

An informal introduction (a) to logging interests in Yunnan and (b) enterprises listed on stock exchanges outside China which have logging and/or agro-fuel interests in China

The large ethnic minority population of Yunnan province is being diluted through inwards migration by “Han” Chinese. It seems that the land and resource rights of the ethnic minority population are being over-ridden by outsiders (perhaps without free and informed consent having been properly given),¹ including in conjunction with senior local government officials. The involvement of foreign companies and foreign capital,² (spuriously) reflecting national imperatives, adds to pressure on the affected minorities. The unique and rich indigenous cultivated or wild plants – highly regarded in niche markets - are being eliminated by outsiders and replaced with standard (probably including genetically modified)³ crops for the mass market. Such crops might generate less income locally than the traditional plants - whose commercial potential has not been given sufficient opportunity to be more fully realised.

The productivity of land in Yunnan tends to be regarded as superior to the norm in China – which partly explains high level interest in exploiting Yunnan with plantations for rubber, jatropha, pulpwood and fibre for wood-based panels. There is recognition in some quarters that the productivity of Yunnan's existing forest is likely to be maximised by improving local people's tenure and knowledge of forestry and markets.⁴ However, this contrasts with state policy – to invest in rural infrastructure in order more profitably to exploit existing forest and expand plantations (a policy which has presumably been shaped by vested interests keen to expand their sphere of influence⁵).

Some consider it unlikely that jatropha will be commercially viable on an industrial scale in Yunnan.⁶ China's remaining tropical forest – in southeast Yunnan – is threatened by further expansion of rubber plantations.⁷

Perhaps most commercial interest in the non-tropical forest and other land in Yunnan, particularly that of ethnic minorities, concerns exploitation and/or conversion to provide wood raw material either for pulpwood or wood-based panels (the two products tend to use the same wood raw material). The market for those items appears to have peaked, resulting in excess processing capacity – and might well not recover (partly due to consumer debt, unemployment, increased taxation and considerations of climate change in China's main export markets).

It seems that a small number of enterprises engage in such exploitation / conversion – both in Yunnan and elsewhere. They tend to be wholly foreign-owned enterprises – so as to gain tax privileges – listed on either the Hong Kong or Toronto stock exchanges and registered (/incorporated) in British Overseas Territories (i.e. tax havens such as Bermuda, the Cayman Islands and the Virgin Islands). Some have had no prior experience in the sector and *claim* to have sought to diversify from loss making businesses into a growing market (either in China or in forested countries notorious for fraud - such as Guyana).

Those who invest in such enterprises might seem foolhardy. Widespread (speculative) investment in the plantations sector might present opportunities for money laundering.

¹ <http://www.globltimber.org.uk/sino-forest.htm> and <http://www.chinagrandforest.com/PressRelease/2007/071213.pdf>

² For example Shunde Yingbin (/China Flooring/Nature) with Morgan Stanley & the International Finance Corporation <http://itcfn001.worldbank.org/itcext/spiwebsite1.nsf/2bc34f011b50ff6e85256a550073ff1c/af0bb8dc8df307ee8525741600599ec0?opendocument> click “Key Issues and Mitigation” search “No physical resettlement is anticipated.”

³ For example - “transgenic” jatropha - <http://www.syxny.cn/en/company/about.aspx?id=1>

⁴ <http://www.efdnitiative.org/centers/china/news-press/news-archive/2008/international-conference-on-collective-forest-tenure-and-regulatory-reform-in-china-february-28-29-2008/files/Conference%20background%20note--%20Feb%2028-29%202008.pdf>

⁵ The State Forestry Administration has lost much power since the advent of the Natural Forest Protection Programme – which (from 1998) banned the exploitation for wood progressively in much of China's natural forest. Both local government and the SFA seem to want a slice of the action in the (short rotation) plantations sector – which is only few years old and expanding rapidly.

⁶ <http://www.worldagroforestry.org/sea/Publications/files/workingpaper/WP0088-07.PDF> pp18 & 19

⁷ <http://www.bgci.org/resources/news/0569/>

A number of these enterprises' former businesses were in Fujian province.⁸ Some have subsequently formed close relationships with other such enterprises.⁹

Entrepreneurs from Fujian province dominate the distribution of (illegal) timber from both Yunnan¹⁰ (implicitly from Burma) and Russia¹¹. The founders of two of the most notorious groups in the wood-based products sector globally¹² have family links with Fujian¹³.

Complex financial arrangements handicap assessment of the viability of several of these. It seems likely that at least one¹⁴ will soon declare itself bankrupt (to the loss of some shareholders and lenders - perhaps as a consequence of risk taking if not to the gain either of the enterprise's officers or those for whom those officers front).

The use of tax havens and complex (/opaque) corporate structures¹⁵ might improve tax efficiency, but it both demonstrates lack of commitment to the country in which business operations actually take place and tends to make it prohibitively expensive properly¹⁶ to audit the enterprise's accounts. One of the enterprises has changed its external auditors with remarkable frequency. Further, two of its directors used to work for one of those auditors.¹⁷

One enterprise has substantial interests in logging and timber exports in Russia. It also grows (genetically?) "engineered" poplar on its plantations in China and finds logging in the locality of Poyang Lake – China's foremost Ramsar site – especially from distressed local farmers, particularly attractive.¹⁸

Other offshore enterprises are engaged in the cultivation of "bio-fuels" in parts of China which border other countries.¹⁹

⁸ <http://www.irasia.com/listco/hk/superbsummit/profile.htm> §1

⁹ Superb Summit with China Timber -

<http://www.hkexnews.hk/listedco/listconews/sehk/20080611/LTN20080611385.pdf>

China Timber has been involved in the consolidation of certain major logging interests in Guyana (Garner, Jaling, and possibly Demerara Timber) - http://www.ctrg.com.hk/en_US/001_006.htm.

More recently, Sino-Forest has acquired a 20% equity stake in Omnicorp, particularly it seems in order to secure an interest in Greenheart (which claims to have logging rights in neighbouring Suriname) -

<http://www.sinoforest.com/Uploads%5CRIs%20Omnicorp%20purchase%20-%20Feb6%2009.pdf> Sino-Forest (or those close to it, [e.g. directors of GEMS, which owns shares in Sino-Forest, one of whom is a director of Sino-Forest] - <http://www.omnicorplimited.com/news2/200708020076E.pdf>) had previously sold Greenheart to Omnicorp - <http://www.asiapacific.ca/en/news/sino-forest-corp-sell-interest-forestry-asset-omnicorp-ltd-hong-kong>

¹⁰ http://www.forest-trends.org/documents/publications/Myanmar-China%20livelihoods%20chain_final_4-27-05.pdf §1 p8

¹¹ http://www.forest-trends.org/documents/files/doc_102.pdf §1 p12

¹² Rimbunan Hijau - <http://www.library.ohiou.edu/indopubs/1997/04/18/0070.html> §23

Asia Pulp and Paper - <http://www.ipanet.org/newsletter/ni-0203/article-pulp.htm> §10

¹³ Singapore (most of whose population is hokkien – with family links to Fujian) has significant interests in Yunnan - notably in real estate, tin and timber. Through Temasek (in effect a sovereign wealth fund), Singapore has invested heavily in a plantation project in Yunnan- <http://www.globaltimber.org.uk/sino-forest.htm>. Asia Pulp and Paper – based in Singapore but having affiliates in British Overseas Territories

http://www.cifor.cgiar.org/publications/pdf_files/Books/BSetiono0701.pdf final § left p26, §1 right p33 and §1 right

p35] – has had (and might at present indirectly have) other logging and land conversion interests in Yunnan -

<http://www.greenpeace.org/raw/content/china/en/press/reports/investigative-report-on-app-s.pdf> and

http://www.chathamhouse.org.uk/files/3268_china160805.pdf.

¹⁴ Superb Summit – external auditors have refused to sign the enterprise's accounts -

http://www.irasia.com/listco/hk/superbsummit/annual/ar40712-ew_01228ar_27042009.pdf §1 p38

¹⁵ That of Sino-Forest exemplifies that complexity - <http://www.sinoforest.com/pdf/filings/AIF06-Final.pdf> p2

¹⁶ Likewise the recent collapse of several international banks, Enron and others can at least in part be attributed to insufficient auditing.

¹⁷ Ernst and Young <http://www.sinoforest.com/management.asp>

http://www.sinoforest.com/Uploads/2007_Q2%20release%20-%20Aug%2013%2007%20FINAL.pdf §1 p3

¹⁸ <http://www.cathayforest.com/Reports/2009/Q1%202009%20MD&A.pdf>

<http://www.cathayforest.com/product.asp> §3

<http://www.cathayforest.com/Research%20coverage/CFZ12182007RussianJVtoDriveGrowth.pdf> final § p7 and §3 p9

¹⁹ <http://www.greenglobal-resources.com/cms/files/20090427095823.pdf> (loss making business; jatropa in Laos and Hainan, licorice and salix in Inner Mongolia)

http://www.mlreforestation.com/projects_xinjiang_yellowhorn.php (yellowhorn in Xinjiang)