



Environmental  
Investigation Agency  
P.O. BOX 53343  
Washington DC, 20009

TEL +1 202 483 6621  
FAX +1 202 986 8626  
www.eia-global.org  
Twitter@EIAEnvironment  
Facebook/Environmental  
InvestigationAgencyDC



## Overview

What is illegal logging?

» It is timber harvested in contravention of applicable laws and regulations

Why does it matter?

» Illegal logging leads to degradation of forests, contributing to global climate change, biodiversity loss, and destruction of livelihoods.

# 20-50%

Percentage estimated by INTERPOL of illegal timber on the market.<sup>1</sup>



# Avoiding Illegal Timber in China Sourcing: Due Diligence Recommendations for Japanese buyers of wood products

A new EIA investigation shows that many Japanese companies are not conducting due diligence to avoid sourcing illegal wood products in China. Due diligence is key tool used by European, American and Australian companies to comply with domestic legislation requiring them to take steps to keep illegal timber out of their global supply chains. In early 2016, EIA conducted undercover visits to four Chinese suppliers of furniture and wood products – three of the four companies stated that their Japanese buyers never ask about the legal sourcing of their raw materials. In the fourth case, Itochu and Sojitz asked for documentation of legal harvest for Russian pine, following media reports about illegal Russian timber in Japan. These cases indicate that due diligence is possible in China, but not common as Japanese law does not require this of companies.

## Russian hardwoods from China to Japan: Supply chain risks and current practices

For nearly a decade prior to 2016, numerous newspapers and NGOs have reported about widespread illegal logging in Russia, and that large amounts of Russian pine, oak and ash were making their way into northeastern China.<sup>2</sup> EIA published reports in 2013 and 2014 documenting specific instances where illegal timber was being purchased in Russia by Chinese companies. These companies in turn knowingly brought this timber into China, where they transformed it into finished products, which they sold to the US and to Japan.

EIA estimates that as much as 80% of the timber harvested in eastern Russia – Siberia and

the Russian Far East - is done so illegally.<sup>3</sup> Over two-thirds of the timber exports from eastern Russia enter China, where they are bought and sold between any number of traders and sawmills before being manufactured into furniture, panels or edge-glued lumber for domestic use or export.<sup>4</sup> Japan purchased around USD \$2.5 billion of furniture and timber products from China in 2015.<sup>5</sup>

Dalian, in northeastern China, is the manufacturing hub for products made from oak, ash, elm, birch, and pine. These temperate species are sourced from around the world, including from North America, Europe, Chile, and New Zealand – but Russia remains the largest source country. Chinese domestic supplies have dwindled since 2015 as China implements a new harvest ban on timber in its Northeast.<sup>6</sup>

## Four new case studies of Chinese suppliers to Japan

In early 2016, undercover EIA investigators posing as buyers visited four Chinese furniture and wooden products companies located in Dalian, China, all of which export primarily to Japan.<sup>7</sup> EIA's goal was to understand what degree of efforts these companies' Japanese buyers made to avoid buying products made from illegally-sourced Russian timber. In one case, the Chinese manager replied that some of their Japanese buyers do ask for documentation – these buyers were Itochu and Sojitz, two companies which have recently begun developing and implementing responsible purchasing policies in consultation with Japanese NGOs. However, in three out of four cases, Chinese company managers told EIA that their Japanese buyers never asked about the legal origin of their raw materials.

These new cases highlight the disturbing fact that Russian timber of unknown legality is still making its way into the Japanese market, simply because Japanese buyers aren't asking their Chinese suppliers to provide them with legal timber. In each of the four cases, the Chinese companies told EIA that their Japanese buyers were very strict in terms of oversight, and held them to strict standards with regards to quality, chemical use, and worker conditions. The Chinese manufacturers that export to Japan accept these more onerous conditions in order to gain access to the lucrative Japanese market. In every case, the Chinese suppliers claimed to have sold to their major Japanese customers consistently for a long time, between 5-15 years.

However, in most cases the Japanese buyers never ask for legally sourced raw materials, even in cases where the suppliers proudly admit to using large amounts of Russian wood. As in the case with Itochu and Sojitz, when buyers ask for documentation of origin, their Chinese suppliers are likely to comply rather than lose their important buyers. Although it was unclear to EIA if any additional due diligence measures were

being undertaken by Itochu and Sojitz beyond requesting documentation, this represents an important first step.

### Company H

Company H is a medium-sized factory that produces solid wood furniture for the Japanese and Chinese domestic markets, using exclusively Russian timber. They source oak, ash, elm and birch hardwoods from a forest concession they own in the Russian Far East. They cut these logs in their sawmill in Russia and transport the lumber across the border. Company H operates a large factory near the Russian border in China, where they dry the boards. Some of these they use for their own production, the rest they sell to other Chinese companies. Company H also imports pine from Siberia, where they say they have a single steady longtime supplier.

Company H exports around half of their output to Japan, exclusively to a single buyer, a large distributor called Nagae. Company H reported that their Japanese customers are very strict on quality, and on other things like working conditions. Nagae has never asked for documents about the raw materials – either about harvest origin or even phytosanitary certificates. Company H told EIA that they could get documents from their suppliers in Russia but didn't have any on hand in the factory, since they never needed them for their Japanese customers.

### Company Y

Company Y is a Chinese furniture factory selling composite wooden furniture to Japan. The company manager told EIA that Nitori is their largest customer, and EIA saw Nitori products and packaging in the factory. They use primarily Russian timber, including oak, ash, and pine. They have a good contact in Primorye province in the RFE, a Chinese friend from whom they buy most of their wood.

Chinese customs data shows that this company sold over

## EIA's 2014 Open Door report

EIA's 2014 investigative report, "The Open Door", detailed flows of illegal Russian pine from Siberia, through China, and into Japan.<sup>8</sup> The report demonstrated how one of the largest Chinese companies sourcing from Russia bought an old forest concession in Siberia in order to get paperwork to launder timber, which they bought from illegal loggers. The company transported this timber to its partner factory in Dalian, China, where it transformed the timber into laminated boards, which it shipped to Japan.





Photos: Nitori bed seen at Company P and on the internet as retail.



30,000 pieces of furniture to Japan in 2014.

The company manager told EIA that Nitori and their other Japanese buyers have never asked about the legality of their products.

### Company S

Company S is one of the largest wooden door manufacturers in China. They export around the world, including to Japan. They named Japanese trading companies Itochu, Sojitz, and distributor Nagae among their main Japanese customers. Company S claims it ships around 90 containers of wooden doors each month.

Company S uses wood from all around the world, including North America, Europe, and Siberia. Company S' owner told EIA that due to recent reports of illegal logging in Russia, some of their Japanese buyers began asking them for cutting permits and other Russian government-issued documents to prove legality for their pine imports from Russia. However, he did not indicate if the Japanese buyers had requested anything beyond paper documentation for the Russian pine.

### Company P

Company P is a mid-sized furniture factory selling composite wooden furniture with ash and elm veneers nearly exclusively to Japan. It named its three buyers as Nitori, Sekikagu, and Granz. Despite the Chinese harvest ban on domestic timber, Company P continues to source Chinese ash, elm and walnut from a municipal-level forest farm in Northeastern China. Company P's owner told EIA that these farms, unlike the provincial-level forests, are not required to stop cutting until 2018. The owner added later that he also sources pine from Russia for some of his furniture production.

The owner told EIA that he has worked with the same three

Japanese buyers for over a decade. All of them are very strict with him regarding the quality of the production and regarding chemicals in his paints and glues. None of the Japanese buyers have ever asked him for documentation of legality of his timber.

## Key elements of Due Diligence

### 1. Information Collection<sup>10</sup>

»Companies must gather information and documentation to evaluate the level of risk in their supply chains;

»Documents must allow for tracking of a product throughout the supply chain;

»Countries with a high risk of corruption are rife with false documentation;

»Assess the degree of violations of forest harvesting and other relevant laws through consulting with independent third parties, local and international civil society organizations, media, and government officials

### 2. Risk Identification

»Companies must evaluate the quality of the information obtained to identify “red flags” – indicators of risk such as high level of corruption, suspiciously low timber prices, inconsistent paperwork, confirmed past violations or reports of suspicious activities by a supplier;

»Consider the risk at each level: 1) forest management, 2) trade and transport, 3) CoC risks

### 3. Risk Mitigation

»If any degree of risk exists, the company must deal with it before sourcing wood products from a particular supplier;

»Options include choosing a new supplier, working to improve supplier conduct in a time-bound framework, considering sourcing certified timber, conducting audits to ensure compliance

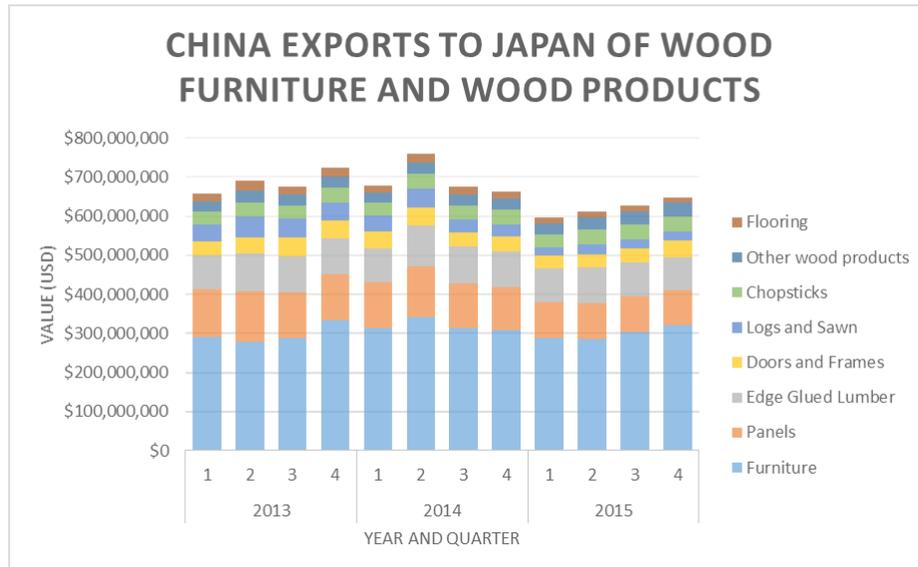


TABLE 1 – top wood products exports by volume from China to Japan. All of these products categories can and often do contain Russian timber. (Source: Chinese customs data as reported by the Global Trade Atlas.)

## EIA's 2013 Liquidating the Forests Report

In 2013, EIA released a report showing that the largest specialty retailer of hardwood flooring in the US was selling oak flooring made from trees illegally sourced in Siberian tiger habitat in Russia's Far East.<sup>11</sup> EIA's evidence proved that this company's primary supplier for solid oak flooring, a Chinese company called Xingjia, knowingly overharvested its own concessions in Russia, stole from other forests, and bought logs from small traders – logs lacking valid proof of legal origin.

EIA shared its investigative results with US authorities, which prosecuted this company, Lumber Liquidators, for violations of the Lacey Act. In 2015, the company signed a plea agreement with the US government, admitting violations of the Lacey Act and agreeing to pay \$13 million in penalties and fines.<sup>12</sup> As part of the plea agreement, Lumber Liquidators agreed to accept a strict Compliance Plan for a probationary period of five years.<sup>13</sup>



## References

1. [http://www.unep.org/pdf/RRALogging\\_english\\_scr.pdf](http://www.unep.org/pdf/RRALogging_english_scr.pdf) 2. See for instance, EIA 2013. Liquidating the Forests: Hardwood Flooring, Organized Crime, and the World's Last Siberian Tigers. <http://eia-global.org/campaigns/forests-campaign/liquidating-the-forests/>; WWF 2013. Illegal Logging in the Russian Far East: Global Demand and Taiga Destruction. <http://www.worldwildlife.org/publications/illegal-logging-in-the-russian-far-east-global-demand-and-taiga-destruction> 3. EIA 2013. Liquidating the Forests: Hardwood Flooring, Organized Crime, and the World's Last Siberian Tigers. <http://eia-global.org/campaigns/forests-campaign/liquidating-the-forests/> 4. Russian export data, 2013. 5. Chinese customs data, 2015. Obtained from the Global Trade Atlas. 6. Forest Trends, 2016. China's Logging Ban Impacts Not Just Its Own Forestry Industry, but Others around the World as Well. <http://forest-trends.org/blog/2016/03/14/chinas-logging-ban/> 7. Unless otherwise noted, the sources for this report are EIA's internal investigative reports, photos, and audio and video evidence collected between 2011 and 2016. 8. EIA. 2014. The Open Door: Japan's Continuing Failure to Prevent Imports of Illegal Russian Timber. <http://eia-global.org/news-media/the-open-door-japans-continuing-failure-to-prevent-imports-of-illegal-russi> 9. <https://ic.fsc.org/preview.2015-fsc-market-info-pack.a-5067.pdf> 10. For more details, see also: <http://ec.europa.eu/environment/forests/pdf/Basic%20minimum%20description%20of%20a%20DDS.pdf>, <http://www.nepcon.net/sites/default/files/library/Get-to-grips-EUTR.pdf> 11. EIA 2013. Liquidating the Forests: Hardwood Flooring, Organized Crime, and the World's Last Siberian Tigers. <http://eia-global.org/campaigns/forests-campaign/liquidating-the-forests/> 12. US Department of Justice, Feb. 1 2016. Lumber Liquidators Inc. Sentenced for Illegal Importation of Hardwood and Related Environmental Crimes. <https://www.justice.gov/opa/pr/lumber-liquidators-inc-sentenced-illegal-importation-hardwood-and-related-environmental> 13. [https://www.sec.gov/Archives/edgar/data/1396033/000114420415058462/v421764\\_ex10-1.htm](https://www.sec.gov/Archives/edgar/data/1396033/000114420415058462/v421764_ex10-1.htm)



## Risks of China Sourcing

- » China imports imports the largest amount of timber in the world – including illegal timber
- » China is a black box for illegal timber. China has a complex internal market of thousands of timber importers, sawmills and veneer mills, panel makers, and furniture makers – the complexity of the supply chain increases the more finished the product is
- » China puts few restrictions on imports of illegal timber
- » There are around 3,800 FSC CoC certificate holders in China.<sup>9</sup> However, this doesn't mean that everything (or anything) they sell is a certified product



For more information visit: <http://eia-global.org/>

This document is for informational purposes only. For more information, contact [info@eia-global.org](mailto:info@eia-global.org)