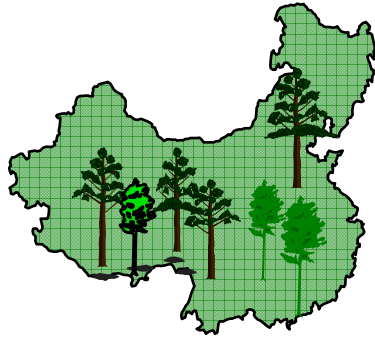


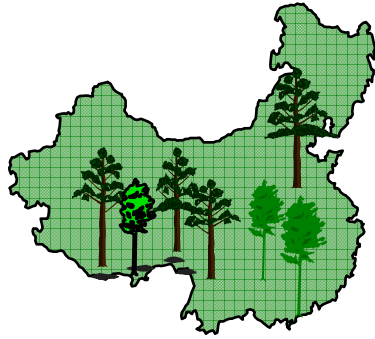
Policy Issues in Sustainable Commercial Forestry and Trade in China: The Logging Ban and Entry to the WTO

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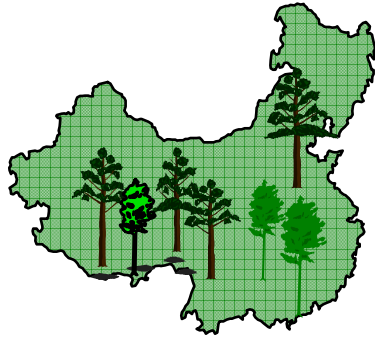
Outline

- ★ Background and Objectives of Logging Ban
- ★ Background to Wood Use & Supply in China
- ★ Domestic Reaction to Ban: Wood Supply
- ★ Implementation of NFPP
- ★ Impacts of NFPP: Social and Economic
- ★ Policy Considerations (Environmental, Social, Economic)
- ★ Summary



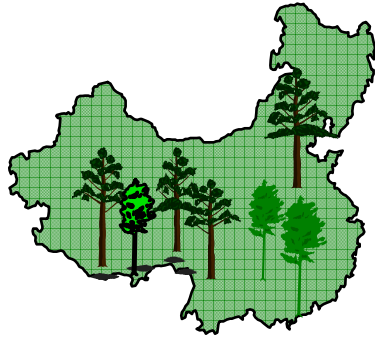
Background to Logging Ban

- ★ NFPP (aka Logging Ban) covers 17 provinces
 - covers 57% of all natural forests
- ★ Reaction to severe flooding and erosion problems
 - land erosion reached 38% of the total with 16% of area undergoing desertification
- ★ One of world's largest conservation initiatives
 - Sustainable harvest limits that protect soil, biodiversity and wood industry
 - trying to mitigate social impacts
- ★ Implemented as Chinese industry is privatized



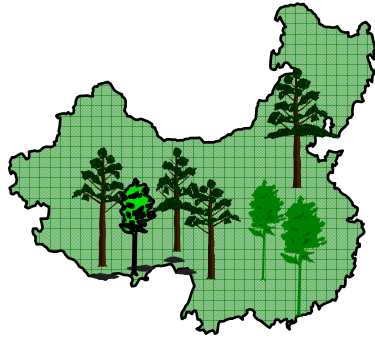
Objectives of Logging Ban

- ★ National Forest Protection Plan to ban logging and promote afforestation to improve forest protection and management.
 - convert steep slopes to forest or grassland in upper and middle Yangtze and Yellow rivers
 - ✓ ↑ forest cover (17.5% to >21%) ↓ harvests by 12.4 mcum annually
 - protect 33 million ha. of state owned forests
 - prevent flooding, improve water quality & stabilize hillsides
- ★ ↓ environmental degradation: sustainable wood industry



Background to Wood Use in China

- ★ Most wood is used for construction or infrastructure
 - **construction** includes forms for concrete work and wood interior finishing of apartments and houses
 - ✓ privatization & building boom ↑ wood use in construction
 - infrastructure includes rail ties, shoring for tunnels etc.
 - ✓ ↓ spending on infrastructure is slowing wood use BUT western development strategy may change this demand factor
- ★ Wood housing not common but being promoted by foreign organizations and firms from Canada, Europe and the US



Background to Wood Supply in China

Plantation Theory - *reduced wood supply will be offset by increased harvest from plantations*

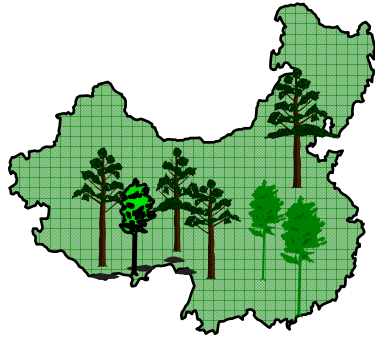
Reality - plantations cannot produce the right volume or species & current plantations have ecological functions

✓ shortage of both quality & quantity of timber → mill closures,

Reaction – plan to plant 200 million mu by 2015 to supply industry

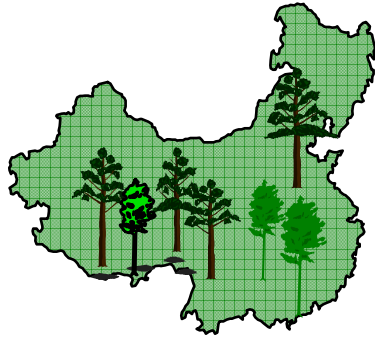
✓ long term solution; no short term solution from plantations

✓ reduce trade barriers for imported logs & lumber ↑ supply & prepare for WTO entry



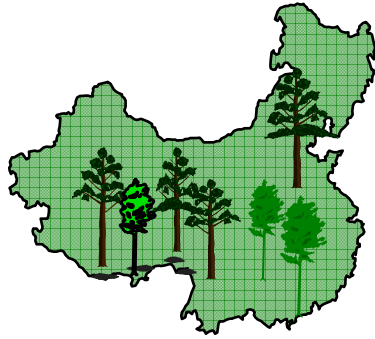
Implementation of NFPP

- ★ Top down nature of planning and implementation of the NFPP reduced effectiveness particularly in regions far from Beijing.
 - Implemented and impacted different depending on region.
- ★ Large gaps in knowledge and information exist between different levels of government involved in NFPP.
- ★ Created short term incentives for illegal logging so wood shortages < expected.
- ★ Implementation improving and impacts accelerating over time.
- ★ Gradual decline in domestic timber production started in 1995 (before NFPP) and is expected to continue due to NFPP.



Social Impacts

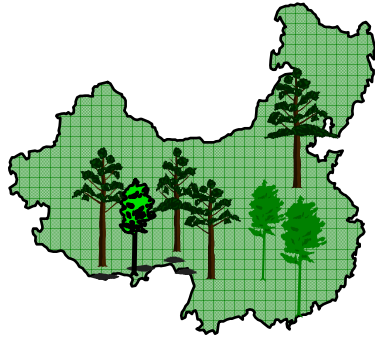
- ★ High unemployment in wood processing sector
- ★ Compensation restricted to state owned enterprises and regions are being compensated for lost revenue
- ★ Communities near forests had little legal claims but lost economic revenue
 - greatly impacted subsistence use of wood for fuel or to clear agricultural land with few practical alternatives
 - increasing rural poverty in poorest regions in the country
 - est. decline in local income Yuan 1.2 billion in 99 due to NPPP



Short Term Economic & Trade Impacts - 1

- ★ 2,000 domestic mills (some very small) closed
 - operating at 50% capacity in 99 & > 1 m. lost = jobs
- ★ Regional wood shortages will increase in West due to inefficient distribution and transportation infrastructure
- ★ Demand increases with domestic supply declines has led to substantial increases in imported wood products
 - from 98-99, 71% ↑ in imports of logs, lumber & panels
 - China now new “hot” target for all wood exporters
 - ↑ import → price increases of only <9%





Short Term Economic & Trade Impacts - 2

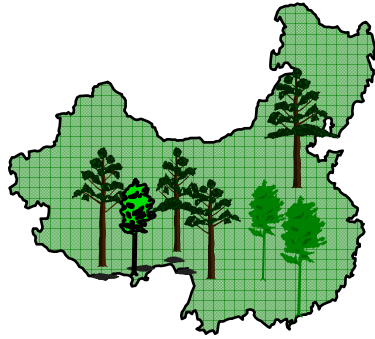
★ Imported Supply

- Logs – major suppliers are Russia & Malaysia
 - ✓ logs are clogging Russian border crossings,
 - ✓ ↑ imports of illegal logs: Myanmar, Russia & Vietnam
- Lumber – Indonesia, Malaysia, USA, Germany, NZ
 - ✓ all lumber exporting regions are now targeting China

★ Opening up of import opportunities

- removal of requirement for import license (Jan 99)
- continuous tariff reduction during the nineties

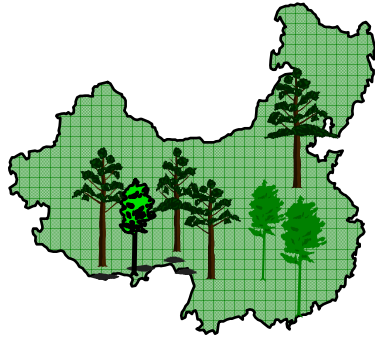




Observations

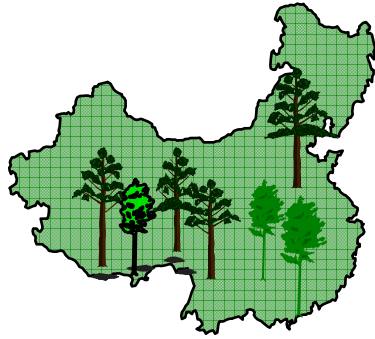
- ★ Without supporting policies to alleviate community socio-economic impacts, NFPP may not be sustainable.
- ★ Policy → incentives for illegal logging domestically & abroad.
- ★ Plantations will not resolve domestic shortfalls but imports can be a sustainable source of wood supply.
- ★ Difficulties in western regions due to inefficient distribution and transportation infrastructure.

NFPP ambitious program, good start with adjustments needed to ensure environmentally sustainable wood industry in China



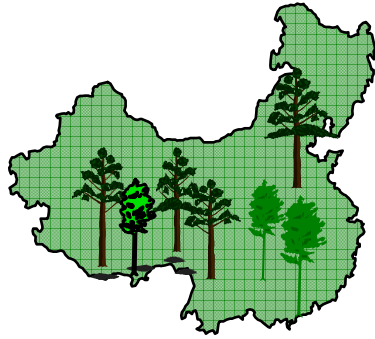
Policy Considerations - Environmental

- ★ A more flexible and innovative choice of remedies to develop a sustainable wood industry and ameliorate environmental problems.
- ★ Explore options that are self sustaining and adaptable rather than short term quick fixes
- ★ Develop policies to promote imports of wood harvested in environmentally sound manner
- ★ Benchmark and continuously audit environmental impact of forestry activities



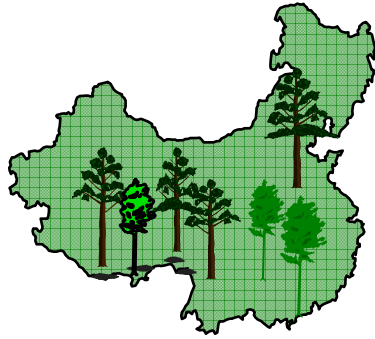
Policy Considerations - Social

- ★ Top down nature of planning and implementation of the NFPP should be significantly modified.
 - more regional input, flexibility & adaptability for social programs
- ★ Systems to provide propriety interest to people whose livelihood is dependent on the land they occupy.
- ★ Rural population must have social and economic benefits from protection and sustainable forest management
- ★ Cultural impacts of conservation driven programs, particularly on ethnic minorities with traditional lifestyles.



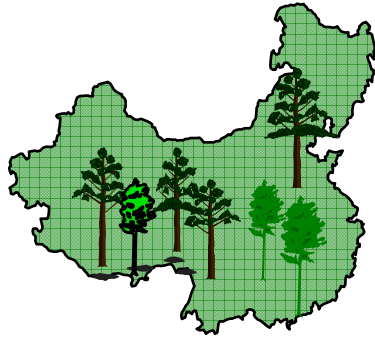
Policy Consideration – Economics and Trade

- ★ Use imported wood supply to meet growing wood demand (GFSM shows supply available)
 - encourage imports of materials for further manufacturing in China (bulk commodities)
 - ✓ Imported wood from sustainable forests?
 - ✓ How to create security of supply?
 - ✓ Regional impacts vary based on source of supply.
 - ✓ Must insure that China does not import high polluting industries.



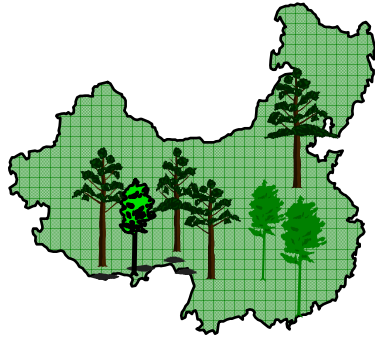
Policy Consideration – Economics and Trade

- ★ Improve infrastructure to facilitate movement of wood imports to Northwest
 - ensure rural saw mills are integrated in transportation grid
- ★ Support the development of efficient market based distribution system
 - develop and maintain data collection system from private enterprises
- ★ Conduct technology assessment to identify equipment and training most appropriate for the development of a wood processing sector in the northwest



Policy Consideration – WTO

- ★ Tariffs on wood products have been reduced several times in past decade
 - reduced again in January 1, 2001 to average 12.3%
- ★ China should consider lowering value added tax (currently at 17% for most wood products)
- ★ Entry to WTO creates both export and import opportunities
 - import wood due to shortage (from NFPP) is good strategy
- ★ Opportunities for new forest plantations tied to panel (and paper) plants for furniture manufacturing



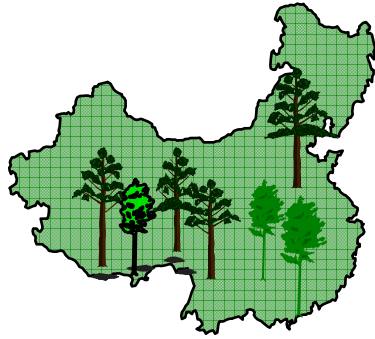
WTO & Furniture Trade

Impacts on Exports

- ★ more open export markets
- ★ better defense against foreign trade barriers
- ★ ↑ FDI to produce furniture for offshore markets
- ★ quality for exports will improve (especially to west)
- ★ ↑ pressure on environment, labour & social policies

Impacts on Imports

- ★ ↑ import competition especially for high end
- ★ ↑ import competition for low end from less developed Asian countries (eg Vietnam)
- ★ ↑ availability of diverse materials for construction
- ★ ↑ demand for “fair” trade from importing regions



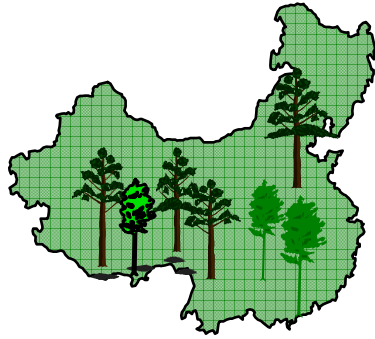
International Investment Opportunities

★ Foreign Direct Investment

- can help develop more efficient wood manufacturing sector using imported raw materials
- to develop infrastructure in north west
- to assist in construction boom

★ Opportunities for Imported Wood Products

- residential construction boom creates opportunities for finished products such as furniture, panelized housing, etc.



Summary

NFPP is admirable, worthwhile plan that can have long term contributions on sustainable and socially responsible forestry in China

Wood use in China will continue to increase with short term shortages alleviated by imports (long term by plantations)

Long term environmental impact depends on effective programs to alleviate social implications of NFPP

More effective market and distribution information needed to encourage effective market system