Trade in Illegal Timber
The Response in China

A Chatham House Assessment
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Summary

The Chinese government has made notable progress in its efforts to tackle illegal logging and the associated trade. This has included the development of a draft national timber legality verification system (TLVS) and its active engagement with a number of consumer countries. The government’s plans to establish bilateral trade agreements with producer countries are also encouraging, although no formalized commitments have yet been made. Reflecting the growing awareness of the impact of Chinese companies overseas, the government has also been developing further guidance to promote sustainable forest products trade and investment.

The private sector is also taking action, with continued growth in the uptake of chain-of-custody (CoC) certification. Industry associations have been promoting legal and sustainable sourcing, and they will have an important role to play in testing the draft TLVS.

These steps are likely to have had an impact on the volume of illegal wood-based products being imported into China. However, trade data discrepancies and analysis of trade flows both indicate that illegal trade remains a significant problem. While imports of high-risk products are estimated to have declined since 2000, these are reckoned to comprise 17 per cent of the total by volume in 2013. This proportion is high compared with other timber-importing countries examined in this assessment.

In order to build on its response to illegal logging and related trade, the Chinese government should establish binding regulations and stringent controls on the import and export of illegal wood-based products. The draft TLVS should be further developed, including through pilot projects with timber-exporting countries and effective consultation with industry, civil society and other consumer-country governments. The government’s procurement policy should be strengthened through the clarification of its legality and sustainability requirements, the inclusion of a wider range of products within its scope, and the development of a robust mechanism to monitor compliance.

Increased training for the private sector on due diligence, market regulations and legality requirements in consumer countries is required to stimulate further action by industry, and the work to elaborate further guidelines for companies operating overseas in the forest products trade should be continued. Awareness-raising initiatives for Chinese consumers should also be extended, in order to increase demand for verified legal wood-based products.
Introduction

Illegal logging is a global problem that is both a result of and a contributing factor to poor forest governance. It undermines efforts to manage forests sustainably and equitably, resulting in deforestation, social conflict and the loss of government revenues. This is not just an issue for forest-rich countries; countries that import and consume wood-based products1 from countries with high levels of illegal logging contribute to the problem if they import products without ensuring that they are legally sourced.

Chatham House has been engaged in research since 2006 to assess illegality in the forest sector and the response by governments and the private sector to the problem. The aim of its work has been to monitor levels of illegal logging and the related trade and so enable an assessment of the effectiveness of efforts to tackle the problem in producer, consumer and processing countries.2

A methodology has been developed for this assessment based on a number of indicators. For processing countries, these are derived from an examination of the national policy and legal framework and its implementation; analysis of enforcement data; reviews of international and domestic media coverage; and analysis of data on trade between exporter and importer countries as well as data on voluntary verification and certification by timber companies. This approach, which draws on various data sources, provides the most rigorous means of assessing illicit practices, any estimate of which is inevitably challenging. Further details can be found in Annex 2 of this assessment.

Twelve countries were assessed in 2008–09 (the findings published in 20103) and another six in 2013–144 (published in 20145). In addition, Chatham House undertook a reassessment of the original 12 countries in 2013–14.

This report presents the latest findings for China, which are compared with the situation as reported in 2010. The analysis, undertaken in August 2014, is based on data collected during 2013. Trade statistics and media data were compiled up to the end of 2013 and 2012, respectively, and the policy assessment was made on the basis of the situation as of December 2013, but some more recent developments have been noted as well.

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1 The following terminology has been used in this report: Wood-based products – encompasses all timber-sector and paper-sector products; timber-sector products – includes logs, sawnwood, plywood, veneer, mouldings, joinery and furniture; paper-sector products – includes wood chips, pulp and paper.
2 There is considerable overlap between these three categories; all the countries studied are engaged in production, processing and consumption to varying degrees. The indicators for consumer and processing countries are very similar, however, while those for producer countries are quite different, including a range of indicators relating to domestic illegal logging.
4 The countries assessed in 2008–09 were: Brazil, Cameroon, Ghana, Indonesia and Malaysia (producers); China and Vietnam (processing countries); and France, Japan, the Netherlands, the UK and the US (consumers). Those assessed in 2013–14 were: the Democratic Republic of Congo, Lao PDR, Papua New Guinea and the Republic of Congo (producers); Thailand (processing country); and India and South Korea (consumers).
Background

China is one of the world’s largest importers, consumers and exporters of wood-based products. The country has extensive areas of forest: according to the FAO, just under one-fifth of its land area is covered by forests, more than one-third of which comprises plantations. China has the highest afforestation rate in the world; its national programme of replanting has resulted in an increase in forest cover of nine per cent over the past 30 years. China also plays a significant role in forest industries overseas, with rapid foreign direct investment in the sector in the Russian Far East, Gabon, Laos and Myanmar.

Demand for wood-based products has more than doubled over the last decade, reaching 495 million m³ in 2012. Demand has been met by an increase in both domestic production and in imports, although the proportion of imports has increased over this period and stood at just under 50 per cent in 2012. This has mainly been the result of increased domestic consumption, although export markets have also grown rapidly: exports of wood-based products increased from 30 million m³ to 81 million m³ between 2003 and 2012. Given the size of the country’s forest industry, it is likely that efforts by the Chinese government and private sector to tackle the trade in illegal wood-based products will have a significant impact on the success or failure of such efforts at the global level.

The 2010 Chatham House assessment of China’s response to the issue of illegal logging and related trade found that the country was making considerable progress. The Chinese government had held a number of formal discussions with other timber-exporting and -importing countries to promote collaboration, and it had commissioned an analysis of China’s imports of illegal products and the impact of such trade on the domestic timber industry. However, the effectiveness of those efforts was found to be undermined by the lack of legislation prohibiting the import of illegal wood-based products. While the estimated proportion of China’s imports at high risk of illegality had declined, that development was considered to be due in large part to the fall in illegal production in supplying countries rather than China’s own efforts to address the issue.

Since 2010 China has continued to engage with other countries on the issue of illegal trade, and its government has been active in promoting timber legality verification. At the same time, there has been progress in the private sector – not least, the rapid uptake of chain-of-custody (CoC) certification. Growing Chinese investment in overseas timber industries has led to greater awareness of the country’s responsibility to ensure operations are in line with local laws and regulations. This has resulted in the development of a set of guidelines for companies operating overseas. These developments, together with their impact on estimated levels of illegal imports, are described in detail below.

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10 Based on General Administration of Statistics of the People’s Republic of China and analysis by Chatham House.
Media Attention

Media coverage provides an insight into levels of public awareness of illegal logging and related trade. While such awareness may not always lead to action, it is important for bringing about change and is therefore useful to monitor. An assessment of the media can also give an indication of the approaches being taken within a country to address the issue. As part of the research undertaken for this report, both domestic media sources and the international media were reviewed for the period 2009–12. International media coverage was assessed through the online media database Factiva by searching for English-language articles that referred to both ‘illegal logging’ and ‘China’. Domestic coverage was reviewed by searching for ‘illegal logging’ in national news sources. A total of 80 Chinese-language news sources were searched: 52 websites and 28 newspapers and magazines.  

International media coverage of China’s contribution to illegal logging and related trade was extensive throughout the period 2001–12, compared with that of many of the other countries assessed by Chatham House. Between 2001 and 2006 there was a steady increase in the number of articles, followed by a sharp spike in 2007; since then, the number of articles has fallen back to pre-2007 levels and has remained fairly constant (see Figure 1). The peak in coverage in 2007 can probably be attributed to the release of a number of NGO reports during the same year addressing the role of Chinese consumption of wood-based products in driving illegal logging in timber-producing countries/regions such as Tanzania, Myanmar and the Russian Far East. While such reports have continued to be published since, coverage has nonetheless declined.

Figure 1: International media coverage of illegal logging and associated trade in China

![International media coverage of illegal logging and associated trade in China](source: Factiva)

Articles that referred only to domestic illegal logging were excluded as China has been assessed in terms of its role as an importer, processor and re-exporter of illegal wood-based products.

Chinese domestic media coverage of illegal logging and the trade in illegal wood products is far less extensive than in the other consumer and processing countries included in this assessment, although the number of articles that refer to the issue has been increasing since 2009.

Illegal activity in timber-producing countries remains the focus of such articles in the Chinese- and English-language press. Illegal logging in Brazil receives considerable attention, largely within broader discussions of deforestation in the Brazilian Amazon and its impact on climate change. Smuggling and illegal logging in Russia has been the subject of a number of articles in the period covered by the current assessment: these highlight the pervasiveness of illegal trade across the China – Russia border. Enforcement efforts in Indonesia and Malaysia have featured regularly too – a reflection of the importance of those two countries as suppliers of wood-based products to China.

Another focus of attention has been the introduction of regulations in the US, EU and Australia – all of which are major export destinations for Chinese products (and fall under the category of ‘Other’ in Figure 2). Despite China having entered into a number of intergovernmental agreements over recent years (see the sub-section on high-level policy below), there is little coverage of the Chinese government’s response to illegal logging and the trade in illegal timber.

Figure 2: Coverage of illegal logging in major Chinese- and English-language newspapers in China*

*Figures are for the year from 1 October to 30 September; data for 2007 and 2008 are taken from the 2010 assessment.
Government Response

A coherent and transparent policy framework that is effectively and consistently enforced is a prerequisite for tackling illegal logging and the trade in illegal timber. This section assesses the design and effectiveness of the Chinese government’s policies and regulations. The data are derived from an assessment of the policy framework that is based on a standard set of questions and scoring for the existence of policies, their design and the level of implementation. In addition, data on enforcement and revenue collection were compiled and a perceptions survey conducted among experts to gauge their views on the government’s response.

Policy assessment

Since the 2010 Chatham House assessment, the Chinese government has taken a number of important steps towards bolstering its response to the trade in illegal timber; however, progress has been slow. Table 1 summarizes the results of the assessments of the situation at the end of 2008 and at the end of 2013:14 the score given in each policy area is a percentage of the maximum score. These results are discussed in more detail in the following sub-sections, while the detailed policy scores on which this table is based are included in Annex 1.

Table 1: Summary of policy scores for 2008 and 2013 (as % of maximum score)*

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<td>2013</td>
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* To establish the percentage figures, existence, design and implementation have been weighted equally, as has each sub-question under each major heading. Those policy areas for which only a few questions were formulated (law enforcement and international engagement) are more likely to show change than are the other areas. Shading has been allocated according to the total score under each major heading as a percentage of the possible maximum – scores below 25% are red, those between 25% and 50% orange, those between 51% and 75% yellow and those above 75% green.

High-level policy

Over the past four years, the government has made some progress towards developing a high-level policy approach to tackling the trade in illegal timber. In 2008 it commissioned the Chinese Academy of Forestry (CAF) to review the impact of illegal logging and related trade around the globe, but the findings were not made publicly available. The following year the Centre for International Forest Products Trade (CINFT) of the State Forestry Administration (SFA) was established as a research centre to provide technical support to the government and industry; it has been researching the issue of trade in illegal timber.

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14 The policy scores included in the 2010 report were based on an assessment of the situation at the end of 2008; and those for the current assessment on the situation at the end of 2013.
Despite a relatively high level of intergovernmental cooperation on matters related to illegal logging and the associated trade, the Chinese government has yet to develop an overarching national action plan to tackle the issue. As regards coordination between the relevant government bodies, a task force was established in 2007 comprising representatives from the SFA, the Ministry of Commerce, the Ministry of Foreign Affairs and the General Administration of Customs of China (GACC). Since 2010 the task force has supported the development of bilateral and regional agreements with other countries; however, it does not meet regularly to discuss national-level policy.

The government has engaged with industry and other stakeholder groups to develop a timber legality verification scheme and strengthen enforcement efforts (see below), but this engagement has been minimal relative to the size of China's wood-based product industry. At the same time, workshops and conferences have been organized to discuss the design and implementation of forest-sector policy.

**Legislative framework**

China has made little progress since 2010 in developing a legislative framework through which to regulate the trade in illegal timber. While The Nature Conservancy, a US NGO, undertook an independent review in 2004, no such review has been conducted by the Chinese authorities. Moreover, the government has yet to implement legislation prohibiting the import of illegal wood-based products. While the 2004 Regulations of the Origin of Imported-Exported Goods of the People’s Republic of China, include a provision for certificates of origin to be provided to customs officials on request, there is neither an explicit mention of legality nor a requirement to establish the legality of the product in question.

Since 2009 the CAF Research Institute of Forestry Policy and Information (RIFPI) has been working with Proforest to develop a draft timber legality verification scheme, comprising both government-to-government agreements and an industry-led scheme for responsible purchasing. This is discussed in the sub-section on international engagement below.

**Law enforcement**

Since the 2010 Chatham House assessment, a number of training sessions and workshops have been organized for Chinese customs officers and members of staff of the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES) management authority. Their main focus has been methods of timber identification: CITES-specific training courses have concentrated on the identification of endangered species. The GACC, the Guangdong Timber Industry Association and TRAFFIC, an international NGO that monitors wildlife trade, are among those bodies that have been involved in the organization of the training sessions and workshops.

The Chinese CITES management authority has been particularly active in providing technical training to its staff: both the head office and regional offices have organized field trips and seminars for timber associations to raise awareness in the private sector of both CITES and regulations in other countries on the import and export of wood-based products. While the training sessions offered by the CITES management authority and the GACC are encouraging, they do not cover all of China’s major ports and hence their efficacy in ensuring consistent enforcement of China’s timber import controls is limited.
Some official data are available on timber seizures, the majority of which involve CITES-listed species. However, media reports and NGO investigations suggest those data are not comprehensive.

The majority of the seizures of CITES-listed species reported by the authorities between 2008 and 2012 involved agarwood (Aquilaria sp.) and took place in Shenzhen and Gongbei — two city ports in Guangdong province, which borders Hong Kong and Macao. Around 950 kg of agarwood were listed as being seized by customs officers in Shenzhen during this period and 450 kg in Gongbei. According to media reports, however, more than 600 kg of agarwood were seized at the port of Shenzhen in 2012 alone; this suggests that the total figure for the four years is likely to be considerably higher.17

Other ports at which agarwood was confiscated during the same period include Xiamen and Nanning. The majority of those imports were via Hong Kong, while some smuggled goods were reported as coming from Malaysia, Indonesia, Vietnam and Macao. There were also seizures of other CITES-listed species, including taxus (Taxus sp.), lobular red sandalwood (Pterocarpus santalinus) and Buddhist pine (Podocarpus macrophyllus). More recently, a number of media outlets and international NGOs have reported the interception of significant shipments of illegal rosewood from Madagascar, Myanmar and Kenya that were destined for China.18

Only 10 cases of tax evasion have been reported by the government or media since 2008; of those, nine occurred in Guangdong province. In most cases, the perpetrators either misclassified the wood species or under-declared the volume or value of the shipment in order to pay less tax. The most egregious of such cases involved the smuggling of $113 million worth of CITES-listed Buddhist pine into Shenzhen and the avoidance of $19 million in tax.19

In addition to those cases reported by the Chinese authorities, a number of cases of illegal shipments destined for China have been reported by exporting countries/regions, particularly the Russian Far East.20 While some were detected and dealt with by enforcement agencies in the exporting country, NGOs believe that many more have reached China. The lack of a mechanism by which to verify the legality of documentation accompanying shipments, or to halt illegal imports, currently prevents the Chinese authorities from taking action.

International engagement

Since the 2010 Chatham House assessment, the Chinese government has taken a number of important steps to improve international trade cooperation as a means of tackling the trade in illegal timber, both in terms of government-to-government engagement and through promoting cooperation between businesses in China and timber-producing countries.

In September 2011 China hosted the First APEC Meeting of Ministers Responsible for Forestry, at which ministers committed to ‘strengthening coordination and cooperation among APEC economies on forest

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17 Data collected by TRAFFIC.
19 Data collected by TRAFFIC.
policies’, including taking measures to combat illegal logging.\(^{21}\) The Honolulu Declaration of APEC’s 2011 Leaders’ Meeting, while not addressing illegal trade directly, constituted another important commitment to enhanced regulatory coordination between APEC countries.\(^{22}\)

In March 2013 the China-Africa Forest Governance Learning Platform was launched. Initiated by the UK’s International Institute for Environment and Development (IIED) and co-hosted by the CAF and the Global Environmental Institute in China, the platform aims to promote understanding and partnership between China and African countries with regard to forest governance. It is intended to enable the Chinese private sector to gain a deeper understanding of forest governance issues in those countries in which it is operating and investing.\(^{23}\)

The Bilateral Coordination Mechanism (BCM) between China and the EU, established under the China–EU Dialogue on Forest Law Enforcement and Governance in January 2009, has played – and continues to play – an active role in promoting collaborative action to tackle the trade in illegal timber. It meets annually, and the development and implementation of its annual work plans are overseen by the CAF and the European Forest Institute’s (EFI) Forest Law Enforcement, Governance and Trade (FLEGT) Facility. Joint activities under the BCM are intended to provide a forum for dialogue and cooperative policy-making.\(^{24}\) Priorities for future action include information-sharing to improve understanding of the FLEGT Action Plan and the EU Timber Regulation (EUTR) and facilitating business-to-business dialogues between China and its trading partners.\(^{25}\)

In addition, since 2010 China has concluded several memoranda of understanding with other consumer countries in order to strengthen coordinated action against the illegal timber trade. In September 2010 China and Australia signed an MoU on joint action to combat illegal logging and associated trade and to facilitate ‘a common understanding in the Asia-Pacific region of the requirements for legality verification of internationally traded timber’.\(^{26}\) In August 2011 China signed a similar MoU with Japan, in which the two countries committed to coordinate efforts to tackle the illegal timber trade.

Following the signing of an MoU with the US in 2007, the Chinese and US governments established a Bilateral Forum on Combating Illegal Logging and Associated Trade, which comprises various government agencies and is aimed at tackling the trade in illegal timber in a holistic and coordinated manner. The forum has met five times in all, most recently in July 2013. At the fifth meeting, it was agreed that both governments would further cooperate with other countries and through regional processes to strengthen efforts to tackle illegal logging and associated trade. It was also agreed that they would promote the involvement of the private sector and civil society in the forum.\(^{27}\)


In 2009 the RIFPI together with Proforest launched the ‘Joint Study to Assess Options for a Chinese Timber Legality Verification Scheme’, funded by the SFA and the UK’s Department for International Development (DFID) and Department for Environment, Food and Rural Affairs (DEFRA).28 The project analysed existing timber legality verification schemes (TLVSs) in consumer countries with the aim of informing the development of such a scheme in China. It evaluated the EU market requirements for verified legal timber, reviewed the criteria and reach of existing verification schemes and organized a series of workshops and field visits to further inform a set of recommendations on the form that a Chinese TLVS should take.

Following the completion of this project in 2011 and the development of a set of recommendations for the Chinese government, a draft TLVS was published in 2011. The Chinese TLVS comprises two schemes: the Chinese Government-guided Timber Verification Scheme (CGTVS), under which bilateral agreements are to be established with timber-exporting countries; and the Chinese Association-guided Timber Verification Scheme (CATVS), which is voluntary and is to be used by industry associations to provide guidance to members trading in products from ‘non-agreement’ countries – that is, those countries with which China has not yet established a bilateral agreement under the CGTVS.29

Under the CGTVS, bilateral government-to-government agreements would provide for the development of legality definitions related to the harvesting, processing and export of timber and would require that all timber imports to China from these countries comply with the standards stipulated in the agreement. The draft TLVS report recommends that the SFA develop a timber-tracking system through which to enforce these future agreements and establish a national timber legality management office and local timber legality management offices to oversee the scheme’s implementation.30 At the time of writing, formal negotiations had not yet started on any bilateral agreements, but Gabon and Indonesia have been identified as potential partners for such agreements.

Under the CATVS, Chinese timber industry associations are to develop a responsible purchasing policy and due diligence guidelines to enable members to verify their supply chains as legal. The draft TLVS recommends that, under such a scheme, companies implement risk assessment and mitigation procedures based on an association’s responsible purchasing policy. These procedures would involve the gathering of information on the legislation and regulations in the country of harvest with which upstream suppliers must comply, the evaluation of those suppliers to assess the risk of illegality along the supply chain and the identification of products as low-, medium- or high-risk. Member companies found to be compliant with the association’s responsible purchasing policy would then be authorized to use a responsible purchasing logo and certificate. All documentation collected by member companies would have to be submitted to the GACC when the final product is exported, along with the responsible purchasing certificate.

While the CATVS as described in the draft TLVS recommends that each association employ an independent, third-party auditor to evaluate members’ compliance, it does not provide for any means of ensuring the authenticity of legality documentation obtained by members and used to assess the degree of risk.

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29 RIFPI and Proforest (2012), ‘Study on China Timber Legality Verification Scheme’.

Since publishing the draft TLVS, the CAF has been working with timber trade associations and their members to explain the key principles of the proposed CATVS and to improve the capacity of companies to implement responsible purchasing policies and due diligence. In 2012 the China National Forest Product Industry Association launched a pilot legality verification standard; since then, eight of its members have been approved as suppliers of legally verified products.\textsuperscript{31}

In 2013–14 the CINFT and The Nature Conservancy jointly developed a set of risk mitigation guidelines for Chinese companies importing tropical hardwood from Papua New Guinea.\textsuperscript{32} The results of the pilot implementation of those guidelines by companies from that country supplying timber to China are expected to provide a valuable case study to inform the development of a CATVS.

More broadly, the Chinese government has been seeking to promote legal compliance among Chinese enterprises operating overseas and, in collaboration with the private sector, has developed a set of guidelines to promote the sustainable management of forests. The ‘Guide on Sustainable Overseas Forests Management and Utilization by Chinese Enterprises’, introduced on 31 March 2009, was developed jointly by the SFA and the Ministry of Commerce. In addition to outlining the industry’s obligations to comply with all applicable laws and regulations in the country of harvest and to strengthen employees’ understanding of that country’s legal framework, the guide calls for enterprises to contribute to the sustainable development of the forests in which they are operating and to promote social development among local communities.\textsuperscript{33}

In 2013 the Centre for International Forest Products Trade of the SFA and the Research Centre for Forest Product Trade based at the Beijing Forestry University drew up a ‘Guide on Sustainable Overseas Forest Products Trade and Investment by Chinese Enterprises’. The guide was presented at an international workshop on forest products trade and investment in March 2014,\textsuperscript{34} at which stakeholders were invited to comment on the document.

These are all encouraging developments, particularly if the proposed bilateral government-to-government agreements established under the CGTVS were to be expanded to include all FLEGT voluntary partnership agreement (VPA) partner countries and were to require that such products be accompanied by FLEGT licences when those are in operation. Such a requirement could be a useful step in promoting coordinated action among consumer countries to curb the trade in illegal timber, provided the definition of ‘legality’ that forms the basis of the TLVS is not significantly narrower than that under the VPAs. However, an approach based on voluntary commitments and guidelines will inevitably have a limited impact. Despite this progress in international engagement, no formalized commitments have been made and so the overall score given to this indicator, in Table 1, presents a less positive picture.

Public procurement policy

In November 2006 the Chinese government introduced a policy for the public procurement of various wood-based products. The policy applies to all levels of government and is based on China's Environmental Labelling Certification Scheme, which assesses and certifies the environmental impact of the manufacturing process for a range of products. For wood-based products, the scheme applies to furniture, copy paper, cupboards, doors, toys, and panels and products derived from those panels. But only three product categories – furniture, copy paper, wood-based panels and derivative products – are listed in the 'Government Procurement Inventory of Environmental Labelling Certificated Products'; these are priority products in public procurement. The inventory was revised annually before 2009 and there have been two revisions a year since then.

The Environment Labelling Certification Scheme includes requirements on sustainability that differ from product to product. Domestically produced materials used in the manufacture of copy paper and wood-based panels must be sourced in compliance with forestry legislation, while imported materials must come from sustainable forests. Wooden furniture cannot be sourced from protected natural forests or from rare or precious species unless the timber is certified by the Forest Stewardship Council (FSC). Evidence for imported timber includes certification under a forest certification scheme or other documentary evidence that can prove legality and sustainability. However, there are no clear guidelines for determining the legality and sustainability of the products in question. This, together with the limited product scope, is likely to hinder the consistent implementation of the policy and limit its impact on curbing the trade in illegal wood-based products.

Responsibility for monitoring government procurement practices and compliance with the policy lies with the Ministry of Finance, although, as noted above, is largely limited to document verification. A number of NGOs have made efforts to promote sustainable purchasing among government agencies. In 2009, for example, the Green Purchasing Network organized a forum for government departments that included training in product verification and compliance monitoring.

While such initiatives are to be welcomed, it is crucial that the government clarify and strengthen the standards enshrined in its procurement policy and develop robust mechanisms for monitoring the implementation of that policy.

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36 Ibid.
Progress by the Private Sector

In addition to examining government measures to tackle the problem of illegal logging, the current assessment evaluates the degree and effectiveness of the response by the private sector. That evaluation is based on a perceptions survey of the private sector, an assessment of private-sector voluntary certification schemes and trade data analysis.

Expert perceptions survey

A survey of perceptions was undertaken among private-sector representatives, including importers, exporters, manufacturers and industry associations. Those who took part in the survey were asked to assess the importance of illegal logging in terms of its impact on prices, customer preferences and the competitiveness of the national market.

Twenty-five companies and two industry associations participated in the survey in 2013, compared with 35 companies and five industry associations in 2010. Given the size of China’s timber industry, the sample is very small. Thus caution should be exercised in drawing conclusions from the survey results or extrapolating them to the industry as a whole.

Industry perceptions

Companies taking part in the perceptions survey were asked to say whether their customers enquired about the legality of products. In 2010 nearly all the respondents (37 out of 42) said that they rarely, if ever, received such enquiries from customers, but in 2013 this proportion had dropped, to 12 of the 32 respondents. While this is encouraging, a more marked shift in consumer concern might have been expected given the introduction of regulations on the legality of timber products in both the US and the EU.

Asked to assess the likely influence of legality requirements on the competitiveness of China’s timber industry at the global level over the next five years, most respondents said those requirements were less important than factors such as overall economic demand, manufacturing costs and the level of taxes and tariffs. Similar results were reported in relation to competitiveness on the domestic market, although legality requirements were considered far less important than other factors.

The cost implications of supplying verified legal or certified sustainable timber – that is, expenditures on sourcing the raw materials and implementing internal controls – were considered largely insignificant in both surveys. At the same time, the number of companies reporting that they were purchasing a larger percentage of verified legal or certified products was higher in 2013 than in 2010. Furthermore, in 2010 the majority of companies replied that they did not know what this proportion was, compared with just one company in 2013; this indicates that awareness of the issue has increased in recent years.

37 A total of 32 responses were analysed since some companies were included in more than one category – for example, manufacturing and exporting wood-based products.
Industry association actions

Industry associations can play a significant role in encouraging their members to take action on illegality in their supply chains, either through developing voluntary or mandatory codes of conduct or by providing guidance to members on how to undertake due diligence. Since there are more than 300 timber industry associations in China, it should be stressed that the findings below paint only a very small part of the overall picture.

Two industry associations responded to the perceptions survey, one of which has more than 3,000 members and the other around 2,000. Both associations have a code of conduct for their members that encourages trading only in verified legal timber. Both provide guidance and assistance to their members on ensuring the legality of their products; and both have seen an increase in requests for such guidance from among their members in recent years.

Neither association sets adherence to its code of conduct as a prerequisite for membership, however; nor is any action taken against members that do not comply. At the time that the survey was undertaken, neither association had developed a means of monitoring or verifying its members’ actions. Such codes will have a limited impact on practices in the private sector if they are not made mandatory for association members and if there are no means by which to verify compliance.

Levels of CoC certification

Certification data

As in 2010, the current assessment examines the uptake of FSC CoC certification as an indicator of the private sector response to the issue of illegal logging and related trade. It should be noted that the number of companies with FSC CoC certification is an imprecise indicator because such companies do not necessarily handle FSC-certified products, which is a concern particularly in the case of China.

Data on the quantity of certified products imported into the country or placed on the EU market would provide an additional metric; unfortunately, no such data are currently available.

The year 1999 saw the first FSC CoC certificate to be issued to a Chinese enterprise; since then the country has witnessed rapid growth in the uptake of such certification across the industry. Between 2010 and 2012 the number of companies with FSC CoC certification increased by 30 per cent (see Figure 3) and that figure has continued to rise.

Despite these encouraging trends, the level of certification remains relatively low in China, given the size of the country’s forest industry. The number of CoC certifications per million people is one means of comparing the situation in various countries (albeit a crude one): China scored the lowest out of all seven consumer and processing countries included in this assessment with just 1.7 companies with FSC CoC certification per million people in 2012.

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38 Although the PEFC is used extensively in consumer countries, to date only a relatively small area of tropical forest has been certified under the scheme (with the exception of Malaysia). This means that the FSC is a better indicator across the range of producer, processing and consumer countries.


Two other schemes operate in China: the China Forest Certification Scheme (CFCS) and the Programme for the Endorsement of Forest Certification (PEFC). The CFCS was launched in 2007 by the China Forest Certification Council (CFCC). It covers forest management certification, CoC certification, bamboo forest certification, forest ecosystem services certification and non-timber wood product certification.41 In December 2012 the CFCC applied for endorsement of the CFCS by the PEFC, having revised its standards to bring them into line with the PEFC’s sustainability benchmarks;42 and the PEFC announced its endorsement in February 2014.43 That move has come under criticism by some NGOs, which question the degree of transparency and the effectiveness of safeguards within the CFCS.44 While the PEFC reported in June 2014 that 203 CoC certificates have been issued under the CFCS, its endorsement is expected to result in an increase in certification under this scheme.45

Sensitive market share

Shifts in trade between ‘sensitive’ and ‘non-sensitive’ markets46 are an indication of the response of the private sector to illegal logging and to growing demands for legal timber in many major consumer countries. The analysis below is based on trade data (converted into units of roundwood equivalent [RWE] volume) and responses from the private sector to the expert perceptions survey.
Trade data

Between 2000 and 2012 the share of timber-sector products exported from China to sensitive markets has remained stable – at 40–50 per cent of total exports. A much larger proportion of more highly processed products, such as picture frames, ornaments and furniture, is exported to those markets. Exports of paper-sector products to sensitive markets account for a lower proportion of total exports than does the timber sector – at around 30 per cent. That proportion increased during the first half of the 2000s but has since levelled off.

The fact that there is little evidence of change in trade patterns following the entry into force of market regulations in the US and EU can be seen as encouraging, since it suggests that there has been no shift in trade towards less regulated markets. On the other hand, it raises questions about whether the enforcement of those regulations is sufficiently rigorous.

Expert perceptions survey

Respondents to the survey had mixed perceptions about shifts in trade towards or away from sensitive markets. Some felt that there had been a move away from such markets, but opinions differed about the role of legality requirements as a driver of this. An equal number considered, however, that there had been either no change or a shift towards more sensitive markets.
Estimated Levels of Trade in Illegal Wood-based Products

The extent of the trade in wood-based products that are likely to be illegal was estimated through an evaluation of trade flows and an assessment of trade data discrepancies (see Annex 2 for further details).

**Estimates of illegal imports**

An evaluation of trade flows suggests that between 2000 and 2013 the proportion of Chinese imports of timber- and paper-sector products in RWE volume that are likely to have been illegal declined significantly – from almost 40 per cent to nearly 25 per cent and from about 15 per cent to 10 per cent, respectively (see Figure 4). Though encouraging, the percentage of overall imports suspected of being illegal remains high compared with that of other major timber-importing countries. One reason for the decline is the increase in imports from low-risk sources – in particular, from Canada (mainly sawnwood and pulp), the United States (sawnwood and logs), the EU (pulp) and New Zealand (logs). In 2013, these countries exported 85 million m³ (RWE) of wood-based products to China, representing 44 per cent of the total which China imported that year. This contrasts with exports in 2000 of 17 million m³ of such products, 27 per cent of the total.

While the proportion of illegal trade has declined, annual import volumes of likely illegal timber- and paper-sector products into China are estimated to have increased, owing to the overall growth in imports during that period. In 2013 an estimated 33 million m³ (RWE) of such products were imported; their import value was US$6.6 billion. In 2000, the equivalent figures were 17 million m³ (RWE) and US$2.4 billion.

**Figure 4: Estimated percentage of imports of timber- and paper-sector products at high risk of illegality (by RWE volume)**

Source: Based on official national trade statistics for China (General Administration of Customs of the People’s Republic of China); with analysis by Chatham House.
Russia and Indonesia account for the bulk of China’s high-risk wood-based product imports – primarily logs and sawnwood in the case of Russia, and sawnwood and wood-based pulp in the case of Indonesia. Papua New Guinea and the Solomon Islands have become important sources of likely illegal products too because of the growth in log exports from these countries: between 2000 and 2013 the estimated volume of trade in logs at high risk of illegality from those two countries increased fivefold. In addition, Myanmar, Laos and Vietnam export significant volumes of suspected illegal products to China – primarily logs, sawnwood and veneer.

Logs account for the largest proportion of high-risk imports – nearly half of all such imports in 2013 – while the remainder comprises mostly sawnwood and pulp. These three products also account for the majority of China’s low-risk imports, together with paper.

Since 2000 there has been a marked increase in high-risk imports of high-value hardwood logs, particularly rosewood, which are in demand from the Chinese furniture industry. Such logs come mainly from the Mekong region and several African countries (see the following sub-section).

Another cause for concern is the continued, and in some cases increased, import of logs into China from countries in which a log export ban is in place – namely, Equatorial Guinea, Ghana and Côte d’Ivoire.

There has also been a notable increase in the volume of high-risk sawnwood imports since 2000. In the case of Russia, an increase in such imports has been accompanied by a decline in high-risk log imports, which is likely a result of the higher log export tariff introduced in Russia in 2007. Chinese investment in the timber-processing industry in Russia has increased as a result of this tariff as well as lower duties on the import of timber-processing equipment.47 A similar trend has been seen in Gabon, in part owing to the introduction of a log export ban in that country in 2010.

While the decrease in the estimated proportion of high-risk imports is encouraging, the fact that overall volumes seem to have increased highlights the challenge that China faces in tackling the trade in illegal timber (see Figure 5).

**Figure 5: Estimated volume and value of imports of wood-based products at high risk of illegality, by supplying country or region**

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47 Brack (2014).
Trade data discrepancies

Trade data discrepancies can be indicative of illegal trade. However, caution is needed in drawing such conclusions as these discrepancies can result from poor-quality data or unintended differences in classification. However, if there are significant or persistent discrepancies and if there is other evidence available, it is possible to draw such conclusions with a certain degree of confidence.

The 2010 Chatham House assessment of China’s bilateral trade flows noted significant and consistent discrepancies between the volumes of wood-based product flows reported by Indonesia and China. Following the introduction of a log export ban in Indonesia in 2001, the discrepancy between the reported volumes of Indonesian log exports to China declined; but during the same period discrepancies between the reported volumes of Malaysian log exports to China rose significantly because Indonesian logs were being declared as Malaysian at the point of import in order that the trade between China and Indonesia could continue.48 Between 2005 and 2013 China continued to report imports of Indonesian logs while Indonesia reported no such exports to China. The discrepancy nevertheless remains small and points to continued enforcement efforts by Indonesia to tackle the trade in illegal logs.

However, particularly since 2006, there have been significant discrepancies in data for logs imported into China from several other countries – namely Mozambique, Benin, The Gambia and Ghana (see Figure 6) – which are thought to be partly due to the trade in high-value hardwoods. In the case of all the above-mentioned countries, China reports significantly higher volumes of imports than those countries report as exports. A recent study of Mozambique suggests that much of the illegal trade has been in high-value woods destined for the Chinese flooring and furniture markets.49

**Figure 6: Discrepancies between reported imports and exports of logs between China and Benin, The Gambia, Ghana and Mozambique, 2006–13**

Source: Based on official national trade statistics for China (General Administration of Customs of the People’s Republic of China) and for partner countries of the corresponding imports; with analysis by Chatham House.

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Trade data discrepancies are not limited to log imports; reported import and export volumes of plywood reveal significant disparities too. Indonesia consistently reports higher volumes of exports than China reports as imports: in 2013 China’s reported imports were just 5 per cent of the volume of exports reported by Indonesia. Between 2000 and 2013 China consistently reported much higher volumes of Indonesian sawnwood imports than Indonesia reported as exports – including since 2004, when Indonesia introduced an export ban on sawnwood.50

In recent years there have been discrepancies between China’s reported volumes of exports of joinery and mouldings to the EU, the US and Canada and sawnwood to Japan and South Korea, on the one hand, and the import volumes reported by the destination countries, on the other. While it is unclear whether those discrepancies are due to fraud or, simply, misclassification, it seems likely that the former is a factor. Furthermore, the overall poor quality of the data undermines efforts to monitor trade.

50 The ban was amended in 2006 to allow the export of certain types of sawnwood (see http://www.ihb.de/wood/news/Indonesian_sawnwood_ban_13510.html).
Conclusions and Recommendations

Since the 2010 Chatham House assessment, China has made considerable progress towards tackling the trade in illegal timber. Although the government has yet to introduce a legal framework that prohibits the import of illegal wood-based products, current efforts to develop a national timber legality verification system are encouraging. Active engagement with a number of other consumer countries has laid the foundations for a more coordinated approach to curbing the global trade in illegal wood-based products. Plans for the establishment of bilateral trade agreements with key supplying countries are to be both commended and encouraged.

Efforts by the government and industry associations to promote sustainability certification among Chinese companies have resulted in the rapid growth of CoC certification. However, China is still lagging behind other major timber-importing countries in terms of the level of uptake.

These positive developments are likely to have had an impact on the volumes of illegal wood-based product imports into China, which are estimated to have declined since 2000. The share of such imports in the volume of overall imports nevertheless remains high compared with the other timber-importing countries included in this assessment. At the same time, significant discrepancies in trade data suggest that China continues to be an important market for illegal wood-based products, particularly high-value hardwoods from Southeast Asia and Africa.

As domestic demand for timber to support China’s construction industry and infrastructure development, and international demand for China’s exports of plywood, wood furniture, flooring and ornamental products continue to grow, it is crucial that the government implement binding regulations and stringent controls on the import and export of such products. The government’s procurement policy should be strengthened through the clarification of existing legality and sustainability requirements, the expansion of products covered by the policy and the development of a robust mechanism by which to monitor compliance.

The two elements of China’s proposed TLVS – government-to-government agreements and the promotion of responsible sourcing policies among industry associations – should be further developed and refined. More analysis is needed to assess the feasibility and impact of the scheme, including through pilot projects with timber-exporting countries. Moreover, there should be a consultative process of review involving industry, civil society and consumer-country governments in order to ensure that any such scheme is both feasible and robust.

Another priority should be on-going training and outreach among private-sector companies on the due diligence guidelines included in the CATVS, as well as on market regulations and legality requirements in consumer countries; this would help foster greater scrutiny among Chinese private-sector players. The government’s work to elaborate further guidelines for companies operating overseas to promote sustainable forest products trade and investment should also be continued. In addition, awareness-raising initiatives should be extended to the general public to increase demand for verified legal products among Chinese consumers.
## Annex 1: Policy Assessment Scores for 2008 and 2013*

<table>
<thead>
<tr>
<th></th>
<th>Existence (0–2)</th>
<th>Design (0–5)</th>
<th>Implementation (0–5)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High-level policy</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Official review of illegal wood product import/consumption problem</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>National action plan</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td>Coordination process for relevant government departments</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Multi-stakeholder consultation process</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td><strong>Legislative framework</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of existing legislation and regulation</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td>Enactment of additional legislation</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Law enforcement</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training for customs and other relevant officials on existing timber import controls</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>International engagement</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formalized trade or customs arrangement with major trading partners</td>
<td>0</td>
<td>1</td>
<td>n/a</td>
</tr>
<tr>
<td>Formalized system in place for sending and receiving enforcement alerts</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Public procurement policy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public procurement policy – existence and implementation</td>
<td>0</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Level of adherence required (e.g., voluntary, mandatory)</td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>Coverage of all wood products, including paper</td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>Independent certification/verification scheme minimum requirement</td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>Assistance for government purchasers (advice, guidance, training, etc.)</td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>Implementation systematically monitored and assessed</td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>Jurisdiction over sub-national governments</td>
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</tbody>
</table>

*The policy scores included in the 2010 report were based on an assessment of the situation at the end of 2008; and those for the current assessment on the situation at the end of 2013. A grey cell indicates that the answer to the question posed was not scored; an asterisk indicates that the question was not asked in 2010. Policies were assessed according to the following factors: existence (scoring between 0 and 2, whereby 1 indicates partial coverage or a policy under development); design (scoring between 1 and 5, whereby 5 indicates very well designed); and implementation (scoring between 1 and 5, whereby 5 indicates consistent and comprehensive implementation).
Annex 2: Methodology

The methodology employed to undertake the assessment of the 13 countries included in the 2014 Indicators of Illegal Logging and Associated Trade study is based on that developed by Chatham House for its 2010 assessment. Below is a brief overview of the data collection and analysis process.

Further explanation of how the indicators were developed can be found in earlier reports.

The countries included in the assessment were selected on the basis of the significance of their role in the production and consumption of illegal wood-based products. Four years after the first assessment, the 12 original focus countries continue to account collectively for the majority of exports and imports of such products. Lao PDR is included in the 2014 assessment owing to its increasing importance in the global trade in wood-based products.

**Indicators of progress**

Chatham House developed a set of standardized indicators to allow a comparative evaluation to be undertaken. The indicators cover four areas:

a) Media attention

b) Government response (assessment of the policy framework and analysis of enforcement data)

c) Progress by the private sector (assessment of levels of certification and legality verification; expert perceptions survey; and analysis of trade data to assess shifts in trade between ‘sensitive’ and ‘non-sensitive’ markets)

d) Estimated levels of illegal trade (based on analyses of trade data to assess discrepancies and levels of illegal imports)

An outline of how these data were collected is provided below.

**Media attention**

The level of attention afforded to illegal logging and related trade in the domestic and international media was assessed using both quantitative and qualitative methods. The volume of articles in the international media was measured through a search of the online media archive Factiva, using the term ‘illegal logging’ and the country name. A similar approach was adopted with domestic media: the search term ‘illegal logging’ was used in English and/or the local language. Online archives were used where possible and physical archives where no such digital records were available. Country partners were asked to identify those newspapers, journals and media outlets that can be considered to qualify as ‘major circulation’.

The articles were then categorized according to their main focus: enforcement, private-sector response, government response, impacts or ‘other’. The search period for domestic media coverage was the year from October to September, while that for international media was the calendar year.
**Policy assessment**

For each of the countries included in the assessment, an in-country partner was selected by Chatham House to assess the national policy and legal framework for dealing with the issue of illegal logging and related trade. For processing countries, the questions were grouped into five broad categories: high-level policy, legislative framework, law enforcement, international engagement and procurement policy. In addition, enforcement data were collected and incorporated into the policy assessment.

In-country partners were provided with an advisory framework on scoring and the scores from the 2010 assessment, in order to maintain a degree of consistency across countries and between the two assessments. The scores were then reviewed by Chatham House researchers and peer reviewers and amended where necessary.

**Expert perceptions survey**

A survey of representatives of the private sector was undertaken. Those individuals were asked about the impact of illegal logging on the industry, their perceptions of the private-sector response to the issue and their own experience. A separate (shorter) survey was sent to industry associations to determine their response to the issue.

**Levels of CoC certification**

To assess the private-sector response, Chatham House collected data on the number of companies in each consumer country that have achieved FSC CoC certification. In theory, FSC CoC-certified companies are those that deal in FSC-certified products. In practice, a considerable number of CoC-certified companies handle few or no FSC-certified products. For this reason, data on CoC-certified companies must be interpreted with some caution. Data on CoC certification in each consumer country were provided by the FSC and analysed by Chatham House.

**Analysis of trade data**

Trade data were compiled and used to analyse the following:

- Shifts in trade between 'sensitive' and 'non-sensitive' markets
- Discrepancies between trade data reported by importing and exporting countries
- Estimates of illegal imports

Data were compiled from official national trade statistics and from the UN Comtrade database and converted to RWE volume. The following conversion factors were used:

- By volume (m$^3$/m$^3$): sawnwood: 1.8; veneer and mouldings: 1.9; plywood: 2.3
- By weight (m$^3$/t): particleboard: 2.0; fibre board: 2.5; picture frames and wooden furniture: 2.8; joinery, ornaments and ‘not elsewhere specified’: 3.5; chips and residues: 1.6; paper: 3.5; and pulp: 4.5

The level of imports of wood-based products at high risk of illegality was estimated through a detailed evaluation of product flows (for which the term ‘import-source analysis’ was coined). The evaluation involved estimating the RWE volume and value of imports (in US dollars) from official import data for each year as well as the bilateral flow of each category of wood-based product.
Those values were then multiplied by estimates of the proportion that was likely to be illegal. That proportion was based on an estimate of the level of illegality likely to be associated with the export of each product category for a given country and year as well as the extent to which importing countries demonstrate a preference for legal (e.g., FSC-certified) products. Further details of how the estimates were made are provided in a methodology paper.51

# Glossary

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BCM</td>
<td>Bilateral Coordination Mechanism</td>
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<td>CAF</td>
<td>Chinese Academy of Forestry</td>
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<td>CATVS</td>
<td>Chinese Association-guided Timber Verification Scheme</td>
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<td>CFCC</td>
<td>China Forest Certification Council</td>
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<td>CFCS</td>
<td>China Forest Certification Scheme</td>
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<td>CGTVS</td>
<td>Chinese Government-guided Timber Verification Scheme</td>
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<tr>
<td>CINFT</td>
<td>Centre for International Forest Products Trade</td>
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<td>CITES</td>
<td>Convention on International Trade in Endangered Species of Wild Flora and Fauna</td>
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<tr>
<td>CoC</td>
<td>Chain-of-custody</td>
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<tr>
<td>DEFRA</td>
<td>Department for Environment, Food and Rural Affairs</td>
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<tr>
<td>DFID</td>
<td>UK Department for International Development</td>
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<tr>
<td>EFI</td>
<td>European Forest Institute</td>
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<tr>
<td>EUTR</td>
<td>EU Timber Regulation</td>
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<tr>
<td>FLEGT</td>
<td>Forest Law Enforcement, Governance and Trade</td>
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<td>FSC</td>
<td>Forest Stewardship Council</td>
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<td>GACC</td>
<td>General Administration of Customs of China</td>
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<tr>
<td>IIED</td>
<td>International Institute for Environment and Development</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>PEFC</td>
<td>Programme for the Endorsement of Forest Certification</td>
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<td>RIFPI</td>
<td>Research Institute of Forestry Policy and Information</td>
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<td>RWE</td>
<td>Round-wood Equivalent</td>
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<td>SFA</td>
<td>State Forestry Administration</td>
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<td>TLVS</td>
<td>Timber legality verification system</td>
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<tr>
<td>TLVSs</td>
<td>Timber legality verification schemes</td>
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<tr>
<td>TRAFFIC</td>
<td>Wildlife Trade Monitoring Network</td>
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<tr>
<td>VPA</td>
<td>Voluntary partnership agreement</td>
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</tbody>
</table>
About the Author

Laura Wellesley is a Research Associate at Chatham House, working on issues related to food security, climate change and forest governance. Before joining Chatham House, she was a researcher at Global Witness, focusing on mineral extraction and resource governance in Afghanistan and East Africa. She has an MSc in Africa and International Development from the University of Edinburgh, and an MA in Modern and Medieval Languages from the University of Cambridge.
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