Scoping Study on EU-China Relationships in the Forestry Sector

Hugh Speechly

May 2016
Acknowledgements

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This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of Fern and can in no way be taken to reflect the views of the European Union.

We would like to thank the UK Department for International Development for its financial support. Views in this report do not necessarily reflect DFID’s official position.

Author: Hugh Speechly

ISBN: 978-1-906607-63-0
Foreword

As this report documents, China’s rapid economic growth has spurred a massive demand for natural resources – including timber, agricultural commodities and minerals – the vast bulk of which are imported.

Although it is estimated that the proportion of China’s imports of illegally sourced timber has fallen the total volume of illegally sourced timber has nearly doubled from 17 million in 2005 to 33 million m³ in 2013. A substantial part of these imports is exported to Europe.

In discussions on protecting forests, respecting rights and controlling illegal timber, China matters. In the Mekong region and West and Central Africa, our partners tell us that China matters too.

Fern therefore commissioned Hugh Speechly to do a study to inform us about China’s efforts to tackle the trade in illegal and unsustainable produced timber and to provide us with some guidance for a possible strategy to inform EU-China efforts to control the trade in illegally sourced timber. This report, written in September 2015, is the result.

We think the information in the study is important and relevant not only to Fern, and therefore would like to present this report to colleagues in the NGO community in the EU, China and globally, as well as those in the European Commission, Member States’ governments, the timber trade, the academic community and others.

We very much welcome comments, corrections, suggestions and discussion on how to better engage China to ensure its economic growth will have fewer negative and social impacts.

Saskia Ozinga
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Acronyms and abbreviations

AAP   Annual Action Programme for the Partnership Instrument (European Commission)
AIIB  Asian Infrastructure Investment Bank
APEC  Asia Pacific Economic Cooperation
APFNet Asia-Pacific Network for Sustainable Forest Management and Rehabilitation
APFNet-KTC APFNet Kunming Training Centre
BCM-FLEG EU-China Bilateral Cooperation Mechanism on Forest Law Enforcement and Governance
BIT   Bilateral Investment Treaty
CAF   Chinese Academy of Forestry
CATVS China association-guided voluntary verification scheme
CBRC China Banking Regulatory Commission
CCCMC China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters
CCICED China Council for International Cooperation on Environment and Development
CELS China’s Environmental Labelling Standards
CFNA China Chamber of Commerce for Import and Export of Foodstuffs, Native Produce and Animal By-Products
CGTVS China government-guided timber verification scheme
CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora
CNFPIA China National Forest Products Industry Association
CNY   Chinese Yuan Renminbi
COFCO China National Cereals, Oils and Foodstuffs Corporation
CPC   China Communist Party
CPET  UK Central Point of Expertise on Timber Procurement
CSO   Civil Society Organisation
CSR   Corporate Social Responsibility
CTLVS Chinese Timber Legality Verification System
CTWPDA China Timber and Wood Products Distribution Association
DFID  UK Department for International Development
DG-ENV European Commission Directorate General for Environment
E&S   Environmental and social
EFI   European Forest Institute
EGILAT APEC Expert Group on Illegal Logging and Associated Trade
EIA   Environmental Investigation Agency
EPL   Environmental Protection Law
ESG   Environmental and Social Governance
ETTF  European Timber Trade Federation
EUTR  EU Timber Regulation
EXIM Bank China Export and Import Bank
FAO   Food and Agriculture Organisation of the United Nations
FDI   Foreign direct investment
FGMC DFID Forest Governance, Markets and Climate Programme
FLEG Forest Law Enforcement and Governance
FLEG'T Forest Law Enforcement, Governance and Trade
FOCAC Forum for China-Africa Cooperation
FSC   Forest Stewardship Council
GACC  General Administration of Customs of China
GDP   Gross Domestic Product
GEI   Global Environmental Institute
GIZ   Deutsche Gesellschaft für Internationale Zusammenarbeit (German Federal Enterprise for International Cooperation)
GMS   Greater Mekong Sub-region
GRI   Global Report Initiative
ICBC  Industrial and Commercial Bank of China
IDA   International Development Association (World Bank)
IFC   International Finance Corporation
IIED  International Institute for Environment and Development
ILWG  Illegal Logging Working Group (Australia-China Joint Working Group on Forestry)
InFit UK-China International Forest Investment and Trade Programme
IRSG  International Rubber Study Group
ITTO  International Tropical Timber Organisation
IUCN International Union for Nature Conservation
JCCC  EU-China Joint Customs Cooperation Committee
JICA  Japan International Cooperation Agency
MEP   Ministry of Environmental Protection
MOFCOM Ministry of Commerce
MOU   Memorandum of Understanding
MSR   Maritime Silk Road
NDRC  National Development and Reform Commission
NGO   Non-governmental organisation
OBOR  One-Belt-One-Road
ODA   Official Development Assistance
OECD  Organisation for Economic Cooperation and Development
PFM   Prospective Founding Member (of Asian Infrastructure Investment Bank)
PNG   Papua New Guinea
PUP   Private Use Permit
RIFPI Research Institute of Forestry Policy and Information (Chinese Academy of Forestry)
RSPO Roundtable on Sustainable Palm Oil
RWE   Round-wood equivalent
SFA   State Forest Administration
SME   Small and Medium Enterprise
SOE   State-Owned Enterprise
SREB  Silk Road Economic Belt
SRI   Social Resources Institute
SVLK  Sistem Verifikasi Legalitas Kayu (Indonesia’s Timber Legality Assurance System)
SWFU  Southwest Forestry University (Kunming)
TEU   Treaty of the European Union
TFEU  Treaty on the Functioning of the European Union
TI    Transparency International
TPAC  Dutch Timber Procurement Assessment Committee
VPA   Voluntary Partnership Agreement
WGI   Worldwide Governance Indicators project
WWF   World-wide Fund for Nature
Summary

China's rapid economic growth has spurred a massive demand for natural resources – including timber, agricultural commodities and minerals – the vast bulk of which are imported. In many developing countries the production of these commodities is carried out in ways that adversely impact forests and people who depend on forests for their livelihoods. Weak governance in producing countries may also allow commodities to be produced in contravention of those countries' laws.

China's estimated yearly demand for timber – between 350 and 410 million m³ – exceeds its domestic production by 250 million m³. To fill this gap, China imports raw material largely unprocessed in the form of logs, sawnwood and wood chips. Hardwood species, which comprise 30 per cent of the volume but 70 per cent of the import value, are predominantly from tropical countries where the risk of illegal production is high. In recent years this trend has been accentuated by a sky-rocketing demand for high-value rosewood species, almost all of which has been of doubtful legal origin. Although it is estimated that the proportion of China's imports of timber which is likely to be illegal has fallen from about 40 per cent in 2005 to 25 per cent in 2013, because of the overall growth in import levels, the total volume of such timber has nearly doubled from 17 million to 33 million m³.

Despite China's domestic consumption of wood-based products now accounting for 75-80 per cent of its total demand, the country remains the world largest exporter of finished products, with plywood and furniture making up 80 per cent of the volume. Together the US (28 per cent), the EU (16 per cent) and Japan (7 per cent) account for about half the total market. This suggests a high probability that products containing illegal timber are exported and enter developed country markets, including those of EU Member States.

China's demand for natural resources has been accompanied by growth in its industrial capacity and financial reserves. This has spurred its so-called “Going-Out” policy, which has encouraged Chinese enterprises to look abroad for investment opportunities, with the aims of securing raw material supplies, increasing China's global influence, and boosting enterprise profits. The mining and agriculture (including forestry) sectors have been important areas for Chinese overseas investment. Most recently China's outbound investment policy is typified by its “One-Belt-One-Road” initiative and the establishment of the Asian Infrastructure Development Bank (AIIB).

Some investments have faced criticism in host countries or run into difficulties because of failures to observe local laws or the needs of local people. To address these concerns China has developed a series of guidelines for enterprises investing overseas. Those with relevance for forests cover Environmental Protection in Foreign Investment and Cooperation; Sustainable Overseas Silviculture by Chinese Enterprises; Sustainable Overseas Forests Management and Utilisation by Chinese Enterprises; Guidelines for Overseas Sustainable Forest Products Trade and Investment by Chinese Enterprises; Social Responsibility in Outbound Mining Investment; Green Credit; and Environmental and Social Impact Assessments of the China Export and Import Bank's Loan Projects. While these generally appear to contain sound protections on paper, they are generally voluntary and lack mechanisms to report on or enforce compliance.

In 2009 the EU agreed a Bilateral Cooperation Mechanism on Forest Law Enforcement and
Governance (BCM-FLEG) with China under its 2003 Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. This provides a platform upon which officials from both sides can discuss joint work to address illegal logging, the trade in illegal timber and forest governance. One clear objective is cooperation in tackling the global trade in illegally-harvested timber. Work under this mechanism to date has focused primarily on communications with Chinese organisations related to the requirements of the 2010 EU Timber Regulation (EUTR) – legislation which prohibits placing illegally harvested timber on EU markets and requiring economic operators that place timber products on the market to implement due diligence to minimise the risk that timber in those products had been illegally harvested. Public information on the content of the annual dialogues and the actions taken under the mechanism has been limited.

Cooperation with the UK under DFID’s Forest Governance, Markets and Climate (FGMC) programme has sought to develop a Chinese Timber Legality Verification System (CTLVS). This aims to provide assurance that Chinese imports of timber and its exports of timber products are legal. UK-China cooperation is also encouraging more effective implementation of the current forest-related overseas investment guidelines, as well as development of new guidelines for rubber and palm oil cultivation.

China has entered into a series of arrangements designed to tackle illegal logging and trade in illegal timber with other timber producing and consuming countries. These include the US, Australia, Japan, Indonesia, Mozambique and Myanmar (under discussion). There is minimal publicly-available information on activities undertaken or progress made under these arrangements.

China has been a key player in multilateral efforts on forests. Foremost amongst these is the Beijing-based Asia-Pacific Network for Sustainable Forest Management and Rehabilitation (APFNet). This aims to help promote and improve sustainable forest management and rehabilitation through capacity building, information exchange, and support for regional policy dialogues and pilot projects. China is also active in the APEC Expert Group on Illegal Logging and Associated Trade (EGILAT), which aims to promote trade in legally-harvested forest products, combat illegal logging and associated trade, and build capacity.

China has a green public procurement policy that recognises environmental certification as criteria for acceptance and covers some wood-based products. This has the potential to lead domestic demand for legal and sustainable timber; however, it is not clear how this policy is implemented, or how effective it has been.

Although China accepts a concept of “civil society” and several hundred thousand civil society organisations (CSOs) exist, such organisations are generally expected to support rather than challenge the state. They may, however, advocate reforms in some areas. A wide range of international NGOs, including some with a strong advocacy agenda such as Greenpeace, Global Witness and EIA, are active in forest-related areas in China and in general have been able to present their cases without strong state objections. New draft legislation, the Overseas NGO Management Law, however, may place restrictions on their activities.

While China scores moderately well on several indicators of governance, it does poorly on “Voice and Accountability” and is ranked 100th out of 175 countries assessed on Transparency International’s most 2014 Corruption Perception Index, despite recent high profile crack-downs on corruption.

Because of China’s dominant role in trade with and investment in developing countries, many observers see Chinese legislation to prevent imports of illegal timber, similar to the US Lacey Act or the EUTR, as an essential requirement for global progress. Using the BCM-FLEG as a platform
for more active promotion of such legislation would require a significant step-up from its current role as essentially a communication initiative. A useful start would be the introduction of greater transparency into the dialogues and the actions that arise from them.

Consideration could also be given to extending the scope of activities under the BCM to cover Chinese investments overseas that impact on forests, including more effective promotion of the various voluntary guidelines in host countries – especially those currently engaged in FLEGT VPAs. The current BCM work plan suggests that some activities in this area have been initiated.

The European Commission has hitherto been reluctant to engage with the development of the CTLVS, apparently to avoid creating the impression that this may tacitly endorse its acceptance as meeting EUTR requirements. However, the EU could also make more of potential synergies between China’s actions and countries negotiating or implementing FLEGT Voluntary Partnership Agreements (VPAs). For example, active promotion of these as lead countries supplying the CTLVS would both add credibility to the scheme and create an additional incentive for countries to enter, conclude and fully implement their VPAs.

Within Europe, strong evidence that the EU is serious about implementing the EUTR is important to demonstrate to Chinese suppliers the need to clean up their supply chains. A 2014 UK study has revealed a very low level of compliance with a sample of Chinese plywood importers; this needs to be followed up with prosecutions – as US authorities have already started with their enforcement of the Lacey Act.

There are opportunities for greater engagement between EU-based CSOs with interests in Environmental and Social Governance (ESG) issues in China, and also between European and Chinese CSOs with similar interests. This could help CSOs become more effective in their advocacy to bring about change both with EU and Chinese institutions. Helping establish links between CSOs in developing countries, which already work with EU-based NGOs, and their Chinese counterparts should also be useful.

Opportunities for EU-based NGOs to play a stronger role in encouraging further action by the Chinese forest sector organisations include:

— Advocating greater transparency by the European Commission on the dialogue discussions and actions taken under the BCM-FLEG
— Engaging with other EU-based CSOs that work with China on broader environmental and governance issues, or in countries affected by Chinese investments, and determine the need for a specific EU network on forests
— Seeking advice from CSOs working outside the forest governance community of practice, for example through the EU-China CSO Forum, on ways to engage with Chinese CSOs
— Examining the feasibility of hosting visits by Chinese CSOs concerned with forest issues supported, for example, by the EU-China NGO Twinning programme
— Considering support to CSO networks in developing countries (especially in Africa and the Mekong) to develop databases of Chinese investments in sectors that impact on forests with a view to monitoring their adherence to the Chinese investment guidelines
— Continuing to press for robust enforcement of the EUTR including advocacy for the European Commission to take infraction proceedings against Member States that are not fulfilling their legal obligations.
Introduction

China’s remarkable economic growth over the past three decades has driven an almost insatiable demand for commodities and created pressures on both its domestic and global environments. Forests and the people who depend on them for their livelihoods in developing countries have often been amongst the casualties of this trend, with China’s demand for timber, minerals and agricultural land to supply its domestic and global markets contributing to forest loss and degradation and dispossession of local peoples’ land rights.

In a second Chatham House evaluation on global progress made in tackling illegal logging, Hoare (2015)\(^1\) points out that half of the world’s trade in illegal wood-based products is now destined for China which, as well as being a major processing hub, has also become the largest importer and consumer of timber products. This change has significantly reduced the direct trade in wood-based products between timber-producing countries and Western end-consumer markets that predominated at the turn of the century.

China has started to take steps to protect its own natural environment with new laws and tighter controls on pollution, protection of its natural forests and tree planting on a massive scale that is reversing decades of deforestation. Its transfer of state-owned forests to communities and families is seen as a model for other countries. It is also starting to recognise the social and environmental impacts of its trade with and investment in developing countries with the publication of guidance for the private sector, development of legality verification systems, heightened international engagement and seeking bilateral arrangements with several countries.

A recently published book on China’s relationship with developing countries\(^2\) describes China’s role in deforestation and the timber trade in developing countries, as an example of broader questions on how the country views its responsibility for the global governance of natural resources. The authors conclude that, while China supports a sustainable approach to forestry, including a legal international timber trade, and its government has taken steps to curb illegal logging both through international agreements and domestic initiatives, its efforts remain piecemeal and insufficient. Overall, the authors claim, global efforts to tackle consumption of illegally harvested wood are weak, and China – together with other countries – has an important role to play in making a greater contribution.

Hoare (op. cit.) quotes estimates that enactment of legislation by all major processing and consumer countries could slash trade in illegal wood-based products by two-thirds and that, owing to the scale of China’s imports, the spotlight should be on that country’s emerging policy framework for tackling global forestry issues. An oft-repeated tenet of China’s policy with regard to its relation with other countries is respect for their sovereignty and non-interference in their internal affairs. This raises questions on how to work most effectively with China to achieve such a target and possible risks of making progress with “legal trade” without addressing the underlying governance failures that sustain illegal logging in many developing countries.

As part of its Forest Law Enforcement, Governance and Trade (FLEGT) Action plan, the EU has established a framework for engaging politically with China on forest governance and trade

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1. http://indicators.chathamhouse.org/node/835
issues. The Bilateral Cooperation Mechanism on Forest Law Enforcement and Governance (BCM-FLEG) provides a platform upon which officials can discuss joint work to address illegal logging, the trade in illegal timber and forest governance. To date, however, the BCM-FLEG has been mainly a process for agreeing a series of cooperation projects, primarily concerned with sharing information on EU legislation and policies. Can this “soft” approach bring about the necessary changes in China’s trade and investment policies?

With China’s emergence as a middle-income country, international donor engagement has moved from support aimed at tackling domestic poverty to cooperation on global development with the result that few donors focusing on the forest sector remain. Apart from the BCM-FLEG, the UK’s International Forest Investment and Trade (“InFIT”) project is the only EU donor initiative that deals explicitly with FLEGT issues. It works with Chinese institutions on both mechanisms to address the legality of its trade in timber, and implementation of guidelines addressing the environmental and social impacts of Chinese investments overseas that affect forests.

In addition to bilateral ODA, some non-governmental organisations have received grants from the EU and other donors for work related to China’s impact on forests. With new rounds of calls for grant proposals underway, and the clear need for continued work with China on its global forest footprint, further activity in this area can be anticipated.

This report was commissioned by Fern with these opportunities in mind. It examines China’s growth and the how its demand for resources has driven both trade and overseas investments, including the emergence of new government policies and financing instruments. It analyses trends in China’s forest products trade and the risks that it includes illegal timber and it presents an overview of actions taken to tackle this problem. A summary of outbound Chinese investments that affect forests is presented, with a description of several instruments aimed at reducing their environmental and social impacts.

A section on China’s international engagement in the forest sector includes an overview of work with the EU and its Member States and China’s engagement with other countries. Non-governmental organisations’ work with and related to China’s forest trade and investment are also described.

The final sections examine possibilities to increase the EU’s influence with China in tackling illegal logging and strengthening forest governance in the developing countries with whom it trades, and considers possible roles that EU-based NGOs might play.
1 Context

1.1 China’s economic growth – impacts and challenges

China’s rapid economic growth over recent decades has seen it become the world’s second largest economy. When its economic reforms started in 1978, the country’s nominal gross domestic product (GDP) of US$ 214 billion was ranked ninth; 35 years later it had jumped to second with a GDP of US$ 9.2 trillion. The country has become the world’s manufacturing hub with its tertiary sector in 2013 having a share of 46.1 per cent of the country’s total output and the secondary sector still accounting for 45.0 per cent.

Feeding this industry has fuelled an unprecedented demand for raw materials, which in turn bolstered global demand for commodities. This has seen China’s commodity imports soar as well as increased Chinese investments overseas in production of renewable and non-renewable resources. China has become the world’s largest net importer of oil and other liquid fuels and of several industrial metals (e.g. iron ore, bauxite, coking coal, copper, nickel), precious metals (e.g. gold, together with India), energy commodities (e.g. oil, coal) and soft commodities (e.g. soybeans, cotton).

This transformation has lifted hundreds of millions out of poverty and fuelled the country’s astonishing economic and social development. But it also brought many challenges: severe economic imbalances, rising economic inequality, an aging population, and mounting environmental issues are key problems that the current administration faces.

In November 2008, the State Council unveiled a CNY 4.0 trillion (US$ 585 billion) stimulus package aimed at shielding the country from the worst effects of the global financial crisis. This stimulus programme maintained economic growth mostly through massive investment projects. Although these policies resulted in China weathering the 2008 financial crisis, with GDP growth still above 9 per cent, low inflation and a sound fiscal position, they exacerbated the country’s macroeconomic imbalances. Consequently, the new administration of President Xi Jinping and Premier Li Keqiang started to unveil economic measures aimed at promoting a more balanced economic model at the expense of rapid economic growth. The impacts are now becoming evident as the country’s GDP growth decelerates from more than 10 per cent in 2010 to less than

3 http://www.focus-economics.com/countries/china
7.5 per cent in 2014. OECD forecasts growth to slow to 6.7 per cent by 2016\(^5\).

The final communique of the Third Plenary Session of the 18th China Communist Party (CPC)’s Central Committee held in November 2013 unveiled an ambitious road map for economic reform. While reaffirming the state’s leading role in the economy, Chinese leaders committed to deepen economic reform and give the market a decisive role in allocating resources. They also stressed the need to promote market-oriented reforms in state-owned companies and to accelerate interest rate liberalisation, capital account convertibility and exchange rate reform. According to the Plenum communique, reforming the hukou system of household registration, enhancing farmers’ property rights, further development of social welfare, improving the judiciary system and promoting a more developed fiscal system would be on the agenda. In addition, Xi launched an aggressive “killing tigers and swatting flies” anti-corruption campaign, against which neither Communist Party leaders who once seemed untouchable (tigers), nor petty officials (flies) are immune.

China’s environmental quality has been one of the casualties of the country’s rapid industrialisation. As the world’s largest source of carbon emissions, China is responsible for a third of the planet’s greenhouse gas output and has sixteen of the world’s twenty most polluted cities. Life expectancy in the north has decreased by 5.5 years due to air pollution, and severe water contamination and scarcity have compounded land deterioration problems. According to the World Bank, environmental degradation cost the country roughly 9 per cent of its gross national income in 2008\(^6\).

In January 2015, a new Environmental Protection Law (EPL) – the nation’s first attempt to harmonize economic and social development with environmental protection – came into effect. Although viewed as the most progressive and stringent law in the history of environmental protection in China, it has been subject to some criticism\(^7\): (i) it can be trumped by other laws such as those specific to agriculture, forestry, grassland and water; (ii) it will be hampered by China’s fragmented and overlapping structure of environmental governance, with responsibilities overseen by several agencies; (iii) the country’s emissions-trading systems are not included in the law; (iv) it fails to acknowledge citizens’ rights to bring lawsuits against the government if there serious lapses in implementation; and (v) its enforcement and implementation may be foiled by lack of capacity and conflicts of interest, since environmental governance is mainly exercised by local environmental protection bureaus.

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6 http://www.cfr.org/china/chinas-environmental-crisis/p12608
1.2 Outbound investment

China’s outbound foreign direct investment (FDI) has grown rapidly since 2000, making it the world’s third most important source, behind the United States and Japan. According to Ministry of Commerce (MOFCOM) estimates, it had reached US$120 billion by 2014, a 10 per cent rise from 2013 (Figure 1). In 2014 China’s outbound FDI and foreign investment in China was almost equal for the first time. This growth is expected to continue for the next five years, with the volume of outbound FDI continuing to exceed inbound foreign investment.

China has made investments all over the world (Figure 2). Although developed economies and resource-rich emerging economies have dominated, investments in Africa have also grown, primarily because of the continent’s wealth of resources. Out of 34 African countries where China has investments, Nigeria, with $21 billion has attracted the most, with Ethiopia and Algeria both receiving more than $15 billion, and Angola and South Africa each almost $10 billion.

China’s investment in energy has dwarfed that in other sectors, with almost US$400 billion committed since 2005 to meet a demand that is predicted to triple by 2050 (Figure 3). Metals needed in construction and industry to help fuel China’s rapidly expanding economy is another key area of investment.

1.2.1 Bilateral Investment Treaties

Bilateral investment treaties (BITs) are agreements, established through trade pacts, which establish the terms and conditions for private investment by nationals and companies of one state in another state. They typically include fair and equitable treatment, protection from expropriation, free transfer of means and full protection and security. Many BITs allow for an alternative dispute resolution mechanism, whereby an investor whose rights under the BIT have been violated could have recourse to international arbitration.

Although BITs are generally negotiated on a reciprocal basis, providing the same level of legal protection for both signatories, they are in fact agreements between a FDI-exporting and a FDI-importing country. Due to the fact that developing countries depend on FDI inflows as a source of external financing, they usually agree to the model agreements put forward by FDI-exporting countries.

China has 130 BITs, of which 108 are currently in force (more than any other country except Germany). These contain all standard provisions found in global BIT practice, usually starting with a preamble stating the intention of creating “favourable conditions for investments of investors of one Contracting Party in the territory of the other Contracting Party” and aiming at promoting mutual investments. An OECD study found reference to environmental concerns in only six out of the 72 Chinese BITs and other International Trade Arrangements that it examined. These included preamble language in BITs with Guyana and Trinidad and Tobago, and its FTA with Peru; and explicit language reserving policy space for environmental regulation in BITs with Singapore, Sri Lanka and New Zealand.

1.2.2 Going-Out strategy

The recent growth in China’s outbound FDI has been triggered mainly by the government’s 2001 Going Global (or “Going Out”) strategy. This encourages Chinese firms to search abroad for new markets or investment opportunities, in response to the country’s need for resources, its rapid accumulation of foreign exchange reserves, and the accompanying upward pressure on its currency. Incentives have included relaxation of controls and simplification of approval processes, with enterprises needing only to file their overseas projects with relevant authorities, rather than seek approval from them, as well as decentralisation of these roles to the provincial branches of central agencies. One outcome of this liberalisation has been an increase in the number of failures, both as a result of operating in more risky environments and obstacles imposed by recipient countries as a backlash against perceived increased Chinese control in their economies.

The government has responded by seeking ways to reduce investment risks. A key policy slogan is: “government guidance, enterprise decision-making”. This has included efforts to encourage responsible business conduct, particularly in terms of the environmental and social

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8 http://www.mofcom.gov.cn/article/i/jyjl/m/201410/20141000771228.shtml, 24 October 2014
9 http://www.bbc.co.uk/news/business-29835057
11 http://investmentpolicyhub.unctad.org/IIA/hasByCountryTheInnerMenu
13 ‘The Decisions by the Central Committee of the Communist Party of China on Some Major Issues Related to Comprehensively Deepening Reform’, passed in the Third Plenum of the 18th Central Committee.
impacts of their activities, including compliance with recipient countries' domestic laws and regulations. MOFCOM and the National Development and Reform Commission (NDRC), together with other central agencies such as the State Council, central finance agencies, specialist sector agencies and state-linked trade organisations have published a series of guidelines to assist investors address potential pitfalls. These also determine which sectors are to be promoted and the circumstances under which investors can benefit from financing and other support. They focus on two main areas: (i) guidelines for enterprises to follow in their activities abroad; and (ii) the application of criteria to the provision of finance for outbound FDI.14

1.2.3 One-Belt-One-Road

China's “One-Belt-One-Road”15 initiative (OBOR, also known as the “Belt and Road Initiative”), linked to “Going-Out”, is a development strategy and framework, which focuses on connectivity and cooperation amongst countries primarily in Eurasia. It consists of two main components, the land-based “Silk Road Economic Belt” (SREB) and the “Maritime Silk Road” (MSR). The strategy underlines China's push to take a bigger role in global affairs, and its need to export China's excess production capacity in areas of overproduction such as steel manufacturing16.

Up to 60 countries may be included in OBOR. The SREB includes countries situated on the original Silk Road through Central Asia, West Asia, the Middle East, and Europe and extending into South and Southeast Asia. The initiative calls for the integration of the region into a cohesive economic area through building infrastructure, increasing cultural exchanges, and broadening trade. The MSR is a complementary initiative aimed at investing and fostering collaboration in Southeast Asia, Oceania, and North Africa, through several contiguous bodies of water – the South China Sea, the South Pacific Ocean, and the wider Indian Ocean area.

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OBOR’s new US$40 billion Silk Road Fund, is backed by the China Investment Corporation (China’s sovereign wealth fund), China Development Bank, the Export-Import Bank of China and the State Administration of Foreign Exchange. It will be used to improve connectivity along the belt by financing infrastructure, resources, industrial and financial co-operation projects, probably with an initial focus on Central and Southeast Asia. Transport infrastructure such as railways, roads, ports and airports will be a particular focus. The projects are expected to generate returns, thus representing a departure from traditional aid.

China’s state-owned enterprises and largest financial institutions are expected to be in the lead, although the government is also encouraging outbound FDI by private enterprises. One element of OBOR is its integration into provincial government objectives with all 31 provinces indicating that they will actively participate in the implementation of the strategy and two-thirds including it as a development priority in their 2015 work plans.

The Leading Group for Advancing the Development of One Belt One Road (LG) was formed in late 2014, and its leadership line-up publicised on February 1, 2015. This steering committee reports directly to the State Council of the People’s Republic of China, indicating the highest level of political priority. The Action Plan for OBOR, published in March 2015, purports to be ‘open’, ‘harmonious’ and ‘inclusive’. It covers a wide range of sectors including road, sea and air transportation, energy infrastructure, and optical cables, removing trade barriers, improving customs clearance processes, cooperation in agriculture, forestry, and fisheries, trade facilitation, free trade zones, e-commerce, and renewable energy.

1.2.4 Asian Infrastructure Investment Bank

Many of the countries that are part of SREB are also members of the China-led Asian Infrastructure Investment Bank (AIIB). This new multilateral development bank led by China was announced in October 2013 and is seen as a key component of OBOR. It is envisaged to promote interconnectivity and economic integration in the region in cooperation with existing multilateral development banks. AIIB focuses on the development of infrastructure and other productive sectors in Asia, including energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics, etc. It has 37 regional and 20 non-regional Prospective Founding Members (PFMs), 51 of which signed the Articles of Agreement that form its legal basis in June 2015. The PFMs are currently developing AIIB’s core philosophy, principles, policies, value system and operating platform. According to the bank’s website, it aims to put in place strong policies on governance, accountability, financial, procurement and environmental and social frameworks.

AIIB’s charter specifies that at least 70 per cent of capital must come from within the region, ensuring that China remains its largest single shareholder. However, the charter also limits the influence of large shareholders because 15 per cent of voting rights are allocated equally to founding members regardless of equity stakes. China’s stake is 30 per cent but its voting share is 26 per cent. However, the charter requires a supermajority of 75 per cent for important decisions, giving China veto power.

19 http://www.aiibank.org/

Note: 2014 data to June
Source: Heritage Foundation/American Enterprise Institute
Other International Finance Institutions, including the International Monetary Fund, the World Bank and the Asian Development Bank, have expressed support for AIIB. It is anticipated that loans will be made at commercial rates with few or no non-economic conditionality, raising concerns that the bank may cut corners on environmental, social, and anticorruption standards. It will also differ from the other development banks, by focusing on building infrastructure rather than prioritising poverty reduction. And there is also a risk that allocation of funds to support mega-projects will have little impact on poverty or inclusive economic growth.

The UK was the first major Western country and first member of the G7 to apply to join the AIIB. Its stated aims are to ensure that the AIIB embodies the best standards in accountability, transparency and governance, although the decision to join was also influenced by “… the [UK] government’s plan to build a closer political and economic relationship with the Asia region, in order to maximise opportunities for British businesses”21.

1.3 Governance trends

1.3.1 Governance indicators

The World Bank’s Worldwide Governance Indicators (WGI) project22 has compiled aggregate and individual governance indicators for 215 economies over the period 1996–2013, for six dimensions of governance:

— **Voice and accountability**: captures perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

— **Political stability and absence of violence**: measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.

— **Government effectiveness**: captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.

— **Regulatory quality**: captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

— **Rule of law**: captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

— **Control of corruption**: captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

Figure 4 shows trends in China’s key indicators of governance for the decade 2003-13. The scores are expressed in units of a standard normal distribution, i.e. ranging from approximately -2.5 (worst) to 2.5 (best). The


22 The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. (see [http://info.worldbank.org/governance/wgi/index.aspxhome](http://info.worldbank.org/governance/wgi/index.aspxhome))
trends suggest that generally China’s governance performance has been relatively constant, although showing consistent declines in both Government Effectiveness and Regulatory Quality since the mid-decade. Except for a poor score for Voice and Accountability, reflecting the relative lack of freedom of expression for its citizens, trends have been slightly above average for Government Effectiveness, and slightly below average for the other indicators.

China ranked 100 out of 175 countries in Transparency International’s (TI) 2014 Corruption Perceptions Index23 with a score of 36, a drop from 40 in 2013. This acknowledges China’s commitment to catch “tigers and flies”, its recognition of the need for international efforts, including launching a “fox hunt” of overseas officials, and its withdrawal of opposition to G20 anti-corruption measures, as indicating its seriousness about tackling the problem.

However, TI suggests that the downward trend in the index calls into question whether this top-down approach can be effective in the absence of transparency, accountable government, and free media and civil society. It sees the recent prosecutions in China largely as efforts to clamp down on political opponents of the regime rather than genuine anti-corruption commitments. The report suggests that the low score indicates the need for a wide range of reforms to tackle the widespread penetration and impact of corruption in the country and emphasises the importance of China’s attitude towards transparency and governance to the wider region, given its growing influence. Promoting an economic model based on less transparency and accountability that excludes civil society carries a risk of undermining efforts to engage in public debate about political and social issues has been hampered by the increased internet controls and crackdowns.

1.3.2 New NGO laws

Civil society activity in China is facing increasing restrictions, most recently with the drafting of an Overseas NGO Management Law25, which may be passed by the National People’s Congress in 2016. This is considered “…necessary for safeguarding national security and maintaining social stability.” The draft has drawn criticism from a range of international human rights groups arguing that it amounts to a violation of free association and will effectively shrink the space for freedom of expression. Key concerns26 are:

— The law transfers responsibility for registration and supervision of foreign NGOs from the Ministry of Civil Affairs to the Ministry of Public Security, which effectively brands foreign NGOs as security threats, and escalates action taken against them to the same level as counter-terrorism efforts.

— NGOs must be sponsored by professional supervisory organizations, which are either ministries, agencies or other branches of the Chinese national or provincial governments or organisations authorised by the government to serve this function.

— The law gives Chinese public security authorities a

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23 http://www.transparency.org/cpi2014/results
26 See: http://www.cof.org/content/call-summary-chinas-draft-law-management-ngo-and-foundations#hash:KCCgZGZ.0pdf
wide range of tools and wide discretion to manage and supervise NGOs, in order to ensure compliance with a number of reporting requirements for the activities of the NGOs.

Throughout the law, it is unclear how specific elements will be implemented, which leaves considerable discretion to public security authorities at central and provincial levels.

The law does not discuss regulation for disaster response activities, and the requirements for annual work-plans and advance agreement on activities with Chinese authorities could make it difficult for foundations and NGOs to be responsive to such situations.

Those found in violation of the new regulations face closure, the possible detention of staff, and fines of up to 50,000 RMB (approximately US$ 8000)27.

In mid-March 2016, China approved its domestic Charity Law28,29, which is due to take effect in September. This takes into account recent reforms in Chinese domestic charity governance, making it easier for charities to raise funds and gain tax exemptions, while allaying public concern over the way they are run, following some high-profile scandals. It would allow organisations to register directly with the Ministry of Civil Affairs, removing a requirement for them to have an official sponsor.

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1.4 Forest policy and timber trade trends

The forest sector is important to China’s economy. The proportion of forest industry output value in China’s GDP increased from about 3.7 per cent in 2000 to 8.3 per cent in 2013. In 2012 the total number of employees in forestry, the wood industry, and the pulp and paper industry stood at 57 million, while forest industry output value was US$ 726 billion and trade value US$ 125 billion30.

The Chinese forestry sector has changed dramatically since the mid-1990s, with some elements of the sector undergoing rapid and effective reforms, while others have stagnated. Large areas of natural forest have been withdrawn from commercial logging, with the Natural Forest Protection Programme now aiming to phase out all commercial logging of natural forests by 201731. China has emerged as the world’s largest importer of logs and sawn wood, and as a major exporter of finished-wood products. The country is undertaking the world’s largest redistribution of forest tenure rights, shifting millions of hectares of forestland from public sector control into the hands of individual farm families and community groups. Through several key national programmes, the government is implementing the largest programme of payments for environmental services of forests32 and for the conversion of agricultural land to forest cover33.

However, significant challenges remain. Despite China’s impressive afforestation rates – about 2.5 million ha annually between 1990 and 2010, giving a total increase of 49.7 million ha – timber production falls well short of demand and the country remains heavily dependent of imports of raw material and semi-processed wood – much from countries where illegal and unsustainable logging is common. Per capita consumption of industrial wood products still remains low by any international comparison. And the public-dominated subsector is largely stagnant with large, inefficient, unprofitable, and unsustainable state-owned farms and forest enterprises.

31 http://www.ecns.cn/cns-wire/2015/06-10/168778.shtml
32 E.g the “Grain for Green” programme, which aims to preserve and improve water and soil quality within entire river basins through set-asides of sloped land for afforestation and its “Sloped Land Conversion Programme” (SLCP), which pays for reforestation (see Alix-Garcia J. and Wolff H. (2014) Payment for Ecosystem Services from Forests http://faculty.washington.edu/hgwolff/Annual_Review_PES.pdf)
1.4.1 Timber product imports

The country’s timber supply gap – the difference between domestic production and the total annual domestic demand plus exports – is about 250 million m³ round-wood equivalent (RWE). To fill this gap, China imported about 150 million m³ RWE of pulp and paper and 100 million m³ timber products in 2013. Between 2007 and 2014, China’s timber product imports more than doubled in volume, reflecting a widening of the supply gap, a deficit that is expected to increase with the ban on domestic natural forest logging. Almost all imports are raw materials with logs, sawnwood and wood chips comprising 93 per cent of volumes. About 50 million m³ roundwood was imported in 2014, with hardwoods comprising 30 per cent of the volume, but 70 per cent of the value.

Hardwood imports come predominantly from high-risk countries where illegal logging is likely to be a problem (Figure 5). With Russia’s increased duties on roundwood exports, Papua New Guinea has become China’s main supplier of hardwood logs, followed by the Solomon Islands, Russia, Myanmar and Mozambique. Almost all Myanmar’s exports, which are traded across the countries’ land border, are deemed illegal by Myanmar, which has banned log exports and allows exports of timber products only via Yangon ports. According the Yunnan Import and Export Chamber of Commerce for Timber and Mineral Products, timber shipments through Yunnan border entry points have been suspended until December 2015 as the administrative procedures for controlling timber imports are “being reorganised”. This is because of a spate of trade disputes involving timber, including the arrests of Chinese loggers for breaking Myanmar’s forest and immigration laws. Reports in early 2016 indicated a dramatic decline in cross-border trade; however, by late March this trend appeared to have reversed with an increase in cross border timber smuggling from Kachin State into China – possibly an effect of the end of the 2015 trade suspension.

The 31 August issue of ITTO’s Tropical Timber Market Report reported that China’s log imports from the Solomon Islands had risen 25 per cent during the first half of 2015, while those from all other sources declined.

High-value rosewood (hong mu) made up 11 per cent of the hardwood log volume imported in 2014, but 35 per cent of its value. Rosewood log imports were 1.7 million m³, an increase from 2013 of 64 per cent, their value almost doubling from US$1.2 billion to US $2.2 billion. However, the first two quarters of 2015 have seen a sharp decline with a year-on-year fall of 64 per cent in volume and 68 per cent in value.

34 Reported in the ITTO Tropical Timber Market Report, 15 September 2015
This is said to be partly due to a reduction of a 2014 stockpile built up by speculation buying, but some observers also link it to the government’s crackdown on corruption with state officials less willing to acquire rosewood furniture as possible evidence of illicitly-gained wealth. There are also predictions that demand for rosewood furniture will continue to fall since younger people are said to prefer lighter coloured wood.

Several recent reports on the rosewood trade describe its association with illegal logging, smuggling and transnational organised crime, both in China’s neighbouring Mekong region and in Africa37. In 2014, half the volume of rosewood log imports was from Asia and half from Africa. Although low-value African rosewood has been substituting Asian rosewood, the latter still comprised 70 per cent of the species’ import value in 2014.

Softwood log imports are mainly from low-risk sources, except Russia, the second biggest supplier after New Zealand, and the recent appearance of Ukraine in trade statistics (Figure 6). Other main softwood suppliers are the US, Canada and Australia.

Despite a declining trend since 2007, Russia has remained the most important overall source of Chinese timber product imports in 2014 by value (Figure 7). The next main sources (US, Canada, EU and New Zealand) were low risk, but other significant sources in 2014 (Lao PDR, Viet Nam, Indonesia and PNG) were all higher risk.

Figure 8 shows that Russia’s share of China’s timber product imports has declined markedly in recent years, while Indonesia’s has dropped slightly, and the shares of the Mekong countries, US, Canada and New Zealand have all increased.

An evaluation of trade flows by Wellesley (2014)38 suggests that between 2000 and 2013 the proportion of Chinese imports of forest products that are likely to have been illegally acquired declined significantly in terms of RWE volume – timber products from almost 40 per cent to less than 25 per cent, and paper-sector products from about 15 per cent to 10 per cent (see Figure 9).

This decline is primarily the result of an increase in China’s forest products imports from low-risk sources – in particular, Canada (mainly sawnwood and pulp), the United States (sawnwood and logs), the EU (pulp) and New Zealand (logs) – from 27 per cent of in 2000 to 44 per cent in 2013. However, because of the increase in the overall volumes imported, the

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volume of likely illegal-sourced forest products into China are estimated to have nearly doubled – from 17 million m³ (RWE) in 2000 to 33 million m³ (RWE), with their value increasing from US$2.4 billion to US$6.6 billion over the period.

However, demand for timber products is cooling significantly as a result of the recent slowing of China’s economy and the decline in investment in housing. The 31 August 2015 ITTO Tropical Timber Market Report reports that, “demand for okomué logs and sawnwood has collapsed and demand for rosewood is extremely slow”. In the first half of 2015 China’s total log imports were 23.1 million m³ valued at US$4.38 billion, down 14 per cent in volume and 32 per cent in value on the same period in 2014. Softwood log imports declined 18 per cent year-on-year to 15.5 million m³, with average FOB price falling 19 per cent to US$129 per m³. Hardwood log imports were only down 3 per cent on the same period in 2014 to 7.7 million m³, but with a 28 per cent fall in FOB prices to US$312 per m³, largely reflecting the sharp fall in the demand for rosewood.

How long this slowdown will continue is unclear. In early 2015, government steps to stimulate housing sales – one of the main drivers of demand for timber – with interest-rate cuts and the removal of curbs by local governments, had failed to boost demand as inventory swelled to more than six years of sales. Although still negative compared to year-on-year data for 2014, the latest statistics on prices of newly-built houses show that the difference has declined from a maximum of – 6.1 per cent in March and April 2015 to – 3.7 per cent in July, suggesting a possible recovery.

Other reports predict that construction expenditures will rise 7.8 per cent per annum through 2019 and that non-residential building will remain the largest and fastest growing segment, driven by growing consumer spending for manufactured goods and services, while residential building construction will benefit from migration from rural to urban areas.

### 1.4.2 Timber product exports

Figure 10 shows that after a rapid rise from 2000, China’s timber exports in volume terms declined from 2007-09 as a result of the international economic downturn. They have since recovered but were somewhat flat from 2011 to 2013, before rising by 20 per cent in 2014. About half China’s 2014 export volume was plywood, which increased by 29 per cent from 2013. Furniture and fibreboard were next in importance, increase 45, 47 and 48 per cent respectively, from 2013. Floors and sawnwood have also increased significantly, up 91 and 76 per cent respectively from 2013.

Figure 9: Estimated percentage of imports by RWE volume of timber- and paper-sector products at high risk of illegality (%)

![Figure 9](http://indicators.chathamhouse.org/sites/files/reports/CHHJ2361_China_Logging_Research_Paper_FI)

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

Figure 10: China’s timber product exports by volume

![Figure 10](http://indicators.chathamhouse.org/sites/files/reports/CHHJ2361_China_Logging_Research_Paper_FI)

Source: James Hewitt prepared for Forest Trends


40 [http://www.tradingeconomics.com/china/housing-index](http://www.tradingeconomics.com/china/housing-index)

export destinations. However, China’s domestic market, estimated to be between 75-80 per cent of total demand, in 2014, equals at least the round-wood equivalent of its entire import volume of 250 million m³. This makes the bulk of China’s timber consumption largely immune from legislation to tackle trade in illegal timber in its export markets.

As far as exports to the EU are concerned, 75 per cent of Chinese timber products by volume goes to five Member States: the UK, Germany, France, Belgium and the Netherlands (Figure 12). In both volume and value terms, the UK is by far the EU’s biggest importer for both plywood (US$350 million) and furniture (US$ 1.25 billion).

Figure 11 shows the distribution of China’s timber product export destinations by value in 2014. The US (28 per cent) ‘Rest of Asia’ (i.e., excluding Japan) (27 per cent), EU (16 per cent) and Japan (7 per cent) were China’s main export markets. The EU and the US mainly import furniture and plywood, with the US China’s most important market for both products. The US and Japan’s shares of the market have declined since the early 2000s, while the Rest of Asia and EU have increased their shares, as have both Africa and Oceania. The value of EU timber imports declined slightly from 2011 to 2013, but increased by about 15 per cent in 2014.

Although the shares of “rest of Asia”, Africa and Oceania have increased, this has been largely at the expense of Japan’s share, leaving the combined US and EU share at about 44 per cent, approximately the same as it was in 2000. This suggests that the potential impact of illegal logging legislation in these markets has not been diluted by the entry of other...
1.5 Outbound FDI in agriculture and forestry

1.5.1 General

Brack (2014) describes China’s outbound investments in the agriculture and forestry sectors. These are primarily aimed at securing commodity supplies, including timber and wood products as well as a wide range of agricultural products. In 2010, total Chinese outbound FDI in agriculture, forestry, animal husbandry and fisheries amounted to US$1.9 billion, or 1.7 per cent of the total. Investment in other sectors which might affect forests includes mining (US$0.7 billion), construction (US$1.5 billion) and transport, warehousing, post and telecommunications (US$2.2 billion).

Gooch and Fraile (2015) provide an outline of Chinese strategy in outbound FDI in the agriculture sector. President Xi Jinping has advocated agricultural investment as a national food security and diplomatic strategy, with the main aim of gaining greater control in the global marketplace, by linking commercial opportunities with the achievement of national food security objectives. It encompasses mergers and acquisitions of firms from developed economies, while also laying out a clustered investment strategy to access under-utilised agricultural resources, with an emphasis on Africa.

The strategy has evolved from an early focus on land acquisitions to encompass investments along the entire supply chain, including processing, logistics, ports, and trading. It has been influenced by a widespread belief among Chinese government and industry leaders that multinational trading companies will gain large profits and influence prices by controlling commodity supply chains. The strategy emphasises that companies will be the main investors whose decisions will be made primarily on the basis of profit opportunities. However, consultation with authorities and provision of support, including subsidized and earmarked loans, information services and training, as well as less visible coordination by officials and diplomats, seek to steer investment to achieve national objectives.

In August 2014, MOFCOM announced that over 300 Chinese companies were investing in agricultural, forestry, and fishing projects in 46 countries. The Ministry of Agriculture reported that Chinese businesses and state-owned enterprises had cultivated over 230,000 ha of foreign land by the end of 2013. A June 2015 report on the “China Invests Overseas” web site stated that China had around 200 forestry investment and cooperation projects in Asia, Europe, Africa, America and Oceania worth an estimated US$7 billion and employing over 10,000 people. The report noted that these investments were benefitting from new opportunities through free trade zone strategies, bilateral investment protection agreements and deals on double taxation. Since the creation of an International Trade and Investment Promotion office within the China Forest Industry Federation, the rights and obligations of China’s overseas forestry enterprises had secured wider support.

Fourteen African countries have received Chinese outbound FDI in agriculture and forestry, in particular Gabon (with 23 per cent of total investment), Zambia, Equatorial Guinea, Liberia, Republic of Congo and Cameroon. Investments tend to target labour-intensive activities, such as logging and wood and rubber processing, rather than more capital-intensive activities such as paper-making or flooring. Large state-owned enterprises account for the bulk of outbound FDI, though the importance of private SMEs is rising. Joint ventures are common, as a means both of circumventing legal restrictions on foreign ownership and of reducing operational risks.

In Asia, outbound FDI in the agriculture sector has been mainly directed to Laos, Myanmar, Thailand, and Korea, including efforts to establish plantations in border areas previously under opium poppy cultivation in Laos, Thailand, and Myanmar. In general FDI in Asia has been more capital-intensive than in Africa, with paper and paper products and palm oil production among the most prominent investments. Rubber plantations have been a particular target in Laos, aimed at meeting the demands of China’s growing vehicle industry.

Chinese FDI in Latin America and the Caribbean has been less than in Africa or Asia, though investments have been rapidly expanding in Brazil, Argentina, Venezuela, Peru and Guyana. The British Virgin Islands also hosts a number of Chinese forestry and land-investment enterprises (apparently largely for tax reasons).

In Russia, Chinese investment has focused on logging, timber processing and pulp and paper primarily in the border areas in Siberia and the Russian Far East. This has been encouraged by higher Russian duties on the export

43 Brack, Duncan. 2014. op. cit.
46 See more at: http://www.china-invests.net/20150603/36861.aspx
47 Assumed to be the China National Forest Products Industry Association
48 Brack. op. cit.
of raw timber and lower duties on the import of timber-processing equipment.

There are reports of Chinese investments in the sector running into problems. The China Invests Overseas report quoted above noted that Chinese enterprises investing in overseas forestry face many challenges such as an imperfect supportive government policy and insufficient financial and management support. Other challenges cited include a lack of experience on the part of investors, a low level of business management capacity, an inability to correctly assess and react to risks and a lack of international business acumen.

Several prominent ventures involving land acquisitions in Argentina, Brazil, and Indonesia have collapsed or were put on hold after encountering opposition from local governments and legal action by environmental groups. In Brazil, land-ownership laws were changed to forestall a Chinese investment, prompting some Chinese commentators to urge a shift away from land-acquisition in the Outbound FDI strategy in agriculture. The investment in Indonesia involved plans made in 2005 for the so-called “Kalimantan Border Oil Palm Mega Project” in which Chinese investment was slated to play a major role in establishing a 5-10 km belt of plantations along Indonesia’s border with Malaysia. The CITIC Group was awarded infrastructure development contracts and the Chinese Development Bank was brought in to finance initial investment. Project plans included a map that showed how the 1.8 million plantations would destroy primary forests in three National Parks, cut through rugged slopes and mountains unsuitable for oil palm cultivation and annihilate the customary rights land of the indigenous Dayak communities. NGOs campaigned strongly against the venture, and when Indonesia joined the Heart of Borneo Project in 2006, the Indonesian government backtracked on plans and the project was scaled back.

1.5.2 Trade and investment policies relevant to forests

In order to avoid social and environmental investment risks and improve China’s reputation as a responsible investor, the government has introduced several initiatives to guide investor behaviour. These efforts have been focused on two main areas: the publication of guidelines for enterprises to follow in their activities abroad, and the application of criteria to the provision of finance for outbound FDI.

Guidelines for Environmental Protection in Foreign Investment and Cooperation

In 2013 MOFCOM and the Ministry of Environmental Protection (MEP) released “Jointly Issued Guidance on Environmental Protection in Foreign Investment and Cooperation.” This is applicable to all Chinese companies’ activities in foreign investment and cooperation activities. The stated aim of the guidance is “… to direct enterprises in China to further regularize their environmental protection behaviours in foreign investment and cooperation, guide them to actively perform their social responsibilities of environmental protection, and promote the sustainable development of foreign investment and cooperation.”

The Guidelines deal mainly with protecting the local environment, conducting environmental monitoring and due diligence, risk and impact assessments, and publishing full information. They cover legal compliance, environmental policies, environmental management plans, mitigation measures, disaster management plans, community relations, waste management, and international standards.

Although the guidelines are the first comprehensive government environmental and social rules for Chinese overseas investments, and provide civil society groups with a source of leverage when it comes to holding Chinese companies to account for their environmental and social impacts overseas, they have received some criticism. First, they seem to target mainly big State-Owned Enterprises (SOEs), which arguably have done much better in addressing social/environmental impacts than the small and medium-sized private companies, whose investments are considered to have the worst social and environmental footprint in developing countries. Second, compliance is voluntary and there are no sanctions on companies for not following them. Third there doesn’t appear to be any mechanism for raising complaints against companies that don’t follow the guidelines.

Guide on Sustainable Overseas Silviculture by Chinese Enterprises

A Guide on Sustainable Overseas Silviculture by Chinese Enterprises, published by MOFCOM and the State Forest Administration (SFA) in 2007, requires relevant host-country laws and regulations to be observed, including relevant international conventions and agreements signed by both China and the host country. This was the first set of guidelines to introduce the principle of sustainability into overseas involvement in forestry. Companies must possess up-to-date texts of relevant regulations and ensure that they pay all

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49 Pye, O. and Bhattachary J. 2013 (ed). The Palm Oil Controversy in Southeast Asia: A Transnational Perspective. Institute of Southeast Asian Studies. 283 pp
50 Wakker, E. 2006. The Kalimantan Border Oil Palm Mega-project
51 Brack. 2014. op.cit.
relevant taxes and fees. Schemes are to be formulated and implemented in accordance with local authorities’ long-term plans and local conditions. Local communities are to be informed of the schemes and encouraged to participate in decision-making; and employment, training, and other services offered. Measures to protect the local environment, including biodiversity and habitats are to be adopted, and activities are to be sustainable.

The guidelines are essentially voluntary and there are no reporting requirements or compliance mechanisms.

**Guide on Sustainable Overseas Forests Management and Utilization by Chinese Enterprises**

The Guide on Sustainable Overseas Forests Management and Utilization by Chinese Enterprises[^54], published in 2009 by MOFCOM and SFA (in collaboration with WWF, The Nature Conservancy, IUCN and Forest Trends) is applicable to Chinese enterprises engaged in forest harvesting, wood processing and utilization, and related activities in foreign countries. It aims to “guide Chinese enterprises to rationally manage, utilize, and protect overseas forests in order to play a positive role in sustainable development of global forest resources” and to provide the industry with a “management criterion and self-discipline basis activities overseas”. It requires Chinese enterprises to fully respect the ownership of the host country to its forest resources and strictly observe its laws, regulations, and policies when managing and utilizing the forest resources in foreign countries.

This guide is also voluntary and there are no requirements or compliance mechanisms. Although pilot assessments of compliance by some individual state-owned companies in Russia and Africa have reportedly been positive, recent independent investigations in Russia allege that illegal behaviour by Chinese enterprises remains widespread.

**Guidelines for Overseas Sustainable Forest Products Trade and Investment by Chinese Enterprises**

A third forest sector guide, Guidelines for Overseas Sustainable Forest Products Trade and Investment by Chinese Enterprises, was discussed at an international workshop in March 2014 co-organised by Forest Trends, the International Institute for Environment and Development (IIED), the EU FLEGT Facility of the European Forest Institute (EFI), and WWF China. It is currently under review (IIED, 2015)[^55].

Criticisms of the draft are that, in attempting to control the behaviour of Chinese firms operating overseas, it does not deal with the core problem preventing illegal timber from entering China; and that because the guidelines are voluntary without law enforcement or punishment mechanisms, they will not constrain the behaviour of profit-motivated businesses[^56].

**Chinese Guidelines for Social Responsibility in Outbound Mining Investment**

In 2014, the China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters (CCCMC), a subordinate unit of MOFCOM, launched the Chinese Guidelines for Social Responsibility in Outbound Mining Investment[^57]. Developed with GIZ support under the framework of the “Sino-German Corporate Social Responsibility Project” and the “Emerging Markets Network for Sustainability”, these provide the first industry-specific guidance on social responsibility for the Chinese mining industry. They require Chinese mining companies to integrate social and environmental factors into their investment decision making and operations abroad. Companies must respect the rights and interests of stakeholders by practicing ethical and transparent behaviour and effectively managing the social and environmental impact from mineral exploration, extraction, processing, investment, and related activities and to strive for harmonious mineral development operations.

The Guidelines include a requirement for companies to conduct risk-based supply chain due diligence to avoid funding or fuelling conflict. To operationalize this requirement CCCMC has developed the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains[^58]. These are aligned with the OECD Due Diligence Guidance 5-step framework[^59] and will apply to all Chinese companies which are using minerals and related products, or are engaged at any point in the supply chain; however, CCCMC intends initially to focus implementation on smelters and upstream companies. Pilot assurance audits are expected in 2016.

It is too early to judge the Guidelines’ impact, but commentators have pointed out that it is likely that only large SOEs, which possess sufficient capital, whose operations tend to be better run, and often already have ESG elements embedded in their risk management systems, currently have the capability to comply. On the other hand, small mining operations owned and run by individuals who happen to be

[^55]: MOFCOM and SFA. 2015. Status and next steps in China for sustainable trade and investment in Africa (http://pubs.iied.org/pdfs/G03945.pdf)
Chinese nationals, lack the capital, talent and technology to advance the corporate responsibility agenda. In 2014 CCCMC’s Tyre Branch, which includes the rubber industry, with support from DFID’s International Forest Investment and Trade (InFIT) programme, started looking at adapting the Mining Guidelines (together with the forestry guidelines) to cover overseas investments in natural rubber production. These are also expected to take the Sustainable Natural Rubber Initiative Guidelines recently published by International Rubber Study Group (IRSG) into account.

Palm oil
China is the second largest importer of palm oil after India. Although the government has no environmental policy on palm oil production and trade, 39 Chinese companies are members of the Roundtable on Sustainable Palm Oil (RSPO), including China National Cereals, Oils and Foodstuffs Corporation (COFCO), the country’s largest palm oil importer. The RSPO has established a China Working Group to help build the momentum for transforming the Chinese palm oil industry. In May 2013, the China Chamber of Commerce for Import and Export of Foodstuffs, Native Produce and Animal By-Products (CFNA) signed a MOU with the RSPO, committing both organisations to greater cooperation in a number of areas, including promotional activities, dialogue and exchange visits, information sharing, and policy recommendations.

Available information suggests that direct Chinese overseas investment in oil palm cultivation is limited, one exception being the Julong Group’s 50,000-ha plantations in Indonesia’s South Kalimantan province (where it also has an additional reserve of 140,000 ha). In 2012 it was announced that Julong intended to establish 300,000 ha for palm oil and grain production in Gabon; however, there is no indication from the company publicity material that development has started. CFNA, with support from the UK-China InFit programme, is developing an Overseas Investment and Managing Guide of Palm Oil for Chinese Enterprises, using the forestry guidelines as a starting point.

Green Credit Guidelines
In 2012, the China Banking Regulatory Commission (CBRC) issued Green Credit Guidelines focusing on the financial sector. According to these Guidelines, banks supporting overseas investments should strengthen environmental and social risk management, and make sure project sponsors observe host country laws on environmental protection, land, health, safety, etc. Article 21 of the Guidelines states that, “Banks shall publicly commit to adopt relevant international best practices or standards for the proposed overseas project, ensure the proposed project is consistent with international best practices in essence.” Responsibility is placed on banks’ senior management for promotion and adherence to the guidelines. Risk assessment is required at three checkpoints in the lending cycle (due diligence, credit review and portfolio review), and banks must maintain a list of investments with high environmental and social (E&S) risks, which must develop mitigation plans. In cases of major E&S issues, banks should report to regulators on the potential risks that banks are exposed to. Banks must have internal control processes, including audits of their performance and must report their performance at least twice a year to CBRC. CBRC is required to strengthen coordination with other regulators, establish and improve a long-term information sharing mechanism, improve information services, and provide banks with timely updates on relevant E&S risks. As part of its monitoring responsibilities, CRBC may undertake on-site inspections (assumed to mean on the banks’ premises, rather than at investment sites).

The Guidelines were developed together with the International Finance Corporation (IFC) and to a certain extent are based on IFC standards. CBRC has subsequently worked on developing further details, including key performance indicators, training and other supporting systems. Some banks have put the Green Credit Guidelines into practice — for example, the Industrial and Commercial Bank of China (ICBC) has developed industry green credit policies covering 85 per cent of its corporate loans and has refused to lend to projects and customers falling short of the bank’s standards. The 2012 China Green Credit Annual Report published by MEP ranked the top fifty Chinese banks in terms of green credit performance at least twice a year to CBRC. CBRC is required to strengthen coordination with other regulators, establish and improve a long-term information sharing mechanism, improve information services, and provide banks with timely updates on relevant E&S risks. The 2012 China Green Credit Annual Report published by MEP ranked the top fifty Chinese banks in terms of green credit performance; the Industrial Bank Co. (CIB) was the only one given a “Class A” ranking. Only 12 per cent of the banks examined were fully implementing a green credit policy, implementation was “not ideal” at over half of the banks and 18 per cent had no information available on their policy at all.

The Green Credit Directive has been described as one of the world’s most progressive environmental banking regulations. However there are criticisms that it has not been effective, in particular because CBRC does not have a department charged with overseeing compliance, particularly overseas.
A 2013 report by a Kunming-based NGO, Green Watershed\textsuperscript{64} found that although banks work with E&S policies to varying degrees, for most implementation is lacking. Some repeat the government’s policy and slogans, without developing concrete rules, or highlight the green measures they take, while remaining silent on their continued loans to highly polluting sectors. And most Chinese banks fail to meet international standards on information disclosure.

A report by Friend of the Earth US and BankTrack\textsuperscript{65} presents seven case studies of Chinese bank financing for overseas investments to determine the extent to which the banks have implemented Article 21 of the Green Credit Guidelines. These include China Development Bank’s financing of the Golden Veroleum palm oil plantation in Liberia and APP in Indonesia, and Industrial and Commercial Bank of China Ltd’s involvement in the Lower Sesan 2 dam in Cambodia. Evidence suggests that widespread problems with compliance the Guidelines exist. In almost all cases, there had been clear breaches of applicable environmental regulations and failures to uphold good international practice, particularly the right of indigenous communities to Free, Prior and Informed Consent. The report identified several potential breaches of the guidelines but found that there was insufficient transparency to determine whether Chinese banks conditioned their loans on better environmental performance by borrowers. Problems identified included: (i) lack of a formal mechanism for enforcing the Guidelines with no apparent unit of the CBRC tasked with ensuring compliance; (ii) Chinese banks’ lack of experience concerning national policy, laws and risk management, and social and economic aspects of foreign markets; (iii) lack of knowledge about international best practices; (iv) how to apply the Guidelines in different financing scenarios; and (v) post-loan monitoring. The report also found that there was no mechanism for communicating with the banks concerned on issues related to compliance with the Guidelines.

### Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank’s Loan Projects

The Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank’s Loan Projects, developed in 2011, is applicable to loans made by the China Export and Import Bank (Exim Bank). The aims are to promote sustainable development and control credit risk, while considering social benefits and environmental demands alongside economic benefits in the assessment of loan projects. Host country’s environmental policies and standards form the basis for evaluation. When a host country does not have a complete environmental protection mechanism or lacks environmental and social impact assessment policy and standards, investors should be guided by China’s standards or international practices. Local rights to land and resources should be respected, and public consultation followed. Before approving offshore projects, Exim Bank requires environmental and social impact assessments issued by the host-country authorities, and if necessary, can require the “inclusion of environmental and social responsibilities in the loan contract, in order to monitor and restrain the behaviour of borrowers”.

A monitoring process requires borrowers to report regularly to the Exim Bank on the actual environment and social impacts resulting from the project, and the status of measures in eliminating and controlling these impacts. Exim Bank is required to inspect the post-loan management of projects including their environmental and social impacts and, when projects are completed, borrowers should submit environmental acceptance documents. If projects fail to eliminate negative impacts, Exim Bank may stop disbursing loans and demand an early payback.

An Environmental Assessment Framework developed in 2011 by Exim Bank was designed for the financing of major domestic energy-efficiency projects, but is now also used for financing overseas projects. The framework was built upon World Bank and Asian Development Bank guidelines and specifies the screening, documentation, public consultation, and supervision procedures which should be followed. A sub-project screening procedure lists a series of activities which rule out sub-projects from further consideration, including “commercial logging operations for use in primary tropical moist forest” and “production or trade in wood or other forestry products other than from sustainably managed forests.”

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\textsuperscript{64} www.banktrack.org/show/news/new_report_measures_green_credit_footprint_of_chinese_banks

1.6 Forest sector governance trends

Despite the lack of change in overall governance trends, Wellesley (2014)66 reports that the Chinese government has made notable progress in its efforts to tackle illegal logging and its associated trade since 2010. This report cites as evidence the development of the draft CTLVS, and China’s engagement with a number of consumer countries, as well as government’s plans to establish bilateral trade agreements with producer countries and preparation of further guidance to promote sustainable forest products trade and investment impact of Chinese companies overseas.

Examination of the report’s detail, however, suggests that progress has been modest. Although these actions should have had an impact on the volume of illegal wood-based products being imported into China, trade data discrepancies and analysis of trade flows both indicate that trade in illegal timber remains a significant problem. Imports of products with a high-risk of being illegal are estimated to have declined since 2000, but these are estimated still to comprise 17 per cent of the total by volume in 2013 and overall volumes have increased.

On the positive side, the Chinese Academy of Forestry (CAF) has been commissioned to review the international impact of illegal logging and related trade and establishment of an inter-ministerial task force in 2007 (comprising representatives from the SFA, MOFCOM, the Ministry of Foreign Affairs and the General Administration of Customs of China (GACC)) to support development of bilateral and regional agreements with other countries; however, it does not meet regularly to discuss national-level policy. The government has also engaged with industry and other stakeholder groups to develop a timber legality verification scheme and strengthen enforcement efforts. Workshops and conferences have also been organized to discuss the design and implementation of forest-sector policy.

As regards China’s Legislative Framework, the report states that little progress has been made since 2010. The 2004 Regulations of the Origin of Imported-Exported Goods include a provision for certificates of origin to be provided to customs officials on request, but there is neither an explicit mention of legality nor a requirement to establish the legality of the product in question.

Actions described related to Law Enforcement focus primarily on interception of CITES-listed species, noting that the lack of mechanisms to verify the legality of documentation accompanying shipments, or to halt illegal imports, currently prevents the Chinese authorities from taking action.

The report identifies several examples where China’s International Engagement on illegal timber has been stepped up since 2010. These include hosting of the First APEC Meeting of Ministers Responsible for Forestry, at which ministers committed to strengthening coordination and cooperation among APEC economies on forest policies, including taking measures to combat illegal logging (which led to EGI-LAT), establishment of the China-Africa Forest Governance Learning Platform by the International Institute for Environment and Development (IIED) and co-hosted by the CAF and the Global Environmental Institute (GEI), the Bilateral Coordination Mechanism on Forest Law Enforcement and Governance (BCM-FLEG) between China and the EU, and a range of Memoranda of Understanding with other countries, including the US, Australia, Japan and Indonesia. Cooperation with the UK since 2008 has included initiation of the China Timber Legality Verification System (CTLVS) and actions to encourage adoption and implementation.

Figure 13: Summary of policy scores for 2008 and 2013 (as % of maximum score)*

<table>
<thead>
<tr>
<th>Year</th>
<th>High-level policy</th>
<th>Legislative framework</th>
<th>Law enforcement</th>
<th>International engagement</th>
<th>Public procurement policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
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<td>2013</td>
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</tbody>
</table>

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


Poor scores (less than 25 per cent, or between 25-50 per cent of the maximum achievable) are given to all indicators related directly to tackling illegal logging, apart from Public Procurement Policy, which was also the only indicator to show improvement between 2008 and 2013 (Figure 13).

High-Level Policy is rated at between 25 and 50 per cent of the maximum as the Chinese government has yet to develop an overarching national action plan to tackle illegal logging.

responsible investment overseas which are now being further
developed under China-UK International Forest Investment
and Trade (InFIT) Programme.

The introduction of a policy for the Public Procurement of
various wood-based products is the only area where an
improvement has been noted over the five-year period and
the only one where a score above 50 per cent is given. This
policy applies to all levels of government and is based on
China's Environmental Labelling Standards (CELS) scheme,
which assesses and certifies the environmental impact of
manufacturing processes for a range of products. For wood-
based products, the scheme applies to furniture, copy paper,
cupboards, doors, toys, and panels and products derived from
those panels. But only three product categories – furniture,
copy paper, wood-based panels and derivative products
– are listed in the 'Government Procurement Inventory of
Environmental Labelling Certificated Products'.

The report recommends that the Chinese government should
establish binding regulations and stringent controls on the
import and export of illegal wood-based products and that
the planned CTLVs should be further developed, including
through pilot projects with timber-exporting countries and
effective consultation with industry, civil society and other
consumer-country governments. It also recommends that the
government's procurement policy should be strengthened
through the clarification of its legality and sustainability
requirements, the inclusion of a wider range of products
within its scope, and the development of a robust mechanism
to monitor compliance. Private sector training on due
diligence, market regulations and legality requirements in
consumer countries is recommended to stimulate further
action by industry, as well as awareness-raising initiatives for
Chinese consumers.

1.7 International
engagement

1.7.1 EU relations with China in general

EU-China Strategic Partnership
The EU-China 2020 Strategic Agenda for Cooperation\(^67\) is the
guiding document of the EU-China Strategic Partnership. It
foressees a comprehensive EU-China Investment Agreement,
replacing existing bilateral investment treaties between China
and EU Member States, covering issues such as investment
protection and market access, providing for progressive
liberalisation of investment and the elimination of restrictions
for investors to each other's market. It aims to provide a
simpler and more secure legal framework to investors of
both sides by securing predictable long-term access to EU
and Chinese markets respectively and providing for strong
protection to investors. As a longer term perspective it
envisages broader ambitions, including – once conditions are
right – a deep and comprehensive Free Trade Agreement.

The Strategic Agenda also underlines EU and China
commitments to continue promoting cooperation on their
environmental flagship initiatives, “with a view to maximising
the mutual synergies between China's ecological civilization
and the European Union's resource efficiency agenda”.

The Strategic Agenda includes increased exchanges on public
procurement policies in order to accelerate and complete the
process leading to China's accession to the WTO Government
Procurement Agreement. It confirms the leadership and
coodination role of the EU-China Joint Customs Cooperation
Committee (JCCC), which includes signing a new Strategic
Framework for EU-China Customs Cooperation for 2014-2017,
with special focus on border enforcement of Intellectual
Property Rights, supply chain security, anti-fraud and trade
facilitation and external trade statistics.

The Strategic Agenda’s reference to forests (under Climate
Change and Environmental Protection) is limited to
conservation and sustainable use of forests and biodiversity
in particular on the valuation of ecosystem services, natural
capital accounting and innovative financing mechanisms;
and on implementing the Strategic Plan 2011-2020 of the
Convention on Biological Diversity (CBD) and the Convention
on International Trade in Endangered Species of Wild Fauna
and Flora (CITES).

EU-China Summits
EU-China Summits \(^68\) have been held on an annual basis since

\(^68\) http://eeas.europa.eu/china/summits_en.htm
1998, alternating between Brussels and Beijing. They are attended by the Chinese Prime Minister and accompanying Ministers and by the President of the EU Council of Ministers, the President of the European Commission and the EU High Representative for Foreign Affairs and Security Policy as well as other relevant European Commission Vice-Presidents and Commissioners.

Three high-level ‘pillars’ feed into the summit for the Leaders to give overall direction:

— High-Level Strategic Dialogue
— High Level Economic and Trade Dialogue
— High-Level People-to-People Dialogue

Over 60 regular high level and senior officials’ meetings – on important foreign policy areas as well as technical topics such as industrial policy, education, customs, nuclear energy and consumer protection – underpin the three pillars.

Sausmikat and Fritsche (2010) note that the deepening and broadening of these dialogues serves three functions: first, in an official context, they underpin the claims by both sides to be working in a strategic partnership on bilateral, regional, inter-regional, multilateral and global issues; second, the regular meetings involving like-minded experts create a basis for better mutual understanding and the evolution of regulatory and policy communities of practice – potentially leading to similar policies without explicit coordination, simply through a convergence of ideas, policies and instruments; third, the lists of policy areas can be used as a public shield to deflect criticism by allowing sensitive issues to be transferred out of the realm of traditional policy-making and into the opaque territory of technocratic governance.

The 17th EU-China Summit was held in Brussels on 29 June 2015. The Joint Statement included reference to both sides strong interest in each other’s flagship initiatives, namely the Investment Plan for Europe, and the One-Belt-One-Road Initiative. Leaders agreed to support synergies between these initiatives, and directed the EU-China High-Level Economic and Trade Dialogue to be held in September 2015 to develop practical avenues for mutually beneficial co-operation, including a possible China-EU co-investment vehicle.

The sides agreed to enhance cooperation to address key environmental challenges such as air, water and soil pollution and adopted a separate joint statement on climate change. This recognised the sides’ critical roles in combating global climate change and their commitment to work constructively together for the common good, in the context of sustainable economic and social development. The statement included an agreement to “continue to cooperate on afforestation with a view to enhancing the removal of carbon dioxide from the atmosphere”, but had no language on preventing deforestation.

The sides agreed to further strengthen their cooperation to ensure a successful outcome to the post-2015 development agenda through intergovernmental negotiations and committed to enhance exchanges on best practice regarding issues such as climate change, environment/ biodiversity, global health and infrastructure in their respective development assistance policies. They agreed to explore operational development coordination in synergy with local partners, including in Africa.

EU-China bilateral investment

EU FDI in other countries is currently governed by more than 1400 Bilateral Investment Treaties (BITs) between individual Member States and third countries. This situation is claimed to create unequal competition conditions between investors from different European countries and a 2010 “communication towards a comprehensive European international investment policy” seeks to address this by promoting a new European policy for international investment. Of relevance to ESG policy, the Communication includes the statements that:

“… Investment agreements should be consistent with the other policies of the Union and its Member States, including policies on the protection of the environment, decent work, health and safety at work, consumer protection, cultural diversity, development policy and competition policy. Investment policy will continue to allow the Union, and the Member States to adopt and enforce measures necessary to pursue public policy objectives.

“… A common investment policy should also be guided by the principles and objectives of the Union’s external action more generally, including the promotion of the rule of law, human rights and sustainable development (Article 205 TFEU and Article 21 TEU). In this respect, the OECD Guidelines for Multinational Enterprises, which are currently being updated, are an important instrument to help balance the rights and responsibilities of investors.”

All EU Member States, except Ireland, have a BIT with China.
The European Commission is still discussing with Member States the terms of a negotiating mandate to replace these 27 individual treaties with a single EU-China agreement. This is complicated by the wide disparities between current treaties. However, it is recognised that a unified European foreign policy towards China requires consensus on trade and investment interests, and a comprehensive BIT could limit the divergence of interests among Member States and create the basis for a common approach. Investor-state dispute settlement is considered a difficult issue for the EU because of fears about imposition of possible limits to environmental or social legislation.

A 2013 European Commission Staff Working Document assessed the impacts of five different options for EU-China investment relations, ranging from continuing the status quo to a full free trade agreement. The Commission’s preferred option is an agreement combining investment protection with market access, while the Chinese would prefer a pure investment protection agreement. However, it was agreed at the 14th EU-China Summit that a negotiation covering all issues of interest to either side would be followed. In both cases, the highest level of investment protection possible would be pursued, and inclusion of clauses on the non-lowering of labour and environmental standards, corporate social responsibility, and provisions dealing with state-owned enterprises would be allowed. At the 16th EU-China summit (November 2013) the launch of negotiations towards a “new generation BIT” was announced. This would exceed traditional bilateral investment protection by covering market access, government procurement, competition policy, the role of the state-owned enterprises, as well as environment, labour and social issues.

The Annual Action Programme for the Partnership Instrument

In June 2015, the European Commission adopted its Annual Action Programme (AAP) 2015 for the Partnership Instrument. This puts forward concrete actions to enhance cooperation with EU’s partners in key sectors, addressing major global challenges such as energy security, climate change and environmental protection. Work with China will include international urban cooperation as well as the valuation of ecosystem services and natural capital accounting. It will also support EU-China policy dialogues in a wide array of subject ranging from climate change and water management to competition policy and urbanization.

1.7.2 The Bilateral Cooperation Mechanism on Forest Law Enforcement and Governance

The EU-China Bilateral Coordination Mechanism on FLEG (BCM-FLEG), agreed in 2009, aims to contribute to the reduction of illegal logging and associated trade in order to promote sustainable development. It provides a forum for a policy dialogue, with which both sides are able to share information on their respective policies and legal frameworks and maintain coordination on the respective initiative to combat illegal logging and associated trade. The respective lead agencies are the EC’s Directorate General for Environment (DG-ENV) and the Chinese State Forestry Administration (SFA). The Chinese Academy of Forestry (CAF) and the European Forest Institute’s (EFI) EU FLEGT Facility implement the work plan, in close collaboration with EU Member States.

Activities include awareness raising, facilitating Chinese forestry business dialogue with overseas suppliers on chain of custody management, timber tracking and tracing, and information sharing. They also include cooperation with countries in Southeast Asia, Africa and in Russia to help eliminate illegal logging through combining capacity building with demand-side measures in both markets. One potential goal is development of an EUTR-like regulation in China and sharing lessons on setting up a legality assurance system.

The sixth meeting of the dialogue was held in Brussels in March 2015. Following that meeting, the EU FLEGT Facility has worked together with Chinese partners to jointly implement activities in seven areas:

— Follow-up the “International Workshop to Promote Legal and Sustainable Timber Trade Between China and Russia” (Feb 2014), to analyse the circulation and processing in China of timber harvested in the Russian Far East until the point of export to the EU, and organize a seminar in late 2015 to discuss and follow up its primary outcomes.

— Carry out a study on the timber trade flow between China and Myanmar while considering EU initiatives in Myanmar in the context of FLEGT, and organize workshops in China and Myanmar at appropriate time to discuss and share the study results.

— Carry out a desk review on timber trade and investment between China and VPA signatory countries, organize a

71 Godement, François and Stanze, Angela. 2015. The European Interest in an Investment Treaty with China
75 https://www.theparliamentmagazine.eu/articles/feature/eus-dilemma-china-free-trade-or-bilateral-investment
76 http://www.eu-in-china.com/home_link_strategy.htm
77 Annex 1
78 From an internal document obtained by the author.
workshop with APFNet on forest law enforcement and governance in the Mekong region, and work with IIED, Beijing Forestry University (BFU), Chinese State Academy of Forestry Administration (STAFA) to promote the dialogues between China and Africa /Asia VPA countries on timber trade, investment and forest law enforcement and governance.

— Support for the operations of a Common Information Window on EU FLEGT, EUTR and other new timber market requirements, and source for Chinese-English translation to have a bilingual Common Information Window package.

— Work with CAF and other partners on a feasibility analysis on public policy development of promoting legally-sourced timber and timber products trade based on which, small-scale experts’ discussion panel/meetings will be carried out with decision-makers and representatives from MOFCOM, GACC, other related government agencies, think tanks and businesses respectively.

— Provide technical inputs to the new Chinese forest trade and investment guidelines as well as Chinese timber legality verification initiatives, including a small-scale technical workshop on the Chinese Timber Legality Verification initiatives and their relationship with other governmental and business initiatives on timber legality requirements.

— Support capacity building for key stakeholders, including the participation of three Chinese representatives at the 2015 Centre for International Development and Training Improving Forest Governance course, continuing to support Chinese participation in regional and international FLEGT-relevant events, and inviting international experts to contribute to relevant events in China.

The EU FLEGT Facility has a two-person office in Beijing which has oversight over BCM projects, as well as providing general advice on the EU’s FLEGT-related engagement with China.

There is very little publicly available information on the BCM-FLEGG (for example, records of the annual meetings), apart from skeletal references on EC and EFI web sites. There is understood to be some sensitivity in appearing to support actions taken by China, such as the CTLVS, as this might be taken to imply that it would meet the EUTR requirements.

However, it is understood that there are suggestions that the BCM should be given a higher political profile, rather than being a platform to agree a series of projects. One idea that is understood to have been floated is a “triangular” arrangement that includes a VPA country which is a significant exporter to China, such as Indonesia, and where products manufactured from that country’s timber and traced through China’s production process could be endorsed as meeting EUTR.

1.7.3 EU Official Development Assistance to China

As China transitions to a middle-income economy, traditional bilateral development assistance has largely been phased out, with those EU Member State donors that remain engaged now viewing China as a cooperation partner supporting their activities in low-income countries. One exception is protecting and enhancing Global Public Goods, where China’s efforts to address its environmental footprint, for example, remain a legitimate area for support.

EU Institutions

For the EU, three main areas of cooperation were detailed in the EU-China Country Strategy Paper (2007-13)79:

— supporting EU-China policy dialogues
— addressing global concerns such as climate change, the environment, and energy
— assisting human resources development

EU Institutions’ forest-related ODA to China increased from $4.0 million in 2005 to $7.6 million in 2006, and since has generally stayed between $0.15 million and $3.0 million80. An exception of $73.4 million in 2011 was due almost entirely to a European Investment Bank Loan for reforestation and repair of irrigation reservoirs in earthquake-damaged areas of Sichuan Province. In 2013 – the most recent year for which data are available – the total EU ODA had dropped to less than $16,000.

Recent EU grants supporting forest-related projects within or affecting China have included81:

— Social justice in forestry (IIED)
— Strengthening Civil Society to Promote Integrated Action and Policies to Tackle Tropical Deforestation in Asia-Pacific Contractor (EIA/Telapak)
— Supporting policy, legal and institutional frameworks for the reform of forest tenure in China’s collective forests and promoting knowledge exchange (FAO)
— Sustainable and Responsible Trade Promoted to Wood Processing SMEs through Forest and Trade Networks in China, India and Vietnam (2009-12; WWF-UK)

79 https://ec.europa.eu/europeaid/countries/china_en
EU Member State bilateral ODA
The largest EU Member State bilateral donor has been Germany with overall forestry-related ODA increasing from US$6.14 million in 2002 to US$16.19 million in 2013. Total German ODA since 2003 has been nearly $148 million, comprising 83.8 per cent of all EU Member States’ disbursements. In 2013, 29 per cent of its disbursement ($4.6 million) was to support Sustainable Management of Natural Resources (implementation and embedding of international laws regarding sustainable cultivation into Chinese national law, aimed at promotion of ecological and economic potential in the programme area), while 22.2 per cent was allocated to Smallholder Forestry Hunan II ($3.6 million). A further important relevant cooperation programme has been the Sino-German Corporate Social Responsibility Project\(^2\), which ended in 2014.

Italy was the second biggest EU Member State donor, with a total of $14.01 million over the period, with its last disbursement in 2011 being a loan for construction of civil works and provision of seeds and plants in Xinjiang Autonomous Province. France, the third biggest Member State donor made a single disbursement of $13.9 million in 2011 for a rural carbon project (fuelwood/charcoal) in Yunnan Province.

UK-China cooperation on International Forest Investment and Trade (InFIT)\(^3\), started in 2014 is a joint programme with a GBP 3 million UK contribution funded under DFID’s Forest Governance, Markets and Climate (FGMC) Programme and DFID China’s International Development Support Programme (IDSP). It works with Chinese agencies, including SFA and MOFCOM, and aims to further develop and implement the CLTVS and to strengthen implementation of the guidelines for Chinese overseas investments that impact on forests and forest-dependent people. As well as the existing codes covering forest investments (coordinated by SFA), work also includes development of a new code for oil palm (coordinated by CFNA) and for rubber (coordinated by by CCCMC).

FGMC has also provided grants to several NGOs working China with or influencing Chinese policy. These include the Rights and Resources Initiative (RII), the International Institute for Environment and Development (IIED), the World-Wide Fund for Nature (WWF), The Environmental Investigation Agency (EIA), Global Witness, Forest Trends and the European Timber Trade Federation (ETTF).

1.7.4 Other official development assistance

Bilateral ODA
Japan has been by far China’s biggest bilateral donor with forest-related disbursements of $766 million during the period 2002-13, making up 97.6 per cent of all donor funding. This is followed by Australia with $7.03 million (0.9 per cent) and Korea with $6.7 million (0.85 per cent). The bulk of Japan’s recent ODA has been in the form of afforestation loans from JICA.

Multilateral development agencies
The World Bank’s International Development Association (IDA) has been the only multilateral donor of significance to China’s forestry sector over the period 2002-13 with total disbursements of nearly $16.1 million. However these have stopped since 2005.

The Asian Development Bank-led Greater Mekong Sub-region (GMS) programme covers China’s Yunnan Province and the Guangxi Autonomous Region as well as the five Mekong countries. It aims to enhance economic relations between the countries in the region, initially covering nine priority sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation. Its activities therefore have potential impacts on forests and forest-dependent people in the region.

The current GMS Regional Investment Framework Implementation Plan (2014-2018) identifies 92 high priority projects with a total cost of $30.1 billion. The transport sector comprises 90 per cent of the identified investments; 4 per cent of investments are in energy; 2 per cent in agriculture; less than 2 per cent in environment; and less than 1 per cent in transport and trade facilitation. Technical assistance provisions, totalling $60.25 million, include 12 per cent for transport, 11 per cent energy, 8 per cent agriculture, 14 per cent environment, and 15 per cent transport and trade facilitation.

The priority environmental projects include a US$20.0 million “Global Environment Fund Regional Biodiversity and Forestry Programme” to be implemented in all GMS countries, while US$7.6 million is allocated to Technical Assistance for Additional Funding for the Core Environment Program and Biodiversity Conservation Corridor Initiative Phase II Regional Technical Assistance.

1.7.5 China’s international forest sector cooperation

Bilateral arrangements
In addition to the EU-China BCM-FLEG, China has entered into bilateral arrangements on tackling illegal logging with three
timber-consuming countries:

— **US-China Memorandum of Understanding on Illegal Logging and Associated Trade**, which focuses on the role of international trade in illegal logging. It aims to help the two countries take actions to promote trade in forest products from legally-harvested timber through a bilateral forum for cooperation that identifies priority activities for cooperation, promote trade in forest products from legally-harvested resources, encourage public-private partnerships, and to pursue negotiations on a detailed bilateral agreement. Officials had originally intended to conclude negotiations on a Bilateral Agreement to Combat Trade in Illegal Natural Resources by April 2012 but such an agreement has yet to be announced.

— **Australia-China Memorandum of Understanding concerning cooperation in forestry and combating illegal logging and associated trade**: This MoU, signed in 2009, provides a framework to support cooperation in the following areas:

  — Enhancing global and regional efforts to combat illegal logging and associated trade.
  — Promoting sustainable forest management.
  — Facilitating a common understanding in the Asia-Pacific region of the requirements for legality verification of internationally traded timber.
  — Encouraging trade in timber and wood products from legally harvested and sustainable managed forests.
  — Enhancing forest law enforcement and governance, and sharing information on forest certification schemes.
  — Building capacity of forest management professionals and experts in the Asia-Pacific region to implement sustainable forest management practices in the region including preventing illegal logging.

An Illegal Logging Working Group (ILWG) exists under a Joint Working Group on Forestry to carry out the objectives of the MoU. The ILWG had its first meeting on 1 September 2010 and a second meeting was held on 26 November 2013.

— **Japan-China Memorandum on combating illegal logging and related trade and enhancing cooperation**

— **China-Indonesia Memorandum of Understanding Concerning Cooperation in Combating Illegal Trade with Indonesia, Myanmar, Papua New Guinea and Mozambique.**

China has also entered or is seeking bilateral arrangements with a number of timber-producing countries. These include Indonesia, Myanmar, Papua New Guinea and Mozambique.

— **Myanmar**: Chinese talks with Myanmar in January 2015 aimed to establish a “bilateral system to recognise ‘legal’ timber in a bid to tackle the problem of illegal logging**

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85 Sall K. and Brandon K. 2015. in David Reed (ed.) “In Pursuit of Prosperity: U.S Foreign Policy in an Era of Natural Resource Scarcity”, Routledge, N.Y.
86 http://www.agriculture.gov.au/forestry/international/regional
and trade in timber\textsuperscript{90}. The proposed \textit{Legal Timber Mutual Recognition Mechanism} was planned to be officially enforced late in 2015 or early 2016\textsuperscript{91}. Further talks were held in June and September 2015. The arrests of some 150 Chinese citizens for illegal logging in Myanmar, the life sentences imposed on them in July 2015, and their subsequent release under a general amnesty, and the Yunnan authorities' recent announcement that all cross-border timber trade has been suspended until 2016, have no doubt influenced the progress of this arrangement. CSOs expressed concerns that such an agreement may legitimise trade under existing legislation overriding ethnic groups' natural resource claims, while also undermining potential governance reforms under a prospective VPA between the EU and Myanmar. Suggestions that the parties planned to agree an MoU that would allow Chinese investment in timber processing and timber plantation establishment close to the border further heightened CSOs' and ethnic groups' suspicions that the aim was to cement central control in ethnic areas by legalising the current trade. In January 2016, letters signed by some 140 Myanmar NGOs complaining about the lack of transparency about what was being discussed was sent to the country’s Ministry of Environmental Conservation and Forestry (MOECAF), and to the US-based Blue Moon Fund and DFID-China – both of which had been funding facilitation of the talks through grants to the Global Environmental Institute (GEI). A subsequent statement by MOECAF denied that China planned to invest in timber processing in Myanmar. GEI and DFID China both made public statements about their involvement\textsuperscript{92}.

\textbf{Mozambique} In 2013, steps to develop a Memorandum of Understanding (MoU) for cooperation in the forest sector, to be completed by the end of the year was reported\textsuperscript{93}. No further information is available.

1.7.6 Other international initiatives

\textbf{Asia-Pacific Cooperation (APEC)}

\textbf{The Expert Group on Illegal Logging and Associated Trade (EGILAT)}\textsuperscript{94}, established in 2011, is a forum of the Asia-Pacific Cooperation (APEC). It aims to promote trade in legally-harvested forest products, combat illegal logging and associated trade, and build capacity.

APEC leaders, including China, have committed to work to implement appropriate measures to prohibit trade in illegally harvested forest products and undertake additional activities in APEC to combat illegal logging and associated trade. EGILAT is committed to:

\begin{itemize}
  \item Serve as a platform for member economies to strengthen policy dialogue on combating illegal logging and associated trade and promoting trade in legally harvested forest products;
  \item Consider and share information, where available, on policies that combat illegal logging and associated trade and promote trade in legally harvested forest products, and exchange views on how to learn from successful policies;
  \item Provide member economies with opportunities to exchange information, views, experiences, and analyses on relevant matters, including on (i) developments in laws, regulations, and other measures relating to combating illegal logging and associated trade, (ii) new technologies designed to assist efforts to combat illegal logging and associated trade and promote trade in legally harvested forest products, and (iii) data and other information on production, processing, exports, imports, and consumption of forest products, to the extent available;
  \item Assist member economies in identifying capacity building needs and developing targeted capacity building assistance;
  \item Facilitate law enforcement cooperation and information sharing related to combating illegal logging and associated trade, consistent with domestic law and in accordance with applicable international agreements (e.g., by creating sub-groups, exchanging enforcement personnel, holding joint law enforcement meetings and exercises, and participating in and/or establishing law enforcement networks);
  \item Recognise APEC’s commitment and activities relating to sustainable forest management and rehabilitation, as well as work on these topics in international and regional forestry organizations, collaborate with those organizations, as appropriate, and endeavour to ensure that its activities complement and do not duplicate activities being carried out in those organizations; and
  \item Collaborate with industry and civil society to raise awareness and contribute to national and regional efforts to combat illegal logging and associated trade and promote trade in legally harvested forest products.
\end{itemize}

A 2014 Workshop on Developing Timber Legality Assurance Systems, funded by China, provided a platform for EGILAT members and others to share information and exchange best practices in developing and implementing effective and
credible timber legality assurance systems.

**Asia-Pacific Network for Sustainable Forest Management and Rehabilitation**

The Asia-Pacific Network for Sustainable Forest Management and Rehabilitation (APFNet), established by China, was agreed at the 15th APEC Economic Leaders' Meeting in September 2007. It aims to help promote and improve sustainable forest management and rehabilitation through capacity building, information exchange, and support for regional policy dialogues and pilot projects. APFNet’s membership includes APEC and non-APEC economies, international organisations and non-governmental organisations, forestry-related academic institutions and civil society organisations, and forestry-related enterprises operating in the Asia-Pacific Region.

The APFNet Kunming Training Centre (APFNet-KTC), established in 2012 by APFNet and Southwest Forestry University (SWFU) in Kunming, aims to provide high-quality international workshops and training relating to forest management and rehabilitation. It is supported by the Chinese National Forestry Bureau, the Yunnan Provincial Forestry Department, the Mekong Institute and others. The workshops have two main thematic training streams – “Forest Resource Management” and “Forestry and Rural Development”. In April 2015 APFNet-KTC held a workshop on the cross-border Myanmar-Yunnan timber trade, and in July it hosted training in cooperation with the FLEGT Facility on “Enhancing Forest Governance for Asia and the Pacific in the Context of Timber Legality Verification”.

In 2015, APFNet and SWFU established a Research Centre for GMS Forestry Development. This will focus on regional projects and cooperative activities within the Greater Mekong Sub-Region in six key research areas: (i) forestry policy, (ii) silviculture and management of forest resources, (iii) biodiversity conservation, (iv) forest protection and watershed management, (v) forestry and rural livelihood development, and (vi) capacity building and human resource development. Amongst its ongoing projects is a Preliminary Study of China-Myanmar Timber Trade, sponsored by the EU FLEGT Facility.

### 1.8 NGO engagement in China

#### 1.8.1 Global Witness

Global Witness’s China Programme recognises that China’s engagement is crucial to efforts to prevent the extraction and trade of natural resources from contributing to corruption, instability and violent conflict. Improved governance of oil, mining and timber resources, including in those countries where Chinese companies have investments, should reinforce rather than undermine the Chinese government’s interest in ‘harmonious development’ and ‘peaceful coexistence’.

Global Witness aims to explore synergies with Chinese institutions focusing on enhancing the role of local civil society and rural and forest communities in management of forest and land resources. It has documented the global trade in illegal timber including several cases associated with Chinese companies. These have included:

- In Myanmar, on-the-ground research documenting illegal logging in the country’s northern frontier with China.
- In Madagascar, exposing an illegal rosewood industry worth up to US$460,000 a day, where over 95 per cent of the illegal precious woods were bought by Chinese traders and destined for Chinese markets.
- In Democratic Republic of Congo revealing the illegal abuse of ‘artisanal logging permits’ used primarily to harvest IUCN red-listed endangered timber, where a significant proportion of the companies using the permits were from China or in partnership with Chinese companies and most of the timber destined for the Chinese market.
- In Liberia, investigations and reports with local CSOs showing that 40 per cent of the country’s rainforests were being allocated to logging companies through the widespread and illegal issuance of Private Use Permits (PUPs), with China being the largest destination for the timber.

Global Witness is also carrying out research on how large-scale land investments are being implemented including the negative impacts of those involving allocation arable and forested land to Chinese organisations for converting to oil palm and rubber plantations in Liberia and the Mekong region respectively.

95 [https://www.globalwitness.org/archive/china-programme-0/](https://www.globalwitness.org/archive/china-programme-0/)
1.8.2 World-wide Fund for Nature (WWF)

WWF’s response to China’s growing economic influence is its China for a Global Shift Initiative96. This aims to make China’s international trade and capital flows driving forces in global conservation and footprint reduction through engaging key decision-makers in governments and financial institutions relevant to Chinese investments outside China that have an impact on WWF’s priority places. Its objectives are:

- Including environmental principles in decisions driving economic growth, by integrating sustainability principles into China’s five-year plans and “Going Global” strategy.
- Encouraging the financial sector to formulate and adopt green lending policies by encouraging leading Chinese banks to apply green lending policies that consider environmental and social effects of their domestic and overseas operations.
- Safeguarding sustainability in the trade of natural resources by promoting international best practices and rigorous environmental standards for Chinese companies operating overseas in priority sectors – forestry, infrastructure and mining.

Within this initiative, WWF’s China-Africa programme97 aims to integrate sustainability principles into the policies and practices governing Africa-China trade and investment, contributing to the effective management of Africa’s natural resources and to the protection of sensitive areas and species. The approach includes:

- Engaging Chinese and African delegates to promote inclusion of environmental protection in the deliberations of the Forum for China-Africa Cooperation (FOCAC)98, thus influencing the overall investment portfolio of China in Africa
- Achieving greater responsibility in supply chains through development of investment guidelines in priority sectors such as forestry, infrastructure and extractive industries
- Engaging Chinese financial institutions that lend to, and thereby strongly influence, projects in these sectors.
- Undertaking pilot projects, e.g. supporting Chinese timber companies in Gabon to ensure that their forest products come from responsibly harvested and verified sources.

Also as part of WWF’s China for a Global Shift Initiative, WWF-UK is working with IIED on supporting dialogue between Chinese and African officials on the sustainable and legal use of natural resources99. This work aims to help partners in Africa and China improve their understanding of the impacts of trade in natural resources from Africa to China and the EU and ensuring that such trade supports sustainable development.

1.8.3 International Institute for Environment and Development (IIED)

The China-Africa Forest Governance Learning Platform100 was launched in March 2013 by IIED, the Chinese Academy of Forestry (CAF) and the Global Environmental Institute (GEI). It aims to promote understanding and partnership with regard to forest governance between China and African countries enabling the Chinese private sector to gain a deeper understanding of forest governance issues in those countries in which it is operating and investing.

IIED’s China-Africa Forest Governance project101. Building on the China-Africa Forest Governance Learning Platform, this DFID-funded project aims to contribute to promotion of sustainable and pro-poor Chinese trade and investment in Africa’s forests through improved evidence, capacity and joint action. It works in China and four African countries: Cameroon, Democratic Republic of Congo, Mozambique and Uganda.

The main Chinese partners are the Research Institute of Forestry Policy and Information (RIFPI) at the CAF and GEI; while African partners are: Centre for Environment and Development (Cameroon), Reseaux Ressources Naturelles (DRC), Terra Firma (Mozambique), Advocates Coalition for Development and Environment (Uganda). WWF is an international partner bringing experience of sustainable corporate practices.

The project has three main areas of activity:

- Generating evidence: Generating reliable knowledge about the current status and trends of China-linked investments – focusing on forestry, mining, agriculture and infrastructure – in the forests in the four African countries; and analysing relevant laws and regulations, incentives for companies to operate sustainably and legally, and also the impacts of China-linked investments...
and trade on rural livelihoods

— **Strengthening capacity and dialogue:** Building capacity among stakeholders – policymakers, private sector actors, researchers, practitioners and journalists – through national, regional and international dialogues, trainings and work exchanges

— **Improving policy and investment practice:** Through evidence, capacity building and dialogue, changing specific policy and investment practices through: (i) helping Chinese investors adopt and monitor codes of practice; (ii) supporting companies to obtain verification of good legal practice; and (iii) engaging with Chinese and African policymakers to change policies, and investment and organisational practices to support resilient African land use and a sustainable China-Africa forest products trade.

### 1.8.4 Forest Trends

Forest Trends [Forest Trade and Finance Initiative](http://www.forest-trends.org/program.php?id=80) has been engaged with the Chinese Government and research agencies to encourage sustainable forest management and forest trade policies since 2000. The initiative aims to raise transparency and accountability, and ultimately for improve practices by financial institutions that fund forestry investment.

Recent research documents relating to China include:

— Analysis of the China-Myanmar Trade (December 2014)
— Forest Products Trade between China and Africa (April 2014)
— Environmental Aspects of China’s Papermaking Fiber Supply – Update (March 2014)
— Tropical Hardwood Flows in China - Case Studies of Rosewood and Okoumé (December 2013)
— Timber Trade Flow Maps of China and the Mekong Region (August 2011)
— Buyer, Regulator, and Enabler - The Government’s Role in Ecosystem Services Markets - International Lessons Learned for Payments for Ecological Services in the People’s Republic of China (July 2011)
— China - Overview of Forest Governance, Markets and Trade (July 2011)
— Recent Developments in Forest Product Trade between Russia and China - Potential Production, Processing, Consumption and Trade Scenarios (March 2009)
— Forest Products Trade Between China & Africa - An Analysis of Imports & Exports (October 2008)

### 1.8.5 Environmental Investigation Agency (EIA)

EIA has been conducting investigation into forest crime and related advocacy in East and Southeast Asia for more than three decades. A number of its recent reports have focused on activities involving China. In this context, EIA’s UK office focuses primarily on SE Asia, while EIA-US works on the Russian Far East.

— Organised Chaos: The illicit overland timber trade between Myanmar and China (September 2015)
— Addressing ASEAN’s Regional Rosewood Crisis: An Urgent Call to Action (April 2015)
— Briefing for the Regional Dialogue on Siamese Rosewood and Illegal Logging (December 2014)
— EIA response to China’s draft timber guidelines (August 2014)
— First Class Crisis: China’s Criminal and Unsustainable Intervention in Mozambique’s Miombo Forests (July 2014)
— Myanmar’s Rosewood Crisis (July 2014)
— Routes of Extinction: The corruption and violence destroying Siamese rosewood in the Mekong (May 2014)
— Lumber Liquidators importing illegal hardwood flooring (October 2013)
— First Class Connections: Log Smuggling Illegal Logging and Corruption in Mozambique (February 2013)
— Appetite for Destruction: China’s Trade in Illegal Timber (November 2012)
— The Bali Declaration Ten Years On (November 2011)
— Rogue Traders: The Murky Business of Merbau Timber Smuggling in Indonesia (July 2010)

### 1.8.6 Oxfam

Oxfam Hong Kong’s [China and the Developing World Programme](http://www.oxfam.org.hk/en/ChinaDev.aspx) (“ChinaDev”) advocates for the Chinese government and corporations to be progressive forces for development in low-income countries and to contribute to the well-being of their communities. It places a particular focus on the rights to sustainable livelihoods and to the security of poor women and men in those countries by promoting development and investment policies and

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102 http://www.forest-trends.org/program.php?id=80
103 http://www.forest-trends.org/publications.php
practices that are pro-poor, pro-equity and sustainable. It works with partner organisations to make improvements in both China and the countries that are impacted. This includes promoting positive changes in governance and corporate and industry practices. It also involves strengthening civil society so that it can engage with government departments, companies and industry players, and hold them accountable. A current focus is on influencing issues related to Chinese overseas agricultural investments.

Work on agricultural investments in neighbouring Mekong countries involves Oxfam’s cooperation with the Yunnan Department of Commerce, Yunnan Agricultural University and Yunnan University of Finance and Economics on the application of standards and education of investors. Recent publications include:

- Agricultural Investment of Thailand: Opportunities and Challenges for Poverty Reduction in the Mekong Region
- All You Need to Know about CSR Reports
- Strengthening Community Understanding of Free, Prior and Informed Consent - Trainer’s Manual
- Agribusiness Investments in Myanmar: Opportunities and Challenges for Poverty Reduction
- Agribusiness Investments in Lao PDR: Opportunities and Challenges for Poverty Reduction
- Sustainable Chinese Outward Foreign Direct Investment: Opportunities and Challenges
- Understanding China’s Overseas Foreign Direct Investment: A Mapping of Chinese Laws and Stakeholders

1.8.7 Traffic

In China, TRAFFIC works with WWF, where it work in collaboration with the Chinese government, the traditional Chinese medicine industry, academic institutions and other organisations on protection of wild plants and animals used for traditional medicines.

TRAFFIC has investigated China’s timber trade. In April 2014, with WWF it held a “Timber legality training workshop” in Guangzhou to help increase awareness amongst Chinese timber companies of various international regulations regarding the timber trade. This series of training has also been carried out in other parts of China as well as Vietnam, Malaysia, Lao PDR, Thailand, and Indonesia. TRAFFIC has also assisted in the training of enforcement officers in Asia on the identification of timber species.

1.8.8 Greenpeace

Greenpeace is working to stop China and Taiwan’s role in forest destruction in the tropics by campaigning for logging companies to end deforestation in ancient forests and peatlands. Specific actions are:

- Working to convince palm oil importers to use only palm oil that does not come from rainforest destruction as part of a larger goal to end deforestation in Indonesia.
- Pushing the home-furnishings industry to adopt a Responsible Purchasing Policy (RPP) to encourage them to buy wood only from sustainable sources and stop using merbau hardwood.
- Lobbying companies and retailers to stop sourcing paper and paper products from Asia Pulp and Paper (APP).
- Promoting green publishing and the use of post-consumer recycled paper and Forest Stewardship Council (FSC) certified paper in books, through its “Book Lovers for Forests” programme.
- Monitoring China’s dwindling forest resources – only 2% of which remain intact – and investigating and exposing illegal logging and conversion activities in China.

1.8.9 Social Resources Institute

Social Resources Institute (SRI), founded in 2008, is a non-profit research and advisory organisation. It studies the causes of social problems and effective solutions, evaluates the effectiveness of social policies and projects, production and promotion of knowledge products work, and promotes produce social change. It currently focuses on effective public service, sustainable agriculture, and non-profit organisations, businesses and governments cooperating to build a just, free and participatory society.

Its work in the agricultural sector aims to enhance the capacity of rural communities to deal with environmental risks; to strengthen the social and human capital of agricultural practitioners; and to promote responsible corporate investment. There are three areas of work:

- Cultivating resilience of individuals, families and communities to deal with external pressures and changes, such as climate change, market fluctuations and natural disasters.
- Establishing trust and knowledge of market transactions contributing to the accumulation of social capital and human capital.
Conducting business operations that are at least not detrimental to sustainable livelihoods, and corporate community investment projects that contribute to the goal of sustainable livelihoods.

1.8.10 SynTao

SynTao Co., Ltd is a Beijing-based consultancy and research organisation promoting sustainability and responsibility in the Asian region. It provides consulting, research and training services in CSR and Socially Responsible Investment. It is the first Global Report Initiative (GRI) certified Training Partner in mainland China, Macau and Taiwan, the only GRI sustainability reports Data Partner in China; a signatory to the UN Principles for Responsible Investment; and a corporate Partner to the International Business Leaders Forum.

Its recent reports on Overseas Investment include:

- “More Transparency, Less Risk”, which suggests that disclosing non-financial information properly, and maintaining smooth communication and interactions with stakeholders are efficient for extractive companies to secure their legitimacy.

- “A Journey to Discover Values 2013-2014: A Study of CSR Reporting in China”, provides the analysis of the quantity and quality of the CSR reports in China and in-depth study of 8 key industries.

- “Resources for Infrastructure: The Sustainability Dynamics of Sino-Afro trade”, seeks to analyse the nature of Sino-Afro trade and concludes that the benefits that arise from China’s investment in Africa have helped stimulate economic growth, but that it is necessary for Chinese and African officials to address sustainability issues

- “Transparency Matters: Disclosure of payments to governments by Chinese extractive companies”, identifies that many resource-rich countries that China does business with have fallen victim to the ‘resource curse’, tending to have less economic growth, more conflict and corruption, and worse development outcomes than countries with fewer natural resources. It presents an assessment of the tax payments made by Shanghai-listed extractive companies to governments in resource-rich countries in 2010 and 2011. It found that while several companies positively stand out in the amount and quality of information they publish, much more could be done by the companies and regulators to enhance reporting beyond existing requirements.

1.8.11 Global Environmental Institute

The Global Environmental Institute (GEI) is a Chinese non-profit, non-governmental organisation established in 2004. Its mission is to design and implement market-based models for solving environmental problems in order to achieve economically, ecologically, and socially sustainable development. Its aims are to:

- Integrate environmental and economic problem-solving in China by building local and international collaboration between government agencies, research institutions, private enterprises, and non-governmental organisations

- Achieve self-sustaining and ecologically-sound rural development by linking local communities directly with outside partners in such areas as biodiversity conservation, bioremediation, renewable energy, and organic agriculture.

- Mitigate global warming and increase energy conservation by commercializing environmental technology, fostering sustainable enterprises, and developing innovative business and financing models.

- Develop the capacity of leaders and civil society to design, implement, and enforce socially and ecologically-sound development policy in rural, urban, and industrial sectors in China and around the world.

It has four main areas of work:

- Energy and Climate Change: Developing policy tools and market mechanisms suitable for China’s national conditions, promote the application and popularisation of clean energy technology and environmentally-friendly agricultural technology, and promoting China-US communication and practical cooperation on climate change and clean energy, ultimately advancing China’s low-carbon economic development.

- Biodiversity Conservation: Resolving conflicts between resource extraction, ecological conservation, and community development in the buffer zones of nature reserves, achieving effective conservation of biodiversity.

- Investment, Trade, and the Environment: Facilitating government implementation of environmentally-friendly policies and guidelines for investment and trade, while urging policy makers to place greater importance on sustainable development and resource use, and working to guide the environmental and social conduct of China’s overseas enterprises.

- Capacity Building: Promoting training, improving teaching and research capacity of central party, national,
and provincial level academies of governance, in order to improve understanding of sustainable development and the capacity to develop and implement environmentally-friendly policies among high-level government policymakers, civil servants at all levels, and managers of state-owned enterprises.

GEI has received funding from the UK-China InFIT programme, where amongst its activities is the Myanmar-China dialogue on their bilateral trade.

1.9 Private sector organisations

1.9.1 China Timber and Wood Products Distribution Association

The China Timber and Wood Products Distribution Association (CTWPDA) is an authorized national association registered with the Chinese Ministry of Civil Affairs. It has over 3,000 members, including timber and wood products producers, distributors, wholesalers and retailers, and forestry organizations and wood products industry professionals. Its aims are to serve enterprises and consumers by providing platforms for exchanges and trade, including exhibitions and fairs, training and standard-setting; to provide information; to standardize market and evaluate credit for enterprises; to promote enterprises; to participate with enterprises in assuring customers; to organize participation of exhibitions and exchanges abroad; to explore overseas resources; and to report suggestions and demands of enterprises to government.

1.9.2 China National Forest Products Industry Association

The China National Forest Products Industry Association (CNFPIA), established in March 1988, has nearly one thousand corporate members covering forestry, light industry, materials, building materials and other forest products including leading enterprises, provinces and autonomous regions throughout the country. It plays an active role as a bridge between government and enterprises in the interests of its members; to assist government departments industry management; conduct technical exchanges, to organize a new product exhibitions, strengthening cooperation with domestic and foreign counterparts; and developing domestic and international markets, and promoting industry innovation and technological progress.

CNFPIA has been working on development of a private sector legality verification system based on a voluntary code of conduct and due diligence by operators. This may contribute to the formal system being developed by government agencies.

Both CNFPIA and CTWPDA are associated with the Global Timber Forum (GTF), an international timber sector networking and communications hub for timber trade federations, national and regional industry bodies, and others associated with the sector. A focus of GTF is the
environmental, social and economic benefits of a sustainable, legal timber industry.

1.9.3 China Chamber of Commerce of Foodstuffs and Native Produce

The China Chamber of Commerce of Foodstuffs and Native Produce (CFNA) is a trade association linked to MOFCOM with more than 5500 member companies. Its mandate includes: (i) encouraging a fair and orderly market; (ii) protecting the interests and lawful rights of its members and of the industry; (iii) promoting industry development; (iv) assisting members to explore international market; providing members with training and consultancy on market, client and regulations; (v) settling trade disputes of member companies; (vi) reflecting suggestions and opinions from members and the industry to the government, and contributing suggestions and comments on new government policies; (vii) guiding members on legal compliance; (viii) investigating and researching the international market; (ix) providing information and consulting service to the members; (x) to mediate disputes between the members; (xi) to convey to the government the demands and ideas of its members and put forward policy recommendations; (xii) to supervise and guide the operation of the members; (xii) to organize the bidding of import and export quotas; (x) to coordinate and promote overseas investment of energy and mineral resources; (xi) to participate in the organization of export commodities fairs; and (xii) to make suggestions to the law enforcement agencies and to take punitive action against the members who violate the coordination regulations.

CFNA has 42 affiliated chambers of commodity, covering all important commodities of agricultural, food, forestry and farm products. These include an Association of Wood Products, the China Soyabean Association and the China Oil and Oilsseeds Association (which covers palm oil), but neither the main timber product associations, described above, nor rubber fall under its auspices.

As part of the UK-China InFIT programme, CFNA is working on guidelines for Sustainable Overseas Investment and Managing Guide of Palm Oil for Chinese Enterprises.

1.9.4 China Chamber of Commerce of Metals Minerals and Chemicals Importers & Exporters

The China Chamber of Commerce of Metals Minerals and Chemicals Importers & Exporters (CCCMC) is also linked to MOFCOM. It has a membership of 6,006 companies covering ferrous metals, non-ferrous metals, non-metallic minerals and related products, coal and coal products, construction materials, hardware and related products, oil and oil products, chemicals, plastics, fine chemicals, agro-chemicals, rubber products, etc. Its major functions are (i) to coordinate and instruct the import and export activities of members according to the constitution; (ii) to ensure the normal import and export operation and interests of members; (iii) to make coordination efforts in responding to the anti-dumping lawsuits from abroad; (iv) to investigate and research the international market; (v) to provide information and consulting service to the members; (vi) to mediate disputes between the members; (vii) to convey to the government the demands and ideas of its members and put forward policy recommendations; (viii) to supervise and guide the operation of the members; (ix) to organize the bidding of import and export quotas; (x) to coordinate and promote overseas investment of energy and mineral resources; (xi) to participate in the organization of export commodities fairs; and (xii) to make suggestions to the law enforcement agencies and to take punitive action against the members who violate the coordination regulations.

CCCMC has adopted Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains and, under the UK-China InFIT programme, is developing similar guidelines for Chinese overseas investments in rubber (see 3.5.2).

110 http://en.cccfna.org.cn/
2 Opportunities for the EU

2.1 Potential of EU influence on China to tackle illegal logging, forest governance failure and other drivers of deforestation

Several recent reports have underlined that China’s dominant position in the global timber trade and its increasing investment overseas in sectors affecting forests emphasise the need for it to play a much stronger role in tackling illegal logging and trade in illegal timber, while also promoting responsible overseas investment practices. Its recent initiatives – including guidelines for overseas investors, its incipient Timber Legality Verification System, its public procurement policy, its bilateral arrangements with several consumer and producer countries, and the establishment of APFNet as an instrument of Chinese forest sector “soft power” – all provide a base from which further action can be taken, but there is no doubt that more can be done.

Many observers see Chinese legislation to prevent imports of illegal timber, similar to the US Lacey Act or the EU Timber Regulation, as an essential requirement for progress.

2.1.1 Greater use of formal EU-CN dialogues

2015 marks the 40th anniversary of establishment of diplomatic relations between the EU and China. EU is now China’s biggest trading partner and China has become the EU’s second biggest trading partner after the US. EU-China bilateral trade in goods reached €467.5 billion in 2014, an increase of 9.1 percent from the 2013.

The EU-China Strategic Partnership, guided by the EU-China 2020 Strategic Agenda for Cooperation, is at the forefront of bilateral cooperation. Its four main areas of engagement are peace, prosperity, sustainable development and people-to-people exchanges. Today, about 60 high-level and senior-level dialogues and cooperation mechanisms cover issues such as foreign policy, security and defence, cyber, high tech, innovation, migration and mobility, tourism, energy, environment, development, disaster risk management and people-to-people exchanges. In 2013, three new EU-China dialogues were launched: innovation, international development and sustainable tourism.

The website of the EU Delegation to China has a page on Environment and Climate Change113. It notes that environment is becoming a forefront dialogue in EU-China relationships, and that Beijing sees the EU as a “strong and

reliable partner for achieving a sustainable development”. It also notes that, as consumers of Chinese goods, Europeans are interested in avoiding causing serious environmental problems in China – this being a basis for the EU to intensify its environmental policy cooperation with China. Top priorities of the environment policy dialogue are stated as water pollution, air quality and biodiversity, with cooperation on climate change given the “highest possible priority”. The joint work plan also covers areas such as chemicals, waste and industrial accidents and passing mention is made on cooperation with Chinese ministries and administrations responsible for issues such as climate change, water resources, and wood from illegal logging.

Although forests and trade and investment in timber and related sectors in general, and the BCM-FLEG in particular, are strongly related to these broader political agendas, there are few apparent references in high-level discussions that link forest governance in trade and investment with issues of environment, climate change and sustainable development. There is no mention of China’s trade and investment footprint or its links to European consumption (which is restricted to environmental impacts within China).

A key factor will be the degree of importance the EU continues to place on FLEG as a policy instrument for its broader environmental and development goals. This is likely to be informed by the on-going evaluation of the FLEG Action Plan. It is known that the Evaluation Team visited China in June 2015, so it is expected that their report will comment on the effectiveness of the BCM in supporting wider EU policy.

### 2.1.2 More information/transparency on the BCM-FLEG

The level of public information about the BCM has allowed it to work relatively un-noticed and it is likely that many stakeholders who have not been directly involved are unaware of its role and ambitions.

It has become normal practice after each VPA negotiation session held in Brussels, that a dialogue is held with representatives of non-government organisations to debrief them on progress made and allow questions on issues of concern. Holding such sessions after each alternative BCM meeting would broaden stakeholders’ knowledge of the BCM and improve transparency. Moreover, posting the BCM document itself and agreed aides memoires of the meetings on EU and the EU FLEGT Facility web sites would help improve knowledge and stimulate stakeholder input.

### 2.1.3 Trilateral links with VPA partners

China’s steps towards agreeing bilateral arrangements on legal trade with several developing timber-producing countries can be seen promising steps towards taking greater responsibility. However, as noted in the context of the ongoing discussions with Myanmar, there is also a risk that these are based on simple recognition of existing trade documentation and may do little to address underlying forest governance failure that allows illegal trade to persist. This risk may be reinforced by China’s general policy of non-interference in other countries’ internal affairs, which is likely to preclude a more activist approach towards tackling governance issues.

Solutions to this may lie in encouraging China to give priority to countries which are implementing VPAs, or are sufficiently well-advanced in negotiations so that an operational timber legality assurance system with a stable legality definition is in place. Indonesia’s SVLK, which is already in use to licence exports could be a leader in this regard. Apart from addressing governance problems, this could act as a strong incentive for other VPA countries with significant exports to China to accelerate implementation of their agreements with the EU.

An incentive for China to take such an approach could result from extending EUTR recognition (currently applying only to direct trade) to include FLEGT-licensed products that from third processing country that can be tracked via a reliable traceability system. One obstacle to this may be the reluctance of the EU to endorse third-party certification schemes as evidence that regulatory requirements have been met. Addressing this would require development and periodic independent audit of a mutually-agreed traceability system (similar to a traceability component in a VPA timber legality assurance system) as part of the CTLVS.

Encouraging Chinese action on responsible investment in forest-risk commodities

Chinese ESG policies for responsible investment overseas specific to forests arguably outnumber and cover a broader scope than those of any other country, including EU Member States. However, the Chinese guidelines are voluntary and most currently lack mechanisms to monitor operators’ compliance, or to take action against investors that don’t comply.

The UK-China InFIT programme, and the current DFID grant to IIED and WWF on implementation of the forestry guidelines in Africa, both include work on application and reporting on compliance with the forest guidelines and also extending them the rubber and oil palm. Current work under the BCM-FLEG includes providing technical inputs to
the new Chinese Forest Trade and Investment Guidelines; however, the form of those inputs is not clear, nor is the degree to which they are coordinated with similar InFIT work. A joined-up EU approach in this area is likely to be more effective than separate streams of work.

If as proposed, the emerging EU-China discussions on a comprehensive BIT arrangement include sound environment and social provisions, this could serve as an eventual model for China’s own investment relations with third countries.

### 2.2 Legislation on trade in illegal timber

#### 2.2.1 China’s Timber Legality Verification System

Many observers consider that effective Chinese demand-side actions, including import legislation are essential requirements to tackling the international trade in illegal timber.

China’s draft Timber Legality Verification System (CTLVS) designed by SFA (with support from DFID) was released in late 2011, following an analysis of Chinese timber trade flows and examining various legality verification models. For domestically-sourced timber, the existing permitting system was considered to provide a sufficient guarantee of legality.

For imported timber, two systems to verify timber legality were envisaged: a government-guided timber verification scheme (CGTVS) incorporating bilateral agreements signed with exporting countries; and an association-guided voluntary verification scheme (CATVS).

The CGTVS would require the Chinese government to negotiate bilateral agreements with timber-producing country governments to define timber legality, verification methods, management mechanisms, and valid export documentation. China would then accept only timber with valid export documentation issued by those countries that demonstrated that their timber harvesting, processing, and export activities conformed to legality procedures and verification methods. China would use its domestic timber-control systems to guarantee the traceability of imported timber as it is processed for export. By mid-2015 the system was considered to be ready for piloting and some preliminary discussions had been held with prospective agreement countries (Indonesia, PNG, Myanmar and Mozambique).

The CATVS, for non-agreement countries, would require industry associations in China and their counterparts in timber-producing countries to reach mutual recognition on a particular verification system to be used and association members, on a voluntary basis, would be able to use the documents provided by associations in timber-producing countries to apply to Chinese authorities for legality certificates. Starting in 2009 CNFPIA has developed technical documentation, including standard, procedures, marking and management methods for legal timber verification. This is intended to serve as the basis for the CATVS. From 2012, CNFPIA initiated pilot work, with the aim of establishing a standard and practical timber legality verification system, which met international requirements. This was piloted with 8 enterprises and
results reported in 2014\textsuperscript{114}.

Both the CGTVS and the CATVS would require authorized organisations – either government or industry associations – to issue timber legality certificates, which would be checked by Chinese customs when timber products were exported.

One risk of the planned bilateral agreements under CGTVS is that they may simply recognise existing official export documentation and do little to address the underlying governance problems that sustain illegal trade. Moreover, it is currently unclear which agency would have a mandate to negotiate agreements (e.g., Ministry of Foreign Affairs, or MOFCOM); what advisory role specialist agencies such as SFA would have; and what additional legal instruments would be needed for GACC to exercise the necessary border controls on imports and exports.

Challenges noted by Dong (2015)\textsuperscript{115} were:

— No clear mechanism for sharing documentation and information across borders and verifying credibility
— More work needed to address the legality of tropical hardwood imports
— Complexity of the timber supply chain in China makes legal compliance difficult
— Difficulties motivating Chinese companies that are not exporting to discerning markets to practice due diligence
— China’s domestic market doesn’t require timber legality

\subsubsection{2.2.2 Public procurement}

The rationale for developing the CTLVS has been to meet key export market requirements. Given that around 80 per cent of China’s total timber demand supplies the domestic market, even a system which gave reasonable assurance that exports were legal would have a limited impact on the overall trade. Efforts to stimulate higher standards in domestic demand therefore also need to be encouraged. Wickerham and Zadek (2009), quoted in Hansen et. al. (2014)\textsuperscript{116}, report that Chinese government policies and guidelines are the most powerful drivers of industry’s corporate social responsibility decisions. Hansen et. al. also estimate that public sector purchases account for about 20 per cent of total domestic consumption. Therefore a government lead through public procurement may be able to play a lead role in influencing demand, similar to the effects it has had in the EU.

There is already a sound basis for this. In 2006, the Ministry of Finance and the Ministry of Environmental Protection both released policies designed to encourage environmentally-friendly building products certified to China’s Environmental Labelling Standards (CELS), which include a number of standards related to wood-based products. And China’s Governmental Green Procurement List for products with environmental labelling certificates covers furniture, copy paper, and wood-based panels and products\textsuperscript{117}, with the procurement standard including “production processes and reasonable use of resources”.

For furniture, if timber comprises more than 10 per cent of the total weight, the timber used cannot come from protected natural forest, cannot be rare or precious species (except for timber with an FSC sustainable management forest certificate). For copy paper, imported raw material must come from sustainable forest and domestic raw material from origins meeting the provisions of Chinese forestry-related laws and regulations. For wood-based panels and products, raw material must meet the requirements of CITES and imported raw material must come from sustainable forests, while domestic raw material must come from origins meeting Chinese forestry-related laws and regulations.

How these requirements are verified and compliance is enforced is unclear and recommendations by Gao (2013) include:

— Revision of the timber origin requirements in CELS to include minimum standards on legality and sustainability for the origin of timber raw material
— Formulation of industrial or national standards on timber origin’s legality and sustainability in distribution industry to clarify policy objective, application scope, definition of legality and sustainability, and verification method
— Stakeholder consultation on standards and processes.

There is possible potential for cooperation with sharing lessons from implementing EU Member State procurement policies (for example, from the UK Central Point of Expertise on Timber Procurement – CPET, or the Dutch Timber Procurement Assessment Committee – TPAC).

\subsubsection{2.2.3 EU Member States’ dialogue and influence}

As noted above, Germany and the UK are the only Member States with significant relevant programmes in China.

\textsuperscript{114} http://forest-trends.org/documents/files/doc_4296.pdf
\textsuperscript{115} Dong Ke. 2015. Efforts to Combat Illegal Logging in China (http://c.ymcdn.com/sites/www.iwpawood.org/resource/resmgr/WOW2015/1350C_combat_illegal_logging.pdf)
The Sino-German Corporate Social Responsibility Project, which amongst other initiatives working on overseas mining standards, ended on 30 June 2014. However there may be possibilities for encouraging reform under the 2013-16 Sino-German Environmental Partnership in which a GIZ team offers demand-oriented advice and capacity building measures to MEP and the China Council for International Cooperation on Environment and Development (CCICED), a non-profit, international body that advises the Chinese government, on developing and implementing effective environmental policy. Sustainable consumption is one focus area.

The UK-China International Development Support Programme (concluded March 2015) and the Forest Governance, Markets and Climate (FGMC) programme are supporting the International Forest Investment and Trade (InFIT) programme, referred to above. A 2011 Memorandum of Understanding between DFID and MOFCOM commit the agencies to work together as “Partners for Growth” within the UK-China “Comprehensive Strategic Partnership” to achieve common international development objectives and achieve the Millennium Development Goals. Focus sectors include climate change, agriculture, food security and natural resource management.

Other EU development agencies which have relevant cooperation activities are:

— Finland’s China Action Plan (2010) includes a development policy that includes promoting socially, economically and ecologically sustainable development; pursuing active dialogue to promote policy coherence bilaterally and in relation to third countries; continuing and increasing development policy dialogue; and promoting (by means of concessional credits, especially for Finnish companies in the environment and energy sectors) sustainability in the management of natural resources and social and economic development

— Italy – the Sino-Italian Cooperation Program for Environmental Protection aims to help China to improve her environment, support her sustainable development and promote the cooperation between enterprises of the two countries. More than 200 projects covered (i) Energy Efficiency, Clean Energy & Renewable Energy; (ii) Assist China to implement international conventions about the environment; (iii) Air Monitoring; (iv) Urban Sustainable Development & Eco-building; (v) Waste Recycle; (vi) Sustainable Transportation; (vii) Integrated Management on Water Resources; (viii) Eco Conservation & Sand Control; (ix) Sustainable Agriculture; (x) Capacity Building for Environmental Protection.

118 http://environmental-partnership.org/
120 Ministry of Foreign Affairs. 2010. Finland’s China Action Plan. 21pp
121 http://www.sinoitaenvironment.org/2014/indexE.asp
3 Opportunities for EU Civil Society organisations

3.1 NGO engagement

BCM-FLEG transparency

The level of easily accessible information about the BCM-FLEG is minimal. At present it is insufficient for stakeholders to understand where the mechanism fits broader EU strategy towards China; what its goals are; what actions are being undertaken in support of those goals; and what progress has been made with these actions.

EU-based NGOs could lobby with the European Commission for greater transparency on the outcome of the annual bilateral discussions and also including requesting debriefing consultations following BCM meetings that are held in Brussels – as has become practice with VPA negotiations.

3.1.1 Partnering with Chinese NGOs

Negotiating an “operating space” in China for foreign non-governmental organisations is complex and, with the new NGO legislation, is likely to become more challenging, especially in areas that are perceived as threatening Chinese interests. Locally-established NGOs and international ones that have experience of operating in China are likely to understand where the boundaries of such spaces lie, and how they are shifting. It is therefore probably essential for any foreign NGO intending to start activities in China to link up with a local organisation that has similar views and goals.

Sausmikat and Fritsche (2010)\(^{122}\) note that in order to cooperate with Chinese CSOs, it is necessary to know their particular characteristics. There are hundreds of thousands registered with the central Chinese Association for CSO Cooperation, but the number active in advocacy work and which have interests on global issues, is still relatively small. It is important to note that, while the term “civil society” is accepted, the authorities do not want to see it applied to autonomous citizens’ movements which could challenge their control. The officially accepted Chinese understanding of civil society views CSO as innovative social forces which help to shoulder responsibilities in cooperation with the state.

As a result, Chinese CSOs have different campaign styles to those of the West: they inform the public, train and advise. Confrontational campaigns where the faults of companies are unmasked are taboo and constructive criticism is preferred. Media and information campaigns are considered the most successful strategies in promoting interests.

The authors further note that cooperating with Western NGOs may create difficulties for Chinese organisations. This may occur, for example, as a result of the Chinese government

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122 Sausmikat, Nora and Fritsche, Klaus. 2010. (ed.) op cit
perception that Western NGOs are contributing to a negative image of China on subjects such as human rights, or China’s ecological footprint. Also the fact that partial funding comes directly from foreign governments creates suspicion that Chinese organisations are indirectly or directly supported and influenced by state intelligence agencies or governmental think tanks. And Western organisations, wanting to see fast and big results rather than small pilot projects, may overwhelm their Chinese counterparts. The authors set out several recommended objectives for European NGOs:

- fostering intensified debates, therefore contributing to transmitting an image of China that takes into account its “contradictory development”
- working not only on, but with China through exchange of representatives of CSOs and social movements from China and Europe
- promoting discussion regarding European responsibilities towards developments in China with respect to social and ecological standards and human rights
- exchanging information and, where possible, strengthening cooperation between European CSOs thereby strengthening voices towards the EU and softening the impression that EU is against China
- lobbying for the inclusion of topics of international relevance (such as climate issues) into the European China-Policy, together with Chinese colleagues.

One objective for such EU NGO partnering with Chinese counterparts might be to advocate for clearer goals and more transparent information linked to forest governance in China’s bilateral arrangements with the EU, including the BCM-FLEG. In this regard, trilateral links with NGOs in developing producer countries with which China also has arrangements aimed at addressing illegal logging (e.g., Indonesia, PNG, Myanmar, and Mozambique) could also be explored.

Opportunities to host Chinese NGOs in the EU to help them understand issues from a European perspective should also be beneficial. The EU-China NGO Twinning programme123, an exchange programme for the staff of European and Chinese NGOs, may provide a suitable platform for developing and strengthening relationships between respective non-governmental organisations with interests in forest governance. It aims at establishing sustainable partnerships and cooperation between non-governmental or non-profit organizations and think tanks from both regions. In 2015 Robert Bosch Stiftung and Stiftung Mercator combined their existing exchange programmes into a joint initiative: “EU-China NGO Twinning Program” and “China-EU NGO Exchange Program on Climate Change and Low Carbon Development”.

3.1.2 Cooperation with other EU-based NGOs

The community of practice between EU-based NGOs with concerns related to forests and forest governance is relatively small. Those with activities in China are probably limited to five or fewer and it is likely that a good level of communication already exists on issues and challenges. There may be benefits from reaching outside the sector to organisations working in similar fields with a view to sharing experience on developments in China and effective advocacy approaches.

The EU-China Civil Society Forum124 may provide a platform for this. Since 2014, the Foundation for the Environment and Development has supported a Stiftung Asienhaus initiative to build a portal for civil society organisations China-expertise. The portal aims to provide selected educational materials to China for civil society groups and to awaken an interest in the developments in China with civil society organisations. It provides comprehensive information on the subjects of raw materials, agriculture, labour, trade, civil society and China-EU relations as well as cross-cutting issues such as human rights, environment, China and the South and land grabbing.

Sausmikat and Fritsche (2010)125 claim that, in contrast to human rights groups, environmental groups are much better coordinated internationally and at the EU-level. The ten biggest are organized in the “Green 10”, which includes Bird Life International, CEE Bankwatch Network, Climate Action Network, European Environmental Bureau, European Public Health Alliance Environmental Network, The European Federation for Transport and Environment, Friends of the Earth Europe, Greenpeace European Unit, Friends of Nature and WWF Europe. Just before the European 2009 elections they requested the EU Parliament take over global responsibility and connect economic policy guidelines to the ecological footprint – especially concerning China and India. They also established platforms and interfaces for Civil Society activists and politicians. Another of their contributions is the establishment of a European expert network and database for environmental topics.

The authors further list several issues related to CSO relationships concerning China: a lack of contacts and

123 A programme of the Stiftung Asienhaus in cooperation with CAN Europe/CANGO/CAN supported by the Robert Bosch Stiftung and Stiftung Mercator (http://www.eu-china-twinning.org/fr/tdash.mrt2/Nkg.dpud7)
124 http://www.eu-china.net/ueber-uns/ (Apparently only in German)
125 Sausmikat, Nora and Fritsche, Klaus. 2010. (ed.) op. cit.
knowledge about the peculiarities of the Chinese CSOs; lack of dialogue between European NGO networks and Chinese networks; and limited interest despite the growing societal interest in China, with only a small number of European NGOs whose work concerns China. Reasons for this are said to be the work load of European NGO staff and a lack of understanding of how to develop contacts and cooperation.

3.2 Initiatives where EU actions can be monitored

3.2.1 FLEGT Action Plan Evaluation

The Evaluation of the FLEGT Action Plan, due to report in autumn 2015, is known to have included China in the scope of its work. Recommendations on the EU’s (and Member States’) future engagement are therefore expected. These recommendations should be scrutinised by a range of stakeholders to ensure that they are well-founded, are coherent with other recommendations, and will result in a useful contribution to the aims of FLEGT Action Plan.

The EU’s response to the Evaluation with regards to its recommendations on China should also be monitored.

3.2.2 BCM-FLEG and other EU-China initiatives

As noted above, the broader strategy underpinning the BCM-FLEG is not clear and there is little public information available on the annual dialogue, or the work programme and its results. Advocacy for greater transparency, increased stakeholder engagement in dialogues and clearer links with broader EU-China cooperation strategy could help strengthen the initiative.

3.2.3 EU Member State cooperation programmes with China

Monitoring UK and German cooperation programmes, especially those linked to more robust adherence to the ESG elements in Chinese trade and investment policies and also checking to ensure coherence with EU strategy could help promote a joined-up approach.

With regard to the UK programme, the annual FGMC grantees’ meeting should include a session on China. Similarly it would be useful to have a session at the annual EU FLEGT week that involves donors and NGOs with activities in China.

3.2.4 EUTR implementation

The EU imports around 16 per cent of total Chinese timber product exports by value. Rigorous implementation of the EU Timber Regulation can have a significant impact on Chinese exporters supplying EU markets. A recent study by the UK EUTR Competent Authority\(^{(126)}\) of 16 plywood importers found that the due diligence systems of only two were sufficient to

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\(^{(126)}\) National Measurement Office. 2015. EUTR: Plywood imported from China (www.illegal-logging.info/content/eutr-plywood-imported-china)
enable the company to conclude there was negligible risk of the timber in the plywood had been sourced illegally. In addition, only four of 13 products subjected to microscopic analysis of species composition, matched the declaration supplied by the company. All in all, only one company was found to be fully compliant with the EUTR. The combined value of the imports by the companies inspected was 10 per cent of the total plywood imported from China into the UK in 2014, indicating the potential scale of non-compliance in the industry.

This type of analysis, followed up by enforcement action by all Member States should send a strong message to Chinese exporters that the EUTR is being implemented robustly and hasten progress with the CTLVS.

This implies a continuous role for NGOs on monitoring the implementation of the EUTR, especially by those Member States that are large importers from China, and lobbying the European Commission to issue infractions against Member States that are lagging. It is also important to watch for evidence of trade diversion to Member States known to have less robust systems.

### 3.3 Chinese investments in forest-risk countries

Many EU-based NGOs have networks in countries which are targets for Chinese investments in the timber, agribusiness or mining sectors. Useful actions can include development of databases of investment projects, ensuring the various Chinese guidelines are known to the local networks and monitoring of investors’ adherence to the guidelines. Reports of non-compliance can then be fed both to Chinese NGOs and to the European Commission for bilateral discussions under the BCM and related instruments.

Where Chinese BITs have specific environmental provisions (e.g. in Guyana), this may be able to be used as an additional focus to influence compliance.
3.4 Recommendations

— Possible areas for engagement by EU NGOs concerned with China’s forest investment and trade include:

— Advocate greater transparency by the European Commission on the dialogue discussions and actions taken under the BCM-FLEG

— Engage with other EU-based CSOs that working on environmental and governance issues with China, or in countries affected by Chinese investments, and determine the need for a specific EU network on forests, for example to exchanging information

— Seek advice from CSOs working outside the forest governance community of practice, for example through the EU-China CSO Forum on ways to engage with Chinese CSOs

— Examine the feasibility of hosting visits by Chinese CSOs concerned with forest issues supported, for example, by the EU-China NGO Twinning programme

— Consider support to CSO networks in developing countries (in Africa and the Mekong) to develop databases of Chinese investments in sectors that impact on forests with a view to monitoring their adherence to the Chinese investment guidelines

— Continue to press for robust enforcement of the EUTR including advocacy for the European Commission to take infraction proceedings against Member States that are not fulfilling their legal obligations.
Annex 1: EU-China Bilateral Cooperation Mechanism of Forest Law Enforcement and Governance

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

1. Establishment of a Bilateral Co-Ordination Mechanism

1.1. The European Commission and the State Forestry Administration of the People’s Republic of China have agreed to establish a bilateral co-ordination mechanism on Forest Law Enforcement and Governance (FLEG).

1.2. The Bilateral Co-Ordination Mechanism will consist of representatives of the People’s Republic of China on the one hand and of the European Commission and interested EU Member States on the other. The Environment Directorate-General and the State Forestry Administration will associate other departments as necessary in order to ensure integration of FLEG in EU and Chinese policies on development, trade & customs and other policies.

1.3. It will develop a multi-annual work plan as well as operating modalities.

1.4. The location of meetings will in principle alternate between Europe and China with the host responsible for chairing and preparing draft minutes.

1.5. The frequency of meetings shall be one per year. This may be adjusted by mutual agreement.

1.6. Inputs and or participation may be invited from experts from third countries, scientists and policy researchers, the private sector, civil society representatives or other stakeholders, as agreed by both sides.

2. Objectives of the Bilateral Co-Ordination Mechanism

2.1. The overall objective is to contribute to the reduction of illegal logging and associated trade globally in order to promote sustainable development – environmentally,
socially and economically – and in accordance with the principle of scientific outlook on development.

2.2. The Bilateral Co-Ordination Mechanism will be a forum:

2.2.1. for policy dialogue;

2.2.2. for the exchange of information on activities of the two sides concerning forest law enforcement and governance and actions to combat illegal logging and associated trade;

2.2.3. for the consideration of possible shared approaches in combating illegal logging and associated trade.

3. The Bilateral Co-Ordination Mechanism will:

3.1. Explore opportunities for the EU and China to develop a shared approach towards legality verification schemes for timber and timber products implemented by timber exporting countries, including in the context of FLEGT Voluntary Partnership Agreements.

3.2. Exchange information and where relevant co-ordinate training and other activities of the European Commission and China involving third countries, in particular timber-producing countries, where such countries have requested this. This may include information on codes of conduct for European or Chinese businesses operating in timber-producing countries.

3.3. Exchange information on private and public procurement policies for forest products from legal and sustainable sources and seek to find ways to promote trade in timber products from legal and sustainable sources.

3.4. Facilitate business to business contacts between EU and Chinese private sector operators as well as in timber-producing countries, inter alia with a view to increasing information on the supply chains of timber products.

3.5. Exchange information on forest certification schemes.

3.6. Identify policy and technical research priorities and co-ordinate relevant bilateral activities.

3.7. Exchange information on forest governance in the context of international processes and forums such as UNFF, ITTO, FAO, UNFCCC as well as regional initiatives including the Asia-Pacific Network on Forest Rehabilitation and Sustainable Management.

3.8. Other activities of mutual interest.

4. Implementation support

4.1. Both sides will allocate resources to the implementation of activities under paragraph 3, principally by using funding opportunities under the bilateral, regional and
thematic development assistance programmes managed by the European Commission.

4.2. In agreement with the State Forestry Administration of China, the European Commission will award an assignment to one or more experts to formulate a proposal for a detailed multi-annual work plan. The assignment shall be carried out in close contact with the European Commission, the State Forestry Administration and interested EU Member States and through consultation of key stakeholders in Europe and in China. The assignment shall be completed by March 2009.

5. **Legal aspects**

5.1. The establishment of the Bilateral Co-Ordination Mechanism does not entail any obligations under international law.

These terms of reference were agreed and signed in Brussels on 30 January 2009.

FOR THE EUROPEAN COMMISSION

FOR THE STATE FORESTRY ADMINISTRATION OF CHINA

Stavros DIMAS  
Commissioner for Environment

ZHÚ Lieke  
Deputy Administrator