



## Policy Brief

# Advancing sustainable forest-related trade and cooperation between China, Congo Basin countries, and the international market

### Key Messages

China is emerging as the largest market for timber export from the Congo Basin, and is growing its investments in forestry and other sectors with implications for the Congo Basin forest

The issue of deforestation – which is largely a result of illicit timber trade and land-based agriculture, mining and infrastructure development – requires concerted actions across the whole supply chain with stakeholder countries including China, the EU and other consumer market countries.

Trilateral collaboration for timber trade policy harmonization, legality systems enforcement, business-to-business matching, and forest conservation efforts across the international supply chain is needed to address the legality issues in timber trade. Here, consideration should be given to the development status, needs and strengths of each stakeholder group.

Decision makers should focus on improving harmonization and implementation of corresponding policies, leveraging market demands for legality certification and sustainable forest use, and promoting financial mechanisms to support conservation efforts.

**In the Congo Basin, the second largest contiguous tropical forest of the world, deforestation and forest degradation are increasing. Besides smallholder-driven land-use change, main drivers include illicit timber trade and industrial development such as in agriculture, mining and infrastructure. Thus, addressing the issues of deforestation and forest degradation requires working closely with government and business stakeholders from the different countries involved in global timber trade supply chains. As timber trade between the Congo Basin and China is ever-growing, proactively engaging with Chinese stakeholders is recommended as one crucial component of a comprehensive strategy to render the use of forest ecosystems in the region more sustainable.**

China plays a key role in the international timber supply chain, linking the Congo Basin to the European market. At the same time, despite a lack of comprehensive quantitative evidence of China's involvement in land-based sectors such as infrastructure, mining and agriculture among others, it is clear that China's presence in investments and project contracting in the Congo Basin is growing.

Several European and Chinese policies and initiatives aimed at improving forest and environmental sustainability have been introduced over the past 15 years in the Congo Basin, Europe and China. Because of the increasing stakes that Chinese trading and investment companies are holding in the region and globally, international partners have increasingly realized the importance of en-

gaging with China on these issues. As China has emerged as an economic powerhouse and as its investment and trade relations have expanded, it has also spurred its international development activities under a South-South cooperation framework with African partners among others, and on a broad range of issues including sustainable development.

Understanding such existing initiatives and analyzing remaining concerns in the Congo Basin and China will help to engage with stakeholders across the supply chain in a targeted manner to render their economic and political activities more sustainable, and thus contribute to forest conservation and sustainable development in the Congo Basin.

### Authors

Peng REN

Global Environmental Institute

Jingwei ZHANG,

Global Environmental Institute

## Status quo & major trends

**In the Congo Basin, an approach to economic development that considers forest conservation and environmental protection is needed given increasing deforestation and forest degradation.**

- Illegal and environmentally harmful logging negatively impacts sustainable forest development in the Congo Basin. Chinese timber trading partners are becoming increasingly important in the region and must respond to such challenges.
- Although policy measures have been put in place in some Congo Basin countries – e.g., trading bans on unprocessed logs and the requirement for timber legality verification by the EU FLEGT system – the level of compliance is low due to a lack of effective implementation and enforcement.
- Many Congo Basin countries prioritize economic growth over sustainability concerns. Approaches that combine the two are rare and political commitment to forest conservation is largely absent.

**European countries are the conventional investors in forestry and other sectors in Africa and are long-standing consumer markets for African timber. They have been promoting policy measures and systems for increasing legality and sustainability of forestry operations. Timber trade with the Congo Basin countries has been increased via the 2003 EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan.**

- The EU Timber Regulation came into force in 2013 as part of the EU FLEGT to prohibit European operators from placing illegally harvested timber and wood products on the EU market. To date, Cameroon and RoC have ratified the Voluntary Partnership Agreement (VPA) with the EU under the FLEGT sys-

tem, while Gabon and the DRC have started negotiations.

- Despite such efforts, concerns remain about the effectiveness of FLEGT VPAs. The compliance level of African countries and the participation of African and Chinese companies have been low and difficult to monitor and enforce.
- In recognition of China's increasing role in the forestry sector in the Congo Basin, several programs have started to explore options for harmonizing the FLEGT system with similar efforts in China, including support for the establishment of the China Timber Legality Verification System.

**China has become the largest direct market of timber sourced from the Congo Basin countries and an ever-growing investor in the Congo Basin. Therefore, both African partners and the international community expect a proactive contribution from China to forest conservation and environmental protection in the Congo Basin, especially in addressing negative impacts of timber trade and investments by Chinese companies.**

- Over the last 15 years, policies and initiatives have been introduced in China to improve the sustainability of forest operations and to increase environmental responsibility of Chinese companies investing and operating overseas.
- Recent steps include the **introduction of the 2020 national Forest Law of which Article 65 concerns timber supply chain legality requirements for Chinese companies.** Furthermore, a Global Green Supply Chain (GGSC) Network was created to organize exchanges among industry actors and the government. Work has also been carried out by the Chinese Academy of

Forestry (CAF) and the China Timber & Wood Products Distribution Association (CTWPDA) to **link Chinese timber companies with African timber suppliers who reliably provide sustainably sourced timber**, and to facilitate exchange between Chinese timber companies and European downstream companies on financial implications of legality and sustainability certification of timber products.

- During the 2018 Beijing Summit of the **Forum on China-Africa Cooperation (FOCAC)**, the **Beijing Action Plan (2019–2021)** was formulated. It includes the **promotion of China-Africa cooperation on sustainable forest management.** Section 4.6.4 specifically stipulates that the two sides shall promote cooperation on sustainable forest management and run collaborative programs between the Chinese and African governments and research institutes to achieve sustainability in forest management and contribute to global ecological governance.
- Within **UNFCCC**, the NDCs of China and the Congo Basin countries are indicative of the forest conservation goals of these countries. In 2014, **China created a USD 3.1 billion South-South Climate Fund to support developing countries in climate change mitigation and adaptation** and to prioritize forest conservation in their NDCs.
- Within **CBD**, the **post-2020 strategy on global biodiversity conservation** is currently being elaborated. It will specify joint strategic goals for 2050 and 2030 Action targets including that “by 2030, ensure that the harvesting, trade and use of wild species of fauna and flora is legal, at sustainable levels and safe”. National strategies and action plans will be formulated in accordance with the currently discussed “Zero Draft”. With the **CBD CoP15 to be hos-**

ted by China in Kunming, the international community is expecting China to commit to mobilizing further financial resources for South-South cooperation on biodiversity conservation.

■ Again, challenges have been identified that hinder the implementation of existing initiatives, including a lack of enforcement, effective implementation procedures and support for institutio-

nal structures. Furthermore, a lack of sufficient financial incentives supporting Chinese companies to comply with legal or sustainable certification was identified as a key challenge.

## Policy Options & Recommendations

Chinese efforts at government- and industry-level have faced challenges to implementation and thus have had limited impacts on the ground. Concerns remain regarding the environmental impact of the growing Chinese presence in the Central African forestry sector. In general, Chinese efforts toward sustainability should receive international support through multilateral frameworks.

**Domestically**, in order to incentivize Chinese companies to carry out sustainable overseas forest operations and investments as well as due diligence and transparency practices, financial tools such as preferential loans are recommended. In this way, Chinese companies could also comply with legality and sustainability requirements of the attractive European market. International best practices in the use of such financial tools should be compiled and promoted.

With Congo Basin countries as major sourcing countries, China as intermediary and consumer, and the high-income countries as consumers, **trilateral cooperation across the supply chain is urgently needed to increase sustainability in timber trade**. Considering the differences in technical capacities and socio-economic development between the three regions, the contribution of each side could be designed as follows:

■ **Congo Basin countries:** Clear political commitment to forest conservation and environmental protection; improved cross-sectoral coordination bet-

ween authorities in charge of environmental and forest conservation and authorities in charge of economic development, such as commerce, finance departments, etc.; and seeking financial and technical support from sourcing countries, incl. China, in e.g., policy improvement and capacity building for implementation and enforcement.

■ **China:** Providing technical exchange, capacity building and financial support to Congo Basin countries on policymaking and management of timber trade, timber processing, forest development and sustainable forest operations; implementing improved policy-making and implementation on issues of sustainable overseas investment, trade and international development cooperation; ensuring clear and transparent enforcement of existing guidelines and recommendations; and learning from the experience of comparable efforts of other international actors such as Germany by means of active communication and institutionalized platforms.

■ **Germany and other European countries:** Providing technical exchange, capacity building and financial support to Congo Basin countries on sustainable forest management, forest conservation and environmental protection; providing technical exchange and capacity building to China on policymaking and enforcement relating to sustainable overseas investment, trade and international development systems; and joint financial mechanisms

to promote conservation and environmental protection-related initiatives.

Furthermore, the following overarching actions are recommended to spur trilateral cooperation:

■ **Highlight the linkage between the EU Timber Regulation and China's 2020 Forest Law Article 65**, as well as legislation and regulations in the Congo Basin countries on timber trade legality verification through:

Dialog on policy comparison, lessons learned and improved policy formulation and enforcement to ensure consistency and functionality of both regulatory measures.

Technical workshops on policy implementation, enforcement procedures and institutional capacity building.

■ Explore a mechanism to increase demand for legal and sustainable certified timber in China and amongst other timber-related industry sectors through:

Awareness raising, dialog, and commitments amongst timber-related companies, business associations, trade promotion agencies, etc.

Development of coordination mechanism to streamline traceability and due diligence practices for legality and sustainability certificates.

■ Enhance collaboration with other initiatives relating to forest conservation

## and environmental protection in the Congo Basin:

Engaging in regular dialog to form stronger ties between Germany, China, and local and regional initiatives on forest conservation and environmental protection in the Congo Basin through platforms like COMIFAC, CBFPP and CAFI.

Providing support to Congo Basin countries on timber processing technology, rare tree species plantation, industry upgrading, promotion of sustainable forest management, as well as mainstreaming conservation in economic development and land-use planning – e.g., through the ecological protection redline approach (EPRL) by means of Chinese international development cooperation, through the FO-CAC platform and through Germany's development assistance system.

To enhance **cooperation in multilateral frameworks**, existing frameworks could be utilized to realize bilateral cooperation between China and other consumer markets such as the EU and Germany, and to **foster joint programs in the Congo Basin countries**. For example, the existing **Sino-German Center for Sustainable Development (CSD) could serve as a platform** for trilateral collaboration in the Congo Basin, and topics of technical assistance on timber trade legality, sustainable forest management, and forest conservation could be integrated in this platform. On timber trade legality, the CSD could potentially leverage participation of other key government agencies beyond the forestry management authorities, including the German Federal Ministry for Economic Cooperation and Development (BMZ) as well as China's Ministry of Commerce (MofCOM).

Notably, **joint financial mechanisms supporting Congo Basin countries to achieve their NDC commitments under the UNFCCC Convention and their national strategies and action plans towards global biodiversity conservation targets stated in the CBD** could provide a valuable way forward. Notably, with the upcoming CBD CoP15 to be held in Kunming, China, **China is preparing to establish a global fund for biodiversity conservation in developing countries**. This creates the opportunity for experience sharing, joint learning and creation of **synergies** through matching such new efforts with comparable mechanisms like the **Legacy Landscape Fund (LLF)** BMZ plans to put into place. Another potential avenue for conservation financing worth exploring is **debt-for-nature swaps** involving debt relief by China as a significant creditor country in exchange for conservation efforts in debtor countries such as in the Congo Basin.

## Conclusion and outlook

Proactive sharing of experience and lessons learned between Chinese, European and Central African governments to avoid repeated mistakes and ensure appropriate prioritization, as well as a joint search for synergies and complementarity between new initiatives and existing ones are urgently encouraged.

**Further research** is recommended to help assess current approaches to promoting timber legality and forest sustainability, and to identify areas for improvement and new directions of work. Priorities include:

- Case studies of **EU Timber Regulation enforcement best practices**, analyzing their implementation, effectiveness and challenges, with recommendations provided to China on its implementation of the 2020 Forest Law.

- Studies on **effective financial tools for leveraging company compliance with legal and sustainable timber certification** as well as on improving market demand for legal and sustainable timber and other agricultural products.
- Assessments of deforestation effects of land-based development such as agriculture, mining and infrastructure development in the Congo Basin, including those spurred by foreign investments. **Data-based analyses on the forest and environmental impacts of land-based development**, such as natural capital accounting, can provide a basis for decision making on development options and sustainable planning.

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