Scoping study of the China–Africa timber trading chain

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## Contents

**Introduction** · 1

**Key findings** · 2

  - Future research needs · 3

**Overview of China’s timber imports from Africa** · 4

  - Logs · 4
  - Lumber · 4
  - Arrival of African timber at Chinese ports · 5
  - Main imported tree species and their uses · 5

**The China–Africa trading chain** · 7

  - Timber harvesting and processing enterprises · 7
  - Trading companies · 9
  - Transport · 11
  - Wood products manufacturers · 11
  - Main consumers · 11

**Forest law and certification along the China–Africa trading chain** · 12

  - Forest law in Africa · 12
  - Chinese regulations on African timber imports · 12
  - Certification schemes and legality verification requirements of major markets · 12

**Appendix: Relevant laws and regulations on China’s timber imports** · 14
Introduction

China is a major importer of logs and lumber from Africa, both for domestic use and for export. Though the flow of timber from Africa to China is much smaller than that from other regions, several African countries are among the fastest-growing suppliers of timber to China. The practices of enterprises along the China–Africa timber trading chain have clear potential to influence the legality and sustainability of forest management practices in Africa.

The China–Africa timber trading chain is a complex one, involving many enterprises from many countries, including harvesters, processors, exporters, importers, traders, financiers and shippers. To date, however, the details of the trade flows and actors along this chain have been poorly understood. Reliable figures on the number, size and business practices of the enterprises along the chain are unavailable, for example.

To help fill this knowledge gap, IUCN China commissioned China Wood International to conduct a scoping study of the China–Africa trading chain. The objectives of this study were to describe the route taken by timber traded between key African producer countries and China, to identify the major enterprises along the trading chain, and to understand the operations of these enterprises.

The study, which was carried out between October 2008 and March 2009, was based on a review of Chinese customs statistics from 2001 to 2008 to identify key trends and Chinese trade actors; interviews with the staff of identified companies to obtain first-hand information on trade interests and operating practices; a review of literature to supplement the interviews; and a review of forest law and governance arrangements in selected African producer countries.

As a short-term effort to provide preliminary information for filling an important gap in understanding, the study’s accuracy and comprehensiveness are necessarily limited. Nevertheless, it confirms the growing trade in timber between Africa and China, and provides estimates of the magnitude of trade with some of the major African producer countries, specifically Gabon, the Republic of Congo and Liberia. It also describes the route taken by imported timber traded and distributed in China, and examines the operations of some of the key enterprises along the trading chain.

The findings of this study will help to target future research efforts, and will help guide the development of measures to promote legal and sustainable timber trading within and between Africa and its partners.
Key findings

Africa is becoming an increasingly important supplier of timber to China to meet demand in both the large domestic Chinese market and China’s burgeoning wood products export industry.

In recent years, nearly 10% of the logs imported by China have come from Africa. Gabon supplies more timber to China than any other African country, and China is Gabon’s main export market: 40% of Gabon’s log exports go there. The Republic of Congo is the second-largest African exporter to China: half of its log exports go there. Equatorial Guinea, Cameroon and Mozambique make up the top five African suppliers of logs to China, and in each case China is their largest export market (90% of Mozambique’s log exports go there).

Okoume (Aucoumea klaineana) is the principal tree species exported to China, where it is used mainly in plywood production. Other important export species include ozigo (Dacryodes buettneri) (used in plywood), padauk (Pterocarpus soyauxii) and pao rosa (Swartzia fistuloides) (used in furniture), okan (Cyclocodiscus gabunensis) (used in flooring), and sapelli (Entandrophragma cylindricum) and kevazingo (Guibourtia spp.) (used in flooring and panel boards).

The China–Africa timber trading chain is complex

It involves enterprises from many different countries, working at different scales and with different roles and responsibilities, including harvesters, processors, exporters, importers, traders, financiers and shippers.

Timber harvesters and processors are the starting point in the trading chain and are directly involved in forest management

Many timber harvesters also operate timber processing facilities. In Gabon, most of the enterprises studied have both forest concessions and timber processing facilities. In general, however, these facilities are not fully developed. The larger harvesting and processing enterprises usually export directly, so often operate as exporters as well.

Chinese harvesters, processors and exporters are newcomers in many African countries, and generally are smaller players than other long-established local and foreign enterprises

In Gabon, for example, the main timber harvesting and processing enterprises are French, Gabonese, Malaysian and Chinese. The French enterprises came to Gabon first and have established a strong position in the market. SNBG (la Société Nationale des Bois du Gabon) is the largest Gabonese enterprise and the main exporter to China.

Chinese companies have established themselves in Africa more recently, and are looking to expand their presence, particularly in Gabon. Chinese Sunly Office (operating in Gabon since 1999) and Huajia Wood Stock (operating since 1997) are currently the largest Chinese enterprises in Gabon.

A small number of large importers and traders are the key links between overseas suppliers and consumers in China

Most African logs are imported through one port in China, Zhangjiagang in Jiangsu province, whereas the bulk of African lumber is imported through Shanghai and Guangdong ports. The imported timber is sold at the ports, mainly to second-level timber wholesalers.

A few large Chinese importers control the import of African timber at Zhangjiagang port, including Wenzhou Group Trade, SUMEC International Technology and the Jiangsu Provincial Foreign Trade Corporation. The Zhangjiagang Port Group provides port and trading services for importers.

First-level wholesalers (or importers) sell directly to second-level wholesalers, with only 10% or less of timber sold directly to wood products manufacturers at the ports. The second-level wholesalers supply markets such as Linyi in Shandong, Jiangshan and Huzhou in Zhejiang, Shanghai, and Suzhou in Jiangsu. Second-level wholesalers supply local wood processors making plywood, furniture, flooring, panels and decorative elements. A small amount of timber is sold to third-level wholesalers who supply small-scale wood products manufacturers.

Importers and traders have a major role to play in promoting legal and sustainable trade in timber, as they are knowledgeable about timber sources, are involved in harvesting, transport and trading, and connect suppliers with customers.

China’s domestic market is the main consumer of African timber imports

China’s export market is also important, however. Products such as plywood, furniture and flooring are major export earners. About 20% of Chinese plywood produced from all sources is exported to Asia, North America and Europe, and about 40% of solid flooring, mostly to North America and Europe. Japan and Korea are the main plywood-importing countries in Asia.

African countries are strengthening their forest laws to promote legal and sustainable forest management, but implementation is slow

Many African countries have made recent, far-reaching changes to their forest laws. In general, these are helping to strengthen forest management planning and promote sustainable forest management. For example, in 2001 Gabon issued a new forest law which requires all forest concessions to have management plans ensuring the sustainable use of forest resources. Gabon and the Republic of Congo, along
with other forest-rich countries, are also limiting their exports of logs in order to build local timber-processing capacity.¹

Not all enterprises, however, are currently aware of or have the capacity to comply immediately with these new requirements. On-the-ground enforcement of new legislation is also still weak.

China has no special regulations targeting imported timber

Timber imports are regulated by the same laws that apply to other imported products, though there are some specific quarantine and customs requirements. Some regulations covering the import of plants and animals (for example under CITES²) also apply to forest products imports.

Two of China’s main export markets, the European Union³ and the US⁴, are adopting legislation and licensing schemes designed to exclude illegal timber exports. These will put pressure on Chinese enterprises seeking access to these markets.

Some enterprises along the China–Africa trading chain are pursuing forest certification

Certification is one tool being used to promote legal and sustainable trade in timber. In recent years, large timber harvesting and processing enterprises operating in Africa have begun to seek certification under the widely recognized umbrella schemes of FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification schemes). African countries now also recognize the Origine et Legalité des Bois (OLB, or Timber Origin and Legality Certification) scheme run by Bureau Veritas. In 2006, Gabon completed its own forest certification system, the Gabonese Pan-African Forest Certification System (PAFC), which was endorsed by PEFC in 2009.

There is little awareness of forest certification among ordinary Chinese consumers. China currently has no laws requiring timber to be certified, though the changing demands of export markets are putting pressure on Chinese producers to comply. Certification in the furniture and flooring industries is developing quickly, but in the plywood industry it is taking longer to develop.

The Chinese government is expanding the use of public procurement policy to favour legal and sustainable wood products. Since 2008 government agencies at all levels have been required to prioritise their buying from a list of products certified under the State Environmental Protection Administration’s China Environmental Label Programme. This list includes a number of wood products, including panels, flooring and furniture.

Future research needs

Based on the findings of this scoping study, several areas of further research can be identified to build understanding of the China–Africa trading chain. These include:

Production

- What, if any, are the main differences between Chinese-run companies and other companies in Africa in terms of their forest management and business performance?
- Who are the key stakeholders along the African section of the China–Africa trading chain? What are their main operating practices and business interests?
- How are Chinese companies perceived by forest and market stakeholders in their host countries?
- What are the principal sources of finance for Chinese companies operating overseas? What criteria, if any, are used to guide decisions on the financing of particular projects?

Consumption

- What are the consumption patterns of wood products manufactured in China from African timber?
- Who are the main buyers of these products, and what are the key drivers of market growth and development?

Strategic issues

- As more African countries sign Voluntary Partnership Agreements (VPAs) with the European Union, how will the resulting changes in their forest sectors impact on Chinese companies’ engagement in these countries?
- What impact are long-term structural changes in the forest sectors of African producer countries (such as the transition to greater value-added processing) having on the investment and business strategies of Chinese companies?
- How will China’s overall economic engagement in Africa affect forest governance linkages between China and Africa?

¹ In 2009 Gabon announced a ban on round log exports, which is expected to take effect in January 2010.
³ Through the Forest Law Enforcement, Governance and Trade (FLEGT) framework.
⁴ Through recent amendments to the Lacey Act.
Overview of China’s timber imports from Africa

The State of the World’s Forests 2007 revealed that in 2005 Africa had a forest area of 635 million hectares, or 16% of the global forest area. Africa’s forests are found mainly in central and west Africa, and south Africa. Between 2000 and 2005, they shrunk by around 4 million hectares a year. Overall timber withdrawals, however, are relatively low – about 1% of the total stocking volume in 2005 – and mostly for fuel wood.

Africa is becoming an increasingly important supplier of forest products to China to meet demand both in the large domestic market and in China’s burgeoning wood products export industry. Imports from Africa consist mainly of logs, which make up over 85% of total forest products imports. Other imported forest products include lumber, boards, pulp and paper. Almost all pulp and paper imports are sourced from South Africa and Swaziland.

The following sections describe the trends in the log and lumber trade between Africa and China.

Logs

Africa is one of the world’s main suppliers of tropical logs to China. In recent years, logs from Africa have made up almost 10% of China’s total log imports. More than 90% of the timber imported by China from Africa is in the form of logs.

Figure 1 shows that the volume of log imports from Africa shrank by more than 820,000 m³ in 2004. This was a direct result of the ban imposed by the United Nations in 2003 on the import of all logs and timber products originating in Liberia. Between 2004 and 2007, imports rebounded at an annual rate of between 16% and 20%.

In 2008, as a result of the global economic downturn, demand for Chinese wood products fell sharply, hitting log imports. From January to October 2008, China imported 1.9 million m³ of logs from Africa, only three-quarters of the total volume it imported in 2007. The global economy continued to worsen through 2009 and is expected to improve only slowly in 2010. As a result, China’s export and domestic markets are likely to weaken further. Informants at Zhangjiagang port predicted that China’s log imports from Africa in 2009 would follow the declining trend of 2008.

Gabon, the Republic of Congo, Equatorial Guinea, Cameroon and Mozambique are the top five suppliers of logs to China. China is also their biggest importer: Mozambique exports 90% of its logs to China; Equatorial Guinea 70%, the Republic of Congo 50%, and Gabon 40%. Log imports from Equatorial Guinea fell in 2008 and ultimately should cease entirely as a result of a ban on log exports in that country. For the same reason, a similar trend can be expected in imports from Gabon.

Though Africa is a major exporter of logs to China, volumes can fluctuate widely. As noted above, in 2004 exports declined steeply as a result of the embargo on Liberian timber. So any change in the export policies of key African producer countries can result in great changes in China’s imports.

Russia remains the largest supplier of logs to China, accounting for about 70% of its imports. As Russia raises its export tariffs on logs, however, it is becoming less attractive to Chinese importers, many of whom have expressed an interest in finding alternatives. This may lead to greater demand for logs from Africa, particularly once the global economy recovers.

Lumber

China has a limited lumber trade with Africa. Lumber import volumes are only 6% of log import volumes. Since 2004, import volumes have fluctuated widely (see Figure 3). Yet, even though demand was affected by the economic downturn in 2008, lumber imports reached 126,400 m³ in the first ten months of 2008, twice the total import volume in 2007.

Figure 4 details China’s imports of lumber from Mozambique, Gabon and Cameroon since 2006. Imports from Mozambique have grown quickly, reaching 36,014 m³ in the first ten months of 2008, more than five times the total volume of imports in 2007. Imports from Gabon have been relatively stable. Over the same period in 2008, they reached 24,276 m³, roughly 1.5 times the total volume of imports in 2007.
African lumber is imported into China mainly through Shanghai and Guangdong ports. This is because China imports much less African lumber, and because auxiliary processing facilities have not been established at Shanghai and Guangdong as they have at Zhangjiagang. The lumber trade is divided among a few small trading companies. Flooring and furniture enterprises in Guangdong and Shanghai in particular have a large demand for African timber.

### Main imported tree species and their uses

Data from Zhangjiagang Customs show that the main species imported from Africa include okoume, ozigo, pao rosa, wenge, padauk, okan, sapelli and kevazingo (see Table 1 for scientific names and uses).

Half of the African logs imported through Zhangjiagang are okoume, which is sourced exclusively from Gabon, the Republic of Congo and Equatorial Guinea (see Figure 5). More than half of all okoume imports are from Gabon (see Figure 6 below). Between January and October 2008, okoume accounted for roughly half of China’s total log imports from Gabon and the Republic of Congo.

### Arrival of African timber at Chinese ports

Established in 1980, Zhangjiagang port in the eastern province of Jiangsu is now the largest port of entry for timber in China. Over 90% of African logs are imported through Nanjing Customs, and 90% of those pass through Zhangjiagang Customs.7

Zhangjiagang Customs has a customs declaration service, timber storage yard and complete auxiliary facilities. Since imported African timber is processed mainly in Shandong, Zhejiang and Shanghai in eastern China, Zhangjiagang Customs has a geographic advantage over other entry points.

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7 Zhangjiagang port and Customs are under the broader administrative oversight of Nanjing Customs.
Okoume is used mainly for plywood production. Linyi in Shandong province and Pizhou in Jiangsu, both of which are near Zhangjiagang, are the major centres of plywood production in China. Because of the large quantity of timber imported through Zhangjiagang, timber processing facilities have been established around the port which make it possible to process imported timber locally.

Lumber imports from the Republic of Congo are mainly of sapelli. From January to October 2008, China’s imports of sapelli from the Republic of Congo totalled 6,750 m³, or about 72% of total lumber imports from the Republic of Congo. Sapelli is sold mainly to flooring manufacturers in Jiashan and Huzhou in Zhejiang province.

Figure 6 Imports of okoume, 2008 (January–October).
Source: China Customs.
The China–Africa trading chain

The China–Africa timber trading chain is a complex one, involving many enterprises from many different countries, including harvesters, processors, exporters, importers, traders, financiers and shippers.

Figure 7 illustrates the relationships between different actors in the trading chain. The following sections discuss the roles of the different enterprises.

Timber harvesting enterprises and processing enterprises

These enterprises are the first links in the trading chain. They are large enterprises and may process 50%–70% percent of the timber harvested in Africa. They may also ship timber directly to China and so operate as exporters. In general, however, shipping is the responsibility of transport companies or timber exporters. Importers seldom ship timber themselves.

In Gabon, the major timber harvesting and processing enterprises are French, Gabonese, Malaysian and Chinese. The French enterprises came to Gabon first and have established a strong market position, accounting for more than half of Gabon’s total forest production. The dominant French enterprise is Rougier Ocean Gabon. Small French enterprises may hold a forest area of up to 200,000 hectares, whereas large enterprises may hold an area of several hundreds of thousands or even millions of hectares. They supply mostly European markets.

China imports the bulk of its tropical log demand from Gabon, via local Gabonese enterprises as well as Chinese and Malaysian enterprises. The largest Gabonese export enterprise, SNBG (la Société Nationale des Bois du Gabon), exports mainly to China (see Box 1 below).

Malaysian enterprises first came to Gabon in 1994. The largest of these, Rimbunan Hijau, is larger than the combined size of the two main Chinese enterprises in Gabon, Huajia Wood Stock Co. Ltd and Sunly Office (see below). Its products are mainly logs and lumber. China is its main export market, accounting for 60% of its log exports.

Interviews with several large timber importers in Zhangjia-gang revealed that timber from the Republic of Congo is exported entirely through Rimbunan Hijau. The company also confirmed separately that it exports almost all of China’s timber demand from the Republic of Congo.

To strengthen its domestic processing industry and create jobs, Gabon has stipulated that timber harvesting enterprises
Chinese companies in Gabon control a forest area of more than 2 million hectares, employ over 1,500 Gabonese workers and operate or are constructing 10 timber processing facilities. Most of these companies signed a provisional agreement of forest land planning with Gabon’s Department of Aquatic Resources and Forestry before carrying out forest planning and building processing facilities.

Among the Chinese enterprises who have invested in timber harvesting and processing in Gabon, the dominant players are Chinese Sunly Office and Huajia Wood Stock Co. Ltd. Sunly Office is the largest Chinese exporter of Gabonese logs to China, accounting for 40% of total exports. The smaller Huajia Wood Stock Co. Ltd is still growing and expanding its forest concession area and processing facilities.

### SUNLY

Chinese Sunly Office in Gabon was formerly known as the French Sunly Office. It is now a subsidiary of China Timbers (H.K.) Ltd, itself a subsidiary of the state-owned China National Native Produce & Animal By-Products Import & Export Corporation (CHINA TUHSU). In 2004, CHINA TUHSU merged with the state-owned China National Cereals, Oils and Foodstuffs Corporation.

Sunly has about 530 employees in Gabon, 80% of whom are Gabonese. The company has developed into a fully integrated enterprise with forest harvesting, transport, trading and processing facilities. It currently holds a forest area of 850,000 hectares, spread among Makokou in the northeast of Gabon, Lambaréné in the middle south and Okondja in the east. As already noted, Sunly is Gabon’s main timber exporter to China, accounting for 40% of Gabon’s log exports to China (mainly of okoume). It is also the main hardwood supplier to Europe, India and Korea.

Sunly’s processing facilities in Gabon include Safor Industries in Lambaréné, which produces mainly railway sleepers. It is the only railway sleeper producer in Gabon certified by French National Railways. Sunly has also invested in Sunly IFL Industrie in Lambaréné, which manufactures veneer. It is planning to establish another large timber processing facility at Lambaréné and one at Manoulo. It has also established the largest overland timber transport company in Gabon, Jiejun Transportation Corporation.

Sunly’s timber exports to China are transported mainly by its own company and shipped to Zhangjiagang. They are sold at the port, usually to second-level wholesalers in Shandong and Xuzhou, with a small amount sold directly to wood products manufacturers. The main customers are Huzhou Huayang Dressing Material Co. Ltd (primarily okoume) and a trading company in Fujian.

Sunly is pursuing sustainable forest development and management in its forest concessions. To comply with Gabonese labour law, the company has established a human resources department and gives regular training to its employees. It also donates money to health facilities for local communities. The company has conducted studies of waste treatment and recycling and applied the results to its production processes. For example, it processes waste materials from Safor Industries into charcoal briquettes for export.

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**Box 1 SNBG**

Established in 1976, SNBG is headquartered in Libreville, the capital of Gabon. The company has a registered capital of 4 billion CFA francs (about 6 million euros) and a turnover in 2006 of 66.9 million euros. The Gabonese state holds a majority share of 51% in SNBG, with the remainder held by several other forest enterprises.

SNBG has long played a dominant role in the export of okoume and ozigo from Gabon, though it trades in more than 30 species. In 2006, SNBG exported 461,816 m³ of logs, including 452,695 m³ of okoume and 851 m³ of ozigo. Its main export markets are in the Mediterranean basin, Europe, Asia and America.

In 2005, under pressure from the International Monetary Fund and other international financial organizations, the Gabonese government agreed to cancel SNBG’s export monopoly. Subsequently the company’s export quota was lowered from 100% to 74% in 2005, then to 57% in 2006. The remaining quota was divided among companies from France and Malaysia. Yet SNBG still enjoys advantages in the export market. The Gabonese government decided to export less than 1.6 million m³ of logs in 2008 (excluding January), of which it awarded a quota of 350,000 m³ to SNBG.

Interviews with Chinese companies operating in Gabon suggest that, even though SNBG is still the main exporter to China, it is not growing as quickly as it used to, and is showing signs of decline. Some informants claim that the company’s exports have already fallen behind Chinese Sunly Office in Gabon, as well as some of the larger French enterprises.

SNBG is currently strengthening its relationship with NGOs and international organizations, especially those focusing on sustainable forest management, such as ATIBT (Association Technique Internationale des Bois Tropicaux), CITES, FAO, ITTO (International Tropical Timber Organization) and WWF.

Sources: Interviews, SNBG website (www.snbg-gabon.com).

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must establish their own processing facilities and process at least 70% of their production locally. As a result, the Chinese timber harvesting enterprises in Gabon generally have their own mills and factories.

In Gabon, enterprises harvest timber on their forest land and are closely involved in the management and sustainable development of the forest. Compliance with local laws and the principles of sustainable management in harvesting, transport, processing and exporting is reportedly very important to them.

Interviews with enterprises revealed that African timber-exporting countries such as Gabon and the Republic of Congo are currently encouraging selective felling with strict quota regulations for timber exports and corresponding oversight mechanisms. As a result, illegal harvesting is not a serious problem in Gabon or the Republic of Congo, though some enterprises reported that bribery and illegal harvesting still occur.

### Chinese enterprises in Gabon

Gabon’s rich forest resources have made it an attractive destination for Chinese companies investing in timber harvesting and processing in Africa. Figures from the Chinese embassy in Gabon reveal that by early 2008 Chinese companies had invested over 70 million euros in Gabon’s forest industry.8

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Huajia was registered in Libreville in December 1997. The state-owned China Forestry Group Corporation holds a majority share of 75% in the company. In 2001, it won concession rights to 100,000 hectares of forest land. Huajia has around 200 employees, including those in its timber processing facilities. Except for a few managers, most are Gabonese.

Huajia harvests 30,000 to 40,000 m³ of timber a year, mainly of okoume. A few years ago, Chinese processing technology was still at an early stage of development and unable to cope with the large diameter logs from Gabonese forests, so Huajia used imported machinery. With the improvements in Chinese manufacturing capacity in recent years, it now uses mainly machinery from Xinyang in Henan province and some imported French equipment. Its annual processing capacity is about 20,000 m³, and it exports 40%–50% of its log and lumber output to China.

Huajia currently exports logs to China via shipping through Zhangjiagang port. Lumber is mainly imported in containers through Shanghai port. The imported timber is sold mostly to traders, though it has made an unsuccessful attempt to sell directly to manufacturers.

In 2008, under the influence of the global economic downturn, the turnovers of most enterprises in Gabon fell. According to a manager at Huajia, some French enterprises saw their turnover fall by as much as half. But Huajia was able to weather the downturn, seeing its turnover increase by 40%.

Huajia is currently trying to expand its forest holdings in Gabon through the purchase of concession rights to a further 200,000 hectares. It also intends to expand its processing base beyond the two existing factories. The company has registered a veneer factory in Zhejiang, but production has been postponed because of the economic downturn.

Enterprises with between 50,000 and 200,000 hectares of forest in Gabon must hold a long-term harvesting license issued by the government. The planning for this licence, or CFAD, must be completed by a qualified third party and there are few such agencies in Gabon. The fees for planning are also high, and the process may take as long as 2 to 3 years to complete. Because of these constraints, and because of the limited infrastructure in its concessions, Huajia has yet to begin the CFAD process. Company informants expected to commence planning by April 2009, however.

Trading companies

Trading companies play an important role in the China–Africa trading chain. They link suppliers and consumers, distribute timber to different markets, and sell timber to manufacturers.

China imports African timber mainly through trading companies and processing enterprises. Customs data indicate that about 90% of timber imports are handled by trading companies. Few timber processing enterprises export directly to China. Importers will sometimes use transport companies if the prices offered by traders are unreasonable, but this is rare.

The trading companies can be classed into first-level wholesalers or importers, second-level wholesalers and third-level wholesalers. First-level wholesalers sell timber directly to second-level wholesalers at the storage yard at the port (which is considered a first-level wholesale market). Only 10% or less of timber is sold directly to wood products manufacturers at the port. Second-level wholesalers transport their timber to second-level wholesale markets, which affects its price.

Second-level wholesale markets include Linyi in Shandong province, Jiashan and Huzhou in Zhejiang, Shanghai, and Suzhou in Jiangsu. The Shanghai Furen Panel Market is a typical second-level wholesale market. Second-level wholesalers sell the majority of their timber to local wood-processing enterprises producing plywood, furniture, flooring, panel boards and decorative elements. A small proportion of timber is sold to third-level wholesalers. These are generally small-scale suppliers of timber to smaller producers.

One of the main functions of some large trading companies is to issue import letters of credit for smaller companies. Most of the timber imported by these larger companies is traded by smaller companies who have received letters of credit and paid the issuing fee. The economic downturn has seen many small companies break these contracts, making the large companies reluctant to continue issuing letters of credit.

The trading companies (first-level wholesalers) who import timber from Gabon and the Republic of Congo include Wenzhou Wood Group Trade Co. Ltd, SUMEC International Technology Co. Ltd and Jiangsu Provincial Foreign Trade Corporation (see below). At Zhangjiagang port, several second-level wholesalers control the market. Essentially they are the importers’ only customers.

Zhangjiagang Port Group provides port and trading services for African timber importers, so it also plays an important role in
the China–Africa trading chain. Generally speaking, importers have a large role to play in promoting legal and sustainable forest management. As direct traders of imported African timber, they participate in every step of importing and exporting, and know the details of harvesting, transport and trading.

**WENZHOU WOOD GROUP TRADE CO. LTD**

Wenzhou is a major Chinese importer of African logs from Gabon, the Republic of Congo, Cameroon, Equatorial Guinea and Mozambique. It also imports a small amount of lumber from Mozambique, as well as timber from Southeast Asia and Papua New Guinea.

The company imports about 300,000 m³ of Gabonese timber a year. The bulk is imported from SNBG; the rest from Chinese enterprises such as Wanpeng Wood Corporation, Huajia and the Dejia Group, as well as Rimbunan Hijau. It also imports about 150,000 m³ of timber a year from Equatorial Guinea, mainly from Rimbunan Hijau and North Korean and Lebanese trading companies. It imports a further 150,000 m³ of timber a year from the Republic of Congo, mainly from Rimbunan Hijau and the Dejia Group.

Most of the timber imported by Wenzhou from Gabon and the Republic of Congo is shipped to Zhangjiagang port. Some is imported through Yangzhou port. As the largest first-level distributor at Zhangjiagang port, Wenzhou has fixed customers. It sells imported timber directly to second-level distributors or timber wholesalers. It seldom sells directly to processing companies. In 2008, under the influence of the economic downturn, the price of okoume from Gabon and the Republic of Congo dropped sharply. Wenzhou had to sell its logs at less than cost price, greatly reducing its profits.

The company has invested 18 million euros in establishing its own timber harvesting and processing business in Gabon, but this has yet to go into production.

**SUMEC INTERNATIONAL TECHNOLOGY CO. LTD**

SUMEC International Technology is part of the SUMEC Group, a key member of the state-owned China National Machinery Industry Corporation. The company imports mainly logs, lumber, paper products and waste paper. Logs account for 90% of all its forest products imports, and the company’s import turnover is about 42–49 million euros. In recent years, import volumes and turnovers have remained stable.

SUMEC owns a plywood factory in Pizhou, Jiangsu province, with a relatively low annual output of 100,000 m³. It exports most of its production, mainly to Europe, the US and the Middle East. The company has no plans to acquire any forest concessions in Africa.

SUMEC imports about 100,000 m³ of timber from Africa, the bulk of which is okoume from Gabon. Smaller volumes are imported from the Republic of Congo. Its suppliers are generally French timber export enterprises. Little is imported from local African enterprises.

The company’s African timber imports are shipped mainly by transport companies through Shanghai, Zhangjiagang and Yangzhou ports. Among them, Shanghai and Zhangjiagang account for 60%–70% of the total. The timber is all sold at the port. Ninety percent is sold to second-level wholesalers; the rest
is sold directly to manufacturers of furniture, flooring, plywood and other products.

Informants at SUMEC indicated that the company observes the laws in both timber-exporting countries and China, and supplies all of the supporting documents needed for customs declarations.

**Jiangsu Provincial Foreign Trade Corporation**

As a subsidiary of the state-owned Jiangsu Overseas Group, the Jiangsu Provincial Foreign Trade Corporation has its own production entities, several holding companies and more than ten investment enterprises. Its core imports include metals, timber, chemicals, wool, paper pulp and electronic products.

This company imports 120,000 to 150,000 m³ of timber a year, mainly from Gabon, the Republic of Congo and Equatorial Guinea. It imports smaller amounts from Central Africa, Cameroon and New Zealand. Logs form the bulk of its imports, principally okoume, padauk and pao rosa. Gabonese timber is imported mainly through SNBG, Sunly and local forest enterprises. Timber from the Republic of Congo is imported solely through Rimbunan Hijau.

The company’s timber imports are shipped mainly by exporters or transport companies. Only small amounts are transported by rented boats. Timber is imported mainly through Zhangjiagang and Yangzhou ports. As timber from Central Africa cannot be loaded locally, it is shipped to Cameroon before being exported to China.

The company’s imports are sold directly to second-level distributors and manufacturers at the port. The majority are sold to wholesalers, and a small amount to wood products enterprises.

**Transport**

The import and domestic circulation of timber involves transport. In general, large timber exporters have their own transport companies; others may have long-term partnerships with other transport companies.

African timber is generally transported by boat, and shipping to China usually takes about 50 days. Because Cameroon borders the Republic of Congo, timber from these countries is often shipped together from Cameroon.

When timber is transported to a storage yard or processing facility in Gabon or the Republic of Congo, the harvest licence, tree species and log diameters are inspected en route by the relevant government authorities. Inspection during transport is an important means of controlling illegal harvesting. Only timber with verified documentation can be transported out of the forest zone.

**Zhangjiagang Port Group Co. Ltd**

The Zhangjiagang Port Group has a freight business covering more than 140 ports across the world. The core freight products are timber, steel, coal, ore and ceramics. It has an annual handling volume of 40 million tons. Zhangjiagang Port Group, together with Zhangjiagang Bonded Logistics Center Co. Ltd, is currently investing about 380 million euros in the construction of a container terminal at the port.

Wood products manufacturers

Manufacturers in China generally do not import timber directly because of the high risk and cost involved. They choose instead to buy timber from traders.

Few manufacturers buy timber directly from first-level wholesalers at the port. Large and medium-sized enterprises generally buy timber from second-level wholesalers, and small enterprises from third-level wholesalers. The demands of the enterprises and the distance to the markets determine the number of suppliers.

**Main consumers**

All enterprises on the timber trading chain are consumers. Some are intermediate consumers and some are end consumers. As intermediate consumers, traders import African timber and distribute it to various timber markets according to species and usage. Ordinary producers, such as manufacturers of plywood and flooring, can also be regarded as intermediate consumers because they sell their products to end consumers. End consumer markets are both domestic and international.

As China has a large population, the domestic market is the largest consumer market for products manufactured from imported timber. The export market is also important, however. Products made from African timber, such as plywood, furniture and flooring, are major export products of China. Around 20% of plywood and 40% of hardwood flooring manufactured in China from all sources are exported to international markets, though these proportions have fallen in recent years. About 50% of engineered wooden flooring produced in China is exported, and this proportion is expected to grow in future.

China’s flooring exports are destined mainly for the North American and European markets. About half are exported to the US and Canada, and about 30% to Europe, mainly to the UK, Ireland, France, Belgium and Spain. China also exports furniture to the large furniture markets in the US and Europe. The US imports over 40% of China’s total wooden furniture exports.

China’s plywood production is exported mainly to Asia, Europe and North America (accounting for 43%, 24% and 24% respectively of total exports in 2007). For plywood the main Asian consumers are Japan and Korea; the main European consumers are the UK, Germany and Belgium.
Forest law and certification along the China–Africa trading chain

This section gives a brief overview of forest laws in selected African producer countries, China’s laws covering timber imports, and the status of forest certification schemes along the China–Africa trading chain.

Forest law in Africa

Many African countries are strengthening their forest laws to promote legal and sustainable forest management, but implementation is slow. Since 1992, more than half of all African countries have issued new forest laws and regulations. These take different approaches to dealing with some issues, but in general they aim to strengthen planning for forest management and to promote sustainable forest management. They also explore the potential for communities as well as private entities to participate in forest management.

In 2001, Gabon issued a new forest law emphasizing the planned and long-term sustainable management and use of forest resources. It also introduced a licensing system to ensure that the approval of concessions is based on sound, comprehensive forest management planning.

A manager at Huajia reported that the Gabonese government has strict prescriptions for forest harvesting, transport and processing. For example, only enterprises with processing facilities can carry out timber harvesting, and at least 70% of logs have to be processed locally.9 There are also strict provisions for tree species and diameters, as well as regular inspections during transport.

In 2000, the Republic of Congo enacted a new forest law, under which the tax on small-scale exploitation has been increased and new licenses for small-scale exploitation withheld. The law encourages foreign investors, especially private investors, to participate in large-scale forest development projects. Foreign investors in these projects must process at least 85% of their logs locally to create employment. The remaining 15% can be exported.

Article 71 of Cameroon’s 1994 forest law stipulated that 70% of logs must be processed locally by 1999. In that year, Cameroon issued a decree10 specifying the export conditions for certain timber species. This prohibits the export as logs of 23 rare species, including African mahogany (Khaya spp.). Another 69 lesser-used species can be exported after paying exit fees and a surcharge on exports.

Not all enterprises, however, are currently aware of or have the capacity to comply with these new requirements immediately. On-the-ground enforcement of new regulations in many countries is also still weak.

Chinese regulations on African timber imports

China regulates its timber imports using the same laws that apply to other imported products. There are some timber-specific quarantine and customs requirements, however, as well as regulations covering the import of plants and animals under CITES. Customs inspections of imported timber focus mainly on quarantine issues, supporting documents for timber sources, compliance with CITES and consistency with contracts.

The specific laws and regulations relevant to timber imports are detailed on page 14.

Certification schemes and legality verification requirements of major markets

Forest certification is one tool for promoting legal and sustainable trade in timber. Some countries and enterprises along the China–Africa trading chain are pursuing certification, and pressure from international markets is beginning to create an economic imperative for it.

In recent years, a number of large African timber harvesting and processing enterprises have begun to seek certification under the widely recognized umbrella schemes of either FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification schemes). By September 2009, there were 46 FSC forest management (FM) certificates in 11 African countries, covering an area of 7 million hectares. A further 105 FSC chain of custody (CoC) certificates had been issued in Africa. And by March 2009, enterprises from Morocco and South Africa had obtained PEFC CoC certification.

African countries now also recognize the Origine et Legalité des Bois (OLB, or Timber Origin and Legality Certification) scheme operated by Bureau Veritas. This targets exports to Europe, certifying the geographical location of the timber source and the validity of harvesting in that area. The OLB standard requires enterprises to observe national and international laws, including regulations on forest harvesting and management, labour, health and safety, as well as the environment. Through the OLB scheme, the timber source as well as the legality of timber processing can be traced. Sunly in Gabon is planning to certify its forest operations through OLB.

In 2006, Gabon completed its own forest certification system, the Gabonese Pan-African Forest Certification System (PAFC). This was endorsed by PEFC in 2009, making it the first national certification scheme in Africa to be recognized inter-

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9 This will increase to 100% once Gabon’s ban on the export of round logs takes effect.
nationally. Gabon is also the first African member of the PEFC certification system.

By January 2009 there were two enterprises in Gabon with FSC FM/CoC certification. One is CEB-Precious Woods, with a certified area of 616,700 hectares; the other is Rougier Gabon/CIFHO, with a certified area of 688,262 hectares. Two units of the Congolaise Industrielle des Bois (CIB) in the Republic of Congo had obtained FSC FM/CoC certification, with a total certified area of 748,200 hectares. In Cameroon, four enterprises had obtained FSC FM/CoC certification, with a total certified area of 878,896 hectares.¹¹

There is currently no requirement for certification in Chinese markets. The domestic market has just begun to consider certification, and demand is still low in comparison with China’s overall demand for timber. A few retailers require certification, such as B&Q and Ikea. This requirement forms part of corporate procurement policies adopted in the past couple of years and does not cover all wood products.

At present the highest demand for certified timber is in European and US markets, and this is likely to strengthen in future. Most Chinese export enterprises now understand that certification under internationally recognised schemes such as FSC and PEFC will be required to access important markets. Certification in the furniture and flooring industries in China is developing quickly, though it is taking more time in the relatively small-scale plywood industry. In recent years, foreign investment and increased competition have encouraged some of the larger enterprises in China to embrace purchasing policies favouring legal and sustainable timber.

In the public sector, the Chinese government is expanding its use of public procurement policy to favour legal and sustainable wood products. Since 2008, government agencies at all levels have been required to prioritise their buying from a list of products certified under the State Environmental Protection Administration’s China Environmental Label Programme. This list includes a number of wood products, including panels, flooring and furniture. The requirements for labelling in these categories are defined by two national standards: HBC 17-2003 for wood-based panel products (including flooring), and HJ/T 303-2006 for furniture. The standard for furniture is notable for stating that if the wood content is greater than 10% by weight, it cannot come from natural forests or rare species unless certified by FSC.

The EU and US are also introducing legislation and licensing schemes to restrict imports of illegal timber, putting pressure on Chinese enterprises seeking access to these markets. In 2005 the EU issued a regulation on the establishment of a FLEGT licensing scheme for imports of timber into Europe. Under this scheme, only wood products manufactured from legally harvested timber will be able to enter Europe. If countries participating in the scheme (though the mechanism of a VPA, or Voluntary Partnership Agreement) cannot supply a FLEGT license for their shipments to the EU, the products will be denied entry.

The EU is currently also debating a new “due diligence” regulation as a measure to exclude illegal timber exports from non-VPA countries. Timber importers and producers will be required to use due diligence systems to minimise the risk of placing illegal timber on the market, with illegality defined by the laws of the producer country. An amended version of this regulation is likely to be approved in 2010.

In 2008 the US introduced reforms to the Lacey Act to prohibit the import of illegal wood products and stipulated strict penalties. The reforms also included an import declaration requirement, which is being implemented in phases starting from 15 December 2008. The declaration obliges importers to specify, amongst other things, the species name and country of harvest of the wood used in their imported products. Penalties for breaches of the Act include confiscation of goods and boats, fines and imprisonment.

¹¹ One certificate, that of SEFAC, was withdrawn in 2009.
Appendix

Relevant laws and regulations on China’s timber imports

<table>
<thead>
<tr>
<th>Law/Regulation</th>
<th>Number</th>
<th>Issuing body</th>
<th>Effective date</th>
<th>Brief overview</th>
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</thead>
<tbody>
<tr>
<td>Customs Law of the People’s Republic of China</td>
<td>Order of the President No. 35</td>
<td>Standing Committee of the National People’s Congress</td>
<td>1 Jan 2001</td>
<td>1. It shall, in accordance with this Law and other related laws and administrative regulations, exercise control over means of transport, goods, travellers’ luggage, postal items and other articles entering or leaving the territory, collect Customs duties and other taxes and fees, prevent and combat smuggling, compile Customs statistics and handle other Customs operations. 2. All inbound and outbound means of transport, goods, articles shall enter or leave the country at places (points) where a Customs office is located.</td>
</tr>
<tr>
<td>Implementation Regulations for Administrative Punishment by the Customs of the People’s Republic of China</td>
<td>Order of the State Council No. 420</td>
<td>State Council</td>
<td>1 Nov 2004</td>
<td>1. The present Implementation Regulation is formulated in accordance with the Customs Law of the People’s Republic of China and the provisions of other relevant laws for the purpose of regulating customs administrative punishment, ensuring the customs’ exercise of power according to law and protecting the lawful rights and interests of citizens, legal persons or other organizations. 2. The present Implementation Regulation shall be applicable to the smuggling acts not subject to criminal liabilities according to law and acts in violation of customs supervision provisions, and the handling of acts subject to the administrative punishment conducted by the customs according to the provisions of laws and administrative regulations.</td>
</tr>
<tr>
<td>Law of the People’s Republic of China on Import and Export Commodity Inspection</td>
<td>Order of the President No. 14</td>
<td>Standing Committee of the National People’s Congress</td>
<td>1 Oct 2002</td>
<td>1. The commodity inspection authorities and other inspection organizations designated by the State Administration for Commodity Inspection and the commodity inspection authorities shall, in accordance with the law, perform the inspection of import and export commodities in the catalogue of import and export commodities subject to compulsory inspection. 2. The import and export commodities shall be inspected in adherence to the principles of protecting human health and safety, animal and plant life and health, and the environment; preventing deceptive practices; and preserving security of the State.</td>
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<tr>
<td>Regulations for the Implementation of the Law of the People’s Republic of China on Import and Export Commodity Inspection</td>
<td>Order of the State Council No. 447</td>
<td>State Council</td>
<td>1 Dec 2005</td>
<td>The State Administration of Import and Export Commodity Inspection of the People’s Republic of China shall be in charge of the inspection work of import and export commodities across the country. The State administration for commodity inspection shall compile and readjust the catalogue of import and export commodities subject to compulsory inspection.</td>
</tr>
<tr>
<td>Law of the People’s Republic of China on Entry and Exit Animal and Plant Quarantine</td>
<td>Order of the President No. 53</td>
<td>Standing Committee of the National People’s Congress</td>
<td>1 Apr 1992</td>
<td>Animals and plants, their products and other quarantine objects, containers and packaging materials used for carrying animals and plants, their products or other quarantine objects, as well as means of transport from animal or plant epidemic areas shall, on entry or exit, be subject to quarantine inspection in accordance with this Law. Timber is included in plants, belonging to commodities subject to statutory plants quarantine and statutory sanitation quarantine, thus subject to compulsory inspection by quarantine &amp; inspection departments.</td>
</tr>
<tr>
<td>Regulations for the Implementation of the Law of the People’s Republic of China on Entry and Exit Animal and Plant Quarantine</td>
<td>Order of the State Council No. 206</td>
<td>State Council</td>
<td>1 Jan 1997</td>
<td>The Bureau of Animal and Plant Quarantine of the People’s Republic of China shall exercise unified control over entry and exit animal and plant quarantine in the whole country. The State Bureau of Animal and Plant Quarantine shall establish port animal and plant quarantine organs in open ports and at places where there is a concentration of entry and exit animal and plant quarantine operations, and perform entry and exit animal and plant quarantine according to the provisions of the Law on the Entry and Exit Animal and Plant Quarantine and these Regulations.</td>
</tr>
<tr>
<td>Frontier Health and Quarantine Law of the People’s Republic of China</td>
<td>Order of the President No. 83</td>
<td>Standing Committee of the National People’s Congress</td>
<td>29 Dec 2007</td>
<td>Quarantine &amp; inspection organizations at the port of entry of imported timbers shall conduct compulsory sanitation quarantine and sterilization of timbers from infected area and transportation facilities. For timbers from uninfected areas, urgent sterilization is also needed when major epidemics appear.</td>
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<tr>
<td>Law/Regulation</td>
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<td>Rules for the Implementation of the Frontier Health and Quarantine Law of the People’s Republic of China</td>
<td>Order of the Ministry of Health No. 2</td>
<td>State Council</td>
<td>10 Feb 1989</td>
<td>Persons, conveyances and transport equipment, as well as articles such as baggage, goods and postal parcels that may transmit quarantinable infectious diseases, shall undergo quarantine inspection upon entering or exiting the country. No entry or exit shall be allowed without the permission of a frontier health and quarantine office.</td>
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<tr>
<td>Circular of the State Council Regarding Relevant Issues on Frontier Trade</td>
<td>National Development and Reform Committee (NDRC) [1996] No. 2</td>
<td>State Council</td>
<td>1 Apr 1996</td>
<td>In consideration of the actual circumstances of frontier trade developed in our country and in light of international common practices, administration of frontier trade in our country shall be performed in two forms as follows: 1. Mutual trade among inhabitants of border areas 2. Small-volume frontier trade</td>
</tr>
<tr>
<td>Supplementary Notice to Further Develop Frontier Trade</td>
<td>[1998] No. 844</td>
<td>Ministry of Foreign Trade and Economic Cooperation (MOFTEC), General Administration of Customs</td>
<td>1 Jan 1999</td>
<td>Approved by the State Council, based on NDRC [1996] No. 2, supplementary regulations are made to further develop frontier trade.</td>
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<tr>
<td>Quarantine Requirements on Imported Logs</td>
<td>[2001] No. 2</td>
<td>Administration for Quality Supervision, Inspection and Quarantine (AQSIQ); General Administration of Customs; State Forestry Administration; Ministry of Agriculture; MOFTEC</td>
<td>1 Jul 2001</td>
<td>In order to prevent forest pests associated with imported logs from being introduced into China, and to protect forests, ecological environments, and tourist resources, an updated regulation is stipulated for quarantine requirements. The quarantine of imported timbers is mainly based on this notification.</td>
</tr>
<tr>
<td>Circular Regarding Relevant Issues on Imported Logs Quarantine Requirements</td>
<td>Joint Announcement AQSIQ [2001] No. 43</td>
<td>AQSIQ; General Administration of Customs; State Forestry Administration; Ministry of Agriculture; MOFTEC</td>
<td>1 Jul 2001</td>
<td>In order to better implement notification No. 2, five ministries and commissions jointly issued this circular, stipulating the definition of logs with bark or with soil, as well as pest treatment.</td>
</tr>
<tr>
<td>Notification on Quarantine Requirements for Wooden Packing of Inward Goods</td>
<td>[2005] No. 11</td>
<td>AQSIQ; General Administration of Customs; Ministry of Commerce; State Forestry Administration</td>
<td>1 Jan 2006</td>
<td>1. The following requirements for wooden packing of inward goods are formulated according to International Standard for Phytosanitary Measure No. 15 (ISPM 15) issued by the International Plant Protection Convention. All non-manufactured wood packaging material to be used to carry, pack, pad and support, and reinforce the goods, such as wood case, crate, pallet, frame, wood pole, wedge, sleeper and pad. 2. If the inward goods are contained in the wooden packing, the owners or their agents should cooperate with the inspection and quarantine organ of entry and exit in quarantine upon application.</td>
</tr>
<tr>
<td>Guide on Chinese Enterprises’ Overseas Sustainable Forest Development</td>
<td>—</td>
<td>State Forestry Administration; Ministry of Commerce</td>
<td>2007</td>
<td>1. The guide absorbs the advanced idea of sustainable development led by the international community, focuses, encourages and supports Chinese overseas enterprises to carry out forest cultivation through “sustainable development”, “protection of biodiversity” and “promoting the development of communities”. It requires Chinese enterprises to observe international conventions, make scientific and reasonable planning for sustainable management in consideration of the actual circumstances of the residing country, and provides guidance for enterprises on overseas reforestation, ecological protection, environmental management, community development and forest resources management. 2. Aiming at overseas forest cultivation by domestic enterprises, the guide provides standards and specifications of management and technologies.</td>
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