

Summary for Business Entities:
Revised Forest Law and
Status of Timber Legality Verification by Business Entities in China

ITTO Project PP-A/56-342B

“Analysis of Timber Legality Assurance Systems and Good Practices
in China, Myanmar and Viet Nam for Sustainable Timber Trade”

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Revised Forest Law and Status of Timber Legality Verification by Business Entities in China

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1. Introduction.

To promote sustainable forest management, international efforts to control illegally harvested timber have been made for the past several decades. In 2008, the United States amended the Lacey Act, followed by the EU's introduction of the EU Timber Regulation in 2010, and Australia's enactment of the Illegal Logging Prohibition Act in 2012. Japan also enacted the Clean Wood Act in 2016 and South Korea amended the Act on Sustainable Use of Timbers in 2017.

As China has become a central hub for global timber and wood products trade in recent years, there has been a growing concern over the legality of wood products exported from China. In 2015, a building materials distributor in the USA that imported flooring materials from China was convicted of a felony violation of the Lacey Act for mislabeling oak illegally harvested in Russia as British oak. The UK's National Measurement Agency conducted a species analysis of plywood imported from China and found that the species labels on plywood imported by nine out of 13 businesses were incorrect¹. In interviews with Japanese timber importers, China is often named as one of difficult sources to verify the legality of timber products along with Russia and Vietnam.

Meanwhile, in China, legality verification has been voluntarily conducted, mainly by businesses exporting to European and U.S. markets. In addition, the Forest Law in China was revised in 2019 to clearly prohibit the handling of illegally harvested timber.

In this project (PP-A/56-342B "Analysis of Timber Legality Assurance Systems and Good Practices in China, Myanmar and Viet Nam for Sustainable Timber Trade"), we attempted to clarify the current status of anti-illegal logging measures in China under the revised Forest Law, as well as the actual implementations by the timber-related business. Details were compiled in the following two technical reports.

- 1) Legislation and Other Initiatives for Legal Timber Trade in China
- 2) Status of Timber Legality Verification by Business Entities in China

The purpose of this summary is to assist due diligence conducted by businesses importing timber and wood products from China by summarizing the contents of the two technical reports.

¹ Pillet, N., & Sawyer, M. (2015). EUTR: Plywood imported from China. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/402325/Chinese_Plywood_Research_Report.pdf

2. Overview of Timber Supply and Demand in China

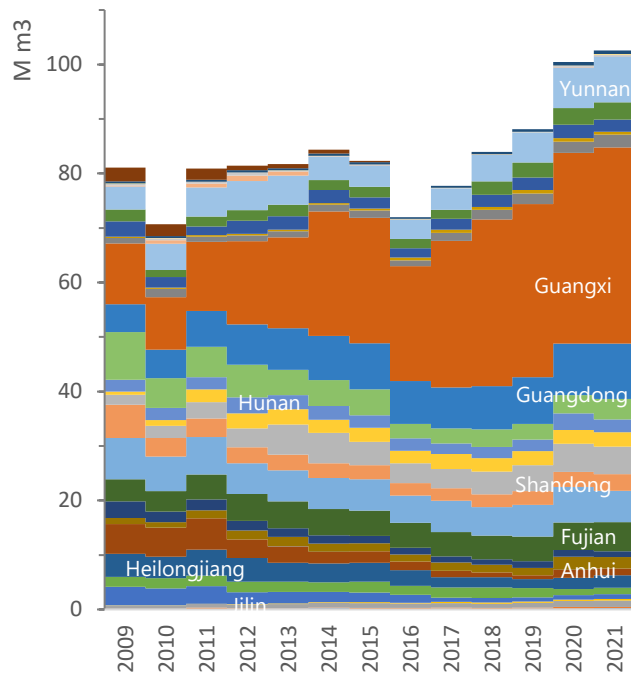


Figure 1 Log production by province (in million cubic meters). Source: China Statistical Yearbook

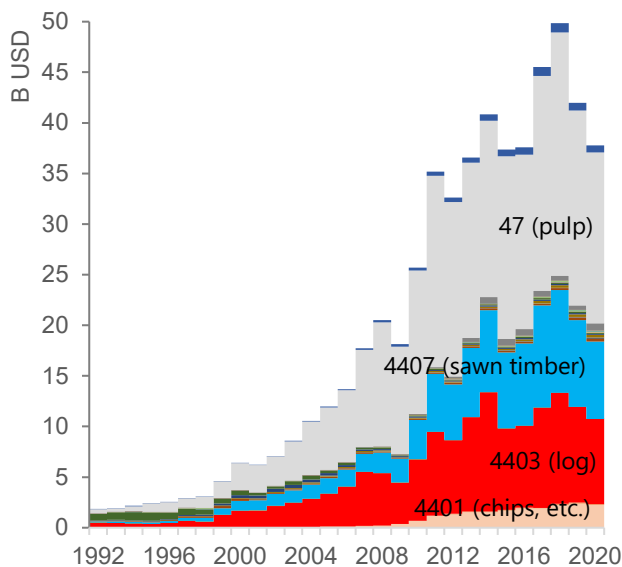


Figure 2 Trends in China's timber imports (in billions U.S. dollars). Source: Comtrade

Nearly 100 million cubic meters of logs have been produced annually in China for the past decade. Since the late 1990s, policies to protect the country's natural forests have been in place, and in 2017, logging of natural forests was essentially banned throughout the country. As a result, domestic timber production has shifted from natural forest to plantation of fast-growing species (poplar, eucalyptus, etc.). In the past, the Northeast and East China regions were the main timber production areas, but in recent years, more than 30% of the nation's production has been produced in Guangxi (Fig. 1).

On the other hand, China is now the world's largest importer of logs and sawn timber (Fig. 2), with a timber self-sufficiency rate of 49% in 2021. The EU and New Zealand are the main source for logs, and Russia for sawn timber (Fig. 3).

Among timber from the high-risk countries known to have high levels of illegal logging, the largest imports were sawn timber from Russia (about 15 million cubic meters in 2020) and logs from Papua New Guinea and Solomon Islands (about 2 million cubic meters each). Imports from other tropical countries each represent less than a few percent of China's total imports. However, for many tropical countries,

China is the largest timber export destination. In 2020, China imported 60% of the world's trade of tropical log and 63% of the world's trade of tropical sawn timber (Fig. 5).

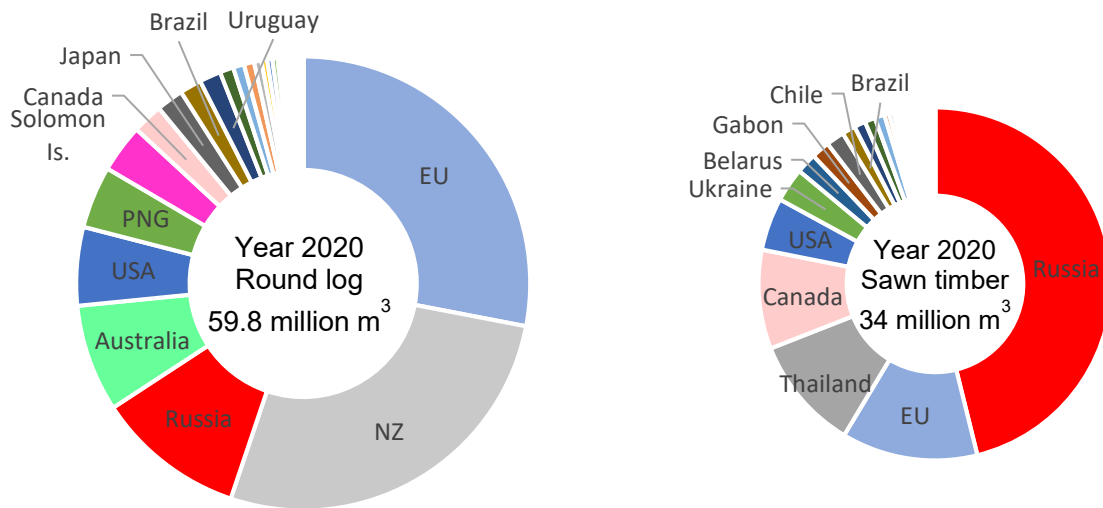


Figure 3 China's imports of log and sawn timber by source country in 2020. Source: Comtrade

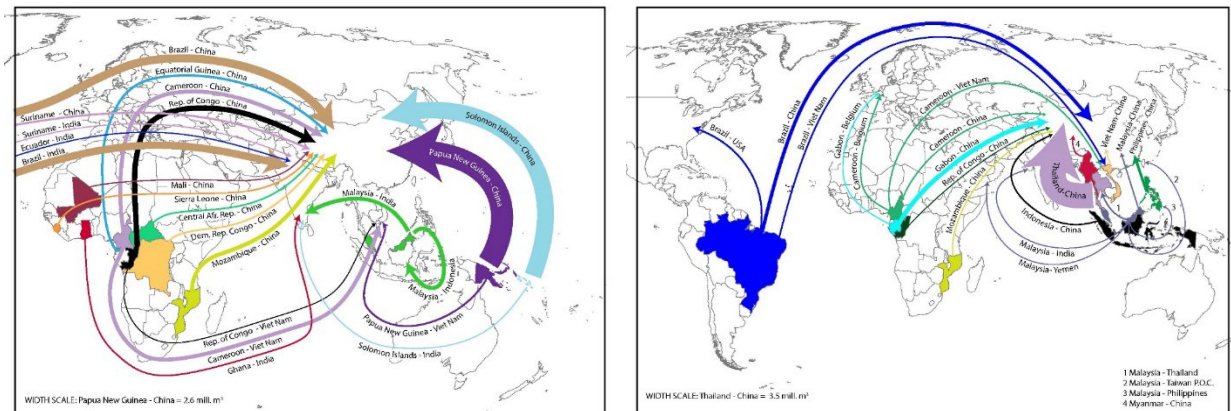
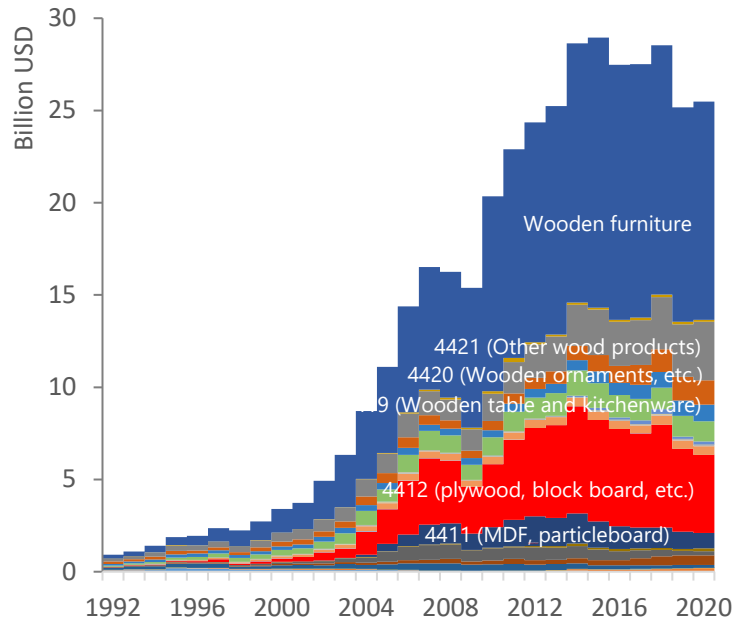


Figure 4 Major trade flows of tropical logs (left) and sawn timber (right) in 2020. Source: ITTO



Plywood, furniture, and a variety of wood products are exported from China (Fig. 5). However, the majority of wood produced in or imported to China is consumed within China. For example, China is currently the world's largest exporter of plywood, but the volume only accounts for about 10% of domestic production.

Figure 5 China's Timber and Wood Products Exports (in billions of U.S. dollars). Source: Comtrade

3. Provisions of the 2019 Revised Forest Law against Illegal Logging and its Application

China's Forest Law was amended in 2019 and is in effect from 2020². Its Article 65 prohibited trade and processing of illegally harvested timber. Article 78 also stipulates penalties for violating it.

Article 65. Any timber operating or processing enterprise shall keep a standing book for entry and exit of raw materials and products of woods. No organization or individual may purchase, process, and transport woods in full awareness of their illegal origins such as illegal felling or wanton deforestation.

Article 78. Anyone who, in violation of the provisions of this Law, purchases, processes, and transports woods in full awareness of their illegal origins such as illegal felling or wanton deforestation, shall be ordered by the competent authorities of forestry of the people's government at or above the county level to cease the illegal activities and confiscated of the woods illegally

² The English translation of the revised Forest Law is quote from < https://english.mee.gov.cn/Resources/laws/envir_relatedlaws/202102/t20210207_820735.shtml>

purchased, processed, and transported or the income from sale, and may be imposed a fine with no more than three times of the price of the woods illegally purchased, processed, and transported.

Despite the fact that the Forest Law has been amended for almost three years, implementing regulations for its implementation is not yet published. A draft of the implementing regulations was opened for public comment in the middle of 2022, but there were no provisions related to this Article 65. For this reason, some thought that Article 65 might not yet be enforced. However, as shown below, there are already at least two cases where penalties have been imposed under the Article 65 on businesses that purchase or process illegally harvested timber. These were operated in conjunction with the Article 65 and regulations at the provincial level.

On December 2, 2021, the Forestry Bureau of Lushan County, Pingdingshan City, Henan Province, confiscated the purchased timber and fined the purchaser RMB 2,432, 1.8 times the price of the timber, in accordance with the Article 65 of the Forest Law and the Administrative Discretionary Standard (trial) of the Forest Law implemented by Henan Province, for purchasing illegally harvested oak wood.³

On April 15, 2022, the Natural Resources Bureau of Xianju County, Taizhou City, Zhejiang Province, issued an administrative penalty against villagers and processing business in the county for purchasing and processing illegally harvested pine boards. The County Natural Resources Bureau conducted interviews and on-site inspections of the business, and in accordance with Article 65 of the Forest Law and the Implementation Standards for Discretionary Authority of Administrative Punishment in the Main Forestry Industry of Zhejiang Province, issued a notice of administrative punishment, ordering them to stop illegally acquiring pine logs, and to pay double the price of the illegally purchased and processed timber, a total of RMB 6,214.⁴

³ <http://www.xayzthm.com/upload/files/2022/2/211965861.pdf>

⁴ http://www.zjxj.gov.cn/art/2022/4/20/art_1636623_58972549.html

4. Status of Legality Verification Efforts by Timber-Related Businesses in China

Materials and methods

The status of legality verification efforts by timber-related businesses in China was investigated through an interview survey. The survey was conducted in cooperation with the China Timber and Wood Products Distribution Association (CTWPDA). A questionnaire was developed for the interviews, and CTWPDA staffs approached businesses to accept the interviews and interviewed them (mainly via SNS and telephone).

The interview survey was conducted in two time periods in 2022 (Table 1). The targeted businesses for the first phase were selected mainly from CTWPDA member businesses, with the majority of businesses involved in distribution or processing, such as timber imports. On the other hand, the targeted businesses for the second phase were selected from among those certified under the Japanese Agricultural Standards (JAS). Most of them were manufacturers of plywood, LVL (Laminated Veneer Lumber), and flooring. In total, data was obtained from 72 businesses in the first and second phases.

Table 1 Interview period and targeted businesses

Phase	Interview period	Number of responding businesses	Targeted businesses
1st phase	Mar. 24, 2022 - Apr. 29, 2022	35	<ul style="list-style-type: none">• Selected mainly from CTWPDA members• Mainly importers to China and processors
2nd phase	Oct. 10, 2022 – Nov. 16, 2022	37	<ul style="list-style-type: none">• Selected mainly from JAS-certified businesses• Mainly plywood, LVL, flooring manufacturing and exporting (to Japan) companies

Results

Profile of interviewed businesses

The interviewed businesses were located in 15 provinces, with the largest number in Jiangsu Province (Table 2). In particular, in the second phase, 21 of the 37 companies were located in the province. Jiangsu Province has the largest volume of log imports in China and the largest number of JAS-certified factories. Shandong Province had the next largest number.

Ten business were state-owned and 56 were privately owned. Most of the businesses were established from the late 1990s to the 2010s (Fig. 6). The number of employees ranged from 10 to several hundred (Fig. 7), and the majority of the businesses had sales of 100 million to 10 billion RMB in 2021 (Fig. 8).

Table 2 Location of Businesses Interviewed

Province	1st phase	2nd phase	Total
Beijing	4		4
Tianjin	1		1
Hebei		2	2
Liaoning		3	3
Heilongjiang	3		3
Shanghai	4	1	5
Jiangsu	5	21	26
Zhejiang	1	4	5
Shandong	5	4	9
Henan		1	1
Hubei	1		1
Guangdong	6		6
Guangzhou	2	1	3
Chongqing	2		2
Qinghai	1		1
Total	35	37	72

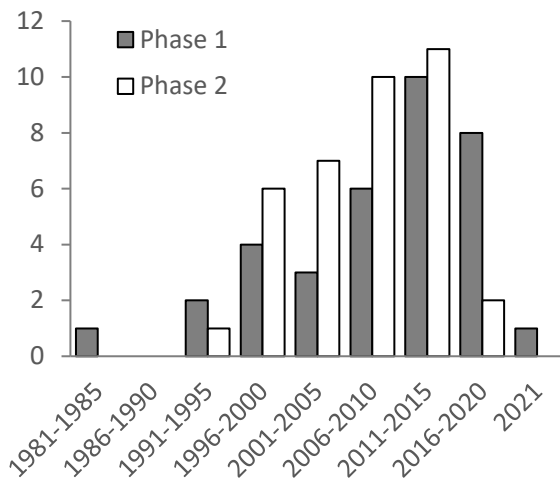


Figure 6 Number of businesses by year of establishment

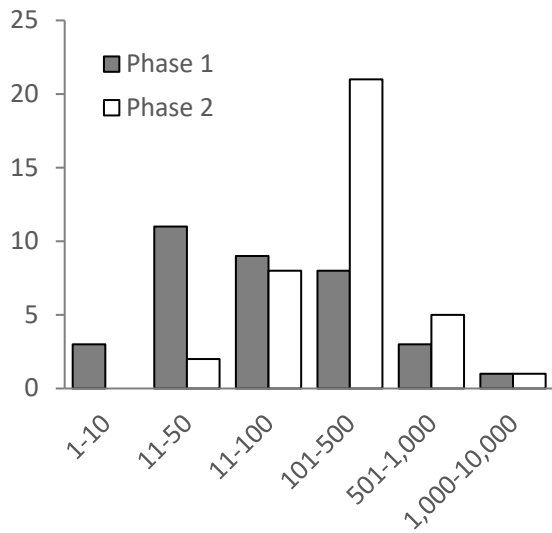


Figure 7 Number of businesses by number of employees

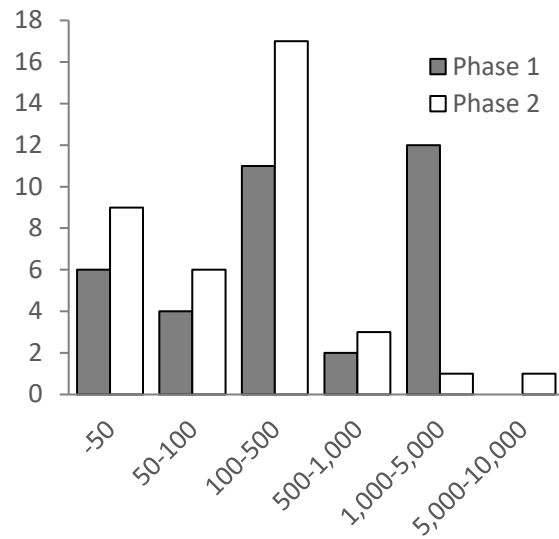


Figure 8 Number of businesses by 2021 sell (in million RMB)

Type of wood procured and sale destination

In the first and second phases combined, 52 businesses procured imported timber and 30 businesses procured domestic timber. Fifty-nine businesses sold in the domestic market, and 42 sold in overseas markets. The types of timber procured and the destination patterns obviously differed between businesses of the first and second phase. In the first phase, three-fourths of the businesses procured only imported timber and sold only on the domestic market (Table 3). On the other hand, more than 80% of businesses in the second phase procured only domestic timber or both domestic and imported timber and sold only to overseas markets or to both domestic and overseas markets (Table 4).

Of the 52 businesses that procured imported timber, 37 imported by themselves, while 15 procured from other businesses in China (Fig. 9). About half of these businesses responded that they did not know who imported the timber into China. Some responded that the reason for this was simply a lack of information, but others cited the fact that when they asked their suppliers in China, they were not told the source for fear of direct transaction without the suppliers.

Table 3 Phase 1: 35 businesses

		Sales destination		
		Domestic market only	Domestic and overseas markets	Overseas markets only
Type of wood	Imported timber only	26	4	3
	Imported and domestic timber			
	Domestic timber only	2		

Table 4 Phase 2: 37 businesses

		Sales destination		
		Domestic market only	Domestic and overseas markets	Overseas markets only
Type of wood	Imported timber only	1	2	1
	Imported and domestic timber	1	10	4
	Domestic timber only		13	5

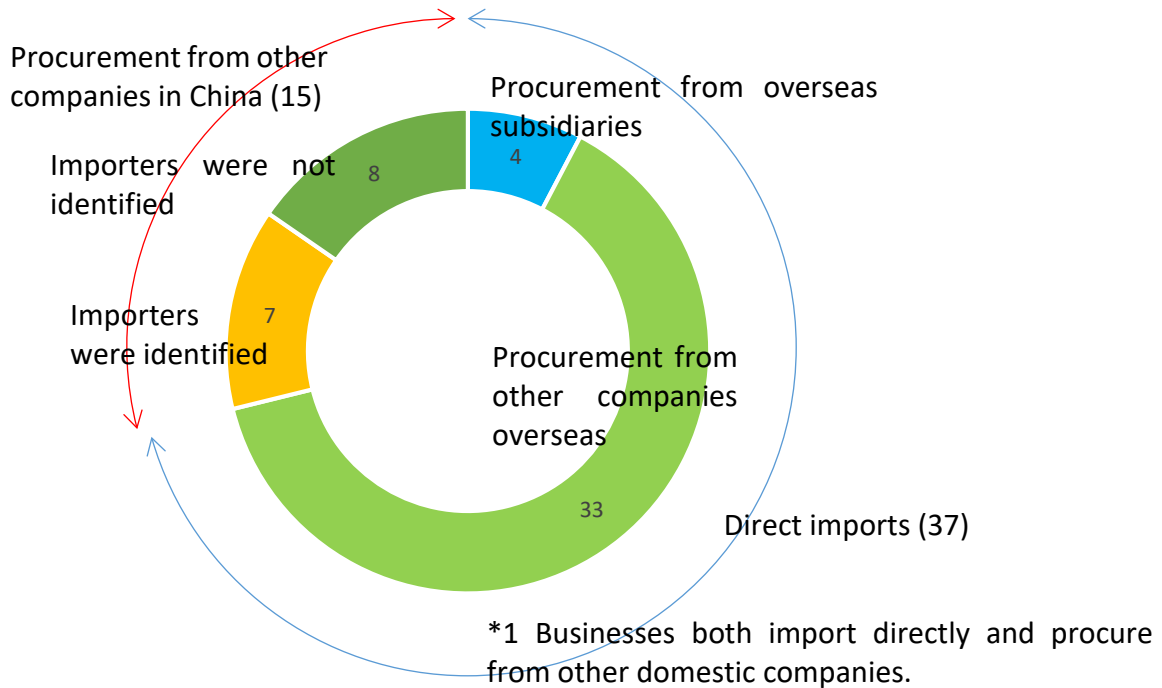


Figure 9 Number of businesses by sourcing methods for imported timber

The countries of origin and species of imported timber are listed in Table 5. Softwood and hardwood timber sourced from a variety of regions around the world were procured. The logging countries with the largest number of businesses procured were New Zealand, followed by Russia, the United States, Canada, and the EU, which are the main suppliers of logs and sawn timber to China (Section 2). Among the Phase 2 businesses (JAS-certified businesses), majority of them procured Radiata Pine from New Zealand, while they also procured Russian Larch, Black Walnut and American Cherry from US, and a variety of hardwoods from Africa.

About domestic timber, timber from 13 provinces were procured (Table 6). Many of the interviewed businesses procured timber from Jiangsu and Shandong provinces where most of them located, but there were also businesses that procured timber from inland provinces such as Jilin, Sichuan, Shaanxi, and Gansu. In terms of tree species, planted poplar and eucalyptus were procured from many provinces.

Table 5 Origin and species of imported timber (52 businesses)

Country of origin of imported	1st phase	2nd phase	Tree species
NZ	10	12	辐射松 (Radiata Pine)
Russia	13	4	樟子松 (European Red Pine) 落叶松 (Russian Larch) 白松 (White Pine?) 杨木 (Poplar) 桦木 (Birch) 柞木 (Oak)
USA	10	3	南方松 (Southern Yellow Pine: <i>Pinus palustris</i> , <i>P. elliotii</i> , <i>P. echinate</i> , <i>P. taeda</i>) 花旗松 (<i>Pseudotsuga menziesii</i>) 铁杉 (<i>Tsuga</i> spp.) 黑胡桃 (Black Walnut) 樱桃 (American Cherry) 红橡 (Red Oak) 白橡 (White Oak) 黄杨 (<i>Liriodendron tulipifera</i>) 白蜡 (Maple?)
Canada	12		南方松 (Southern Yellow Pine) 花旗松 (<i>Pseudotsuga menziesii</i>) 铁杉 (<i>Tsuga</i> spp.)

			SPF (Spruce, Pine, Fir)
EU (Germany, France, Sweden, Finland, Croatia etc.)	9	1	云杉 (<i>Picea spp.</i>) 樟子松／赤松 (European Red Pine) 白橡 (White Oak) 榉木 (European Beech)
Africa (Cameroon, Gabon, Liberia, Mozambique, Madagascar etc.)*	5	4	奥坎 (<i>Cylicodiscus gabunensis</i>) 阿尤斯 (<i>Triplochiton scleroxylon</i>) 沙比利 (<i>Entandrophragma cylindricum</i>) 缅甸木 (<i>Azelia bipindensis, A. pachyloba</i>) 绿柄桑 (<i>Piptadeniastrum africanum</i>) 非洲柚木 (<i>Pericopsis elata</i>) 菠萝格 (<i>Intsia bijuga</i>) 小斑马 (<i>Microberliniac brazzavillensis</i>) 奥古曼 (<i>Aucoumea klaineana</i>)
Japan	6	1	柳杉 (Japanese cedar)
Ukraine, Belarus	6		白松 (“white pine”) 云杉 (<i>Picea spp.</i>) 赤松 (Red Pine) 樟子松 (European Red Pine) 落叶松 (Russian Larch)
Brazil	6		火炬松 (<i>Pinus taeda</i>) 湿地松 (<i>Pinus elliottii</i>)
Chile	6		湿地松/火炬松 (<i>Pinus elliottii, P. taeda</i>) 辐射松 (Radiata Pine)
Thailand	2	2	橡胶木 (Rubber tree)
Uruguay	2		火炬松 (<i>Pinus taeda</i>)
Colombia, Venezuela	2		松木 (<i>Pinus spp.</i>)
PNG, Solomon Is.	2		香柏木 (cedar)
South Africa	1		肉豆蔻 (<i>Myristica fragrans</i>)
Philippines	1		唐木 (<i>Pometia spp.</i>)
Total	33	18	

Table 6 Origin and species of domestic timber (30 businesses)

Province	Number of businesses	Tree species
Hebei	1	桦木 (Birch), 杨木 (Poplar)
Inner Mongolia	1	樟子松／赤松 (European Red Pine)
Jilin	2	桦木, 水曲柳 (Ash), 榆树 (Elm), 松木 (Pine)
Heilongjiang	1	云杉 (<i>Picea asperata</i>)
Jiangsu	18	桐木 (Paulownia tree), 杨木, 桉木, 桦木, 水曲柳, 松木
Zhejiang	1	杨木, 桉木
Jiangxi	1	杨木, 桉木
Shandong	9	杨木, 桦木, 松木
Henan	2	杨木
Guangxi	4	桉木
Sichuan	2	桉木
Shaanxi	1	云杉
Gansu	1	云杉

Of the businesses selling in overseas markets, Japan was the country to which the largest number of businesses exported (35 businesses) (Fig. 10). Other countries where many businesses exported included the U.S., EU & UK, Australia, and South Korea, all of which have laws and regulations against illegal harvested timber, including the Clean Wood Act of Japan.

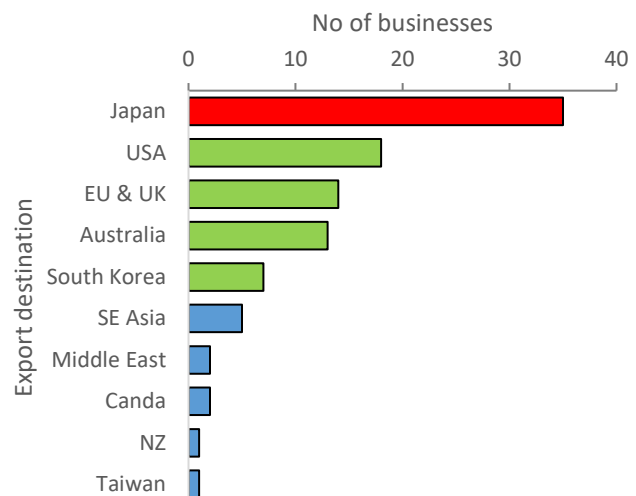


Figure 10 Number of businesses by export destination

Status of legality verification

Out of 72 businesses surveyed, 70 businesses responded that they have a due diligence system for legality and sustainability of timber and provide related information to customers. The Forest Law revised in 2019 requiring all timber distribution and processing businesses to establish an own standing book for entry and exit of timber and wood products. Of the 72 businesses, 70 also responded that they already have a standing book. 66 responded that their standing book included information related to the legality of timber.

During the second phase, respondents were asked whether they require their suppliers to provide documentation on legality or sustainability. Of the 18 businesses that procure imported timber and the 31 businesses that procure domestic timber, all responded requiring such documentation.

Due to the circumstances of the COVID-19, the author did not directly visit the businesses to interview, thus is not able to confirm whether these businesses were truly implementing as they responded. However, we could say with certainty that many businesses in China are aware of their obligation to verify legality when procuring timber and wood products and to provide relevant information to their customers, regardless of whether the timber and wood products are imported or domestically produced, and whether the customers are inside China or overseas.

Despite this, it was found that not all the businesses interviewed had obtained proof of legality for their entire procurement. Figure 11 shows the percentages of businesses that obtained legality certification document for their entire procurement volume and those that obtained it only for a portion, by imported or domestic timber, and sales destination. There were no businesses that obtained no legality certification at all.

With the exception of two businesses that procure only domestic timber and sell only to the domestic market, about half of the businesses in all other categories reported that they had obtained legality certification for the entire amount of procurements. We had expected in advance that a higher percentage of businesses selling to overseas markets would have obtained legality certification for all volumes than those selling to the domestic market, but there was no significant difference. We also expected that more businesses would have obtained legality certification for the entire amount of procurement for domestic timber than those for imported timber, but there was also no significant difference between them.

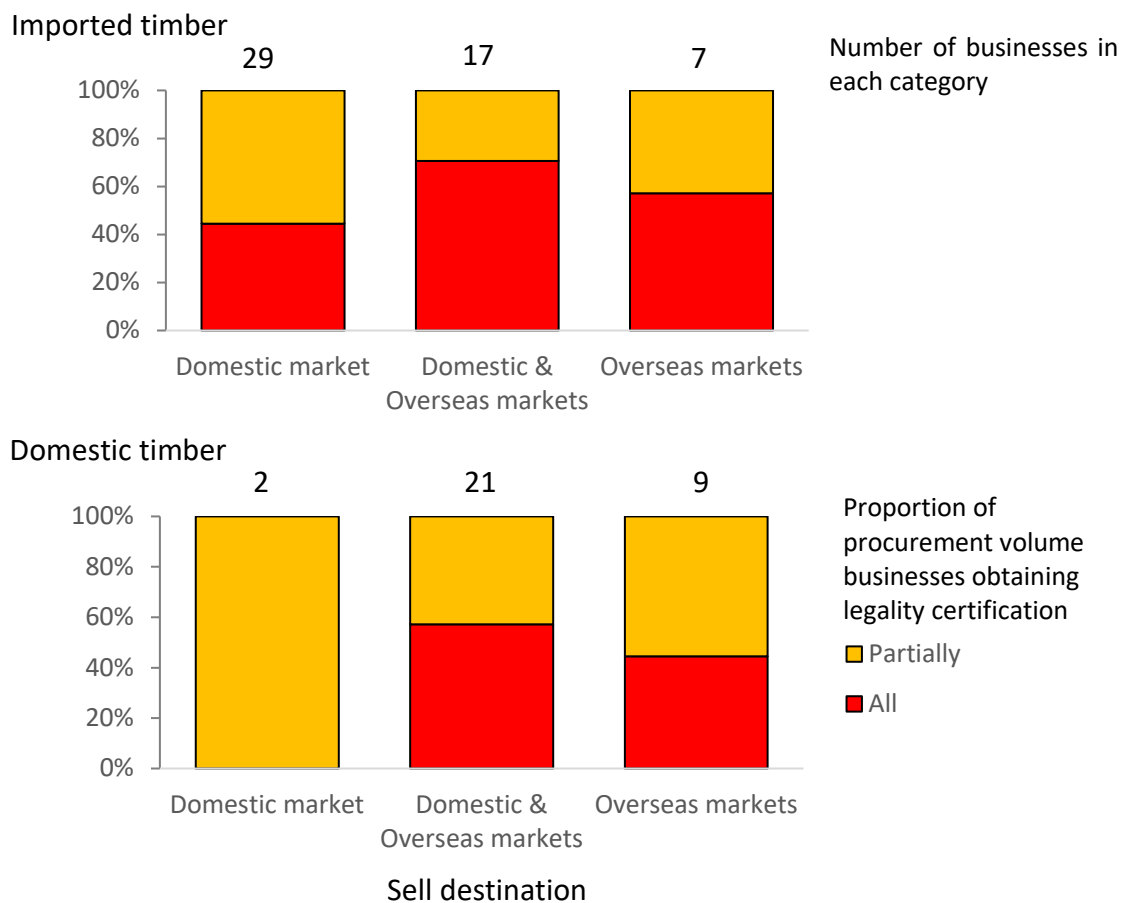


Figure 11 Proportions of businesses that obtained legality certification for all/part of their procurement volume

In terms of the reasons for businesses required legality certification from their suppliers, the largest number of them cited the revised Forest Law and other domestic laws and regulations in China (Fig. 12). This was particularly prominent among businesses that sell in the domestic market, but even among those that sell overseas, many cited this as the reason, especially for domestic timber. In addition, marketing in overseas markets or requirements from customers were also cited by many businesses as the reason for requiring legality certification from suppliers.

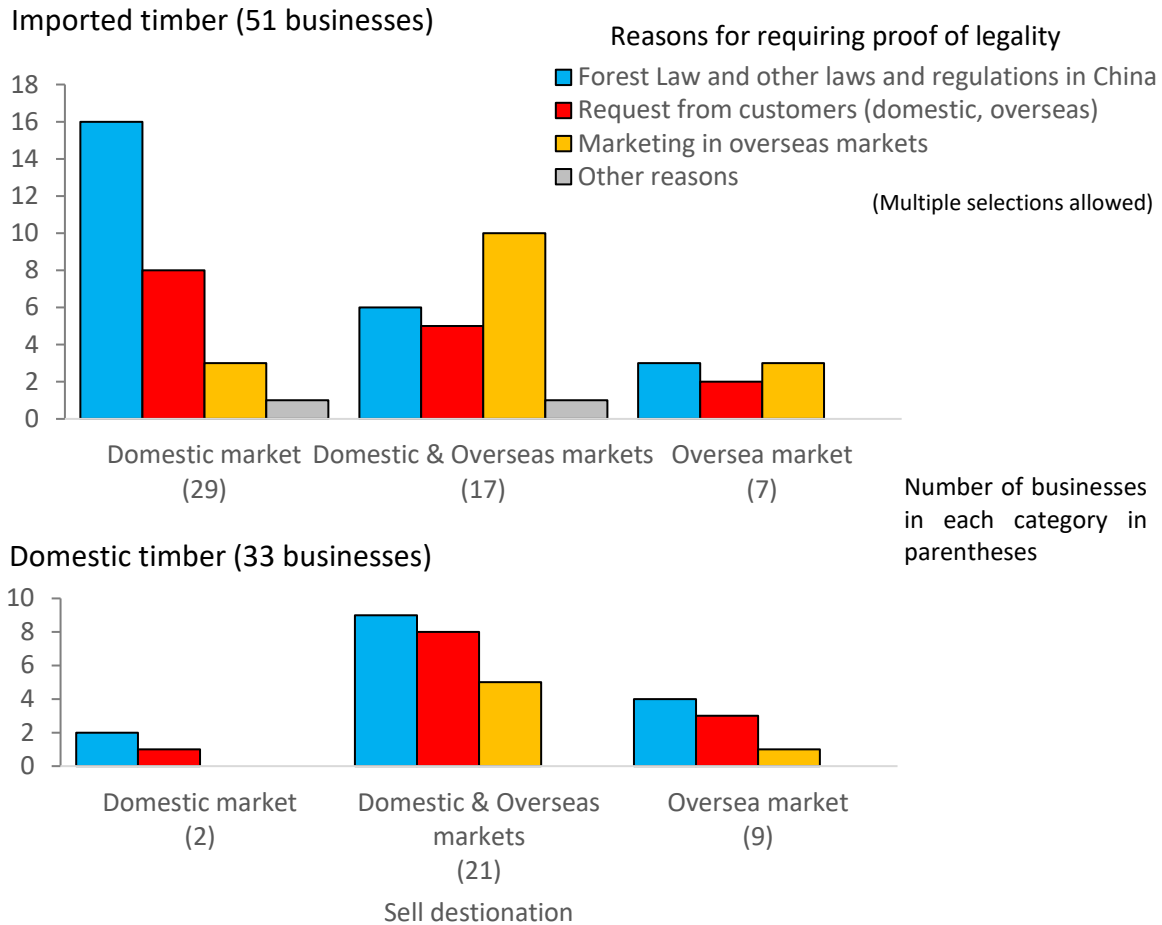


Figure. 12 Reasons for requiring legality certification from suppliers

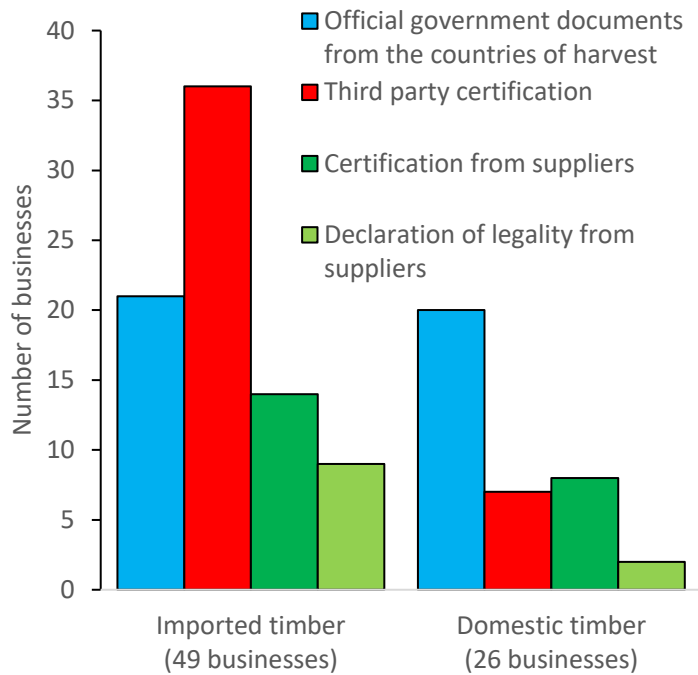


Figure 13 Legality certification documents required from suppliers

The businesses were also asked in regards to the types of documents they required from their suppliers as evidence of the legality (Fig. 13). However, some businesses could have provided responses based on the documents they requested, regardless of whether they obtained them or not, while others could have provided answers based on the documents they actually obtained, regardless of whether they had requested them or not.

For imported timber, the largest number of businesses used third-party certifications such as forest certification, while for domestic timber, the largest number of businesses used harvesting permits from local governments.

In regarding to challenges the businesses encountered in obtaining these legality certifications, about 30% of businesses reported having no particular challenges for imported and domestic timber respectively (Fig. 14). It means, 60-70% of businesses encountered some challenges both for imported and domestic timber. For imported timber, the most common challenges reported by businesses directly importing timber was the absence of legality certification systems in the countries of harvest, or the businesses are unaware of it. Meanwhile, for businesses that procure imported timber from other businesses in China, the most common challenge was that their suppliers are not logging companies.

As for domestic timber, many businesses cited the reasons that the supply chain is complicated and that some suppliers do not have legality certificates. In particular, some business reported that harvesting permit is not available for timber harvested in area around farmers' houses because the area is not covered by the system.

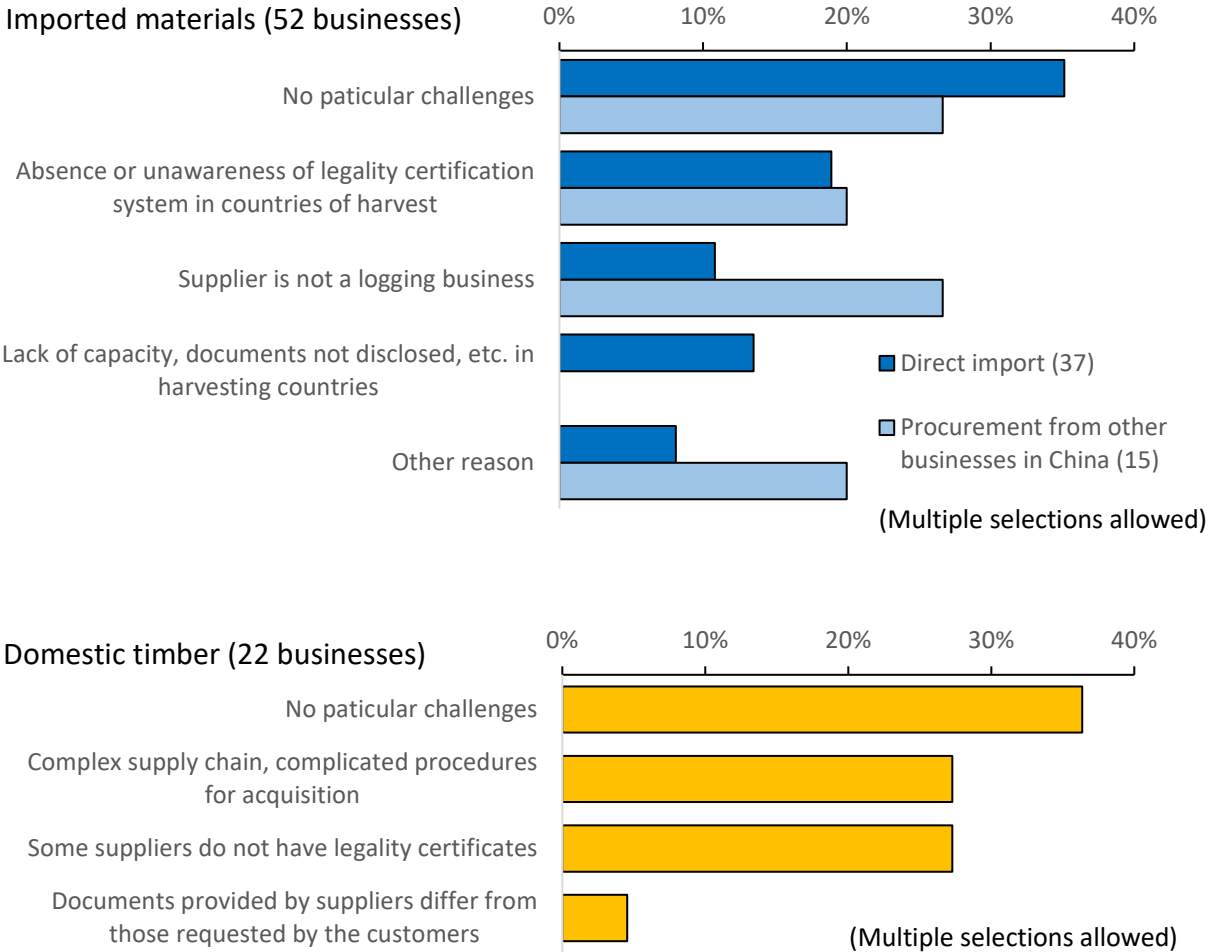


Figure 14 Proportion of businesses encountered challenges in obtaining proof of legality

In terms of measures taken to ensure the legality or sustainability of timber at the time of harvest, the largest number of businesses, both imported and domestic, cited changing suppliers (business or country) with traceable supply chains (Fig. 15). The CTWPDA also indicated that they have supported their members to conduct this solution.

Other measures were also taken by many businesses for imported timber. Some importers from Cameroon, Gabon, and Russia reported acquiring their own logging concessions or establishing own plantations. Some also reported supporting their suppliers to obtain certification on legality and sustainability. For example, one business mentioned that they helped their domestic suppliers of New Zealand Radiata Pine to obtain Chain of Custody (CoC) certification.

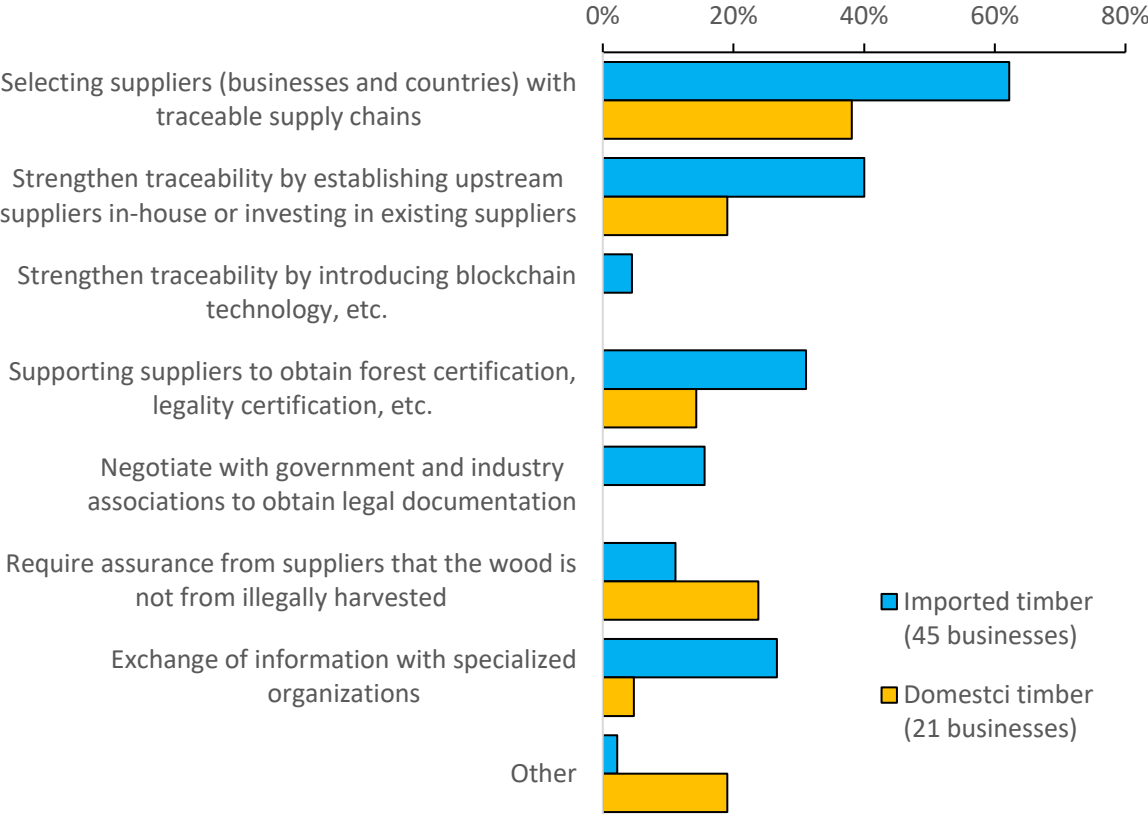


Figure 15 Measures taken to ensure the legality or sustainability of timber

During the first and second phases, different questions were asked in the documentation provided to the customers. In the first phase, businesses were asked whether their customers requested proof of legality, with 22 out of 35 businesses responding affirmatively. However, even among those who answered negatively, some provided proof of legality to their customers, and at least 11 businesses offered FSC certification information. In the second phase, businesses were asked what documents they provided to their customers as proof of legality. Out of the 22 businesses that responded, 10 reported official documents like logging permits from the government of the country of harvest (or local government for domestic timber), while 9 offered third-party certifications, such as forest certification.

5. Summary and Implications for Importers of Wood Products from China

In China, Article 65 of the Forest Law, which was amended in 2019, clearly prohibits the purchasing, processing, and transporting of woods in full awareness of their illegal origins such as illegal felling or wanton deforestation. Although the implementing regulations for this revised law have not yet been published, the Article 65 is already in effect along with local government-level regulations.

The results of the interview survey indicated that most of the wood-related businesses in China are aware of their responsibility to verify legality of procured timber, regardless of whether it is imported or domestically produced and whether it will be sold domestically or overseas. The largest number of businesses cited the revised Forest Law and other laws and regulations in China as the reason for confirming legality. These results were contrary to the expectation that businesses in China would only conduct legality verification for the sake of marketing and demand from Western customers and that it would mainly be exporters that would do so.

The results of this study provide some suggestions. Wood product importers from China can negotiate with their suppliers based on the assumption that they are obligated not to handle illegally logged timber under the revised Forest Law and other regulations in China, regardless of the timber's origin and sales destination. To efficiently confirm legality, importers can check how suppliers confirm legality according to Article 65 of the revised Forest Law.

On the other hand, it is important to note that the Chinese government and businesses may prioritize their own standards (e.g., stable supply of timber to China) in terms of what items and tree species they require to meet what legality standards (rather than those of their suppliers).

For this reason, it is important to importers to confirm whether there are any differences between own standards and those of its Chinese suppliers, and if so, in what respects.

Moreover, this study also shows that not all businesses in China have fully achieved their responsibility to confirm legality. Only 40-70% of businesses answered that they had obtained legality certification for all the timber they procure, and 60-70% of businesses reported some difficulty in verifying the legality of imported and domestic timber. Nonetheless, many businesses are making efforts to ensure legality and sustainability, such as changing procurement sources and investing in upstream activities.

To ensure sustainable procurement of legal wood products from China, it's essential to understand that it's not always easy for Chinese timber businesses to procure timber with legality certification, recognize the challenges faced by them in verifying legality, and support their efforts to ensure legality.