

*23rd IUFRO World Congress Side Event
FLEGT: Opportunities and Challenges*

FLEGT: Opportunities and Challenges for China

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Illegal Logging and Associated Trade

- Really a global problem
- Quite serious in some countries
- International communities have been working hard
- Among multilateral era, we have FLEG but little progress
- Among bilateral era, we have US Lacey Act and EU FLEGT (DDR)

FLEG and FLEGT

- **FLEG: Not promising**
- **US Lacey: Just started**
- **What about FLEGT???**
 - **Initiated since 2003**
 - **VPA: 4 countries have signed (Ghana, Cameroon, Republic of Congo and Liberia)**
 - **DDR: Adopted in July 2010, and effective in January 2013**

FLEGT Perspectives for China

- Opportunities
- Challenges

Outlines

- **Timber Trade for China**
- **US Lacey Act Amendment**
- **FLEGT (DDR)**
- **Opportunities for China**
- **Challenges for China**
- **Conclusions and Recommendations**



Timber Trade for China

Timber Trade for China

- It is known to all that China is one of the World's largest countries in terms of **production, processing, import and export** of timber and timber products
- China mainly imports logs and sawnwood from Russia (softwood) etc and tropical countries (hardwood) (Asia/Pacific and Central Africa) etc
- China mainly exports timber products to US, EU and Japan etc

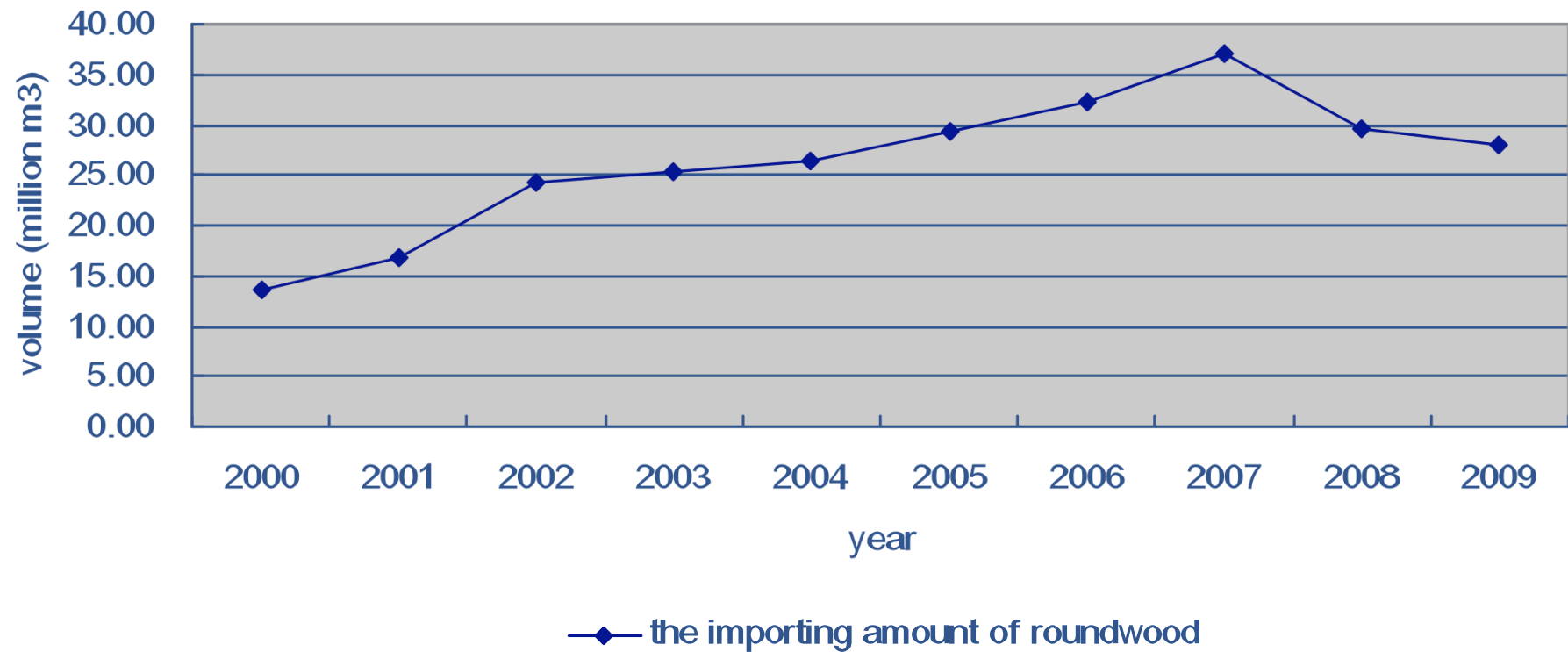
Impact of Financial Crisis

- **China was heavily affected for its timber export by global financial crisis, with significant drop in 2009 and early of 2010**
- **China is now getting back to normal, partially due to global efforts in response to financial crisis, and partially due to domestic economic and trade policy adjustment**

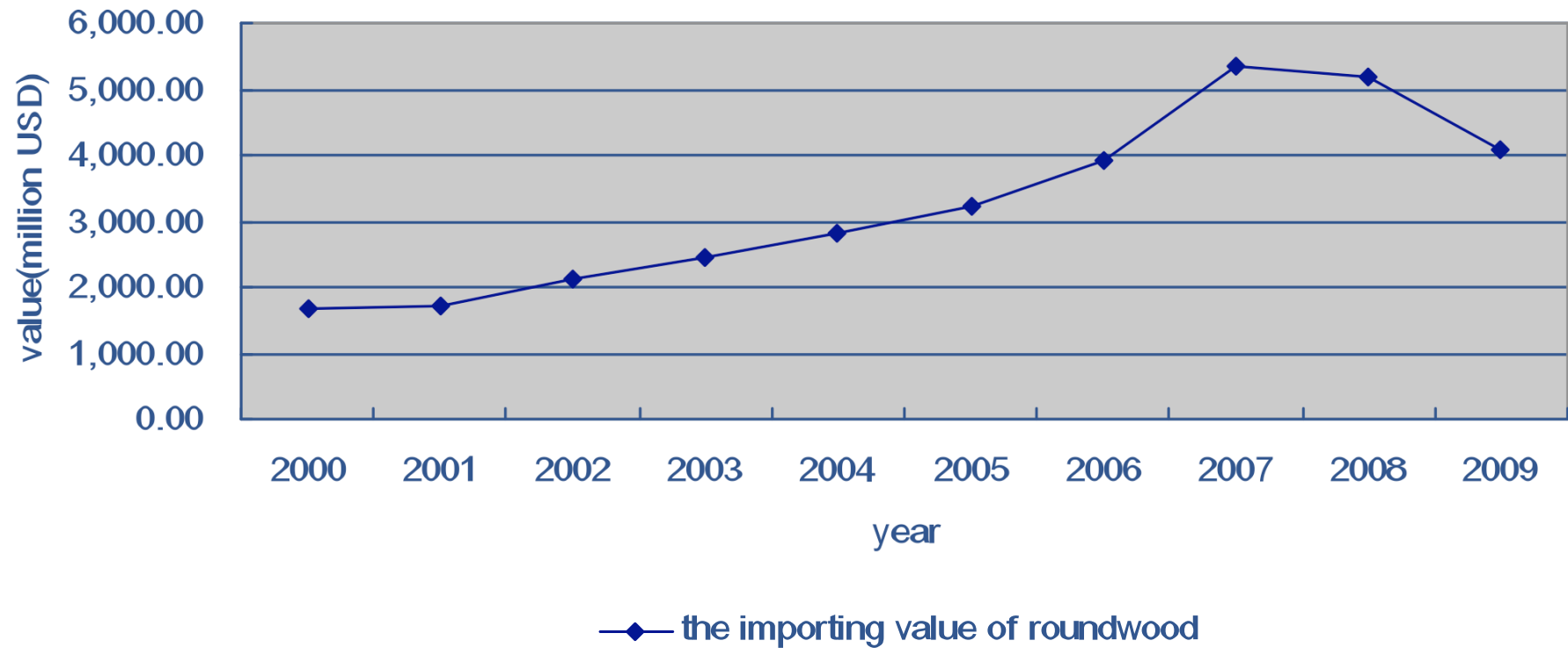
Logs import

Year	Volume (million m3)	Value (million USD)
2000	13.61	1,655.64
2001	16.86	1,693.98
2002	24.33	2,138.26
2003	25.46	2,447.15
2004	26.31	2,804.32
2005	29.37	3,243.54
2006	32.15	3,929.33
2007	37.09	5,350.61
2008	29.57	5,183.25
2009	28.06	4,086.61

Logs import volume



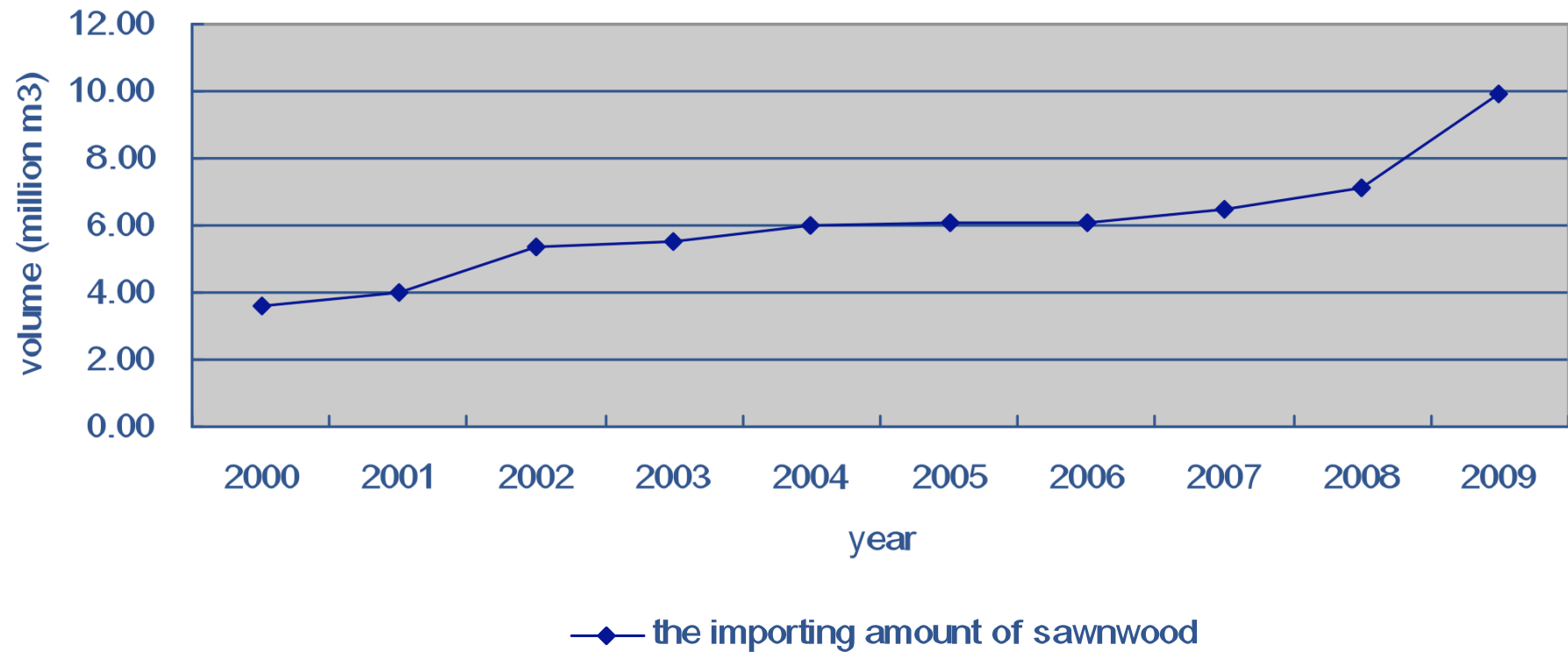
Logs import value



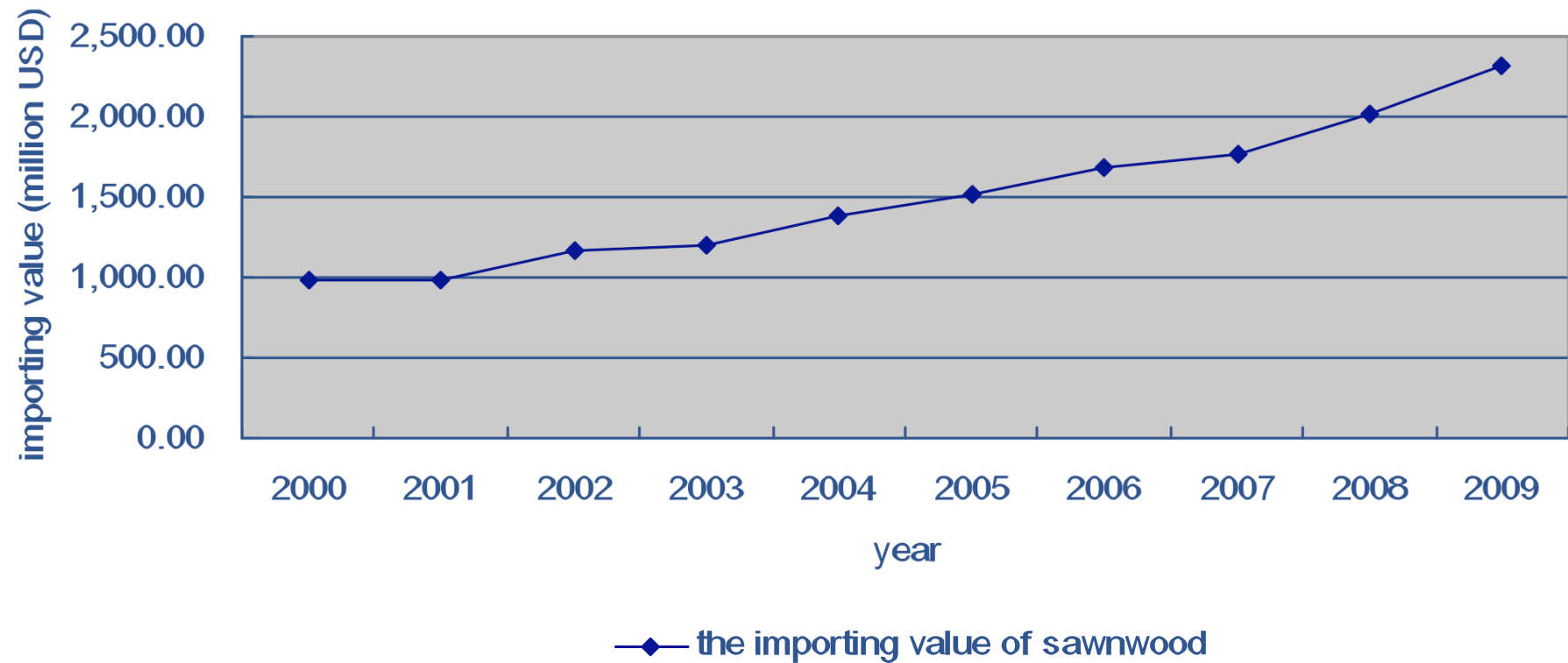
Sawnwood import

Year	Volume (million m3)	Value (million USD)
2000	3.61	982.03
2001	4.04	988.52
2002	5.40	1,167.46
2003	5.51	1,198.79
2004	6.00	1,387.14
2005	6.05	1,516.89
2006	6.07	1,688.51
2007	6.49	1,761.98
2008	7.09	2,023.87
2009	9.89	2,319.57

Sawnwood import volume



Sawnwood import value

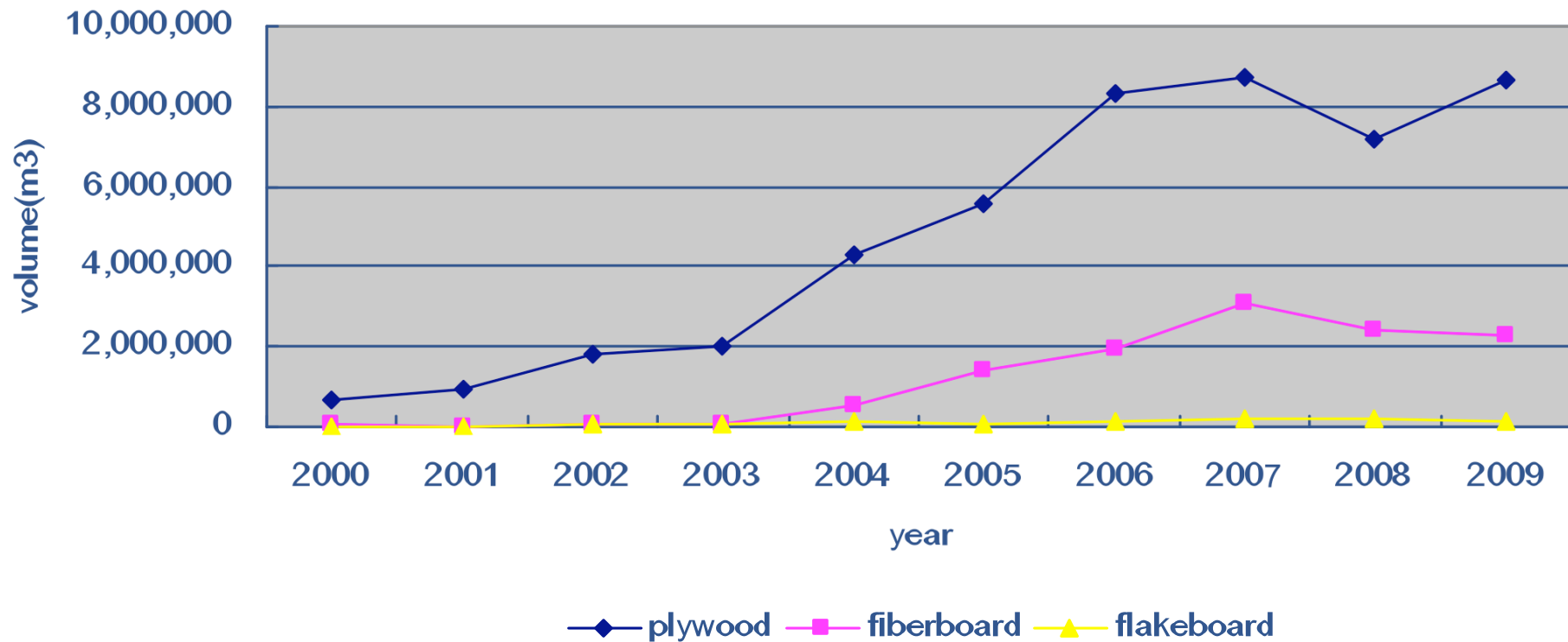


Wood based panel export

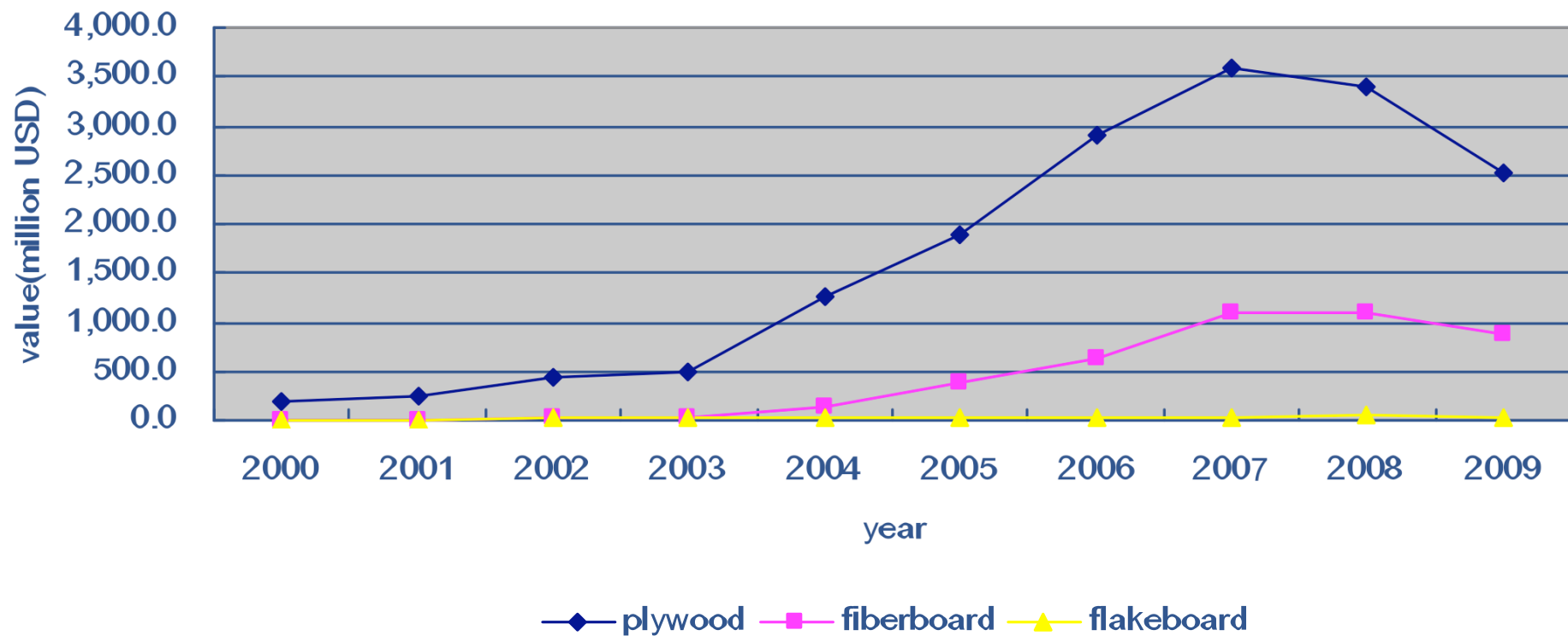
Year	Plywood		Fiberboard		Flakeboard	
	Volume (m3)	Value (million USD)	Volume (m3)	Value (million USD)	Volume (m3)	Value (million USD)
2000	686,991	189.0	35,308	10.2	26,273	8.9
2001	965,361	242.3	26,815	9.3	24,958	6.1
2002	1,792,423	427.0	80,338	20.5	51,183	21.9
2003	2,040,470	495.4	63,556	20.7	67,463	20.0
2004	4,305,484	1,249.9	509,945	125.1	130,751	21.4
2005	5,583,972	1,879.0	1,376,697	396.1	95,035	18.4
2006	8,303,695	2,910.5	1,968,316	635.8	141,658	25.2
2007	8,715,903	3,577.9	3,056,768	1,085.8	179,824	34.7
2008	7,185,060	3,400.5	2,382,562	1,094.5	193,171	45.8
2009*	8,669,231	2,520.0	2,304,615	880.0	124,615	30.0

* calculated based on weight

Wood based panel export volume



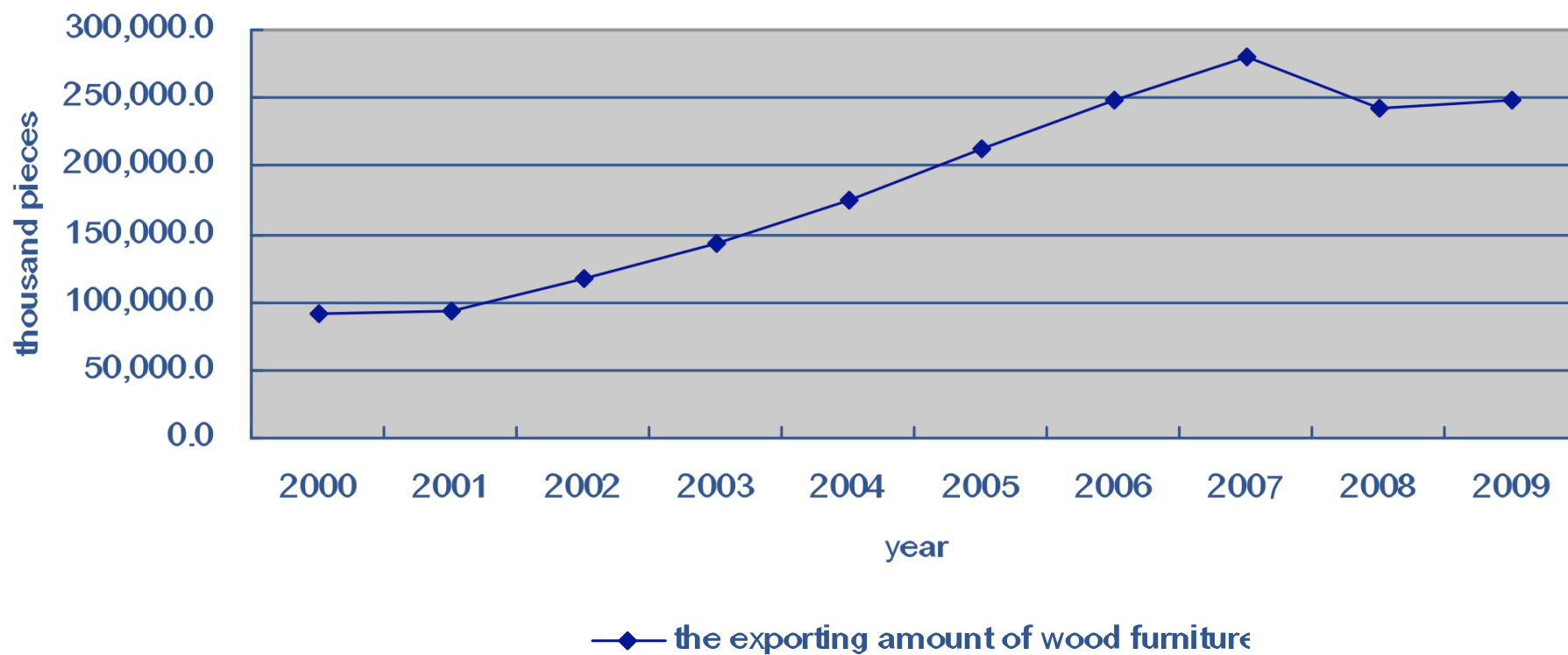
Wood based panel export value



Wooden furniture export

Year	Pieces (thousand)	Value (million USD)
2000	91,340.9	1,668.5
2001	93,611.6	1,852.1
2002	117,969.3	2,706.3
2003	142,179.8	3,815.5
2004	175,777.9	5,229.3
2005	211,601.2	6,843.2
2006	248,149.7	8,783.8
2007	280,364.7	10,683.1
2008	242,633.0	11,017.3
2009	247,470.0	12,040.0

Wooded furniture export pieces



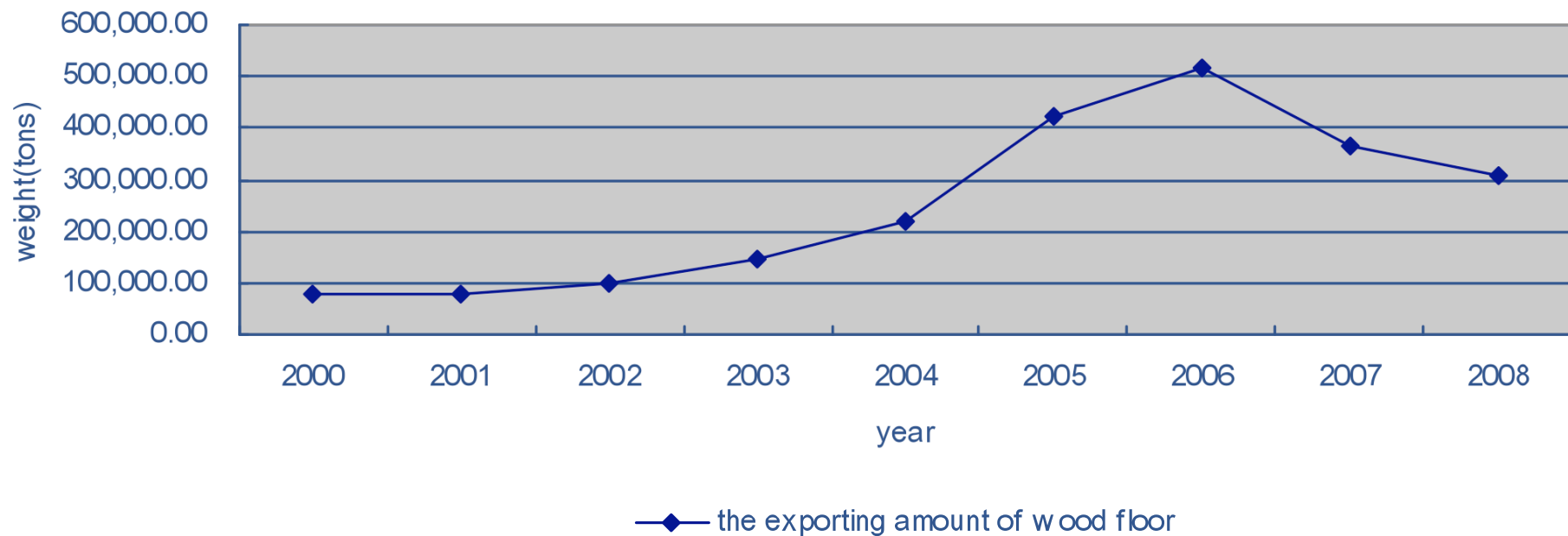
Wooden furniture export value



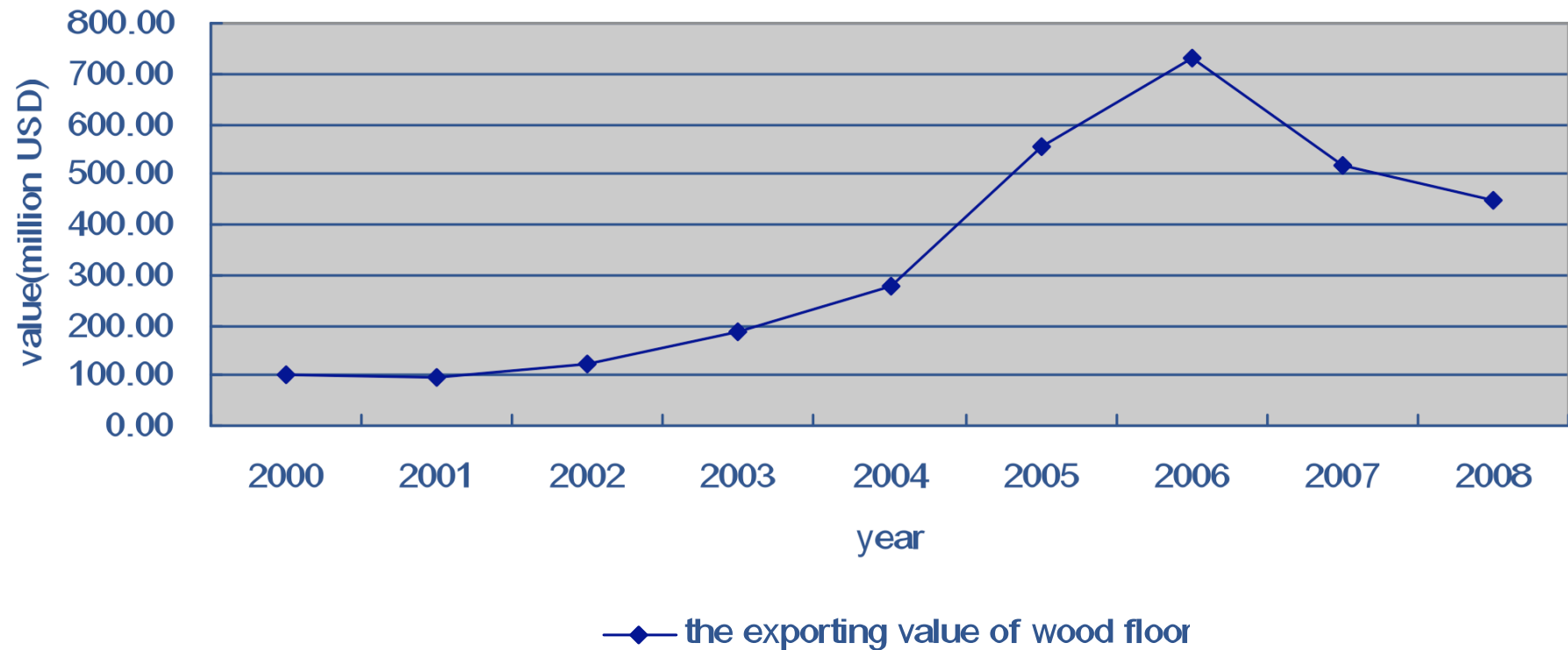
Wooden floor export

Year	Amount (tons)	Value (million USD)
2000	80,277.00	99.78
2001	78,006.00	94.36
2002	99,850.00	122.97
2003	146,197.00	187.87
2004	221,217.00	278.24
2005	424,922.00	557.13
2006	518,926.00	731.09
2007	363,790.00	519.00
2008	310,052.00	448.66

Wooden floor export volume



Wooden floor export value





US Lacey Act Amendment

US-China

- **US is the largest importer of China's timber products**
- **China and US sign an MOU on illegal logging in 2008**
- **Illegal logging was listed in the China-US Strategic and Economic Dialogue (SED)**

US Lacey Act Amendment

- **Lacey Act effective in May2008**
- **Implementation postponed due to a number of reasons**
- **Impact to China: Right now is still low as it is still in the very beginning**
- **Future perspectives: Uncertain, very likely more challenges than opportunities**

A scenic landscape photograph showing a river flowing through a dense forest of evergreen trees. In the background, there are large, rugged mountains with patches of snow. The sky is blue with scattered white clouds. The text "EU FLEGT/DDR" is overlaid in the center of the image.

EU FLEGT/DDR

China-EU

- **EU is the second largest imports of China's timber products**
- **EU and China reached common understanding during the China-EU Summit**
- **China hosted China-EU Workshop on Forest Law Enforcement and Governance in Beijing in 2007**

EU FLEGT/DDR

- **DDR was just adopted last month**
- **But DD was introduced to China a couple of years ago**
- **China knows EU's concern over China's timber export which might originally sourced illegal resources from other countries**
- **China' industry and trade sectors are also concerned over the difficulties to conduct DD mainly due to broken chain of custody, and also increased management cost to do so**

Possible limitation of FLEGT VPA

- **Some studies shows:**
 - **Even VPA is implemented, still 90% EU timber import might be illegally sourced, due to**
 - **Defect of VPA design, mainly only applicable to processed products (simple sewing on sawnwood as processed timber products)**



Opportunities China

Opportunities for China

- **If China signs VPA:**
 - **China will have a sustained export market in EU, which is very important**
 - **China might have some assistance (such as capacity building, financial assistance, technology transfer), which is not very important for China**



Challenges for China

China' Industry – Current Situation

- China's wood industry is developing very rapidly in terms of production, consumption, import and export
- However, China's wood industry is a very extensively managed
 - Most of mills are medium and small, and products are low and medium quality
 - Most of mills are of very low profitability
 - Heavily hurt in recent 2 years due to financial crisis
 - Export oriented mills can survive mainly due to export drawback

China' Industry – Current Situation

- **China's word industry:**
 - **Is a very lowly profitable sector**
 - **Thanks to trade policy of “export drawback” of about 13-15%**
 - **Even if management cost increased by 2-3%, significant impact rises, which will lead to:**
 - **Less competitiveness**
 - **Decreased import of materials**
 - **Decreased export of products**

Challenges for China - Economic

- There are many challenges if China signed VPA:
 - Decrease products export, due to strict requirement
 - Decreased raw materials import, as not every imported logs and other raw materials are legally verified
 - Increase management cost by producers, due to DD or legality verification
 - Weakened products competitiveness in the international market
 - **Thus further hindering the wood industry development**

Challenges for China - Technical

- **If China signed VPA:**
- **Increased difficulties to identify materials sources**
 - **Domestic materials: generally easy**
 - **Imported materials:**
 - **Some is easy if sourced from developed countries (not much) and from VPA signed countries**
 - **Mostly difficulty or impossible if sourced from no-VPA signed countries, such as Russia etc**

Challenges for China - Managerial

- **China's industry has difficulties in verifying materials sources due to extensive management level at all levels and at all places**
- **There is lack of a national timber legality verification scheme even for domestic timber, although China well implements timber harvesting process (harvesting license, transport license and processing license)**
- **There is a lack of chain of custody tracing scheme**

China's Effort


- **China understand EU's FLEGT**
- **China attaches great importance to tackling illegal logging and associated trade**
 - **Internally: strengthening forest law enforcement and governance**
 - **Externally: Initiate imported timber legality verification scheme, currently a pilot project under EU/UK support (CAF and Proforest)**
- **Educate industry to response Lacey Act and EU DDR**

FT/UBC Study

- **EU-EFI FLEGT Asia commissioned FT/UBC to conduct a study about forecasting impacts on Asia's wood products industry**
- **Report is just available**
- **4 scenarios were studied:**
 - **Scenario 1: Business as usual**
 - **Scenario 2: Lacey**
 - **Scenario 3: Lacey + VPA**
 - **Scenario 4: Lacey + VPA + EU DDR**

FT/UBC Study Outcome supports

- **Decreased production and export** levels for those countries that continue to import of logs from known “risky” countries: due to increased cost of logs (due to increased cost of management in verification)
- **Higher costs for exporters** to the US and EU: due to the need to keep track of the material sources of their products



Conclusions and Recommendations

Conclusions

- **There are more challenges than opportunities of FLEGT for China**
 - **Opportunities: sustained EU market**
 - **Challenges:**
 - **Decreased production and export**
 - **Increased management cost which leads to be less competitiveness**
 - **Technical difficulties to verify**

Recommendations to EU

- Illegal logging and associated trade: **should be tackled seriously**
- Underlying causes should be recognized, due to poverty, poor economy, weak governance in developing countries
- Issues can not be overcome in a night
- Issues should be properly dealt with
- EU's FLEGT (VPA and DDR) is one of approaches
- **DDR implementation is suggested to slow down due to poor management of developing countries**



Thank You