



**TRANSFORMING TRADE AND POLICY FOR FORESTS AND LIVELIHOODS IN CHINA AND EAST ASIA  
RIGHTS AND RESOURCES INITIATIVE – FOREST TRENDS – PEKING UNIVERSITY**

**CHINA AND THE GLOBAL FOREST PRODUCTS TRADE:  
STRENGTHENING PRODUCTION AND POLICY**

*CONFERENCE PROCEEDINGS*

**SEPTEMBER 20, 2006**

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**Sponsored by:** Forest Economics and Development Research Center (FEDRC) of the State Forest Administration, Peking University (PKU), Forest Trends, Rights and Resources Initiative (RRI) and the Center for International Forestry Research (CIFOR).

**Funded by:** DFID, UK FCO, SIDA

**Objective:** First in a series of two workshops to present and discuss issues related to a sustainable forest and related industries' sector, which will cover aspects from strengthening domestic production and rural livelihoods through collective tenure reform to sustainable international trade. This workshop provides an overview of China's domestic production of wood products and its relation with the global market. Proceedings shall include examples and policy recommendations for how governments (producer and consumer) and industry can use trade to advance sustainable and pro-poor forest trade.

**Location:** Conference Building, Friendship Hotel, 3 Bai Shi Qiao Road, Beijing

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**Session 1:**

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

*Kerstin Canby, Forest Trends*

In the first presentation of the meeting, Kerstin Canby gave an overview of the findings in the new synthesis publication by Forest Trends, RRI, CIFOR and Peking University. This included treatment of the Chinese forest product market over the past ten years, and depicted China's place in global trade context. China's demand for wood has seen phenomenal growth over the past ten years, with demand far outstripping domestic supply. Chinese economic growth is pushing up domestic wood consumption, and rising international demand for processed wood (particularly tropical hardwood furniture and plywood) has caused exports of timber products to skyrocket. Driven mainly by markets in the U.S., EU and Japan, these exports now constitute around 80% of China's timber imports by volume. China relies heavily on imports of forest products to bridge this divide. However this climb in imports expanded illegal logging activity in supplier countries. Most of the countries supplying this wood are developing nations wracked with governance problems or lacking enforcement capacity, such as Papua New Guinea, Indonesia, and Russia, which provides 45% of China's timber imports. Benefits from illegal logging accrue disproportionately to middlemen and bribe-taking officials, while putting legitimate enterprises at disadvantage. Unregulated harvesting also strains forest resources and impoverished communities in forest areas, undermining sustainable development efforts. Canby explained that consuming countries are increasingly modifying their buyer preferences and government procurement policies to combat the illegal trade in timber. As an important importer of illegally logged wood, China is therefore very vulnerable to these measures. The government can address this issue by boosting domestic production, and implementing certification and chain-of-custody systems to ensure legal imports.

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### **China: Modeling Trade Scenarios for Forests and Forest Products**

*Gary Bull and Steven Northway, University of British Columbia*

Gary Bull and Steven Northway introduced a new tool for exploring scenarios for the future global timber trade. Bull expressed hopes that the International Forests and Forest Products model (IFFP), would become a flexible tool to help researchers, industry, NGOs and governments address policy questions in the forestry sector. The IFFP is specifically designed to fit the user's particular interest, and to link forest products trade between countries to forest production within individual countries. The model separates wood products into three stages (initial, intermediate, or final), with various manufacturing processes that move along these categories. The user can define the values for these products and processes: for example, one value for a product could be tree species/type of wood, and a process can be defined by the amount of manufacturing capacity it requires. Regions or individual countries are created by assigning values for manufacturing capacity, consumption aspirations, and stocks of fiber sources. From this information, the model finds the bilateral trade among them that will be most cost effective. Using world trade data allows the model to be calibrated for more realistic forecasts. IFFP scenarios for China have approximated the effects of removing the National Forest Protection Policy, various domestic plantation performance levels, and the crackdown on illegal logging in Indonesia. Preliminary results show that under all scenarios, domestic production is far behind consumption, indicating the challenges China faces in seeking forest self-sufficiency.

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## How Competitive is Wood Pulp Production in South China?

*Chris Barr, CIFOR*

With a slew of pulp mills being developed in Guandong, Guanxi and Hainan provinces, Chris Barr analyzed the capacity of the region to supply cost-effective pulpwood to fuel this new industrial capacity. China is actively promoting fast-growing eucalyptus plantations to feed the domestic demand for paper products, but it is unsure whether this supply can come online in time, and whether wood costs, the key variable in pulp costs, will not be prohibitively high. Furthermore, most of these plantations will be on land owned by village collectives, and have the potential to generate much employment since they are very labor-intensive.

However, these are small-scale concessions widely spread out in areas lacking in transport infrastructure. In addition, the coastal flatlands, which are best suited to plantations, are growing very scarce. More remote, hilly land is available and less expensive, but also much less productive, raising the cost of wood to US\$232 - \$28/ton. Barr calculated that the pulp capacity in southern China would be globally competitive if wood costs remained around \$30/ton, but if they rise to around \$45, it will be difficult for the Chinese enterprises to beat out competition from Indonesia or Brazil. Thus, on a limited basis this push for pulp production could be competitive and create rural jobs. However, if wood prices go up enough to warrant importing wood chips, then the Chinese government may be pressured for subsidies to keep these pulp mills afloat, or farmers may lose out on a valuable income opportunity.

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### Questions & Discussion:

Jeannie Katsigrisis asked Chris Barr whether land or labor costs were the bigger driver for wood costs, Chris replied that both are important. Increasing competition and scarcity drives up the price of leasing land; labor prices are also on the rise. However, some companies may be able lock in low land rental costs for long-term tenure (~30 years), defraying their expenses.

Ashwini Chhatre asked about the role of technology and technological progress as a factor in the IFFP model; in the longer term (+20-30 years) it may be a big factor. Gary Bull agrees that many areas of the model can become more nuanced and accurate with stakeholder involvement, calling for a collaborative effort to adjust the model to concerns such as this.

Hugh Blackett for Chris Barr: Since Barr's study put China just on par with Brazil in terms of competitiveness on the Chinese market (for wood costs of ~\$30/ton), yet Brazil incurs huge transport costs to arrive there, there must be lots of room for improvement in the efficacy of the Chinese pulp industry. Barr reminds that even Chinese grown pulpwood still needs to be loaded and shipped to Shanghai, but agrees that there is much progress to be made in efficiency, particularly in regards to the road network.

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Another discussant asked Chris Barr whether he took into account the potential for domestic sources of waste paper in fueling the demand for pulp. Barr concurred that waste paper is the fastest growing sector of the pulp and paper industry, and found that there was room for China's supply of wastepaper to grow. Especially as world wastepaper prices go down, it is likely to become very important.

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### **Policy Research Priorities for China's Production Forestry**

*William Magrath, World Bank*

In his overview of the World Bank's forestry program in China, William Magrath discussed elements of the Bank's projects that need reassessment, and highlighted several potential research areas to address these issues. Their Asian Forestry Portfolio has 15 ongoing projects; the six found in China are valued at over \$2 billion and comprise upwards of 3 million hectares. Most are plantation programs, with some parks. However, the forestry sector still has some serious problems—only 1% of forest area is certified, and illegal logging accounts for around 50% of removals. Magrath stated that policy prescriptions to rectify the situation should be based on three areas: policy incentives that recognize the scarcity of forest resources, “resource mobilization mechanisms” to enable adequate investment in the forestry sector, and programs to achieve better governance. Up to the present stage, World Bank efforts have focused on technical issues, with a limited but growing focus on changing policies. This includes an ongoing collaboration with the SFA's FEDRC, working on applied supply analysis and developing the SFA's capacity for independent research. Areas up for improvement include elaborating on the business model for Chinese plantations, through working with private sector and encouraging investment, policy reforms to boost domestic supply, and studying collective forest tenure reform.

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### **China's Timber Supply: Using the Engineering Model**

*Zheng Sheng, FEDRC*

Zheng Sheng of the SFA's FEDRC presented work on a mathematical model developed to track China's supply of timber to 2010. Employing a methodology entitled the Vaux-Hyde approach, the model uses an equation to define timber supply as a function of land and other inputs to forestry. By using data from the China National Afforestation Program to estimate the opportunity costs of planting various tree species, Zheng argues that the model will be able to project the amount of trees that will be planted, and when they will be harvested. Future refinement of the model will entail sensitivity and uncertainty analysis, including more species, and incorporating the results of a pilot study in Heilongjiang province.

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### **Panel Discussion: Priorities to Strengthen Research and Policy Pertaining to China's Domestic Production**

*Moderators: Andy White, RRI and Yin Runsbeng, Michigan State University*

Among the topics that participants discussed were

- the role of subsidies in China: their influence on the location of large plantation projects, and how to find how much subsidies are going where
- impacts of the land tenure regimes, as over 80,000 different protests over rural land tenure occurred just last year
- the role of the World Bank in promoting policy dialogues on these issues.

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### **The Role of China's Customs Office in the Illegal Timber Trade**

*Jin Hongman, China Customs Office*

A representative from the Chinese customs agency spoke to concerns of China's imports of illegal wood. Qing readily recognized China's key role in fueling the consumption of forest products, and acknowledged that many hope that customs agents in China could be mobilized to combat incoming illegal logs. However, her presentation also affirmed the difficulty of such propositions. For one, the Customs Office enforces laws, it does not write them; thus the legal mandate to stop these imports would have to be initiated elsewhere in the government. Furthermore, current policies go to lengths to encourage log imports in general, with no quotas or taxes, and is leery of restricting their entry. Perhaps the heart of this issue is that Chinese customs officials at the border lack sufficient information to distinguish between illegal and legal incoming wood—nor is it China's responsibility to combat illegal logging that occurs outside its boundaries. Aid from developed countries can reduce the cost of sustainable timber management in countries where illegal harvesting occurs. Qing recommended that the government enforce environmental regulations already in the books, and strive to ingrain concepts of sustainability into building projects to lower the demand for illegal wood. She expressed skepticism that illegal logging should be stopped immediately, as believes that many poor people worldwide depend on it for their livelihoods.

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### **Session 2:**

#### **The Global Challenge: Steps Towards Sustainable Forests, Livelihoods, and Trade**

*Andy White, RRI*

Starting off the second half of the day's presentations, Andy White summarized the main recommendations from three years of research on China's impact in the global forest products market by FT, RRI and IUCN. The findings targeted three groups involved in the timber trade: consumer governments, supplying countries, and advise for the Chinese government in particular. Governments of main timber importing countries, such

as China but also end-use consumer countries (U.S., EU, and Japan, etc.) have many opportunities to promote legitimate logging, including government procurement policies, actively supporting certification programs and wood tracking systems, educating importers, retailers, and consumers on the deleterious social, environment and economic impacts of illegal harvesting, and increasing bilateral cooperation with supplying countries on governance issues. For the supplying countries where the illegal logging actually takes place, often well-defined and fair property rights are what are most needed, as well as ensuring equity in forestry laws and enforcement, implementing anti-corruption law, fostering ethical codes of conduct for corporations, and promoting community forestry enterprises that keep the benefits in the local forest-owners' hands. For its own part, the government of China, White urged that they continue to reform forestry laws to strengthen households' access to resources. However, the government should also review the costs and benefits of large-scale pulp and paper industries. China should go beyond the view of forests as either protected areas or commercial resources, to thinking about combining the conservation and sustainable use of forests.

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### **Tackling Illegal Logging: The United Kingdom's Program**

*John Hudson, DFID*

The UK has an interest in combating illegal logging and associated trade because it undermines the development assistance it gives in low-income countries by engendering corruption, distorting legitimate trade, destroying the environment, and causing conflict. After a brief history of the UK's involvement in this issue, Hudson illuminated the government's procurement policy, one of the most progressive in the world, which requires that all timber purchased by the government must be legally verified, and gives preferences to those products that are certified as sustainable. Other important UK initiatives taken have been the Indonesia-UK memorandum of understanding, the biannual Chatham House dialogues on the illegal timber trade, capacity building of civil society to monitor the trade, and continued support for the numerous FLEG ministerial processes. Following these achievements, the UK plans to implement Voluntary Partnership Agreements with certain timber exporters through the EU FLEGT process. Under these Agreements, the EU will provide assistance to countries to put in place reforms to improve forest governance and law enforcement, including systems to verify legality and license products for export to the EU.

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### **Private Sector Experience with Supply Chain Management: South East Asia and China**

*Hugh Blackett, Tropical Forest Trust*

The presentation by the Tropical Forest Trust (TFT) representative delved into the organization's particular methodology for ameliorating tropical forest management, and spoke to the relevance of their program to China, where TFT has recently opened up an office. TFT is a not-for-profit organization funded by fees from their members, who trade in tropical wood products. In exchange for the fee and cooperation, TFT works to improve transparency and the legality of their members' supply, linking them with quality suppliers

vetted by TFI. The goal is for the suppliers to pass Forestry Stewardship Council (FSC) certification within five years of entering the TFI program. TFI achieves this through a battery of wood control systems, verifying the origin of the wood and tracking it throughout the supply chain. While these efforts are time-consuming, and may lead the price of the final product to rise, TFI sees many the advantages: better quality wood, more efficient handling, potential price premiums for verified wood, and the marketing value of a verified legal and possibly certifiably sustainable product. As more governments and other buyers across the globe, including China, request the origin of the wood they purchase, such certification becomes increasingly valuable. Chinese companies get an added advantage: the UK's Department of Food and Rural Affairs (DEFRA) is offering significant subsidies for enterprises that seek TFI's assistance.

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### **China's International Trade of Forest Products for the View of FLEG**

*Wu Baihai, FEDRC*

The representative of the SFA's FEDRC contributed a status report on the quality China's forestry law enforcement and governance. Wu noted that provincial level programs in China are often more advanced than the national agenda— Fujian province is an example, with its progressive forest tenure reforms. However, in most places forestry law system has much room for improvement, particularly in the area of implementation of existing laws. This includes administrative protection as well as judicial protection. Some of the administrative enforcement mechanisms used are routine patrols aided by networks of local residents, specific anti-illegal logging campaigns, and public awareness programs. Wu also noted the importance of supervisory bodies to monitor the enforcement. While the administrative enforcement end has been quite effective, Wu also cited the success of legal action against white-collar crime and corruption in the forest management sector. However, he noted the lack of enforcement capacity of the Chinese customs agencies in catching incoming illegal timber. Since much of these imports eventually leave China and end up in the U.S., EU and Japan, these developed countries should take responsibility for the trade. Wu concluded that longer term goals of reforming forest rights, updating forestry legislation, and compensating local people for stewardship of forests will go a long way to reducing illegal logging.

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### **Panel Discussion: Priority Actions to Ensure Legal and Sustainable Trade by Producer and Consumer Countries and the Private Sector**

- *Song Weiming, BFU*
- *Chen Jianwen, SFA*
- *Liu Ying, MoF/COM*
- *Lu Wenming, CAF*

Beijing Forestry University's Song Weiming briefly outlined several reasons to believe that China will not overburden the international forest product market. Reliance on international timber has been high of late,

but this is bound to fall as China's economic growth settles down, and as numerous plantations developed in the 1990s come on line. Tenure reforms underway are bound to increase their scale and efficiency, Song explained, thus becoming more productive. The issue of scale is key: due to logistical difficulties of gathering wood from diverse small plantations, it is currently cheaper to import in bulk. But as the scale of domestic suppliers increases, reliance on foreign timber will decrease.

Chen Jiawen, from the Planning, Finance and Investment Department of the SFA, used his time to highlight the Chinese governments various efforts to combat illegal logging. Chen noted that China has actively been involved in numerous bilateral and multilateral agreements with countries like Russia, Indonesia, Burma, and several South Pacific nations. The SFA has also been working closely with international NGOs who supplement their own work.

An envoy from the Chinese Ministry of Commerce's WTO division, Liu Ying took the opportunity to inform the workshop of a new MofCOM initiative entitled "Sustainable Development: China and International Markets," sponsored by the International Institute for Sustainable Development and the Swiss Government. As a WTO member country and the largest recipient of foreign direct investment, China has a great need for raw materials, but also is under pressure to do so without damaging the environment. The program comprises projects: three on the high-volume trade areas of forest products, cotton and textiles, and electronics, and a fourth which looks into general strategies to balance trade and sustainable development. With regards to forestry, Liu Ying enumerated several goals including reducing Chinese reliance on illegal logging, modify the industrial strategic focus for timber, and correct price-distorting timber policies. MofCOM expects to have preliminary results of their research by January, after which they will share their findings at meetings with international experts and the private sector.

Lu Wenming of the Chinese Academy of Forestry offered his perspective on how to achieve sustainability in the timber trade. According to Lu, the gap between demand and supply is not actually that large, but rather it is certain structural problems that inhibit market effectiveness, indicating a need to smooth out the kinks in the supply chain.

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### **Summary Remarks: Recommended Next Steps to Strengthen Research and Actions on Domestic Production and Trade**

- *Andy White, RRI*
- *Xu Jintao, PKU*
- *Dai Guangcui, FEDRC*

The three chairs pointed out several trends they noticed. For one, China is making active progress in its domestic goals, through tenure and regulatory reforms. Secondly, they noted that there is still wide disagreement between future scenarios, both between NGOs and within the government. Thirdly, it emerged



that China must increase forest production become more competitive, to avoid the risks and high costs of importing timber. Plantations will help this goal, but firmer, just definitions of forest rights are needed to ensure incentives to the local producer, improving efficiency, reducing costs, and improving competitiveness. The day's analyses will aid the government of China in its efforts to accomplish these objectives.

## ANNEX 1: AGENDA

### CHINA AND THE GLOBAL FOREST PRODUCTS TRADE: STRENGTHENING PRODUCTION AND POLICY

*MEETING AGENDA*

**SEPTEMBER 20, 2006**

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**Location:** Conference Building, Friendship Hotel, 3 Bai Shi Qiao Road, Beijing

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#### **Session 1: Production Trends and Implications**

Session 1a: Chair Mme. Dai Guangcui, Deputy Director, FEDRC

9:00 – 9:15 Welcome and Introduction  
– *Zhang Lei, Director, FEDRC*  
– *Andy White, RRI*  
– *Xu Jintao, Peking University*

9:15 – 9:45 China and the Global Market for Forest Products: Transforming Trade to Benefit Forests and Livelihoods, Kerstin Canby, Forest Trends

*Kerstin Canby, Forest Trends*

9:45 – 10:15 China: Modeling Trade Scenarios for Forests and Forest Products  
*Gary Bull, University of British Columbia*

10:15 – 10:45 How Competitive is Wood Pulp Production in South China?  
*Chris Barr, CIFOR*

Question & Answer

10:45 – 11:00 Coffee break

*Session 1b: Chair Xu Jintao, Peking University*

11:00 – 11:15 Policy Research Priorities for China's Production Forestry  
*William Magrath, World Bank*

11:15 – 11:35 China's Timber Supply: Technical Models and Related Issues  
*Zhang Sheng, FEDRC*

11:35 – 11:40 The Role of China's Customs Office in the Illegal Timber Trade  
*Jin Hongman, Chinese Customs Office*

11:40 – 12:10 Panel Discussion: Priorities to Strengthen Research and Policy Pertaining to China's Domestic Production  
– *Andy White, RRI*  
– *Yin Runsheng, Michigan State University*  
– *Jin Hongman, Chinese Customs Office*

12:10 – 2:00 Lunch

## **Session 2: Issues and Steps Towards Sustainable Trade**

*Chair: Andy White, Rights and Resources Initiative*

2:00 – 2:20 The Global Challenge: Steps Towards Sustainable Forests, Livelihoods and Trade  
*Andy White, RRI*

2:20 – 2:40 Tackling Illegal Logging: The United Kingdom's Program

*John Hudson, UK Government*

- 2:40 – 3:00 Private Sector Experience with Supply Chain Management: South East Asia & China  
*Hugh Blackett, Tropical Forest Trust*
- 3:00 – 3:20 China's International Trade of Forest Products from the view of FLEG  
*Wu Baihai, FEDRC*
- 3:20 – 3:40 Question & Answer
- 3:40 – 4:00 Coffee Break
- 4:00 – 4:30 Panel Discussion: Priority Actions to Ensure Legal and Sustainable Trade by  
Producer and Consumer Countries and the Private Sector
- *Chen Jiawen, SFA*
  - *Song Weiming, Beijing Forestry University*
  - *Lu Wenming, Chinese Academy of Forestry*
  - *Liu Ying, Ministry of Commerce*
- 4:30 – 4:40 Summary Remarks: Recommended Next Steps to Strengthen Research and Actions  
on Domestic Production and Trade
- *Andy White, RRI*
  - *Xu Jintao, Peking University*
  - *Dai Guangcai, FEDRC*
- 5:30 Dinner

## ANNEX 2: LIST OF ATTENDEES

<b>Name</b>	<b>Organization</b>
Lucas Bailey	Forest Trends
Chris Barr	Center for International Forestry Research (CIFOR)
Michael Bennett	Peking University
Hugh Blackett	Tropical Forest Trust
David Bray	Florida International University, USA
Gary Bull	University of British Columbia
Kerstin Canby	Forest Trends
Xiaoqian Chen	The Nature Conservancy, China
Ashwini Chhatre	Harvard University
Ahmad Dermawan	CIFOR
Richard Dornbosch	OECD
Lewis Du	Tropical Forest Trust
John Hudson	UK Department for International Development
Wei Li	Finnforest
Ning Li	IUCN
Bing Liu	Greenpeace
Zizhen Lu	Stora Enso Guangxi forest company ltd.
Cynthia Mackie	USDA Forest Service
William Magrath	World Bank
Hugh Milner	Qinghai
Steven Northway	University of British Columbia
Robert Oberndorf	Regional Community Forestry Training Center (RECOFTC)
Krystof Obidzinski	CIFOR
Mark Petry	US Embassy
Weiwei Ren	UK Embassy
Jade Saunders	Chatham House (Royal Institute of International Affairs)
William Sunderlin	Rights and Resources Initiative (RRI)
Yoshio Utsuki	Sino-Japan Forestry Ecology Training Center Project
Aimin Wang	Global Environmental Institute
Rachel Wasser	IUCN
Andy White	RRI
Zhong Wu	Stora Enso Guangxi forest company ltd.
Xiangjun Yang	RECOFTC
Runsheng Yin	Michigan State University
Kelli Young	USDA. Forest Service
Eugenia Katigris	Forest Trends
Guangcui Dai	Forestry Economic Development and Research Center, SFA (FEDRC)
Sheng Zhang	FEDRC

Kun Zhang	FEDRC
Zhitao Zhang	FEDRC
Xuequn Chen	FEDRC
Xiangrui He	FEDRC
Yaming Wang	FEDRC
Can Liu	FEDRC
Chen Xie	FEDRC
Dan Liang	FEDRC
Jie Li	FEDRC
Lei Li	FEDRC
Ying Yu	FEDRC
Huanliang Wang	FEDRC
Ming Su	State Forestry Administration (SFA)
Yuanhui Hu	SFA
De Lu	SFA
Jiawen Chen	SFA
Ying Liu	Ministry of Commerce
Wenming Lu	Chinese Academy of Forestry (CAF)
Xiufeng Tan	CAF
Li Zhang	Qing Hai
Peng Zhang	Qing Hai
Shaozhou Zhou	FEDRC
Hongman Jin	Customs, PR China
Manyu Zhang	Green Times
Weiming Song	Beijing Forestry University (BJFU)
Baodong Cheng	BJFU
Liqun Wang	BJFU