

In collaboration with China-UK Collaboration on
International Forest Investment and Trade, World Wide
Fund for Nature China and The Nature Conservancy



China's Role in Promoting Global Forest Governance and Combating Deforestation

INSIGHT REPORT

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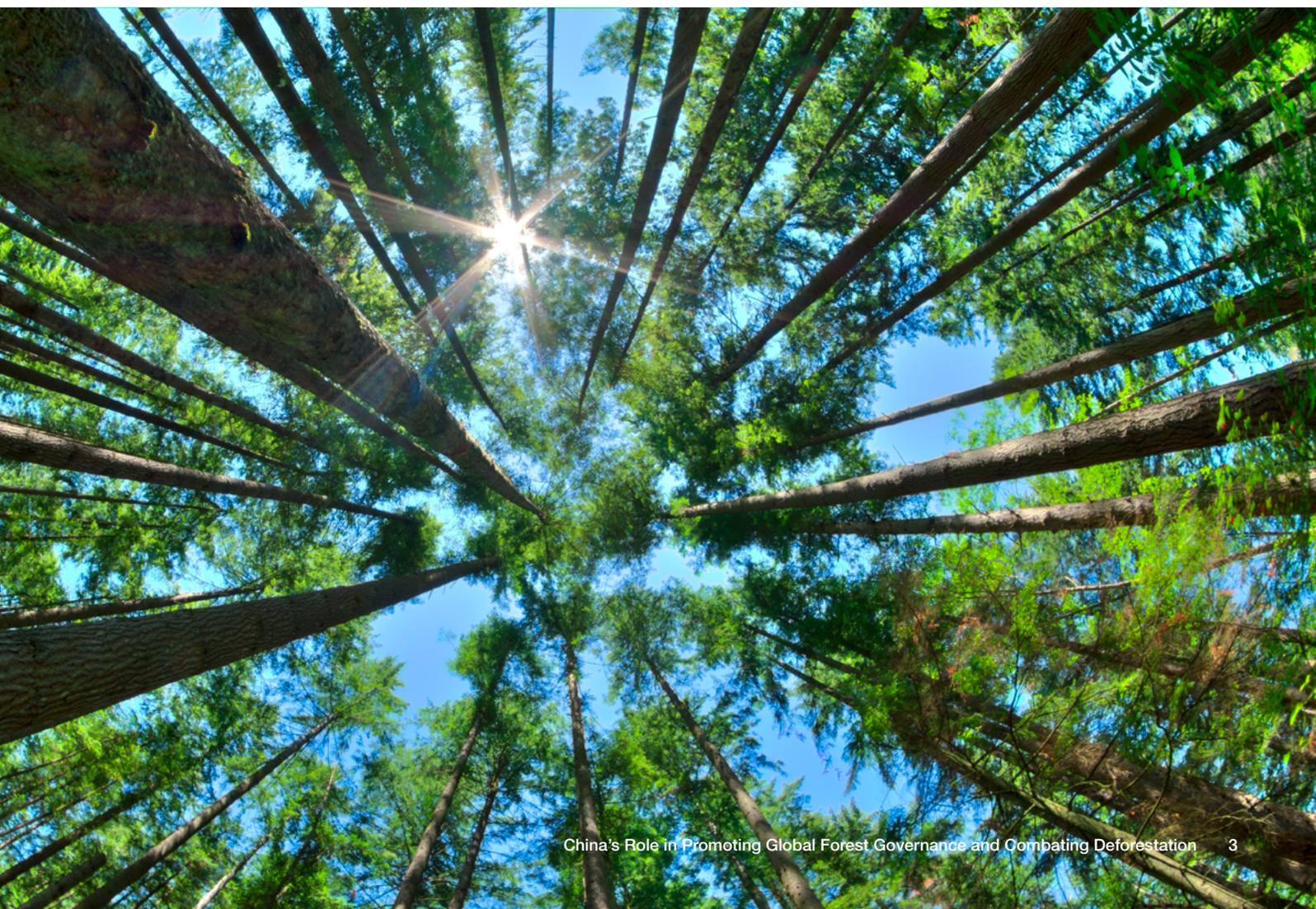
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Foreword



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The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) reported in 2019 that land-use change is the biggest driver of deforestation and biodiversity loss.¹ Agricultural expansion was the primary driver of approximately 80% of all tree-cover loss in the period 2001-2018. It is also now clear that the broader food system contributes more than one third of global carbon emissions and is therefore the core issue when addressing the twin global concerns of climate change and biodiversity loss.

The Tropical Forest Alliance (TFA) – a multistakeholder partnership platform with more than 170 alliance partners, including companies, government entities, civil society, indigenous peoples, local communities and international organizations, and hosted by the World Economic Forum – was initiated to support private-sector commitments to remove deforestation from palm oil, beef, soy and pulp and paper supply chains through forest-positive collective action.

TFA's 2018 report² on the impacts of growing demand in China and beyond for soft commodities (food and forest products) indicated that emerging markets account for an increasingly large proportion of global trade in forest-risk commodities. China alone represents 62% of global soy trade imports, 32% of pulp and paper and 11% of palm oil.

Another recent TFA report on forests, food systems and livelihoods³ shows that the first two decades of the 21st century saw rapid growth in demand for agricultural commodities. Globally, the annual consumption of food and agriculture products rose by about 48% between 2001 and 2018, with China's contribution standing at 22%.

As host of the UN Convention on Biodiversity's (CBD) COP15 Part One last year, China initiated a number of programmes to increase the awareness and coordinated action of businesses around deforestation risks in commodity supply chains. Targeted stakeholders include the key emerging markets of China (all commodities) and India (palm oil), as well as domestic markets in Indonesia (palm oil) and Brazil (cattle, soy).

Two decades ago, illegal logging and the trade in timber from illegal sources was of great global concern. At that time, China was facing the challenges of reduced domestic timber production, due to a logging ban of its natural forests, and increased demand in imported timber products. It has been the world's largest timber importer since 2007. China's importing of logs and sawnwood timber has exceeded the volume of domestic commercial timber since 2014.

In the past 20 years, China has begun to introduce and develop forest certification schemes and related guidelines, as well as setting up global platforms in collaboration with international NGOs, businesses and research institutions. It has made promising progress in promoting timber legality, forest certification, sustainable overseas forest management and the timber green value chain. Today, Chinese companies receive 20% of all global timber products that carry a chain of custody certification from the Forest Stewardship Council (FSC). When China revised its Forest Law in December 2019, it considered issues of forest certification and illegal logging for the first time.

This report, initiated by TFA in collaboration with the World Wide Fund for Nature China (WWF China), the China-UK Collaboration on International Forestry Investment and Trade (InFIT) and The Nature Conservancy China (TNC China), aims to review China's progress on the following issues:

- Addressing challenges around illegal logging
- Developing the forest certification system, mandatory guidelines and market tools
- Enhancing bilateral and multilateral cooperation
- Formulating policy recommendations to support the implementation of the Forest Law
- Addressing growing deforestation challenges from other commodities, such as soy, palm oil and beef

We gratefully acknowledge the support of the China-UK Collaboration on International Forest Investment and Trade, World Wide Fund for Nature China, The Nature Conservancy, Forest Trends, the Research Institute of Forestry Policy and Information at the Chinese Academy of Forestry, the Forest Stewardship Council, and Beijing Zhonglin Union Forestry Planning and Design Institute.

This report is an excellent example of TFA's collective action, bringing together key players in China to gain a better understanding of the country's progress in addressing deforestation challenges. Following the UN's Biodiversity Conference (COP15) Part One hosted by China in October and the UN's Climate Change Conference (COP26) hosted by the UK in November, this report will contribute to the development of China's National Strategy of Global Soft Commodity Green Value Chains to create sustainable supply chains for soft commodities and to address the global challenge of deforestation.

Introduction

To successfully address the global agenda of combating climate change, conserving biodiversity and realizing the Sustainable Development Goals (SDGs), it is critical to curb illegal logging, deforestation and forest degradation. However, only in recent years has the production of soft commodities – especially beef, soy and palm oil – been recognized as one of the main causes of global deforestation, thereby attracting greater international attention. By the end of the 20th century, people increasingly realized that illegal logging, deforestation and forest degradation were not just a local challenge for producer countries and regions but were also driven by the behaviour of consumer countries. As a result, actions have been taken to curb illegal logging, deforestation and degradation locally, while at the same time addressing global demand-side requirements that encourage responsible joint action by all stakeholders along the value chain.

For the past two decades, China – the world's largest importer and consumer of logs, lumber, pulp and paper, soybeans, beef and other agricultural commodities – has been in a position to play an important role in promoting international forest governance. In the context of bilateral and multilateral cooperation, and with the development of market mechanisms and proactive business initiatives, China has made promising progress in international forest governance, especially in promoting timber legality, forest certification, sustainable overseas forest management, and in the greening of supply and value chains. The newly revised Forest Law of the People's Republic of China, adopted on 28 December 2019, not only encourages forest certification but also requires timber-processing enterprises to establish storehouse records for raw materials and products to prevent any organization or individual from purchasing, processing or transporting timber known to be illegally cut or sourced. For the first time, China has included in its Forest Law the certification of forests and the prohibition of the purchase of illegally logged timber.

While many domestic advances have been made in promoting sustainable forestry, China is still only in the initial stages of promoting deforestation-free commodities. The Chinese government has initiated a study of relevant issues associated

with soft commodity value chains through the China Council for International Cooperation on Environment and Development (CCICED). Some leading companies have made commitments and taken initial actions towards the sustainable trading of soy, meat and palm oil that are associated with global deforestation. To date, China has made clear and strong commitments – especially at the UN's Climate Change Conference (COP26) in Glasgow in November 2021 – and taken concrete actions to address global climate change. The 15th Conference of the Parties to the Convention on Biodiversity (COP15) Part One, hosted by China in Kunming in October 2021, also provided a unique opportunity to promote actions that both curb the loss of biodiversity and mitigate against climate change.

We hope that this report, which presents a systematic summary of China's experiences and lessons learned in promoting international forest governance, will help to further accelerate the pace at which China contributes towards a legal international timber trade and more sustainable management of the world's forests. We also hope the report will highlight China's increasingly important role in reducing deforestation from the widespread global trade in commodities such as soy, beef and palm oil.

The research behind this report was conducted by a group of experts with over two decades of relevant experience working in China. The researchers undertook desk reviews of literature and reports, interviewed key actors, and summarized the views of stakeholders who have directly participated in different stages of China's international forest governance. Stakeholders were invited to four seminars organized by the report's principal collaborators: the World Economic Forum, the Tropical Forest Alliance (TFA), the China-UK Collaboration on International Forestry Investment and Trade (InFIT) project, and the World Wide Fund for Nature (WWF).

This paper tracks two decades of the evolution and practice of responsible forest governance and analyses the challenges China faces in combating illegal logging, curbing tropical forest deforestation and promoting the legal trade of timber and other soft commodities. It concludes with a set of practical policy recommendations.

Executive summary

Chapter 1

China's timber production, trade and relevant policies

Over the past 20 years, demand for timber products in China has soared as incomes have risen. Two years after 1998's devastating floods, China launched its Natural Forest Protection Programme to protect the headwaters of the Yangtze and Yellow Rivers, which became a full logging ban on all natural forests in 2017. To meet rising demand for timber, China's domestic production grew 50%, sourced mainly from new plantation forests. Meanwhile, timber imports overtook domestic production in 2014 and swelled to nearly 300 million cubic metres of forest products (roundwood equivalent – RWE) in 2018. China is now the world's largest timber importer – mainly in the form of unprocessed logs, sawnwood and wood chips. About two-thirds of the world's tropical logs were exported to China in 2018.

China is also the world's largest exporter of wood furniture and wood-based panels (plywood in particular). The US is China's largest export market, followed by the EU (including UK), Japan, Australia and South Korea. Since 2008, China's major timber export markets have introduced regulations to ensure only timber from legal sources can enter their markets. China's domestic market for timber products is now huge compared to the export market. However, the concern is that while export markets demand certified timber, domestic markets do not. This issue needs to be addressed through a mix of regulations and incentives.

The huge growth in the import and export of timber products over the past two decades – a period when China and the world ramped up standards to outlaw illegal logging – suggests that fears of regulation creating a “green trade barrier” are misplaced.

Chapter 2

International cooperation and policy reform on timber legality

China's role in the international timber market has fundamentally changed in the past decade. Up to the late 2000s, China was a major producer and exporter of timber products, with a focus on meeting legality standards of EU and US markets. With the growth of domestic timber consumption, the actions China takes to address illegal logging overseas will play a crucial role in the improvement of global forest governance.

On 1 July 2020, Article 65 of China's newly revised Forest Law came into force. It clearly stipulates that: “Timber processing enterprises should establish an account of the entry and exit of raw materials and products. No unit or individual may purchase, process or transport timber that he/she clearly knows was illegally felled or indiscriminately felled in forest regions.”

After joining the WTO in 2001, China substantially reduced import tariffs on timber products. China's principal timber export markets have passed measures to combat illegal logging including the EU's Forest Law Enforcement, Governance and Trade (FLEGT) action plan in 2003, the US Lacey Act Amendment in 2008 and the EU Timber Regulation in 2013. China has also signed

agreements on sustainable forest governance with the US, EU, UK, Japan, Australia, Indonesia and others.

Since 2009, in cooperation with NGOs, industry associations and research institutions have been developing China's Timber Legality Verification System (CTLVS) and Standard, guided by the National Forestry and Grassland Administration (NFGA). To date, 63 enterprises have adopted the “group standard” that requires importers to evaluate and mitigate illegal timber-sourcing risks. The CTLVS is focused mainly on tracking imported and supply chain timber, as domestic timber production in China is already relatively strictly regulated.

Article 65 of China's Forest Law regulates the legality of timber sources, but it is unclear whether it obliges importers to track timber legality back to the original producing country. Analysis shows that not all legally exported timber was drawn from sources that were legally logged. The Chinese government – reluctant to “interfere” in the internal affairs of other countries – is cautious about implementing policies to combat overseas illegal logging, arguing it is the responsibility of sovereign states to take appropriate measures.

Nevertheless, given the persistence of illegal logging around the world, voluntary standards such as CTLVS are unlikely to be effective. To succeed in the fight against deforestation, China needs to integrate illegal logging and associated trade with higher-level international “hot” issues, such as climate change and biodiversity conservation.

Government ministries risk working in silos when addressing the illegal timber trade, especially among imports. China should balance the stick of law enforcement with the carrot of financial incentives to encourage Chinese importers to move more quickly on demonstrating their supply chains are deforestation-free.

Chapter 3

The development of forest certification in China

Forest certification has developed rapidly in China over the past 20 years. More than 2 million hectares of forest are Forest Stewardship Council-certified, while 8.7 million hectares are certified by the China Forest Certification Council (CFCC). Forest certification was initiated in China by WWF in 2001, with the CFCC established two years later. Two National Standards followed in 2012, and in 2014 CFCC was endorsed by the Geneva-based Programme for the Endorsement of Forest Certification Schemes (PEFC). In 2019, China’s newly revised Forest Law encouraged forestry operators to voluntarily apply for forest certification.

Stimulating market demand is the key to driving forest certification forwards. In March 2005, WWF China established the Global Forest and Trade Network-China (GFTN-China), whose members include companies and state-owned forestry bureaus. Major multinationals such as IKEA have promised to preferentially purchase certified raw wood materials and products, helping promote the market development of forest certification in China. The Chinese government could encourage this trend further by framing incentives, such as lower taxes for producers of certified forest products or government procurement of timber that is conditional on certification.

Chapter 4

The role of business and civil society

The publication of three research reports by WWF, Greenpeace and Forest Trends from 2004-2007 revealed global illegal logging and deforestation and the roles China could play. As positive responses to these reports, and as part of its bilateral and multilateral governmental cooperation, the Chinese government deepened its engagement in global forest governance, while Chinese business associations started adopting more sustainable timber-related practices. In 2007 and 2009, the Chinese government published two sets of guidelines on sustainable forest management aimed at Chinese enterprises doing business overseas.

In Gabon, a dozen Chinese companies managing nearly 40% of the country’s forests adopted these guidelines. The companies subsequently increased five-fold the area of forest for which they were able to secure long-term sustainable forest management

permits from the Gabonese government. Meanwhile over a similar period (2007-2017), forest cover in Gabon increased from 85.4% to 90.8% against a backdrop of declining forest cover in much of Africa.

A handful of business-focused alliances in China has been very influential in driving change at home, particularly in supply chains that support the real estate, forest products and paper industries. GFTN-China has played a key role in persuading corporate forest operators to apply for FSC certification for over 2.6 million hectares of forests in China and 400,000 hectares in the Amazon. And in September 2020, the government officially endorsed the “Forest Declaration”, initiated by seven organizations and nine companies at COP21 in Paris in 2015, which calls on Chinese companies to commit to zero deforestation by 2030.

Chapter 5

China’s soft commodities trade and global deforestation

China is the world’s largest importer of soy, beef and wood products, and the second-largest importer of palm oil. The global value chains of these four soft commodities are responsible for at least 40% of global deforestation.⁴ As a major

importer and consumer of soft commodities, China plays a pivotal role in the global soft commodity value chain. Action by the Chinese government and Chinese companies to curb the devastating ecological impacts of soft commodities will help

protect not only the planet but also China's supply chains, its exports to increasingly regulated markets and its global reputation.

Greening the global value chain is in China's vital interests and is aligned with its vision of an Ecological Civilization, its commitments at COP26 and its bilateral agreements with the EU and US to tackle deforestation. By taking the lead, China can prepare for the likely direction of travel that both markets and regulators will take (e.g. the EC's proposed Deforestation Regulation).

In the past five years, Chinese businesses have made important commitments, including a Chinese Declaration on Sustainable Meat Development, the launch of the China Sustainable Palm Oil Alliance and an announcement by COFCO International (China's largest food trader) to remove deforestation from its supply chains.

The applicability of Article 65 of the Forest Law to regulate imported timber and other soft commodities remains an open question. Some Chinese officials are worried China may enforce interference over supplier countries that could compromise the policy of non-interference in the affairs of sovereign nations. However, many of China's trading partners already have laws that require the sustainable production and trade of soft commodities. So in seeking to ensure the soft commodities it imports are sustainably and legally farmed, China would be supporting the sovereignty of trading partners by upholding their laws, policies and commitments.



1 China's timber production, trade and relevant policies

In 2000, China initiated a forest protection programme, which it extended to a full logging ban in all natural forests in 2017. To meet China's soaring demand, imports of logs and sawnwood have accelerated, overtaking domestic timber production which now comes mainly from plantation forests.



1.1 Natural forest protection and timber imports

“ China is the world’s largest producer, trader, and consumer of forest products

“ Two years after 1998’s devastating floods, China launched its Natural Forest Protection Programme to protect the headwaters of the Yangtze and Yellow Rivers. By 2017, China had imposed a full logging ban on all natural forests

In the past two decades, China’s economy has grown rapidly, delivering rising incomes for Chinese citizens. As a result, demand for forest products⁵ has increased and trade in such products has expanded quickly. China is now the world’s largest timber importer, with imports accounting for more than half of its timber supply. Meanwhile, China’s wood-processing industry provides a large number of manufactured products to the world, especially wood-based panels and furniture. By 2015, China had become the world’s largest producer, trader and consumer of forest products.⁶

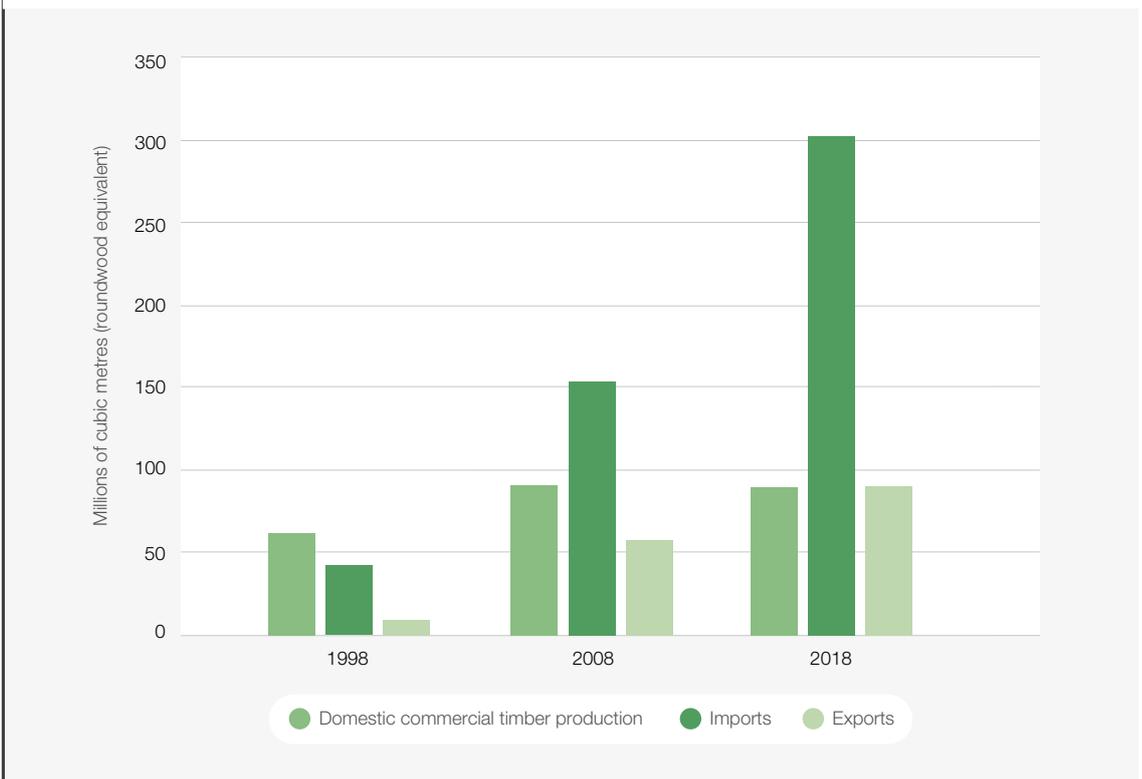
After the devastating floods of 1998, the Chinese government decided to cease logging in the natural forests of the upper reaches of the Yangtze River and the upper and middle reaches of the Yellow River, as well as to reduce logging in the natural forests of northeast China. The Natural Forest Protection Programme (NFPP) was launched in 2000, symbolizing the shift of China’s forestry development from an emphasis on wood production towards ecological conservation.

As a result, China’s annual domestic timber production dropped from 64 million cubic metres in 1998 to 44 million cubic metres in 2002, before recovering to more than 81 million cubic metres in 2008. In 2017, China enforced a full logging ban in all natural forests. Meanwhile, domestic timber production continued to grow, reaching 90 million cubic metres in 2019 – an increase of 50% since the late 1990s.

The growth in domestic timber production has been driven mainly by the development of fast-growing, high-yield plantations. China’s forest area and stock volume have maintained double-digit growth for 30 consecutive years. From 2000 to 2017, 25% of newly established forest areas in the world came from China, making China the global leader in plantation forests. Today, these plantation forests provide more than 95% of China’s domestic timber production.

To plug the gap between domestic timber supply and demand caused by the reduction in domestic timber production following the adoption of the NFPP, the government took measures to encourage timber imports. Starting on 1 January 1999, a zero-tariff policy on timber imports was implemented. Import tariffs on logs, sawnwood, fuelwood, wood chips, pulp and wastepaper have all been reduced to zero. The import tariff on plywood was dropped from 20% to 15%. After joining the World Trade Organization (WTO) in 2001, China, in accordance with its WTO commitments, further reduced tariffs on 249 forest products and eliminated non-tariff measures. Timber imports have been promoted over the past 20 years largely through tariff reductions. China has been the world’s largest log importer since 2007. At the same time, China’s imports have grown faster than its exports, making China a net importer of forest products. By 2018, China imported nearly 300 million cubic metres in roundwood equivalent (RWE), while exports were only 106 million cubic metres RWE (see Figure 1).

FIGURE 1 China’s timber production and trade in forest products^{7,8}



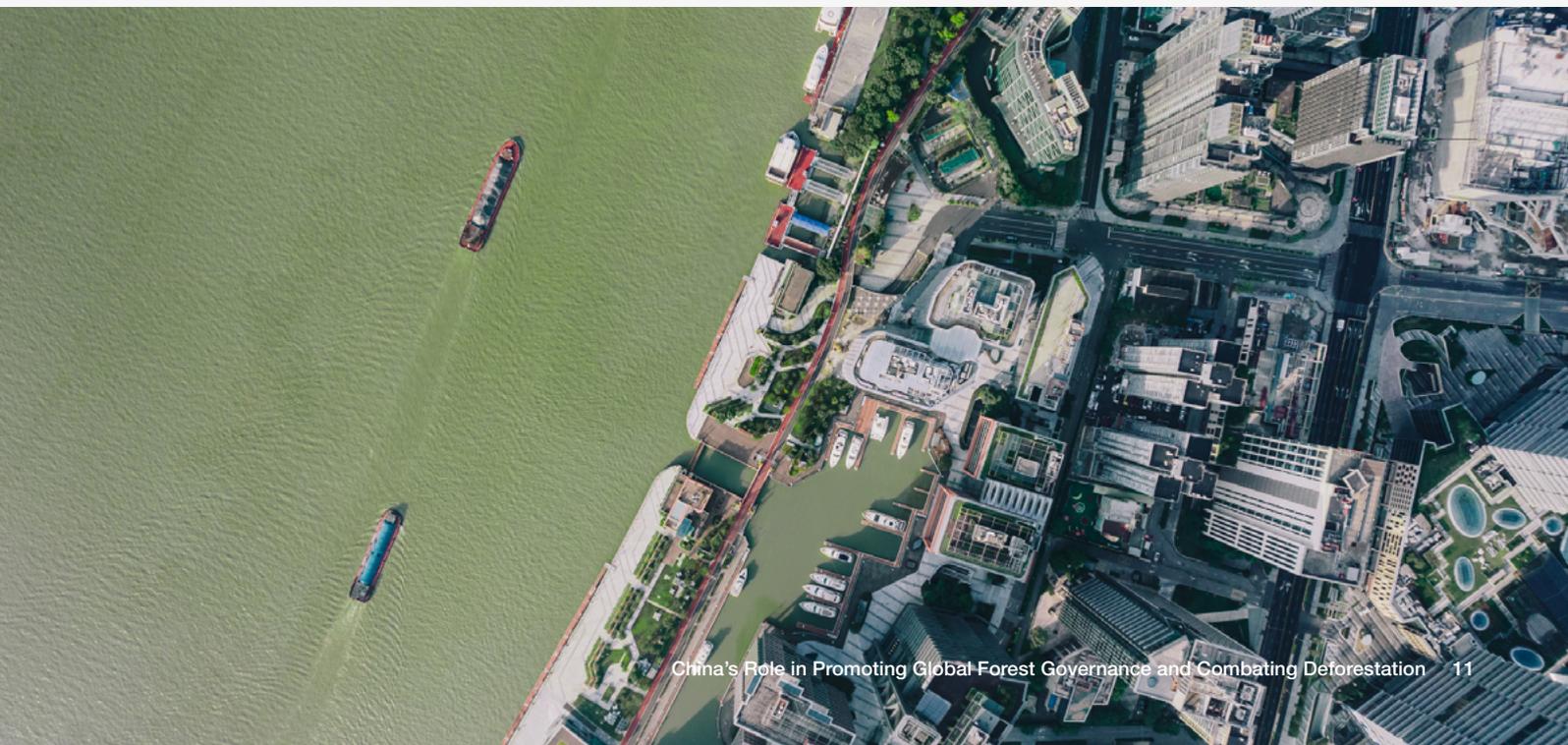
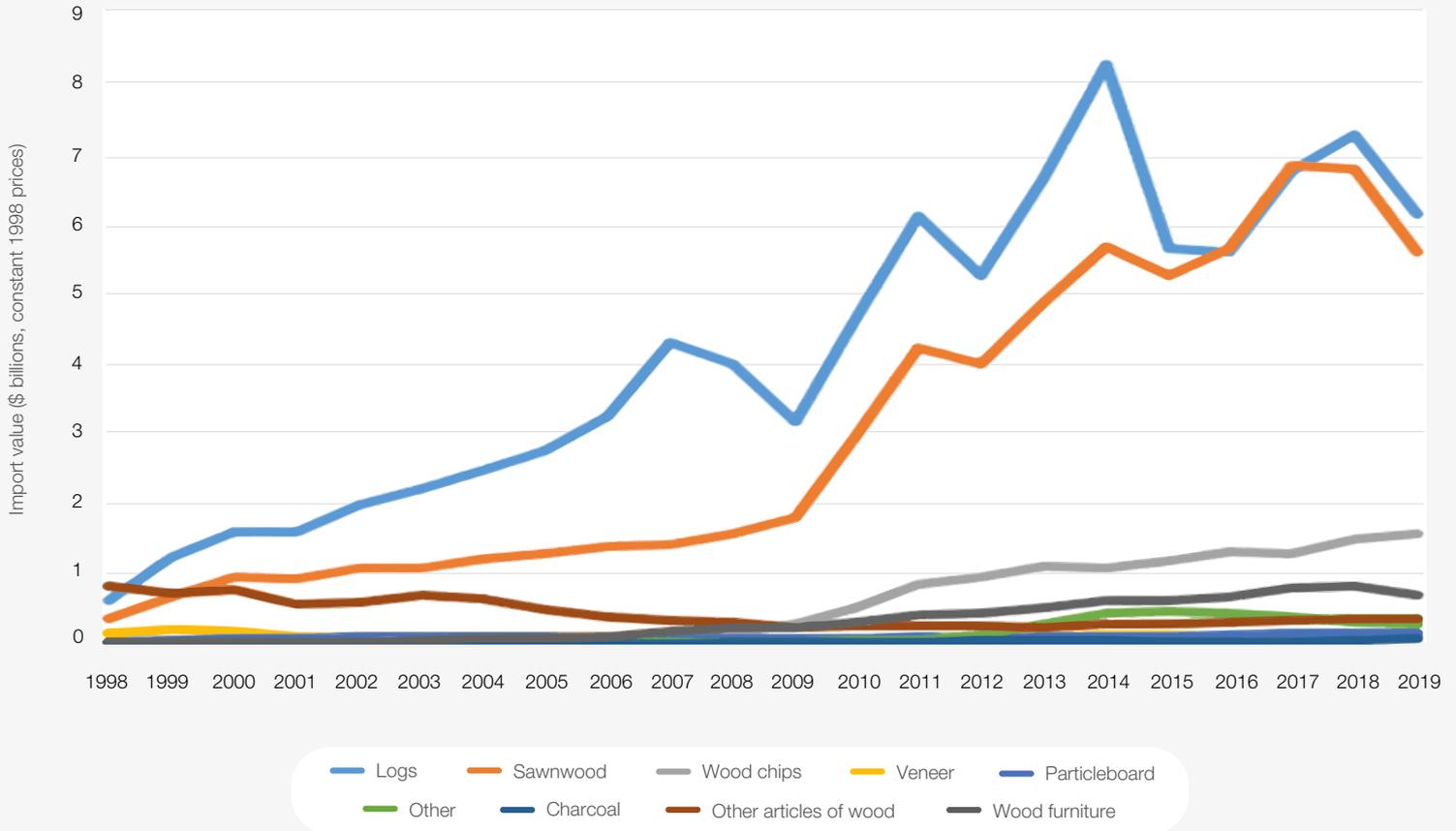
1.2 Timber product⁹ imports

“ Logs, sawnwood and wood chips accounted for 88% of timber product imports by value in 2019

China’s timber product imports have always been dominated by raw materials or unprocessed wood. Logs, sawnwood and wood chips accounted for 88% of timber product imports by value in 2019 (see Figure 2). Sawnwood imports have increased faster than logs, due to market factors including log export restrictions imposed by an increasing

number of timber-producing countries and rises in domestic labour and transportation costs. The percentage ratio of imported sawnwood to imported logs shifted from 37:63 in 1998 to 48:52 in 2019.

FIGURE 2 China’s timber product imports, by product (1998-2019)



“ Most of the top 10 countries supplying China with tropical timber ranked very poorly against metrics for rule of law and control of corruption, with illegal logging rampant

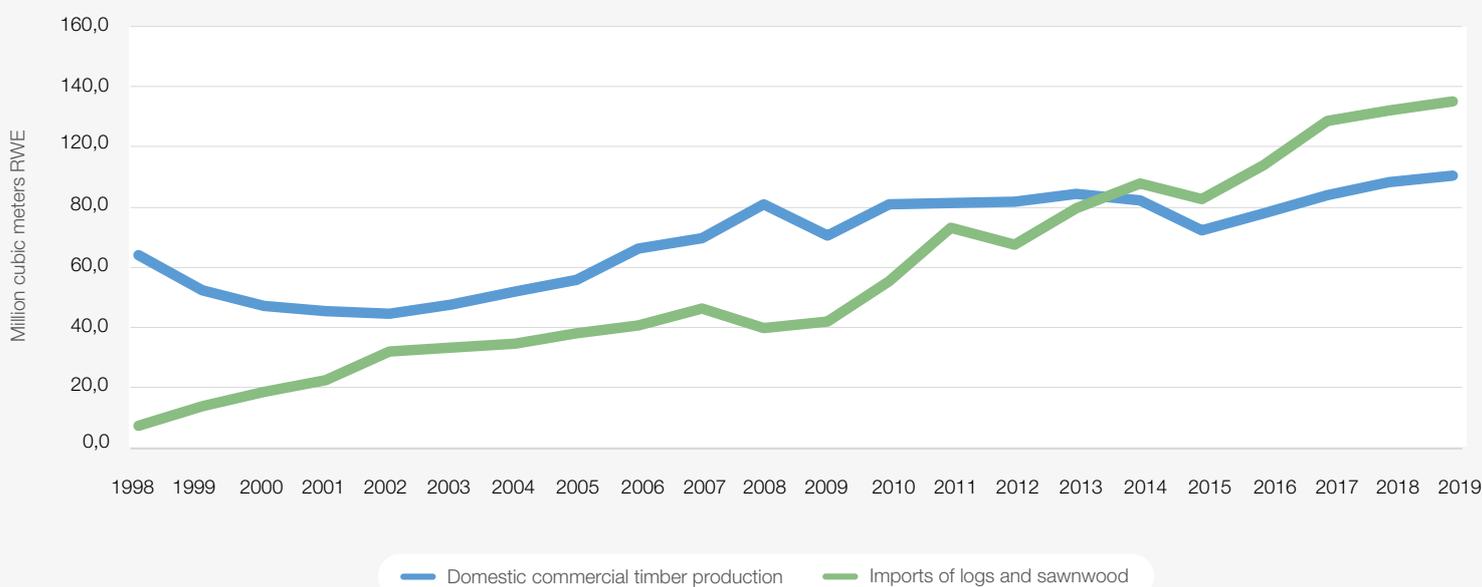
China’s imports of logs and sawnwood timber have increased significantly since 1998. By 2014, as Figure 3 shows, the total volume of imported logs and sawnwood (equivalent to 87.8 million cubic metres of log volume) exceeded the volume of domestic commercial timber production (82.3 million cubic metres). China’s dependence on imports of logs and sawnwood reached 56% in 2019.

China imports timber products from over 100 countries. The top five suppliers in 2019 were Russia, the European Union (EU), New Zealand, the United States (US) and Australia. Together they accounted for 57% of China’s total imports by value in 2019.

For hardwood logs, China’s main suppliers in 2019 were Papua New Guinea (21%), Solomon Islands (15%), EU (12%), Russia (11%) and the Democratic

Republic of the Congo (5%). The top five sources of tropical log imports in 2019 were Papua New Guinea, Solomon Islands, Democratic Republic of the Congo, Equatorial Guinea and Cameroon. Customs data shows a surge in tropical log imports in recent years from some smaller suppliers, including Sierra Leone, Suriname, Central African Republic and Ecuador, indicating a decentralization trend in China’s import sources. African countries have replaced Asian (mainly Mekong) countries as China’s main sources of rosewood imports. According to the international non-governmental organization Global Witness, about two-thirds of the world’s tropical logs were exported to China in 2018, while most of the top 10 countries supplying China with tropical timber ranked very poorly against metrics for rule of law and control of corruption, with illegal logging rampant.¹⁰

FIGURE 3 China’s domestic timber production (logs and sawnwood) compared to imports (1998-2019)



Globally, an increasing number of timber-producing countries have introduced logging and export restriction policies to protect their forests and develop local economies. According to the non-profit organization Forest Trends, 72 countries – mostly tropical timber producers – are reported to have enacted export restrictions on forest products including raw logs and sawnwood.¹¹ Many of them are major sources for China’s tropical timber imports, such as Papua New Guinea, Indonesia, Myanmar, Laos, Gabon, Mozambique and Cameroon. Meanwhile, Central African Economic and Monetary Community (CEMAC) countries

agreed to ban the export of logs from Congo Basin countries from 2022, although this decision, already effective in Gabon for 10 years, has been postponed for one year to allow the timber industry to prepare.¹² All these changes have had impacts on China’s timber market. China’s imported forest product portfolio has changed accordingly, and more companies have begun to invest in timber logging and processing overseas. In recent years, the growth rate in imports of sawnwood has generally been faster than that of imported logs, as exporting countries seek to add value through industrialization and more advanced technologies.

1.3 Timber product exports

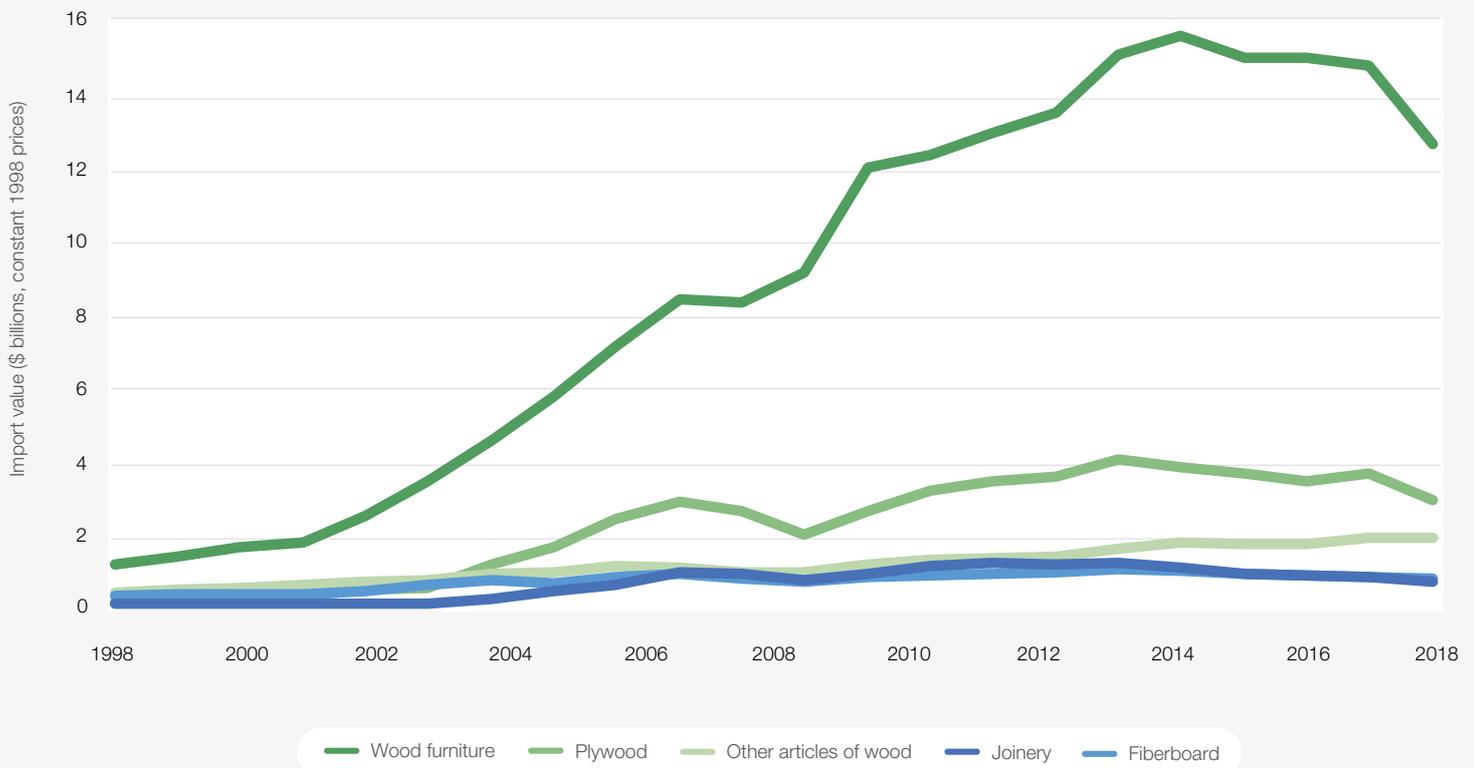
China's timber product exports are dominated by wood furniture and plywood. Together, they accounted for 83% of timber product exports in 2019 (see Figure 4).

In terms of China's wood furniture exports, the US has always been the main destination (44% by value in 2018), followed by the EU, Japan, Australia and South Korea. Exports to these top five markets accounted for over 70% of China's total wood furniture exports. Nevertheless, the share of such

exports outside the top 10 markets increased from 5% in 1998 to a peak of 24% in 2011, followed by a slow decline to 19% in 2019. As the Belt and Road Initiative progresses, China's exports to countries along the route are expected to increase.

China's export market for plywood is relatively diversified. In 2019, the top five plywood export destinations were the EU (13%), the Philippines (8.3%), Vietnam (5.1%), Japan (5.1%), and the US (4.4%).

FIGURE 4 China's timber product exports, by product (1998-2019)



1.4 Timber legality requirements of export and domestic markets

Over the past 20 years, especially since 2008, there has been a growing global consensus among timber-consuming markets, led by the EU and the US, to combat the inflow of illegal timber. China's major timber export markets have introduced and proposed regulations to ensure that only timber from legal sources can enter their markets. These include: the US Lacey Act (amended in 2008); the EU Timber Regulation (EUTR) that took effect in 2013; the Australian Illegal Logging Prohibition

(ILP) act of 2012; the Japanese Clean Wood Act (CWA) of 2017; and the South Korean standards for determining the legality of imported timber and timber products, which came into force in 2018.¹³ We examine some of these regulations in more detail in Chapter Two.

In 2016, Indonesia became one of the earliest countries to sign a voluntary partnership agreement (VPA) – and the only country to gain a licence – with

the EU that requires EU Forest Law Enforcement, Governance and Trade (EUFLEGT) licences for all exported timber products. Malaysia and Vietnam also plan to introduce export control measures. Ghana has signed a VPA with the EU, while a further 14 countries have signed or are in the process of signing VPAs. This is significant, as the EUTR affects not just China but also the markets from which China imports timber.

China's domestic market for timber products is now huge compared to the export market. However, the concern is that while export markets demand certified legally sourced timber products, domestic

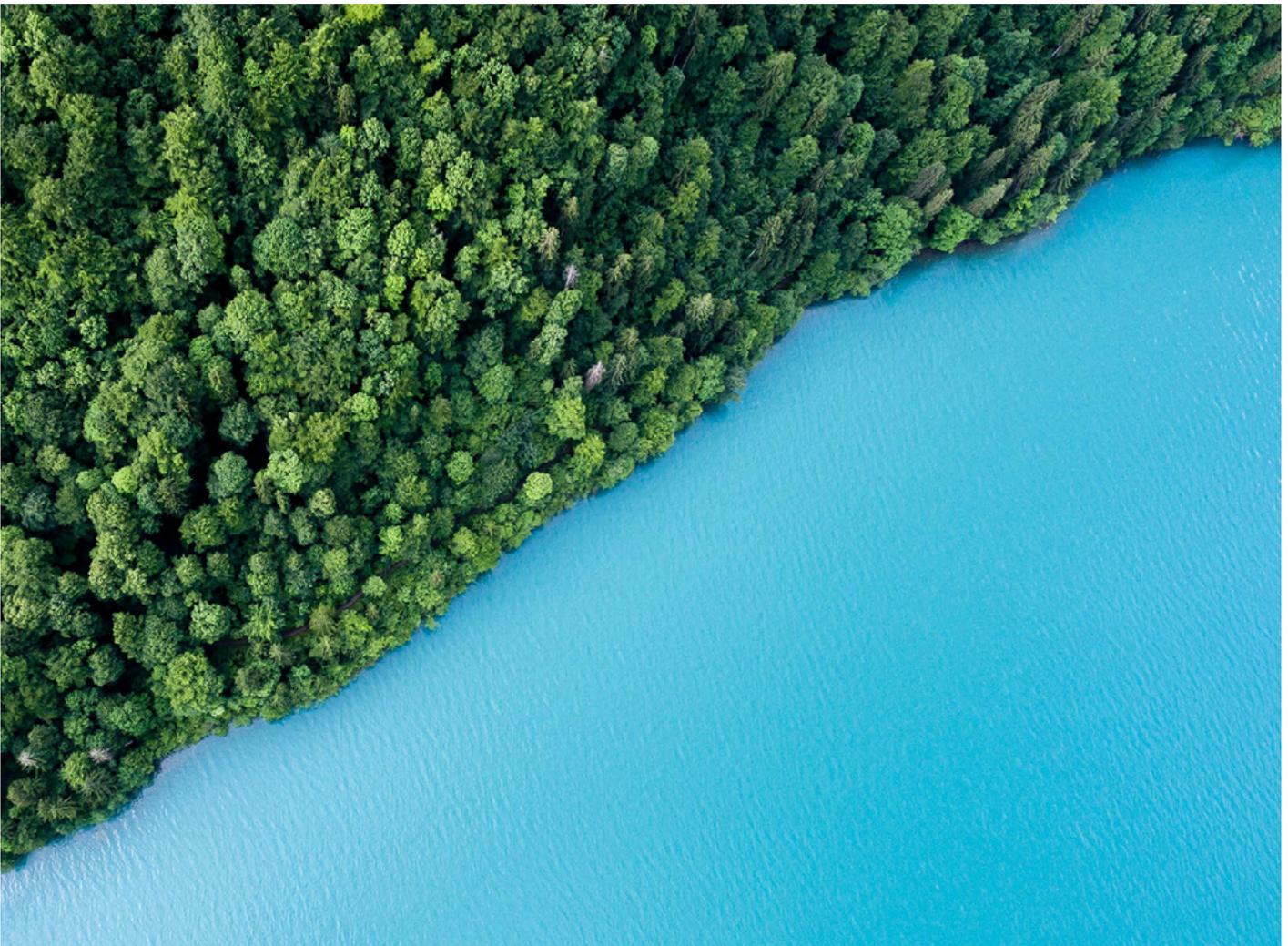
markets do not demand certified timber products yet. This issue needs to be addressed through a mix of regulations and incentives.

Some Chinese officials are concerned that expanding regulations around the trade in timber could lead to a so-called "green trade barrier", harming the country's economy. However, the huge growth in the import and export of timber products over the past two decades – a period when China and the world have ramped up standards to outlaw illegal logging – suggests that the global timber trade can be both profitable and sustainable.



2 International cooperation and policy reform on timber legality

China's role in the international timber market has fundamentally changed in the past decade, from an exporter of timber products to a growing domestic consumer of timber. The actions China takes to address imports of illegal timber products will play a crucial role in the improvement of global forest governance.



2.1 Context: two decades of engagement in global and domestic timber policy reform

“ China’s imports of timber products are sourced from more than 100 countries, some of which are at risk from illegal logging practices

As the world’s largest importer of timber as well as an important producer, consumer and trader of timber products, China plays a critical role in promoting global forest governance and combating illegal logging and related trade.

After joining the WTO in 2001, China’s forest industry developed and grew quickly to become “the factory of the world’s timber products”. At the same time, China became the focus of illegal logging and associated trade activities at international and regional levels, attracting worldwide attention. Even today, China’s imports of timber products are sourced from more than 100 countries, some of which are at risk from illegal logging practices.¹⁴

China is a country relatively short of forest resources. In the past 10-15 years, timber imports have soared, driven by the rapid growth in domestic timber product consumption and the expanding export-focused timber product industry that created a huge gap between domestic timber supply and demand. To alleviate this and to meet the WTO’s requirements for tariff reduction among member countries, China has introduced policies to substantially reduce import tariffs on timber products.

In the early 2000s, when China began engaging with the international community on combating illegal logging and associated trade, there was more emphasis on the principle of state sovereignty, with governments taking the leading role. Consequently, over the last 20 years China’s forestry authorities – in collaboration with trade and customs agencies, domestic and foreign enterprises, scientific research institutes and non-governmental organizations (NGOs) – have taken a series of policy, advocacy and technical measures to tackle illegal logging and related trade.

This has led to China strengthening law enforcement around the protection of domestic forest resources and developing its own timber legality verification system. The most recent development in this process has been the newly-revised Forest Law that came into force in July 2020, which forbids any organization or person from handling timber known to be illegally felled. China’s progress in domestic timber regulations are detailed in sections 2.3 and 2.4 below.

In tandem with these domestic measures, China has expanded its multilateral and bilateral cooperation aimed at combating illegal logging globally, as detailed in section 2.2 below.

2.2 Evolution of intergovernmental cooperation to combat illegal logging

“ The EU Timber Regulation, which came into full force in 2013, explicitly prohibits the importing of products containing illegal timber into the European single market

As China’s major export markets for timber products such as the US and EU have passed regulations prohibiting the import and trade of timber products from illegal sources, the Chinese government – along with Chinese businesses, industry associations and NGOs – has actively participated in multilateral and bilateral cooperation to help Chinese enterprises meet these requirements of major international markets for legal timber.

Major international measures to combat illegal logging in the past 20 or more years include the following:

- In 1998, G8 countries launched an Action Programme on Forests to take joint measures in both producer and consumer countries to combat illegal logging and associated trade around the world.¹⁵

- In 2003, the European Union published its Forest Law Enforcement, Governance and Trade (FLEGT) action plan.
- In 2008, the United States government enacted and implemented the Lacey Act Amendment, which requires US enterprises and individuals to prohibit the trade of forest products illegally sourced from within the US or from other countries, and to impose administrative and criminal penalties on organizations or individuals breaking this law.
- In 2013, the EU Timber Regulation (EUTR) came into full force, which explicitly prohibits the import of timber products containing illegal timber into the European single market. Operators in the EU that import timber products to the EU market for the first time are required to set up a due diligence system to control and minimize the risk of sourcing illegal timber products.

- In November 2021, the European Commission proposed a new Regulation on deforestation-free products, which is likely to have a significant impact on supply chains for commodities such as timber, soy, beef, palm oil, cocoa and coffee.¹⁶

China has participated in intergovernmental dialogues at international conferences such as the United Nations' Biodiversity and Climate Change Conferences (e.g. COP15, COP26), as well as with the UK, US, EU, Indonesia, members of the Asia-Pacific Economic Cooperation (APEC) grouping and others on sustainable timber-related measures and regulations, as detailed below.

China at COP26

At the UN Climate Change Conference in Glasgow (COP26) in November 2021, China was among more than 140 countries to sign up to the Glasgow Leaders' Declaration on Forests and Land Use in which political leaders committed to "working collectively to halt and reverse forest loss and land degradation by 2030 while delivering sustainable development and promoting an inclusive rural transformation."¹⁷

While at COP26, China also signed a joint statement with the US in which both governments "recognize the seriousness and urgency of the climate crisis [and] committed to tackling it through their respective accelerated actions in the critical decade of the 2020s". Article 10 of the statement states:



Recognizing that eliminating global illegal deforestation would contribute meaningfully to the effort to reach the Paris goals, the two countries welcome the Glasgow Leaders' Declaration on Forests and Land Use. The two sides intend to engage collaboratively in support of eliminating global illegal deforestation through effectively enforcing their respective laws on banning illegal imports.

China-UK collaboration

In 2005, the Joint Statement on the China-UK High-level Dialogue Mechanism on Sustainable Development was signed, which included a topic on promoting the trade of sustainable timber products. From 2009 to 2011, under the framework of the sustainable development dialogue (SDD) and with the joint support of the UK's Department for International Development and Department for Environment, Food and Rural Affairs, the Chinese Academy of Forestry (CAF) completed the first research report on China's Timber Legality Verification Scheme (CTLVS), which was also supported by the former State Forestry Administration.¹⁸

In 2011, the cooperative relationship between China and the UK changed from China as a recipient country to that of a partner country with the UK, and the SDD mechanism was phased out. In the same year, the UK launched the global Forest Governance, Markets and Climate Programme (FGMC).¹⁹ Under the FGMC programme, China is engaged as a partner country in activities aimed at reducing trade in timber from illegal sources, promoting environmentally and socially responsible resource management and trade models for Chinese companies in other developing countries, and reducing China's impact on global deforestation and forest degradation.

In 2014, the China-UK Collaboration on International Forest Investment and Trade (InFIT) programme was jointly initiated. Implementation is governed by high level committee (MoU) between collaborating countries (China and UK) based on common shared targets between the two countries – a commitment to addressing legal and responsible trade in commodities impacting forests. Efforts of InFIT Programme at the strategic level focus on development of policy/regulation and on policy partnerships promoting research and analysis that help identify practices that underpin legal and sustainable trade and investment in forestry sector and related commodity sectors in African countries. At the operational level InFIT efforts focus on developing sustainable guidelines, standards, tools, systems for responsible supply chains, piloting and demonstration adoption of practices that promote responsible overseas trade and investment by Chinese companies.

The InFIT programme has become a significant driving force behind the development and practice of China's timber legality verification system.



China-US collaboration

In 2007, the US and China announced the establishment of the forum on Combating Illegal Logging and Associated Trade (CILAT). The following year, both countries signed a memorandum of understanding to jointly combat illegal logging and associated trade. Since the inception of CILAT, China and the US have held seven forums in Beijing and Washington DC. The forum served as a platform to identify priority activities for cooperation, promoting the trade in timber products from legal sources, encouraging public-private partnerships, and addressing important environmental and conservation issues that have significant implications for climate change. It was suspended after the seventh forum in 2016.

In 2007, the US State Department and the US Agency for International Development (USAID) supported the creation of the Responsible Asia Forestry and Trade (RAFT) partnership,²⁰ led by The Nature Conservancy (TNC) and six other NGOs. RAFT was also sponsored by other donors such as the Australian government, until 2019. RAFT mainly undertook activities in the Asia-Pacific region, covering timber-supplier, processing and consumer countries. RAFT provided capacity building and technical tools, built network connections, and improved sustainable forest management practices across the Asia-Pacific region to provide more legally sourced timber, promote the responsible trade of timber products and address policy gaps. RAFT included China and other countries supplying timber to China such as Indonesia, Papua New Guinea, Laos, Vietnam and Myanmar.

China-EU collaboration

In 2003, the EU published its Forest Law Enforcement, Governance and Trade (FLEGT) action plan, which proposes a voluntary partnership agreement (VPA) between timber-producing countries (participating in the action plan) and the EU. The EU has signed FLEGT VPAs with 15 countries, but Indonesia is currently the only government that can issue FLEGT licences for the export of timber products to prove the legality of their timber sources. Timber products with a FLEGT licence are exempt from the EU Timber Regulation (EUTR) when they are exported to the EU. China was not engaged in this VPA negotiation. However, the EU is one of China's most important timber product export markets, and many VPA countries are key timber suppliers for China, so discussions are ongoing between the parties around how China, the EU and FLEGT VPA countries can work together to strengthen trilateral cooperation and promote the legal timber trade.

In 2009, the China-EU bilateral coordination mechanism (BCM) on the Forest Law Enforcement and Governance Agreement was signed, making clear that the two sides would strengthen cooperation on forest law enforcement, policy dialogue and information exchange to combat illegal logging and associated trade, based around an annual meeting. Since 2009, a BCM meeting has

been held every year on a rotating basis, with an agreed annual work plan implemented by the China Academy of Forestry's Research Institute of Forestry Policy and Information (RIFPI) and the European Forest Institute's EU FLEGT Facility. The two sides jointly carried out a series of studies on timber legality and the trade of sustainable timber products.

RIFPI has created an online information window²¹ that allows businesses in China and the EU to access the latest timber trade policies and best business practices on timber legality verification on both sides. Both sides have discussed how to jointly promote timber legality verification in timber-producing countries, including China's recognition of the FLEGT licence issued by EU FLEGT VPA countries.

In 2020, China and the EU launched a 10-year assessment of the China-EU bilateral coordination mechanism. In September 2021, China and the EU held the second high-level environment and climate dialogue and issued a communiqué stating, among other things: "Both sides agreed to engage collaboratively in support of reducing global deforestation through enhancing cooperation in conservation and sustainable management of forests, making supply chain more sustainable, and combating illegal logging and associated trade."²²

China-Indonesia collaboration

For more than two decades, the forestry authorities of China and Indonesia have conducted regular exchanges and maintained close cooperation. In 1997, the two sides exchanged views on combating illegal logging and related trade issues for the first time. The MoU on Cooperation in Combating Illegal Trade of Forest Products was signed in February 2002. In September 2010, the MoU on Cooperation in the Field of Forestry between the State Forestry Administration of the People's Republic of China and the Ministry of Forestry of Indonesia was signed. Indonesia is the first

country to sign an MoU with China on cooperation in combating the trade of illegal forest products.

In November 2016, Indonesia became the first FLEGT VPA country in the world recognized by the EU with the authority to issue a FLEGT licence to prove the legality of its timber sources. Under the framework of the BCM, the European Forest Institute's EU FLEGT Facility promoted discussion between China, the EU and Indonesia on the tracking and verification of timber legality.

China-APEC collaboration

The Chinese government has begun to adopt a more active role in multilateral forums related to combating the illegal timber trade. One of the key platforms is the Asia-Pacific Economic Cooperation's (APEC) Experts Group on Illegal Logging and Associated Trade (EGILAT). EGILAT has met twice a year since its establishment in 2011.²³ The National Forestry and Grassland Administration, as the main representative body of the Chinese government, has sent staff to actively participate in all 19 meetings to date.

In 2014, as the host country of EGILAT, China took the lead in putting forward the initiative of Establishing a Regional Mutual Recognition Mechanism for Timber Legality at the fifth conference in Qingdao. Although this initiative received positive responses from many countries, it was not adopted by all members. Nevertheless, the initiative has influenced the formulation of a Timber Legality Guidance Template for APEC member countries. So far, 10 members including China have submitted and published the template.²⁴

Other intergovernmental cooperation

- In 2007, China and the Association of Southeast Asian Nations (ASEAN) established the China-ASEAN International Forest Products Trade Forum. Since 2013, China and ASEAN have jointly organized a series of symposiums to promote the trade of legally sourced timber and timber products.
- In 2009, China and Australia signed an MoU on Combating Illegal Logging and Related Trade in Support of Sustainable Forest Management.
- In 2010, China and Japan signed an MoU on the same issue.
- In 2015, China and some central and eastern European countries officially launched a forestry cooperation coordination mechanism.²⁵
- In 2016, the topic of international trade in timber products was added to the Free Trade Agreement (FTA) negotiation mechanism between China, Japan and the Republic of Korea (ROK).
- China has signed MoUs to combat illegal logging and trade with numerous timber-supplying countries, including Cambodia, Vietnam, Russia, Uruguay, Myanmar, Laos, Mozambique and Gabon.

2.3 China Timber Legality Verification System (CTLVS)

Since 2009, the Chinese Academy of Forestry and China National Forest Product Industry Association have been developing the China Timber Legality Verification System (CTLVS)²⁶ and associated verification standard – both of which are voluntary not mandatory. The initiatives have been guided by the State Forestry Administration (SFA), now the National Forestry and Grassland Administration (NFGA).

Domestic timber in China has a relatively strict regulatory system, from forest harvest to timber

transportation and timber product processing. Consequently, this report focuses on researching and analysing progress on ensuring the legality of imported timber. Figure 5 shows the progress made between 2011 and 2017 on the China Timber Legality Verification System and Standard, which relate mainly to imported timber. The formulation of this system and standard has offered a possible way to develop the implementation regulation under Article 65 of China's Forest Law, revised in 2020.

FIGURE 5 | Development of the China Timber Legality Verification System and Standard

Key output and year	Research report on China Timber Legality Verification Scheme (2011)	China Timber Legality Verification Standard (trial) (2012)	China Timber Legality Verification System (first version) (2015)	China Timber Legality Verification Group Standard (2017)
Main formulation body	Research Institute of Forestry Policy and Information (RIFPI) of the China Academy of Forestry (CAF)	China National Forest Products Industry Association (CNFPIA)	RIFPI, CAF Centre for International Forest Products Trade (CINFT) of the National Forestry and Grassland Administration (NFGA)	CNFPIA
The legality of imported timber	Two approaches: 1. China's government-guided timber verification scheme (CGTVS) with bilateral agreements signed with agreement countries; 2. Sector association-guided voluntary verification scheme (CATVS).	The key requirements for imported timber are the original or photocopy of the certificate of origin and customs clearance procedures; the supplier cannot be on a blacklist.	Four parts: 1. Management system 2. Due diligence 3. Mutual recognition 4. Supervision and incentive mechanism Requires enterprises to fulfil legitimate procurement commitments, keep relevant records for at least five years, perform due diligence system monitoring, collect and manage source information of wood supply chain, assess source risk and take risk mitigation measures. The government can provide monitoring and supporting measures.	Requires enterprises that use imported wood raw materials to collect information to identify, evaluate and mitigate illegal timber-sourcing risks. If any supplier seriously or continually violates the standard, the enterprise should end the trading relationship. At present, CNFPIA is incorporating due diligence requirements into the Implementation Code of the Timber Legality Verification Standards.
Progress	Ongoing discussions between China and Indonesia on mutual recognition of legal timber.	CNFPIA has issued "timber legality" certification to nearly 60 member enterprises that have passed the verification of the standard.	Provides the industry association and other related organizations with a complete system and specific content requirements for establishing the standard of timber legality verification. Independent certification bodies were invited to test the system in a variety of wood products' processing and trading enterprises.	So far, 63 association member enterprises have adopted the standard.
Potential for promotion	The experience and process of mutual recognition of legal timber between China and Indonesia may set a model for the future mutual recognition of timber legality verification between China and other countries.	There are some gaps to be improved if the standard aims to be endorsed by the major international markets such as the EU and US. It hasn't incorporated the full supply chain due diligence principle.	The proposed system and standards lay a solid theoretical foundation for the Chinese government and industry associations to build China's timber legality verification standards and system. The relevant research experiences and achievements should be integrated into the establishment of an effective account management system when formulating the regulations for implementation of the Forest Law under Article 65, to realize the possibility of bringing China's timber legality verification into the legal framework.	The improvement and promotion of the association's standard have received support from InFIT, RIFPI of CAF, CINFT of NFGA and WWF. CNFPIA is also seeking cooperation with industry associations and management departments in more countries and regions. CNFPIA has communicated with the relevant import management departments of Malaysia and Japan on the adoption of this standard, which has already been adopted by some importers from these two countries. Follow-up cooperation is still under discussion. The association's promotion of the standard for timber legality verification has laid a practical foundation for China to incorporate the legality of imported timber into the upcoming regulations for implementation of the Forest Law under Article 65.

2.4 Significance of Article 65 of China's Forest Law

On 1 July 2020, Article 65 of China's newly revised Forest Law came into force. It clearly stipulates the following:



Timber processing enterprises should establish an account of the entry and exit of raw materials and products. No unit or individual may purchase, process or transport timber that he/she clearly knows was illegally felled or indiscriminately felled in forest regions.

This article provides a legal basis not only for China to address the challenge of the purchase, processing and transportation of illegal timber, but also for Chinese timber trading and processing enterprises to implement their due diligence obligations concerning legally produced timber.

Article 65 provides the basis for China's legislation regulating and supervising the legality of timber sources. At present, most Chinese timber-importing and processing enterprises lack functioning due diligence systems, while their recording of raw material purchases and sales is uneven. In future, businesses need to establish and control their material and product entry and exit accounts to comply with timber legality requirements.

While Article 65 explicitly provides the legal grounds for preventing illegal timber from entering the supply chain, it is not clear whether this article includes imported timber and timber products and, if so, how to determine the legality of such products. Several seminars have been organized to discuss this issue, with most participants suggesting that Article 65 should indeed encompass imported timber and that tracking timber legality to its original producing country should be included in the upcoming regulations for the implementation of the Forest Law.

There are also questions around how Article 65 should be implemented and enforced in practice,

particularly in relation to timber imports. One option would be to use the CTLVS standard – although this is only voluntary. Another option would be to enforce Article 65 using a national mandatory standard. A third way could be to require Chinese importing companies to ensure transparency in tracing their products back to the country of origin, where possible adhering to standards such as the FSC's and PEFC's.

There are still divergent views on how to verify whether imported wood is "clearly known to be illegally and indiscriminately harvested". Our research team's analysis suggests that not all legally exported timber was drawn from sources that were legally logged. Some timber may have come from illegal sources but was nonetheless imported through obtaining legal export documents through illegal means. In practice, importers should be under an obligation to perform the necessary due diligence and manage the entire timber supply chain to ensure that the timber is legally sourced, rather than simply accepting the timber as legal because it has not been smuggled.

As the world's largest importer of logs and sawn timber, as well as being an important consumer market of timber products, China can help timber-producing countries improve their forest governance and efforts to reduce illegal logging. Such actions would demonstrate that China is taking its responsibilities in this arena very seriously.

Importers should be obliged to perform due diligence on the entire supply chain to ensure timber is legally sourced, rather than simply accepting the timber as legal because it has not been smuggled



2.5 Challenges in combating illegal timber logging and related trade

“ Given the persistence of deforestation, forest degradation and illegal logging around the world, particularly in the tropics, it is not sufficient to deploy only voluntary methods

The Chinese government is cautious about introducing compulsory measures to regulate legally imported timber. Most illegal logging occurs in timber-producing countries. The Chinese government has always strictly adhered to the principle of non-interference in the internal affairs of other countries. Consequently, it has been cautious in formulating and implementing policies to combat overseas illegal logging and associated trade. The government has repeatedly stressed that, while tackling such issues is necessary to ensure the sustainable development of global forests, it is the responsibility of every sovereign state to take the appropriate measures.²⁷

China's role in the international timber market has fundamentally changed in the past decade or more. Several international organizations have been working with China to combat illegal logging and associated trade since the late 2000s. At that time, China was a major producer and exporter of timber products. The main goal of international cooperation was to help Chinese enterprises meet the relevant requirements of due diligence and due care in relation to the EU Timber Regulation and the US Lacey Act amendments when exporting timber products to the EU and US markets. However, with the rapid growth of domestic timber consumption in recent years, the actions that China is taking to address illegal logging overseas will play a crucial role in the improvement of global forest governance.

The impacts of China's voluntary initiatives are limited. Given the persistence of deforestation, forest degradation and illegal logging around the world, particularly in the tropics, it is not sufficient to deploy only voluntary methods, such as the China Timber Legality Verification System. China's supply chain of imported timber is complex and if only a few responsible enterprises embrace the requirements of voluntary standards, the extra effort and cost may encourage unfair market competition. If the voluntary standard used to control timber legality is neither recognized by consumers, nor supported by the incentive mechanisms of the government or financial institutions, it will be very difficult for such voluntary standards to play a positive and effective role.

China's multisectoral coordination needs to be strengthened. Regulation and control of the legal trade in imported timber covers numerous fields including forestry, trade, import quarantine and so on. Consequently, multi-departmental cooperation with shared responsibilities among forestry, commerce, customs and other related agencies needs to be enhanced. Within China's bilateral and multilateral cooperation mechanisms to combat illegal timber logging and related trade, forestry agencies take the lead, but an effective mechanism for multisectoral coordination is needed.

There is a risk of government ministries and departments working in silos when addressing the illegal timber trade, especially among imported timber products. For example, the Ministry of Ecology and Environment (responsible for engaging with international climate change negotiations) should work together with the Ministry of Commerce and General Administration of Customs (responsible for harmonizing green customs clearances), and the National Forestry and Grasslands Administration (responsible for implementing regulations such as Article 65 of the newly-revised Forest Law).

In the fight against illegal logging and trade, many efforts have been undertaken by Chinese stakeholders, but a top-level integrated strategy to regulate legal timber imports has not yet been formulated. China's imports of illegally harvested timber and their impact on the global environment require more thorough consideration and more solid research and empirical support. This requires China to integrate illegal logging and associated trade with higher-level international "hot" issues, such as climate change and biodiversity conservation.

The role of China's timber trading system in global forest governance and its relationship to global climate change, biodiversity conservation and sustainable development can only be better understood by integrating all sectors. This should include support from green finance to balance the stick of law enforcement with the carrot of financial incentives, such as concessional loans, to encourage Chinese importers to move more quickly on demonstrating their supply chains are deforestation-free.

3

The development of forest certification in China

Forest certification has developed rapidly in China over the past 20 years. More than 2 million hectares of forest are Forest Stewardship Council-certified, while a further 8.7 million hectares are covered by the China Forest Certification Council. Stimulating market demand is the key to driving forest certification forwards.



3.1 Stakeholder collaboration to establish forest certification

Reviewing the past 20 years, the rapid development of forest certification in China is the result of joint efforts from governments, NGOs, scientific research institutions, enterprises and other stakeholders. China's State Forestry Administration (SFA – now the National Forestry and Grassland Administration, NFGA), the World Wide Fund for Nature (WWF), the Chinese Academy of Forestry (CAF), IKEA Group and other organizations have all played an important role.

In May 2001, WWF China proposed the establishment of the China Forest Certification Working Group. The working group convened a series of seminars and training activities, published the Forest Certification Newsletter, provided a series of policy recommendations about forest certification to government, undertook extensive promotional activities for companies and the general public, and promoted the commencement and development of forest certification in China.

Two years later, in 2003, the Central Committee of the Communist Party of China and the State

Council made a "Decision to Accelerate the Development of Forestry" which clearly stated the need for "the active promotion of the development of forest certification, as soon as possible, to meet international standards."²⁸ Since 2005, the Science and Technology Development Centre of the SFA has continued to support extensive domestic research and pilot projects on forest certification. In 2013, the Forest Certification Research Centre of the SFA was established and now provides strong technological assistance to the development of forest certification in China.

In 2019, the newly revised Forest Law of the People's Republic of China stipulated that "forestry operators may voluntarily apply for forest certification to promote the improvement of forest management capacity and sustainable management." This meant that the concept of forest certification had officially entered into national law.

Figure 6 provides an assessment of the progress of forest certification in China over the past 20 years.

3.2 China Forest Certification Council (CFCC) and National Standards for Forest Certification

Two decades ago, China established its own certification scheme, the China Forest Certification Council (CFCC). By March 2020, CFCC had certified about 8.7 million hectares of forest. More than 200 forest product processing and manufacturing enterprises have now passed CFCC CoC certification. The initiative began in July 2001, when the SFA established the leading group for China forest certification, which resulted in the establishment of the CFCC in 2003, with the participation of multiple stakeholders.

In 2012, the government published the National Standard for Forest Certification and Forest Management in China (GB/T28951-2012) and the National Standard for Forest Certification and Chain of Custody in China (GB/T28952-2012). To date, 29 standards and technical specifications related to forest management have been officially promulgated and implemented in China.

At present, China's forest certification encompasses the following areas: forest management certification; chain of custody certification; bamboo forest management certification; carbon sequestration forest certification; non-timber forest products certification; forests ecological system services

certification; and rare, precious, or endangered species management certification.

In February 2014, CFCC and the Geneva-based Programme for the Endorsement of Forest Certification Schemes (PEFC) endorsed one another, marking the recognition of China's forest certification scheme by a leading international certification scheme.

While CFCC has been recognized by PEFC, it has yet to make substantial progress in cooperating with the Forest Stewardship Council (FSC), because FSC does not have the mechanism to mutually recognize the certifications of other jurisdictions. By contrast PEFC is designed to adopt other countries' forest certification schemes. However, while FSC is widely supported globally, PEFC has struggled to gain endorsement in major consumer markets.

After 20 years, China's forest certification scheme is well-established. The CFCC is performing well in terms of institutions, standards and accreditation, but market promotion, government procurement and consumer awareness need to be improved, while international cooperation should be strengthened.

3.3 Forest Stewardship Council (FSC) in China

“ More than 2 million hectares of forests in over 10 state-owned forest management units in northeast China passed FSC certification

The Forest Stewardship Council (FSC) manages the world's most widespread forest certification system, which now covers more than 200 million hectares of forest. The first FSC certificate of chain of custody²⁹ (CoC) in mainland China was issued in 1999, to a timber products company located in Guangdong Province. In February 2002, 940 hectares of forest in the state-owned Changhua Forest Farm in Lin'an City, Zhejiang Province obtained FSC certification, which marked the first forest management certificate in China. By 2020, more than 9,000 Chinese enterprises had been awarded FSC CoC status, ranking first in the world.

In 2005, the Youhao Forestry Bureau of Heilongjiang Province and the Baihe Forestry Bureau of Jilin Province received FSC certification, becoming the first two state-owned forest management units to obtain FSC certification in northeast China (see Box). More than 2 million hectares of forests in over 10 state-owned forest management units in northeast China passed FSC certification in just a few years, enabling the rapid spread of the concept of forest certification and sustainable forest management across the country.

3.4 Role of market demand to promote growth of forest certification

Market demand is the main driving power behind the development of forest certification in China. A combination of vigorous promotion by NGOs and the leadership by example of large multinational corporations demanding certified forest products has led to the rapid expansion of forest certification (especially FSC certification) across China.

In March 2005, WWF established the Global Forest and Trade Network-China (GFTN-China). Naturehome, Yihua Group, Baihe Forestry Bureau and Youhao Forestry Bureau became the first members of GFTN-China. Some multinational companies in China, such as IKEA, Tetra Pak and Stora Enso, have promised to preferentially purchase certified raw wood materials and products, thereby playing a huge role in promoting the market development of forest certification in China.



FIGURE 6 | Analysis of macroeconomic net benefit of each regulatory option for cryptocurrencies

Key aspects	Progress made in two decades	Overall progress assessment
Supportive laws and policies	<ul style="list-style-type: none"> – Forest certification included in the Central Committee of the Communist Party of China’s “Decision on Accelerating the Development of Forestry” in 2003 – Forest certification rules issued, 2015³⁰ – Included in China’s Forest Law, revised in 2019 	●
Awareness of forest certification and the concept of sustainable forest management in China’s Forestry Department	<ul style="list-style-type: none"> – The concepts of forest certification and sustainable forest management have been recognized by the central and provincial forestry authorities, but there is still a lack of understanding at the forest management unit level 	●
Developing and implementing sustainable forest management plans	<ul style="list-style-type: none"> – Forest certification places greater emphasis on the forest management planning of high conservation value forests, their environmental impact, forest monitoring etc. 	●
Awareness of forest certification and sustainable forest management among small-scale forest owners	<ul style="list-style-type: none"> – Although some small-scale forest owners have obtained group certification, they still lack incentives and the correct understanding of forest certification and sustainable management due to limitations of knowledge, capacity and cost 	●
Market share of certified forest products	<ul style="list-style-type: none"> – In packaging, paper products and furniture, the share of certified products in the domestic market, especially in first-tier cities, has increased, but overall remains low 	●
Forest certification standard development, certification body establishment, international mutual recognition	<ul style="list-style-type: none"> – The forest certification standard system has been established and the certification standard of China has been developed – Local certification bodies have been set up – China’s certification scheme has been endorsed by the Geneva-based Programme for the Endorsement of Forest Certification Schemes (PEFC), 2014 	●
Implementation of government procurement policies for certified forest products	<ul style="list-style-type: none"> – Related studies have been conducted to explore pathways and impacts, and certification requirements have been established for government procurement of paper and furniture, but current progress remains limited 	●

- No improvement
- Improved
- Significantly improved

IKEA Group's sustainability strategy for 2020, People and Planet Positive states: "A sustainable world that provides a great quality of life for many people, respects human rights and protects the environment is possible."³¹

For two decades, IKEA has partnered with the World Wide Fund for Nature (WWF) to promote responsible forestry in China.³² The partnership started in 2002, by identifying high conservation value forests (HCVFs) in northeast China and Inner Mongolia, promoting legal compliance on forest management and timber trade, as well as forest certification training and publicity. In 2003, the German Development Finance Institution (DEG) co-financed IKEA and WWF's cooperation project which aimed to demonstrate forest management certification in state-owned forest enterprises in Baihe and Youhao, supported by the German Federal Ministry for Economic Cooperation and Development (BMZ).

In November 2004, the principal assessment for Forest Stewardship Council (FSC) certification was conducted at Youhao and Baihe Forestry Bureaus, which confirmed certified forest areas of 240,000 hectares and 180,000 hectares respectively. Policy support for this process was provided by the State Forestry Administration, Yichun Forestry Management Bureau and Yanbian Forest Group, while WWF China and the Chinese Academy of Forestry provided technical support.

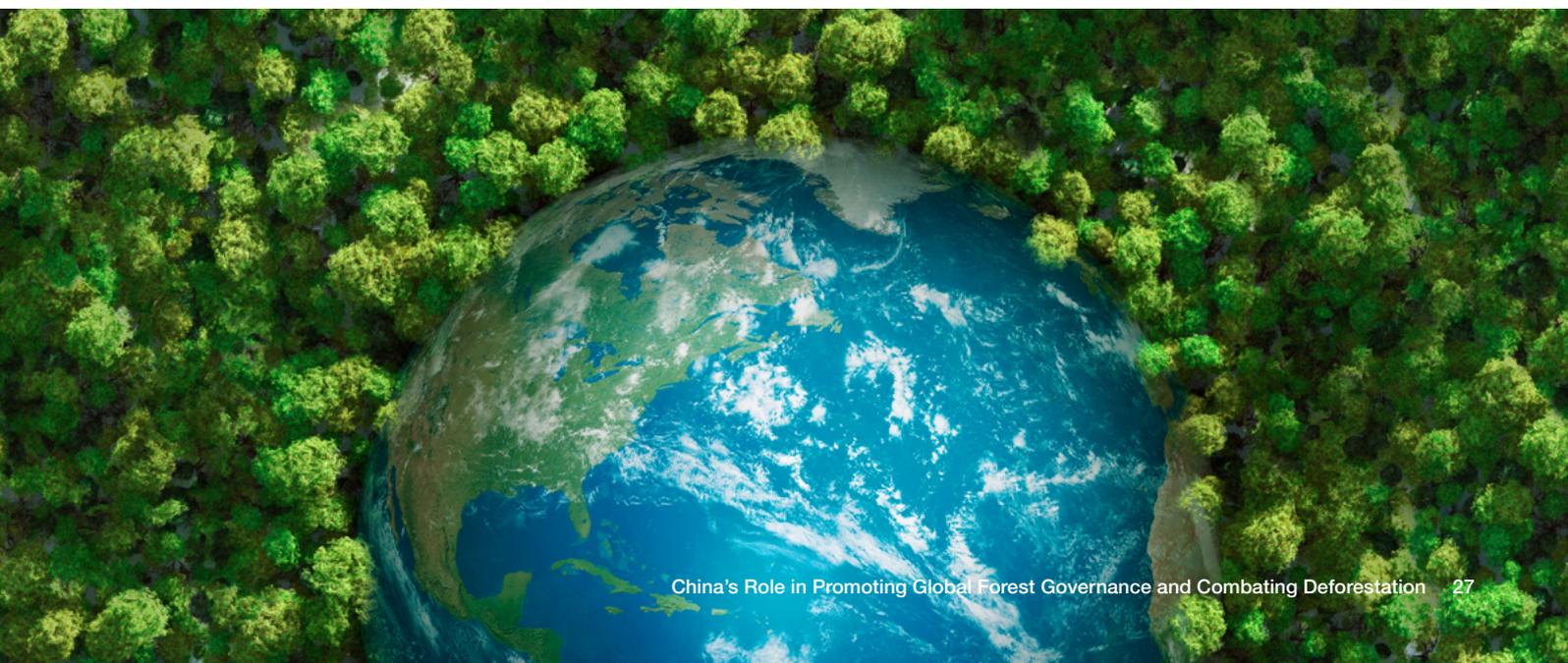
The FSC certificates for Youhao and Baihe Forestry Bureaus were officially issued in April 2005 and represented the first FSC forest management certificates obtained by state-owned forest enterprises in China, an encouraging demonstration to others. Today, the WWF-IKEA partnership continues to implement IKEA's forest action plan and work towards achieving WWF's conservation goals.

3.5 | **Conclusions on forest certification**

Collaborative action by government departments, NGOs, scientific research institutions, businesses and other stakeholders has built a solid foundation for the rapid development of forest certification in China.

Forest certification promotes the spread of the concept of sustainable forest management in China. However, improving the effectiveness of forest management certification is a matter of urgency. At the same time, the rapid development of the certification market is accompanied by the increase of regulatory risks, and more attention should be paid to the supervision of certification bodies and certified entities.

Market demand is the main driving force in China for the development of forest certification. The primary challenge now is to cultivate the certified forest product market, which will enable China to keep expanding the reach of certification to timber and forest products. If the forest certifications supplied by PEFC – and by extension CFCC – were to be recognized by major importers such as the US and EU, this would send a major market signal to Chinese enterprises. Another approach to stimulate market demand for forest certification in China would be for the Chinese government to frame new policies and incentives, such as lower taxes for producers of certified forest products or government procurement of timber that is conditional on certification.



4

The role of business and civil society

The publication in the mid-2000s of three research reports that revealed global illegal logging, together with bilateral and multilateral dialogues, deepened the Chinese government's engagement in global forest governance and encouraged Chinese businesses to adopt more sustainable timber practices.



4.1 Government guidelines for Chinese businesses on sustainable forest management

In the late 2000s, the international community grew concerned over China's increasing dependence on the imported wood processing industry and the associated high risks of illegal logging. Part of the Chinese government's response was to publish two sets of guidelines: *Sustainable Overseas Silviculture by Chinese Enterprises* (issued in August 2007) and *Sustainable Overseas Forest Management and Utilization by Chinese Enterprises* (issued in March 2009). Both sets of guidelines were compiled by the SFA and the Ministry of Commerce. They were vehicles for the government to encourage Chinese enterprises doing business overseas to

become more environmentally engaged and to work towards achieving sustainable development through globalization.

The international community saw the two sets of guidelines as a positive signal that the Chinese government employed international standards to regulate the operations of forestry enterprises outside China. However, because both guidelines are voluntary and because they do not address the trade in forest products, they have limited influence in motivating or constraining China's timber trade businesses to curb illegal logging around the world.

Chinese companies protect forests in Gabon

“ From 2007-2017, forest cover in Gabon increased from 85.4% to 90.8%, while over a similar period Chinese management of Gabon's forests by area increased from around 22% to 43%

The 2009 guidelines on sustainable overseas forest management and utilization have been promoted extensively to Chinese companies in Gabon, with some notable results. Two major public commitments were made by 12 Chinese companies in Gabon: to protect wildlife and improve conditions for workers (in 2014), and to implement sustainable forest management (in 2016).³³ These companies managed about 5 million hectares of forest concessions in Gabon – more than 80% of the forest concessions under Chinese operations in that country. By 2015, Chinese companies managed 6 million hectares of forest in Gabon, over 40% of all the country's forest under management.

Meanwhile, from 2010 to 2015, the area of forest with long-term sustainable forest management permits (CFADs) issued by the Gabonese forest authorities to Chinese enterprises increased nearly five-fold, in sharp contrast with operators from other countries (see Figure 7). Over a similar period, Gabon's forest coverage increased from 85.4% before 2007 to 90.8% in 2017, according to the UN's Food and Agriculture Organization (FAO).³⁴ This data is a positive sign given the widespread decline in forest cover across Africa, especially central Africa, and defies the oft-held belief that Chinese companies go hand-in-hand with serious deforestation.

4.2 Role of business-focused alliances to drive market-based change

The five most influential business-focused alliances and platforms to promote timber legality and forest certification in China and beyond are as follows (see Figure 8):

- Global Forest and Trade Network-China (GFTN-China)
- China's Real Estate Industry Green Supply Chain Action Plan (GSA)

- China Sustainable Paper Alliance (CSPA)
- China Responsible Forest Product Trade and Investment Alliance (China RFA)
- Global Green Supply Chain for Forest Products (GGSC)

FIGURE 7 | Comparison of companies from China and those from other countries in sustainable forest management in Gabon (2010-2015)³⁵

Management regime (ownership)	2010 (hectare)	2015 (hectare)	% change (2010-2015)
FSC-certified (other country)	1,837,620	2,053,505	+12%
FSC-certified (Chinese)	0	0	0
FSC progressing to certification (other country)	0	0	0
FSC progressing to certification (Chinese)	0	326,985	First case
CFAD-approved sustainable management plan (other country)	1,614,644	2,881,857	+78%
CFAD-approved sustainable management plan (Chinese)	818,932	3,964,249	+384%
CPAET – temporary licence (other country)	4,027,036	2,062,526	-49%
CPAET – temporary licence (Chinese)	2,025,881	1,635,973	-19%
Other types of licences	2,823,198	827,853	-71%
Total forest management area (other country)	10,302,498	7,825,741	-24%
Total forest management area (Chinese)	2,844,813	5,927,207	+108%
Total forest management area (all)	13,147,311	13,752,548	+5%

Notes:

FSC – Forest Stewardship Council

CFAD – Sustainable forest management concession (Gabon)

CPAET – Temporary licence not requiring an approved comprehensive forest management plan

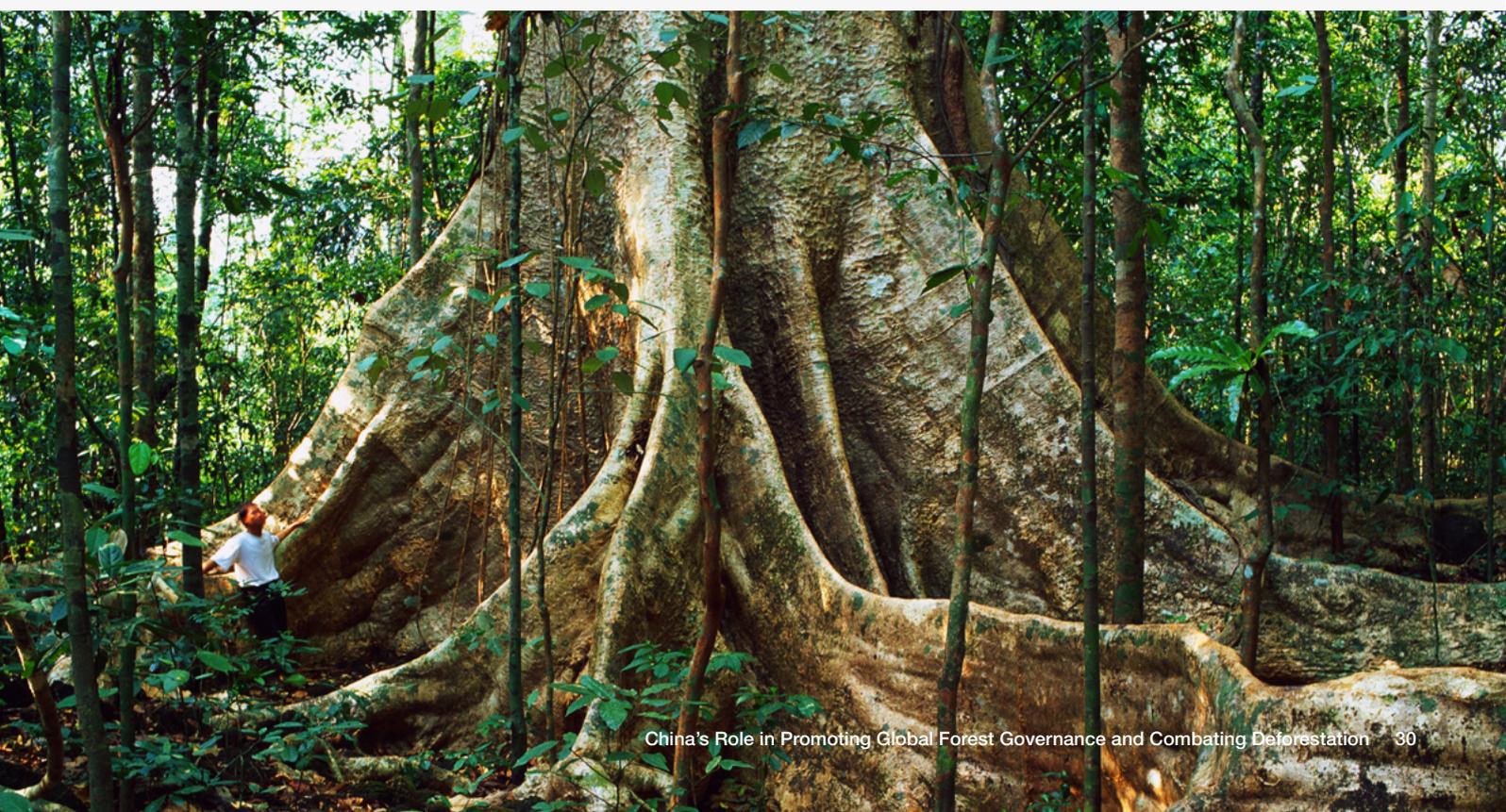


FIGURE 8 | Five most influential business-focused sustainable timber alliances and platforms in China

Key aspects	Global Forest and Trade Network-China (GFTN-China)	China's Real Estate Industry Green Supply Chain Action Plan (GSA)	China Sustainable Paper Alliance (CSPA)	China Responsible Forest Product Trade and Investment Alliance (China RFA)	Global Green Supply Chain for Forest Products (GGSC)
Content comparison					
Initiator or sponsor	WWF China	Society of Entrepreneurs & Ecology (SEE Foundation); Strategic Alliance of Chinese Urban Real Estate Developers; China Real Estate Chamber of Commerce; Vanke; Landsea Green Group	WWF China; China Forestry Industry Association Forest Paper Branch	Research Institute of Forest Policy and Information (RIFPI) of the Chinese Academy of Forestry (CAF); Research Centre for International Trade in Forest Products (CINFT) of the National Forestry and Grassland Administration (NFGA)	RIFPI; CINFT; International Tropical Timber Organization (ITTO); China Timber and Wood Products Distribution Association; China Green Carbon Foundation; Forestry Investigation, Planning and Design Institute of NFGA; 12 leading Chinese timber enterprises
Date started	March 2005	June 2015	September 2015	April 2016	June 2018
Major requirements for member companies	Publish responsible procurement policies; develop action plans and be audited by independent third parties; ensure forest managers are FSC-certified.	Become members of SEE Foundation; pay an annual fee for 10 years to support environmental protection in China; develop green purchasing plans.	Commit to working together to promote sustainable (FSC-certified) paper products in China.	Commit to and implement responsible production, trade and investment in forest products; provide evidence of legality or sustainability; submit an annual report and accept an annual audit by a panel.	Participating enterprises based on China's Forest Product Index Mechanism since 2012.
Major services provided to member companies	Training on supply chain management; assisting forest management enterprises in developing forest management plans and identification of high conservation value forest (HCVF); sharing best practice cases.	Suppliers that meet the whitelist requirements will be selected for the procurement list with technical support from WWF.	Joint organization of marketing opportunities.	Information platform, database, marketing, legal & technical support and other services provided by the alliance.	Dissemination and exchange of green production, trade and consumption concepts and related capacity building services; providing links between the middle and lower reaches of the forest product industry chain and green financial services.
Future potential	Continue to build industry models.	Exert a concentrated influence on a particular tree species and country.	Increase recognition of and support for FSC-certified forest products in Chinese market.	Become the most comprehensive information service platform.	Promotion of the green supply chain by connecting green finance with JD.com's data and blockchain technology.

Remarkable progress has been made with these alliances, including the following:

- Companies including Nature Home, Vanke, Langshi, Kingfisher Asia, Power Dekor and Jiusheng Floor have developed paradigms for responsible forest product trading.

- GFTN-China played a key role in persuading corporate forest operators to apply for FSC certification for more than 2.6 million hectares of forests in China and more than 400,000 hectares of forests in the Amazon region. GFTN-China has supported the companies with high conservation value forest (HCVF) identification and sustainable forest management plans.

- WWF China and the China National Forest Products Industry Association (CNFPPIA) developed a pilot for timber legality verification from Dongmen Forest Farm to the Power Dekor factory. This strengthened the expertise and methodology needed for the CNFPPIA to develop the Standard of Timber Legality Verification.
- At COP21 in Paris in 2015, seven organizations and nine companies initiated China’s “Forest Declaration”, which called on Chinese companies to commit to zero deforestation by 2030.³⁶ This Declaration and GFTN-China were recognized in the position paper of the People’s Republic of China, “Building a Shared Future for All Life on Earth: China in Action”, issued by the Ministry of Ecology and Environment, and the Ministry of Foreign Affairs on 21 September 2020 for the 75th anniversary of the United Nations.
- In July 2016, WWF China encouraged 28 Chinese solid wood flooring companies (accounting for over 80% of the solid wood flooring market) to sign up to the COP21 Forest Declaration to achieve zero deforestation in their supply chains by 2030.³⁷ Since 2016, the focus has been on developing best practices to turn commitments into action.
- In November 2016, 70 real estate companies – accounting for 14% of the real estate market – committed to a joint action plan to green their entire supply chains and reduce their negative environmental impacts.³⁸ Subsequently, the companies launched an action plan for green procurement in seven categories including cement and wood, and a whitelist of companies in four categories. There are a total of 3,491 enterprises on the whitelist that meet the green supply chain standards, including 19 developers that asked for a whitelist of wood flooring suppliers.³⁹
- WWF China, through its “Forest Dialogue” Sustainability Forum, has aimed to drive market demand for sustainable forest products and green supply chains.⁴⁰
- China Responsible Forest Product Trade and Investment (China RFA) provided comprehensive information on responsible forest product trade and sustainable forest management in China and beyond.⁴¹

4.3 Civil society’s role to expose breaches and support best practice

Civil society organizations, such as international NGOs, Chinese research institutions and industry associations, can play many roles in promoting sustainable forest governance, including researching, exposing and litigating around breaches of environmental regulations and conservation best practice.

The publication of three research reports from 2004 to 2007 – by WWF,⁴² Greenpeace⁴³ and Forest Trends⁴⁴ – attracted considerable global media attention at the time. They were the first published reports to clearly reveal China’s connection with global illegal logging and deforestation and the roles China could play. As such they helped encourage China to engage in the kind of international cooperation on forest governance detailed in Chapter Two. Yet the reports also made clear that European, American and Japanese markets were – and continue to be – major importers of Chinese timber products. Consequently, all countries in the timber value chain share a common responsibility, along with China, to tackle global illegal logging and deforestation.

NGOs, research institutions and industry associations have a critical role to play in promoting sustainable forest governance in China. Typical

examples include:

- Responsible Asia Forestry and Trade (RAFT) partnership, led by The Nature Conservancy (TNC) and supported by another seven NGO partners
- Support from WWF, the International Union for Conservation of Nature (IUCN) and other NGOs in developing SFA’s two guidelines, *Sustainable Overseas Silviculture by Chinese Enterprises* (2007) and *Sustainable Overseas Forest Management and Utilization by Chinese Enterprises* (2009), and intensive promotion of the 2009 guideline in Gabon
- From 2008-2011, four China-based sessions of the International Conference on Sustainable Forestry and Market Development allowed TNC, WWF and other international NGOs in China to play a policy advocacy role⁴⁵

Creating industry pioneers and best practice models are common roles for NGOs, research institutions and industry associations to promote sustainable forestry and responsible trade in China and beyond. Through GFTN-China, WWF continues to act as a pioneer in China’s efforts to promote

“ All countries in the timber value chain share a common responsibility, along with China, to tackle global illegal logging and deforestation

sustainable forestry. It created best practice models for companies such as Nature Home and Vanke, before launching the Chinese Forest Declaration at COP21 in Paris in 2015 and the Anji Forest Declaration in 2016. WWF has also promoted China's Real Estate Industry Green Supply Chain Action Plan (GSA), established the China Sustainable Paper Alliance (CSPA), and encouraged sustainable forestry commitments and actions among Chinese enterprises in Gabon.

Furthermore, WWF has produced a forest assessment toolkit for high conservation value forests, developed methodologies for verifying the legality of imported timber and for the management of responsible supply chains, and created a Guide for the Sustainable Management of Plantations in China, among other products. Academics from the Research Institute of Forest Policy and Information (RIFPI) of the Chinese Academy of Forestry, Beijing Forestry University and Northeast Forestry University participated in salient work as part of these processes.

The China National Forest Products Industry Association (CNFPIA) and the China Timber and Wood Products Distribution Association are the two organizations most involved in promoting timber legality. In addition to a critical and leading role played in the development of the China Timber Legality Standards and the Green Wood-based panel Code,⁴⁶ these two associations have also been key stakeholders in most of the seminars and capacity building for enterprises in the promotion of sustainable trade in China's forest products.

The China Forestry Industry Association has launched the Sustainable Development Initiative for Paper Products in China in cooperation with WWF China and the SFA. It is worth mentioning that these industry associations – as well as the China Minmetals Import and Export Chamber of Commerce and the China Chamber of Commerce of Import and Export of Foodstuffs, Native Produce and Animal By-products – closely cooperate with the InFIT project and play an important role in leading their member enterprises in the transformation process towards a responsible and sustainable supply chain.



5

China's soft commodities trade and global deforestation

China is the world's largest importer of soy, beef and forest products, and the second-largest importer of palm oil. The global value chains of these four soft commodities are responsible for at least 40% of global deforestation. By curbing the devastating ecological impacts of these soft commodities, China can help protect the planet as well as its supply chains, exports to rapidly regulating markets and global reputation.



5.1 China's early efforts to curb deforestation caused by soft commodities

China is a major importer and consumer of soft commodities (e.g. soy, beef, palm oil and forest products) and has a significant role to play in curbing global deforestation caused by their production. China also plays an important role in promoting positive changes within the global value chain. Compared with China's efforts to promote the sustainable development of forestry, there is no clear bilateral or multilateral consultation and cooperation mechanism aimed at curbing illegal logging and deforestation related to China's international trade in soybeans, beef or palm oil. Industry associations have been developing guidelines to address deforestation associated with

these soft commodities, but to date there are no formally agreed industry standards.

China is in the early stages of undertaking advanced environmental protection actions, compared to some European nations. To date, research has been carried out on government policy, selected green finance experiments and some individual enterprises' commitments and actions in promoting zero deforestation for sustainable trade associated with soft commodities. China is now placing much greater emphasis on environmental protection and approaching the issue with a greater sense of urgency.

5.2 Promotion of sustainable soy and palm oil

“ Compared with China's efforts to promote sustainable forestry, there is no clear bilateral or multilateral cooperation mechanism aimed at curbing illegal logging and deforestation related to the trade in soy, palm oil and beef

Since 2004, WWF China has undertaken research on the international trade, processing and consumption of palm oil and soy in China. The NGO has established a cooperative partnership with COFCO International (China's largest food processor, manufacturer and trader) and other Chinese and foreign enterprises. WWF China has also participated in the Round Table on Sustainable Palm Oil (RSPO) and the Round Table on Responsible Soy (RTRS). In April 2009, WWF China, Solidaridad and the RTRS co-sponsored a workshop on sustainability issues related to China's trade in soft commodities, including deforestation. This was an early multistakeholder effort to study the links between China's soft commodities trade and global deforestation.

In May 2013, the RTRS and the China Soybean Industry Association jointly held the International

Forum on Sustainable Soybean Development in Beijing, which was also the first time RTRS held its annual forum in the Asia-Pacific region. The theme of the forum was “Building an International Bridge for Responsible Soy”. The forum aimed to spread the responsible soy concept, explore the sustainable development path of the soy industry, and provide a platform for the exchange of policy, scientific research and business cooperation for the soy industry.

Since then, the Paulson Foundation, Solidaridad, WWF China and the Tropical Forest Alliance of the World Economic Forum have worked with the China Soybean Industry Association to organize several seminars. This has included inviting soy producers from Brazil to China and organizing visits to Brazil for the China Soybean Industry Association and soy purchasing enterprises.

5.3 Research by the China Council for International Cooperation on Environment and Development

The China Council for International Cooperation on Environment and Development (CCICED) is a high-level international advisory body of the Chinese government. It has played a unique and important role in the process of China's sustainable development.⁴⁷

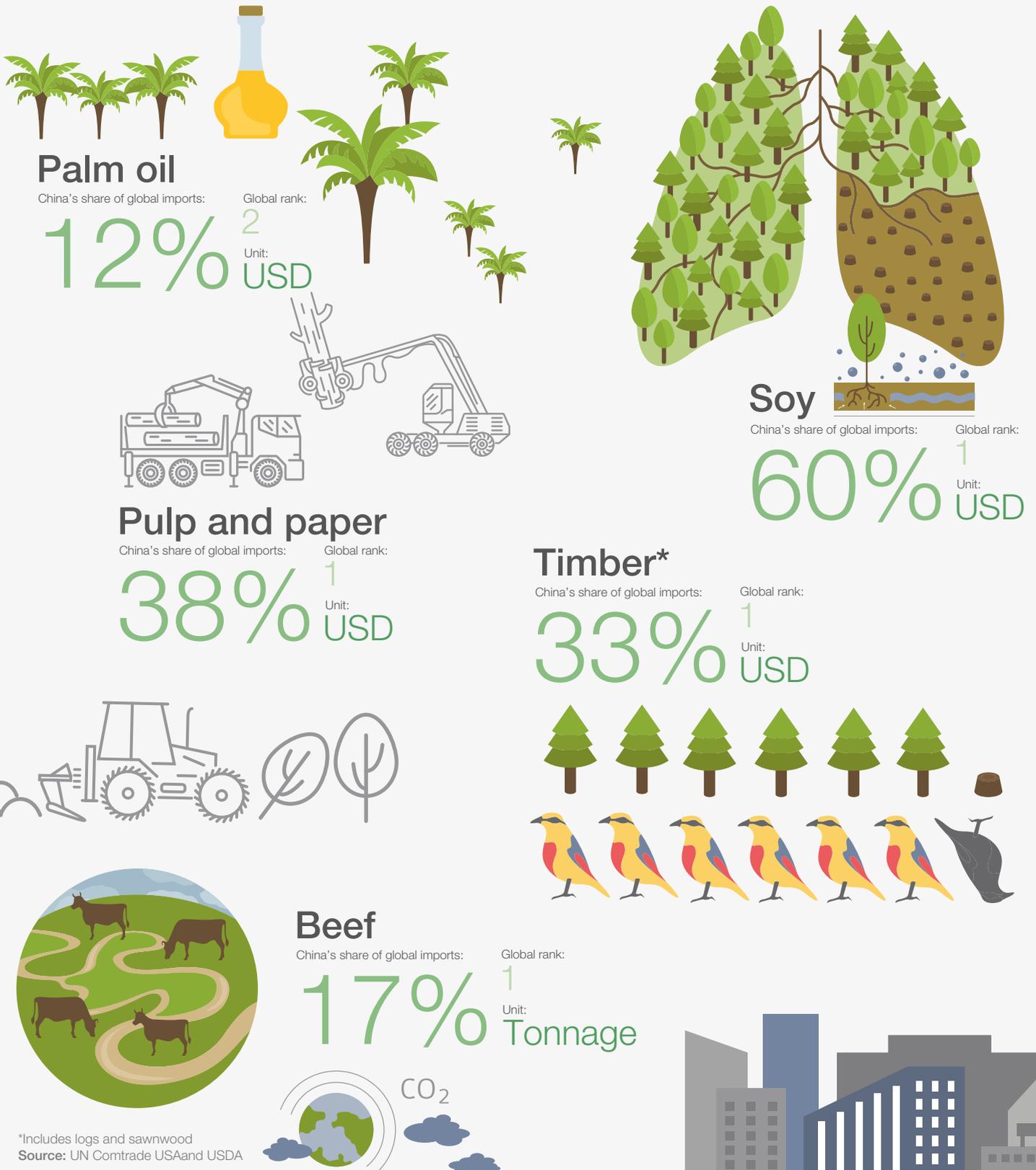
In 2016, CCICED issued a report entitled *China's Role in Greening Global Value Chains*,⁴⁸ which concluded that greening the global value chains

of soft commodities is particularly important to realize the goal of sustainable development. China can play a leading role in global value chains and it is in China's interests to help ensure these value chains are fully embedded in the principles of environmental protection. The other three CCICED reports completed in 2016 are on China's green transformation, ecological civilization and South-South cooperation, and the rule of law.

In September 2020, CCICED published a policy research report entitled *Global Green Value Chains – Greening China’s “Soft Commodity” Value Chains*.⁴⁹ According to this report: “The production of unsustainable soft commodities ... is causing devastating deforestation and is one of the main reasons for biodiversity loss, climate change, and ecosystem degradation.” The report adds that “the global value chains of four soft commodities – soy, beef, palm oil and wood products – are responsible for at least 40% of global deforestation”.

The CCICED report also notes that China is at the centre of these global supply chains (see Figure 9). In 2019, China accounted for almost 60% of global soy imports and was the world’s second-largest palm oil importer (following India). In addition, China is the world’s largest importer of beef (by quantity), pulp and paper, and timber, accounting for one third of the value of global timber imports (logs and sawnwood) in 2018).

FIGURE 9 China’s imports of soft commodities in 2018⁵⁰



“ The global value chains of four soft commodities – soy, beef, palm oil and wood products – are responsible for at least 40% of global deforestation.

China Council for International Cooperation on Environment and Development

The report recognizes that the EU and other major economies are already moving towards a greener value chain for soft commodities. Some large international agricultural enterprises are also formulating and implementing green strategies for soft commodity value chains.

Consumers, including those from China, have begun to pay attention to environmental and social sustainability issues. As a major importer and consumer of some key soft commodities, China plays a pivotal role in the global soft commodity value chain. Greening the global value chain is in China's vital interests, as is the concept of Ecological Civilization as this ensures the security and legality of the value chain. By taking the lead, China can prepare for the likely direction of travel that markets will take, while at the same time enhancing its international reputation. There is also the prospect of tighter legislation in China's export markets – for example, the European Commission's recent proposal for a new Deforestation Regulation outlawing the import of any products that cannot prove they are deforestation-free.⁵¹

China should maintain the following principles in promoting the greening of global soft commodity value chains:

- First, China should not interfere in the internal affairs of sovereign states, but respect their laws and regulations
- Second, the solution to the greening of global soft commodity value chains should be practical and low cost
- Third, any solution should embody China's goal of helping to solve global challenges in line with the vision of an Ecological Civilization and a community with a shared future for humankind

CCICED's 2020 report suggests that the Chinese government should take the following three actions:

- Implement a national green value chain strategy and establish a supportive policy environment and institutional framework
- Strengthen the combination of government supervision and market regulations, along with the import management of soft goods illegally harvested or produced from the country of origin
- Promote the integration of the green value chain and develop all possible synergies

5.4 Initial commitments and actions of Chinese enterprises

In October 2017, the China Meat Association, WWF China and 64 leading enterprises in China's meat industry jointly issued the Chinese Declaration on Sustainable Meat Development. Signatories committed to strengthening the protection of resources and the environment in livestock farming and feed value chains; avoiding soil degradation, deforestation and destruction of natural vegetation and illegal practices; and continuous improvement in the transparency and traceability of the meat product supply chain.⁵²

In July 2018, the China Chamber of Import and Export of Foodstuffs, Native Produce & Animal By-products (CFNA), WWF China, and the Roundtable on Sustainable Palm Oil (RSPO) launched the China Sustainable Palm Oil Alliance. AAK, Cargill China, HSBC, L'Oreal China, Mars and Ming Fai Group all joined the alliance. The alliance aims to engage the main participants in the palm oil value chain to commit to methodical steps towards promoting more sustainable palm oil in the Chinese market.⁵³

COFCO International has formulated and implemented sustainable procurement policies for soybean and palm oil. The company explicitly requires its suppliers to meet its sustainable procurement policy for soybean and palm oil production, including environmental and social requirements, as well as traceability and transparency.⁵⁴ In January 2017, COFCO promised that it would remove the risk of deforestation from its supply chain.⁵⁵ COFCO's sustainable business action enabled COFCO International to reach an agreement with a consortium of 21 global banks in 2019 for a \$2.3bn sustainable development loan.⁵⁶ This is an ideal combination of green finance with responsible trade. COFCO is gradually establishing itself as China's leading enterprise in the practice of responsible soft goods trading. COFCO International also signed the "Agricultural Commodity Companies Corporate Statement of Purpose" at COP26 in November 2021, in which 12 global companies commit to "halting forest loss associated with agricultural commodity production and trade".⁵⁷

5.5 Interference or taking responsibility?

When considering the use of legal means – for example in the implementation of Article 65 of the Forest Law – to regulate imported timber or other soft commodities associated with deforestation, some Chinese stakeholders are worried that China may enforce what they see as interference with the national sovereignty of its trading partners.⁵⁸

- However, many of China's trading partners already have laws in place that require the sustainable production and trade of soft commodities. So in seeking to ensure the soft commodities it imports from these countries are sustainably and legally farmed, China would not be interfering with the national sovereignty of its trading partners, it would instead be supporting their sovereignty by upholding their laws, policies and commitments. For example:⁵⁹
- **Indonesia:** the government's Low Carbon Development Initiative, launched in 2019, calls for increased supplies of sustainable palm oil and timber that avoid the conversion of natural forests and peatlands. The country has also established a National Timber Legality Assurance System to prevent trade in illegally harvested timber, as part of its VPA with the EU that ensures the timber entering the EU from Indonesia is legally harvested.
- **Brazil:** more than 90% of deforestation in the Brazilian Amazon is illegal. The country's Forest Code stipulates the maximum land area per farm that can be cleared for agriculture per biome (e.g. 20% in the Amazon). In addition, Brazil's Nationally Determined Contribution to the Paris Agreement on Climate Change calls for strengthening policies and measures to achieve zero illegal deforestation in the Brazilian Amazon by 2030.
- **Africa:** China's imports of tropical timber from Africa are growing. Over the past decade at least eight African countries (Cameroon, Central African Republic, Côte d'Ivoire, Democratic Republic of Congo, Gabon, Ghana, Liberia, Republic of the Congo) have signed or are in the process of negotiating VPAs with the EU to ensure only legally harvested timber enters European and domestic markets.

Consequently, there is a risk that when Chinese companies import timber or other soft commodities associated with illegal logging or deforestation, the salient laws of the supplier country (or exporting country) may be violated. Given this chain of legal accountability, it is vital that Chinese importers work together with their overseas exporting partners to ensure that timber harvesters and producers of soft commodities comply with the relevant laws and regulations in their countries.

To hold exporters accountable in this way is to respect the laws of the exporting country. It is not a form of interference in the internal affairs of other countries. It is simply China taking responsibility for ensuring its own imports, consumption and exports of soft commodities and forest products are sustainable, and in line with the government's promotion of an Ecological Civilization, its commitments made at COP26 and its bilateral agreements on deforestation with the EU and US.

Equally, the Chinese government has a role to play in collaborating with businesses to develop transparent tracking requirements and mandatory due diligence to ensure the legality and sustainability of imported wood and soft commodity products, in line with the principle of respecting the sovereignty of exporting countries. This could include the application of Article 65 of the Forest Law to ensure the legality not only of domestically produced timber but also of imported timber and timber products. Such a measure would also help prepare and protect China's export business in the light of new policies such as the EC's proposed Deforestation Regulation.

Conclusion and Recommendations

China has the potential to strengthen its standing as a responsible global power by taking actions to reverse global deforestation by 2030, in line with its international commitments. A twin-track approach that combines regulations with incentives will prove most successful.



China is the world's largest importer of soy, beef, timber, pulp and paper, and the second-largest importer of palm oil. The global value chains of these four soft commodities are responsible for at least 40% of global deforestation. China has made great progress in addressing the issue of deforestation within its own borders, through implementing a complete ban on logging in natural forests in 2017 and revising its Forest Law in 2019 to forbid businesses from handling timber they know to be illegally felled.

However, since 2014 China has been importing timber in greater volumes than domestic production. And most of the top 10 countries supplying China with tropical timber ranked very poorly against metrics for rule of law and control of corruption, with illegal logging rampant – according to a 2019 report by the NGO Global Witness.

Now is the moment for China to take action to tackle illegal logging and deforestation in its supply chains of imported timber and other soft commodities. The time is right – following China's public commitments to curb deforestation at the UN's Climate Change Conference in Glasgow (COP26), its successful hosting of the Biodiversity Conference (COP15) Part One in Kunming, its pledge to promote a green Belt and Road Initiative, and its stated goal to create an Ecological Civilization.

The Chinese government and Chinese companies must take tangible steps to reverse the huge ecological impacts of forest-risk commodities such as timber, beef, soy, palm oil, pulp and paper in the countries that export to China. In many cases, these countries already have their own national laws, policies and commitments to tackle deforestation. By seeking to uphold these standards among trading partners, China is not interfering in the sovereignty of other nations, it is strengthening their sovereignty while acting as a responsible global power.

Greening commodity supply chains, both at home and overseas, will help protect the planet, but it is also in China's self-interest. It will strengthen the resilience of China's supply chains, boost China's food security, and align its export businesses with markets such as the European Union which are rapidly regulating against commodities associated with deforestation and environmental destruction.

To conclude, this report makes a series of detailed policy recommendations in four principal areas:

- National legislation
- Market demand and incentives
- Practical tools for Chinese businesses
- International cooperation

National legislation

Establish legislation that explicitly prohibits the importation of illegal timber and soft commodities associated with deforestation and forest degradation

- Explicitly include imported illegal timber in the scope of application of Article 65 in the newly amended Forest Law of the People's Republic of China and require the tracing of timber legality back to the origin of the logging.
- When formulating the new regulations for the implementation of the Forest Law, it is essential that both imported wood and a requirement for buyers to credibly trace timber back to a legal point of origin are explicitly included the scope of application of Article 65.
- The definition of "illegal origin" should clearly require that the logging, transportation, processing and trade links can be traced from the point of harvest to the final point of purchase in China.
- The law should clearly require businesses to record the specific measures taken to reduce risks and perform due diligence to identify and prevent illegally logged, transported or traded timber – both imported and domestic – from becoming part of the supply chain when recording the entry and exit accounts of timber and timber products.
- Besides timber, China should also ban other soft commodities (e.g. beef, soy, palm oil, cocoa and coffee, rubber, paper and pulp) if associated with deforestation and forest degradation.

Market demand and incentives

Foster China's domestic supply and market demand for responsibly sourced soft commodities

- Make full use of green finance, including concessional loans and tax breaks, to assist businesses with fulfilling commitments to a legal timber trade and zero deforestation. For example, the China Bank and Insurance Regulatory Commission has formulated a system to promote sustainable forest management through green finance, which can meet the high standards demanded by zero deforestation and forest certification.
- Closer cooperation is needed between financial institutions, trading enterprises and forest management companies to direct available green finance towards businesses that take action to eradicate illegal and unsustainable timber and forest-risk commodities from their supply chains.
- The government should enhance its green procurement policies and practices. Measures such as greater transparency and more effective supervisory mechanisms are needed to make green procurement more effective.
- Improve cooperation between Chinese government departments, enterprises, industry associations, research institutes and NGOs to cultivate market demand for more sustainable consumption, through promoting the purchase of zero-deforestation soft commodities and certified products. This will help transform the Chinese market into a global driving force for sustainable trade in forest products. “Global zero deforestation by 2030” should be the rallying cry.
- Increase China's domestic timber production capacity and reduce its dependence on imported timber. Greater financial support for large-diameter timber cultivation is needed – in the form of long-term, low-interest and discounted loans. Pilot projects of new reserve-forest construction under public-private partnerships should be promoted.
- To address the shortage of land for timber plantations in China, Chinese enterprises and government departments should promote overseas investment in afforestation projects where conditions are appropriate.
- The government can stimulate greater market demand for sustainable timber and soft commodities by building public awareness around deforestation. Civil society organizations (CSOs) and NGOs should be encouraged to expose and litigate against illegal and unsustainable corporate operations. Both domestic and foreign NGOs should promote the legal, deforestation-free trade and consumption of timber products in China, and the traceability and transparency of relevant supply chains.

Practical tools for Chinese businesses

Provide practical tools for Chinese companies to employ due diligence in improving soft commodity traceability and transparency

- The National Forestry and Grassland Administration (NFGA) should organize the development of a national standard for both domestic and imported timber legality verification. The standard should be mandatory, applicable nationwide and in line with international standards, based on the development of the Timber Legality Verification Standard undertaken by the Chinese Academy of Forestry (CAF) and the China Forest Product Industry Association (CFPIA).
- The government should issue guidelines for the sustainable trade of forest-risk commodities, with the stated aim of reducing global deforestation, and formulate these guidelines into national mandatory standards and management measures. Then guidelines should be issued as soon as possible, so that Chinese companies can aim towards zero deforestation based on complying with legal deforestation-free soft commodity production standards.
- Industry associations should support pilot projects and promote best practices. Platforms with a role to play include the Global Forest & Trade Network (GFTN), the China Sustainable Paper Alliance (CSPA), China's Real Estate Industry Green Supply Chain Action Plan (GSC), the China Responsible Forest Products Trade and Investment Alliance (China RFP), the Global Green Supply Chain for Forest Products (GGSC), the Chinese Declaration on Sustainable Meat Development and the China Sustainable Palm Oil Alliance (CSPOA).

- Companies should develop sector-specific guidelines and standards for performing due diligence on commodities and products with potential environmental impact, to ensure their procurement processes are traceable and transparent.
- Celebrate companies such as COFCO International, which has committed to source

deforestation-free soy from Brazil, to ensure they are seen as industry champions in the Chinese market.

- Industry associations should create corporate alliances and platforms to help small and medium-sized businesses engage in legal and sustainable operations.

International cooperation

Strengthen international cooperation around collective action to promote responsible soft commodity supply chains

- The government must strengthen bilateral and multilateral cooperation in international forest governance. For example, China should recognize the timber legality verification mechanism established by Indonesia, which is already recognized under the EU Forest Law Enforcement, Governance and Trade voluntary partnership agreement (EUFLEGT VPA). This mutual recognition mechanism can then be extended to Papua New Guinea and other countries that conduct substantial volumes of timber trade with China that carry a high risk of illegal logging or deforestation.
- The government should prioritize communication and cooperation with countries where high conservation value forests are at risk and which trade large volumes of timber and soft commodities with China. Corporate platforms in these countries could help extend Chinese influence to boost transparent trade in these goods.
- The government should develop country-specific guidelines on how to move against illegal deforestation in soft commodity imports, prioritizing countries such as Brazil and Indonesia. The Regional Comprehensive Economic Partnership (RCEP) could help enable free trade promoted by China to meet sustainability principles and requirements. RCEP should take the lead in sustainable procurement, for example by supporting Indonesia in providing China with palm oil de-linked from deforestation.
- The government should place the issues of timber legality, zero deforestation and curbing forest degradation on the agenda of the Asia-Pacific Economic Cooperation's (APEC) Experts Group on Illegal Logging and Associated Trade (EGILAT) platform, as well as on the agenda of the RCEP. These platforms and other multilateral cooperation opportunities should be ongoing priorities for Chinese engagement.

- China should promote cooperation between the China Forest Certification Council (CFCC), the Programme for the Endorsement of Forest Certification Schemes (PEFC) and the Forest Stewardship Council (FSC). There is a corporate appetite for certification, but more work is needed to strengthen the exchange of information, best practice, capacity building and cooperation between international and domestic forest certification schemes. Aligning standards and auditing could increase the efficiency and influence of certification while reducing compliance costs for organizations.
- Production of soft commodities, such as palm oil, soy and beef, has been internationally certified for several years. China should select, from among existing international certifications, those schemes that can most effectively influence any country of origin with major deforestation issues and that are most suitable for China's national conditions. These certification schemes should then be localized to meet the compliance requirements of China's certification system.
- As part of China's international commitments to tackle climate change and biodiversity loss, the government should invest in nature-based solutions to help achieve zero deforestation on its path towards peaking carbon emissions before 2030 and achieving carbon neutrality before 2060. These actions are also a key priority for a green Belt and Road Initiative (BRI).
- The government should integrate sustainable forest management and deforestation-free commodities into China's foreign aid programme – for example in line with the 2018 commitments of the Forum of China-Africa Cooperation (FOCAC) and within the aid plan of the Belt and Road Initiative. China's foreign aid budget could be used for tackling illegal logging and deforestation, especially in countries where illegal logging and deforestation are relatively serious and where soft commodities including timber are exported to China in large volumes.

Abbreviations

APEC: Asia-Pacific Economic Cooperation

ASEAN: Association of Southeast Asian Nations

BCM: China-EU Bilateral Coordination Mechanism on Forest Law Enforcement and Governance Agreement

BRI: Belt and Road Initiative

CAF: Chinese Academy of Forestry

CCICED: China Council for International Cooperation on Environment and Development

CEMAC: Central African Economic and Monetary Community

CFADS: long-term forest planning permits issued by Gabonese forest authorities

CFCC: China Forest Certification Council

CFNA: China Chamber of Import and Export of Foodstuffs, Native Produce & Animal By-products

CFPIA: China Forest Product Industry Association

China RFP: China Responsible Forest Products Trade and Investment Alliance

CILAT: Combating Illegal Logging and Associated Trade

CINFT: Centre for International Forest Products Trade, National Forestry and Grassland Administration

COP15: 15th Conference of the Parties to the Convention on Biodiversity

CSO: civil society organization

CSPA: China Sustainable Paper Alliance

CSPOA: China Sustainable Palm Oil Alliance

CTLVS: China Timber Legality Verification System

CWA: Japanese Clean Wood Act

DDS: due diligence system

EFI: European Forest Institute

EGILAT: Experts Group on Illegal Logging and Associated Trade

EUTR: European Union Timber Regulation

FAO: Food and Agriculture Organization of the United Nations

FGMC: Forest Governance, Markets and Climate programme

FLEGT: The EU's Forest Law Enforcement, Governance and Trade action plan

FOCAC: Forum of China-Africa Cooperation

FSC: Forest Stewardship Council

FTA: free trade agreement

GFTN: Global Forest & Trade Network

GGSC: Global Green Supply Chain for Forest Products

GSC: China's Real Estate Industry Green Supply Chain Action Plan

ILP: Australia's Illegal Logging Prohibition Act

InFIT: China-UK Collaboration on International Forest Investment and Trade programme

ITTO: International Tropical Timber Organization

IUCN: International Union for Conservation of Nature

MOFCOM: Ministry of Commerce, Chinese Government

MOU: memorandum of understanding

NFGA: National Forestry and Grassland Administration of China

NFPF: Natural Forest Protection Programme

NGO: non-governmental organization

PEFC: Programme for the Endorsement of Forest Certification Schemes

PPP: public-private partnerships

RAFT: Responsible Asia Forestry and Trade

RCEP: Regional Comprehensive Economic Partnership

RIFPI: Research Institute of Forestry Policy and Information, China Academy of Forestry

ROK: Republic of Korea

RSPO: Roundtable on Sustainable Palm Oil

RTRS: Round Table on Responsible Soy

RWE: roundwood equivalent

SDG: Sustainable Development Goal

TFA: Tropical Forest Alliance

TNC: The Nature Conservancy

VPA: voluntary partnership agreement

WTO: World Trade Organization

WWF: World Wide Fund for Nature

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