

## Corruption Stains Timber Trade

Forests Destroyed in China's Race to Feed Global Wood-Processing Industry

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Washington Post Foreign Service

Sunday, April 1, 2007; Page A01

MYITKYINA, Burma -- The Chinese logging boss set his sights on a thickly forested mountain just inside Burma, aiming to harvest one of the last natural stands of teak on Earth.

He handed a rice sack stuffed with \$8,000 worth of Chinese currency to two agents with connections in the Burmese borderlands, the men said in interviews. They used that stash to bribe everyone standing between the teak and China. In came Chinese logging crews. Out went huge logs, over Chinese-built roads.



*A railway in northeastern China receives timber from the Russian Far East, where the World Bank says half of all logging is illegal. Ikea products are made here and shipped to the U.S. (By Peter S. Goodman -- The Washington Post)*

### How Illegal Timber Travels

Every day huge volumes of logs, many of them harvested illegally, stream toward Chinese factories where workers churn out products such as furniture and floorboards. These wares are shipped to major retailers like Ikea and Home Depot, and are bought by shoppers with little inkling of the wood's origins.

### China's Insatiable Demand for Timber

Some of the largest swaths of natural forest left on the planet are being harvested at an alarming pace to feed a global wood-processing industry centered in coastal China. The Chinese demand for wood is fueling illegal timber operations in parts of Indonesia, Burma and Siberia.

About 2,500 miles to the northeast, Chinese and Russian crews hacked into the virgin forests of the Russian Far East and Siberia, hauling away 250-year-old Korean pines in often-illegal deals, according to trading companies and environmentalists. In the highlands of Papua New Guinea, Indonesia and Africa and in the forests of the Amazon, loggers working beyond the bounds of the law have sent a ceaseless flow of timber to China.

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"Western consumers are leaving a violent ecological footprint in Burma and other countries," said an American environmental activist who frequently travels to Burma and goes by the pen name Zao Noam to preserve access to the authoritarian country. "Predominantly, the Burmese timber winds up as patio furniture for Americans. Without their demand, there wouldn't be a timber trade."

At the current pace of cutting, natural forests in Indonesia and Burma -- which send more than half their exported logs to China -- will be exhausted within a decade, according to research by Forest Trends, a consortium of industry and conservation groups. Forests in Papua New Guinea will be consumed in as little as 13 years, and those in the Russian Far East within two decades.

These forests are a bulwark against global warming, capturing carbon dioxide that would otherwise contribute to heating the planet. They hold some of the richest flora and fauna anywhere, and they have supplied generations of people with livelihoods that are now threatened.

In the world's poorest countries, illegal logging on public lands annually costs governments \$10 billion in lost assets and revenues, a figure more than six times the aid these nations receive to help protect forests, a World Bank study found last year.

Environmental activists have prodded some of the largest purveyors of wood products to adopt conservation policies. Industry leaders and conservationists have crafted standards meant to give forests time to regenerate. They certify operations that comply and encourage consumers to buy certified goods.

But such efforts are in their infancy and are vulnerable to abuse. Corruption bedevils the timber trade in poor countries.

"What we've done very well so far with certification is to reward the best players in the marketplace," said Ned Daly, vice president of U.S. operations for a leading certification body, the Forest Stewardship Council. "What we haven't done very well is to figure out how to exclude the worst players. We're having a hard time getting the criminals to label their products 'illegal.' "

This story is the result of a year-long Washington Post investigation involving reporting in China, Russia, Indonesia, Burma, Thailand, Singapore and the United States. The Post interviewed government officers, diplomats, logging companies, traders, retailers, environmental scientists and advocates. Given the risks of discussing illegal activity, The Post sometimes granted anonymity to its informants -- particularly in Burma, where the agents who brokered a logging deal with military commanders displayed their bribe ledgers on the condition they not be named.

### **From Asian Forests to Ikea Showrooms**

The industry that connects forests in Asia with living rooms in the United States via the sawmills of China is a quintessential product of globalization. As transportation links expand and technology erodes distance, multinational manufacturing operations can draw supplies from almost anywhere and ship goods everywhere.

No company better symbolizes this reality than Ikea, the Swedish home-furnishings giant. Ikea cultivates a green image, filling its cavernous stores -- including three in the Baltimore-Washington corridor -- with signs asserting that its products are made in ways that minimize environmental harm.

But in Suifenhe, a wood-processing hub in northeastern China, workers at Yixin Wood Industry Corp. fashion 100,000 pine dining sets a year for Ikea using timber from the neighboring Russian Far East, where the World Bank says half of all logging is illegal.

"Ikea will provide some guidance, such as a list of endangered species we can't use, but they never send people to supervise the purchasing," said a factory sales manager who spoke on condition she be identified by only her family name, Wu. "Basically, they just let us pick what wood we want."

China is Ikea's largest supplier of solid wood furniture, according to the company. In 2006, about 100 Chinese factories manufactured about one-fourth of the company's global stock. Russia is Ikea's largest source of wood, providing one-fifth of its worldwide supply. Ikea executives said they are confident this wood is legal, because the company dispatches auditors and professional foresters to factories and traces wood to logging sites.

But Ikea has only two foresters in China and three in Russia, the company said. It annually inspects logging sites that produce about 30 percent of the wood imported by its Chinese factories, more commonly relying on paperwork produced by logging companies and factories.

"Falsification of documents is rampant," acknowledged Sofie Beckham, Ikea's forestry coordinator. "There's always somebody who wants to break the rules."

Sending more people to inspect logging sites would make Ikea's products more expensive.

"It's about cost," said Ikea's global manager for social and environmental affairs, Thomas Bergmark. "It would take enormous resources if we trace back each and every wood supply chain. We can never guarantee that each and every log is from the right source."

Two years ago, Ikea set a goal that by 2009, at least 30 percent of the wood for its products will be certified by the Forest Stewardship Council. But now, the company says, only 4 percent of the wood used to make its wares in China meets that grade.

### **The Ecosystem Effect**

China's voracious appetite for foreign timber is the direct result of its campaign to protect its own forests, even as its demand for wood has exploded.

In 1998, floods along China's Yangtze River killed 3,600 people. The government, blaming deforestation, imposed logging bans -- particularly in Yunnan province, bordering Burma. What logging goes on must adhere to plans for regeneration.

China also unleashed an ambitious replanting effort, expanding its forest cover by an area the size of Nebraska from 2000 to 2005. A

2005 assessment of the world's forests by the U.N. Food and Agriculture Organization pointed to China's replanting as the primary reason Asia's total forest cover grew during that period, even as deforestation continued worldwide "at an alarmingly high rate."

But in those same years, unprecedented expansion has unfolded at China's factories, requiring enormous quantities of wood. In 2005, China exported \$8.8 billion worth of wood furniture, an eightfold increase from 1998, according to Chinese customs data. About 40 percent landed in the United States. China's exports of all timber products, including plywood and floorboards, exceeded \$17 billion in 2005, nearly five times the 1997 level.

All that wood had to come from somewhere. In the years since China enacted its logging bans, it became the world's largest importer of tropical logs, according to the FAO. Its log imports swelled nearly ninefold in a decade, reaching \$5.6 billion in 2006, according to China's State Forestry Administration.

China's imports of wood and exports of finished wood products are both expected to double again over the next decade, according to Forest Trends.

Whatever environmental benefits have resulted from China's replanting have been undone by the damage to the tropical regions now supplying so many of its logs, said Mette Wilkie, the U.N. officer in Rome who coordinated the FAO report. China is primarily adding tree plantations with little biological diversity. Much of the logging in Burma, the Russian Far East, Indonesia and Papua New Guinea is assailing natural forests that hold creatures and plants found nowhere else.

"You're losing tropical rainforest, and you're gaining areas of plantation, and that of course is a concern," Wilkie said. "A lot of the biodiversity is found in the moist forests."

The FAO report found grave environmental risks -- particularly in Indonesia, home to 10 to 15 percent of all known animal, plant and bird species. Several species are imperiled, among them the Sumatran tiger, according to the World Conservation Union in Switzerland. In Burma, tigers, red pandas and leopards are threatened as logging roads open forests to a range of exploitation, a dynamic at play across Southeast Asia.

"The arrival of logging operations has an immediate and devastating effect," said Jake Brunner, a regional environmental scientist for Conservation International. "We see a fragmentation of the forest and a collapse" in wildlife.

More than 1 billion people in poor countries depend on forests for their livelihoods, according to the World Bank. As forests are degraded, and as logging proceeds on steep slopes, allowing soil to wash away, communities are suffering from flooding, forest fires and a dearth of game.

"Whole ecosystems are being wiped out," said Horst Weyerhaeuser, a forester with the World Agroforestry Centre research group who advises the Chinese government.

Meanwhile, the spoils of the timber trade are monopolized by those who control the trees, typically local authorities acting with military groups.

"For local people, it just gets more difficult," said a community leader in Kachin state, in Northeastern Burma, bordering China, where Chinese logging has stripped mountains bare. He spoke on condition that he be identified only by his given name, Shaung, citing threats to his safety. "The commanders sell our natural resources and our local people get nothing."

#### **'Take-and-Run System'**

The buzzing sawmills and clattering furniture plants in China explain why the pace of logging in Papua New Guinea is four times faster than legally permitted, according to Forest Trends. It explains why ships ferry logs to China from the African nation of Gabon, where 70 percent of logging is illegal, according to the World Bank. It explains why Chinese traders armed with cash line the Russian border, overwhelming the regulators charged with preserving trees.

"There is no strategy for forest resources," said Alexei Lankin, a researcher at the Pacific Geographical Institute in Vladivostok, Russia. "What you have is a take-and-run system."

Chinese authorities acknowledge they rarely challenge imports. As long as shipments are accompanied by harvest permits issued by authorities in the country of origin, customs officers allow the wood in, making no effort to authenticate the paperwork.

"China can only ensure that the logging companies and traders obey Chinese law," said a researcher in Beijing affiliated with the State Forestry Administration. "What they do in other countries is not something the Chinese government can control."

Each year, illegal logging costs Indonesia at least \$600 million in lost royalties and export taxes, more than double what the

government spent to subsidize food for the poor in 2001, according to the World Bank. Five years ago, China pledged to help Indonesia halt shipments of merbau, a threatened tree species. Shippers have evaded an Indonesian ban on exports of merbau logs by transporting them through Malaysia, forging documents saying that the trees were harvested there, Chinese traders said.

But China has done nothing to follow through.

"They said they have no authority to implement this kind of agreement," complained Tachir Fatmoni of the Indonesian Forestry Ministry. "Merbau is still getting to China."

North of Shanghai, the Zhangjiagang port has become perhaps the largest trading place on Earth for tropical logs. According to state figures, \$500 million worth of wood passed through the port in 2004.

One morning a year ago, tens of thousands of logs laid stacked on the muddy banks. A four-story hotel next to the port had become a trading house where buyers from furniture and flooring factories haggled over cups of green tea. A bulletin board in the lobby was jammed with offers for logs from South America and Africa, and one trader whispered to a visitor that for the right price, he could get his hands on merbau.

### **Bribery at the Border**

In the rugged mountains of southwestern China, automobiles worth more than many villagers earn in a lifetime traverse dirt roads, a testament to the riches that Chinese timber merchants are extracting from next-door Burma. The trade amounts to a joint venture between China's frontier capitalists and corrupt Burmese generals leading one of the world's most repressive regimes.

For more than four decades, Burma's military dictatorship has plundered the country's natural resources. In the northeast, ethnic Kachin minority communities resisted the regime's rule with a long-running guerrilla war, until they signed cease-fire deals with the Burmese government in the 1990s. The Kachin had been sustained by jade mining, but as those rights went to the government, they shifted aggressively into logging, leaning on Chinese partners for capital, laborers and transport.

The cross-border log trade swelled by 60 percent between 2001 and 2004, reaching \$350 million in 2005, according to a London environmental group, Global Witness. With competing Burmese generals involved and some using force to evict villagers in the way, control over land is in flux, contributing to forest destruction: Chinese logging crews work fast, cognizant that new armed forces could show up any minute and shut them down.

"You bribe one army and you get the right to cut everything," said Li Tao, a Chinese logger preparing last May to sneak across the border from the Chinese town of Ruili. "Then another army comes and threatens to arrest you, and you have to bribe them, too."

Ethnic Kachin agents working for a Chinese logging boss consented to interviews in Myitkyina, a town in northeastern Burma, on the condition of anonymity, citing fears they would be imprisoned or killed. They said they wished to publicize the details of the trade to bring international pressure on Burma's government to aid local people.

"We know what we are doing is rotten," one agent said. "There is nothing else for us to do. This is how we are surviving."

They displayed a logbook showing records of the bribes they said they paid to facilitate teak logging in the Sinpo area beginning in October 2004 through March 2006: \$200 per year to the local police, \$250 to the forestry department, \$225 to the Burmese military special intelligence and \$950 to the local brigade of the Burmese army, plus \$8,000 worth of gold to battalion-level leaders. The Chinese boss independently funneled \$4,000 each to five officers in the northern regional command, the Kachin men said.

In January 2005, the agents said, a crew of more than 120 Chinese workers slipped into Burma and set up camp on a mountaintop near the town of Bhamo, adding the whine of chainsaws to the screeching of jungle insects. "They cut the whole mountain," one agent said. "They cut it all."

Caravans of 10 and 20 trucks, each carrying about 20 logs, ferried the wood into China. The Kachin agents said they rode ahead on motorbikes, giving soldiers \$40 per truck at eight government checkpoints. Where the government's control yields to the territory of a separatist group, the Kachin Independence Organization, they paid \$125 per truck to Burmese soldiers, \$83 to the forestry department and \$25 to the drug police. At Laiza, the final stop before the border, the Kachin group collected a tax from the Chinese truckers, then issued documents declaring the shipments legitimate.

In the first six months of 2005, this operation hauled 150 truckloads of teak into China, with each truck carrying about 20 tons, the men said. On the other side of the border, each ton fetched nearly \$1,000, making the total haul worth about \$3 million.

Last May, in one hour, a reporter counted six big trucks loaded with logs as they made their way down a narrow, winding road from the border toward the Chinese town of Yingjiang.

### **'This Keeps My Child in School'**

At the opposite edge of China, along the meandering border with Russia, the logging trade has transformed backwater towns into bustling hives. Russia has become China's primary wood supplier, with shipments multiplying 20-fold in less than a decade.

In Vostok, a Russian town of 4,000 with crumbling Soviet-era apartment blocks, villagers receive about \$100 a month to haul logs from the forest. Chinese workers run sawmills across the region.

South of Vostok, just outside the Russian town of Roshino, eight Chinese workers sliced oak and ash trees into planks one day last year, at a small plant where they also live, sleeping on cots in converted offices. Piles of oak and ash awaited the saw blades. At the railyard in the city of Dalnerechensk, freight cars bore loads of Korean pine and linden trees -- both protected species -- with the cargo bound for furniture factories in China.

Shi Diangang is typical of the entrepreneurs who control the trade. He once sold clothing to Russian tourists on the border. Now he brings laborers from China into Russia, paying them \$375 per month to work 12- to 15-hour days, prying wood from the forest. He sells timber to Chinese traders who supply Chinese factories that he says make furniture for Ikea. He is shopping for a villa in Macau, the gambling mecca. He tells time with a gold watch.

"It's been hell to heaven," he said.

Shi operates inside Russia largely free of regulation, with his business partner's government pedigree rendering everything legal, he said.

"The Russian company settles all the documents," he said. "Russia has very loose controls."

Already, logging has laid bare much of the Russian forest bordering China. Crews are moving farther into the interior, penetrating officially protected terrain. In the Primorsky region -- an area rich with wildlife, including 450 Amur tigers, the world's largest cat -- Yappy lumber company struggles to satisfy orders from its Chinese customers for unprocessed oak and ash logs.

"The forest is exhausted," complained Alexander Sobchenko, the company's general-director.

The Russian Forest Service issues licenses for cutting in protected areas under the guise of so-called sanitation logging, to remove sick or fallen trees. In Primorsky, one-third of exported logs have been cut under such licenses, according to Josh Newell, a researcher at the University of Washington.

"Sanitation logging is a cover to get into areas that should be protected," he said.

Last year, Russia's environmental prosecutor opened a criminal investigation of Forestry Service officials after 14 firms with such licenses harvested 1.3 million cubic feet of wood in a protected zone near Vostok. The logs were exported to China with documentation, prosecutors said. How much more passed through undetected no one really knows: About the size of Florida, Primorsky has 12 forest inspectors.

"Barbaric" is one word Russian President Vladimir Putin has used to assail the "critical problem" of illegal logging. By shipping logs out of the country, Russia is exporting tens of thousands of jobs that would go to Russians if the country had more sawmills and furniture factories. "Our neighbors continue to earn billions of dollars relying on Russian timber," Putin said.

Across the border, in the Chinese city of Suifenhe, 11 freight trains were loaded with logs one morning about a year ago, some being offloaded, others bound for factory towns throughout the country. Shacks of corrugated tin and discarded tree bark encircled the rail yard -- homes for migrant workers who have swelled the city's population to more than 100,000 from 20,000 a decade ago.

On seemingly every lane, sawmills filled the air with black smoke, the scent of fresh sawdust and the screech of metal blades biting wood. Some were jury-rigged operations manned by workers lacking safety goggles and gloves. At Jindi Wood company near the rail yard, four men strained to haul huge logs to the saws with slats hung over their shoulders. They earn \$250 a week for seven days of work.

"This keeps my child in school," said Xiao Jifeng, 35, whose wife and son remained in his village, a six-hour bus ride away.

Construction crews were filling the horizon with brick villas for the bosses, as a modern city took shape on once-empty plains.

"Four years ago, there was nothing here," said Su Guanglin, chairman of Guofeng Wood Co., a Hong Kong firm that employs 500 workers at a floorboard plant in Suifenhe. Guofeng ships nearly all its products overseas, about one-third to the United States,

mainly through Armstrong, a prominent Pennsylvania brand of floor products.

A China-Russia trading office was going up behind the factory. Empty grassland had been transformed into a public square fringed with neon-lighted restaurants and nightclubs offering Cognac and hired female companionship. Oxcarts shared dusty roads with black Audi sedans.

### **Moving to Certification**

The Forest Stewardship Council, a body created by environmental and industry groups in 1990, sets standards for the sustainable use of forests. The movement has gained high-profile members, including Ikea and Home Depot.

Home Depot conducts top-to-bottom investigations of the products on its shelves, refusing to buy from vendors who cannot verify the wood's origin, said Ron Jarvis, the company's merchandising vice president.

Home Depot sold some \$400 million in products certified by the FSC in 2005, compared with \$15 million in 1999. Still, those recent sales represented less than 5 percent of the company's total wood-product sales.

"If we could get 100 percent of our wood certified, we would do it tomorrow," Jarvis said. "But we have to do it on a commercial basis."

In China, 20 companies per month are gaining certification, said Alistair Monument, the FSC's country director in Beijing. In the floorboard and furniture factories of Guangdong province in southern China, management vernacular now includes forest conservation.

"All the big Chinese companies exporting to the United States are really paying attention to this issue now," said She Xuebin, president of one of China's largest flooring companies, Yingbin (Guangdong) Wood Industry Co.

But many major Western brands have declined to join. Four-fifths of Yingbin's exports go to the United States, some to Armstrong. Much of Yingbin's wood comes from a sawmill in Indonesia, where as much as 80 percent of the logging is illegal, according to the World Bank. Yingbin's president acknowledged "there's a gap between the law and enforcement," though he said his company plays by the rules.

Armstrong does not require that Yingbin or its four other China suppliers meet the standards of a certification body such as the FSC. Armstrong buys Southeast Asian merbau for flooring that it sells as "exotic," listing only the country of final manufacture -- typically the United States -- but not the wood's source.

"I just don't think there's a need for it," said Frank J. Ready, chief executive of Armstrong Floor Products North America.

Ready and his counterpart at Yingbin said they do not trade in wood from one country that is synonymous with human-rights abuse -- Burma. Yet as a reporter toured Yingbin's flooring factory in the Chinese city of Zhongshan last spring, a pile of teak boards sat on the floor.

"It's from Burma," a worker said.

In the southern Chinese city of Guangzhou, merchants at Yuzhu lumberyard hawked piles of Burmese teak to buyers from surrounding furniture factories. In Shanghai, marketing representatives for one of China's largest flooring companies, Anxin, boasted that they had a large and steady supply of Burmese teak.

They were exporting it to the United States, they said.

Through which channels, they would not say.

Goodman reported from China, Burma, Thailand and Singapore. Finn reported from Russia. Correspondent Ellen Nakashima in Indonesia, special correspondent Eva Woo in China, and staff writer Justin Gillis in Washington contributed to this report.

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