

Exploring options to improve practice for Africa's largest exporter of timber to China

Mozambique



Credit: Maria Muianga

Forestry sector investment in Mozambique

China is the main destination for Mozambican timber and therefore plays a key role in shaping the forest sector in the country. Chinese operators increased dramatically in the 2000's, expanding from Mozambique's central province of Zambézia northwards to Cabo Delgado. Most are traders, rather than investors in forest extraction itself. While Chinese operators have successfully applied for large-scale concessions (that require installed processing capacity), most Chinese traders make small investments, characterized by forward financing to Simple License holders or direct timber purchasing.

Export of unprocessed logs is banned for 'first class' species, five of which make up 90% of commercial trade: *Azelia quanzensis* (Chanfuta), *Pterocarpus angolensis* (Umbila), *Millettia stuhlmannii* (Jambirre or Panga-panga), *Combretum imberbe* (Mondzo), and *Swartzia madagascariensis* (Pau-ferro). Yet in 2012 China registered 323,000 cubic metres of Mozambican log imports, while Mozambique's total registered global log exports over the period amounted to merely 41,543 cubic metres. Illegality is therefore rife. Paradoxically, the Chinese market actually offers less for processed timber than for logs or square-cut lumber – because the quality and dimensions of Mozambican processing require costly re-sawing in China. This creates a strong pressure to circumvent the law. The unconsolidated nature of the industry, typified by numerous small-scale license holders, a lack of law enforcement and high levels of corruption together lead to largely uncontrolled timber extraction. For a poor country in need of revenue, this is unacceptable.

Integrating illegal timber extraction into the formal economy could generate significant revenue for the government. For example, a total potential tax revenue loss of US\$ 29,172,350 can be ascribed solely to the export timber trade with China for 2012. Current fiscal and customs taxes evasion weaken the State capacity to improve its performance in term of law enforcement or vocational training. The long term trade outlook is bleak with Mozambique's commercial timbers being exploited beyond their maximum sustainable yield. For example, in 2012, China's wood imports from Mozambique rose by 22 per cent, to a level just 40,000 cubic metres less than the entire annual allowable cut (i.e. the limit for sustainability) for all of Mozambique's forests combined. The combination of short term illegality leading to longer term forest sector collapse is less a consequence of Chinese investment in the Mozambican sector – but instead is a consequence of the weak forest governance of the Mozambique government and a lack of investment by Chinese forestry companies and timber traders in sustainable forest management.

Why it is important

Mozambique is Africa's biggest timber exporter to China yet ranks 178 out of 187 on the Human Development Index. Forests could and should be contributing more to Mozambique's poverty reduction. Yet almost half of Mozambique's timber is illegal, depriving Government of critical revenue. Harvesting rates for five main commercial timbers exceed the sustainable cutting cycle by two and four times. High tech processing that adds value in-country to that timber is largely deficient. Lack of management planning, overcutting, undersize cutting, avoidance of legal in-country processing requirements, misreporting timber volumes, and smuggling are widespread across the industry. While Chinese operators make up only 20% of Mozambican concessionaires, Chinese timber traders account for 90% of the export trade.

Key statistics

- 90%:** Chinese market share for Mozambique timber exports.
- 20%:** forest concessions held by Chinese companies.
- 48%:** illegal logging (destined for China).
- 12%:** Chinese market share for Mozambique agriculture exports.
- 31%:** capital invested in agricultural projects that is of Chinese origin.

“There is no more timber. The Chinese guys have taken everything. They come to our forest without our consent and they cut everything. They don't even respect the sacred sites. They promise schools, hospitals and roads and they dock 25% off our salary to contribute to these 'constructions'. But in the end they don't honour their promises. We don't want to see more people coming to cut in our community.”

Manuel Antonio, community leader, Sacaque, Nampula.

Non-forestry sector investments that affect land use and local livelihoods in Mozambique

China export commodity. As for FDI, Chinese interests in the Mozambique agricultural sector are still small, although expanding in poultry, rice and jatropha with involvement of Chinese firms in sesame and cotton also going beyond bilateral trade. Whether this is in the form of forward finance to Mozambican growers, or the establishment of Chinese owned plantations, is uncertain.

Indirect effects of such investment on forests take place through cropland displacement of forests and harvesting of timber for construction and energy products that support agricultural production or processing. Agro-industrial development schemes promoted along Mozambique's development corridors are likely to expand these impacts, and expand other deforestation opportunities as infrastructure development lowers the cost of forest access.

Chinese investment in the mining sector is relatively small and recent. Chinese companies have shown an interest in both lime and coal. Despite the limited number of Chinese companies with mining concessions, several companies hold multiple prospecting licenses and are actively researching sizeable deposits of metals, minerals and precious stones throughout the country.



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Frameworks that apply to Chinese-linked investments

The New Commercial Code (2005): simplifies company registration in Mozambique.

The Investment Law (1993): provides for investment guarantees and tax incentives secured through application to the Centre for Investment Promotion (CPI).

The Tax Incentives Code (2009): lays out specific tax exceptions and incentives for investments in different classes – including in forestry processing.

The Land Law (1998): asserts State ownership of land and the allocation of use rights. Land use rights do not confer rights for commercial forest use (or the mineral resources under the soil).

The Forestry and Wildlife Law (1999): places forests and wildlife under State ownership, allocated through long-term concessions and short term Simple Licenses. It promotes the establishment of forest industries, and increasing exports of manufactured products. It does not define geographically any “permanent production forests”, so license applications are handled on a case by case basis at different Government levels depending on size.

The Forestry and Wildlife Regulations (2002) and revised (2011): lay out and then rationalise and dramatically increased forestry fines, provide and then revise a classification of timbers into quality classes, and revise the system of annual cutting licences (Simple Licenses) into larger five year allocations requiring simplified management plans.

The Conservation law (2014): reclassifies conservation areas and incentives for mechanisms to enhance their self-sustainability – calling on private sector participation and encouraged community involvement in their management.

Interaction and cooperation initiatives to date with China of relevance to forest issues

Very little information about actions, programmes and other initiatives dealing with cooperation between China and Mozambique is available to the public. But in 2011, it is known that discussions commenced about a Memorandum of Understanding for China-Mozambique cooperation in the forest sector (not yet signed). And in 2013, the governments of China (through the State Forestry Administration – SFA) and Mozambique (through the National Directorate of Land and Forests – DNTF) moved to promote sustainable forest management through supporting training on SFA guidelines for Chinese companies operating overseas.

Looking ahead

The Mozambican timber industry is characterized by fierce competition among and within Mozambican, Chinese and other foreign companies with a host of generic constraints resulting from weak governance, forest and trade characteristics. CAFGoP is supporting ongoing engagements of Chinese operators by DNTF and developing a Mozambique-specific version of the SFA guidelines described above. It is also researching: (i) the detail of current trade patterns (via an interactive trade flow database); (ii) the impacts of recent legislative reforms; and (iii) how observed patterns and behaviours might be altered to the benefit of both Chinese and Mozambican partners through a mix of 24 incentive types. It will support dialogues to debate which options might prove most tractable in the current China-Mozambique context.

Find out more

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.

Find out more about our work on China-Africa Forest Governance project at <http://www.iied.org/china-africa-forest-governance-project>



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