

Market-based approach to forestry development

An international conference on Sustainable Forestry Development in China was held last May in Huang Shan (Yellow Mountain), China. The two-day conference, entitled “Market-based Approaches to Sustainable Forestry Development and Forestry-based Poverty Alleviation: Global Trends and Implications for China” attracted over 100 Chinese and 20 international forestry experts and forest industry representatives. In this first of a two-part series on the conference, we highlight excerpts of issues on China’s forestry industry.

The aim of the conference was to present market-based approaches to forestry development and forestry-based poverty alleviation to policy makers in China. Presenters and discussants focused on the potential role of market and incentive based instruments and the private sector to contribute to forestry development and poverty alleviation, and included leading examples of successful market-based innovations from around the world. The conference sought to inform a growing debate in China on the policy reforms necessary to enable forestry to better contribute to rural development, while protecting the environment and meeting domestic demands for forest products and services.

Chinese participants included members of the Chinese Academy of Forestry, the State Forestry Administration, over 30 provincial forest administration agencies, the Chinese Academy of Sciences and representatives of non-governmental organizations.

Among the international participants were the Center for International Forestry Research; the State Forests of New South Wales; the University of California; Ikea Company; Westvaco Corporation; the World Bank; Forest Trends; the International Institute for the Environment and Development; and the Institute for Global Environmental Studies.

Participants also visited a local community forestry development area, the Huicun Joint Forest Farm, in Xiuning County, where they reviewed the community’s forest and discussed land tenure and profit sharing arrangements.

Forest conservation and development: Challenges and missions of China

This paper was presented by Wang Xuan, deputy director general, Department of Policy and Legislation, Chinese State Forestry Administration. Wang started the session with a description of the new directions in forest policy in China. She described the challenges of forest protection in China, the major programs designed to address these challenges

and a brief review of legal and systemic reforms required.

The two major programs were the Western Development Strategy, with its emphasis on promoting tree cover and economic development in Western China, and the Natural Forest Protection Program, which reduced wood output in several key forest regions. Other programs include three shelterbelt projects in three northern areas, the return of cultivated land to grasslands to control erosion, the Tenjung biosphere, and creating reserves to protect habitat and wild animals.

Madam Wang also highlighted the need for channeling financial investments from the government and diverse multilateral sources toward preserving ecological function and economic output from forests. She also discussed the need to

lower tax rates and to provide a lower rate of interest for a longer duration for forestry investment, as forests provide a combination of ecological and economic benefits.

Finally, she suggested that forests established by individuals should be promoted and that several policy steps would facilitate private incentives for forestry. These include more secure land tenure, managerial freedom to establish commodity forests, ownership of trees by those who plant them, strengthening of market information systems and forests laws.

International impacts of Chinese forest policy

Zhu Chunquan, Forest Program director of the World Wildlife Fund in China, presented “International Impacts of Chinese Forest Policy.” Zhu summarized the initial findings from a World Wildlife Fund report due out later. He first reviewed the scope and impacts of forest-related policies in China: trade measures, such as the lowering of trade barriers and tariffs, construction and residential housing reforms, the Grain for Green policy, the Western China Development Program and, significantly, the Natural Forest Protection Program (logging ban). Zhu then summarized the wood products import data for China. The report finds that as expected imports have risen as logging has been curtailed in China and trade restrictions have been eased. A large portion of the imports, however, comes from a few

countries. Often, these countries are experiencing crises of illegal or unsustainable timber harvest, and the new Chinese demand is exacerbating the problem. Zhu gave examples of impacts in supplier countries and regions of the effects of this demand, especially in Papua New Guinea, Russia, Malaysia and Central Africa.

Finally, Zhu made the following recommendations to mitigate China’s negative impact on supplier country forests:

- Establish forest certification mechanism to promote sustainable forests use

- Encourage the timber plantations, especially mixed forests development
- Abolish the logging quota for commercial timber plantations to allow timber producers to be independent in harvesting
- Terminate the favourable policy (the half tariff and tax policy) for small border trade with neighbor countries
- Crack down timber smuggling along borders
- Provide incentive for the use of non wood-fiber and substitutes
- Use fuel wood and other sources of energy efficiently to increase capacity of timber production
- Use market mechanisms to promote the transfer of forest resources and investment into the forestry sector
- Enhance the use efficiency of forest resources and promote sustainable way of life.

Yang Shimin, Deputy Division Chief, Natural Forest Conservation Center, State Forestry Administration provided discussion of Zhu’s presentation. Yang described various efforts to protect forests and improve their productivity - the National Forest Protection Program, reform in state owned forest areas, forestry investments of 18.8 billion RMB in the last two years. He said these have reduced domestic wood production in the short term and while there is an impact on the global markets, he described it as not earthshaking. He stressed that large-scale plantations will come online in the near future, and that while the demand for small diameter wood is stable, big diameter wood demand is rising.

Comments to Zhu Chunquan’s presentation highlighted the difficulty of environmental governance in a situation of general decline of governance; the agreement between Chinese and Russian Prime Ministers for development of Russian forests; the ownership of forests where the logging ban was in place; the quality of forestry data; and the incentive to reduce imports and increase long-term forestry investment.

China's changing forest sector

China's forests are a major source of rural employment, a major contributor to GNP, and a major provider of rural energy. These forests also provide important environmental services, including watershed protection, biodiversity conservation, and carbon sequestration.

Major flooding in 1998 led the government of China to impose selective logging bans and establish a comprehensive forestry program - the Natural Forest Protection Program (NFPP). In the short-run, these initiatives have reduced timber supply from natural forests, putting at risk the livelihoods of the populations directly and indirectly reliant on harvesting from those forests. In addition, these measures are adding to the already growing pressure on China's plantations and boosting the demand for imports, thus affecting the status of forests regionally. The NFPP also set new targets for plantations and foreign direct investment in plantations.

Partially in response to these issues, the government of China recently initiated a large-scale development project, the Great Western Development Strategy (GWDS), and created a Task Force on Forests and Grasslands under the auspices of the China Council for International Cooperation on Environment and Development (CCICED). The purpose of the GWDS is to promote natural resources-based economic development in the Western provinces while the purpose of the Task Force is to advise on the government on the implementation of the NFPP and the GWDS, and provide advice on forestry development generally.

While there has been significant shift in control from the public to private sector in forestry in the last several decades, forestry has lagged behind other sectors

in liberalisation. The current pricing, marketing, and regulatory framework does not adequately encourage private sector participation in forestry, whether domestic or foreign, reform of the state-owned enterprises are incomplete, and forest owners are not compensated for the many environmental services generated from their forests. The government recognises the need for additional policy reform and is increasingly open to market-based approaches to forest conservation and development, and forestry-based poverty alleviation.

In summary, the government's key concerns relating to forestry include:

- Increasing incomes of the rural poor in western provinces and to do so in an environmentally and socially appropriate manner
- Promoting alternative sources of employment for those displaced by the new forestry policies
- Meeting the domestic demand for forest products by increasing plantations and the productivity of natural forests
- Completing the liberalisation of the policy framework, and modernizing their forest industry, in part by encouraging international investments.

The Government's success in addressing these concerns and ensuring that forestry is a strong and sustained contributor to economic development and poverty alleviation in China will require a sound grasp of a number of issues, including the following:

- The domestic impacts of forest policies, and the additional policy reforms warranted to promote sustainable forestry, modernize forest industry, attract additional investments, and increase employment and incomes;
- Innovative institutional experiences, whether from China or from around

the world, that have demonstrated effective approaches to develop new forests or conserve those remaining;

- Regional trends in forest products and the social, environmental and economic tradeoffs of domestic production versus imports of key products demanded by the Chinese economy;
- The potential of markets for environmental services to add value to forests and rural incomes, and the steps necessary to promote those markets; and
- The potential for additional foreign investment in forest production and industry, and the criteria and interests of foreign investors.

The International Institute for Environment and Development (IIED) is currently conducting research with government ministries on a range of critical policy issues, including forest tenure and contracting, forest taxation and fees, company-community partnership, markets for environmental services and forest certification.

This work is scheduled for completion, with recommendations ready for policy makers, soon. The Center for International Forestry Research (CIFOR) has also been conducting research on the Chinese forest policy experience, while the World Bank is providing technical assistance to the CCIED Task Force on Forests and Grasslands.

The preliminary findings from this fieldwork will be available soon, and an interim report for policy makers will be available by October 2001. While this ongoing work is extensive, none of these efforts introduces international experiences of market-based approaches to forest conservation and development to Chinese policy makers. ♦