

Report on the Conference: “From Forest to Furniture”

New Green Market Opportunities for China

13 September 2001

Shanghai

An Overview

China has become one of the world’s leading forest product trade countries. Its entry into the World Trade Organization and the Asia Pacific Economic Cooperation group, its trade liberalization program and fast economic growth make it attractive for investment.

On September 13, 2001 Forest Trends and the Chinese Research Centre for Environmental and Ecological Economics (RCEEE) hosted an international conference in Shanghai, China entitled “From Forest to Furniture: New Green Market Opportunities for China.” Aimed at introducing certification in the furniture and wood products industry, the conference coincided with the Furniture China 2001 trade exhibition (Sept 11-14). The conference was co-hosted by World Wide Fund for Nature, the China National Furniture Association and the Center for Chinese Agricultural Policy. Despite the Sept 11, 2001 tragedies at the World Trade Center in New York and the Pentagon in Washington, DC, all but two speakers were able to attend. The conference attracted about 75-80 representatives from domestic and international industry, donors, NGOs, government, industry associations and the press. It facilitated contacts between potential partners and contributed to a growing debate in China on policy reforms necessary to encourage commercial forestry while protecting environmental functions. It complemented a conference on forest policy held in Huangshan in May 2001, hosted by Forest Trends and the Center for Chinese Agricultural Policy of the Chinese Academy of Sciences. Combined, these two conferences represent Forest Trends’ deep commitment to working collaboratively in this region.

The trends discussed at the conference signal China’s emergence as a major player in the international forest industry. China’s rising production of furniture and other wood products can help to meet the potentially large demand for third party certified wood and wood products from mega stores like IKEA, B&Q, Home Depot and Lowes. Enterprising firms can expand market share and turnover from the trade in certified products. Community forests can supply a significant portion of the total Chinese wood demand. The investment community also can facilitate this transition towards a green certified wood market.

These were among several key messages emerging from the presentations and discussions at the Shanghai conference. Full proceedings from the conference can be found at: <http://www.forest-trends.org/whoweare/meetings.htm#shanghai>

China is rapidly emerging as a major global furniture and wood product exporter. U.S. and European furniture makers are turning to China for a large portion of their production and the trend is certain to grow. China’s large manufacturing base and lower labour and overhead costs have led to increased outsourcing of furniture manufacturing to China by the US. Furniture exports from China increased by 43% between 1999 and 2000 (1). This demand was illustrated by global Do It Yourself (DIY) and home furnishing retailers, who described their companies’ plans for rapidly expanding procurement from China (2).

(1) See Catherine Mater of Mater Engineering. (2) See Magnus Lofmark of IKEA and Tony Judge of B&Q/Kingfisher Asia

China is moving to surpass Japan as the largest wood importer in Asia. Rising wages in China have helped to increase domestic demand for wood products. At the same time, China is emerging as the manufacturing base of choice for Western markets. Partly as a result of China's Natural Forest Protection Program, which has led to the curtailment of domestic logging, production of roundwood has fallen and imports have risen. From 1998 to 1999, imports of logs increased by 100%, sawnwood by 25 % and veneer by almost 20%. Imports from Russia alone increased 171% in the same period.

Globally, demand for certified wood products is growing and firms are increasingly adopting certification policies, especially in Europe and North America. Large retailers like IKEA and B&Q/Kingfisher Asia have developed their own procurement processes and commitments for sourcing wood products from sustainably managed forests. They are focusing on Forest Stewardship Council (FSC) certified wood products, and avoiding wood from high conservation value forests (3). On the supply side, major forestry companies are certifying their forests lands. For instance, Fletcher Challenge Forests (FCF) has certified several hundred thousand hectares of their *radiata pine* plantation forestlands in New Zealand (4). Presenters discussed the hidden benefits of certification for individual firms – including opportunities for quality control and superior timber utilization. They also called for efforts to prevent any possible mismatch between demand and supply, or the illusion of premium prices, which could result from illegal logging. (5). Trade networks and producer groups formed by WWF International and its national counterparts have made considerable efforts to promote certification. (6). Forest certification is gaining ground in Western temperate forests and has gained a foothold in Asia with the first certifications in Indonesia, Malaysia and Japan. FSC certified forest areas now comprise about 20 million hectares globally and this is increasing.

(3) See Magnus Lofmark, IKEA and Tony Judge, B&Q/Kingfisher Asia. (4) See Kevin Rose, Fletcher Challenge Forests (FCF). (5) See Paul Fuge, Chair, Certified Forest Products Council, US. (6) See Rod Taylor from WWF-International's Forest Futures Program for Asia.

Certification of forest products is arousing interest and making significant progress in China and the Asia Pacific region. Over 17 export-oriented firms in mainland China and Hong Kong have obtained Chain of Custody certificates in the last two years. Forest Management certifications are underway as well (7). Conference participants learned about the plans of Sino-Wood Partners to certify plantations in Mainland China, the rationale for adopting certification, and potential stumbling blocks in that process (8).

(7) See Walter Smith, Smartwood. (8) See Farley Tu, Sino Wood Partners / Sino Forest Corporation.

A Quality, Standards and Certification Division and a Lead group have been set up in China's State Forestry Administration (SFA) to focus efforts to implement certification in China. A National Working Group has also been established in China by the WWF/World Bank

Alliance (9). Considerable progress has been made in promoting certification in Hong Kong and setting up a Forest and Trade Network there called EcoWood@sia (10). Certifying organizations like Smart Wood, Société Générale de Surveillance (SGS), Scientific Certification Systems (SCS), and GFA Terra Systems are active in the region. Representatives of two certifiers shared their views on the certification process, its benefits and progress in China and the region (11).

(9) See Zhu Chunquan, WWF-China Program Office (10) See WWF Hong Kong's Joyce Lam. (11) See Walter Smith, Smartwood and Kevin Grace, SGS Forestry.

Community-Company partnerships have strong prospects in China's extensive collective forests. Individuals, villages and townships collectively own about 55% of China's forests. There is a discernable trend towards community control over forests in countries supplying wood to China and there is also considerable potential for community-based wood supply in China itself (12). An instructive assessment was delivered by Mexican door manufacturer Puertas Monte Alban, highlighting efforts to supply quality doors to DIY stores that are demanding certified wood products (13). Conference participants discussed linking community forests in southern China to Chinese processors of certified wood for domestic and export market purposes. (14).

(12) See Michael Conroy, Ford Foundation. (13) See Eva Fernandez, Puertas Monte Alban. (14) See Changjin Sun, RCEEE.

Environmentally discerning investments in the forest sector have increasing potential. Investment funds and their increasing use of socially responsible investment criteria was discussed by presenters from the public and private sectors. This shift is evident in North America and Europe, and it is beginning in Asia as well. (15). In these competitive markets, one participant (16) discussed the investment criteria of the multilateral Asian Development Bank (ADB) in relation to forestry. A view of green investment prospects in forestry and the possibilities, including certification, was presented.

(15) See Tessa Tenant, Association for Sustainable and Responsible Investment in Asia
(16) See Cinnamon Dornsife, Asian Development Bank

for additional information please visit

Conference website: <http://www.forest-trends.org/whoware/meetings.htm#shanghai>