



# HOW CHINA AND ITS TIMBER TRADE WITH THE EU CAN INFLUENCE THE FLOW OF ILLEGAL TIMBER IN THE GLOBAL MARKET<sup>1</sup>

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## CHINA'S TIMBER TRADE

More than half of all timber being shipped anywhere in the world is destined for China and many nations in the Asia-Pacific region and Africa export the majority of their timber to China.<sup>2</sup> China imports timber and timber products to meet rapidly growing national demand but it is also a major global transit and processing hub which has undergone a three-fold increase in timber processing capacity between 2000 and 2015. In the five years from 2011-2015, China exported 66 million m<sup>3</sup> round wood equivalent (RWE) of timber to the EU. This represents less than 10% share of the EU import total. This is still substantial, but this figure is dwarfed by Chinese national production (approx. 410 million m<sup>3</sup> RWE) and imports (approx. 471 million m<sup>3</sup> RWE) over the same time period indicating the massive scale of Chinese domestic demand and the demand from other export destinations outside of the EU.

## WHAT HAS AFFECTED TIMBER FLOWS IN AND OUT OF CHINA?

Policy changes across the globe have had major impacts on timber trade flows. In China, the launch of the 'Go Global' strategy in 2001 has seen an enormous rise in the levels of Chinese investment across the world (now standing at well over US\$110 billion), targeting a wide range of natural resources including timber. In the same year, the Chinese authorities reduced the tariffs on imported logs and sawnwood to zero thereby removing many of the cost barriers for this trade. Although a lot of this imported timber was destined for re-export, it also helped feed a growing domestic demand that was further exacerbated by the National Forest Protection Programme (NFPP), initiated in 1998, which restricted the area of national forest that could be harvested. National production for domestic use is now almost entirely from plantation forests but this does not meet the total national demand. Inevitably, this further encouraged Chinese businesses to source timber from abroad and, from 2011, more timber came from imports than was provided by the domestic market. This

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<sup>1</sup> This brief draws heavily on the findings of a report:

Indufor (2016) *China as a timber consumer and processing country: an analysis of China's import and export statistics with an in-depth focus on trade with the EU*. Report commissioned by WWF-UK.

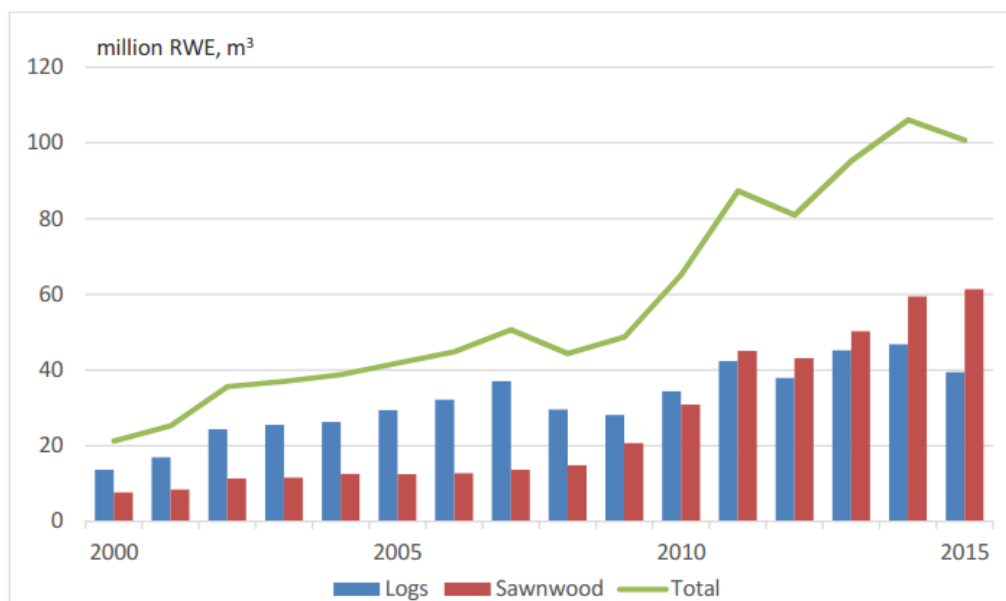
<sup>2</sup> Laurance, W (2011) *China's appetite for wood takes a heavy toll on forests*. Yale Environment 360.



drive for external sourcing and external investment has been further reinforced by the adopted Belt and Road Initiative in 2013 that will ‘enable China to further expand and deepen its opening-up, and to strengthen its mutually beneficial cooperation with countries in Asia, Europe and Africa and the rest of the world’<sup>3</sup>.

Elsewhere, other countries have moved to protect their own forests or to increase the proportion of value-added operations in country, prior to export. Russia is China’s biggest supplier, providing about one third of timber imports, but a log export tariff rise implemented in 2008, from 4% to 25%, and a significant increase in processing capacity, saw a reversal in type of timber product so that sawnwood, rather than logs, is now the majority export product. Similarly Thailand, Indonesia, Myanmar, Cameroon and Gabon, all suppliers of tropical hardwoods, have imposed log export bans or restrictions, preferring to export higher value sawnwood instead. This growing importance of sawnwood imports, as a means of meeting growing demand, can be seen in Figure 1.

**Figure 1.** China’s timber imports, 2000-2015



Source: Indufor (2016) analysis based on Global Trade Atlas data

Stricter regulatory requirements in those countries importing from China has, in turn, seen changes in China’s sourcing policies. Both the US Lacey Act Amendments (2008 and 2015) and EU Timber Regulation (EUTR, 2010) have been mirrored by China procuring more timber from legally verified, lower risk sources in order to assure continued access to the US

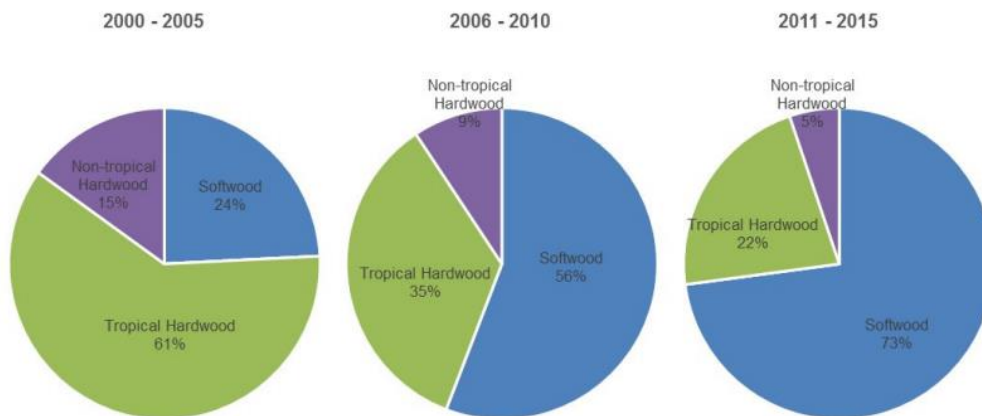
<sup>3</sup> [http://english.gov.cn/archive/publications/2015/03/30/content\\_281475080249035.htm](http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm)



and EU markets. This explains the increased sourcing of softwood from New Zealand, USA and Canada rather than from Russia despite the higher costs involved.

The clear message is that major markets respond to changing market requirements. In China, this is particularly clear in the sawnwood sector where the nature of the imported product has completely inverted within fifteen years (Figure 2) – from predominantly hardwood imports, to predominantly softwood imports.

**Figure 2.** Changes to Chinese sawnwood imports, 2000-2015

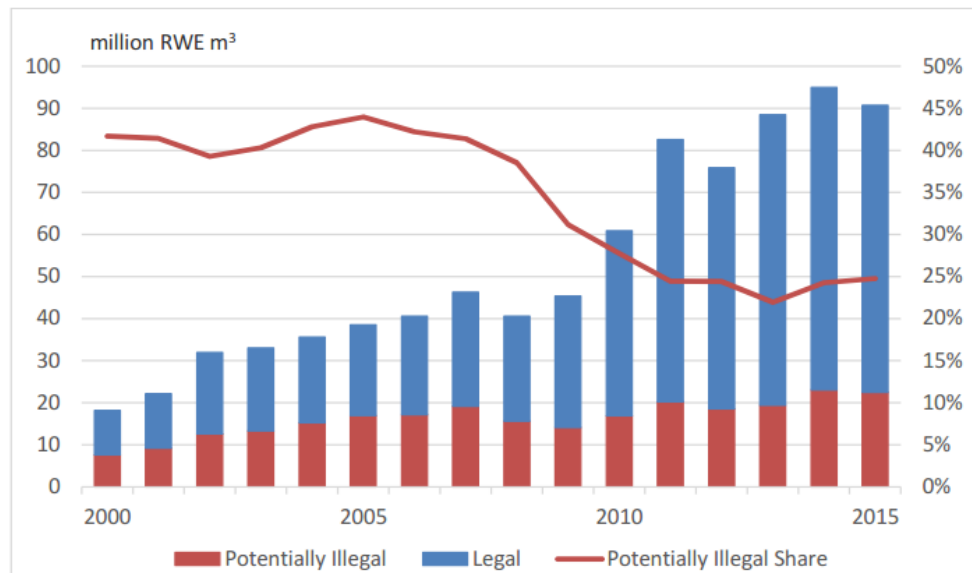


Source: Indufor (2016) based on Global Trade Atlas data

However these shifts in sourcing do not automatically mean that potentially illegal timber is removed from the supply chain. Despite some initiatives, by the Chinese government, such as the development of voluntary guidelines for Chinese businesses, the quantity of potentially illegal wood being imported to China has remained relatively constant which is a concern. In 2015, this volume stood at 22.5 million m<sup>3</sup> RWE - representing one third of the total volume imported (Figure 3). Whilst much of this timber stays within China to service domestic demand, it is estimated that over 2.5 million m<sup>3</sup> RWE of potentially illegal wood entered the EU market from China – representing one sixth of the total trade volume - and comprising products both within and beyond the scope of the EUTR.



**Figure 3.** Verified legal and potentially illegal timber imported in to China from the top 20 timber supplier countries, 2000-2015



Source: Indufor (2016) analysis based on Global Trade Atlas data

## WHERE DO CHINA'S TIMBER IMPORTS COME FROM?

Twenty countries provide 90% of Chinese imports, amongst which Russia is by far the biggest supplier. Only a small proportion of Russia's entire forest area is credibly certified which reflects the inaccessibility of most of the forest stock. For those areas which are considered as commercial or leased forests (which are, or could be potentially used, for logging) approximately 27% is FSC certified. A large majority of Russian timber exported to China is softwood sourced from natural forests in Siberia and the Russian Far East where a substantial number of small- and medium-sized Chinese enterprises are active. These interests operate across the entire timber supply chain. Much of the production is transported by land to China across the long shared border. This coupled with clear discrepancies between Russian timber export data and Chinese import data has led to Russia being considered as a high risk country with regard to its potential for trading in illegal timber.

Tropical hardwoods, imported as logs, tend to be sourced from natural forests especially from Papua New Guinea and the Solomon Islands. It should be noted that, whilst representing a relatively small part of the Chinese import market, this trade is highly important for the exporting country. So, for example, whilst imports from Papua New Guinea and the Solomon Islands made up 6.6% and 4.4% of Chinese log imports, it represented 65% and 91% respectively of the total production in these two countries. African



countries export tropical hardwoods to China, both as logs and sawnwood, but these still represent a relatively small proportion of the total Chinese market. However, in the 15 years up to 2015, volumes grew from 2.1 million m<sup>3</sup> RWE to 5.8 million m<sup>3</sup> RWE per year and that growth trend is likely to continue. A large volume of tropical hardwood also enters China as sawnwood with Thai plantation forests being the primary provider.

Governance mechanisms and ability to enforce and monitor the timber sector varies widely across producer countries. In part this is because many countries do not systematically report the level of their exports to China, so reported export figures do not match the import figures released by Chinese authorities. Those which export to China and who are considered to be at risk of including potentially illegal timber are highlighted in Table 1.

**Table 1.** Key sources of timber exported to China, 2011-2015

Source country	Tropical hardwoods	Volume imported by China 2011-2015 / million m <sup>3</sup> RWE		
		Sawnwood	Logs	Total
Russia		84.7	54.5	139.2
Canada		64.8	12.2	77.0
New Zealand		4.3	47.9	52.2
USA		27.5	23.1	50.6
Thailand	✓	25.2		25.2
Papua New Guinea	✓		13.9	13.9
Solomon Islands	✓		9.4	9.4
Australia			9.3	9.3
Chile		6.4		6.4
Indonesia	✓	5.7		5.7
Philippines *	✓	5.3		5.3
Ukraine *			4.6	4.6
Myanmar	✓		3.7	3.7

\* rating based on details at <http://www.illegal-logging.info/>

Considered safe       Considered risky

## WHAT DOES THIS TRADE MEAN FOR GLOBAL FORESTS?

The inexorable increase in demand for timber and timber products globally plus the on-going failure to prevent illegal timber entering the market place can only lead to steadily increasing pressures on global forests. There are positive signs: many countries are putting in place stronger mechanisms to promote greater sustainability and reduce illegal activities whilst promoting greater pre-export processing to maximise the national economic benefits that timber can bring. There has also been an expansion in plantation forests so that timber sourcing can be more readily controlled and tracked.



Nonetheless, in those parts of the world where controls are weaker or where there are less scrupulous business practices the inevitable result will be that natural forests will be targeted for exploitation. Those countries that have significant forest stock or high-value / highly desirable species, particularly in the tropics, will be especially vulnerable. Negative practices and the relentless destruction of forests will continue whilst there are importing countries that do not discriminate between legal and illegal timber and whilst those parties active at points along the supply chain do not demand, and check for, the absence of illegal material within their products.

## **WHAT ROLE DOES THE EU PLAY?**

China has grown rapidly as a source of timber and timber products for the EU with a seven fold increase in trade volume between 2000 and 2015 and which now stands at approximately 15 million m<sup>3</sup> RWE annually. Within the EU, the UK is the biggest market taking some 30% of that total.

The EUTR is intended to prevent the placing of illegal timber and timber products on the EU market. However, the regulations are far from comprehensive as they do not cover all products. In the case of imports from China, approximately 84% of products by volume were within the scope of the EUTR comprising especially paper, some wooden furniture, joinery and plywood. This represented only 64% of timber products by value, highlighting that products not covered by the EUTR such as printed media, other items of wooden furniture, wood charcoal, wood marquetry, pencils and nappies are of much higher unit value, but do not need to meet the same strict requirements, despite being timber products. In other words, more than one third of all products by value is not covered by the EUTR which, considering the size of the trade with China, is extremely worrying.

## **WHAT DOES THIS MEAN FOR BUSINESSES NOW?**

The private sector engaged in timber and timber products still risk being involved in trade in potentially illegal products. This can apply both to products that are within the scope of the EUTR and those that currently fall outside. Unless businesses have in place strong due diligence processes and closely track chain of custody along their supply chain, they may, inadvertently, be contributing to deforestation in some of the most biodiverse parts of the world.

This has local implications for biodiversity but also for communities that live in those regions and rely on these forests. Forest exploitation and illegal activities are coming under increasing public scrutiny and there have been many cases where businesses have been publicly shamed if it is shown they are using products containing illegal timber products – even where this has been inadvertent. This represents a real business and reputational risk.

However, for those businesses willing to engage proactively, there are business benefits to be had. Not least, this can positively enhance a business' reputation and market position.



Removing illegal timber extraction from the supply chain is the first step in promoting sustainable and responsible timber production while also helping countries to maximise the economic returns from their timber stock and preserving national biodiversity and the benefits that this brings to all.

## **HOW CAN WE BETTER SUPPORT SUSTAINABLE FOREST TRADE?**

Globally, progress is being made on improving forest governance and in promoting a trade in timber and timber products that is both legal and sustainable. However, as this example of trade between China and the EU shows there is still considerable room for improvement. Some key actions, listed below could be adopted to address these and, by so doing, make positive contributions to business, national and international interests.

### **For China**

- China should adopt a demand-side measure (akin to the EUTR and perhaps also the public procurement directives) to stop the inflow of illegal timber in to the country
- Set up a national recording mechanism for imported timber in China – which could be part of the Chinese timber legality verification system (TLVS) that is being developed
- Chinese policy guidelines on responsible overseas forestry investments and forestry practice (including for Chinese companies) should be made mandatory
- Establish a national system in China to store records of all enterprises investing in overseas forestry operations and monitor their performance

### **For the EU**

- The product scope of the EUTR should be widened to include all timber and timber products
- Mechanisms are put in place to ensure the EUTR is effectively implemented and enforced across all EU Member States
- EU-China Bilateral Coordination Mechanism (BCM)<sup>4</sup> should adopt concrete measures to cut the flow of potentially illegal timber in to the EU

### **For the UK**

- The government to push for the expansion of scope of the EUTR during the 2017 review process and, subsequently, to ensure that British legislation is sufficiently robust to prevent illegal timber imports, post-Brexit

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<sup>4</sup> The BCM on Forest Law Enforcement was established in 2007 as a forum for sharing information on the respective policy and legal frameworks with participating EU Member States. Under the BCM, the EU is working together with China in countries in South-East Asia, Africa and in Russia to help eliminate illegal logging through combining local capacity building with demand side measures in EU markets



- The government ensures incentives promote sustainability within the market, in line with their public commitments
- As a major timber importing country, the government must promote greater transparency to better identify, track and mitigate the UK's global timber footprint
- Those in the private sector dealing with timber or timber products to implement strong due diligence in their supply chains to ensure that potentially illegal products are not being sourced
- That the business sector demand timber that can be verified as both legal and sustainable

#### **For countries exporting to China**

- Adopt and enforce mechanisms to ensure all timber is legal and sustainably sourced
- Implement processes to record timber export types and volumes and share with international databases (eg UNCOMTRADE and FAOSTAT)

WWF has a vision for the integrity of the world's forests, including their benefits to human well-being, to be enhanced and maintained. That vision is achievable but will require the commitment and support of all players in the sector. If the actions outlined above could be put in to place, this would represent a massive step forward towards achieving truly sustainable forests and leave a legacy of rich vibrant forests for future generations to benefit from.



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