

Introduction to China's Timber Legality Verification System

Introduction

The Government of the People's Republic of China and the Chinese forest industry are developing policies, tools, standards and initiatives to combat illegal logging and trade in illegal timber. The ambition is to develop a timber legality framework that meets international and Chinese market requirements, boosts global trade in legal and sustainably sourced forest products, assists Chinese enterprises operating in international markets, and promotes legality and supply chain transparency throughout the timber sector.

The timber legality framework has two dimensions that are interlinked: the policy framework for timber legality; and China's Timber Legality Verification System (CTLVS).

The development of CTLVS involves building capacity for demonstrating legal sourcing of forest products, and preparing guidelines and tools which the forest industry will need to meet China's future requirements on legality, sustainability and corporate social responsibility (CSR).

Concerning the policy framework, in the short term, China's State Forestry Administration (SFA) seeks to issue measures to manage the legality of imported timber. In the longer term, a wider legal framework for addressing the legality of timber trade is being considered.

The policy and CTLVS dimensions feed into each other. While the implementation of standards and tools being developed under CTLVS is currently foreseen as voluntary, the regulations that the Government plans to put in place will be mandatory and will require companies to demonstrate that their timber imports are legal.

Policy-level instruments will be employed to incentivise industry associations and companies to take up the standards and tools being developed. At the same time, the actors who contribute to the development of CTLVS are shaping China's policies by providing advice and making recommendations to the Government.

1. Timber Legality Verification Standard

CTLVS is evolving into a system that will regulate the legality of timber and timber products in China (see Annex 1 for an overview of the timber legality standard and Annex 2 for a potential implementation framework for CTLVS).

With support and inputs from the China-UK Collaboration on International Forest Investment & Trade (InFIT) and the Chinese Academy of Forestry (CAF), industry associations in China have developed their own timber legality standards and frameworks.

The timber legality verification standard developed by the China National Forest Products Industry Association (CNFPIA) is envisaged as an important element of CTLVS. CNFPIA released the standard on the 22nd of September 2017 at the Fourth World Wood Based Panels Conference in Linyi, China.

The standard sets out the requirements for legality at the forest management level and throughout the chain of custody. Forest management requirements cover company registration, the payment of taxes, compliance with national laws and regulations, tenure rights, harvesting permits and forest management plans.

Chain of custody requirements cover timber legality requirements for processing and trading, the development of a timber legality management system, legality verification for domestic and imported timber, document management, transport and sales.

The standard applies both to timber harvested domestically and to imported timber. Companies that comply with the standard will be awarded a timber legality verification label by the industry associations that they can use on their timber products. Upon release of the standard, CNFPIA plans to set up operational rules. Although compliance with this standard will be voluntary, the legality regulations that China is currently planning to put in place will encourage enterprises that are members of CNFPIA and the China Timber and Wood Products Distribution Association (CTWPDA) to follow it. The standard offers these companies a way to fulfil future legality requirements.

If the standard is robust and enforced well, compliance by members of the two national associations, which jointly cover more than 80% of China's importers and exporters of timber and timber products, could have a significant impact on timber legality worldwide.

In the meantime, companies are being supported to establish management and due diligence systems based on the due diligence toolkit developed by CAF through InFIT.

2. Building capacity for due diligence

The toolkit aims to support Chinese companies in establishing due diligence systems and complying with future national and international market requirements on timber legality. The toolkit provides guidance, templates and tools related to the establishment of due diligence procedures and procurement policies, the identification and mapping of supply chain information, and risk assessment and management.

In addition to the toolkit, with InFIT support, CAF has launched the China Responsible Forest Product Trade and Investment Alliance (China-RFA) under the SFA Centre for International Forest Products Trade (CINFT) to provide Chinese companies with the tools and knowledge to support responsible trade in forest products.

China-RFA is working with its members to support compliance with international demand-side legislation, test the legality standards, carry out training, and pilot the establishment and operation of due diligence with enterprises. It is also negotiating partnership agreements with international market participants to support capacity-building efforts of Chinese enterprises and to establish collaborative partnerships to promote responsible business. Furthermore, it manages the RFA Information Centre's monthly newsletter, WeChat communication platforms and a database of participating companies.

Several categories of membership cater for differing levels of commitment to responsible trade among member companies. Companies that have a verified due diligence system and are committed to promoting responsible trade among their peers are eligible for the highest level of membership. As an incentive, responsible companies will be able to showcase and promote their products on the China-RFA website.

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Screenshot of the China Responsible Forest Product Trade & Investment Alliance website

Source: China RFA

3. Building the capacity of Chinese enterprises operating overseas

Chinese enterprises engaged in forestry activities overseas play an important role in CTLVS. Chinese investment in timber-producing countries is likely to increase, as China is encouraging Chinese enterprises to “Go Global” as part of the Belt and Road Initiative.

Most Chinese enterprises operating overseas maintain strong links with China and supply the Chinese market. It is therefore critical that these enterprises comply with the laws of their host countries so that the timber and timber products they supply to China are legal.

The Ministry of Commerce and the SFA have issued two voluntary guidelines for Chinese enterprises that engage in forestry activities overseas. The guidelines, besides dealing with legality, cover aspects of sustainable forest management.

Released in August 2007, the Guide on Sustainable Overseas Silviculture by Chinese Enterprises includes chapters on compliance with the laws and regulations of host countries; silviculture planning; biodiversity protection; and the environmental impacts of forestry operations, including forest conversion and community development.

Issued in 2009, the Guide on Sustainable Overseas Forest Management and Utilisation by Chinese Enterprises reinforces the earlier guide with additional provisions on wood processing and transportation, training and multi-stakeholder consultations.

A third guide, the Guidelines for Sustainable Overseas Trade & Investment has been drafted but is still to be issued.

The guidelines are voluntary, providing general principles that companies are encouraged to follow. To support uptake of the guidelines by industry and their implementation on the ground, CAF is developing country-specific handbooks. The handbooks aim to provide information and practical advice on local laws and regulations, encourage companies to strengthen environmental and social safeguards in their local operations, and promote sustainable forest management.

One such handbook for Chinese companies operating in Mozambique was published in September 2016. Besides information on the national forestry sector, the handbook features chapters on: investment; labour; forest management laws and regulations; transportation; processing; trade; and community rights and obligations. The handbook also includes tables summarising national legislation as well as relevant regional and international agreements.

Through InFIT efforts, country handbooks for Gabon, Guyana and Myanmar have been developed. The Country Handbook on Sustainable Overseas Investment and Trade by Chinese Enterprises for the Gabonese Republic is currently being revised following in-country field-testing and expert review. A specific chapter on forestry investment-related risks and risk-offset strategies, particularly those risks linked to forest sector legality and potential negative social and environmental impacts, will be further developed. Similar handbooks for other countries are being revised or developed. CAF plans to field test the manual for Guyana towards the end of 2017.

In addition to the handbooks, CAF supports companies in implementing the 2007 and 2009 Guides by establishing training platforms and conducting training workshops on sustainable forest management.

Annex 1: Overview of the Timber Legality Verification Standard

Feature	Timber Legality Verification Standard
Definition of timber legality	Refers to the harvesting, transportation, processing and trading of timber in compliance with the laws and regulations of the country in which these activities take place, as well as with the international agreements to which the country is a party.
Products covered	The Standard does not include a provision on the scope of the products it intends to regulate. However, the definition of forest enterprises covered by the Standard refers to a broad range of products: sawn timber, plywood, wood furniture, wood flooring and other wood products; pulp and paper; and decorative paper-type categories.
Regulated parties	The Standard applies to forest management enterprises, trading enterprises and processing enterprises. All companies in the supply chain are regulated.
Voluntary/mandatory	The Standard is voluntary.
Incentive mechanism	It is still unclear whether or not there will be an incentive mechanism. China's planned import measures could provide an incentive for companies to meet the Standard and undertake due diligence as a way of complying with government regulations. Furthermore, the Standard anticipates the need for products to carry a legality label. The ability to use such a label could encourage companies to comply with the standard.
Obligations	Due diligence is a key obligation.
Status of third party certification	Still unclear.
Auditing	The requirements that will regulate the implementation of the standard are still being developed.

Annex 2: Potential CTLVS implementation framework

In 2015, CINFT developed an implementation framework for CTLVS. The aim was to establish a verification system that is voluntary, cost-efficient, based on due diligence and guided by the Government.

Figure 1 shows CTLVS implementation framework and the key players as it was conceived in 2015. Most committees and system documents are still being developed. The structure will likely change because the regulatory framework for timber legality in China is still evolving.

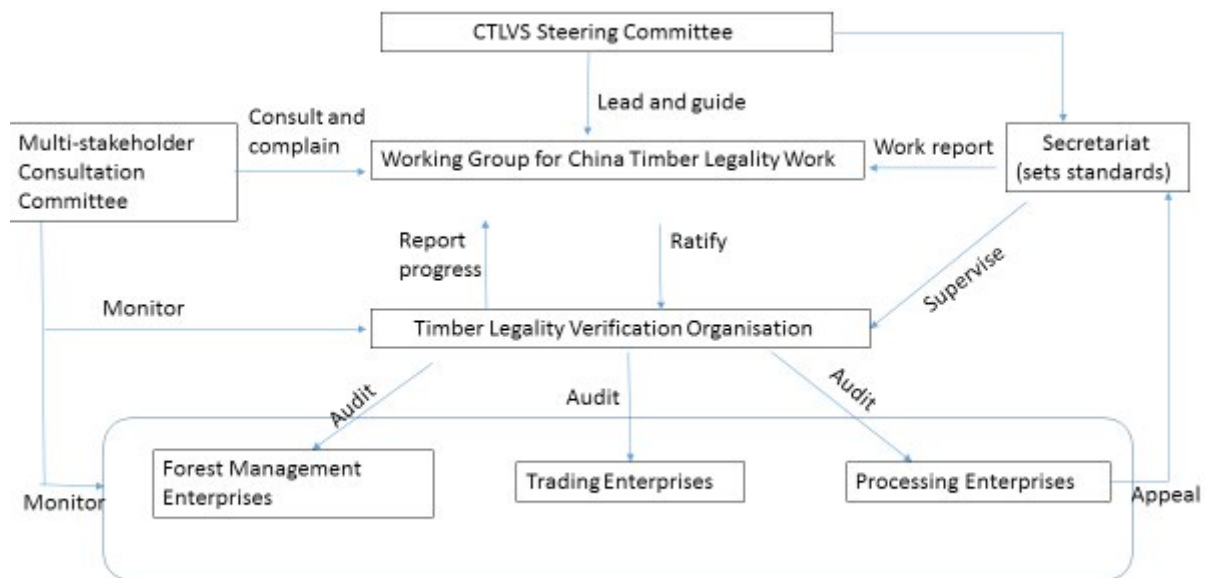


Figure 1: 2015 CTLVS Implementation Framework. Source: CAF

The members of the CTLVS Steering Committee would be SFA, China Customs, the Ministry of Commerce and the Ministry of Foreign Affairs. CINFT would play a key, hands-on role as the Secretariat of the Working Group for China Timber Legality Work. The Secretariat would set criteria/standards, and supervise and possibly monitor CTLVS on behalf of the Working Group for China Timber Legality Work. Industry associations, verification organisations and research institutes would be represented on the Working Group for China Timber Legality Work. The Working Group's main functions would be to issue verification standards and to manage and authorise the Timber Legality Verification Organisation.

The Timber Legality Verification Organisation would work directly with companies. It would be responsible for verifying compliance, issuing or cancelling statements for verified products, and providing information on verification activities and verified enterprises to the Working Group for China Timber Legality Work. The Working Group for China Timber Legality Work would need to formally accredit the Timber Legality Verification Organisation to enable its operation.

Multi-stakeholder consultations would be embedded in CTLVS implementation processes. CTLVS would invite committees of stakeholders representing government institutions, associations, companies and NGOs to discuss the development and functioning of the system. Civil society would have a role in monitoring and inspecting the effectiveness of CTLVS implementation.



Note

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About the EU FLEGT Facility

The EU FLEGT Facility supports the European Union, its Member States and partner countries in implementing the EU FLEGT Action Plan. The European Forest Institute has hosted the Facility since 2007. The Facility has its headquarters in Barcelona, Spain, with additional offices in Brussels, Belgium; Joensuu, Finland; and Kuala Lumpur, Malaysia.

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