

China and the Global Market for Forest Products: Transforming Trade to Benefit Forests & Livelihoods

***Kerstin Canby
Forest Trends
Beijing, July 2006***

Forest Trends, RRI, CIFOR and Partners



'00 – '02

- Collaborate with CCAP to advise CCICED Task Force on Forests and Grassland



'02 – '06 Programs

- 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)
- Collaborate with Peking University to advise CCICED Task Force on EcoCompensation



Collaborators

On Chinese domestic issues:

- State Forest Administration (SFA), in particular the Forest Economics and Development Research Center (FEDRC)
- Chinese Academy of Forestry (CAF)
- China Agricultural University (CAU)
- Beijing Forestry University (BFU)
- Other, regional universities, NGOs and forestry agencies

On Regional and International Studies:

- World Agroforestry Center, Kunming (ICRAF)
- IIASA
- University of British Columbia, Canada
- World Bank
- Regional Community Forestry Training Center (RECOFTC)
- Experts in Russia, PNG, Indonesia, Myanmar, Mekong

Basic Dynamics of Supply and Demand

Varying projections of domestic production and China's ability to be self-sufficient by 2015.

NDRC 2006: 150 million m³ gap between domestic supply of industrial roundwood and demand (domestic consumption + exports).

This gap to be addressed by:

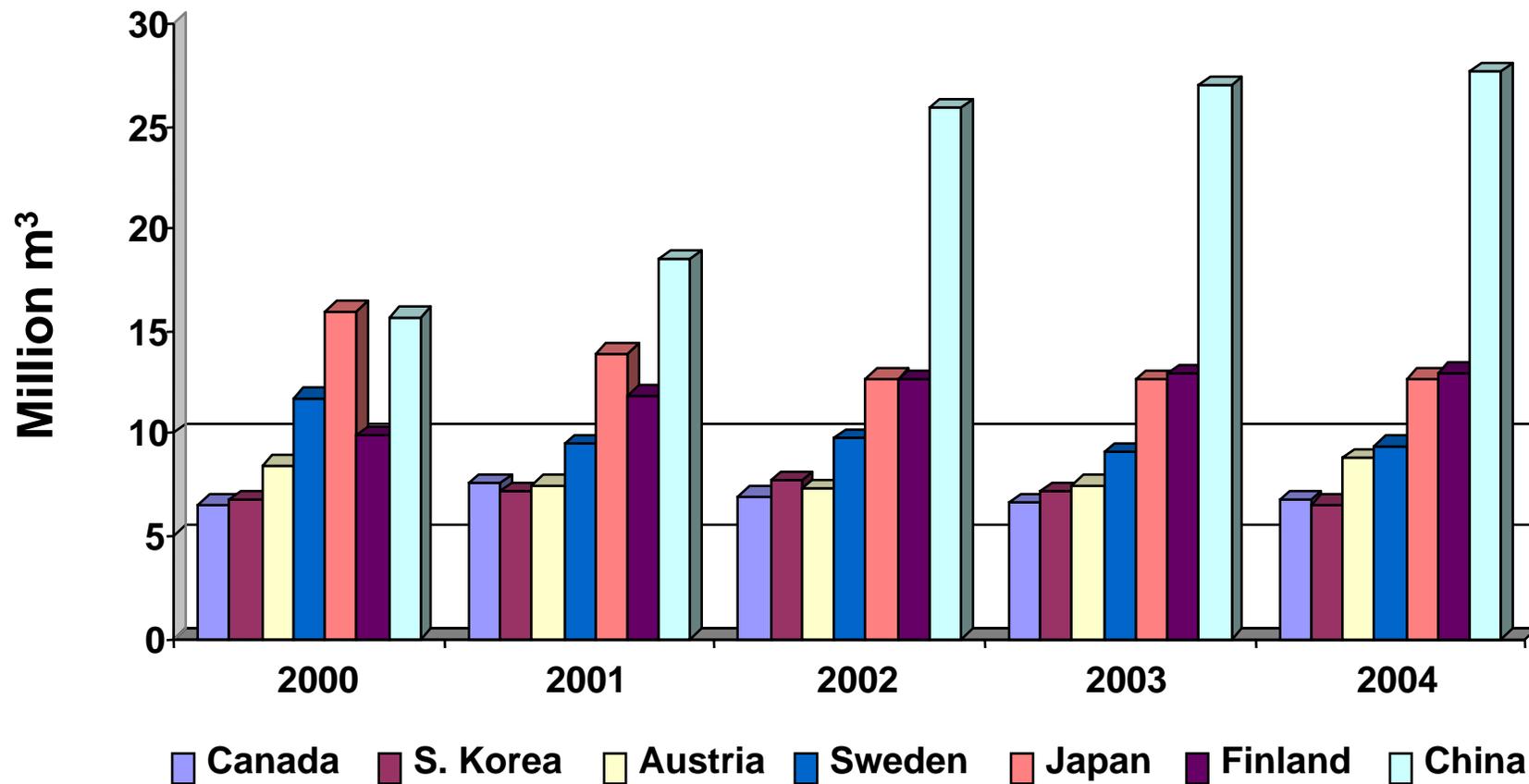
- imports
- improvements in domestic production
- substitution
- greater efficiency

Basic Objectives

- Identify implications of China's growing demand for wood products
- To better understand China's domestic policies impacts on forests, livelihoods, production and environmental protection
- How can China meet this demand through sustainable forest production which also brings livelihood benefits to rural areas and imports of known legal and sustainable wood products?
- Through its leverage on the global market, can China transform the global forest sector towards one that is more sustainable and brings benefits to both local economies as well as the environment?

Increasing Imports

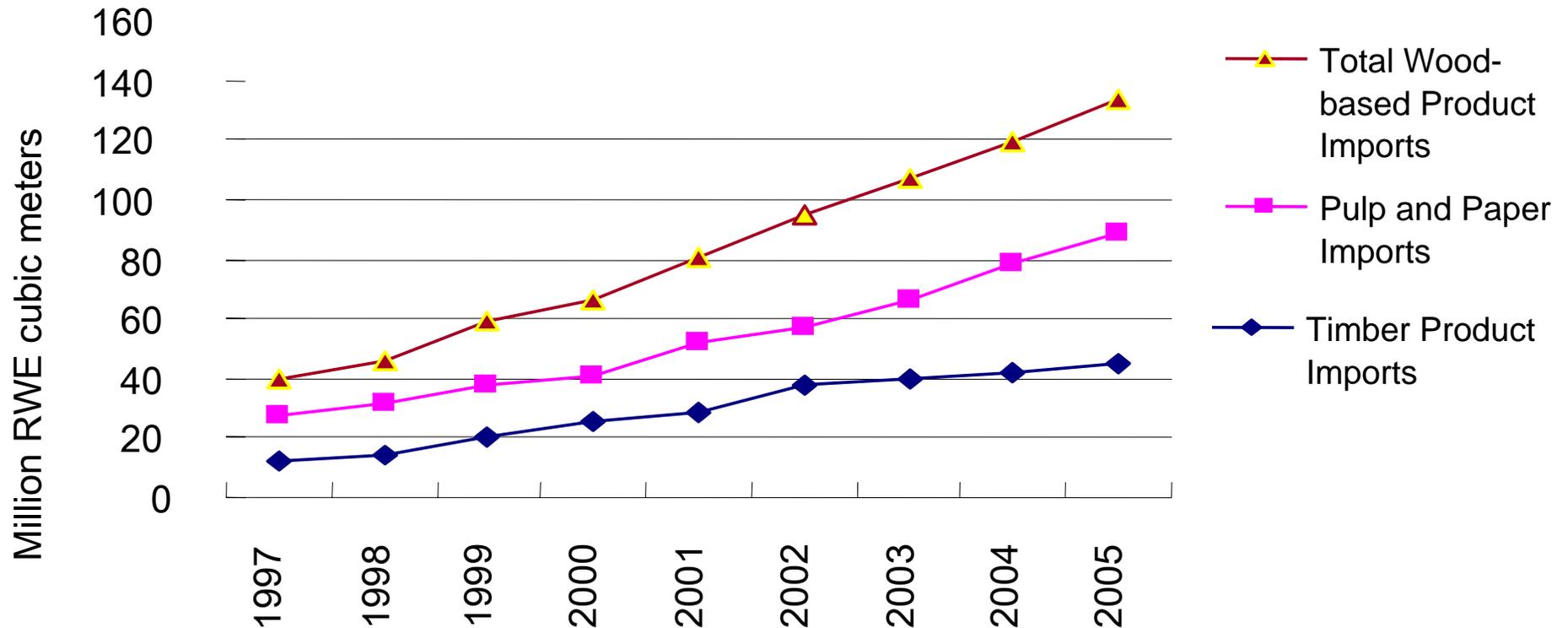
Top Industrial Roundwood Importers



Source: FAOstat and China Customs



China's Imports 1997-2005

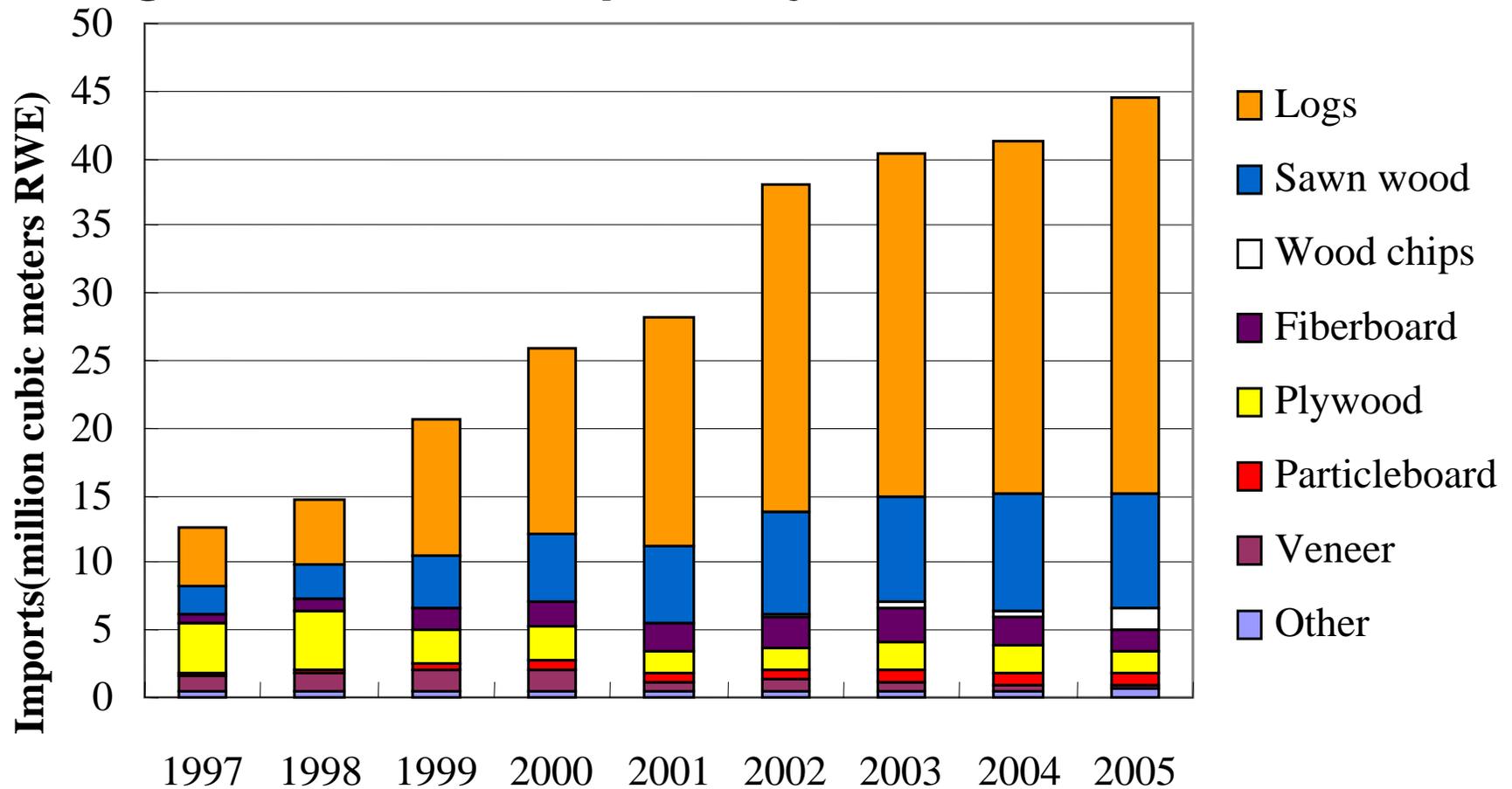


- World leader in wood imports (from 7th to 2nd in last 7 years)
- World's leading importer of tropical wood
- 2 X increase in pulp, waste and recycled paper
- 3 X increase in timber
- 80% of timber is logs and sawnwood



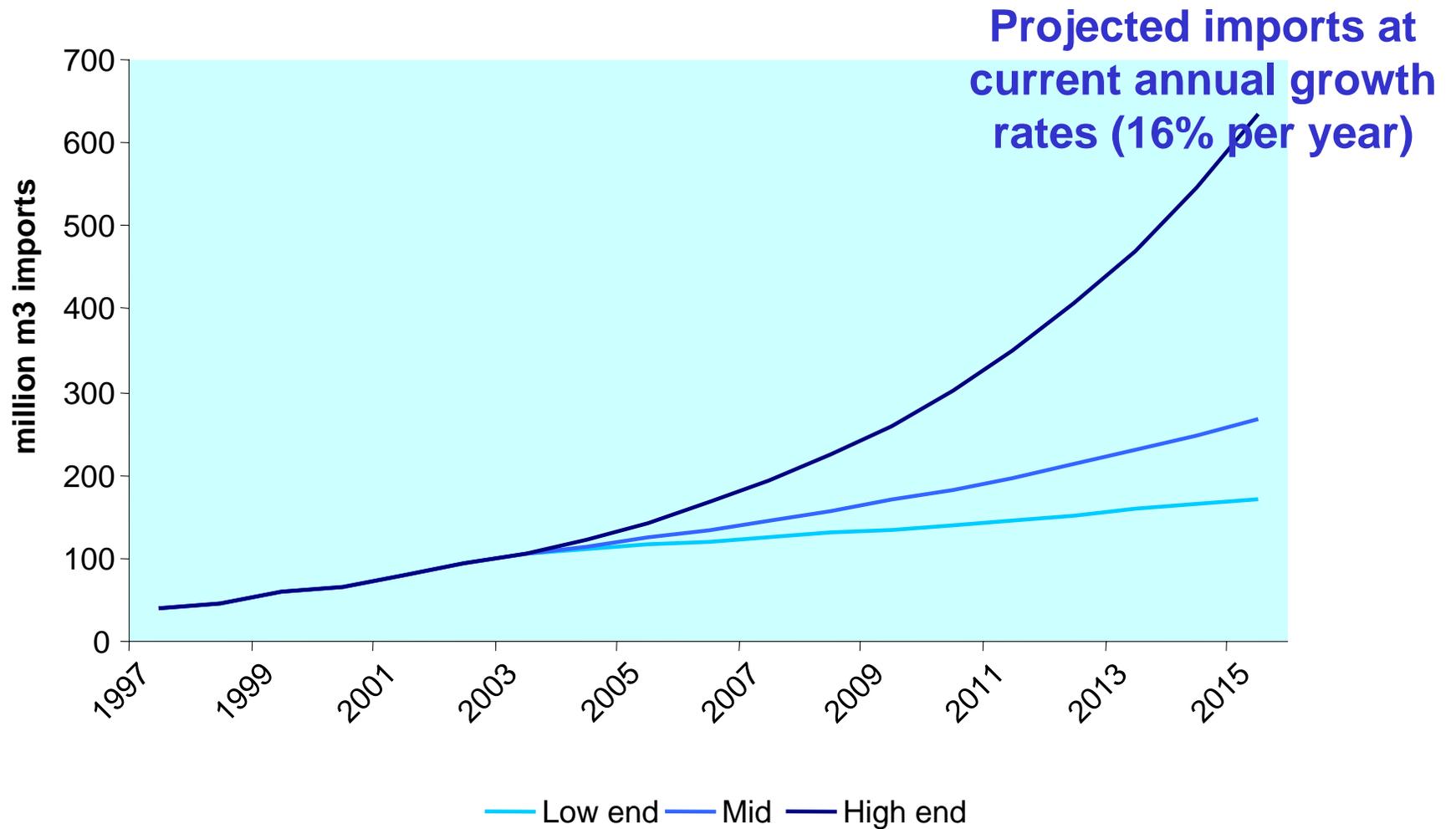
China's Timber Imports by Product Type 1997-2005

Logs & sawnwood up * Plywood & veneer down





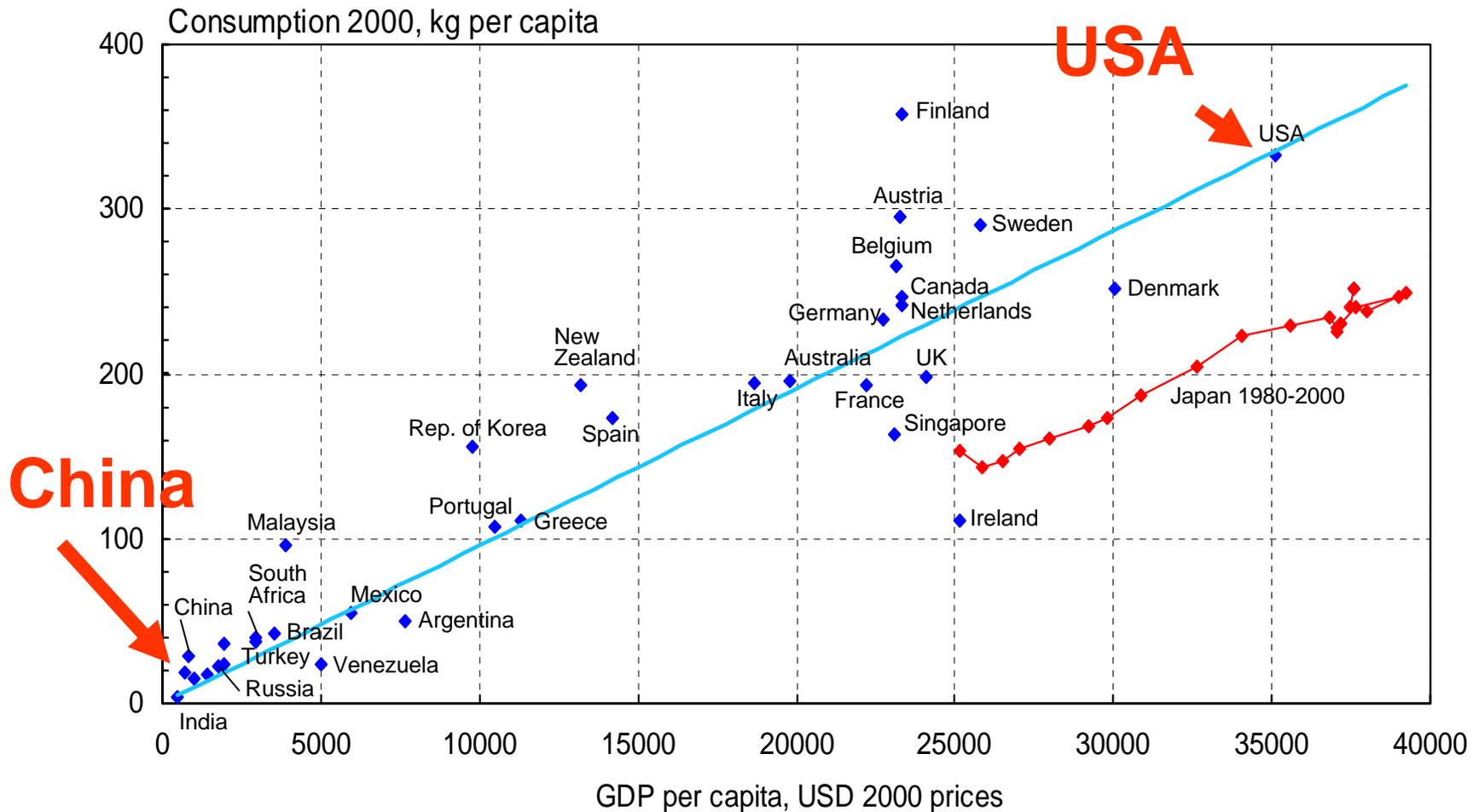
Projected Trends in Import Growth





Trends based on Domestic Consumption Patterns

GDP per capita and Paper Consumption





Int'l Demand for China's Wood Products



China's net domestic consumption of timber products is quite low compared to its timber product trade

Pulp and paper different story: only 11% is re-exported



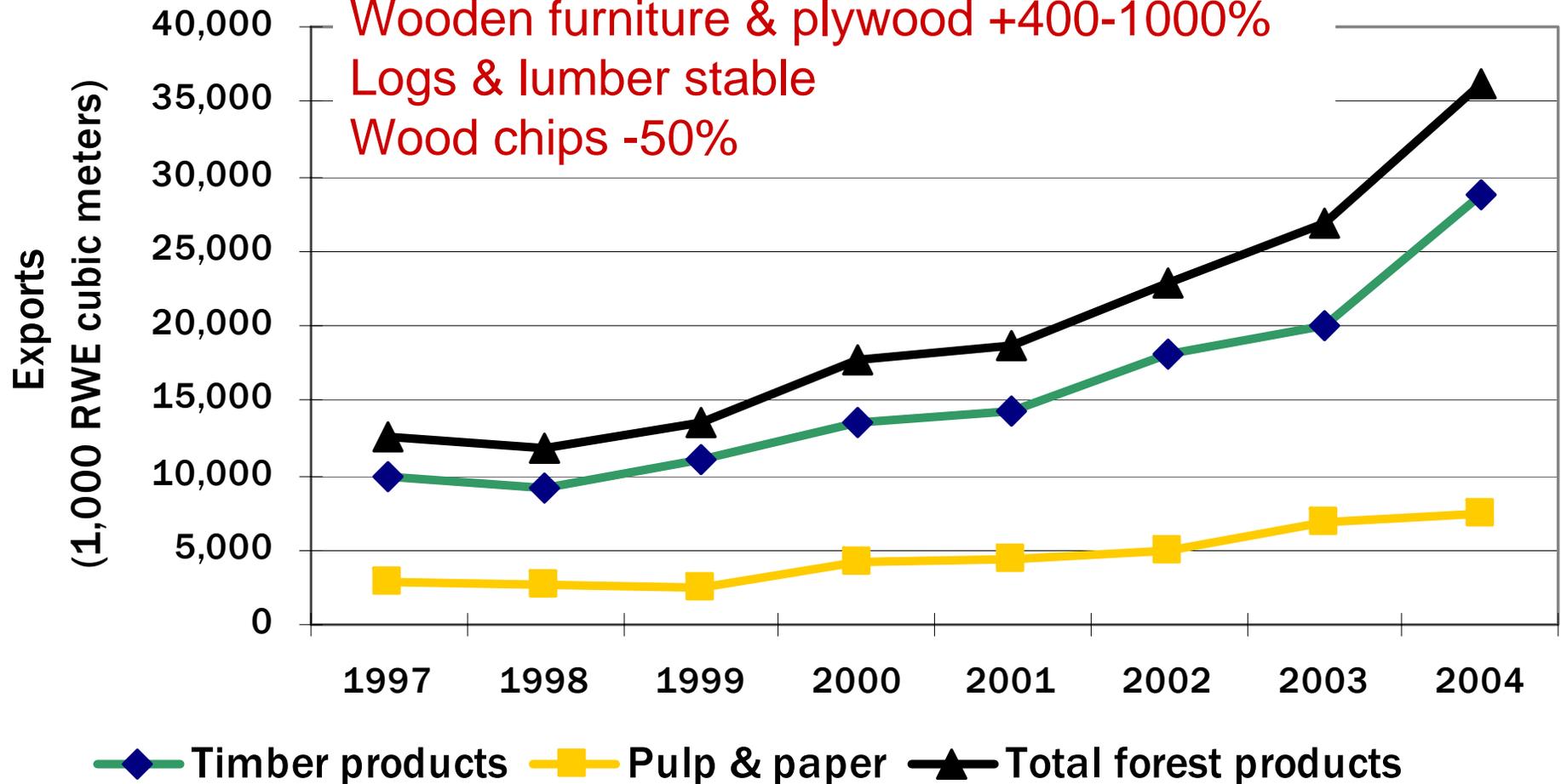
Int'l Demand for China's Forest Product Exports (1997-2004)

364% increase by value (\$13.1b)

Wooden furniture & plywood +400-1000%

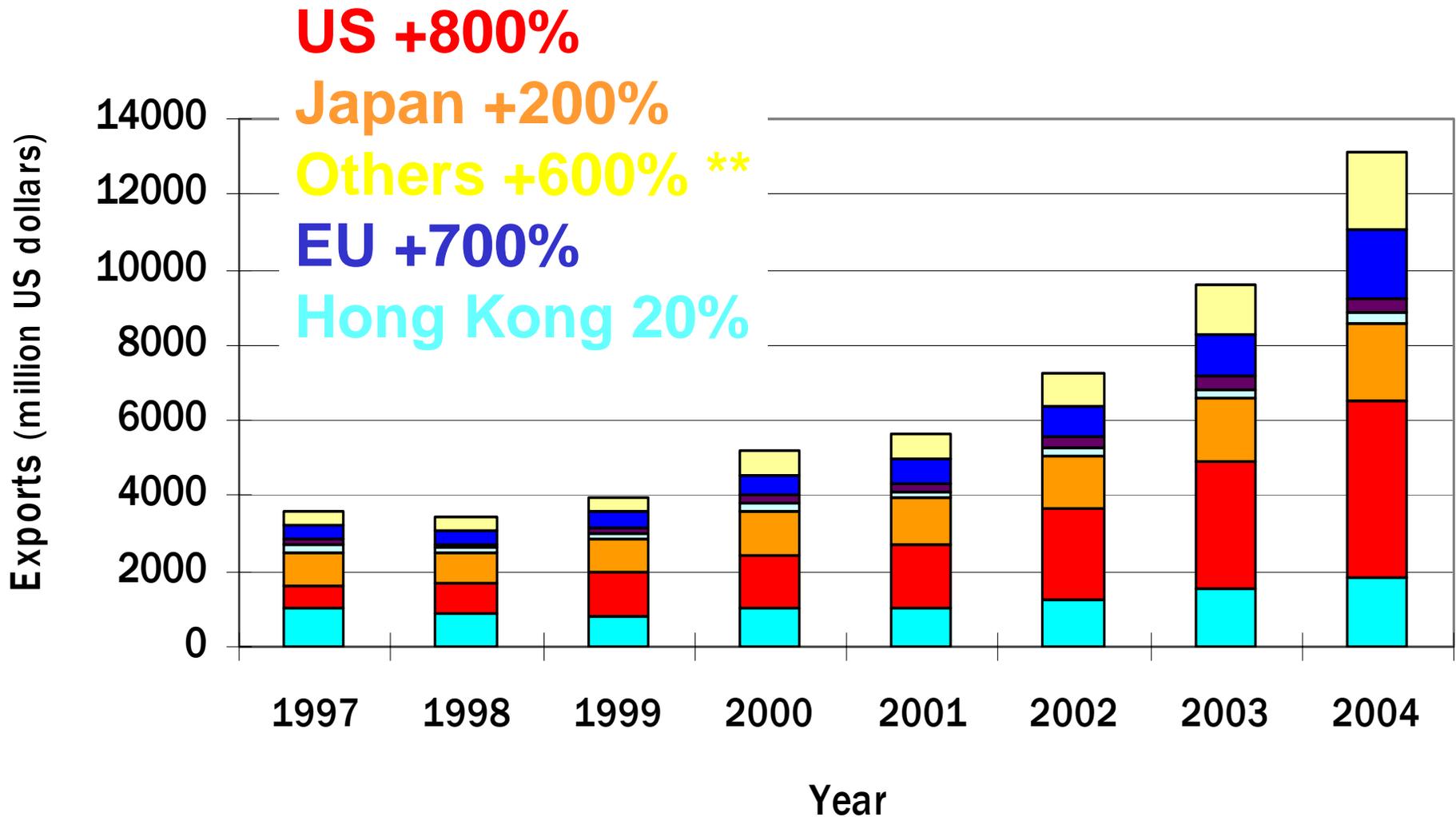
Logs & lumber stable

Wood chips -50%





Major Destinations of Chinese exports

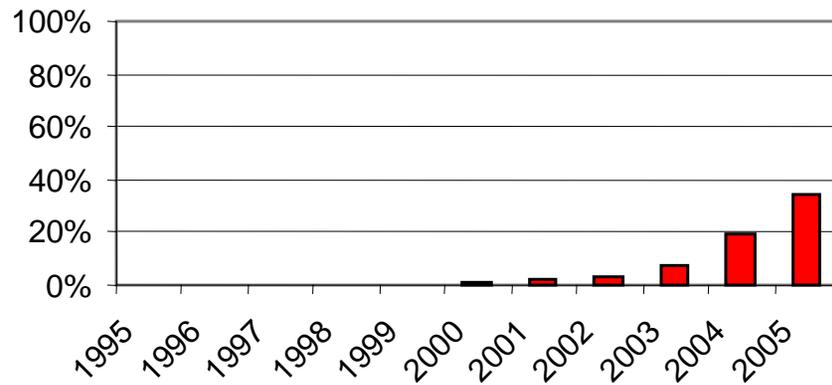


Largest Suppliers of Wood Products to China (2005)

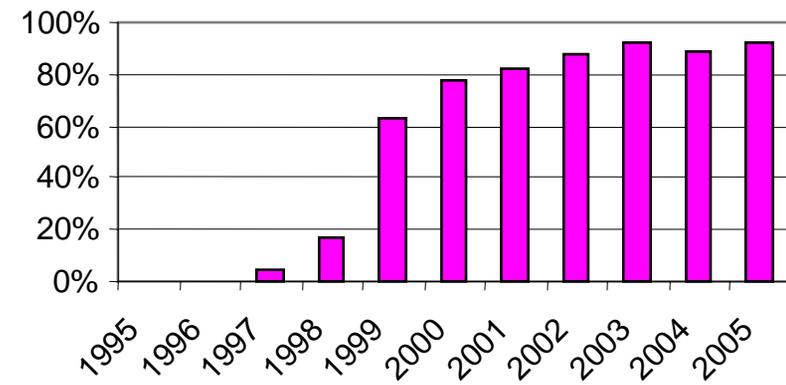
Timber Products	Logs	Lumber
1. Russia 49% 2. Malaysia 8% 3. Indonesia 6% 4. Thailand 5% 5. PNG 4%	1. Russia 68% 2. Malaysia 6% 3. PNG 6% 4. Myanmar 4% 5. Gabon 3%	1. Russia 18% 2. USA 14% 3. Thailand 13% 4. Indonesia 12% 5. Malaysia 8%
Plywood	Wood Pulp	Paper
1. Indonesia 65% 2. Malaysia 21% 3. Russia 3% 4. Japan 2% 5. Hong Kong 3%	1. Canada 27% 2. Indonesia 18% 3. Russia 13% 4. Chile 10% 5. US 10%	1. Taiwan 16% 2. USA 13% 3. S. Korea 12% 4. Japan 8% 5. Indonesia 7%

Importance of China's Trade to Other Countries

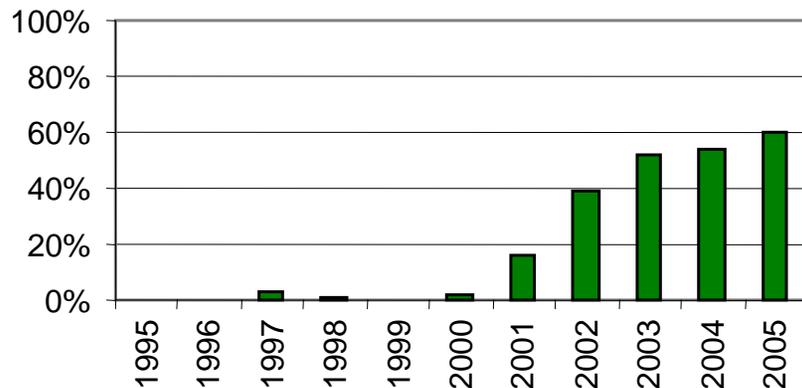
Central African Republic



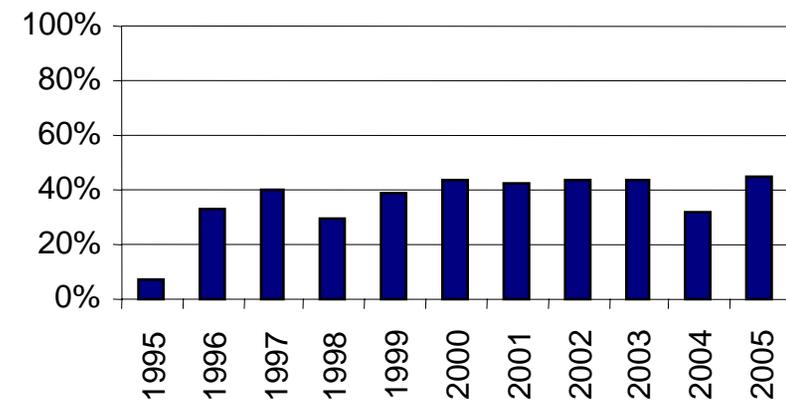
Mozambique



Republic of Congo (Brazzaville)



Gabon



II. Impacts: Within China and Regionally

- **Trees and forests are the primary asset of millions some of the world's poorest people, and could be used as an important instrument for rural development**
 - Summary of Impacts for Asia-Pacific Supplying Countries
 - Chinese Collective Forests: Contributions & Constraints
 - China's Sloping Land Conversion Program After 4 Years
 - Analysis of China-Myanmar Timber Trade (2)
 - Overview of Forest Sector in Russian Far East: Production, Industry and the Problem of Illegal Logging
 - China's Impact on PNG's Forest Industry
 - Thailand's Forest Policies, Plantation Sector and Commodity Export Links to China

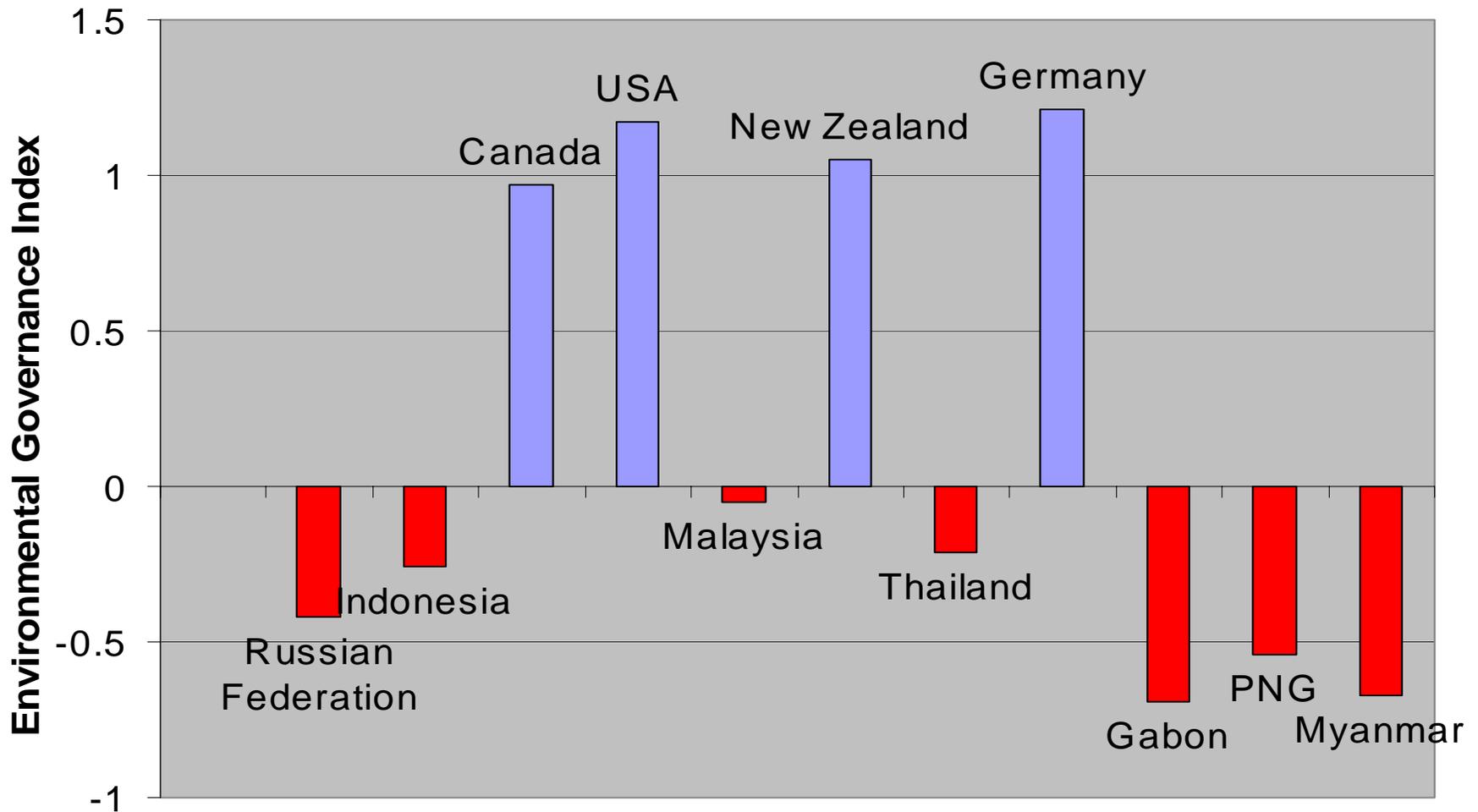
Largest Exporters of Wood Products to China (2005)

Timber Products		Logs		Lumber	
1. Russia	49%	1. Russia	68%	1. Russia	18%
2. Malaysia	8%	2. Malaysia	6%	2. USA	14%
3. Indonesia	6%	3. PNG	6%	3. Thailand	13%
4. Thailand	5%	4. Myanmar	4%	4. Indonesia	12%
5. PNG	4%	5. Gabon	3%	5. Malaysia	8%
Plywood		Wood Pulp		Paper	
1. Indonesia	65%	1. Canada	27%	1. Taiwan	16%
2. Malaysia	21%	2. Indonesia	18%	2. USA	13%
3. Russia	3%	3. Russia	13%	3. S. Korea	12%
4. Japan	2%	4. Chile	10%	4. Japan	8%
5. Hong Kong	3%	5. US	10%	5. Indonesia	7%

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Poor Governance of Natural Resources and Corruption Common in 7 of Top 10



**China's Supplier Countries
(ranked by RWE imports 2001)**

Problems in Major Supplying Countries

Russian Far East/Siberia:

- Significant resource base, but much is illegal and ecologically damaging
- Russian policy reform to encourage value-added processing within Russia itself

Malaysia:

- Malaysia increasingly concerned about reputation risk & being blamed for laundering illegal Indonesian lumber

Myanmar:

- Human rights abuses, illegality, corruption, harvesting organized by militants

Problems in Major Supplying Countries

Papua New Guinea

- illegal logging, illegal labor, human rights abuses
 - Forest Department review World Bank audits confirm (2000-2005)

Thailand, Cambodia, VietNam:

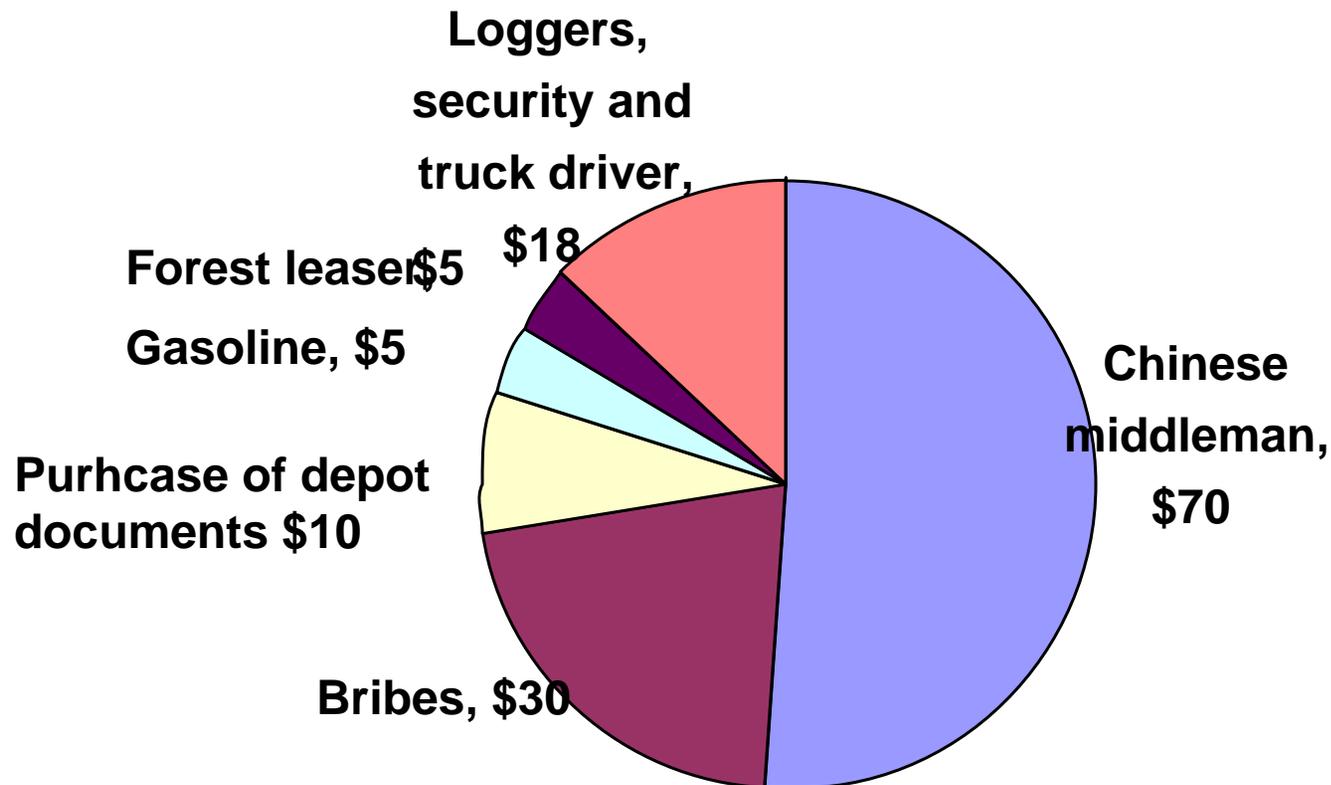
- Natural forest being lost or threatened, intense social conflict-exclusion over land rights, pressure to increase plantations to supply China



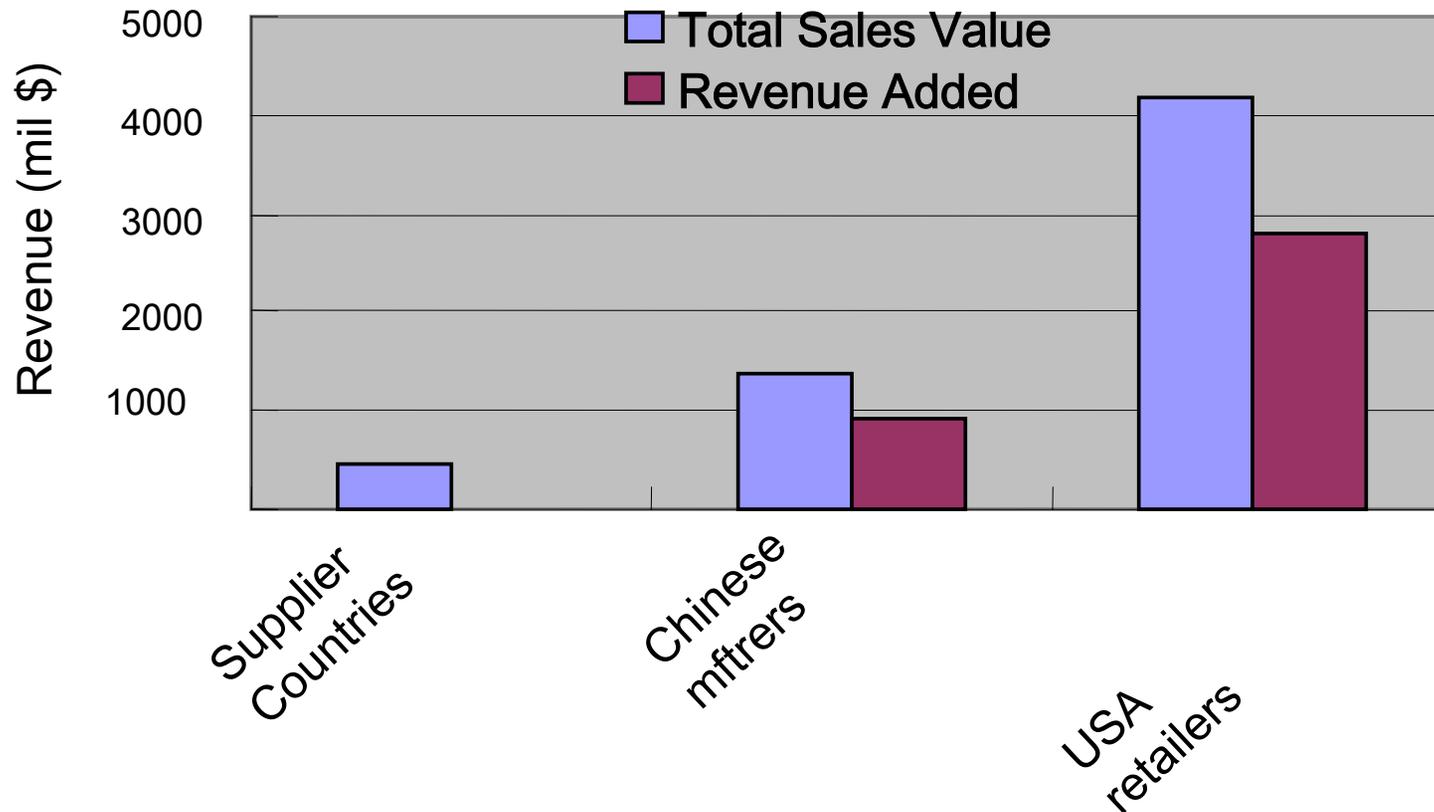
FOREST
TRENDS

Who Benefits from Illegal Logging

***1 cubic meter illegally logged hardwood
(from Russian forest to Chinese border)***



Who Benefits: Value Chain of Furniture Exports to USA



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

China Industry Vulnerable from Supply Side

Country or Region	Years left of natural forests (est'd)
Russian Far East	>20
Indonesia	10
PNG	13-16
Myanmar	10-15
Cambodia	4-9

Insecure supply and prices as

- Natural forests dwindle in SE Asia
- Plantations are not yet on-line
- Potential for illegal logging campaigns increase
(Indonesia 2005 government crackdown > 83% decrease in volume of merbau logs arriving in China)



Vulnerability of Chinese industry in European & N American Markets

- **Changing buyer preferences** (legal verification, certification) in some of its fastest growing markets: EU, North America, Japan
- **Governmental Public Procurement Policies**
 - European countries and Japan drafting or implementing policies requiring public projects to procure only wood products that have been legally verified or certified with chain-of-custody systems
- **Retailers requesting audits of their Chinese suppliers:**
 - UK, Netherlands, Spanish, German trade associations are likely to conduct audits of major Chinese suppliers & demand verification of legal sourcing of raw material





Vulnerability of Chinese industry

Consumer side:

- **EU Forest Law Enforcement, Governance and Trade (EU FLEGT) Action Plan**
 - EC and member states examining regulatory options to eliminate trade in illegal logs -- making use of existing legislation, or possible new legislation that could be enacted either at Member State or the EU level.

China Industry Vulnerable from Demand Side

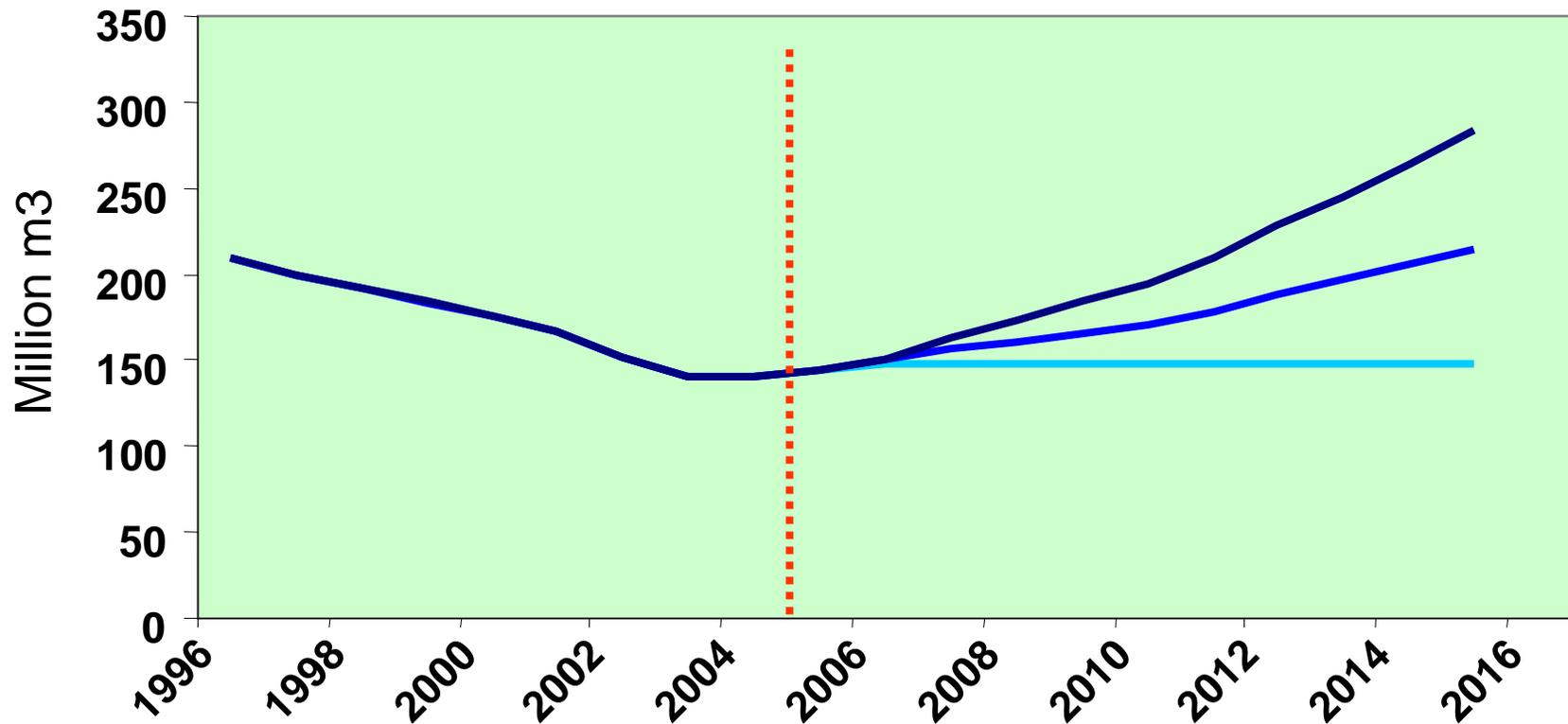
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Solutions: Increasing Domestic Production

Varying projections of domestic production



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

Increasing Domestic Production

1. Support to SFA and others to boost domestic production for conservation and poverty alleviation
2. Add....

Solutions: China take a leadership on legal imports

- Public procurement policies requiring public projects to procure only wood products that have been legally verified or certified with chain-of-custody systems through 3rd party verification. *UK, Japan, Vancouver Olympics, London City*
- 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