The Impact of Forest Policy on Plantation Development in China

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Outline

1. Change of Forest Policy
2. Policy Barriers in Plantation Management
3. NGO’s Position and Roles in Policy Formation
1. Change of Forest Policy

China Forest Cover and Distribution

Forest Types:
- Ecological Forest
- Commercial Forest
1. Change of Forest Policy

Administrative Structure

- Five tiers of government: Central, Provincial, City, County, and Township.
- County government’s local policy is too arbitrary.

![China Provinces and County boundaries map]

Central: 1  
Provinces: 34  
City: 333  
County: 2,862  
Township: 44,721
1. Change of Forest Policy

Wood Deficit: Scary Numbers

- Wood deficit reached 200 million m³ per year (RISI 2015).
- Wood import surpassed 50% of domestic demand (SFA 2014).
- Wood has recently been considered as strategic material by several countries.

Current and Projected Wood Deficit in China

- Woodchips
- Pulp
- Boards
- Lumber
- Logs

Unit: million m³ Equivalents

Source: RISI 2015
1. Change of Forest Policy

Investment from 100% State to Many Sectors

- 1970’s: Greening the Motherland
- 1980’s: Afforestation of Barren Land
- 1990’s: Transformation of Low Yield Forest
- 2000’s: Conversion of Degraded Cropland to Forest

Funds from Many Sectors Invested in Commercial Plantations

CPC-State Council [2003] No. 9

Change of Investment Body
1. Change of Forest Policy

What is in the CPC-State Council [2003] No. 9?

- Reduce forest taxes and fees from 200+% to 10% Silvicultural Fund.
- Promote Classified Forest Management Scheme:
  - Ecological Forest vs Commercial Forest
- Promote intensive forest management and social forestry.
- Forest Tenure Reform: permission of forestland use right to circulate in market.
- Government subsidized loans to encourage forest investment.

Mr. Ruan – a private investor
Mr. Qi – Father of Eucalyptus in China
1. Change of Forest Policy

Eucalyptus plantation area reached 4.5 million ha (CERC 2015).

Eucalyptus plantation: 1.4% of national forest area; 6.3% of national plantation area; but it represents a) US$47 billion industry chain; b) annual wood input of 30 million m³, or 26.9% national wood production; c) annual carbon sequestration of 100 million tons (CERC 2015).

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Source: CERC 2015
1. Change of Forest Policy

Eucalyptus Plantation Development

- Australian government helped breed the 1\textsuperscript{st} gen superior clones (1981-1989).
- Leading forest companies such as APP and Stora Enso trained a new generation of professional foresters.
- Benefited the most by tree farmers (78%).
- Forest companies account for 15\% and state tree farms for 7\% by area.

<table>
<thead>
<tr>
<th>Source: CERC 2015</th>
<th>Source: GFGA 2016</th>
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</thead>
<tbody>
<tr>
<td>Change of Eucalyptus Plantation Area (1960 - 2015)</td>
<td>Eucalyptus Plantation Area Distribution</td>
</tr>
<tr>
<td>Area (millin ha)</td>
<td>State Tree Farms 7%</td>
</tr>
<tr>
<td>0</td>
<td>Private Forest Companies 15%</td>
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<tr>
<td>1</td>
<td>Individual Tree Farmers 78%</td>
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</table>
2. Policy Barriers in Plantation Management

Urgent Need for Revision of “Forest Law”

1. Investment Bodies Do Not Include Private Sectors
   ( “Forest Law”【1998】)

2. Classified Forest Management Scheme Proves Work
   (SFA Administrative Policy【2014】131)

3. Elimination of Silvicultural Fund
   (State Council Finance Taxation【2016】No. 11 & “Forest Law”【1998】Item 8)

4. Need to Eliminate Harvest Quota & Permit for Commercial Forest
   (“Forest Law”【1998】Items 8 & 32)

5. Need to Establish Government Compensation Mechanism
   (“Forest Law”【1998】Item 8)

3. Complex Forest Tenure System, Zhejiang Lishui Contractual Management Right Scheme Will Work
2. Policy Barriers in Plantation Management

Local Interest Group Imperils Investment Success

- Wood is a tightly-controlled commodity at harvest & transport.
- Current forest policy cannot meet the needs of plantation development.
- Silvicultural Fund & local interest group imperil the success of plantations.
2. Policy Barriers in Plantation Management

Silvicultural Fund is Among the Biggest Barrier

- Local government interprets inconsistently with central government forest policy.
- Communications barriers among forest growers, general public, and policy makers.
- Silvicultural Fund has been major portion of the government fees until 2016 (State Council – Finance Taxation [2016] No.11)

![Partitioning Government Fees](image)

Source: GFGA 2016
2. Policy Barriers in Plantation Management

National Policy Cannot Benefit Growers Timely

- Previous forest investors were leaving plantation forestry.
- Profit = Revenue – Production Cost – Trading Cost
- \[ \text{Profit} = \text{Revenue} - \text{Production Cost} - \text{Trading Cost} - \text{Industry Cost (Social + Policy)}. \]
- “One benefits from what he grows”, the spirit of CPC-State Council [2003] No. 9 cannot be realized.

Assumed 11% discount rate, invested US$4,547/ha at 5-yr rotation, produced 82.5 m³/ha at a delivered price of US$111/ m³.
2. Policy Barriers in Plantation Management

Impact of Zeroing out Silvicultural Fund

- From Feb. 1, 2016 onwards, Silvicultural Fund was zeroed out (State Council - Finance Taxation [2016] No. 11).
- Forest growers started to rid off heavy taxes and fees.

**Note:** Assumed 11% discount rate, invested US$4,547/ha at 5-yr rotation, produced 82.5 m³/ha at a delivered price of US$111/m³.

Source: GFGA 2016
2. Policy Barriers in Plantation Management

Elimination of Silvicultural Fund

BEFORE State Council-Finance Taxation【2016】#11

- Silvicultural Fund: A majority part of government fees.
- Harvest Design: A service company fee that is monopolized.
- Log Scaling Fees: Evolved into a service fee that is also monopolized.

AFTER State Council-Finance Taxation【2016】#11

- Monopolized Harvest Design Fees & Evolved Log Scaling Fees.

Note: All numbers were based on 2015 total fees as 100%. Source: GFGA 2016
2. Policy Barriers in Plantation Management

Local Government Administrative Orders

- Eucalyptus is considered “evil” socially.
- Local government of various levels to issue administrative orders either to eradicate or limit eucalyptus plantations.
- Local policy often imperils the success of plantations and investment.
- Types of Limitation: Fujian by province; Guangdong by city; Guangxi by county.

![Map](image-url)

Source: GFGA 2016
2. Policy Barriers in Plantation Management
   Land Competition Among Interest Groups & Industries

- “Science Based Policy Making” deviated by various industry management.
- Competition for land resources among industries becomes increasingly fierce.
### 2. Policy Barriers in Plantation Management

#### Evolution of Forest Taxes & Fees

<table>
<thead>
<tr>
<th>No</th>
<th>Before 2003</th>
<th>After 2003</th>
<th>After 2013</th>
<th>After 2016</th>
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<tbody>
<tr>
<td>1</td>
<td>Regeneration Fee</td>
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<td>2</td>
<td>Special Product Tax</td>
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<td>3</td>
<td>Township Ed Fee</td>
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<td>4</td>
<td>Regeneration Collaterals</td>
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<td>5</td>
<td>VAT</td>
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<td>6</td>
<td>Silvicultural Fund</td>
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<td>7</td>
<td>Production Maintenance Fee</td>
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<td>8</td>
<td>Log Scaling Fee</td>
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<td>Quarantine Fee</td>
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<td>Ed Surtax</td>
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<td>Infrastructure Surtax</td>
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<td>12</td>
<td>Community Development Fund</td>
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<td>Stamp Duty</td>
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<td>14</td>
<td>Township Profit Sharing Fee</td>
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<td>Township Management Fee</td>
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<td>16</td>
<td>Joint Office Fee</td>
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<td>17</td>
<td>Forest Committee mgmt Fee</td>
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<td>Forest Protection Fee</td>
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<td>19</td>
<td>Forest Road Maintenance Fee</td>
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<td>20</td>
<td>Flood Fund</td>
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**Change of Taxes & Fees:** 200+%  10%  10%  ¥1/m³

- SFA Finance [2013]#96 to eliminate log scaling fees.
- Guangxi continues to levy log scaling fees or the substitute of it by the name of “service fee”.
- Harvest design companies and harvest permit service (evolution of log scaling fee) companies are monopolized in counties of Guangxi.
- Forest policy for commercial plantations gets better over time.
3. NGO’s Position and Roles

In Policy Formation

1. Expedite the revision and legislative process & eradicate Silvicultural Fund from “Forest Law” in order to attract investment from all sectors into forestry. 加快《森林法》修改和立法进程，从法律根源上取消育林金，吸引各种资本进入林业。

2. Increase funding to plantation technology and policy research. 加大对人工林种植技术和政策研究的投入。

3. Encourage the development of grass-root industry associations, strengthen the information exchange between plantation growers and policy makers. 鼓励民间草根行业协会的发展，加强人工林种植者和政策制定者之间信息的交流。
Guangxi Forest Growers Association
广西人工林种植行业协会
GXCA No: 1050

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