A package of future coordinated actions!

development bank loans to forest and wood industry in China and in central Africa and the green supply chain facility (GSC) a verified legal and/or certified (VLC) tropical timber and wood product trade facilitation programme will support necessary changes to central Africa’s timber supply to maintain access to China’s changing market.

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ATIBT Think Tank
Nogent sur Marne, 2-3 November 2020
**Situation in China**

- According to ITTO, **China imports 60+ % of the internationally traded tropical timber.**

- **Global Green Supply Chain (GGSC)** Chinese industry initiative founded at ITTO workshop in Beijing, June 2018: GGSC industry commits to cleaning up its supply chains and asked for international support. Motivation: Market access and reducing reputational risk.

- **GGSC-GIZ-ITTO study tour to Gabon, Cameroon and ROC**, Feb/Mar 2019, jointly with ATIBT. Participating GGSC industry gets sensitized to illegal logging.

- **GGSC conference in Shanghai**, Oct 2019, co-funded by BMEL/BMZ, organized by ITTO, ATIBT and CTWPDA. UFIGA and UFIAG commit that all members have to be at least 3rd party legality verified by end of 2021 with certain international support.

- **New Chinese forest law** in force since July 2020: Article 65 prohibits purchase, transport and processing of illegal timber. NFGA confirmed that this law also applies to all imported timber.

- GGSC industry asked GIZ to broker a **EUR 200 M KfW loan to tropical wood processing industry in China**. Industry commits to exclusively process proven legal tropical wood (3rd party legality verification + timber tracking via block chain technology). KfW is interested.

- KfW and World Bank interested in offering a **EUR 200 M loan to timber industry in central Africa** for investments in legality verification and modern processing technology.
A coordinated package of possible future legal tropical timber trade actions:

**Development bank loans** and **green supply chain facility (GSC)**

- **KfW grant programme** fostering legality verification and certification of forest concessions in central Africa
- **KfW or World Bank loan** EUR 200m
  - Central Africa
- **Dev. bank loan** EUR 100m
  - Central Africa
- **KfW loan** EUR 200m
  - China
- Revolving supply chain finance loan supporting processing industry in China to exclusively buy verified legal tropical timber

Link to FOCAC?
Assumptions / expected outcomes

• Verified legal and / or forest management certified (VLC) wood production in central Africa increases due to Chinese market pull for VLC timber.

• Consequences:
  • more proper jobs for local population in the Congo Basin,
  • increased tax income for central African governments,
  • reduced forest degradation, slow down in forest conversion, improved biodiversity protection and long-term forest conservation,
  • a more level industry playing field,
  • considerable contribution to climate change mitigation.

• Overseas investments in VLC forest and wood sector in central Africa are increasing.

• A shift to VLC wood production in Congo basin countries may increase international market demand for VLC wood products from Africa. Paradigm shift!

Levers

1. New Chinese forest law Art. 65 combined with Chinese tropical timber market power.
2. GGSC industry commitment.
3. International market demand for VLC timber products reinforces levers 1 + 2.
Legally operating wood processing industry in China
KfW pilot project and financing scheme

1. MOF
   - Loan Agreement (EUR 200m, 15 years)
   - Onlending of KfW funds (EUR 200m, 15 years)

2. SOE or SO Bank (= PEA)
   - Manages revolving loan fund
   - No legality, no loan

3. Independent auditor
   - Legality verification as trigger of loan disbursement to end users

4. JD Digits
   - Financing of audit design and set-up
   - Financing of block chain tracing during initial project period (thereafter by industry tbd)

5. CGCDF/ TAG China
   - No legality, no loan
   - Audit

6. Company 1, Company 2, Company 3, Company 4
   - Loan disbursement and repayment on revolving basis (e.g. 6-12 months)

Tropical timber supply chain:
- Veriﬁed legal tropical forest concession
- Saw mill
- Logging truck
- Port of export
- Ship to China
- Port of import
- Transport
- Processing industry
- Transport
- Market

Verified timber legality as trigger of loan disbursement to end users
Chinese tropical timber importer expectations

- SO processing industry complies with art.65 and wants to massively increase VLC tropical timber imports. SMEs will have to follow the example to avoid being sanctioned.
- Chinese demand for VLC timber from central Africa including credible tracking is estimated at 7-8 M m³/y. Due to limited supply, Chinese importers are looking into replacing tropical timber with modified wood.
- Key issues that need to be addressed:
  1. Central African supply of VLC timber has to increase quickly to meet new Chinese demand.
  2. Chinese importers need to know from whom to buy proven legal timber (legality verified / certified + credible timber tracking) with “letter of credit”. Wish to build trusted business relationship with credible suppliers.
  3. Individual suppliers offer too small volumes. Pooling of timber for sale via an Internet platform is suggested.
  4. Supply of carbon neutral tropical timber is needed as China is planning to be a carbon-neutral economy by 2060.
Green Supply Chain Facility (GSC)

Objective
Africa-China-international markets tropical timber and wood product trade is increasingly limited to VLC timber and wood products.

Outputs
1. Central African supply side
   • Forest concessions are improving management towards 3rd party legality verification and timber traceability.
   • African governments revise fiscal and trade policies to foster legal wood production and trade.

2. Chinese demand side
   • NFGA, Mofcom and general customs implement art. 65 and revise accordingly certain fiscal, trade and overseas investment policies.
   • Tropical wood processing industry in China cleans up supply chains and increasingly processes VLC timber.

3. International demand side
   • International market operators increase demand for VLC tropical wood products from China.
Green Supply Chain Facility (GSC)
Programme architecture by output

Management team
- Beijing or Europe?

Output 1: Central Africa unit
- Brazzaville or Libreville?
- External expertise, studies
- Workshops, conferences
- Study tours
- Communication materials

Output 2: China unit
- Beijing

Output 3: International markets unit
- Europe?
Green Supply Chain Facility (GSC)
Possible implementation and collaboration partners per unit

Central Africa unit
- Implementation partners
  - GIZ
  - ITTO
  - ATIBT
  - Client Earth

- Collaboration partners
  - PPECF/KfW
  - World Bank
  - AFD
  - FGMC
  - African govt
  - EFI
  - Ongoing projects

China unit
- Implementation partners
  - GIZ
  - Chinese govt (NFGA, Customs, Mofcom)
  - GGSC

- Collaboration partners
  - Infit / FCDO
  - KfW
  - TFA / WEF
  - Client Earth
  - EFI

International markets unit
- Implementation partners
  - GIZ
  - TFA / WEF
  - ITTO

- Collaboration partners
  - IDH
  - ETTF
  - IWPA
  - Others
Green Supply Chain Facility (GSC)

Risks

• Art. 65 implementing regulations are not conducive or are conducive but will not be implemented stringently. **Very unlikely** after recently made NFGA commitments!

• China is not revising its fiscal, trade and overseas investment policies. **Policy revision will need time** and GSC + BCM facilitation.

• Wood producers in central Africa shift exports to markets with no legality requirements, e.g. middle-east, India, and so massively reduce their exports to China. **Rather likely that small portions of the market will shift**, but small portions only.

• Lack of political will in central African governments to revise fiscal and trade policies. **Rather likely** at least in some countries. But the changing Chinese market and expected foreign investment in wood processing in central Africa may open a new positive dynamic.
A package of future coordinated actions!

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