Review of China’s forest CoC certification system against its illegal logging and trade

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Abstract

Illegal logging and trade have attracted broad attention internationally these years. The unlawful harvesting and business activities including logging without tenures, cutting in unpermitted sites, importing illegal timber, tax evasion, etc. cause environmental damage and dramatic social and economic losses globally. To curb illegal logging and relative trade, third party forest certification and Chain of Custody (CoC) are introduced to the world as two available tools. China also enrolled in this combat against illegal logging and trade with its abundant forest resources and frequent illegal cutting and trade behaviors. Since China’s own forest CoC certification scheme achieves endorsement of the largest forest certification organization over the world named PEFC (Programme for the Endorsement of Forest Certification), China is experiencing great challenges and opportunities to benefit from this global certification trend. A review of the status quo of global illegal logging and trade, the development and regulation of the world’s certification schemes, and China’s efforts into forest CoC certification will be discussed in the essay.

Keywords: Illegal logging, forest certification, Chain of Custody, China
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Introduction

Anything violating the regulated harvest schedule is recognized as non-standard or further as illegal logging. Illegal logging and trade occur in all ages with their wide range over the world, and they contribute dramatic social and economic losses. Not only social assets are infringed, but natural resources and biodiversity are also losing annually due to factors like deforestation resulted from the logging. Although plenty of laws were released while inhibitions (penalty) with harsher punishment were declared by government, hard-to-be banned illegal logging moth keeps nibbling the forests worldwide. Forest certification and Chain of Custody were created to combat against the lawless tree cutting and trades. In China, illegal logging and trade are big concerns, as well. Since China is setting up its special CoC certification system to fight against illegal phenomena around timber, difficulties have been encountered by the country. To sum up, it will be a long-term step for China to forge ahead.

1.1 Global Illegal logging and overview

1.1.1 Definition

Illegal logging is defined as behaviors against laws such as harvesting without tenures, transporting illegal lumber into markets, extracting forest resources without permission and building forest-roads privately. Additionally, any illegalities relative to participating in trades (i.e., import and export) with timber from criminal approaches or tax evasion are also within the scope of illegal logging.

1.1.2 Illegal wood logging and trade are “thriving” internationally

Illegal logging and the following global trade in illegal lumber becomes a major issue
for many countries which produce timber. (Global Witness, 2012) A variety of developing countries on different continents such as Russia (Europe), China, Indonesia, Burma, Cambodia (Asia), Brazil (Latin America), Congo (Africa) and even Papua New Guinea (Oceania) take part in illegal timber harvesting and trade. (Lu, 2007) While illegal logged timber is consumed domestically, overseas trades of these woods are meanwhile carried out “from Brazil to Canada, Cameroon to Kenya, and from Indonesia to Russia, etc.” (WWF, 1996)

1.1.3 Huge economic loss is caused by illegal wood annually

Given that approximately fifty percent of Indonesia's timber production is illegal while nearly seventy percent of Gabon’s wood is from unlawful harvesting, illegally logged timber occupies a significant part of both domestic and international wood markets. (WWF, 1996) For another instance, twenty five percent of timber exports from Russia is stem from illegal logging. As a consequence, around an annual ten billion US dollars are lost through illegal logging proceeds internationally. (World Bank, 2012) Further, the European Union suffers a three-billion loss from its trade with Russia, Indonesia, and the Amazon Basin and so on while all governments over the world lose about five-billion-dollar revenues each year.

1.1.4 Environmental and social impacts from illegal logging

Stimulated by large demands for low price timber worldwide, illegal logging fuels remarkable environmental and social problems. Illegal logging contributes to forest degradation, wildlife habitat loss, biodiversity decline with its unregulated harvest process. Commonly both commercial and merchantable trees are logged in tropical forests with a high illegal logging rate. As forest degradation and deforestation rates continue to grow, the biodiversity loss rate keeps going up, as well. According to EUROMED (2009), forest management in tropical forests has been discouraged since
tropical forest management is not included in the current Kyoto Protocol agreement. Consequently, illegal logging is considered as a significant barrier to the sustainable management of forests.

Other than environmental implications, illegal logging is closely associated with social issues. As shown in figure 1, many intermediary organizations are making profit through the whole business chain and the price of Ramin (i.e., Gonystylus) is nearly a 500-fold increase from the initial labor workers to the final US seller. As mentioned in the Economic Session above, governments lose billions-dollar revenues due to trades of illegal wood. As a result, corruption and tax dodging are promoted from the illegal harvesting activities. (Smith et al., 2003) Furthermore, in several countries, sometimes only wood scraps and low-quality timber products remain for local markets while global markets consume most high-quality timber product annually. Conflicts also occur between investors for these disparities.

![Diagram of international trade chain for the straw-colored hardwood - Ramin.](Kishor, 2012)

1.2 The world’s existing top forest certification systems and Chain of Custody

1.2.1 What is third-party forest certification?

Forest certification provided by a third party proves that the timber and relative timber
products are harvested or manufactured from sustainably managed forests. (STA, 2013) There are mainly two international forest certification systems widely applied in the world: The Programme for the Endorsement of Forest Certification (PEFC) and The Forest Stewardship Council (FSC). Every country also has its particular forest certification system (known as national forest certification scheme); CSA (Canadian Standards Association), SFI (Sustainable Forestry Initiative), MTCC (Malaysian Timber Certification Council), UKWAS (UK Woodland Assurance Standard), ATFS (American Tree Farm System) and LEI (Lembaga Ekolabel Indonesia) are the most successful national forest certifications among the global forest products market. As Sustainable Timber Action declared (2013), the FSC and PEFC CoC certification dominate the forest markets jointly even though more national certification systems such as CSA, SFI, MTCC and so forth have been accepted by the PEFC system.

Logos of FSC and PEFC from HSPG (2013)

1.2.2 How the system works?

In order to maintain the quality and sources of wood commodities, the international certification system is mainly divided into two parts: SFM (Sustainable Forest Management Certification) and CoC (Chain of Custody certification). On one side, Sustainable Forest Management Certification ensures that products are stem from sustainably managed forests that mean impacts of the harvesting activities on local environments are minimized and logged sites are able to regenerate. On the other side, Chain of Custody Certification addresses that the whole supply chain is under control (i.e., companies are able to confirm the proportion of sustainable wood throughout the chain).
Through the sustainable timber procurement policies of most timber importing countries, the wood commodities are expected to be attached with either the PEFC or the FSC certification labels to guarantee that the goods are meeting the requirements of both sustainability and legality. In conclusion, to examine the origin, legality and conservation of the total wood supply chain, and to ensure the civil rights are protected, referring to certifying guidelines including all requirements and creating national-international labels (e.g., MTCC-PEFC Certification) are favored by a majority of countries conducting timber related business.

1.2.3 How far the global certification system goes?

According to the Forest Dialogue (2003), a series of conversations between 2002 and 2004 have been sponsored by TFD (the Forest Dialogue) in order to promote the communication about discussing the benefits and future of third party forest certification systems. The convention confirmed that third party certified timber products are more reliable than those without certifications; moreover, the CoC certification scheme is believed to overcome the difficulties in proofing one country if the products are made at a sustainable forest level within another country.

From the Second International Dialogue on Forest Certification (2004), primarily two agreements were reached by the participants. Firstly, similar approaches and standards should be developed between different certification systems (both national and international) so that confusions among forest product dealers can be avoided. Secondly, endorsing each other’s certification schemes will make it easier and faster for timber producing countries to do imports and exports mutually. To sum up, the global forest certification system is expected in a healthy trend. (Drupa, 2007)
2.1 Overview of illegal logging and trade in China

As China is one of the biggest countries importing and exporting timber products, a diverse range of issues concerning illegal logging and trade exist in this country. (Han et al. 2013) Not only “intrinsic” illegal harvest activities matter, “extrinsic” problems (illegal timber product trade flow related to China) also need consideration.

2.1.1 Irregular (i.e., illegal in many cases) timber harvest activities in China

There are mainly five types of non-standard logging activities included in China: wanton cutting of forests (over-amount logging), cutting at unapproved areas, harvest without tenures, logging activities destroying forest resources (e.g., wildlife habitat), and deforestation denudation (i.e., uncontrolled timber mining). (Lu, 2007) When one or many of these five unregulated harvest behaviors occur in one area, companies regulating legal logging lose profits within competition against illegal logging organizations; assets and rights of residents near the forests cannot be protected; meanwhile, revenues of local governments are reduced.

2.1.2 China’s illegal wood products trades

Estimated by Global Timber (2012), China was one of the top suppliers of illegal wood products and probably the leading illegal lumber importer over the world in 2006. Figure 2 demonstrates that a great mass (32%) of China’s total imports of timber, pulp and paper was illegal in 2002, both softwood and hardwood were included; the percentage has bumped to around 50% till 2012. (EIA) According to the EIA 2012 Annual Report, almost 48% of China’s imported timber was from countries such as Russia, Papua New Guinea, Solomon Islands, Burma, Congo, and Malaysia who carry out high-frequency illegal logging activities. Many countries above like Congo, Solomon Islands have exported most of their timber (higher to 80% of total
timber exports) to China.

Figure 2, Reported estimates of illegal imports of China (Jaakko Pöyry Report, 2005)

While a high percentage of China’s timber imports are considered to be unlawful, about 30% to 40% of China’s timber product consumptions are also under suspicion as illegal. (Global Timber, 2013) Figure 3 shows that illegal furniture and timber exports to EU and North America weight much more than other areas in the world; besides that, China’s illegal lumber export to the EU even increases in the recent decades. All of these “twisted” facts have drawn attention worldwide. For example, establishing China’s own forest certification system, trying to be endorsed by the international forest CoC certification schemes and improving forestry laws are all effective ways for Chinese government to mitigate the illegal imports and exports in China. (Sun et al., 2012)
Figure 3, illegal timber products imports and exports of China (Global Timber, 2012)

2.2 China’s current forest certification system and timber procurement policies

2.2.1 Establishment of CFCS and ZTFC

As China plays a significant role in global timber product exports and imports, China realizes that measures should be taken in response to timber procurement policies of various countries. (Lu, 2007) In order to entry the market legally and manage forests sustainably, China has built its own council (China Forest Certification Council) in 2001 to develop its national forest certification scheme (China Forest Certification Scheme). Under the support of China Forest Certification Council (CFCC), first Forest Certification Company named Zhonglin Tianhe Forest Certification (ZTFC) has started in 2006; CFCS (China Forest Certification Scheme) has been in motion successfully and smoothly till 2010. (CFCS, 2014)
2.2.2 CFCS is endorsed by PEFC

Recently (March, 2014), China Forest Certification Council (CFCC) joined the Programme for the Endorsement of Forest Certification (PEFC), the largest forest certification system in the world. (PEFC, 2014) According to Ben Gunneberg (2014), PEFC General Secretary, the engagement of China in the sustainable forest management and certification is pushing forward the whole worlds’ sustainable forest management and relative certified timber product trades.

Furthermore, more certified wood products stem from China’s sustainable managed forests will be accessed to the global markets since China achieves the endorsement from PEFC. (Wang, 2014) “As a prerequisite for applying for PEFC endorsement, around 3.4 million hectares of forests in China are expected to be certified with a CFCC-PEFC label since 2011.” (ZTFC, 2014) While already more than 200 million hectares of forests were certified by CFCS and more than two hundred professionals were trained by CFCC, green and legal timber products in China are supposed to be fast growing in the next periods under the supervision of the CFCC-PEFC certification system.
2.2.3 FSC VS PEFC in China

Forest Stewardship Council (FSC) is expected to lose its dominance in China in the near future. Before PEFC came in China, FSC dominated the China’s forest certification system. FSC is not only one of the earliest forest certification systems in the world (1991); it is also the earliest forest certification scheme entering China (2001). However, FSC is losing its competitive edge compare with PEFC because it insists on not admitting the national forest certification scheme all the time. Other than FSC, PEFC is an open system respecting the national conditions of every country. PEFC will endorse certain national forest certification if the national forest certification (e.g., CFCC) meets all the requirements of its international standards.
(YICAI, 2012)

Since PEFC established its China Office in 2007, PEFC hired competent workers and cooperated with China’s State Forestry Administration (SFA) closely. From the interview of Lu (2013), China is the second country in Asia (first one is Malaysia) to be endorsed by PEFC as a national certification scheme; in addition, a number of other countries including Japan, India, Philippines are devoted to their national certification schemes and pursuing being approved by PEFC.

2.3 Sustainable timber procurement policies and trade regulations of EU

Europe is more advanced and sound than China in timber procurement policies and relative regulations (FLEGT). (EU’s FLEGT initiative, 2014) As China is at the starting stage of completing its own timber procurement policies and trade regulations, Europe may be a commendable example for China to follow at the current stage.
2.3.1 EU’s timber procurement policies and regulations

The timber procurement policy created by UK government claims that only timber and wood-derived products from verifiable sustainable and lawful sources which can be proved by valid documents are accepted by the UK government. Notably, new regulation with introduction of a Voluntary Partnership Agreement (VPA) will be implemented on the current EU FLEGT (Forest Law Enforcement Governance and Trade) legislation. (CPET, 2014) VPA is an agreement signed between the EU and timber exporting countries, countries who reach VPA with the EU have to run a timber licensing system; only licensed timber products from the VPA partner country will be admitted by the EU. (EUFLEGT, 2014)

Recently, another new concept named Due Diligence System (DDS) is introduced in EUTR (EU Timber Regulation, also known as FLEGT). EU Timber Regulations regulate that dealers (timber sellers and buyers) should practice Due Diligence System with risk management (products evaluated as high risk will be prohibited to entry the market). All timber without VPA licenses should be held with DDS materials to prove it is legal and low risk. (CPET, 2014)

2.3.2 Responses from China (CoC certification standard and its DDS)

In response to the new regulation, China Forest CoC Certification scheme has revised its CoC certification standard following the pace of PEFC. PEFC has altered its CoC standard mainly for the Due Diligence System in order to meet the risk assessment requirements of EUTR. As demonstrated in figure 5, more details in risk assessment are applied in the revised PEFC CoC standard (i.e., risk type from two types to three types). CFCC has revised its CoC standard to fit the three-risk-type requirements not only because CFCC has to correspond to PEFC, it is also because China recognizes
EU as one of its important partner in the lumber and wood-derived products.

Figure 5, risk assessment of former and newer CoC standard (CNWOOD, 2014)

2.4 Shortcomings of current CoC certification system

Although it is a progressive step for China’s forest certification system to be endorsed by PEFC, many issues should be concerned with limitations: there is no completed wood tracking and supervision system established; it is hard to identify the legality directly according to final goods; some policies of other countries cannot be mimicked. (Lu, 2007)

Wood tracking and supervision systems in trades between China and other countries are not perfect in many cases. Take wood tracking system from Russia to China as an instance, “Keep it legal” manual (official materials signed by Russia and China) rules that “Chinese purchasers should do enough due diligence to ensure that the number comes from a ‘known licensed source’”. It requires the buyers to both check the exact geographic producing area of the timber, and the harvesting company is conducting the logging activities legally. However, information (appendices showing the product is from reasonable sources) from exporting countries (i.e., Russia) is incomplete or not standardized on various occasions; the so-called tracking system with non-standard documents or licenses is vulnerable as a matter of fact. (WWF Russian and WWF China, 2006)
As Lu Wenming stated (2007), the current Chain of Custody system is only available for the supervision of wood production area, it cannot guarantee the legality of many other steps among the whole supply chains. To give an example, a large number of Chinese companies import annatto (valuable wood species) from countries like Cambodia, Vietnam and so forth, the existing Chain of Custody certification system has no regulations against these illegal woods. (CBT9, 2013) In another word, what CoC can guarantee is that no unlawful proceeds will be made during manufacture of this annatto timber.

Last but not least, for the EU Timber Regulation, China has made its decision to adapt to the change (i.e., altered the CoC standard). It does not mean that China will always adopt to the policies of other countries. In some cases, China is expected to build and update its particular timber regulation through its national conditions accordingly. (Lu, 2007)

2.5 China’s other efforts into curbing illegal woods

2.5.1 Chinese government is moving ahead with forestry laws and green timber procurement policies

In addition to establishing and updating a sturdy forest CoC certification system, Chinese government focuses on promulgating forest laws and implementing green timber procurement policies too. Chinese government has reinforced its implementation of Forestry Law and improved its law enforcement since Forestry law was published in 1984. (GovCN, 2005) Although China’s green timber procurement policies are gradually in quests, legal products (compliance with the Forestry Law) cataloged on the green procurement lists are preferred by both government purchasing institutions and eco-friendly enterprises.
2.5.2 Non-governmental organizations are making contributions

Along with government departments, research institutes (e.g., Chinese Academy of Forestry), industry associations and non-governmental forest certification companies are jointly putting their efforts into combating against illegal logging and “black” timber trade all the time.

Chinese Academy of Forestry (CAF) has taken researches in the area of the third party forest certification since 1995; likewise, it started to study green timber procurement policies and wood tracking system dating from the recent past. CAF aims at promoting responsible and sustainable forest managements by verifying the legality of timber sources through developing a sound wood tracking system. Moreover, in order to regulate the behaviors in the wood industry, Chinese Forestry Industry Association is launching its particular social credit system, which is tightly connected with CoC labels. (CFIA, 2012)

Discussion

3.1 Restate - Why forest CoC certification system matters?

Forest CoC certification system is meaningful both for companies and governments with its availability of tracing the sources of timber; high quality timber products will flow through all the supply chain while their sustainability and legality are ensured. Meanwhile, government will be convinced of being sustainable in its forest resources. (Gerrit Marais, 2011)
3.2 Challenges and opportunities for China

3.2.1 Challenges

Even if PEFC endorsed CFCC, many challenges maintain there for the government of China to face. First, establishing a totally effective and transparent Chain of Custody is a long term task for the government and wood-derived product companies to work along with corporately. Thorough implement of forest laws enforcement is questionable with corruption. (GovCN, 2010) Further, incomplete sustainable timber procurement policies are linked closely with China’s national circumstances, it needs adapted amendments all the while; lastly, specific bilateral agreements require to be reached by China and other countries to curb illegal logging together.

Gaps exist between China’s forest companies and the world’s leading companies. Many forest companies pursue being successful companies selling certified products; meanwhile, not all of these companies meet the requirements assigned by the certification system. For example, during 2010’s trials (forest certification implement trial in China), various companies failed in passing the environment evaluation for taking nearby soil to build roads. (CHINAIRN, 2014) As a matter of fact, China’s enterprise standard needs improvement to reach the outstanding global certification standard.

Other than challenges for the government and companies, China’s natural forest is under high risk since China Forest CoC Certification was admitted by PEFC recently. Pointed out by GREENPEACE (On the ground 2011), for those countries endorsed by PEFC including America, Canada, Malaysia, Australia and Chile, PEFC’s vague standards in converting natural forests bring significant damage to local endangered species and biodiversity.

As CHINAPAPER stated (2014), before PEFC came into China, natural forests are
forbidden to be converted to artificial forests among China’s original Forest Certification Scheme. However, China Forest Certification Scheme started to allow the transfer from natural forests to man-made forests in order to fit the standards of PEFC in 2012. As a result, the amendments in natural forest conversion may cause serious ecological consequences. For example, a catastrophic flood in 1998 resulted from the intensive cutting of natural forests in the middle and upper reaches of Yangtze River. In a word, although embraced by PEFC makes it smoother for China to export its forest products; China will suffer the consequences of natural forest losses if natural forests are permitted to be harvested without limit under the imperfect PEFC standards.

3.2.2 Opportunities

Besides challenges, numerous opportunities will be given by enhancing China’s forest CoC certification system. Most apparently, forest markets are expected to be more diverse with the engagement of more certification companies other than ZTFC as most of China’s forests are not certified or examined by CFCC yet. More job opportunities will spring up with the development of forest certification companies. Additionally, China can promote its sustainable forestry development and raise its reputation by achieving endorsements from PEFC.

To be more specific, the present healthy forest certification system benefits both to China’s forest industry and its forest enterprises. On one hand, the PEFC’s endorsement of CFCC opens a door for local forest products to enter the world because most countries prefer purchasing certified products as a priority; it also enhances the competitiveness of Chinese forest companies among the international markets. On the other hand, Chinese enterprises gain profits from the endorsements. Chinese companies are accessible to the PEFC labeled raw materials from domestic markets directly. Operation costs for one company are reduced compare with
importing certified raw materials from external markets; moreover, global fund-raising and market share of Chinese forest products are expected to be benefited as passing the CFCC certification means passing the PEFC certification. At last, the management level of the company will be improved upon being certified. (CHINAIRN, 2014)

“EU and Japan have put products with forest certification labels into their procurement policy lists; our country has no relative policies like that yet.” Said Yu Baisong (2014), director of PEFC China. Responded by Yu Ling (2014), secretary of China Forest Certification Committee, “One product cannot be listed in the government procurement catalogue unless it is manufactured by more than three manufacturers. There are rare products meeting this requirement before CFCC’s endorsement by PEFC.” Director of China Forest Certification Committee, Mr. Wang Wei (2014) hopes that enrolled enterprises should bind their products with CFCC-PEFC symbols so that these products can be brought into government procurement catalogue as soon as possible. The product sales will be increased dramatically once the products are listed into the government procurement catalogue.

**Conclusion**

High demand for timber products from US, Europe, Japan and so on makes it hard for timber producing countries including China to regulate their unlawful harvesting activities and illegal timber exports and imports. (WWF, 1996) As China realizes that illegal timber logging and trade bring a series of social, economic and environmental problems, China is adopting vigorous measures in decreasing the occurrence frequency of illegal logging and mitigating the impacts of illegal timber business. Most significantly, China set up its special national forest certification scheme to examine legality and sustainability of timber and timber products. The global
endorsement of China’s forest certification system implies that China’s combat against illegal woods is on the right track. Other than establishing China’s own forest CoC certification system, China also takes steps to improve its laws, regulations and green timber procurement policies. Although there are obstacles when China develop its forest Chain of Custody certification scheme and timber procurement policies, illegal timber products transaction and unregulated logging, in the future, are expected to be under control with enhancement of law enforcement, government invention (e.g., CAF’s work on wood tracking system) and international cooperation. Finally, there are many opportunities and challenges waiting to be exploited or solved by the Chinese government and forest companies; Chinese forest certification market will be growing in a positive trend.

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