



KEEP IT LEGAL COUNTRY GUIDE

CHINA

March 2009 Version

First edition, published 2009 by WWF International, Gland, Switzerland

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A publication of the WWF Global Forest & Trade Network

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WWF gratefully acknowledge the assistance of colleagues within WWF and at other organisations in the preparation of this document. We would particularly like to thank Josh Newell for editing this guide. We also appreciate China Wood International for sharing the industrial knowledge.

Keep it Legal Country Guide – China

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Introduction

This Country Guide is designed to help your organization keep illegally sourced timber out of supply chains that begin in or route through China as part of the value-adding process. This Guide is targeted specifically at those who purchase wood products (sheet materials, sawn timber, pulp, paper, furniture, or other wooden manufactured goods) in China. It applies to products containing wood harvested in China or harvested in other countries and exported to China for further processing or manufacturing.

This Guide is prepared for use in conjunction with the WWF Global Forest & Trade Network publication '*Keep it Legal*'. The *Keep it Legal* manual is an international guide for timber buying organizations that wish to keep illegal timber out of their supply chains. *Keep it Legal* provides a generalized methodology while this Country Guide takes this a step further by making the approach more specific and focused on supply chain and legality issues in China. Country Guides for other major timber exporting nations are also being prepared. This is a practical guide mapping out a practical way forward.

China is one of the world's major producers of timber and related forest products. Many of these products are then traded around the world. Domestic and export demand for Chinese manufactured timber products is expected to continue to grow for years to come. China is heavily reliant on imported wood and a significant percentage of this imported wood has been harvested illegally. If you are trading in timber from Chinese forests or source wood products manufactured in China, you face a risk of illegal timber entering your supply chain – unless you take appropriate actions of the type set out in this document and the *Keep it Legal* manual.

This guide is divided into four parts:

Part 1 provides a brief overview of forests and forestry in China, noting the impacts of Chinese forestry policy on illegal logging. It also includes measures that you need to take to exclude illegal timber coming from China.

Part 2 provides specifics on forest ownership, timber supply, and illegal logging and trading in China.

Part 3 proposes a range of tactics specific to the situations found in China for identifying likely illegal product, then restricting it and ultimately stopping any illegal timber or timber products entering your supply chains.

Part 4 illustrates different approaches to minimizing risk.

There are also annexes, a series of important Chinese timber harvest and transport documents that have been translated into English.

1. Illegal Logging in Forests in China

1.1 Forest Sector overview

China's domestic wood production rates are not keeping pace with booming demand. The growing demand is due to two main factors: 1) increased domestic consumption of timber and paper products linked to rising living standards in China, and 2) the demand for raw material to feed new and expanding factories in China that export their products to other countries. In 2005, timber imports in roundwood equivalent totalled 134 million cubic metres.¹

On the supply side, China's forestry sector is characterised by declining wood production in natural forests and expanding plantations. Natural forests are mainly located in Northeast and Southwest China, where a variety of species, including pine, larch and fir dominate. Plantation forests are located primarily in Southern China and are mainly fir, pine, poplar, larch, cypress and Eucalypts. In many regions, decades of over-exploitation of natural forests has depleted standing wood volumes. Logging bans and restrictions, introduced in the wake of the devastating 1998 Yangtze River floods, have cut production further, particularly in the few regions where forests remain relatively well-stocked with timber. Environmental deterioration continues with more than 60% of the nation's land classified as being in a 'fragile' condition in ecological terms. The per capita forest area is 0.13 of a hectare, which is less than a quarter of the world average. The remaining resources broadly fit the profile of a relatively immature forest.²

China is likely to continue to face a severe shortage of wood in the coming decades. Maturing tree plantations are beginning to boost the domestic supply, but are unlikely to meet government production targets for a number of reasons including poor soil, low-quality planting stock, weak management and the general remoteness of forest sites. Imports have expanded dramatically in recent years, and are likely to continue to expand. Under a medium growth scenario, China may need to import 300 million cubic meters of timber annually by 2015.³

¹ *China and the Global Market for Forest Products: Transforming Trade to Benefit Forests and Livelihood*. Forest Trends, CIFOR, Rights and Resources: Washington, DC., 2006.

² "An assessment of China's forest resources." GQ Bull and S. Nilsson. *International Forestry Review* Vol. 6(3-4), 2004.

³ *China and the Global Market for Forest Products*, 2006.

In Summary

	Positive	Negative
Forestry	<ul style="list-style-type: none"> • The link between environmental degradation and over exploitation is well understood. • Logging bans have been widely adopted to allow forests to recover. • The central government has allocated USD 1.7 billion to develop fast growing plantations by 2015. • China's has more plantations than any other country and farmers are now actively encouraged to plant trees. • There are significant penalties and fines for illegal logging. • 1,080,000 ha of forest land is now FSC certified. 	<ul style="list-style-type: none"> • Demand for wood (for products consumed domestically or for re-export) has massively outstripped supply, putting pressure on forests both in China and abroad. • A significant percentage of the wood imported is of illegal origin. • China's forests are depleted due to decades of overlogging. • Some of the logging bans restrict harvest in well-stocked forests. • Key forest ownership and forest management issues remain unresolved.
Timber processing	<ul style="list-style-type: none"> • China has a thriving wood processing industry based on national and imported log production. • China has been described as the 'wood workshop of the world' - responsible for almost a third of the world's furniture production. • Many Chinese companies have FSC Forest Management and/or Chain of Custody certificates. 	<ul style="list-style-type: none"> • Some mills and factories do not have a secure long-term wood supply. • Keeping the factory supplied with timber is often the overriding consideration and ensuring the legality of the sources can be secondary.
Pulp and paper	<ul style="list-style-type: none"> • Huge plantations are being established. • Over the next ten years an additional 5 – 8 new pulp production lines and 40 - 50 new newsprint and board manufacturing lines will be needed to meet demand. 	<ul style="list-style-type: none"> • National plantations are less productive than expected • Even if ambitious production targets are met, domestic plantations will only supply around half the demand for pulpwood, and at significant environmental cost. The remainder of the demand will have to be met by imports. • The paper industry is often pollution intensive and use of recycled paper remains underdeveloped.

1.2 Import of Illegal Timber

Chinese timber imports continue to increase. As of 2005, the volume of timber imports was roughly the same as the official level of annual domestic production.⁴ Much of this imported timber comes from countries where illegal logging is a major problem, including Russia, Papua New Guinea, Malaysia and Indonesia. Illegally logged timber is either legalized through false documentation before it is exported or it is smuggled into China without any documentation.

1.3 Illegal Logging China

According to local expert estimates, one third of domestic industrial roundwood production is 'undeclared'. This undeclared harvesting does not enter the official production statistics for reasons such as the reluctance of local officials to report production in excess of official quotas or in regions where strict logging bans are supposed to be in place. The undeclared production is estimated by triangulating between three information sources: (a) official statistics on commercial timber production; (b) official statistics on consumption or use of forest resources; and (c) the National Forest Resource Inventory (NFRI). If this above-quota harvesting is considered as illegal logging, then China has a significant illegal logging problem within its domestic forests. However, it is too simplistic to label all production that exceeds official statistics as "illegal timber." Broadly speaking there is little evidence, of systematic, carefully organised, large-scale, illegal harvesting operations conducted outside the official systems of permits and licenses.

That said, the State Environmental Protection Administration in a report issued in 2006, estimates that China loses 75.5 million m³ of timber via "illegal logging" each year. A senior official in the China State Forestry Administration has made a similar estimate of the scale of illegal logging.⁵ Others have stated that illegal logging is running in the range of 100 – 116 million m³ per year but that a proportion of this was due to 'unreported' logging.⁶ Making a definitive estimate is difficult due to: 1) the numerous agencies involved in information collection and reporting and their differing motives for inflating or deflating figures; 2) differing interpretations of what forms of activity are covered by the term; 3) the vast size of the country; 4) and the lack of transparency. In 2006, the State Forestry Administration inspected logging practices in 31 provinces and concluded that illegal logging was the most serious in Inner-Mongolia, Anhui province,

⁴ *China and the Global Market for Forest Products*, 2006.

⁵ Vice Head of Chinese State Forestry Administration, AFP, Jan 18, 2006.

⁶ *China and the Global Market for Forest Products*, 2006.

Heilongjiang province, Sichuan province and the Guangxi Zhuang Autonomous Region.

Table 1 Recent estimates of the extent of illegal logging in China

Analyst	Illegal harvest, m ³	Illegal harvest, %	Notes
AFPA (2004)	Na	30%	Share of Industrial roundwood production
USDA (2005)	na	76%	Share of Industrial roundwood production
Forest Trends (2006)	100 million	No estimate	

Sources: American Forest and paper Association (AFPA), Seneca Creek Associates and Wood Resources International, 2004, "Illegal" Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry"; USDA Foreign Agricultural Service GAIN Report, 2003, *People's Republic of China Solid Wood Products Annual 2003*.

2.3 Forms of Illegal Harvesting in China

There are three major types of illegal harvest in China: logging without a license, logging in excess of permitted volumes, and bogus harvest. The second type, logging in excess of permitted volumes, is by far the most serious form of illegal logging.

2.3.1 Unlicensed logging

Logging without a license is not common due to strict penalties for such behaviour. It does however occur, often by individuals rather than companies and near villages or farms. Some are not aware of the regulations, thinking it possible to legally cut small diameter trees for firewood without a license. Others do it seeking profit and to avoid taxation. The problem is more serious in forested regions that lack adequate forest management and control.

2.3.2 Felling in breach of permit conditions

Although the Chinese government has severe penalties for logging in excess of permitted volumes, it still occurs. Logging protected species on leased land is also a problem. Regional forestry administrations have the right to issue logging licenses. Sometimes these licenses are issued without the required paperwork. There are documented instances of irregularities in the issuing of these licenses.

Up-to-date information on forest resources is not always available. This can lead to the issuing of timber harvest permits based on outdated inventory data.

2.3.3 Bogus harvesting

This type of harvesting refers to situations where forest stands were purposely burned, or otherwise damaged to elicit the issuance of a timber harvest license. Bogus harvesting is relatively rare, but does occur; particularly in forests that are not leased for commercial harvest but nonetheless have valuable timber stands.

2.4 Illegal timber trade

Illegally traded timber refers to timber or wood products sourced illegally, both in China and abroad. Chinese importers are concerned primarily with price and stability of supply. In interviews with importers and government officials, the issue of illegal timber is usually considered the responsibility of the exporting country for its failure to control illegal logging. Overseas retailers who outsource manufacturing to China are beginning to inquire about legal wood supply and certification. However, most have only made limited progress, as evidenced by statistics that continue to estimate a high proportion of illegally sourced, high quality timber entering China.

The Chinese government has started to exert influence over those companies that trade in timber. A certificate is now required and overseas guidelines are being developed that Chinese companies should follow if they trade in timber or invest in timber harvest operations overseas. The guideline is named "Manual of Chinese Company Develop Sustainable Forest at Abroad" which is issued by SFA and Ministry of Commerce in 2007. The guideline has been published covering many issues of sustainable forest managements like biological diversity, high-valued forestry preservation, wildlife protection, regional development and etc, which will remind Chinese overseas enterprises to pay attention to these aspects.

On January 30, 2009 the Chinese government and European Commission established an EU-China Bilateral Coordination Mechanism on Forest Law Enforcement and Governance (FLEG). But until now SFA expressed that they are talking with EU over this year's plan which is not revealed.

Domestic illegal timber trade

Illegal trade in domestic timber essentially entails disguising illegally harvested timber as legal. Wood processing companies and timber traders will buy forged logging licenses or transport certificates to disguise the

illegally harvested timber. Often this timber is paid for in cash rather than the usual method of bank transfer. A fake invoice can also be used.

Imports of illegally logged timber

As noted earlier, by 2015, China may need to import 300 million cubic meters of timber annually to meet its wood and fibre supply gap. According to analysis dating from 2008, Russia, Papua New Guinea and New Zealand are the three largest suppliers of timber (logs and lumber) to China (Table 2). America, Canada, Malaysia, Solomon and Gabon make-up a second tier of countries that each supply more than 1 million cubic metres of timber to China.

China's pulp and paper imports (totalling 19 million tons in January to July of 2008, including waste paper) derive from a larger volume of wood harvested in other countries than China's imports of timber. Indonesia, Russia, Canada, Chile, South Korea, the United States, China (Taiwan), and Brazil are the major suppliers of pulp and paper to China.

Table 2 China's top suppliers of wood products (2008), by country

Timber products overall			Logs		Lumber	
Ranking by volume	Country	Percentage of China's total imports	Country	Percentage of China's total imports	Country	Percentage of China's total imports
1	Russia	56.28	Russia	63.12	Russia	27.76
2	PNG	6.09	PNG	7.54	Canada	15.99
3	New Zealand	5.86	New Zealand	6.45	America	14.70
4	America	3.93	Solomon	3.92	Thailand	11.15
5	Canada	3.66	Gabon	3.64	Malaysia	3.57
Plywood			Wood pulp(2006)		Paper(2006)	
1	Indonesia	45.98	Canada	26.7	Taiwan	16.0
2	Malaysia	37.94	Indonesia	18.2	USA	12.5
3	Russia	3.76	Russia	12.9	S. Korea	11.6

4	Japan	3.74	Chile	10.3	Japan	8.0
5	Taiwan	1.95	USA	9.5	Indonesia	6.9
Source: <i>China 's Customs</i>						

In regions with sound governance and a well-managed permanent forest estate, revenues from forest product exports to China may come without significant environmental cost. However, many of the supplier countries that sell to China have weak, under-resourced forest sector regulatory authorities and accompanying poor governance systems. The outcome of the increasing demand for raw material inevitably provides the stimulus for increased levels of illegal logging and all the associated negative environmental and social impacts.

Russia, Indonesia, Thailand, Papua New Guinea, and Myanmar are all major exporters of timber and timber products to China. They account for approximately 70% of the total volume of timber that China imports annually. Outlined below are the key forest sector problems for these countries.⁷

2.4.1 Russia

Almost half of the timber imported into China comes from Russia. Estimated illegal logging nationwide ranges from 15 to 30% of exports.⁸ Portions of the southern part of the Russian Far East have been particularly hard hit and if current logging levels are maintained forests may be exhausted in approximately 20 years. Recent changes to the Russian Forest Code have led to uncertainties over resource management and use, exacerbating an already significant illegal logging problem. The Russian-Chinese wood supply chains are complex, often involving dozens of companies, and there are no log tracking procedures in place to clearly identify wood origin.⁹ Other major forest sector issues are listed below.

⁷ The majority of this information comes from "The China forest products trade: overview of Asia-Pacific supplying countries, impacts and implications". *International Forestry Review*, Vol. 6(3-4), 2004

⁸ Seneca Creek Associates and Wood Resources International, "*Illegal*" Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry, prepared for the American Forest & Paper Association, 2004.

⁹ For more information on Russian-Chinese wood supply chains, see Newell, J. and G. Kuru. *Legal Verification Systems for Wood Supply between Russia and China*. WWF-International, Gland, Switzerland, 2008.

Principle forestry sector issues:

1. Long term harvesting companies are also involved in illegal logging
2. Customs inspectors 'legalize' illegal material
3. Forest Guard staff enhance low salaries through 'intermediate cutting'
4. Much of the tax revenue due to government is never paid
5. There has been a push to expand the export of value-added goods
6. Chinese import policies favour import of logs over imports of value added products
7. There is a lack of coordination between Russian and Chinese customs regarding statistics, forbidden species etc.
8. Customs violations are increasing on the Russian side of the border
9. Corruption amongst Russian officials allows large flows of illegal material
10. Chinese harvesting companies do not meet the requirements to process wood or hire Russians.

2.4.2 Malaysia

Of all timber imported into China, Malaysia accounts for 8.3% of the total.¹⁰

Estimated national level of illegal logging is 5% of exports.¹¹

Principle forestry sector issues:

1. High-level individuals are linked with corruption in the forestry sector
2. Significant areas of natural forest have been converted to oil palm plantations.
3. Malaysia is the world's largest exporter of non-value added tropical timber yet its own forests are depleted, with significant volumes of illegal timber thought to be smuggled across the borders from neighbouring countries
4. There is major overcapacity in the processing industry in comparison with the national annual allowable cut.
5. There is evidence of smuggling of CITES protected species, with Malaysia acting as the major conduit
6. The government has blocked a range of international initiatives to reduce trade in illegal timber
7. Timber imports that use 'Free Trade Zones' are being used to obscure trade in illegal timber

¹⁰ *China and the Global Market for Forest Products*, 2006

¹¹ *"Illegal" Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry*, 2004.

2.4.3 Indonesia

Of all timber imported into China, Indonesia accounts for 5.7% of the total.¹² Estimated national level of illegal logging totals 60% of exports.¹³

Principle forestry sector issues:

1. Aggressive fiscal incentives have led to major overcapacity in processing industries
2. A permit holder's *legal right to harvest* is subject to compliance with the permit conditions and relevant regulations. Common examples of illegal harvesting by permit holders include:
 - felling under-sized trees, seed trees, protected species
 - logging on steep slopes or too close to rivers and streams
 - straying outside their permitted boundaries
 - logging in "set aside" areas identified in forest management plans exceeding the annual allowable cut.
3. Unlicensed loggers illegally fell timber within protection and conservation forests
4. Concessionaires redraw their concession boundaries in order to gain access to timber located within protected forest or even National Parks
5. Illegal forest clearing is a common practice where there is clear cutting of natural forest under the pretext of establishing an industrial timber plantation or oil palm plantation
6. It is common for settlers to move into a forest area and then illegally clear the trees and plant an economic crop. The timber from these illegal forest conversion activities is sold into the timber market.
7. There is smuggling and laundering of particular species to avoid export bans and CITES rules
8. Falsification of documentation is prevalent
9. Local government permits regularly conflict with national laws enabling those with knowledge to avoid compliance with either
10. Corruption – Transparency International's corruption perceptions index ranks Indonesia near the bottom of its list with a score of 2.2 (a score of 10 is relatively honest and a score of 0 is highly corrupt).

2.4.4 Thailand

Of the timber imported into China, Thailand accounts for 4.6% of the total.¹⁴

¹² *China and the Global Market for Forest Products*, 2006

¹³ *Keep It Legal Country Guide, Indonesia*, WWF, Global Forest and Trade Network, 2006.

Principle forestry sector issues:

1. Forest cover has been halved since 1960 with most of the natural forest now restricted to inaccessible mountain areas
2. Commercial logging in natural forest was banned in 1988.
3. Corrupt forestry officials—the deputy chief of the forestry department was jailed for 5 years in 2005 for corrupt practises
4. There are a range of social issues connected with title to land including the loss of farmers land for plantation and minority upland communities being denied land rights

2.4.5 Papua New Guinea (PNG)

Of all timber imported into China, PNG accounts for 4.2% of the total.¹⁵ Estimated national level of illegal logging is about 20% of production and 65% of all log exports.¹⁶

Principle forestry sector issues:

1. The intensity of harvest and area logged is increasing annually resulting in ever greater areas of unsuitable forest being felled.
2. The mandatory 40-year cutting cycle is not respected with most concession contracts only lasting 11 years (rather than the anticipated 40 years).
3. Second time harvesting – i.e., cutting areas again - occurs within 10 years of the previous harvest when the recovery time should be 40 years.
4. The harvesting companies are the principle transgressors with respect to illegal logging
5. There is evidence of corruption at the highest levels in government
6. The UK Timber Trade Federation (2006) warned that all wood based products from PNG carried a 'High Risk' of being illegal.¹⁷
7. Harvesting companies regularly fail to met their social and developmental obligations, e.g. failure to complete roads to villages
8. Illiterate groups are cheated by local elites

¹⁴ *China and the Global Market for Forest Products*, 2006.

¹⁵ *China and the Global Market for Forest Products*, 2006.

¹⁶ "Illegal" Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry, 2004.

¹⁷ UK Timber Trade Federation, Clareville House, Oxendon St., London, 2006.

9. Benefits negotiated by harvesting companies are frequently never delivered.

2.4.6 Myanmar

Principle forestry sector issues:

1. Regulatory authorities are frequently involved in illegal harvesting operations
2. Corruption takes place at the highest levels
3. The border controls on the shared Chinese border are notoriously weak and regularly ignored
4. Short-term logging contracts of 5 years (abandoned in most of parts of the world) promote poor forest management
5. The elites benefit from the forestry activities while the local communities in urgent need of a basic infrastructure (electricity, water, etc.,) receive little
6. Roads developed by logging companies provide few or no benefits to local communities

Other issues:

The United Nations has identified a series of issues regarding the Myanmar / Burma government which are outlined in a number of sanctions. The list of issues includes:

- the systematic violation of human rights, including civil, political, economic, social, and cultural rights;
- extrajudicial killing, rape, and other forms of sexual violence carried out by members of the armed forces;
- torture;
- political arrests and detentions, including those of prisoners whose sentences have expired;
- forced relocation, the destruction of livelihoods, and forced labor;
- denial of the freedoms of assembly, association, expression, and movement;
- discrimination on the basis of religious or ethnic background;
- wide disrespect for the rule of law and lack of independence of the judiciary;
- unsatisfactory conditions of detention and systematic use of child soldiers; and

- violations of the right to an adequate standard of living, in particular to food, medical care, and education.

A number of countries currently have severe, if not total, restrictions on sourcing forest products from Burma/Myanmar. Organizations wishing to source from Burma/Myanmar will certainly find that stakeholder support for continued sourcing will be extremely difficult to gain and that a phased withdrawal (until political and social circumstances change) is the best option. Burma/Myanmar campaign groups exist in a number of consumer countries, and it is best practice to engage with these stakeholder organizations when considering options.

There are other countries, in addition to those listed above, exporting timber to China. Similar issues to those described above will be apparent in some of these countries as well. Wherever and whenever the forest sector regulatory authority lacks governance capacity, for whatever reason, illegal timber will be on sale. The majority of the world's industrializing countries are in this position.

To avoid trade in illegal goods those purchasing timber need to follow some basic rules which are set out in Part 3 of this guide.

3. Applying a timber purchasing policy in China

This section describes the type of issues that need to be taken into account when implementing a purchasing policy in China. This clearly has to take into account the levels of illegality and the inability of the regulatory authorities to control it. This section includes information on the legal framework for forestry and trade, key legislation, harvesting quotas and licenses, taxes, and important documents.

3.1 The legal framework

The Forest Law of the People's Republic of China is the foundational law for forests and forest use. It is a general document and there are also "Regulations for the Implementation of Forest Law." There is considerable variation in terms of regulation depending on the type of forest, region, and other factors. Logging of non-plantation forests is heavily restricted. Management of forest use also differs depending on the administrative region.

The Customs Law governs international trade. The most important documents are listed in subsequent sections. Rare and endangered tree and plant species and products made from them are banned for export. Neither a certificate of timber origin nor a logging license is required when a product

is declared to customs. There are no laws or regulations in China that regulate the export of wood products made from illegally logged products.

However, in 2008, the US government passed an amendment to the Lacey Act, which gives the government the power to fine and even jail individuals and companies who traffic in illegally harvested wood products. This new amendment will affect manufacturers and exporters who export wood products (furniture, flooring, lumber, paper, etc) to the US, and as such is directly relevant for the Chinese wood manufacturing industry.¹⁸

3.2 Legislation regulating forest management, planning and use

In China, all land, including forests, is technically owned by the State. However, forests and lands not directly managed by the State may be leased to collectives and other entities for forest production. Collectives control approximately 60% of China's total forest area. The other 40% of China's forests, primarily natural forests, are managed by the State in the form of some 3000 independent State forest farms and 135 State forest bureaus. As well as managing forests, many of the 135 state forest bureaus control their own wood processing facilities. State forest bureaus are managed by local or provincial governments, but are subject to the State Forestry Administration guidelines on forestry practices, as are collective forests.

Before 1978, agriculture and forestry were centrally organized. In the 1980's reforms began whereby individual households could enter contracts with collectives to transfer land use rights to individual households. Individual households have gradually assumed long-term contractual responsibility for more of the lands under collective control and they now manage nearly 80% of these areas. For households involved in forestry, the Forest Law of China (1988) improved long-term security of tenure and certainty over related contractual dealings.

3.3 Harvesting quotas and licenses

The State Council allocates a five-year quota on volume to be harvested in each province based on annual increment of growing stock. Its calculation allows for natural losses (fire, disease etc) and non-commercial wood-use by local communities (fuel, construction, mushroom farming, etc). However, in areas covered by the Natural Forest Protection Programme, the log ban policies determine the quotas rather than a calculation based on growing stock. Because the logging bans are arbitrary and do not take

¹⁸ For a helpful review of this new Lacey Act amendment, see R. Juge Gregg and Amelia Porges, "Amendment to the Lacey Act: Implications for Chinese Forest Product Exporters," 2008, Washington, DC: Forest Trends.

into account the recently completed zoning process, forest production in provinces covered by the logging bans does not match the productive capacity of those provinces.

Timber harvesting in plantations or natural forests requires a logging license to harvest, which specifies the allowable cut and sets conditions for harvesting, transportation and marketing. A sample logging license is provided in the appendix of this document. Local forest management authorities (state forest enterprises and county forest bureaus) submit annual harvesting plans to relevant provincial authorities. The provincial authority recommends the share of the quota to be allocated to each local management authority. The recommendations are then submitted to the State Forest Administration, which ascertains their compliance with regulations before approving the recommended allocations and issuing annual harvesting licenses. The management authorities can then use these licenses to conduct their own harvesting or they contract harvesting out to collectives and local community groups.

In special circumstances, logging can be done without a license. These include in the case of fire, to prevent floods, and other emergency situations; logging bamboo; and logging isolated trees on a person's private farm plots or near their houses.

3.4 Forestry Taxes and Fees

Charges and taxes on private forest production may absorb 35-60% of the sale value of timber, depending on the locality. The forest sector taxes and fees consist of various agricultural taxes, forestry fees and the value added tax (VAT). Agricultural taxes apply to agriculture, forestry and animal husbandry, and vary by region. Forestry fees include a range of items approved by the Ministry of Finance and the State Forestry Administration. They include reforestation funds (royalties or stumpage fees), maintenance fees, and numerous other items specified by various departments and districts. The number of items subject to forestry fees varies among districts.

Since 2000 there have been no import taxes on logs or lumber. The VAT was cut in half to 6.5%, and import taxes on finished and semi-finished wood products was reduced to 3%, as well. There are preferential policies to encourage special economic zones in Chinese border cities, as a means to attract investment: Economic Cooperation zones, Export Processing Zones, Mutual Trade Zones. In cases, taxes are exempted. Some commodities are exempted from customs duties. It is expected that the Chinese government will continue these preferential policies, particularly for cities along the Russian-Chinese border.

Chinese policies, through a variety of taxes, encourage the export of valued-added wood products rather than roundwood.

China is in transition from a planned economic system, where the prices and volumes of most commodities are set by the Government, to a market-based economy. Despite the overall trend towards market liberalisation, an array of procedures and regulations continue to constrain the ability of producers to adjust output volumes, prices and species.

3.5 How the system operates

There are several key documents necessary for timber harvest and transport. To transport timber out of forest land, a Logging License, a Certificate of Origin and Inspection and Quarantine certificate are required. Transport Certificates are also required, of which there are two types, one for transporting timber out of a province and one for within. There are inspection stations at most major timber harvest locations.

The following paragraphs describe how the system works, from obtaining a timber lease and logging license, to conducting the logging, and finally to exporting the timber. Please note that this process can vary considerably depending on the region and may yet change again under reform. Companies are, therefore, advised to ask regional authorities of the exact process in the region where they plan to harvest and/or export timber. Many regional governments have a department of timber industry or foreign investment that should be able to help.

3.5.1 Obtaining legal logging rights

1. Three entities (Forest farm, enterprise or individual) may sign an agreement to obtain the rights to lease forest land.
2. These entities then submit a forest operation plan to the local forest administration department, which then issues a lease certificate, after identifying forest areas to be leased for a period of 30-70 years.
3. The local forest administrative department submits the logging plan to the State Forestry Administration, which then submits it to the State Council for approval.
4. The entity then takes these documents to the local forest administration for approval to harvest.
5. Logging licenses are issued.
6. Inspections are conducted by relevant agencies.

3.5.2 Transport of Timber

1. To receive a Timber Transport Certificate for each truck, the following documents need to be submitted: 1) Logging License; 2) Quarantine Certificate; (3) Other documents stipulated by the province, autonomous region or municipality where the logging will or has occurred. The timber transported from a given province cannot exceed the allowable cutting volume.
2. Entities (e.g. forest farms) usually provide this transport certificate to transporters. This permit is required during all phases of timber transfer.
3. Transport certificates as well as other documents are regularly checked by government officials at key points in the chain.

3.5.3 Import of Timber

1. Importer should present the following documents to Customs: Certificate of Origin of timber, contract, Importing Invoice, Packing List and others. Details on the contents and purpose of these documents are provided in the next section.
2. Importers should present the following documents to the China Entry and Exit Inspection and Quarantine Bureau: Contract, Fumigation Inspection Certificate issued by country of timber origin and others.
3. After good inspection, customs collects customs duty and VAT.
4. Customs then issues the Customs Declaration certificate and releases the goods.

3.6 Strengths and weaknesses of key documents in the existing system

In this section, the key documents are described and in the appendix scanned examples are provided.

3.6.1 Forest Ownership Certificate

The Forest Ownership Certificate is the first step in the document process and required in most cases. Entities leasing land, farmers, and agricultural collectives can obtain certificates, as can those who bid for areas not designated as leasable forest land (hills, beaches, etc). Relevant forest services agencies issue this document.

Strengths

- Proves right to use a certain forest.
- Necessary for a logging license.

Weaknesses

- Exact location, extent, and jurisdiction of allocated forest land is sometimes unclear.
- How this certificate is issued changes depending on region

3.6.2 Logging License

The logging License is the most crucial document in the forestry and trade system. Widely required for timber transport, it is not required for export at this time.

Strengths

- Logging license is of great importance to prove the legal origin of raw material
- A great quantity of valuable information is listed in a Logging License (see appendix)
- Consistently and effectively required and implemented throughout China
- Effective evidence when applying for the Timber Transport Certificate

Weaknesses

- Species and forest location in the Forest Ownership Certificate may be different from that in the Logging License.
- Due to remote location and limited regulation at some timber harvest locations, illegal logging may happen even with a Logging License.

3.6.3 Timber Transport Certificate

The Timber Transport Certificate is also a key document widely used throughout China. The sender applies for this certificate and gives it to the transporter, the certificate includes a description of important information, such as timber origin, species, specification, volume, loading and unloading location, transport vehicle and valid period and etc.

Strengths

- Helps prevent illegal transport of timber
- The certificate is the primary legal document that links together the sender, the transporter, and the buyer.

Weaknesses

- It is possible to circumvent inspections by road. Inspections are often only at designated checkpoints.
- The railway department does not always vigorously check these certificates.
- Sometimes these certificates are available on the black market.
- Enforcement can vary widely by region.

3.6.4 Timber Operation and Processing Certificate

Every entity engaged in timber operations and processing must have this Certificate.

Strengths

- The forest administration regularly checks this document to audit operations and to assist in tracking timber.
- This certificate is a necessity to obtain a Timber Transport Certificate.

Weaknesses

- Sometimes entities avoid obtaining this.

3.6.5 Certificate of Origin

The Certificate of Origin is issued by the country of origin and includes information on the consigner, consignee, destination country, HS Code, quantity, gross/net weight, invoice number, and stamp of country of origin. These certificates are required for imported timber and they are also required for Chinese export of goods. As with imports, 'origin' is not specific enough to identify the exact location of manufacturing for all the components of a particular product.

Strengths

- Provides some insight into wood origin, as it lists the name and often the address of the exporter.

Weaknesses

- Certificates of Origin may be forged.
- There is no company code for the exporter, just a transliterated name.
- Stated import volumes are often inaccurate.

4. Checklist for Chinese Wood Products' Legality

4.1. Suppliers with FSC certification timber

Timber from certified forests (Certified for forest management) accompanied by a chain-of-custody certified is effectively risk free. If the supplier processes certified timber, they must provide Chain of Custody (COC) certification. The supplier should provide a copy of FM certification to verify the sources of the timber.

~~As of the date of publication, 14 companies had FSC COC certification and 1 company had FSC forest management certification. Details please visit FSC website.~~

As of November 2008, 15 Forest Stewardship Council (FSC) forest management certificates have been issued in China, covering approximately 754,000 hectares of natural forest and plantation. Most are located in Northeast China. One FSC certificate has been rescinded. As of July 2008, 502 FSC Chain of Custody certificates have been issued.

4.2. Suppliers without FSC certification timber

If the timber is not FSC certified, you will need to request the supplier to provide documents to verify the legality resources of their timber.

Buyers will obviously need to do more to verify legality with respect to timber sourced from places where there is higher risk of illegal logging. For example, Russia, Indonesia, PNG, Brazil and other primary supplier country with high risk of illegal logging.

4.3 Documents to verify log legality

4.3.1 Logging and transportation

There are three instances of domestic wood logging in China.

Instance 1, Timber sales on site without log yard (A1)

Key documents:

- **Logging license (A11)**

As China Forest Law regulates, logging license must be applied in operation of forest harvesting, and then conduct logging according to the regulations. So Logging License is the most crucial document in the forest operation system, and it is widely applied in terms of timber transportation and timber processing. But it is not applied to export of wood products right now.

The Forest Ownership certificate is the premise to obtain the Logging License. Forest farm, enterprises or individual should take forest ownership certificate and other related document to apply for harvesting to local forest administrative department when needing to conduct logging. Local forest administrative department can't handle the application over logging limit issued by higher level.

A great quantity of valuable information is indicated in the Logging License, such as logging time, location, species and logging volume and etc. Local forest administrative department, forest work station and forest enforcement agency inspect logging irregularly.

In order to examine the legality resources of the timber, check up the information on the Logging License with the timber used of wood products is essential.

- **Invoice (A12)**

Illegal timber trade can also be done by making fake invoices. Issuing a VAT invoice requires the original invoice, to obtain that the logging license and other related document are needed. Illegally harvested timber is not linked to an original invoice. Therefore, illegal timber dealers or sellers will buy fake invoice, or sellers do not issue invoices at all and some buyers will obtain false invoices.

Supporting documents:

- **Transportation certificate (A13)**

Timber Transportation is primary evidence to prove legal logging and transportation of timber. In an application for a Timber Transportation Certificate, the applicant must submit a Logging License or other lawful origin certificate and Quarantine Certificate.

The important function of Timber Transportation Certificate is preventing illegal timber transportation. Only the presentation of the timber transportation certificate and plant quarantine certificate when taking timber out of the forest zone at the inspection station, can procure legal transportation certificate.

The transportation certificate is the primary legal document that links together the sender, the transporter, and the buyer. The sender applies for the transportation certificate and gives it to the transporter. The certificate includes a description of important information, such as timber origin, species, specification, volume, loading and unloading location, transport vehicle and valid period and etc.

It is a requirement that each vehicle/boat has one certificate and that the total volume in the the Timber Transportation certificate shall not exceed the total volume listed in the logging license. The timber transportation Certificate is valid during the whole journey from the place of dispatch to the destination, and must be with the cargo at all times.

- **Inspection and stamp**

The *timber prosecution stations* set in forest zone approved by the people's government are responsible for the inspection of timber transportation, including transportation certificate, quarantine certificate, consistency of actual transport volume with that stipulated in transportation certificate, They provide a stamp on the transportation certificate after examination and acceptance including the date of inspection.

- **Business contract**

Business contract will have detailed information of the timber. The information in the contact should show consistence with the transportation and logging license, and the volume in the contract should be equal to the total of transportation certificate.

- **Quarantine certificate**

In applying for the transportation certificate, the quarantine certificate must be submitted to the local forest administrative department.

- **Forest ownership certificate (A14)**

Forest Ownership Certificate is the most direct and effective document to prove the ownership of, and right of using forest, forest wood and forest land. Procuring a forest Ownership Certificate is fundamental and necessary to be qualified to apply for a Logging License, moreover, the contents stipulated in Logging License should comply with that in the Forest Ownership Certificate.

Instance 2, Forest enterprise with large log yard (A2)

Key documents

- **Transportation certificate (A21)**
- **Invoice (A22)**

Supporting documents

- **Business contract**
- **Inspection and stamp**
- **Quarantine certificate**
- **Annual audit report**

State-owned forest farms must submit survey and design documents for the logging area, documents to verify they have achieved the forestation duty after logging of last year when applying for the logging license.

- **Authorized logging limitation**

The State-owned forest farm, according to approved forest operation plan, obtains logging limit and conducts logging.

- **Forest ownership certificate**

- **Logging License**

The logging license is audited and provided by the local forest administrative department above county level.

Instance 3, Individuals-logging licenses not required (A3)

Key documents

- **Statement from village committee of forestry station (A31)**

Individual logging should put on record to the village committee or Forestry Station. This prevents precious species logging and forged documents issued to individuals.

4.3.2 Manufacturing (B)

Key documents

- **Processing certificate (B1)**

Timber Operation/Processing Certificate is the permission of wood processing. The applicant must submit a Logging License or other lawful origin certificate to prove the legality of the timber. The Timber operator/processing plant could get a Business license with this certificate and it must be accompanied with the terms and conditions stipulated in this certificate.

Every plant engaged in timber operation and processing must be equipped with the Processing Certificate. Any person or company holding an out-of-town timber operation and processing certificate, business license and tax registration certificate is not qualified to conduct timber trade in local area, nor buy timber from forest zone directly. They must only purchase timber from an enterprise or individual within the county who has a timber operation and processing certificate.

- **Transportation Certificate (A21)**

The Transportation Certificate is most important for verifying the legality of the log for manufacturers, because most of them could not provide a logging certificate.

A log with a transportation certificate could be regarded as legal if the certificate is real and with stamps of "*prosecution center*", the volume and species of log is in accord with the information in the certificate.

- **Logging License (A11)**

Most of the manufacturers could not provide logging licenses unless they have logged in their own forest. They should obtain copies of the logging certificate.

- **Invoice (B2)**

Supporting documents:

- **Contract**

- **Annual audit report**

The forest administrative department inspects the timber operation and processing certificate annually by means of auditing and tracking timber origin.

- **Declaration report**

The output must match according to the resources, so the manufacturer should keep a report of timber resource, transport sales and declare to the local forest administrative department monthly.

- Invoice (A12) or Invoice (A22) or both

Some of the manufacturers could provide the invoice of log purchasing. Checking the invoice with the logging license and transportation license in volume and sales is an effective method.

Where the log is sourced from timber sales on site without log yard or forest enterprises with large log yard will determine which invoice to provide. The manufacturer should provide both documents.

4.3.3 Trading (C)

Key documents

- Transportation Certificate(A21) and Logging license(A11)

The logging license and transportation certificate are the most effect way to verify the legality of the log.

- Transportation certificate (C1)

The manufacturers must get a transportation certificate for transporting their processed products.

- **Invoice (C2)**

Supporting documents

- **Contract**
- **Invoice (A12) or Invoice (A22) or both**

4.3.4 Imported timber (D)

Key documents:

- **Certificate of origin (D1)**

The Certificate of Origin of timber issued by the country of origin is an effective document to establish the origin and to give some indication of legality. ~~prove legality~~. The contents of the Certificate of Origin including consigner, consignee, destination country, HS Code, quantity, gross/net weight, invoice number, applicant's signature and stamp of country of origin.

- Transportation certificate(A21) and Logging license (A11)

If the wood products used domestic species, manufactures should provide the logging license and transportation certificate of copies of them to verify the legality of the log.

Support document

- **Contract**

Contract will be provided to Customs declaration and quarantine.

- **Invoice**

The importer should provide an invoice for Customs declaration.

- Invoice (A12) or Invoice (A22)

Summary

illegal logging and timber inspection in China is difficult for a variety of reasons, especially as it is difficult to trace the whole supply chain.

If buyers want to try and establish the legality of the wood resource, they must ask the supplier to provide as many of the documents relative to logging, transport, processing. The most important aspect is checking the relationship between documents, the products and the manufacturer(s).

For detail of the checklist please see another documents named roadmap.

5. Avoiding trade in illegal timber

This section sets out a methodology for keeping illegal timber out of your organization's supply chain. It is a practical approach that requires your organization to assess the 'legal quality' of the wood in your suppliers' products and then based on that assessment, take appropriate action. Note that your organization's wood supply chain may originate outside of China, with wood harvested in any number of countries. Different forest regulations, documents, and procedures of course will apply. If this is the case, then we suggest that you screen domestically harvested timber production, from imports. Then you can deploy the basic procedures described below for both types of supply chains.

5.1 Step 1 - Risk rate suppliers

You should request your supplier to complete a questionnaire of the type found in the KIL manual. They should support the answers in the questionnaire with appropriate documentation.

5.1.1 Certified timber and timber products

If the timber to be supplied is already certified then you do not need to risk rate it. Timber from certified forests (certified for forest management) accompanied by a chain-of-custody certificate is effectively risk free.

As of November 2008, 15 Forest Stewardship Council (FSC) forest management certificates have been issued in China, covering approximately 754,000 hectares of natural forest and plantation. Most are located in Northeast China. One FSC certificate has been rescinded. As of July 2008, 502 FSC Chain of Custody certificates have been issued.

5.1.2 Non-certified timber and timber products

Purchasers should assume that most uncertified timber from Heilongjiang province, Inner-Mongolia, Sichuan province and Anhui province, or products containing such timber, are "high risk" in terms of legality. A number of countries from which China imports timber should also be considered "high risk" as well. For these reasons, the KIL manual risk rating system (the questionnaire feedback, objective evidence and analyses using the scenario tables) will frequently yield a "high risk" rating for uncertified timber from China or products made from such timber. We also suggest that interested parties work with Chinese manufacturers to ensure that the wood they import is of legal origin. Toward that end, the

verification approach described below can be applied to wood sourced from outside of China as well.

5.2 Step 2 - Select a verification approach

A purchaser should normally not rely on the “known licensed source” level of verification, but rather require that products containing such timber undergo a higher level of scrutiny, such as that required for “verified legal” timber.

Whichever verification approach is used, the first step will be to establish that the entity harvesting the timber has a “legal right to harvest”. WWF GFTN defines this term as authorization to harvest in the Forest Management Unit (FMU):

- (1) From the resource owner(s), and
- (2) Under a valid permit, license or similar instrument issued pursuant to the laws and regulations governing the management and harvesting of forest resources.

Document checking can give a purchaser assurance that the named harvesting entity has a legal right to harvest. It will, however, seldom satisfy the traceability aspect of “**known licensed source.**” The fact that the named harvesting entity has a legal right to harvest does not give any assurance that the timber in a product originates from the forest covered by the permit of the named harvesting entity. In China, there is a high risk of wood from unknown or illegal sources being mixed with legally harvested timber. This is due to weaknesses in the chain of custody or because the harvesting entity itself may have logged outside the area covered by its permit.

The chain of custody for uncertified Chinese (or imported) timber in a wood or paper product needs to have a simple and well-segregated supply chain before it could be categorized as a **known licensed source.** Without demonstrable traceability, a product containing Chinese timber will be high risk.

Timber reaching the standard below can be purchased:

- units engaged in logging can provide forest ownership certificate
- units engaged in logging can provide logging license
- trace the origin of timber
- timber transport certificate

- timber and wood products processing certificate
- suppliers verify the truth of documents regularly
- if purchasers doubt legality of logging units, an investigation can be conducted

The purchaser may therefore elect to exercise the degree of scrutiny required for "**verified legal**" timber. This requires second or third party verification to determine:

- That the timber was legally harvested, legally traded and that all harvesting charges were duly paid, and
- The integrity of the supply chain documentation.

There are a number of organizations that undertake verification work on a regular basis in China. They are familiar with all the legality issues and the general 'tricks of the trade'. Section 4.5 below lists some of these organizations.

For China, the criteria for what constitutes "legally harvested" and "legally traded" timber continues to develop and can vary widely depending on the organization developing such criteria. WWF, for instance, has defined "legally harvested" as timber harvested with the proper logging permits and not harvesting tree species that are forbidden for industrial logging. They also include a number of ecological and social criteria, including respecting other stakeholders, forbidding harvest in recognized high-conservation value forests and protected areas; Greenpeace defines "legal timber" as timber logging in accordance with law in terms of logging, processing, transportation and sales.

2008 amendment of Lacey Act expands protection to broader range of plant products and legal requirement. Amendment extends scope to trafficking of "any wild member of the plant kingdom, including roots, seeds, parts, products thereof". Broad scope covering logs, lumber and downstream wood products, including flooring, furniture and paper. As of December 15, 2008, all plant and plant products are required to have the following:

- The scientific name of any plant contained in the importation
- A description of the value of the importation and the quantity, including the unit of measure, of the plant, and
- The name of the country from which the plant was taken.

If you are going to rely only on documents, it is advisable to obtain as many documents as possible that provide insight into the chain of custody. These documents include those described earlier – forest ownership certificate, logging license, transportation certificate of origin and so on.

5.3 Step 3 – Make further queries where needed

You will need to make follow-up inquiries with suppliers that have provided weak responses to the questionnaire. Suppliers rated as high risk are likely to have not provided any or enough supporting evidence; thus the questionnaire, if returned, will be largely a self-declaration. You will need to either ask the supplier to provide more evidence or investigate the timber source directly.

5.4 Step 4 - Improve traceability and verify legality

Ensuring that there is a fully traceable supply chain from the forest to the supplier and then to your own company is vital in terms of ensuring legality.

The key to trace the legality of timber is to have a complete chain-of-custody, the effective way to realize that is to encourage suppliers to develop a traceability system for the origin of timber.

Organizations that can help

Name	Type	Principle activity	Auditing services			Advisory services	
			Accredited ¹	Assess legality	Assess traceability	Market access	Legality and traceability
China FTN	China branch of WWF GFTN (non-profit programme with company members)	Advise members how to supply or source legal timber	✗	✗	✗	✓	✓
Tropical Forest Trust (TFT)	Local office of TFT	Working with member companies to achieve legality and certification of product	✓ 2 nd party	✓ 2 nd party	✓ 2 nd party	✓	✓
FOREST STEWARDSHIP COUNCIL (FSC)	Certification body	Forest and chain of custody auditing for FSC compliance and legal origin	✓	✓	✓	✗	✗
SGS	Certification body	Forest management and chain of custody auditing for FSC compliance and legal origin	✓	✓	✓	✗	✗
Smart Wood	Certification body	Forest management and chain of custody auditing for FSC compliance	✓	✓	✓	✓	✗

- **The China Forest and Trade Network** is a partnership between WWF and Chinese forest managers and manufacturers of forest

products. The forest members are a source of “low risk” timber as they are certified or in progress towards certification. The trade members are committed to eliminating illegally-sourced timber from their supply chains. www.forestandtradeasia/China.

- **TROPICAL FOREST TRUST** works to conserve threatened tropical forests through sustainable management. The TFT member business-retailers and suppliers of tropical wood products- to find out where their wood comes from, and to like them with acceptable forest sources. As a minimum first step, their wood must come from legally verified forest operations.
www.tropicalforesttrust.com/what-we-do.php
- **The Forest Stewardship Council** is an international organization that brings people together to find solutions which promote responsible stewardship of the world’s forest.
www.fsc.org/en/about. FSC certification is carried out by FSC accredited certification bodies. FSC itself does not certify forest operations or manufactures.
www.fsc.org/en/about/about_fsc/certification
- **SGS**
SGS is the world leading certification body that certifies wood products from forest to market, against the world’s most recognized forestry standards. SGS provide both separate and combined certification of wood products as they originate from your forests, are processed through your supply chain and delivered to the markets:
 - Responsible forestry management certification enables you to ensure and demonstrate your forests are managed forests as sustainable resources
 - Chain of custody certification enables you to ensure that your wood is sourced from responsibly managed forests
 - Voluntary Legal Timber Validation (VLT) is the “voluntary, country level” approach to SGS’s portfolio of Independent Verification of Legal Timber (IVLT) services.
 - Timber Legality & Traceability Verification (TLTV) is the “voluntary, company level” approach, which incorporates regular auditing, or continuous monitoring and verification of a company’s wood production and tracking information, outside any national scheme.
 - Comprehensive inspection and testing services for round wood and a range of primary processed pulp, timber and paper products.
 - Training services

- **Smart Wood**

The Rainforest Alliance works in over 60 countries, collaborating with forest companies, the wood processing industry, trading companies, farmers, tourism enterprises and local communities to manage and conserve natural resources and help responsible businesses benefit from their efforts.

Our SmartWood program pioneered sustainable forest management on a global scale and helped establish the Forest Stewardship Council (FSC), which is widely considered the world's most rigorous forestry accreditation body. With our expertise in addressing environmental, economic and social concerns as well as our extensive knowledge of wood product markets, we offer the most comprehensive approach to sustainability and legality verification. The breadth and depth of our experience make the Rainforest Alliance your ideal partner in today's highly competitive global marketplace.

5.5 Examples - to illustrate different approaches to risk rating

Below are two examples of risk rating for company A and B that are buying solid wood flooring products and plywood respectively from fictitious suppliers in China. The suppliers have different levels of control over their supply chains and legality and thus score differently on the risk rating.

Company A is a building material supermarket buying solid wood flooring from a large Chinese manufacturer

Situation: Company A has been purchasing 1,000 m² of solid wood flooring per month from a large manufacturer based in China.

Attitude to environmental risk: Company A knows its supplier sources wood from Russia where illegal logging is significant, so the company makes it clear to its supplier that they don't want to import flooring made of illegally-harvested timber, and even has laid down a strict procurement policy for the supplier to observe.

Company A actions: Company A sends the KIL questionnaire to the solid wood flooring manufacturer. Company A continues to trade with the solid wood flooring manufacturer whilst waiting for the questionnaire to be completed. The solid wood flooring manufacturer is a member of the China Forest and Trade Network (CFTN). The manufacturer completes the questionnaire and provides, as part of the supporting objective evidence, that it sources wood from China and Russia forests and that all have been Forest Management (FM) certified. The FTN action plan of the manufacturer shows that it is committed to supply only legally-harvested

timber and has a robust chain-of-custody system that is in the process of preparing for FSC COC certification.

Supplier Risk Rating: Using the scenario tables from the Keep It Legal Manual (relevant extracts given below), the solid wood flooring manufacturer receives a score of 8 – just in the Low Risk category, because the manufacturer uses FM-certified timber, has already joined CFTN and relies on timber from controlled sources. This is a rare case where timber from Russia would be ranked as low risk despite the fact that it is located in China.

Keep it Legal Manual –Supplier Procurement Policy - Scenario Table A		
Choice nos.	Description	Selection [X]
1	Has a clearly defined timber procurement policy (as part of an overall environmental policy) developed following consultation with internal and external stakeholders. The policy and related action plans form an important part of management systems. Has ISO 9000 and/or ISO14000 series certificates. The raw material source is a member of an organisation promoting sustainable forestry (such as WWF GFTN). Appropriate documentation supplied as objective evidence.	X

Keep it Legal Manual –Country of Source Forest - Scenario Table B		
Choice nos.	Description	Selection [X]
4	The country has a weak and ineffective regulatory system with a major lack of capacity (in terms of manpower and supporting infrastructure) in comparison to the size of the forest resource. The legal systems and supporting governance structures are weak and open to corrupt influences. There is limited or no transparency with regard to all regulatory activities connected with the forestry and timber sectors. Example - countries with 30% or more production regarded as 'suspicious' (see Table 1): Estonia, Cameroon, Equatorial Guinea, Gabon, Liberia, Ghana, Russia, Papua New Guinea, China, Peru, Ecuador. This is not a complete list.	X

Keep it Legal Manual –Suppliers Wood Raw Material - Scenario Table C		
Choice nos.	Description	Selection [X]
3	The suppliers are working towards traceability with organisations like TFT, WWF GFTN, GFS or some other independent agencies.	X
TOTAL SCORE (SUM OF CHOICE NUMBERS) – 8 - LOW RISK		

Overall Risk Level	TOTAL SCORE
---------------------------	--------------------

High Risk	9 -15
Low Risk	3 - 8

Choosing the verification type: Company A decides that because of the Low Risk rating and the CFTN-FM related information about the legality of timber supplied to the manufacturer, no further information is required. Company A considers that sufficient objective evidence regarding the legality of the system and the supporting traceability has already been provided and continues to buy the solid wood flooring from the manufacturer. Company A also requires the solid wood flooring manufacturer to provide a written guarantee that it will only supply wood from known licensed sources, to protect against any future developments in the company's sourcing practices.

Company B buying plywood from a medium-sized supplier

Situation: Company B is a plywood manufacturer which, with the expansion of market, wants to buy OEM plywood from China and then sell it in Europe.

Attitude to environmental risk: Company B is committed via its timber purchasing policy to source only plywood that is proven to be legal.

Company B actions: Company B sends the KIL questionnaire to the plywood supplier. Company B will not trade with the plywood supplier until the questionnaire has been fully completed. The questionnaire is completed but partially answered by the plywood supplier; Company B assesses the questionnaire, and finds out some big gaps or a lack of appropriate supporting objective evidence with regard to a traceability system and the knowledge of the source forests where 100% of its raw materials are legally sourced.

Supplier risk rating: On the basis of the information above, using the scenario tables (relevant extracts given below) the plywood supplying company is rated as 13 – and in the upper part of the High Risk category.

Keep it Legal Manual –Supplier Procurement Policy - Scenario Table A		
Choice nos.	Description	Selection [X]
4	Supplier has a timber procurement policy but the policy is unclear. Does not acknowledge that purchasing illegal timber is an issue to be tackled.	X

Keep it Legal Manual –Country of Source Forest - Scenario Table B		
Choice nos.	Description	Selection [X]
4	The country has a weak and ineffective regulatory system with a major lack of capacity (in terms of manpower and supporting infrastructure) in comparison to the size of the forest resource. The legal systems and supporting governance structures are weak and open to corrupt influences. There is limited or no transparency with regard to all regulatory activities connected with the forestry and timber sectors. Example - countries with 30% or more production regarded as 'suspicious' (see Table 1): Estonia, Cameroon, Equatorial Guinea, Gabon, Liberia, Ghana, Indonesia, Papua New Guinea, China, Peru, Ecuador. This is not a complete list.	X

Keep it Legal Manual –Suppliers Wood Raw Material - Scenario Table C		
Choice nos.	Description	Selection [X]
5	Supplies come from unknown source forests. The supply chain is very complex and long with plenty of potential for illegal timber mixing. Supplier shows no commitment to helping reveal supply chain. The supply chain operators refuse to co-operate with identifying sources. Documents presented are impossible to independently verify.	X
TOTAL SCORE (SUM OF CHOICE NUMBERS) – 13 - HIGH RISK		

Overall Risk Level	TOTAL SCORE
High Risk	9 -15
Low Risk	3 - 8

Choosing the verification type: The plywood manufacturer has shown sufficient interest in legally-harvested timber and certified products and promises to get FSC certification during the term of the agreement as soon as possible; on the other hand, Company B also is interested in the supplier that can offer stable and high quality products and it is easier for Company B to control the supply chain of such a supplier than those of others. Then the two parties decide to have a second party to audit the wood origin, and Company B will offer relevant training for the plywood supplier to help fill the gaps in the traceability and lack of knowledge of source forest and get FSC COC certification as soon as possible.

Gathering objective evidence: Company B, working with the plywood supplier, hires a second party auditor (i.e., Rainforest Alliance or SGS) to undertake an independent audit of the forest sources and chain-of-custody systems. The auditor uses their own verification and legality programs to assess forest and supplier's process and performance again. The second

party auditor is retained in order to help the plywood supplier get their systems up to the necessary level of warranted legality.

It is clear from the auditor's report that the plywood supplier is purchasing approximately 60% of its supplies from the state-owned forests in Northeast China and the remainder of 40%, which are proven to be controlled timber according to the audit, from Europe and North America. Company B requests that the plywood supplier allow the auditor to carry out a legality assessment of the management in Northeast China state-owned forests and their *right to harvest*. Company B also states very clearly that it will only purchase plywood made of legally-harvested timber. If the supplier is unable to do this, Company B will consider asking the supplier to only source from Europe and North America. Finally if the audit of the Chinese source forests has a significant problem relating to legality, then Company B is likely to reject the supplier's offer.

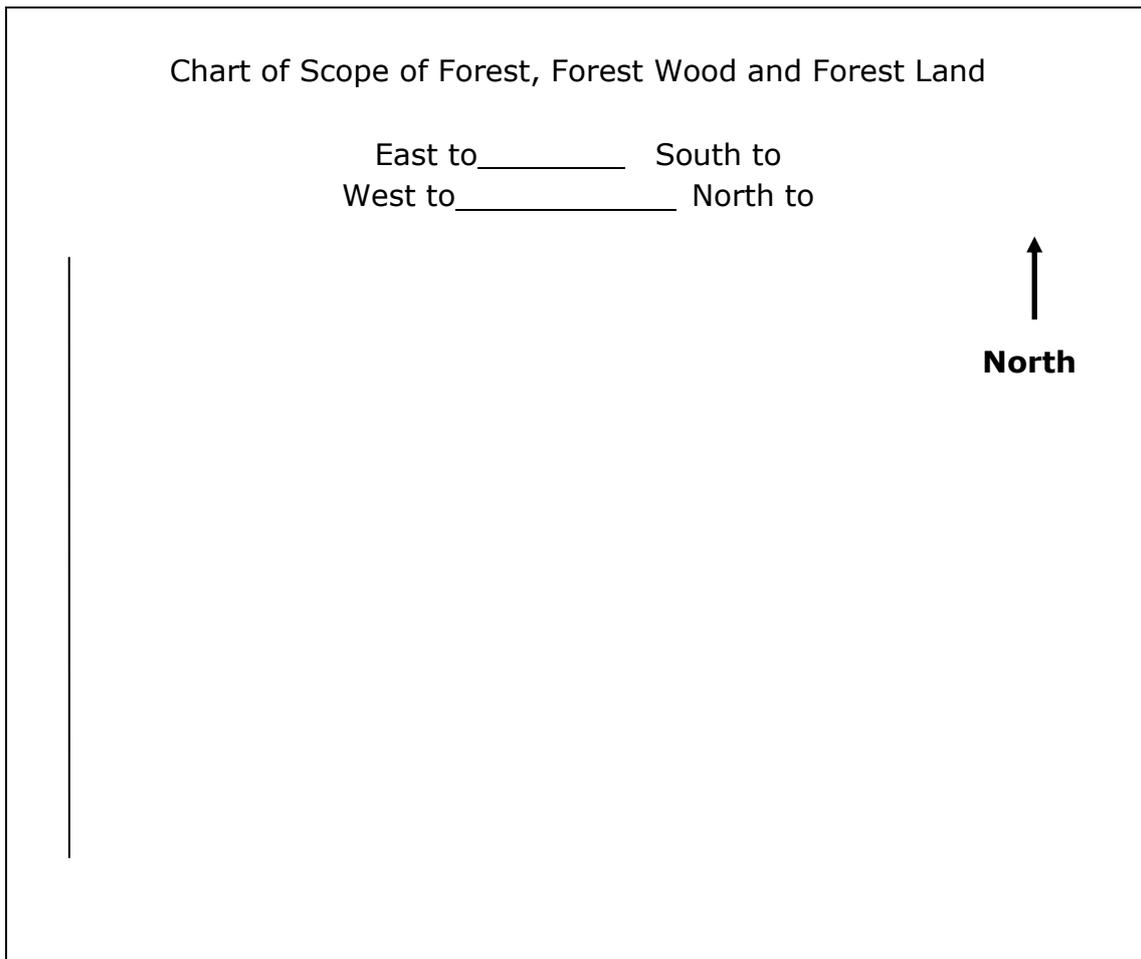
Annexes

1. Forest Ownership Certificate
2. Logging License
3. Timber Transport Certificate (outside of province)
4. Timber Transport Certified (within province)
5. Licenses for Timber Trading & Processing
6. Certificate of Origin

1. Forest Ownership Certificate

Registration Form

Owner of forest land		person with the right to use forest land	
Owner of forest or forest wood		person with the right to use forest or forest wood	
Location			
Local name		Team	Small team
Area		Major species	
Cutting volume		Forest property	
Trial period of forest land	Years	Expiration date	
East to			
South to			
West to			
North to			
Remark:			
Management department			
Officer:		(Official Stamp)	
Year Month Date		People in Charge:	
Year Month Date		Year Month Date	



According to forest resource department [2000] 159, SFA has release a information of the unify format of forest ownership certificate. It's listed in the following.

森林、林木、林地四至范围图

(标明比例尺、界址、明显标志)



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2. Logging License

<p style="text-align: center;">(year) harvesting number</p> <p>_____:</p> <p>After the auditing of the Survey & Design Document in Cutting Area or Harvesting Application provided by _____, the harvesting activity in _____</p> <p>(East to _____ South to _____ West to _____ North to _____) is approved.</p>					
Harvesting forest origin		Forest species		Tree species(group)	
Nature of tenure		Certification No. of forest ownership			
Cutting type		Harvesting system		Cutting intensity	%
Cutting area	Hectare(or cutting numbers in individual plant:)				
Cutting volume	Cubic meter				
of which	Commercial timber	Cubic meter (output volume: m ³)			
	In -house timber	Cubic meter			
	firewood	Cubic meter			
Cutting period	from	Year month Day	To	Year month day	
Regeneration period	Year month day		Regeneration system		
Regeneration tree species			Regeneration area	Hectare(or cutting numbers in individual plant:)	

Management department (official stamp)		department of issuing license (official stamp)		Signatuer of the Staff issuing license	
				Issuing date:	
Signature of license owner		Date of Issuing license	year	month	day

Notes:

1. This license has three sections. The first is a stub; the second is retained by the applicant for checking; the third is a harvesting voucher.
2. The license is valid only during the cutting period.

3. Timber Transport Certificate (outside of province)

Official Stamp of Timber Transport Certificate of State Forestry
Administration

No. 3313147

_____ Province (Autonomous region/Municipality)

Basis of issuing certificate					
Place of timber origin	Province(Autonomous region/Municipality) County(City) Bureau(Center)				
Organization(person) of delivery					
Organization(person) of taking delivery					
Transport					
Source and destination of transport	From()to()Province/ Autonomous region/Municipality () County/City				
Valid period	From Year month day to Year month day				
Tree species	Product name	specification	amount		remark
			Numbers in unit	Volume (m3)	
Total(in capital)	thousand hundred ten:				m3
Department of issuing certificate (Official Stamp)					
issuer(signature):					
Management department (Official Stamp)					
issuing date: year month day					
applicant(signature):					

Notes:

1. The certificate is valid only if there is the Official Stamp of the forestry management department;
2. One certificate for one vehicle (ship), valid for the whole route.
3. It cannot be used repeatedly
4. If the destination specified is not the final destination of the shipment, another certificate is required to transfer to another province (autonomous region/municipality) and the timber transport certificate should be re-issued by the local forestry management department.
5. If the mode of transport is changed from that specified, the timber transport certificate should be reissued by a forestry management department.

4. Timber Transport Certificate (within province)

Province (Autonomous Region/Municipality) _____
NO. _____

Supporting Materials					A Counterfoil	
Origin of the Timber	_____ Forestry Bureau/Plant, _____ County, _____ Province					
Consigner						
Consignee						
Means of Transportation						
Origin & Destination	From(_____)to(_____)					
Validity Date	Valid from _____(dd/mm/yy) to _____(dd/mm/yy)					
Tree/Timber Species	Item Name	Specification	Quantity			Notes
			Units/Sets	Size(m ³)		
Sum (in words)	_____ units/sets _____ m ³					
Issuing Agency (seal)		Issuing Person _____				
Special seal of the Supervisory Agency						
Issuing Data: _____(dd/mm/yy)			Applicant _____			

Notes:

1. This Certificate shall not be valid unless it bears the seal of the forestry authority of the province from which the transportation originates;
2. It is only valid for only ONE truck/ship and remains effective throughout the transportation, subject to agreement between the quantity of the cargo and that specified in the license;
3. It is valid only within the specified date and is not transferable; Modification to the information in the License shall be regarded as void;

4. For further cross-province shipment of the timber, upon arrival at the destination specified in the License, new license shall have to be applied from competent forestry authority at that place.
5. In case of ad hoc changes in means of transportation during the journey, new license shall have to be applied from the forestry authority of the place where the trans-shipment takes place.

5. License for Timber Trading & Processing

Name of the Enterprise: _____

Address: _____

Economic Status of the Enterprise: _____

Business Scope: _____

Reviewed by: _____

Issuing Agency:

Issuing Date:

License for Timber/Bamboo Processing

(Copy)

XXXXXX Forestry Administration () _____

File_No.

Name of the Enterprise

Address

Legal Representative

Economic Status

Registered Capital

Business Scope

Means of Processing

Origin of the Wood/Bamboo Raw Materials

Issuing Agency

Issuing Date

2. Businesses/individual persons engaged in this line must abide by corresponding forestry laws and regulations, and hand in taxation and other fees duly;
3. Businesses/individual persons engaged in this line are subject to inspection, supervision and review by competent forestry authorities and law-enforcement agencies;
4. Counterfeiting and modification of the license are forbidden. Renting and transference of the license not permitted;
5. This license shall be subject to annual review each January through April. Un-reviewed license shall be taken as invalid.

Annual Review

dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
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Name of the License-bearer:

Photo (Seal of the Issuing Agency)
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Notes

1. This license is printed by the Forestry Department of Hunan Province in compliance with *the Forestry Law of P. R. C.* and constitutes the legal documents for carrying out businesses in the field;

