

Policy pointers

Chinese investment in African land use has increasing impacts on forests and livelihoods — yet there is a big gap in understanding what is going on, in both China and Africa.

Sticks as well as carrots, that is, compliance mechanisms as well as incentives, are needed to improve the legality and sustainability of these investments, and attention must turn to effective combinations.

Initiatives to stimulate improvements in key pressure points in the supply chain show promise, aided by the geographically clustering of the Chinese enterprises involved in the African timber trade.

Further support is needed for the China-Africa Forest Governance Learning Platform — a dialogue, evidence verification and planning mechanism that can bridge the gaps and drive improvement in Chinese investments in African land use.

The dragon and the giraffe: China in African forests

China needs Africa's forests, and Africa knows it. Chinese investments in African forests and woodlands are growing fast. China is the largest importer of tropical timber in the world — possibly accounting, in recent years, for half of all tropical trees logged and exported, and over 75 per cent of Africa's timber exports. Investments in agribusiness, mining and infrastructure in Africa's forest and woodland areas are growing too. Yet those in Africa and China who can best help chart a sustainable course for these investments are poorly linked. A new China–Africa partnership, focused on forest governance, is engaging with Chinese investors and enterprises, to tackle key problems in the illegal timber trade and seize opportunities for more sustainable Chinese investment in land-use sectors — starting in Cameroon, Democratic Republic of Congo, Mozambique and Uganda.

Dragon meets giraffe

When the Chinese explorer Zheng He sent two giraffes from East Africa as gifts to the Chinese Emperor in 1415, China and Africa had already been trading for well over 1,000 years.¹ Six hundred years later, China is still enjoying the gifts of Africa's woodland and forest ecosystems — although with some dire consequences. The fate of the giraffe's friend the elephant, for example, now depends greatly on whether the Chinese government implements its 2015 pledge to phase out China's ivory industry.

About one third of all the timber sold worldwide was bought by China last year, and China now imports perhaps half of all tropical trees logged around the world. In 2009, 78 per cent of Africa's timber exports were bound for the Chinese market — up from 35 per cent in 2000.² While logs and lumber from Africa only make up about four per cent of China's forest product imports (and are valued at US\$1.3 billion), the Chinese market is set to grow.³ In 2012, Chinese imports of

African timber reached 4.5 million cubic metres (m³).⁴ More than 60 per cent of African log imports by China between 2011 and 2013 came from four countries — the Republic of Congo, Cameroon, Equatorial Guinea and Mozambique — with others, such as the Democratic Republic of Congo (DRC), also rising in significance.⁵ For these countries, which have large tracts of forests and for whom China is their largest market, this is an important sector.

Investments by Chinese businesses in infrastructure, mining and agribusiness in African forest areas are also increasing, with assumed economic development benefit but also consequent forest loss and unchecked impact on local livelihoods. As trade between China and Africa is expected to double by 2020 and investment by China and other emerging countries is also rising sharply,⁶ greater visibility and control are needed over what is occurring in Africa's forests.⁷ This paper describes an initiative

aiming to do just that. Its goal is to help improve Chinese investments in African forests so that they foster good stewardship of forest resources and benefit local communities.

Forest concerns in both Africa and China

Logging in Africa takes place both legally and illegally. Legal logging involves forest

concessions, or other logging licences, usually at a small scale.

Nevertheless, large numbers of such operations can have a

huge impact. Various forms of illegal logging are also widespread. It can occur in concessions, through abuse of logging licences or in areas for which there is no permit. In some Congo Basin countries the informal timber sector, which supplies poor local consumers and creates livelihoods for rural loggers and millers, rivals the size of the legal formal sector by harvest volume.⁸

Mozambique demonstrates the impacts well, having become China's biggest supplier of African logs in 2013. Some 90 per cent of Mozambique's timber exports, over 500,000m³ a year, is destined for China.⁹ Yet almost half of Mozambique's timber is illegal, depriving the

government and local communities of critical revenue — estimated at US\$146 million and US\$20 million respectively in the period 2007 to 2013. Nor is this sustainable; it estimated that extraction rates of the five main commercial timber species exceed the sustainable cutting cycle by between two and four times.

Some African countries have passed regulations requiring logs to be processed before export, with a view to boosting local revenues, providing jobs and spurring the development of forest-related industries. For example, a ban on log exports from Gabon in 2011 led to a quick drop in the share of forest product exports from Gabon to China as the companies in Gabon began investing in processing facilities.¹⁰ However, Chinese companies, along with other companies facing similar conditions, may attempt to circumvent these laws and regulations.¹¹ Chinese companies generally view processing to be more efficient and profitable in China, where timber industries are already highly developed and where they can support local Chinese companies instead of African ones.

Where governance is weak, companies — Chinese and others — may resort to bribery. They may lack management plans, under-report their export volume, smuggle raw logs, and harvest and transport undesignated species. In Zambia, for example, the Forestry Department has accused Chinese traders of hiding unprocessed logs underneath sawn timber on trucks at checkpoints and in shipping containers for export.¹²

As well as rising demand in China for African timber, policy developments elsewhere are influencing the Africa–China timber trade. Timber arriving in Europe has to be legally sourced under the Forest Law Enforcement, Governance and Trade Action Plan, while the EU Timber Regulation EUTR (which came into force in 2013) prevents illegally logged timber from being placed on the EU market. The Lacey Act creates similar conditions in the United States. Yet no such stipulations currently apply in China, and much timber that might previously have been destined for Europe or the US appears to be diverting to China.

Improving sustainability of Chinese involvement in Africa's forests

An effective response to this situation requires a strategy with three main elements:

Generate evidence. Chinese and African stakeholders in the forest sector feel that despite some strong research,¹³ they do not know enough about the patterns and impacts of Chinese investments and enterprises in African forests and their associated trade.

Over 75 per cent of Africa's exported timber is destined for China

Box 1: Dialogue replaces stand-off and can find constructive ways forward

In Cameroon the project team is working with Chinese timber trading enterprises with a view to conducting legality assessments of companies linked to the trade with China; identifying practical incentives for better practices, and rewards for legal and sustainable practices and initiating capacity-building work around these. It will also explore the value chains and impacts on forests and livelihoods of non-forestry Chinese investments in agribusiness and infrastructure.

The project team in Mozambique and China has been supporting development of a Memorandum of Understanding for China–Mozambique co-operation in the forest sector, and supporting training on the Chinese government guidelines and specific local laws and regulations for Chinese companies. It will focus on further work to develop an interactive database on timber production and trade flows, and will assess 24 potential incentives for more sustainable practice to identify how the most promising can be installed and realised.

Dialogue in Chinese with Chinese companies and traders in DRC and Cameroon is underway. In both countries, information on laws and policies has begun to be introduced. The project has developed a network on a Chinese social media platform to try and build an active community of these business users — the platforms attract about 86 (DRC) and 107 (Cameroon) Chinese-speaking users, about a third of whom are local traders. Timely information on new timber regulations, timber market trends, and training workshops is posted on the platforms. These platforms show great promise; the project's strategy is to gradually but steadily ramp up engagement in legality and sustainability issues.

Strengthen capacity and dialogue.

Connections between many important actors in China and in Africa remain weak on forest issues and, until recently, there was no platform for developing partnerships and taking action.

Improve policy and investment practice.

While Chinese wood-processing firms appear to face few incentives to ensure the legality or sustainability of their sources of timber, a range of stakeholders concerned with forest sustainability are behind a growing momentum to improve investment practices and the legality of China's imported timber.

In 2014, IIED began the China-Africa Forest Governance Learning Program. Supported by the UK's Department for International Development (DFID) for three years, the project aims to use research, dialogue and joint action to contribute to improving forest governance by promoting sustainable and pro-poor Chinese trade and investment in Africa's forests. It deploys the above three-pronged strategy, initially focusing on China, Cameroon, DRC, Uganda and Mozambique.¹⁴

Building the evidence base

Building on long-standing partnerships in each of the project countries, the project is generating key information on logging and export trends:

Chinese involvement in the Cameroon timber sector comprises 19 permits (six concessions and 13 'ventes de coup' or sale of standing timber), and covers about 650,000 hectares — about 25 per cent of Cameroon's forestry permit area. Between 2009 and 2013 some 2.8 million m³ of forestry products were exported to China, including logs, sawn wood and other products. Some Chinese companies' investments may be little more than financing for trucks and machinery. About 20–30 Chinese timber trading enterprises are present all year around in Cameroon.

China seems to be the destination for about two thirds of log exports from DRC. While there are no official Chinese-owned forestry concessions in DRC, an apparently increasing share of the four million m³ of timber currently produced each year under artisanal permits is being bought by Chinese timber traders working with local loggers and millers operating under artisanal permits. There are about 20 Chinese companies or traders in DRC: five to eight of these are larger operations — one a joint venture with ONATRA, a local state owned company; the others are involved in pre-financing local concession owners or buying logs from big European and Lebanese concession owners. Many of the logs are floated down the Congo River then transported by truck to Matadi Port for shipping to China.

Box 2: Targeted support can start building sustainability in the supply chain

Despite the increasing number of Chinese firms importing timber from Africa — from 16 in 1994 to 323 in 2010 — a high proportion of imports are consistently shared among a small number of firms. In recent years, the top five enterprises in any given year have accounted for over 40 per cent of African timber imports by volume, and the top 30 enterprises for over 80 per cent. The vast majority of these enterprises are based in wood-processing industry clusters in four Chinese provinces — Guangdong, Zhejiang, Shanghai and Jiangsu — near China's eastern seaboard.¹⁹

The project initiated work with 70 of these enterprises in a workshop in 2015 in Zhangjiagang, focused on promoting legality and sustainability in the timber trade with Cameroon and DRC in particular. In the coming year the project team in China aims to generate evidence of Chinese companies' social and environmental impacts in Africa; explore further the complex value chains of timber products from Africa to China in order to identify pressure points for policy and practice interventions; and work with African colleagues to engage Chinese companies in training and technical support to realise incentives for sustainability.

Chinese operators make up only 20 per cent of Mozambique's concessionaires, and are not allowed simple licences for small-scale timber harvesting, so the trade to China is dominated by small Chinese trading enterprises.¹⁵ More than 130 Chinese forest enterprises are registered in Mozambique, mostly in the forest-rich north of the country; some Chinese middlemen are not registered. Chinese firms are increasingly seeking concessions in order to assure stable supply, as local operators tend to strike deals with middlemen, switching to another if they offer higher prices.

Strengthening capacity and dialogue

Research on these issues is understandably sensitive and some information is difficult to obtain. Key doors will not be opened if effective information and motivation are not found, and will be closed if sensitive information is inappropriately used. Good dialogue between China and Africa is essential for real progress. Therefore, the project is focusing on building the links and capacity among stakeholders — policymakers, private sector actors, researchers, practitioners and journalists — through national, regional and international dialogues, trainings and work exchanges (Box 1). In doing so, the project builds on the China-Africa Forest Governance Learning Platform established in 2013.¹⁶ The Platform brings together forest governance players from eight African countries, representatives from the Chinese Academy of Forestry, the Global Environmental Institute, IIED and some other international organisations.

Improving policy and investment practice

Pushing companies to adopt guidelines voluntarily is one approach underway. Following earlier guidelines on forestry operations, the Chinese State Forestry Administration and Ministry of Commerce have developed *Guidelines on Sustainable Forestry Products Trade and Investment*, aimed at improving the sustainability of Chinese forest trade enterprises in other countries.¹⁷ These guidelines have been the focus of some promotional and training activities in several countries in East, West and Central Africa, with support from WWF and IIED amongst others. These efforts have helped to focus attention and find potential leverage for better investment decisions.

But other approaches are sorely needed too. In the light of recent investigations into illegal logging and timber smuggling involving Chinese enterprises, in Mozambique in particular, the Chinese State Forestry Administration has been urged to focus less on 'carrots' (guidance), and more on 'sticks' (regulating the importers of illegally-logged timber into China).¹⁸ In 2015, the China Timber and Wood Products Distribution Association announced the official launch of a national tracking, inspection and labelling system for wood products. Certificates of compliance have been issued to some enterprises using this National Wood Products Traceable Information Management system. The Chinese Academy of Forestry is also developing the Chinese Timber Legality Verification System.

There are limited incentives for investors and private enterprise, large or small, to participate in, and supply information to, processes aimed at

changing their practices. Evidence and advocacy need to focus on the benefits of greater transparency, the costs of non-compliance and the advantages of better policy and practice. The project is helping Chinese investors adopt and monitor codes of practice and supporting companies to obtain verification of good legal practice (Box 1). For example, since the timber import volumes from Africa are highly concentrated among a relatively small number of geographically clustered firms, initiatives that directly engage these firms in efforts to improve the sustainability of their supply chains show considerable promise (Box 2).

Conclusions

Sustainability of Chinese investments in African land use is an objective worth fighting for. Experience to date shows that enterprises are sensitive to price changes, that well-used information brings players to the table, and that joint understanding and momentum for change can be achieved at the local level and between small groups of stakeholders. The challenge is in gaining that understanding at sufficient scale to make substantial changes to policy and practice. Targeting key companies, government agencies and local groups in the engagement processes; developing effective commitment to action, incentive programmes, peer pressure and meaningful sanctions; and monitoring the effects, will all be crucial — and need further support. Then all can start to enjoy an enduring relationship between the dragon and the giraffe.

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Notes

¹ Snow, P. 1988. *The Star Raft: China's encounter with Africa*. Weidenfeld and Nicholson, New York. / ² Huang, W et al. 2012. Who is importing forest products from Africa to China? An analysis of implications for initiatives to enhance legality and sustainability. *Environment, Development and Sustainability* 15 (2) 339-354. / ³ Zhu Guangqian. 2013. Overview of China's Timber Market. Timber and Wood Products Distribution Association, Guangzhou. See www.canadawood.org/reports/downloads/overview-of-china-s-timber-market.pdf. / ⁴ Sun, X et al. 2014. Chinese views of African forests: evidence and perception of China-Africa links that impact the governance of forests and livelihoods. *Natural Resource Issues* No 29, IIED, London. See <http://pubs.iied.org/17569IIED.html?c=forest> / ⁵ Global Environmental Institute. 2015. Timber Flow Study: Timber export-import discrepancy analysis between China and Mozambique Cameroon, Uganda, and Democratic Republic of Congo. Unpublished. / ⁶ Zhuang Pinghui. 5 May 2014. Trade with Africa will double by 2020, Li Keqiang tells Ethiopia conference, South China Morning Post. See <http://tinyurl.com/puhsu6>; *The Economist*. 23 March 2013, Africa and China – More than minerals. <http://tinyurl.com/cawa7ks> / ⁷ High-level links are strengthening among Chinese leaders and their counterparts in African countries – notably through the Forum for China-Africa Cooperation, which has its next 3-yearly meeting in late 2015. The Chinese State Forestry Administration, WWF and other partners are aiming to engage decision-makers there on forest issues. / ⁸ Lescuyer, G and Cerutti, P. 2013. *Taking the Informal Sector into Account*. Agricultural Research for Development, Paris. / ⁹ Global Trade Atlas, 2013-2014 www.worldtradestatistics.com/gta / ¹⁰ Putzel, L et al. 2011. *Chinese trade and investment and the forests of the Congo Basin: Synthesis of scoping studies in Cameroon*, Democratic Republic of Congo and Gabon. CIFOR Working Paper 67. Center for International Forestry Research, Bogor. / ¹¹ Kozak, R and Canby, K. 2007. Why China prefers logs: explaining the prevalence of unprocessed wood in China's timber imports. *Forest Trends Information Bulletin: China and East Asia* 9. Forest Trends, Washington DC. / ¹² German, L et al. 2011. Chinese trade and investment and its impacts on forests: A scoping study in the miombo woodlands. CIFOR Working Paper 84. Center for International Forestry Research, Bogor. / ¹³ For example, by IUCN (https://cmsdata.iucn.org/downloads/china_africa_trading_web.pdf); Forest Trends (www.forest-trends.org/publication_details.php?publicationID=515); the Center for International Forest Research (www1.cifor.org/china-africa/home.html); and IIED (www.iied.org/forest-governance-learning-group). / ¹⁴ See www.iied.org/china-africa-forest-governance-project. / ¹⁵ Universidade de Eduardo Mondlane. 2013. *Assessment of Harvested Volume and Illegal Logging in Mozambican Natural Forest*. See www.illegal-logging.info/sites/default/files/FAEF_Mozambique_Report.pdf. / ¹⁶ See www.iied.org/china-africa-new-forum-seeks-sustainable-pro-poor-forestry. / ¹⁷ Available at www.forestry.gov.cn/portal/main/s/224/content-401396.html / ¹⁸ See for example: Environmental Investigation Agency. 2014. *China failing to take effective action against timber smugglers*. <http://tinyurl.com/q3z32gq> / ¹⁹ Huang, W et al. 2012. op cit.



Knowledge Products

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The China-Africa Forest Governance project is a multi-country project that seeks to improve forest governance, by promoting sustainable and pro-poor Chinese trade and investment in Africa's forest. Through research, dialogue and joint action with partners in China, Cameroon, Democratic Republic of Congo, Mozambique and Uganda, the project contributes towards improved policy and investment practice in China and Africa, in ways that foster good stewardship of forest resources and benefit local communities.

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