenges to ensuring legality and sustainability, such as the difficulty to trace multiple supplies or prove origin without a consolidated supply chain. Short-term relationships with suppliers and spot orders add to the difficulty. Some solutions are to help companies to understand legal requirements and to map their supply chains to understand their risks. The TTAP system involves a gap assessment and the development and implementation of an action plan, including third party auditing. In China, TTAP is working with around 20 factories. Mr Du also introduced the EU-China Roadshow of April 2008, which brought together European and Chinese trade associations and forest product enterprises in China. A forum for trade associations is also planned for October 2008 in Geneva.

9. Verification of Legal Origin (VLO) - Xiao Jianmin, China Representative, SmartWood China

Mr. Xiao Jianmin introduced SmartWood's VLO system, which is accredited by FSC. He began with an overview of illegal logging issues, noting that high-risk nations in terms of production and processing include China, Vietnam, Thailand and South Korea. SmartWood's response to the problem of illegal logging has been to develop a series of standards for verification.

Mr Xiao explained various definitions associated with legality (such as legal rights, legally harvested, legally traded, etc) and outlined SmartWood's criteria to meet four standards for VLO, including the legal registration of the company, authorization to harvest, presence of a forest management plan, EIAs and SIAs where required, and so on. An important distinction of the VLO scheme is that VLO-certified products cannot be labeled on the product - only in business related statements (off-product). VLO also takes less time and cost compared to other types of certification and has been evaluated by Greenpeace as the only scheme to meet all criteria for a credible legality system and to have been developed in true multi-stakeholder manner.

10. Legal Wood and the Success of the Wood Industry - Robin Lu, China Representative, Quebec Wood Export Bureau

Mr. Robin Lu introduced the Quebec Wood Export Bureau (Q-Web) network of forest industry players in Quebec, which is part of the larger Canada Wood group. Q-web requires each member to commit to a detailed code of conduct, and has a tracing and monitoring system to audit its members. Mr Lu also outlined some key messages about the timber

industry, noting that it will never be out fashioned and can play a positive role in addressing climate change and other environmental issues. However, there are still many misunderstandings about forestry: that it is all about logging; that only boreal forests are useful carbon sinks; that parks are the best use of natural resources. Mr Lu also outlined the status of forest certification in Canada, which has largest area of certified forest in world.

Q-web is also working to promote 'green' building and to promote the use of timber against steel or concrete. Mr Lu noted that the use of timber can save more CO₂, and that wood can be easily recycled.

Discussion:

- A participant asked, from an enterprise perspective, which certification or verification standards should they use? Is any one widely accepted? Ms Han replied that this is a good suggestion. China's State Forestry Administration (SFA) is considering how best to verify legality at the state level. Mr Lu commented that it's best to use Chinese certification if it exists, but then use whatever scheme your customers recognize or prefer. Director Su of the SFA added that the Chinese forest management certification scheme was released in September 2007. Further, certification is only one of a number of measures that can be taken to promote SFM.
- A question was directed at Ms Han, asking why WWF focuses its work on large floor and furniture companies? What suggestions are there for small and medium sized enterprises (SMEs) also concerned about sustainability? Ms Han explained that GFTN is still in its early stages in China and wants to foster a strong demonstration effect. Also, big companies can have a big effect on the supply chain. WWF also runs some activities with associations which target SMEs.
- A participant commented that companies will ask why is certification needed and how will certification costs be covered? Products may still sell well even without certification. Certification focuses on origin and production; demand and consumer behavior also needs to be addressed. Mr Lu noted that the Chinese market for example is becoming more complex, and that domestic consumers need to be encouraged to buy legal/sustainable wood. Mr Du added that it is common for companies to have concerns about certification. Certification means a better position in negotiations with suppliers and buyers – some buyers are less interested in companies that do not proactively manage supply chain risks.
- Ms Han provided some additional details about the global GFTN – it has 378 members around world, and is run by WWF staff in different offices around the world, usually 1-2 in each country. The new GFTN director was just elected and works in the Brazil office; the network is guided by a Shareholder Group consisting of different WWF offices.

TRENDS IN CHINA'S MAIN EXPORT MARKETS

11. Public Procurement Policies for Legal & Sustainable Timber – Federico Lopez-Casero Michaelis, policy researcher, IGES

Mr Federico Lopez-Casero presented the results of an IGES comparative study on public procurement policies (PPPs). A number of countries have now introduced such policies, which generally require evidence of legality or sustainability for public purchases. PPPs can represent 9-15% of GDP in European countries and can therefore be very influential in promoting demand for better verification schemes and raises awareness about illegal logging.

Mr Lopez-Casero provided an overview and comparison of PPPs, their basic requirements, and their relationships to the major certification schemes such as FSC, PEFC, etc. The United Kingdom (UK) and the Netherlands, for example, set their own criteria as all other schemes failed against government requirements. In terms of impacts, in Japan there are

more than 6000 industries endorsed under a code of conduct approach, and in the UK, 60% of all timber imports are certified. He also noted a general trend towards more robust schemes which favor sustainability over legality. On behalf of the UK government, Mr Lopez-Casero outlined the relevance of the UK procurement policy to China. The UK has concerns regarding the origin of timber used in Chinese products, such as the possibility of imported illegal timber entering Chinese mills and then being exported as a legal wood product.

12. EU Demand Side Measures - Vincent van der Berk, FLEGT attaché, European Commission

Mr. Vincent van der Berk introduced demand side measures under the EC Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. These include business-to-business initiatives (eg TTAP), private sector initiatives, public procurement and additional legislative options. Experience from the VPA negotiations shows that partners need market incentives to assure their confidence in continue investments in the production of legal timber.

Mr. van der Berk discussed various public procurement schemes currently being implemented in eight member states. A new EU Green Public Procurement Communiqué is soon to be released, which will identify wood products as a priority area to be included in national PPPs and advises member states to include legal timber as minimum requirement for public procurement. He also outlined the additional FLEGT legal options under discussion in the EU. Five options have been developed, including promoting voluntary schemes or banning the import of illegally sourced products. None of the measures will be sufficient by itself.

The current preferred approach is to focus on due diligence, ie efforts to implement systems to avoid the trading of illegal products. The proposed regulation is still under discussion, but features include: recognizing the existing efforts of producers and traders to ensure legal supplies; covering a range of products from logs to veneer to paper, if sold on the EU market; burden of proof on traders to demonstrate due diligence in ensuring legality, based on the laws in the country of harvest. FLEGT VPA and CITES licensed timber are to be automatically allowed. The legislation should provide an incentive to source low risk and/or FLEGT licensed timber.

13. Amendment to Lacey Act and Implications for Manufacturers, Exports and Importers - Elinor Colburn, Senior Prosecutor, US Dept. of Justice, and Juge Gregg, Senior Associate, Sidley & Partners Law Offices

Ms Elinor Colburn and Mr. Juge Gregg provided an overview on timber trade regulations and the recently revised US Lacey Act. Prior to the recent amendment to the Lacey Act, the only law available to prevent legal timber coming into the US was the Convention on the International Trade of Endangered Species (CITES) but which was limited to those species listed under CITES. There was a growing call from NGOs to stop all illegal wood products, and a report from the American Forest & Paper Association provided a further impetus, as it detailed the impacts of the global illegal logging trade on US businesses.

The Lacey Act covers products that have been taken, possessed, transported or sold in a way that is in violation of the law in the US or in another country. Once imported, it violates US law. To succeed in prosecuting these cases, the US government needs cooperation, such as third party tips/information and help in carrying out investigations. The deterrent effect of penalties under the Lacey Act is also important. Rather than just risking forfeiture of the goods, traders now face the prospect of jail time and significant fines. Ignorance no excuse, as due diligence is an important aspect of the Lacey Act and allows the US government to prosecute on the argument of lack of due care.

The amendment makes it very clear that all types of timber products can be targeted, from logs to paper to frames. There is a specific list of violations of foreign laws that invoke the Lacey Act, including failure to pay royalties, overharvesting, contravening a log export ban

and so on. Imports into the US will now require a declaration, including name/species, quantity, value, country of origin, etc. Ms Colburn and Mr Gregg offered some suggestions for traders, such as paying attention to the guarantees American buyers will now ask for (often in the contracts), and putting management measures in place so that sourcing is clear and documented. Further, companies should not rely on paper sources, like letters from suppliers – but instead will need to demand other types of independent evidence.

Ms Colburn also introduced an example of a current legal case against a Chinese corporation and the individual who owns it, alleging that they imported a CITES listed product (Ramin from Indonesia) into USA without CITES permits. This case includes prosecution on the violation of several laws not just CITES and provides insight into how a Lacey Act prosecution could look like.

14. Environmental Investigation Agency (EIA) Report on Wal-Mart – Julian Newman, campaign director, EIA

Mr Julian Newman presented the results of a recent EIA study of the origin and legality of Wal-Mart's wood products. Wal-Mart is a massive company - if a country, it would be China's 8th largest trading partner and have the 27th largest GDP in the world. Some 84% of Wal-Mart's wood products come from China, which is considered a high-risk supplier of wood products.

In 2007, EIA started talking to Wal-Mart suppliers to find out the company's requirements for Chinese suppliers. From this survey, it became evident that the only questions asked by Wal-Mart were regarding price even though many supplies originated in high-risk forest areas, such as the Russian Far East (where illegal logging rates are thought to be 35-50%). This is creating high-risk products. Although Wal-Mart has a sustainability initiative that states that it aims to sell only sustainable products, this has yet to have an impact on ground. The overriding concern for low cost products means that Chinese suppliers are not encouraged to source legal/sustainable timber. Mr Newman noted that the amended Lacey Act might be an important impetus for Wal-Mart to ensure legal supplies of wood products.

Discussion:

- A participant asked what are the triggers for more scrutiny and enforcement of the Lacey Act, and whether US Customs notices particular species. Ms Colburn responded that unlike the CITES law which targets select listed species, the Lacey Act can cover any species which may have been illegally produced or traded. Specifically, a request for assistance from a producer country would easily prompt a response. Prosecutors may also look for a high volume of highly suspect products, such as is the case for many flooring and plywood products. Sometimes luck, such as an NGO tip off or an alert enforcement officer, will be the trigger. Regarding the implementation of the Lacey Act, Ms Colburn responded that it also applies for treaties to which the US is party, and that the burden of proof is on prosecutor.
- It was noted that the update on the Lacey Act is valuable information, but that few Chinese companies are aware of it. Given the implications of the Act and the practical, adaptive nature of Chinese companies, it is important to reach them. Ms Canby added that Forest Trends is currently publishing a bilingual update on the Lacey Act and that IUCN and Forest Trends will translate the Act as an output of this workshop. She proposed an industry forum in later 2008, while Ms Colburn noted that the US Justice Dept. could help prepare information for an industry publication.
- Mr van der Berk noted that the EU has considered a Lacey-style approach, but prefers the due diligence option. The EU does not want to use a flat ban. The Lacey Act does not contravene the requirements of the World Trade Organization (WTO) since it treats foreign products the same as US products.

- A participant suggested, that given the work NGOs do on legality and investigations, is there scope for guidelines on how to assemble evidence of value to Lacey prosecutions? Ms Colburn replied that this is a great idea, but may be difficult to gain official approval due to constraints from the Justice Dept. NGO assistance in assembling evidence can be incredibly valuable in the construction of a case, but can also be a frustrating experience for NGOs, as information provided for legal cases is a one-way street. During the course of on-going investigations or court cases, the Department of Justice cannot provide feedback and publicity, in order to keep an investigation pure. So far, the conviction rate for CITES cases is high – since there is a high burden of proof, the Department of Justice mainly selects cases which are solid and likely to have a strong impact and deterrent effect.
- A participant asked how species are identified as endangered for such legal purposes? In the US, there is a list of endangered species, based on scientific determinations. For CITES, the list is based on a determination by CITES that trade constitutes a threat to a species' survival. The IUCN Red List also monitors and categorizes species before they appear on CITES. However, the Lacey Act is not just focused on endangered species – anything illegally possessed or traded will invoke it. Ignorance of the law is not an excuse – if everyone else in your industry is following a code conduct why should you be exempt?

GLOBAL INITIATIVES

15. Promoting Sustainable Forestry and Addressing Climate Change - Roger Martella, Sidely Austin LLP and Former General Counsel, US Environmental Protection Agency (EPA)

Mr. Roger Martella gave an overview of the role of forests in addressing climate change. He began by noting that 15 years ago, deforestation was a top environmental concern and it is now again, with the links between climate change and forests attracting international attention.

Forests are important carbon sinks, and in the US, the world's forests are viewed as a type of greenhouse gas (GHG) solution. Worldwide, however, deforestation is also a large source of GHG emissions, accounting for up to 90% of emissions in some countries such as Brazil and Indonesia. Mr Martella commented that sustainable forest management (SFM) is another key issue – forests can be managed for economic as well as environmental benefits. 26 countries have submitted a proposal to the UN on using SFM to reduce emissions.

In the 2007 Bali negotiations the role of forests in addressing climate change was elevated, with the concept of REDD (reducing emissions from deforestation in developing countries) introduced. Mr Martella outlined the 'Decisions' emerging from the Bali conference, including the 'Decision' on deforestation, which acknowledges the importance and complexity of the issue, as well as the urgent need to address deforestation. Issues ahead include how to promote SFM, as well as to understand the impacts of the emerging drive for biofuels, with its possible secondary effects on deforestation.

INITIATIVES IN CHINA

16. Responsible Purchasing Policies: Solution to CSR and Forest Protection – Liu Bing, senior forest campaigner, Greenpeace China

Mr. Liu Bing presented a recent Greenpeace report on implementing a 'responsible purchasing policy' (RPP) for timber. He defined an RPP as an environmental-friendly procurement policy to be adopted by timber companies to demonstrate social responsibility, and to avoid illegal and destructive timber in their supplies. Mr Liu explained that RPPs are

increasingly useful since companies have a significant impact on forests around the world and illegal logging creates an unfair playing field. RPPs also help to build a positive image.

Greenpeace's approach focuses on a Timber Standard – a benchmark for an RPP, which ranks acceptable timber to purchase. This ranges from the lowest standard (illegal or unknown sources) that should not be purchased, to fully sustainable timber. Mr Liu outlined the steps to develop and implement an RPP, noting that the report includes questionnaires to help companies determine the proportions of legal, known and unknown source timber in their supply chains.

Mr Liu also introduced Greenpeace's work in China, such as working with corporate partners like B&Q to build and/or improve their RPPs. In the future, Greenpeace is considering promoting RPPs among Chinese companies and working with domestic flooring companies.

17. Policy and Practice for Sustainable Timber Trade of Chinese Government – Song Weiming, vice president, Beijing Forestry University

Mr. Song Weiming discussed work undertaken with Forest Trends on Chinese governmental policies at the central, provincial and local levels, regarding the timber trade and illegal logging. Providing some background, Mr Song noted that the Chinese timber trade is increasingly attracting attention and that in China, the government plays an important role in this trade. He outlined the management of China's timber trade, noting the major central governmental players and key policies. At the international level, China carries out a number of collaborative activities, such as a training program for forestry officials from timber producing countries, forestry projects with developing countries, MoUs on illegal logging, and so on.

Mr Song pointed out that other levels of government also play a role. At the provincial level, for example, Heilongjiang is a major trading province with Russia. Jiangsu Province has important ports for tropical timber, and so is involved in the trade of some endangered species. Local governments also have their own regulations and try to coordinate efforts with the central government. The Chinese government is devoting considerable effort to promoting the sustainable timber trade but it needs the support and coordination with other levels of government.

18. Responsible Strategies and Practice - Francis Ye, Vice President, Yingbin Nature Flooring

Ms Francis Ye gave an overview of the Nature Company, which produces wood flooring. Its supplies are sourced from more than 100 species, mainly from North America, South America, Russia and Africa. The company's sells all over China with 1600 stores, and additionally in another 30 countries. The Nature Company's brand awareness in China is growing strongly, with sales increasing by about 30% each year.

Nature has participated in the Global Forest and Trade Network (GFTN) in China since 2005. Ms Ye outlined the company's actions, such as supply chain analysis, a shift to conservation-oriented long-term suppliers, development of a Responsible Purchasing Policy (RPP), and FSC certification. In recent developments, Morgan Stanley and the International Finance Corporation (IFC) have invested in Nature. Ms Ye noted several challenges in promoting sustainable trade, including how to educate and cultivate the environmental awareness of consumers, the high costs of certification, and the lack of a unified, universally recognized certification standard. .

19. Corporate Social Responsibility (CSR) and Responsible Purchasing - Jason Xue, Vendor Assessment and Development Technologist, Kingfisher Asia Ltd

Mr. Jason Xue introduced Kingfisher, the world's third largest home improvement retailer, with more than 750 stores in 9 countries. Kingfisher management is committed to

responsible and legal procurement and is currently working to improve the control of its timber products. .

Mr. Xue gave an overview of Kingfisher's Timber Policy. The company works with suppliers to establish the origin of wood products in order to ensure their products are from well-managed forests or produced from recycled materials. Staff and suppliers are being trained and sometimes suppliers are changed in order to obtain higher tier timber. FSC is the preferred certification scheme, as suggested by TFT. The company's goal is to have 75% wood products from FSC, other well-managed or recycled sources. Mr Xue also noted challenges, such as insufficient legal/sustainable timber sources for Chinese manufacturers, the lack of awareness among Chinese suppliers, and a lack of capacity and support for Chinese suppliers. However, consumers internationally want to know that products are sustainable and legal, so Kingfisher will not buy otherwise.

Discussion:

- A participant commented on the concern in China that REDD may result in a reduction of tropical timber supplies. Mr Xue responded that Kingfisher doesn't share this concern – the company buys only legal timber, not from suspicious tropical supplies. Nature also noted that it buys only legal timber supplies.
- A participant asked Mr Xue what it would cost Kingfisher to achieve its goal of procuring 75% of its products from legal, well-managed or recycled sources. Mr Xue replied that the immediate priority is to have responsible procurement. The company considers cost, but also needs to factor in its consumer demand and responsibilities to the public.
- Mr Song responded to a question regarding tax rebates for hardwood timbers, noting that China has some favorable policies for industries to develop. However, the government is reconsidering rebates and other measures for low value added or environmentally unfriendly products for export, including hardwood products.
- A participant suggested that best practice cases of importing legal/sustainable wood be provided to the Chinese government. Mr Song responded that this information will be provided to government, and that local government also needs to build an understanding of the issues and benefit from these messages. Some provinces are more concerned with economic development than environmental sustainability.
- A participant commented that Greenpeace's RPP report contained some promising standards, and noted that perhaps others could be included, drawing on certification processes begun in Indonesia and Malaysia. Mr Liu responded that the report, drafted by Greenpeace with feedback from another 7 organizations, is also undergoing evaluation. SGS, for example, is working with them to improve the report. Other schemes will also be included when the report is updated.

19 June 2008

Summary – Kerstin Canby, Forest Trends

Ms Canby gave a summary of the proceedings of the previous day, noting the presentations covered issues relevant in producer countries, new US and EC legislation affecting the forest products trade, Chinese policies and an agreement to reach out to industry particularly on the new revised Lacey Act, perhaps through a future forum in Shanghai. She also noted that the 4th US-China Strategic Economic Dialogue concluded the previous day in Washington, DC, and included an announcement that the two countries will explore a mechanism to further discuss issues related to timber legality and ways to enhance FLEG.

CHINA AND AFRICA

20. Report on Forestry Study Tour to Three African Countries - Su Ming, Deputy Director General, Chinese State Forestry Administration (SFA)

Mr Su discussed the April 2008 IUCN-organized forestry study tour to West and Central Africa. The delegation (made up of SFA, Forestry Planning and Design Institute, Ministry of Commerce, IUCN and WWF representatives) visited Ghana, the Democratic Republic of Congo (DRC) and Gabon, and met with representatives from Liberia. The tour included meetings with Chinese ambassadors and commercial attaches, ministers and other government officials responsible for forestry and natural resource management, as well as visits to communities, research institutes and private sector companies. The delegation also met with international agencies, such as the EC and World Bank, and with civil society.

Mr Su noted that the tour was very productive in helping to build an understanding of the forest sector, FLEG and illegal logging issues in Africa. Although a final report and proposals for future work are yet to be finalized, Mr Su shared some conclusions and ideas. For example, the timber industry has been important to development in both China and Africa, and the two areas face similar development tasks. The African region has rich forestry resources and several countries are committed to developing their forestry industries. China can complement these resources with technical expertise and labor.

The delegation also found that progress in implementing SFM measures in Africa is sometimes reliant on international support, perhaps because measures were prompted via external pressures and the countries concerned still lack capacity, particularly at the local level. Similarly, countries in Africa have not yet integrated forestry and industry development strategies and have relatively basic processing capacities. Mr Su noted that the world still lacks a consensus on forest development, as well as unified standards or binding agreements - protocols have been reached to address biodiversity loss and climate change, yet forests still lack an international binding agreement.

In terms of future directions, China is interested in participating in FLEG in Africa and is willing to work with African countries on legality issues. SFA is developing work with the Ministry of Commerce to improve guidelines for Chinese companies working in forestry overseas. Past efforts in this regard have focused on Asia and Russia, but Africa will receive more attention in the future. African countries are important on the world stage, with 28% of UN votes and abundant natural resources. Mr Su also pointed out that forestry cooperation can be fostered under the Forum for China-Africa Cooperation (FOCAC).

21. Study Tour to Africa - Li Nan, Trade & Investment program officer, WWF China

Ms Li Nan began her discussion of a recent WWF-organized study tour to Africa by noting that although Africa only provide about 3-4% of China's forest products, China is an important market for certain African countries. WWF's study tour to Africa was organized in the context of studies on China's growing ecological footprint. WWF has long-term goal to address ecological footprint issues around the world, and last week released a report on China's net flows of natural resources and biocapacity.

WWF is now conducting activities targeted at producers, resource providers and consumers, including studies in China, Tanzania and other countries explore ways to promote sustainable development. A forest products case study is underway in China, involving a partnership between WWF and Ministry of Commerce research institutes.

The May 2008 study tour visited Tanzania and Gabon, with the objective of developing an in-depth report on economic aspects and the impact of trade on natural resources and establishing communication between stakeholders. The delegation visited Chinese embassies, where it was interesting to note that embassies are encouraging Chinese companies to have more contact with local companies, communities and NGOs. The delegation also visited with officials from government, Chinese enterprises, international

agencies and local NGOs, where they discussed issues such as local regulations, FSC certification and how to promote the trade of sustainable timber.

Ms Li also outlined plans for follow-up, including a forum in Fall 2008 on the triangular approach promoted by WWF in its SHIFT Network Initiative. The study on Chinese trade and investment, including the timber case study, is to be released in December 2008.

22. US Efforts in the Congo Basin Forest Partnership (CBFP) – Sherry Hong, Second Secretary of Environment, Science, Technology and Health Office, US Embassy

Ms Hong provided an overview of the CBFP and US activities under this partnership. As the Congo Basin contains the world's second largest tropical forest, with a population about 24 million, it is important that sustainable development is promoted. The CBFP was created 5 years ago at the Johannesburg Summit, and now has more than 40 organizations involved. It is a mix of representatives from both donor and recipient countries. The CBFP has no funding or secretariat, but each partner pledges to implement its own programmes in coordination with the other partners. The sharing of experiences and information improves the effectiveness of assistance in 12 target landscapes in the Congo forests. Ms Hong suggested that, as many organizations working in China are also members of the CBFP, they should consider how they could link their activities and publicize them within the partnership.

The US has been involved in the CBFP since its inception and has pledged more than USD 80 million to fund projects in the region, most delivered through USAID. Some strategies and activities include: training rangers; developing community enterprises; and encouraging the adoption of voluntary codes for logging associations. Ms Hong also introduced the President's Initiative Against Illegal Logging (PIAIL), the umbrella initiative for the CBFP, including approaches such as Debt for Nature Swaps.

Discussion:

- A participant asked Mr Su whether China is working with Mozambique on sustainable forestry and trade? Mr Su responded that the IUCN study tour in West-Central Africa was the first time Chinese forestry officials sent a delegation to Africa. There is still a lack of knowledge about other countries, but the general principle remains the same – the basic requirement for Chinese companies in Africa is that they abide by local laws and the principle of sustainable development. This will be a main message of into the guidelines under development.
- A participant commented that it is good to hear of the guidelines and asked whether there are currently other mechanisms in place to regulate Chinese businesses overseas, before the guidelines are issued? Mr Su replied that China's guidelines would be voluntary and related to abiding by foreign laws/regulations. China cannot put its laws over those of other countries. In Africa, for example, it will be up to the local government of the host countries to regulate companies operating in the area.

A participant asked Ms Hong whether any Chinese companies are operating in the 12 target landscapes and what will be the next step to encourage China to join the CBFP? Ms Hong noted that the recent MoU between the US and China on combating illegal logging and associated trade is encouraging, but China has not yet been formally invited to join CBFP. Chinese companies in region are still small players, but 4 of the top 5 countries exporting from Africa to China are present in the Basin, and exports are likely to increase with infrastructure improvements. A participant added that identifying Chinese companies in Africa is difficult – many small companies don't register with embassies and ethnic Chinese traders from countries such as Malaysia or Indonesia are often confused with Chinese traders.

- A participant asked Mr Su whether SFA is also interested in strengthening cooperation with Latin American countries in the same way as Africa? Mr Su responded that China's

forestry industry is open to the world. SFA has some cooperation in the Latin American region, and a delegation visited Brazil in 2007. Six agreements have been reached, and discussions on strengthening inter-departmental cooperation are underway with Peru, Chile and Argentina.

- A participant commented that illegal logging behavior still occurs and that most responsibility for regulating this lies with local governments. The Chinese Govt is developing guidelines and educating companies that invest overseas. More information about WWF's triangular approach was also requested. Ms Li replied that it is based on the flow of natural resources between consumers, processors and producers. Each has a responsibility. The approach is designed to encourage the exchange of ideas and to improve practices for all actors in the chain.
- A participant asked Mr Su and Ms Li how the integration of primary and processing industries in Africa could be improved. Mr Su replied that during the study tour, they exchanged ideas with African representatives based on China's experiences. He noted that many African countries are prioritizing the development of primary industries and that the delegation made suggestions on better processing and services.
- Mr Su was asked about coordination/cooperation between Chinese companies in Africa. For example, for some projects, the companies involved may need to provide all the associated local social services and products. The Ministry of Commerce encourages investment, but is there a plan for coordination? Mr Su replied that the Government does not have a comprehensive development plan for African projects, and that companies should base their own activities on local development needs.
- A participant asked Ms Li whether Tanzania's log export ban is effective, and what made up the 21% of wood products exported to China? Ms Li responded that the 21% is sawn timber, and that WWF is collecting data now for the report. Regarding the ban, it is hard to judge the efficiency of regulations drafted in consideration of a particular local context. Ms Li noted that she personally thinks that there should be a discussion of measures beyond one simple ban. Tanzania wants to add value to exports, but there is inadequate support for the processing industry. Chinese companies say that local processing in Tanzania costs a lot more, due to a lack of expertise, machines and spare parts. Also, illegal logging is still a problem.
- A participant commented that the Forest Trends report on the China-Africa timber trade shows that African exports to China are mainly logs, while finished products go to the EU. Do Chinese businesses favor certain products? Mr Su answered that preferences depend on the market as well as local regulations. A participant added that it is cheaper for Chinese companies to import logs and process them domestically. Log export bans are very controversial, as they can be an emotional response from governments who dislike low value exports. Many studies have been done on this issue, including by the World Bank. Because of the market distortions that these bans often introduce, it is often recommended that bans be used only temporarily in serious situations, such as to bring illegal logging under control.

23. Certification in China - Shi Feng, Vice -General Secretary, China National Forestry Industry Association

Mr. Shi Feng introduced Chinese efforts to promote sustainable forest management (SFM) and certification. For example, SFA's has invested about RMB 200 billion in measures to protect forest resources and wildlife. China has also practiced voluntary greening and tree planting activities, with 10.4 million people planting trees since 1981.

Mr Shi explained how forest management measures in China have been intensified and noted the strong public security and enforcement teams involved in this process. He also gave an update on forest certification in China. In 2001, SFA announced its intention to develop a Chinese national certification system suited to China's needs which refers to international experiences. A certification Working Group has been established, and pilot

projects carried out. Standards referring to FSC criteria were issued in 2007, and in keeping with the international trend towards certification, the area of FSC and PEFC certified forests has been growing steadily in China. Mr Shi discussed how to accelerate certification in China, noting that the implementation of forestry certification is an ongoing learning process and that the market mechanism of certification is well-suited to the development of the Chinese forest sector.

24. Opportunities & Challenges for China's National Certification Pilot - Chen Xiaoqian, Green Wood Project coordinator, The Nature Conservancy China Program (TNC China)

Ms Chen Xiaoqian shared the work of TNC in China and discussed opportunities and challenges to promoting certification, based on experiences in several pilot projects. Ms Chen began with an overview of China's forest resources, which although large in area, are only 10-15% of the world average per capita.

There has been significant discussion in China on the promotion of SFM, but a number of important barriers remain: forests often have poor stand structure; old fashioned and unsuitable management practices remain too focused on utilization; and practical SFM guidelines still need development, among others. China has promulgated a Forest Management and Production standard and production standard but it still requires technical support, testing and evaluation. In response, TNC has developed 9 standards or principles, considering laws, public interest, environmental protection, and so on. Ms Chen introduced the certification pilot projects in China, which SFA began in 2006. TNC supported three pilot projects, covering public and private forests. She identified several opportunities for promoting certification, such as the growing market demand for certified products and the policy support provided by the Chinese Government. Challenges include the need for awareness raising and capacity building for grassroots and local level forestry management organizations, and the high cost of certification.

In a discussion of illegal logging, Ms Chen noted that not only governments are responsible. TNC appreciates WWF's triangular approach and hopes that China can reduce its dependence on timber from unknown or suspicious sources.

25. Promoting Legal and Sustainable Wood Trade: Role and Motivation of Companies - Li Hongfan, president, China Wood International

Mr. Li Hongfan began with comprehensive background to the development of China's forest industry, noting the significant increase in trade in the 1980's and China's transformation into a global processing centre. Compared to 5 years ago, the forest products industry much more sophisticated. Costs are increasing, production continues to shift and sustainability is becoming more important. Although Chinese enterprises are becoming more environmentally aware, the demand for timber is very high and there is a need to optimize supply chains to promote legal/sustainable trade.

Mr Li discussed the plans and strategies being developed by CWI, a consulting company, to address this situation and build company awareness and capacity. No matter what solutions are adopted, in the promotion of the legal and sustainable trade of timber, companies will play a vital role as they implement the policies and we need to pay attention to their needs. CWI aims to help enterprises solve their problems, and provides communications platforms, market research, training, and so on. CWI has developed some action plans for promoting legal/sustainable trade with Russia, and plans to visit Africa at the end of 2008.

Discussion:

- A participant asked Mr Shi how NGOs and other certification organizations currently operate in China, and whether fee-paying organizations will be phased out? Mr Shi replied that in China, certification organizations need national government approval

and registration, as well as an agreement on their fees. For FSC and PEFC, this does not pose a problem, but some smaller companies helping them are not qualified. In the future, processes will be streamlined to make sure organizations are qualified to charge fees and are in accordance with Chinese law.

- A participant directed a question to Ms Chen forest fire prevention. Ms Chen answered that TNC's current certification standards includes one on the prevention of fire and pests. Over the past year, as part of its global work on forest fire, TNC has been working with SFA to consider how to use fire rather than simply restricting it. TNC hopes to run a pilot on using fire standards to shift from strict control to management, as some species need fire for reproduction.
- Ms Dong was asked about NGO registration in China. Ms Dong responded that IUCN is not an NGO, but an international governmental organization (IGO), and it is currently working to register through the SFA. Mr Su added that there are three types of registration, and it is not yet a streamlined process. For certification organizations, they must be qualified and approved by the proposed national certification centre.
- A participant commented that many chain of custody (CoC) certified companies are small or even seasonal, and the number of certified companies has not increased much in the last ten years. Forest certification relies on market mechanisms, so what other measures are there to promote it? Ms Chen agreed that forest certification is a market tool, and added that there are administration measures available too, such as forest management manuals, HCVF identification and management, and so on.

Summary – Dong Ke, IUCN China

Ms Dong Ke expressed thanks on behalf of IUCN, Chatham House and Forest Trends to all speakers and participants, who covered so many topics and shared so much information on market developments, producer countries, and government, company and NGO initiatives. The one and half day meeting also saw presenters and participants share their action plans and ideas for the future. The minutes and presentations will be made available on the website (www.illegal-logging.info) as will future updates about the series.