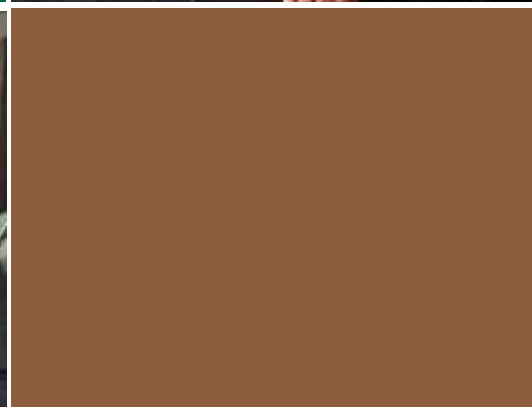
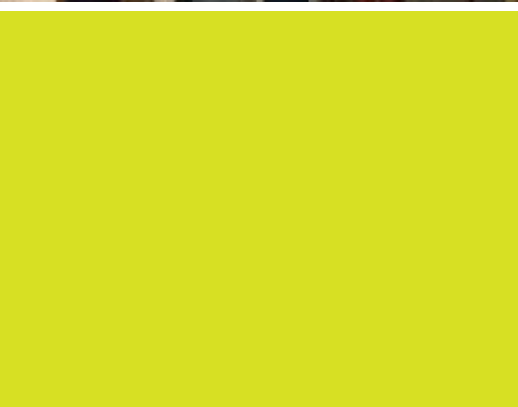
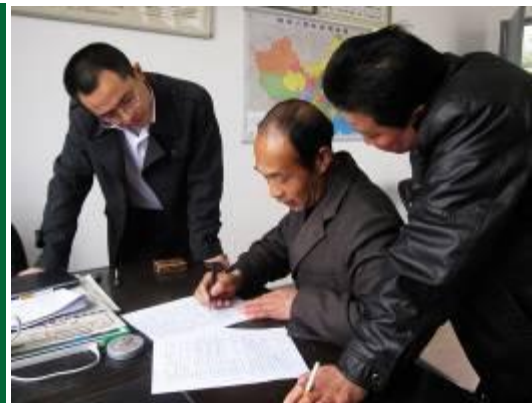


# Assessment of Forest Tenure Trade Centers in Hunan Province



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**Comments and feedback are welcome.**

# **Assessment of Forest Tenure Trade Centers in Hunan Province**

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Forestry Department of Hunan Province**

**State Forestry Administration of China  
Food and Agriculture Organization of the United Nations**

**Rome, 2010**

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# **1. Introduction**

## **1.1 Description of the Issue**

In the collective forest tenure reform, many provinces in China have run pilot programs for Forest Tenure Trade Centers (FTTCs) in selected counties. Its purpose is to provide a market platform for the transfer of forest tenure and the deployment of forestry production elements, and further to accelerate scale forestry management and development. After several years' experiments of FTTCs, it would be interesting for decision makers to look into how these centers are operating, and what effectiveness the overall performance has gained in comparison to the initial goal. With the support by the joint FAO-SFA-EC project on *Supporting Policy, Legal and Institutional Frameworks for the Reform of Forest Tenure in China's Collective Forests and Promoting Knowledge Exchange* (GCP/CPR/038/EC), the case study of FTTCs at county or township level in project provinces was designed in the 2nd phase of the Project, and has been carried out through empirical survey of selected FTTCs.

After success in the bidding process of the project in November-December 2009, the Research Institute of Environmental Law Institute of Wuhan University undertook FTTCs case studies in Anhui and Hunan Provinces in early 2010. This technical report is the synthetic study outcomes of FTTCs in Hunan Province.

## **1.2 Literature Review**

### **1.2.1 The Laws, Regulations and Policies on the Collective Forestry Reform**

The main contents of the law and policy on transfer of Collective Forestry Tenure (CFT) and market for forestry tenure transaction are as follows.

#### **1.2.1.1 Transaction Subject of Forestry Tenure**

In order to achieve the objective that the whole society involve in forestry and participate in forestation, so called socialization of forestry, at present all kinds of social subjects can participate in the transaction of forestry tenure in China. Therefore the forestry subjects include: peasant households, urban dwellers, scientists and engineers, private entrepreneurs, foreign investors, enterprises, public institutions and government organizations and their staff, covering natural persons (including foreigners), legal persons (including foreign companies) and other social

organizations.<sup>1</sup> However the main subjects in the transaction of CFT are village collectives. Most of the transferees are peasants, others are non-peasants individuals such as enterprises, urban dwellers, contracted individual households and so on.<sup>2</sup> The current controversial issue is the legal status of government organizations in forestry business development and social groups and their staffs in forestry tenure transaction. Some government organizations participated in the transaction of forestry tenure by using their own funds.<sup>3</sup>

### 1.2.1.2 Transaction Objects of Forestry Tenure

Article 15 of *Forest Law 1998* stipulates that the usage rights to forests, trees and woodlands can be transferred according to the law. They can also, according to the law, be priced and converted into shares or used as conditions for equity or cooperative joint ventures for forestation and operation of trees. Article 14 of *Decision on Accelerating the Forestry Development 2003* issued by Central Committee of the Communist Party of China (CCCCP) and State Council pointed out that the State encouraged the reasonable transaction of forests, trees and usage rights to woodland on the basis of clear ownership, and all kinds of social subjects were able to participate in the transaction by the means of contracting, renting, cession, auction, negotiation and assignment. From these articles, we find that the ownership of forests and trees can be transferred, and the usage rights to forestland and woodlands can also be transferred. It indicates that the rights characterized as real rights are transferable, whether the rights characterized as contracted right can be transferred is unclear. For example, whether the usage rights to woodland obtained by renting can be transferred: because of renting woodlands are not required to amend the registration of forestry tenure and are then unable to obtain forestry tenure certificates.

### 1.2.1.3 Transaction Means of Forestry Tenure

Many national laws<sup>4</sup>, regulations and policy documents all provided the transaction means of forestry tenure, but their provisions are quite the same, the differences in transaction means are listed in the Table 1 below.

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<sup>1</sup> In practice, the foreigners are not allowed to participate in the transaction of forestry tenure personally in many places in China, but they can get the certificates of forestry tenure for legal person after they registered a company in China. In other words, only the foreign company registered in China can participate in the transaction of forestry tenure.

<sup>2</sup> See, Li Lili, *Consideration on the Countermeasures for the Transaction of Forestry Tenure at the Level of Laws and Policies*, in *Journal of Agricultural University of Inner Mongolia (Social Science Edition)* 2008(3), p145.

<sup>3</sup> See Ye Zhinian and Lin Yixian, *on Perfecting the Transaction System of Forestry Tenure in China*, in *Journal of Southwest University of Science and Technology (Philosophy & Social Science Edition)* 2010(1), at 10.

<sup>4</sup> National laws are enacted by National People's Congress (NPC) of PRC.

Table 1: the transaction means of forestry tenure provided in main laws and policies.

Law and policy	Transaction means
Article 15 of <i>Forestry Law 1998</i>	Contracting, cession, be priced and converted into shares or used as conditions for equity or cooperative joint ventures for forestation and operation of trees.
Article 32 and 44 of <i>Country Land Contracting Law 2002</i>	Subcontracting, renting, interchange, cession, tender offering, auction, open negotiation, be priced and converted into shares.
Article 133 of <i>Property Law 2007</i>	Contracting, subcontracting, interchange, cession, tender offering, auction, open negotiation, converted into shares, mortgage.
Article 14 of <i>Decision on Accelerating the Forestry Development 2003</i>	Contracting, renting, cession, auction, negotiation, allocation, inheritance, mortgage, guarantee, be priced and converted into shares or used as conditions for equity or cooperative joint ventures.

From Table 1, we can find that there are more transaction means of forestry tenure provided in *Decision on Accelerating Forestry Development* than other documents, *Forestry Law 1998* does not provide renting and mortgage of forestry tenure, *Country Land Contracting Law 2002* provides renting but not mortgage of forestry tenure, *Property Law 2007* provides mortgage but not renting. From the perspective of forestry contractors, renting and mortgage are the best two transaction means to liquidate and raise finance. The ambiguous provision on transaction means restricts greatly the transaction scope and efficiency of forestry tenure transaction.<sup>5</sup>

#### 1.2.1.4 Transaction Procedures of Forestry Tenure

The transaction procedures and requirements are not commonly taken in local practice, but generally, the transaction of forestry must go through three steps. The first step is application. The forestry farmer should take the forestry tenure certificates and submit relevant documents to forestry stations at local villages and towns or to the forestry authority at or above the county level.

The second step is acceptance and verification. The responsible forestry authority will accept, verify and register the application, and announce the application at the place where forests, trees and woodland are located. During the period of announcement, if the interested parties raise objections to registering the application, the authority that accepts the application shall investigate and check the objection. If

<sup>5</sup> Xu Fengguo, Zhou Xunfang, on *Forestry Tenure Transaction in Collective Forest Tenure Reform*, in Problems of Forestry Economics 2008(8), p284.



the objection raised by interested parties is legitimate and effective and within the scope of forestry tenure ownership dispute, the competent forestry authority should suspend the acceptance of registered application and transfer it to the responsible authority for ownership disputes. Then, the forestry authority decides whether to accept the application again in accordance with the result of settlement. If the applicant infringes the right of interested parties, the forestry authority should cease the acceptance of registered application and inform the applicant.

The third step is transaction. After verification of the application and going through other relevant formalities, the collective forestry tenure can be transferred after the property appraisal of forestry resource and signing of the transaction contract. Whether conducting appraisal in the transaction of forestry tenure between peasant households and individuals and within themselves is determined by the involved parties through consultation.

#### **1.2.1.5 Transaction Restrictions of Forestry Tenure**

According to the provisions in *Forestry Law 1998*, there are several restrictions on transaction of forestry tenure: the first restriction is on transaction scope, which means that not all forestry tenure can be transferred by payment. For example, protected forests and forests for special uses can only be logged for cultivation and reforestation purposes and are not allowed to log for utilization purposes. The second restriction is on use, which means changing the use of woodland is not allowed after the transaction of forestry tenure in order to prevent the loss of forestry resources. The third restriction is on operation, which means the parties of transaction must obey the stipulations about logging of forests and trees and reforestation. The logging restriction should not be altered, although property managers or users change in the process of transaction, in order to prevent the damage of forests.

#### **1.2.1.6 Registration Administration to Forestry Tenure**

The clear ownership of forestry resources is the premise for efficient circulation and transaction. Forestry Tenure Certificates (FTCs) are the legal documents used to demonstrate that the right holders obtain the usage right to woodland and forestry tenure. Through FTC the right holders are able to protect their legitimate rights and interests.<sup>6</sup> The transferee must obtain the certificate of forestry tenure through

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<sup>6</sup> See Ye Zhinian and Lin Yixian, *on Perfecting the Transaction System of Forestry Tenure in China*, in *Journal of Southwest University of Science and Technology (Philosophy & Social Science Edition)* 2010(1), at 10.

registration before transferring the forestry tenure which should not involve disputes related to profits distribution, management issues and operation scope. If the problem on issuing the forestry tenure certificates can not be solved appropriately, the transaction of forestry tenure will be hindered dramatically.

#### **1.2.1.7 Appraisal of Forestry Property**

The transaction of forestry tenure is based on appropriate appraisal of the market value of the transaction object. However, forestry farmers are unable to evaluate the value of their forestry tenure, together with the lack of legitimate appraisal agencies for forestry property, many forestry properties were sold at a very low price. Therefore, it is very important to address appraisals of forestry property and to establish its appraisal agencies. Legitimate qualification, independent status, accurate appraisal and stringent supervision must be employed in setting up appraisal agencies for forestry property. In 1996, Administrative Bureau of State-owned Property and Forestry Ministry (FM, later transformed into State Forestry Administration, SFA) issued *Technical Specifications on Appraisal of Forestry Property (on Trail)*. The *Specifications* only stipulated the technical approaches on appraisal of forestry property, while the qualification and status of appraisal agencies are not stipulated.

In 2007, Ministry of Finance (MOF) and SFA issued *Interim Provisions on the Administration of Forestry Property Appraisal*. The *Interim Provisions* stipulated the appraisal scope of forestry property, appraisal agency and its staff, verification, registration and supervision. However, the *Provisions* mainly regulated the appraisal of state-owned forestry property, therefore, it is necessary to build up unified provision on appraisal administration both for state-owned and private forestry property. At the province level, Anhui province has not issued specifications on appraisal of forestry property.

#### **1.2.1.8 Investment and Finance System of Forestry Tenure**

The transaction of forestry tenure is developing substantially after the forestry tenures are being conferred to households. The scale and intensified management of forestry tenure will bring more profits and efficiency, and this will increase the financial demand of the relatively poor forestry farmer or the demand of social investors. In May 2009, People's Bank of China in conjunction with Ministry of Finance, China Banking Regulatory Commission, China Insurance Regulatory Commission and State Forestry Administration jointly issued *Guiding Opinions on*

*Financial Service for Reform on Collective Forestry Tenure System and for Forestry Development.* On the basis of forestry investment characteristics of long investment cycle, huge in-advance investment and stable late profits, the *Guiding Opinions* promoted the financial service reform on collective forestry tenure system and for forestry development by increasing the effective credit inputs for forestry development, diversifying the investments to forestry, exploring positively to establish forestry insurance, enhancing the development of information system, and creating favourable environment of financial policies.

### **1.2.2 Transaction of Collective Forest Tenure in Hunan Province**

Hunan Province has “70% mountains, 20% water-face and 10% arable field” of its total territorial area. More than 60% of its territorial land is forestland. Almost 60% of counties and districts are located in key forests areas where more than 60% farmers live. Forestry plays a very important role in the regional social and economic development.<sup>7</sup> In 2007, Hunan Provincial Government enacted the *Opinion on Deepening the Reform of Collective Forestry Rights*, meantime collective forestland tenure reform commenced, starting with a pilot program in one city – Huanghua City, and three counties – Liuyang, Anhua and Suining. The objectives of collective forestry tenure reform are to clarify forestland usage rights and ownership of trees, liberalize operational rights, activate disposal rights and safeguard earning rights. After the success of the pilot, the reform of collective forestry property rights has been extensively implemented throughout the province since November 2008. By 2009, the clarification of forests ownership and forestland usage rights has been completed. By further implementing the household contracting system to forestland, collective forest tenure has been contracted to individual households by the collective villages or collective economic organizations. Additionally, forestland boundary demarcations referring to tenure were photographed and registered in graphic form, and the forest tenure certificates in a national uniform were re-authorized. Farmer’s subject title of forestland tenure was established. Up to the end of October in 2009, about 10.644 million mu of forestland has been verified demarcation of forestland tenure; about 6.031 million mu forestland has been issued tenure certificates; and over 2.944 million mu forestland has been those with resolved disputes; it has accomplished 58.3%, 33.1% and 67.7% of targeted work respectively in demarcation,

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<sup>7</sup> Zhang Cunxian, *Strongly Putting Forward Forestry Reform and Development in Hunan* (the Speech in the Hunan Forestry Work Meeting of Hunan Provincial Committee of Communist Party of China), in *Hunan Forestry*, 2009(12), P1.

certification and dispute resolution. The demarcation of forestland tenure and authorization of forest tenure certificates is planned to be completed at the end of 2010. All cities, counties and districts in Hunan Province have set up forestry reform leading group and offices in the people's governments and introduced special official rules to ensure the reform is a success.

Meanwhile, the coordinated forestry reform which mainly focused on forestry in policy and institutions is ongoing. Regarding the issue of taxes and fees, provincial authorities of five sectors e.g. finance, commodity prices, national taxation, local taxation and forestry jointly issued the *Opinion on Further Standardizing the Levy and Administration of Taxes and Fees to Wood and Bamboo Products* in 2007, which comprehensively clarified and rectified levy items in the forestry sector and abolished unreasonable fees and "repeated charges". From July 1, 2009, the levy standard of forestry culture fund was decreased from 20% to 10%. The provincial tax has decreased more than 800 million Yuan in RMB per year. In 2007, the provincial government enacted *Measures for the Management of Forest Resources Transfer*.

With institutional reform the corresponding institutes of the forest assessment have quickly emerged, and the forest tenure trade centers were established in some cities and counties. Article 13 in the *Measures* stipulates that the right holder of state-owned forestry property should entrust a qualified appraisal agency to evaluate the transferring forestry property. Article 14 in the *Measures* stipulates that provincial government in conjunction with provincial finance department is responsible for formulating administration measures on appraisal of forestry property. Moreover, Hunan Price Bureau and Department of Forestry issued *Notification on the Issues of Service Charges for Forestry Technical Services* in 2008. The *Notification* specified the way and standards to collect the service charges, such as appraisal of forestry property.

By now the 31 forest tenure trade centers have been set up in Hunan Province, and transferred the forestry usage rights for over 12.185 million mu forestland, with the total forests reserve being more than 28 million cubic meters and the total transaction value at 5.65 billion Yuan. Moreover, about 3976 forest farmer cooperatives (FFCs) were organized, operating forests of 1.24 million square meters. This greatly enhances the social ability to promote scale forest management and promote forest farmers' awareness and self-management capacity in sustainable forestry development. Forestry investment structure has been transformed from the

state-dominated to the market-oriented mode.<sup>8</sup>

With regard to financial policies in support to forestry development, Hunan Provincial Forestry Department, the Hunan Branch of Agricultural Development Bank and the Provincial Rural Credit United Cooperative enacted the *Measures for the Management of Forest Resources Asset Mortgage Loan* 2008. Since the forestry reform, financial institutions have made lending to the total of 2.89 billion Yuan in forestry, of which 550 million Yuan was for forestland usage right mortgage loans. With the policy forestry insurances pilot launching nationwide, Hunan Province is fortunately enlisted as a pilot province. Since 2010, policy forest insurance has covered more than 2.48 million mu forestlands, and the insured risk value reached 9.9 billion Yuan.<sup>9</sup>

## 2. Objectives and Methods

### 2.1 Objectives

The objectives of the assessment and analysis of the FTTCs' case studies were designated as: to examine the existing institutional settings and operation of FTTCs; to assess the various points of views of different stakeholders on effectiveness of FTTCs; to assess experiences and lessons learned from FTTCs' pilot practice and identify factors for success, challenges, main bottlenecks for the future development; and to make recommendations to improve efficiency and effectiveness of FTTCs in the perspectives of policies, laws and regulations as well as institutional frameworks that are related to FTTCs.

### 2.2 Methods

The FTTCs' case studies have been applied via multiple methods including:

- (i) **Literature review and desk study** of legal and policy documents for recent collective forest tenure reform with emphasis on collective forest tenure reform and transaction at both national level and provincial level and the practice of FTTCs in Hunan province;
- (ii) **Survey and interviews** of various stakeholders or participants in FTTCs who

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<sup>8</sup> Yi Xuan, *Forestry Collective Tenure Reform Increasing Forest Farmers' Income*, in Hunan Forestry Science and Technology, 2009(6).

<sup>9</sup> Zhang Haiyan, *Great Progresses in Collective Forestry Tenure Reform in Hunan Province*, originally in Hunan Daily, or see: [http://www.hunan.gov.cn/tmzf/xxlb/zwx/200911/t20091109\\_179518.htm](http://www.hunan.gov.cn/tmzf/xxlb/zwx/200911/t20091109_179518.htm), visited on January 12, 2010.

have direct and indirect impacts or interests through a set of questionnaires assessing the effectiveness of FTTCs; and

(iii) **Normative analysis** of the legitimacy and rational of the FTTCs, and SWOT (Strength, Weakness, Opportunities and Threats) assessment of success, challenges and main bottlenecks of FTTCs, suggesting recommendations to improve the policy and institutional and legal framework of FTTCs.

### **3. Basic Information**

#### **3.1 Study Area and Study Object**

These were recommended by the forestry department of Hunan province, Hongjiang, Zixing and Liuyang counties were added to the FTTC case studies.

##### **3.1.1 Hongjiang County**

Hongjiang County is one of the key forests counties in Hunan province, with 25 townships, 2 state-owned forest farms and 316 administrative villages. The county possesses total territorial land of 3.259 million mu and a population of 432,300 people. The county has 2.3016 million mu forestry-use land, accounting for 70.6% of its total territorial land, of which there are state-owned and collective-owned forestlands of 134,300 mu and 2.1673 million mu respectively. The total living forest deposit in the county is 4.85 million cubic meters, and the forest coverage rate is 64.4%. The county has an agricultural population of 360,000 people. State-owned forest farms, collective villages and collective households (amounting to 102,000 family units) possess forestlands of 134,300 mu, 96, 200 mu and 2,071,100 mu respectively, accounting for 6.0%, 4.0% and 90% of the total forestland of the county. With respect to forestland use, timber forests, economic forests and ecological forests have sizes of 1,045,000, 535,000 and 592,000 mu each.

##### **3.1.2 Zixing County**

Zixing County is one of the key forest counties in Hunan province, with the total territorial land of 4,200,000 mu. The existing forestland is 3,170,000 mu, taking up 77% of the total territorial land. 74% county land is covered by forests. The county occupies public welfare forest of 6,108,000 km<sup>2</sup>, of which provincial public welfare forest is 0.46 million km<sup>2</sup>. There is collective forestland of 2,933,800 mu. Up to February 2010, about 2.0309 million mu collective forestland, equal to 69.2% land of this kind, has been authorized to collective members with forest tenure certificates.

Since 2004 Zixing county has begun its own forestry reform, which is very relevant to ongoing collective forest reform at the national level. The county government has launched two important local measures - the *Trial Measures of the Management of the Transfer of Management Rights and Use Rights of Forests, Trees and Forestland*, and the *Implementing Measures for Strengthening the Management of Forest Resources to Promote Management Rights and Use Rights of Forests, Trees and Forestland*. The county soon established a special institute for forest asset appraisal in coordination with the county forestry survey & design brigade. With the provincial administrative regulations- *Measures for the Management of Transfer of Forest Resources* taking effect in Hunan province in 2007, the implementation of above-mentioned country rules have been suspended and forest transaction activities have been frozen until March 2010.

### **3.1.3 Liuyang County**

Liuyang county is in the area of key collective forestland in south China and located in the east of Hunan province. It covers 37 townships, towns and community offices with the total population being 1,380,000 people, of which about 980,000 people are engaged in forestry.

The county is listed in the "top ten" forestry counties (cities) in Hunan Province. Ample evergreen broadleaved trees, warm and humid subtropical climate and abundant rainfall and fertile soil has made Liuyang County the important drinking water supplier to Changsha city- the capital of Hunan Province. The county has forestland 5.17 million mu, referring to 68.8% of the whole territorial land, among which collective forests take up more than 90%. About 65.82% of county's territorial land is forestland, storing 11.88 million m<sup>3</sup> standing timber and 88.72 million pieces standing bamboo. The county yields 20 million m<sup>3</sup> commercial timber and 8 million pieces bamboo each year.

In May 2007, Liuyang county commenced collective forest tenure reform. By the end of December 2009, about 5.04 million mu collective forestlands have been approved for forest tenure, and 3.8 million mu forestlands have been issued to collective farmers with national forest tenure certificates.

## **3.2 Description of Case Studies**

Coordinated and guided by the project management offices of State Forestry Administration (SFA) and Forestry Department of Hunan Province, the following

FTTCs at county and township level have been selected for case studies: (i) the Hongjiang Forestry Tenure Right Trade Center in Hongjiang County; (ii) the Zixing Trade Service Center for Forests, Trees and Forestland Use Rights in Zixing County, and its two township-level trade service stations in Tangshi Township and Xingning Town. (iii) Liuyang Mountainous Resources Property Trade Service Center in Liuyang County.

One important objectives of the case study is to find out the effectiveness of FTTCs' transaction activities. To reach this objective, understanding perceptions of forestry stakeholders to FTTCs and their needs and expectations to FTTCs with regard to having effective forest tenure transaction services through survey and investigation is essential. Stakeholders of FTTCs under the survey and investigation thus were targeted as: (i) FTTC working staff; (ii) Beneficiaries - Forest Farmer Cooperatives (FFCs), small scale forest farms and forest processing enterprises; and (iii) Forestry officials at the township forestry work stations and governments, county forestry bureaus, and provincial forestry department.

Forest farmers or FFCs interviewed by the study team were arranged as such: two villages in Hongjiang County - Dongping village in Shuangxi township and Shuanglong village in Jiangshi township; five villages in Zixing county – Chenjiadong, Pingzi and Tangbian villages in Tangshi township, Xiadong and Qiumu villages in Longqi township; and two villages in Liuyang county- Guanyingtian village in Guandu township and Qixingling village in Zhangfang township. About 100 peasant households and forestry entities were interviewed in the survey in March 2010.

### **3.3 Information on Investigated FTTCs**

#### **3.3.1 Hongjiang County**

The Hongjiang Forest Tenure Rights Trade Center (FTRTC) was formed in March 2008, after the Hongjiang county forestry bureau reconstructed the former forest resources assessment center and forest resources trade center. It was the first county-level FTTC in Hunan province that has invested in relatively adequate supporting facilities. The FTRTC was set up as a public organ subordinated to the county forestry bureau with some funding from the government. The expense for institutional building was 2.7 million Yuan and mainly covered by the county's finance and forestry bureau, FTRTC's revenue from authorized services and other



lawful income. In August 2008 FTRTC accomplished installation of institutional sections and staffs. There, four staff members were newly employed by the FTRTC and another eight staff members were shifted from related sections of the forestry bureau (still under the administration of the forestry bureau).

The FTRTC is a non-profit institution providing relevant service for public forestry affairs that relate to forest tenure. It consists of eight sections: internal administration, information consultation, resource assessment, property rights transaction, registration of property rights alteration, forest tenure mortgage loan, forestry administration services and internal finance. Its main functions are to: (i) formulate complete trading rules of forest tenure and usage rights transfer; (ii) provide the following forest tenure rights transaction services: to accept the application of forest rights transaction, examine qualifications of trade subjects and legality of trade objects, carry out cadastral survey on woodland and forests before the transaction process, conduct on-site verification of boundaries with four directions to woodland and forests that are to be traded, preside over the transaction process by taking procedures of auction, bidding and competitive sale over the forest tenure transfer cases that are entrusted by the county and township government; (iii) accept and conduct authorized administrative review and permission that are authorized by the county government or forestry bureau, including: register of forestry rights alteration, logging allowance permission, timber transport certificate, and plants quarantine certificate; (iv) provide financial services such as receiving and reviewing and assisting applications for mortgage loan by forest rights certificates, assisting in implementing policy forest insurance. In addition, the FTRTC undertakes the duty of acting as the investor for the interest of and in authorization of the county government to manage the municipal forestry investment Co. Ltd, a municipal platform for forestry financing with the function of providing forestry credit guarantee services.

### **3.3.2 Zixing County**

The Zixing county forestry bureau established the Zixing FTTC in 2004, which has the quite lengthy title of Zixing Trade Service Center for Forests, Trees and Forestland Use Rights. This center hosted a trading hall that was equipped with LED screen, computers and other trading facilities. Meanwhile, each township set up its respective township trade service station. Township trade service stations had an internet connection with the county FTTC to share transaction information in a timely manner.

Duties of Zixing trade service centers and stations were: to provide guidance to the county-wide forest transaction work, manage forest asset appraisal, publicize transaction information, and organize significant forest tenure transfer cases. Township trade service station has similar duties to the county trade service center in terms of providing services in acceptance and verification of trade applications and release of trade information.<sup>10</sup> The power partition between county and township FTTCs is that township FTTCs deal with those tenure transfer deals where forestland is within township jurisdictions and of a size less than 100 mu. Transfer deals of forestland tenure larger than 100 mu fall into the county FTTC scope.<sup>11</sup>

There are 3 staff members in the county trade service center at present. They are all from the forestry industry management office of the county forestry bureau. There had been no staff additions since the center opened. The kick-off and annual operational expense of county and township trade service stations were all sponsored by the county forestry bureau. The county forestry bureau also provided occasional professional training to staff.

The supply-demand information publicized by the county service center is derived from applications of forest tenure transfer and demand information sent from purchasers. The information was usually released via paper posted in public notice areas in township forestry work stations or people's government. Paper post is an old but still effective means of information transmission in most rural counties. Meanwhile the demand and supply information was put online via the internet if needed. Staff used text message and telephone to keep large customers and purchasers e.g. timber processing enterprises informed.

Initial construction and operational expenses (including staff salary and daily office consumption) of the county trade service center and township trade service stations were all met by the county forestry bureau. The total cost was 150,000 Yuan for the county center and 10,000 Yuan to each township trade station (totally 26 stations). In order to maintain the current service scope, it would need 10,000 Yuan for the county center and 5000 Yuan for each township station annually.

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<sup>10</sup> See: *Implementing Measures for strengthening forest resource management and facilitating transaction of management rights and use rights of forests, wood and forestland of Zixing County* of Hunan Province, 2004.

<sup>11</sup> See: Zixing Forestry Bureau, *The Study Report of Forest Resource Transactions of Zixing County*, October 2007.

### **3.3.3 Liuyang County**

Liuyang Mountain Property Rights Transfer Center (MPRTC) was established by the Liuyang county government in 2009 under the administration of the Liuyang Mountainous Forests Property Rights Administration Office (MFPRAO). The MFPRAO also had a very short history and was set up a few years ago in 2007. These two organs share one set of personnel and now have 22 staff members in total, 18 in governmental personnel positions and 4 in temporary employment. Administratively they are subordinated to the county forestry bureau. Due to its public service nature, MPRTC provides a wide range of forestry administrative service and forestry rights trade service to the county. Specific duties were officially defined as: to register forestland tenure and forests property rights and alteration of such rights, authorize forest tenure rights certificates, mediate disputes on hill-land and woodland tenure by clarification of demarcation of forest tenure, manage the transaction of woodland tenure and forests, administrate affairs of forestland tenure and forests property rights that are impacted by governmental land expropriation and taking orders, represent the county government to attend administrative litigation or respond administrative appeals on forestland tenure matters, and guide and supervise routine forestry management in villages and towns. At the township level, forestry rights transaction business is dealt with in consultation with township forestry stations and the comprehensive administrative service center of the township government, in which service windows for forestland affairs have been set up for farmers. The township forestry work stations also engage in policy, regulations and law consultation with regard to collective forest tenure rights transfer and transaction.

To further standardize the transfer of forest resources and optimize forest resource deployment, it is very necessary to create a fair and just market mechanism for forestry development. Thus, the county government subsequently founded a new institution in August 2009 - Liuyang Mountainous Resources Property Trade Service Center (MRPTSC), which specialized in forest tenure transaction service. The MRPTSC has the duties of providing services on transaction of mountain property rights, information release relating to forestland tenure transfer, mortgage and guarantee service concerning forest tenure, forest insurance assistance and others. The MRPTSC is located on the first floor of the east building of the county land administrative bureau. Currently 6 staff members are working there inclusive of 4 full-time who were all shifted from the MFPRAO. Information dissemination to the

local public basically relies on the LED post in the office hall and other internet resources. The MRPTSC is expected to be a fair, just and highly efficient market platform for forestry development.

Moreover, the MPRTC organized the Professional Associations for Forest Farms Transfer (PAFFT) on June 2009. The PAFFT is a county-wide non-governmental and non-profit professional organization concerning forest farms transfer. Its members are business companies and enterprises, forestry professionals, forest farms and other large customers who have engaged in forest farm transfer business and forests management of wood and bamboo production, processing, marketing, wholesaling and conservation and so on. The PAFFT operates a club model and charges a membership fee. The PAFFT has its website and online information platform<sup>12</sup>. Interestingly, by looking into the personnel, operation and other internal administrative details, it is easily found that the IAFT and MRPTSC are of "two brands with the same troop". The MRPTSC shares PAFFT's online information system and regards it as its own. Obviously, it is the PAFFT that provides the public and forestry management customers with forestry information with regard to forest production and processing, forestland transaction, forestation techniques and technologies, and law-related consultation.

The director of the MRPTSC was not able to provide separate expense accounting for MRPTSC and MPRTC. However the MFPRAO as the administrative body of MRPTSC and MPRTC received a 200,000 Yuan annual grant from the government. In contrast to MFPRAO's annual expenditure of 1,400,000 yuan, the expense shortage for MFPRAO is 1,200,000 yuan. This is why fund raising has become a major concern of the MFPRAO's leaders. Some financial measures have been sought to fill the gap, mainly by charging fees for technical or technological services ( bringing 30,000 Yuan annual income), and by collecting transaction service fees according to the charging standard of 10 Yuan per mu that was authorized by the county development and reform committee (receiving approximately 200,000 million Yuan each year). Still the foremost large gap has to be reduced by taking various options e.g. applying projects to raise fund.

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<sup>12</sup>Its website address is: [www.ly-lx.com.cn](http://www.ly-lx.com.cn).

## **4. The Forms and Operational Procedures of forest tenure trade and/or transferability**

### **4.1 The Existing Forms and Procedures of Forest Tenure Trade and/or Transferability**

Forests trade in the FTTCs<sup>13</sup> can be divided into two types by trade subjects: the trade of forests, trees, woods and other forestry production elements; and the trade of forestland tenure and use rights. The main forms of forests trade are trading in the FTTC, intermediate or direct negotiated trading. Farmers are free to choose either means. Intermediate or direct trading is the traditional and popular form. It has flexibility in using various trade procedures such as small-scale auction or informal bidding.

Intermediate or direct negotiated trading of forest commodities usually goes through the following procedures: farmers obtain demand information and choose the buyer in order to transport the forest goods to the buyer (occasionally buyers transport the goods), and buyers and purchasers negotiate the price by taking account of the market price (for which the FTTC is one information source) and verify the goods have been received and paid for. As Hunan Province has retained some old forest & timber enterprises, which were originally subordinated to the forestry bureau but later reconstructed into new limited companies. These reformed forest & timber enterprises are still the major purchasers and wholesalers of timber and wood in the region. For this reason, FTTCs in Hunan Province have all designed the trading scope as limited as forestland and related properties, leaving wood, forests and other forest products for the old and existing purchase and sale system to manage. This would also not damage or affect the interest of old county forests & timber enterprises.

The procedures for forest resources transfer have been carried out in four transfer forms as below.

#### **(i) Forestland tenure cession**

This refers to entire titles of forestland usage rights, where forest ownership is to be transferred to other subjects. 90% of the forest tenure transfer cases in Liuyang County took this form of transfer. If transferring collective joint forestland tenure and

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<sup>13</sup> Although their names are different in fact, we use the FTTC (Forest Tenure Trade Center) commonly for convenience.

properties, compulsory procedures are required, based upon relevant laws e.g. *Country Land Contracting Law* and special county rules in this regard. First, the village (or collective economic organization) has to formulate and publicize the transfer programs to its members; second, the transfer program has to be approved by more than two-thirds of collective members of the village decision meeting that is run for forestland tenure transfer business, or by more than two-thirds of the villager' representatives. Third, the village has to submit the transfer program to the township government for approval. Fourth, the collective joint forestland tenure and properties that are to be transferred have to be evaluated by the qualified forestry asset appraisal institution, which obviously refers to the county forestry survey and design center. Last, such transfers must be conducted in the FTTC through either selected procedures of auction, bidding or other competitive sale. At present most collective common forestland tenure has been accomplished the first round of transfer (about 10-40 years) and mostly transferred to forest & timber enterprises or township joint venture farms; whereas most household forestland tenure has been transferred to forestation farms, forest processing enterprises, and other businessmen. After farmers having been authorized with forest tenure certificates for the past several years, they have been reluctant and cautious with transferring household forestland tenure. Farmers now have great interests in long-term self management and forestation. The short term transfer of forestland tenure has been targeted to harvest woods. This was very common in Zixing County since the county rules tied the land tenure transfer with logging allowance allocation.

#### **(ii) Shareholding to farm ventures or companies**

In this form of transfer, farmers take all or part of household forestland tenure, forest ownership and use rights to invest into the forest venture or company, and the company evaluates and transforms their input into shares. As a result the venture or company obtains the usage rights of farmers' forestland and in turn farmers hold shares and enjoy interests of the forest venture and company. To large groups of farmers, the implementation of this form of transfer needs someone (or some institute e.g. the village council) who has good leadership and capacity in forest development and management. The Guanyingtang Village Farm Co. Ltd, of Liuyang county and the Qiumu Village Farm Co. Ltd, of Zixing county were good examples of this transfer form. In addition, this form of shareholding has been applied to the reconstruction of old corporative forestation venture which involved collective household forestland

tenure and state-owned farm's capital for forestation. On this occasion, all investments were transformed into shares, and finally farmers and investor (state-owned farms) held forest shares and the newly emerged farm company took usage rights of forestland tenure and kept the forest tenure certificates obtained from farmers.

### **(iii) The model of enterprises plus farmers**

This model is operated on the basis of the long term cooperation contract between forest processing enterprises and their supplier- farmers. The Hengda Wood Manufacture Co. Ltd, in Hongjiang county, and Hukang Kitchen Appliance Co. Ltd, in Liuyang county and Chenzhou Huaxing Wood Manufacture Co. Ltd in Zixing county have taken this form in order to take the usage rights of farmer's forestland and forests. The Huaxing Wood Manufacture Co. Ltd has planned to provide a guarantee for its contracted farmers to make mortgage loans through forestland tenure certificates of farms.

### **(iv) Forest farmer cooperatives**

Forest farmer cooperatives (FFCs) are a new form of forestland tenure transfer and management. They are convened and organized by groups of collective members in order to manage large scale forestlands. In many villages for examples in Hongjiang and Zixing Counties, most FFCs were just in the beginning of institutional construction and have not yet run substantial forest management. Some FFCs have run business but only for wood sale, or forestation in parts of forestlands. Few FFCs have collected almost all forestland tenures of collective members and run business as well as developed companies. The Xinghai Bamboo Processing Cooperatives in Liuyang county is one good example in terms of bamboo wholesale and forestation.

## **4.2 The Importance of FTTCs in the Total Forest Tenure Trade**

The importance of FTTCs in forest tenure trade could be examined by positive impacts that FTTCs resulted, mainly those as follows. First, the FTTC's procedures standardized transaction process and reduced disputes about forest rights. For example, Zixing County started forest tenure trade in 2000, and in a quite long period the trade operation lacked guidance and regulations. The contracts in use were incomplete in terms of procedural and substantial rights and liability with regard to tenure transfer; and respective alteration registration was not applied. All these easily led to new forest land disputes. The FTTC practice has brought about uniformed

county rules of forest tenure trade. The local rules required that the unclear or in-dispute forest land was not allowed to be put into transaction, and all forestland tenure alterations have to conduct registration or make record in the county forestry authority. These measures significantly reduced the likeliness of disputes in forestland trade.

Second, the collective forestland transfer procedure has been transformed into an open, just and fair process and successfully eliminated “black box operation”. In the past, the collective forestland tenure trade did not require the procedures of forestry property assessment, public bidding and auction, so the village cadres often conducted trade via private negotiations, resulting in cheap sale of public goods which damaged the collectives’ interest. Collective members had serious criticism for such conduct. At present, the collective joint forestland and forest property trade has been imposed for forest asset evaluation and is being transacted in the FTTC. These requirements ensure that the trade is being run in an open, transparent and fair process, and minimize discount of collective’s common goods.

Third, the FTTC provided timely information on supply and demand to enhance forestry marketing. The FTTC created the information network and other platforms. It enhanced the promotion of forestry rights trade information and raised the awareness of the society, and attracted more social stakeholders to be more actively involved in forestry investment and development.

Last but not least, it raised forests resource value and the prices of forest properties through competitive sale. The increased profit benefited forestation farmers and forest farmers at large.

However, majority forest stakeholders - the farmers have very weak awareness of the FTTC. The survey statistics (see Table 2) show that there were only about 5% interviewed farmers in Hongjiang and 13% in Zixing and none in Liuyang recalled themselves having participated in the FTTCs’ activities. About 35% of the interviewed farmers in Hongjiang county and 27% in Zixing and 17% in Liuyang recognized that they have communicated with the FTTC for information needs, and 46% interviewed farmers in Hongjiang and 37% in Zixing and 69% in Liuyang evaluated that the FTTC has not yet had any role in their forestry activities.<sup>14</sup>

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<sup>14</sup> The reason more interviewed people in Zixing understood the FTTC was because logging allowance was tied with forest transaction in the FTTC by the county rules for forests, forestland transfer.



Table 2 Farmers' evaluation of the importance of FTTCs

	FTTCs were important		FTTCs were not important	
	A. Trading in the FTTC frequently	B. Trading in the FTTC occasionally	C. Trading in the FTTC seldom	D. Other
Hongjiang (39)	5.1 %	35.9%	10.3%	46.2%
Zixing (39)	13.5%	27.0%	24.3%	37.8%
Liuyang (23)	0	17.3%	13%	69.7%

Why did farmers evaluate that FTTCs had no role in their forestry activities? There are some reasons that were easily found. FTTCs only deal with forestland transfer not those including wood, timber and other forest products, whereas now farmers are keen to manage household forestland by themselves. Thus the cession and lease of forestland tenure that links with FTTCs operation have not been taken into account by them. Obviously, there exist great challenges regarding how to reform the scope of service that the FTTC ought to provide in the future.

### **4.3 The Advantage and Disadvantage of Each Form of Forest Tenure Trade and/or Transferability**

#### **4.3.1 Forestland Trade**

The trade of collective common forestland usage rights could enable forest farms and large forestation farmers to obtain large pieces of neighbour forestland which is an essential requirement for undertaking scale forestation and forest development. If taking direct trading, the sale could be done using a simpler and closed process and at a cheaper price, and the village cadres would not have a chance to abuse power for personal gains by selling collective goods and thus harm collective members' interests. If trading in the FTTC, its normative procedures could keep the transaction open, fair and just, and the sale price could be improved, but it has to go through the forest property assessment and other procedures. Consequently it involves payments for services of assessment and trade and increases trading cost.

In the trade of household forestland use rights, if farmers take the transfer form of land tenure cession, farmers would have higher income at one time and transferees would have complete rights to use the forestland, however farmers' livelihood could be at risk and land transferees would be under great pressure due to the one-time pay off. If farmers take shareholding or lease to transfer forest use rights, they would still keep land use rights and get long term share interests but probably in lower income from the investment; transferees would have less power in managing the transferred

forestland but in turn have less pressure in payment. The forms of exchange and subcontracting of forest land use rights among farmers of the same rural collective economic organizations has advantage in advancing scale forestland development to save labour and production costs, but in this form farmers would be not competent in terms of skill and capital to manage large-scale forestry operations and management. Similarly, there are many advantages of FFCs for scale forestry management. However FFCs is heavily reliant on “village elites” who have outstanding leadership of the majority of collective members and good skills in organizing and managing FFCs.

#### **4.3.2 Woods and other forest products trade**

Different from Anhui province, the trading scope of FTTCs in three investigated counties of Hunan province have all only concentrated on the transfer and transaction of real rights concerning forestland, excluding other commodity as forest production elements. Therefore wood and other forest products have not been feasible for trade in FTTCs and have to take conventional trade forms e.g. direct or intermediate negotiated trade.

Farmers who have small yield of woods or other forest products are certainly keen to take the convenient and easy trade form e.g. direct negotiation. This trade rarely causes disputes. The disadvantages of direct trading are the procedure is private, farmers are in weaker position in the transaction process due to lack of market information. Moreover due to the constraints of this free market trade system, the trade environment is not FREE at all. As a common phenomenon, many townships' governments or the county government in Hunan province have severely influenced the forest products' trade system or made preferable policy or purchase conditions to buyers- processing enterprises, large forest and timber enterprises or dragon enterprises. In this circumstance farmers are usually forced to sell wood and forest products with no other choice.

### **5. An Analysis of Performance and Transactions of the FTTCs**

#### **5.1 Trade and Management System and Operational Procedure**

The managerial rules and trade procedures for forestry rights trade in FTTCs of the three investigated counties are various.

### 5.1.1 Hongjiang County

The Hongjiang FTTC (or FTRTC) has been the first institutionally well-developed FTTC in Hunan Province. In 2008, a set of management rules and trade rules were formulated for the FTTC's operation. They were the *Implementing Rules for Forest Tenure Rights Trade*, *Interim Measures for the Transfer of Forestry Rights*, *Constitutions for Hongjiang FTRTC*, *Service Guide of Hongjiang FTRTC*, *Rules for Negotiation Trade of Hongjiang FTRTC*, *Rules for Listing-Auction of Hongjiang FTRTC*, *Rules for Negotiation Trade of Hongjiang FTRTC*, *Rules for Bidding Trade of Hongjiang FTRTC*, and *Rules for Auction (Competitive Sale) of Hongjiang FTRTC*. These rules standardized trade process and trade procedures in terms of trade object, subject, forms of trade and trade procedures.

The transfer of collective common forest or forestland properties must be carried out in the FTTC. Specific transaction procedures are as follows: the village (or collective economic organization) formulates the transfer program; more than two-thirds of villagers members or villager's representatives in the decision meeting approve the transfer program; the township government reviews and approves the transfer program; the village then applies for transaction in the FTTC and signs the transaction service contract with FTTC and selects the trade form; the FTTC acting as agent then entrusts the forest resources survey and design institute to evaluate the property; the FTTC is to publicize the tender notice and send invitations to eligible bidders; the FTTC convenes the bidding meeting to finalize the trade contract; the FTTC conducts the official alteration registration or makes record in the forestry authority in authorization of the Hongjiang government.

If farmers choose to trade household forest land use rights or forests ownership in the FTTC, they can adopt either procedures as below: (a) Negotiation trade: farmers to apply for the trade in the FTTC with the transfer contract and the asset evaluation report (as optional), and the FTTC to review application and accept transaction and conduct registration of title alternation. (b) Bidding trade (or auction or publicized trade) : farmers to submit asset evaluation report (as optional) and deal description to the FTTC, and the FTTC to review and accept the application and publicize bidding notices in the public or send invitations to potential buyers, the FTTC to convene and run the bidding meeting, trading parties signs the transfer contract, and the FTTC conducts registration of forest use right alteration. Compared with the procedures of trading collective forest tenure, household forest

tenure trade procedures eliminates the village decision meeting, and the assessment of forest assets also becomes optional.

### **5.1.2 Zixing County**

The major task of Zixing FTTCs was the transfer of forestland tenure or trees for the purpose of wood purchase. In 2004-2008, all transfers of forestland and trees no matter the possession nature of collectives or villages or household had to conduct forestry asset evaluation and be traded in FTTCs. There was a common trade procedures: sellers to apply for the transfer of forestland tenure, village council to review and approve, township forestry work stations and township governments to give opinions, the county forestry bureau to review and permit logging allowances, the forestry asset appraisal center to provide evaluation reports with fee charged, potential sellers and buyers to register the trade in the county FTTC or township FTTCs, the FTTCs to publicize the proposed deal for 7 days and afterwards to run bidding or negotiation procedures, trading parties to finalize the trade contract and pay transaction service fee to FTTCs and related forestry tax and fees to respective sections of the country forestry bureau, trading parties to conduct registration of forestry rights alteration, and FTTCs to forward all transaction documents to the forestry bureau. Among the abovementioned procedures, the trade of household forestland tenure and collective common forestland tenure should comply with the procedures required by the Country Land Contracting Law on the approval by the village decision meeting. However county procedures reform this requirement as that the trade of household forestlands tenure only needed the approval of village council.

There were some other compulsory requirements such as: the trade of collective common forestland tenure and use rights had to be processed by publicized trade or bidding trade; all transfer of wood, trees and forests and forestlands had to be transacted in FTTCs, otherwise the forestry bureau rejected to conduct registration of property alteration; farms or farmers conducting trade in FTTCs would have priority to allocate and permit logging allowance.

### **5.1.3 Liuyang County**

The Liuyang county's FTTC currently acted only as a service window and it is its administrating body – MFPRAO that manages substantial business on trade and transaction of forestry rights. However the MFPRAO has been over-empowered with too many competences. The limited personnel were generally focused on affairs of

finalizing forestland tenure demarcation and authorizing forestry certificates and conducting dispute resolution. It was observed that Liuyang FTTC has not yet started substantial work on collective forestland tenure trade, and resulted in no related management rules and trade rules or guidelines in this regard. Liuyang FTTC only conducted the tenure transfer of state-owned forestlands and collective joint forestlands as the Hunan provincial *Measures for the Management of Forest Resource Transfer* 2007 essentially required. With regard to forestry asset appraisal procedures, the FTTC left this matter to traders to solve according to existing laws and regulations on general asset appraisal and provincial provisions on forestry asset appraisal. In practice, forest asset appraisal was entrusted to accounting firms or the country forest survey and design center (relating to forestland less than 100 mu) to provide technical service with the fee charged. In the event that this involved auction trade procedure, the FTTC would entrust the auction company to preside over the transaction while certainly charging a service fee. As there was an absence of statutory rules for the management of the FTTC, all deals of forestland tenure transaction and trade were made case by case in terms of setting up transaction procedures and trade rules and relevant conditions. This case by case approach certainly consumed time and labour in getting all trading parties to agree.

## **5.2 Transactions and Other Service Supplied**

### **5.2.1 Transaction Services**

At present, transaction services that FTTCs offered are as below.

#### **(i) Information Service**

FTTCs are responsible for collecting and disseminating information on forestland transfer, woods trade, seedling supply and demand, market price of forest products through its information system and forestry information network. Information is generally publicized on the LED screen in the trading halls of FTTCs and websites of FTTCs. Additionally information is paper-posted in office area of township forestry work stations and township governments. The working staff of FTTCs also provide additional information by phone or text message to large forestation farms and processing enterprises and other VIP customers.

#### **(ii) Review and acceptance of trade application**

FTTCs will review the submitted application and verify the legality of trade

objects and subjects and make a decision on if it is to be traded in FTTCs. The county FTTCs usually will liaise with township forestry work stations or township FTTCs (in Zixing County for example) to complete this service. The reviewed and verified applications are the main source of information that FTTCs disseminate to the public and their customers.

### **(iii) Transaction services**

FTTCs will survey forestry production elements that are put in trade (such as woods, bamboos and other products, and processing equipments), they also check the legality of trade objects, publicize auction notices and make rules for transaction and trade. As part of its usual business FTTCs will organizes bidders to have on-site survey and publicize tender documents, check the qualifications of bidders, provide bidding or auction venue and acts as auctioneers or entrust auction firms to preside auction procedures, keep transaction in order and peace in liaison with policemen. Finally FTTCs will assist for tenders and bidders to sign the statement of bidding or auction outcome and trade contract in the end.

With regard to service fee, Hongjiang and Liuyang FTTCs charges fees for the services of acceptance, transaction and registration. Transaction service fees for the trade of collective common forestland tenure transfer are alleviated; to the household forest rights trade, transaction services fee were eliminated. But Zixing FTTCs charged all types of services fee to both collective and household forest rights trade.

### **5.2.2 Other Services**

FTTCs in affiliation with other institutions in forestry affairs provide the related service either by acting as agent or directly conducting authorization of forestry authority. Such services were: forest asset appraisal, forest rights mortgage loan, forest insurance, dispute resolution and legal aid, and consultation on national laws and regulation and policy on forestry and keeping of forest trade archives.

#### **(i) Forest asset appraisal**

Three counties all established forest asset appraisal centers (FAACs). FAACs are different from existing forest resource assessments and rely on technical skills of forest survey and design. Institutionally FAACs are set up on the support of the forest survey and design institution or they have different brands but with the same troop. FAACs operate asset evaluation separate from FTTCs and under FTTCs' supervision.

For example, the Hongjiang FAAC is the sole institution that has been qualified for forest asset appraisal, and shares the same troop of Hongjiang forest survey and design institution. Since there is no national regulations and policy in qualifications' matter, assessors' qualification has been examined and recognized by the forestry academy. Appraisal fee charge standards were authorized by the country authority as: 600 Yuan per deal in the value less than 100,000 yuan, or 0.6% of assets' value per deal in the value between 110,000-1,000,000 yuan, or 0.4% of evaluated assets' value per deal in the value between 1.1- 5 million yuan, or 0.15% of evaluated assets' value per deal in the value above 5 million yuan.

### **(ii) Forest tenure mortgage loan**

Liuyang and Hongjiang provided financing services on loan mortgaged with forest tenure. Zixing hasn't started it yet. Hongjiang FTTC sets up the forest tenure mortgage loan section to conduct this service. Activities of this service are to: to check qualifications of applicants, verify the evaluation outcome of forest asset for mortgage loan, register mortgage of forest tenure, review mortgage contract, provide the mortgage report, and supervise mortgage forest assets and keep forest tenure certificates that are in mortgage.

Liuyang FTTC has made 68 deals of mortgage loan in the total loan value of 38 million yuan. The banks accounted forest tenure mortgage loan of high risk and took conservative actions. In Liuyang loan period of all forest tenure mortgage was no longer than three years, far shorter than forest production cycle, and hardly met the financial need for forestry production and management.

### **(iii) Forest insurance**

Hunan province is one of the pilot provinces in policy forest insurance nationwide. Hongjiang and Liuyang are pilot counties. Commercial forest insurance has not been able to take place due to high risk and practical difficulties that are figured by insurance companies. However, the snow disaster in 2008 aroused high awareness of forest risk management. Farmers and farms and processing enterprises have developed strong interests in prevention of forest risk. Some of them e.g. Chenzhou Huaxing Wood Manufacture Co. Ltd, in Zixing county have approached insurance companies but have been rejected. It is necessary to design insurance cost in accordance with payment feasibilities. Survey found that Policy forest insurance was very popular in pilot counties and farmers.

### **5.3 The Advantage and Disadvantage of the Transaction in FTTCs in Comparison with Other Trade Forms**

#### **5.3.1 Advantages**

- (i) It implements fair procedures and normal managements, reducing the occurrence of forest land disputes.
- (ii) It improves the sale price and benefits farmers. For example, Zhenli Village in Zixing transferred 28 mu forestland tenure cessions at the sale price at 170,000 Yuan whereas its estimated value was 69,300 yuan. In the transfer of forestlands of collective economic organizations the trade has to be taken in open and transparent procedures in the FTTCs to avoid the "black box operations".<sup>15</sup>
- (iii) It provides timely and easy supporting services that benefit trade participants. The supporting services covered related to administrative services e.g. register of forest tenure alteration, logging permission, transport permission, and technical and financing services e.g. asset evaluation, mortgage loan.

#### **5.3.2 Disadvantages**

- (i) The trade in FTTCs usually consumed more time than others due to normative management and complex requirements for application and review by various levels' stakeholders and authorities started from village decision meetings to township forestry work stations and governments. This process is deemed to be too complicated for small volume trade.
- (ii) It charges transaction and related service fees, and increases trade costs. The collective forest land tenure trade involves many service fee including asset assessment, acceptance and transaction.
- (iii) As FTTCs only deals with forestland tenure and use rights, and the first round of forestland transfer has been accomplished, the existing transaction volume of FTTCs becomes less.

### **5.4 The Experience and Lessons-learnt in the FTTCs**

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<sup>15</sup> See: Zixing Forestry Bureau, *the Study Report of Forest Resource Transactions in Zixing County*, October 2007.



### **5.4.1 Main experience**

- (i) Hongjiang and Zixing formulated relatively complete local managing provisions for FTTCs and provided well-set transaction rules for forest tenure transfer. These county rules help reduce the occurrence of land tenure transfer disputes.
- (ii) Hongjiang well defined trade objects as - forestland tenure, forests ownership and use rights, forestry logging allowance, shareholding forest farms, stewardship rights for public welfare forestland and forest product futures.
- (iii) Three counties explored different ways of institutional reform with regard to forestland tenure trade. Additionally, all counties established special forest assets appraisal institutions and security companies for forest financing, and attained experience in being marketing agents of forestry marketing and financing. Zixing experimented with township FTTCs, and recorded good experiences while extending trade platforms to villages and towns.
- (iv) The trade of collective forest lands and woods was compulsory assessed by giving evaluations to institutions which traded in FTTCs, this helped form the fair, just and open trade and avoided bad operations while protecting the interests of farmers.
- (v) Because having no pending disputes was the precondition for transaction of forestland tenure, the trade in FTTCs greatly helped clarify demarcation of forestland tenure and solved disputes that remained in the history.
- (vi) The trade in FTTCs accelerated the timber trading market toward a more open and free trade system. Although the county forest & timber enterprises were dominating woods purchase, FTTCs provided an alternative competitive trading form where the trade environment is relatively open, competitive, with less intervention of governments or large forest entities.

### **5.4.2 Lessons Learned**

The lessons learned from the experiments of FTTCs in the investigated counties of Hunan Province mainly lay in the following aspects.

- (i) FTTCs operation was concentrated on the transfer of forestland tenure or land-attached forest products (“forest real estate”), excluding other forestry

production elements. This is one of factors that may cause a low volume of FTTCs transactions.

(ii) It lacked formal institutional status for both FTTCs and FAACs, and a professional certification system for assessors as well.

(iii) The forestry bureaus have had strong intent to drive FTTCs in the direction of being marketing agent for forestland tenure, which actually conflicted with FTTCs' existing institutional status - public service organs.

(iv) There were loopholes in the county measures for forestland tenure transfer. Due to lack of provisions on the minimum transfer period, many forestlands made very short term transfer for the purpose of cutting trees. In the circumstance of short term transfer of forestlands tenure, forest managers were reluctant to invest in forest culture. This certainly harms forest sustainable development. In Zixing, the foremost provisional loophole was to tie up the forestland tenure trade in FTTCs with logging allowance permission and make trading in FTTCs compulsory. This certainly ensured transaction volume, however such provisions were not lawful since marketing service and administrative permission have different jurisprudential rationales. To impose trading in the FTTCs as a precondition to logging allowance permission is of no legality.

(v) Many aspects of pilot practice of FTTCs conflicted with national policy and law. Many country provisions on forestland tenure transfer had been put into practice before national policies were introduced. The result was that audacious pilot practice at county level conflicted with national policies and even laws. For example, public welfare forests are prohibited for transfer by Forestry Law; however Zixing made it as restrictive provisions rather than prohibition. Accounts that experiments conflicted with national policy would bring about new disputes, plus FTTCs have no legal status at present, Liuyang County therefore took conservative actions in exploring institutions reform and the forestland tenure transfer and stuck to taking "lawful conducts". It is also a lesson worth learning.

## **6. An Analysis of the Perceptions of Different Stakeholders**

### **6.1 Staff of FTTCs**

The staff in FTTCs revealed there were several problems and constraints to the development of FTTCs. First, trade rules and transaction procedures are revolutionary and experimental. The Hunan provincial measures for forest resource transfer have only provided the principle rules, counties have to take further measures to make them more feasible. However as each county has different implementing provision, it is necessary for the province to provide more practical trading rules. Second, at present FTTCs have no lawful certificate to do forest asset evaluation and auction trade. This is why Liuyang FTTC acted negatively toward providing such services. Unlike many other counties, the collective forestland tenure transfer in Liuyang usually did not carry out forest asset appraisal; the price was made by negotiation. Although state-owned forest transfer was compulsory to take property evaluation, the FTTC would entrust accounting firms to conduct such work. However accounting firms were not professional enough in forestry asset appraisal and entrusted service has greatly increased the cost to traders. This is certainly not good for attracting people to trade in the FTTC. Third, expenditure and office facilities that the governments provided were not adequate. Local governments defined FTTCs as non-profit public organ status, but provided with no or little fund to them. It was the forestry bureaus that meet FTTCs expenditure and provide office facilities. This is one of factors that FTTCs charged traders with various types of services fee in Hunan province, which conflicted with the institutional nature of FTTCs. Forth, Information collection was very limited. Information service is very essential to support the whole transaction system. The main source of FTTCs' information systems was from application for forestland transfer. This is too narrow to maintain information service effectively. And lastly, the transaction volume is small.

On the future trend of FTTCs' development, working staff think that based on service types, FTTCs could be divided into three organs or sections and each division should belong to different institutional system. First the forestland service including forestland tenure registration and alteration, forestland dispute resolutions should be integrated into country governmental land and real estate trade and administration system. Second, trading and financing services e.g. forest asset evaluation, mortgage loan, insurance, and guarantee should be separated from others and would emerge to be the marketing and financing agency. A compliment of 20 staff should be available for each county's FTTC, whose major work would be to provide forest marketing and financing services. Other administrative services should be forwarded to respective sections of county forestry bureaus. The country forestry bureaus should be

administrators to FTTCs.

## **6.2 Beneficiaries**

Ordinary farmers seldom enter FTTCs. The survey found most farmers were not aware of FTTCs existence. Few farmers knew them through township forestry work station and regarded it as one branch of forestry work stations. Farmers were very reliant on conventional approaches to acquire farming and living information, which previously was through collective economic organizations and or village councils and collective leaders and currently via forest farmer cooperatives or councils. They were also keen to get market information on supply and demand and prices from paper posts. They deemed the trade in FTTC was too costly with complicated procedures and preferred to take traditional trade forms- direct trade or intermediate trade. They recommended that FTTCs needed to provide more useful information especially in assisting logging allowance permission and supporting mortgage loan by forest rights certificates.

Forest farmer cooperatives (FFCs) or councils are a newly appearing forestry subject. FFCs' operation is based on members' voluntary agreements in business management and marketing. Household forestland tenure and forest products have become essential forestry production elements to tie farmers' interests together with FFCs' business. Obviously transfer of FFCs' own forestland to others has been not been possible, and since FFCs are just in the beginning of development, they also do not have enough capital to buy others' forestland tenure. Therefore the existing services that FTTCs provide are not very relevant to FFCs. FFCs realized the importance of FTTCs in forestry management, but because of the abovementioned reason, they have no relevance to FTTCs as yet.

With regard to the question on how to make FTTCs' work relevant to FFCs, FFCs had no answers to this question, but they expected that FTTCs could offer more forestry technical services e.g. instructing farmers in forestation, forest fire prevention, insect and disease prevention, assisting relevant forestry permission and supplying production information. Foremost, FFCs expected an open and fair wood trade environment, which unfortunately FTTCs have not engaged in. FFCs and farmers were eager to remove the wood purchase monopoly and administrative intervention. They expected the county wood market should be united by taking actions to eliminate trade barriers among townships. In terms of fee and tax, FFCs advised that

forestry should be regarded as a part of or the same sector as agriculture and should share the same tax free policy and involve more financial and technologically favourable programs.

Farms and forest processing enterprises are well known to FTTCs as well as the related managerial provisions and trade procedures and rules. They appraised that FTTCs' review work on legality of trade objects and eligibility of trade subjects eliminated their business risk; FTTCs' supervision and instruction work provided in transaction process also reduced the occurrence of disputes, and played the important role of public notary. They also appraised that FTTCs' information on supply and demand was ample and auction procedures resulted in open, just and fair trade. The services of FTTCs were appreciated and fee charging was acceptable. They expected the forest asset appraisal should be more close to market value while avoiding the influence of professional esteem or other subjective factors. Farms and processing enterprises expected that FTTCs could simplify transaction procedures especially to small scale trade, and staff should take a more neutral stand to the auction or competitive sale price. It was also expected that FTTCs should engage in dispute resolution more actively and timely in order for them to run forest business well. Like ordinary farmers they hoped that FTTC could provide better technological forest services in fire prevention and insect control and support forest mortgage loan.

### **6.3 Local Governments at the Township Level and County Forestry Bureaus**

Officials of county forestry bureaus had their perceptions of FTTCs' operation and role. They think, the first and foremost issue of FTTCs is that national law and regulations have not provided support for the FTTCs' institutional building, therefore FTTCs' legitimacy is unsolved. Similarly, there has been a lack of united national standards for forest tenure trade and asset appraisal both for FTTCs and FAACs. Consequently, FTTCs have not gotten sufficient financing support from the government. This would lead FTTCs highly likely to attempt wrongful fee charging or high fee charging for the services they provided. Besides, FTTCs face difficulty as transaction volume was too small. Farmers would not hand out forestland when forest tenure certificates were authorized.

The forestry bureau thus proposed countermeasure accordingly. First, FTTCs should be defined as forest marketing and financing agent in the whole economy society, so FTTCs could charge service fees properly to solve part of financial

problem. Meanwhile the government needs to input more funds to support FTTCs' operation. Second, due to the limit of transaction volume, it is not necessary that each county has one FTTC. The setting of FTTCs needs to be designed across jurisdictions. This will help to converge transaction volume for the concentrated FTTCs. Thirdly, the state should provide uniformed FTTC trade rules and forest asset appraisal provisions.

#### **6.4 Provincial Forestry Department**

Officials of the provincial forestry department made their remarks on FTTCs. The first issue is that of FTTCs' legal status and institutional nature. There is a considerable issue of defining FTTC's nature. There were two possible options, to be a public service organ, or to be a forest marketing agent. Each option has its advantages and constraints. As the degree of forest marketing in China is still low, and forest public goods nature has given forestry very important weight in national ecological protection, it has not been the time for FTTCs to be purely market agents. It is also not realistic to set FTTCs as fully financed public organs due to heavy cost to maintain the whole set of institutions. In Hunan Province, there has been an idea from the provincial government that FTTCs are planned to be integrated into the provincial asset trade center. This arrangement could solve financial issues and legal status issue; its difficulty could be institutional coordination since multiple departments would have relevant functions and interests in the integrated trade system.

The second issue is forest asset evaluation. Forest asset evaluation has unique professional features in forest survey and design, hence accounting firms and professionals for general asset evaluation have limits in their ability to carry out forest asset evaluation. Hunan province solved the certificate issues through provincial mandate on forest asset evaluation qualifications both for institutions and individual assessors. The forestry survey and design institutes have been authorized as forest asset evaluation institutions, to conduct the evaluation of forestland under 100 mu. When dealing with forestland above 100 mu, it is the accounting firms that have legality to conduct asset evaluation. The state should standardize professional operation and entitle forest technical institutions with lawful certificate in forest asset evaluation.

The third issue is imperfect provisions of provincial regulation on forest

resource transaction. There have been many shortcomings in the Hunan provincial *Measures for the Management of Forest Resource Transfer* 2007. For example, it does not require that the trade of collective common forestland tenure to conduct forest asset evaluation. However, in the county practice of Zixing and Hongjiang, traders of collective common forestland tenure have an obligation to take forest tenure evaluation.

The last issue is a fundamental one on China's low forestry marketization. In the past 20-30 years policy is the major force in forestry development. The forestry sector has been over-regulated, which harmed forest marketing process. With limited forest resource in forest counties and in order to secure forest material supply to local forest processing enterprises, county governments in Hunan usually take intervention into forests and wood trade system. The fragmented and not unified wood trade market plus local protection policy have become key constraints to forestry marketization. The countermeasure for these constraints is to carry out institutional reform and push governmental function towards a better service-oriented mode.

## **7. SWOT Analysis (the Challenges and Threats to the FTTCs)**

To comprehend all the abovementioned findings and analysis, it is no doubt that FTTCs pilot practice in Hunan Province has gained valuable experience and provided lessons in forest tenure trade, however there are still many challenges. Based on the FTTCs' status quo we have applied SWOT assessment to overall factors that can indicate FTTCs' constraints in the present and opportunities in the future. Table 3 is the outcome of analysis.

Table 3 SWOT Assessment of FTTCs in Hunan Province

elements		Current status	Assessment	Strength	Weakness	Opportunity	Threat
institutional status and current state		<ul style="list-style-type: none"><li>• <i>Hongjiang Forest Tenure Rights Trade Center (FTRTC)</i>, was established in 2008 as a public service organ, responsible for forestry trade service and related administrative services, with some transaction charged by service fee.</li></ul>		<ul style="list-style-type: none"><li>• Overall forestry public services are provided, conveniently to citizens.</li><li>• Transaction service provides experience in running this center as a pure market agent for forest tenure trade; the governmental comprehensive service network for administration affairs will help conduct forestry administration matters</li></ul>	<ul style="list-style-type: none"><li>• As a public service organ, governmental finance did not cover its all expense; the provided forestry trade service ought to be a free service but in reality a fee is charged.</li><li>• The mix of responsibilities makes its legal status vague; the rule of service fee is not stable and has no formal mandate.</li></ul>	<ul style="list-style-type: none"><li>• The experiments provide two possibilities for the future development either towards market service or pure public service; forestry reform supported by the governments gives flexible policy environment to test the effectiveness.</li><li>• While providing institutional status and part of financial support, the county governments will face the difficulties in institutional integration and separation to appropriately accommodate forestry affairs including dispute resolution, trade service, and forestry ownership and usage rights clarification.</li></ul>	<ul style="list-style-type: none"><li>• Small transactions exists because of low degree of forestry marketization.</li><li>• Legal status of FTTC is not made clear by the provincial and central government so that the governments should take this into account for institutional and financial reform.</li></ul>
		<ul style="list-style-type: none"><li>• <i>Zixing Trade Service Center for Forests, Trees and Forestland Use Rights</i> in the county and the respective <i>Trade Service Station</i> in each township since 2004, a public service organ, its office set inside of the office of forestry industry of the Zixing Forestry Bureau, with all traders being imposed to pay for service fee</li></ul>	<ul style="list-style-type: none"><li>• Only responsible for the transaction service for forests, trees and forestland use rights, not involved in related administrative service; and all expense covered by the county forestry bureau.</li></ul>	<ul style="list-style-type: none"><li>• Fee charge for transaction service conflicts with its pubic service nature; the center only dealt with transaction and provided no relevant service to administrative review process. Such arrangement is not convenient for farmers and traders.</li></ul>			
		<ul style="list-style-type: none"><li>• <i>Liuyang Mountainous Resources Property Trade Service Center (MRPTSC)</i>, was established in 2009 under leadership of the Liuyang Mountainous Forestry Rights Administration Office (MFRAO) that was set up in 2007. Two organs are all of public service nature, responsible for administrative service and trade service in forestry sector.</li></ul>	<ul style="list-style-type: none"><li>• The administration office (MFRAO) is the executive body of the trade service center (MRPTSC), providing comprehensive public services, among which trade service has not yet become its mainstream affair.</li><li>•</li></ul>	<ul style="list-style-type: none"><li>• The administration office (MFRAO) has over- mandated responsibilities, overloaded dispute resolution work leads to the MFEAO having no time and resources for forestry trade service.</li></ul>	<ul style="list-style-type: none"><li>• The country government plans to integrate existing assets trade services systems, the forest tenure trade being included.</li><li>• The MFRAO has plans to strengthen the center's role.</li></ul>		



Institutional coordination	<ul style="list-style-type: none"> <li>Hongjiang: as a subjected organ of the forestry bureau, the FTTC has independent operational platform and service window, a sole center in the county with no township service stations.</li> </ul>	<ul style="list-style-type: none"> <li>It is good to collect transaction load and advance marketization.</li> </ul>	<ul style="list-style-type: none"> <li>The FTTC is separate from, and has no link with other existing assets trade system e.g. land estate. Its promotion at village level is poor, the supply-demand information is limited.</li> </ul>	<ul style="list-style-type: none"> <li>Township governments are willing to cooperate with the FTTC.</li> </ul>	<ul style="list-style-type: none"> <li>Coordination and corporation with township government and other public institutions is to be intensified.</li> </ul>
	<ul style="list-style-type: none"> <li>Zixing: its FTTC has independent operational platform and window, the sole center in the county with township service stations being set up inside of the forestry station of the township government.</li> </ul>	<ul style="list-style-type: none"> <li>The support from the township trade service station results in better promotion and dissemination of information down to farmers</li> </ul>	<ul style="list-style-type: none"> <li>The mix of the trade service center and forestry station makes their working role unclear.</li> </ul>	<ul style="list-style-type: none"> <li>The current forestry reform on building social service system can assist the coordination</li> </ul>	
	<ul style="list-style-type: none"> <li>Liuyang: its FTTC sets the office and service window inside of the land resource bureau and the estate trade system, meanwhile it sets a service window inside of the township government.</li> </ul>	<ul style="list-style-type: none"> <li>It intends to be integrated into land estate trade system, or at least use its advantages to promote forest tenure asset value in the society.</li> </ul>	<ul style="list-style-type: none"> <li>Its operation is separate from land estate trade system, the information source is limited.</li> <li>Service window and service operation being separate, wastes office space in particular when the transaction load is small.</li> </ul>		
personnel	<ul style="list-style-type: none"> <li>Personnel are from the forestry bureau.</li> </ul>	<ul style="list-style-type: none"> <li>They have stronger forestry professional background and skills.</li> </ul>	<ul style="list-style-type: none"> <li>They have weaker professional skills in economic assessment and management, trade e.g. accounting, auditing etc., and poor capacity training resources.</li> </ul>	<ul style="list-style-type: none"> <li>The state should develop relevant capacity building programmes either sponsored by national funding or international technical assistance.</li> </ul>	<ul style="list-style-type: none"> <li>It lacks professionals with complex background of forestry and asset management, and lack of resources for capacity building.</li> </ul>
Trade subjects	<ul style="list-style-type: none"> <li>Major trade players are: large-scale forest formers, forest product processing entities, collective villages and collective farms.</li> <li>Individual farmers in Hongjiang and Zixing are free to get involved in FTTCs trade. However, in Zixing, all individual farmers as well as major trade players are supposed to enter the FTTC for trees and forests trade because logging allowance application is tied with FTTC's</li> </ul>	<ul style="list-style-type: none"> <li>Major trade players possess relatively large scale forests and trees, or good capacity to process large scale of forests, trees and timbers. They have better capacity in scale forestry management.</li> <li>By Zixing county regulation, all persons concerning logging allowance have to be involved in forestry trade. Although it is not appropriate, yet it is convenient for forestry administration.</li> </ul>	<ul style="list-style-type: none"> <li>Individual farmers rarely participate in; the FTTC ignores farmers; farmers are in weak position in the transaction activities.</li> <li>In Zixing the trade is under strong regulation, most transactions in the trade center were for logging allowance; it is not a sustainable way for forest resource management.</li> </ul>	<ul style="list-style-type: none"> <li>Such policy in collective reform will provide opportunities as: to develop forestry cooperatives to enhance farmers' role in forestry trade and transaction; to guide farmers to take multiple means e.g. joint-venture, holding forest tenure share of the company; to implement free trade policy and remove administrative orders or official's barriers from free</li> </ul>	<ul style="list-style-type: none"> <li>Farmers are highly motivated to run forestry property by themselves after clarification of collective forestland use rights, and hardly take any other business models of forestland usage right. The State should design and implement supporting policy or demonstrative projects or programs to support scale management of forestland.</li> </ul>

	transaction.			trade processes.	<ul style="list-style-type: none"> <li>• Zixing county regulations on permitting logging allowance through forest trade center should be abandoned.</li> </ul>
Trade objects	<ul style="list-style-type: none"> <li>• Trade objects in FTCS include: use rights of joint collective forestland, farmers' contracted collective forestland, ownership of forests and trees are common objects for trade; if land use right of public-benefit forestlands is tradable appear uncertain in country practice.</li> <li>• Wood and other forestry production elements that are not connected with forestland are excluded.</li> </ul>	<ul style="list-style-type: none"> <li>• In Hunan provincial regulation, the use right of joint collective forestland must be traded in the FTTC. This help increase the value and profit through competitive trade procedures, the transparent procedures protect farmers profit of joint-collective forestland.</li> <li>• The individual's forestry rights are of free trade except for Zixing County.</li> </ul>	<ul style="list-style-type: none"> <li>• The imposition of joint collective forestland use right (in entire Hunan) and individual forestland use right (only in Zixing) having to be traded in FTTC is lack of legitimacy, conflicting with the principle of Property Law concerning free disposal rights of property;</li> <li>• Imposed trade in FTTCs increases transaction cost;</li> <li>• Wood and other forestry production elements are excluded in the service of FTTCs, causing farmers losing interests to FTTCs.</li> </ul>	<ul style="list-style-type: none"> <li>• The collective forestry reform is to formulate unified policy and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• If the public-benefit forests land use rights being tradable needs to be clear by regulation in order for better conservation; it is important and difficult to balance imposed trade in FTTCs and free trade; it is important to integrate forestry trade system with other estate trade system for better promotion of forestry property recognition in the society.</li> </ul>
Trade procedures	<ul style="list-style-type: none"> <li>• Hongjiang formulated a set of managerial rules and procedural rules for different forms of forestry trade</li> <li>• Zixing formulated managerial rules and common procedures for forest tenure trade.</li> <li>• Liuyang has no special managerial and procedural rules for forest tenure trade, all trade are conducted based on negotiated procedures case by case, forest asset appraisal is not an obligatory process.</li> <li>• In Hongjiang and Zixing, collective forestry property trade must undergo asset appraisal, but Liuyang has no such compulsory procedure.</li> </ul>	<ul style="list-style-type: none"> <li>• Local managerial and trade rules provide clear procedures, help transparent and just trading and mitigate disputes;</li> <li>• Case and negotiation based trading although time costly, but comply with law strictly, good for avoiding disputes as well.</li> <li>• Compulsory asset appraisal for collective forestry rights is an effective measure to prevent cheap deal and ensure benefit sharing equally among collective members.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of national regulations for forest tenure management makes such local regulations of no legal standing for compliance and enforcement.</li> <li>• Lack of national procedures rules for forestry trade, such as bidding, auction and negotiation trade provides no legitimacy for such local rules and no legal standing of the forest tenure trade center as well.</li> <li>• Trade process in FTTCs cost more time and energy than normal trade form.</li> <li>• The compulsory appraisal for collective forestry rights conflicts with national policy that the appraisal is of a matter for collective members to decide.</li> </ul>	<ul style="list-style-type: none"> <li>• State is intended to formulate national managerial rules and procedural rules for different forms of forestry trade.</li> </ul>	<ul style="list-style-type: none"> <li>• It is necessary to clarify the relation of the forest tenure trade and other land-related estate trade in terms of application of the rules for auction, bidding and property assessment.</li> </ul>

Trade environment	<ul style="list-style-type: none"> <li>• Hongjiang and Liuyang: open market is set for forestland use rights trade, administrative intervention into wood trade at township level to protect local forestry processing enterprises exists and damages the profit of farmers.</li> <li>• Zixing: with the open trade for the forestland use rights and trees ownership, logging allowance was tied with forestland usage right trade.</li> </ul>	<ul style="list-style-type: none"> <li>• The open trade and open market for forestry production elements raise the price and value of forest resources, and attract investment from the society;</li> </ul>	<ul style="list-style-type: none"> <li>• The administrative intervention into wood trade or trees trade was exploited for farmers' benefit;</li> <li>• The local forestry process industry is protected and so the local governmental revenue; tree logging allowance tied with the trade in FTTC produced short-term forest tenure trade just for logging allowance, not sustainable way to manage forest resources.</li> <li>• The trade procedure being regulated as preconditions of logging allowance conflicts with basic principle of administrative permission.</li> </ul>	<ul style="list-style-type: none"> <li>• One objective of governmental reform is to separate roles for administration and market operation.</li> <li>• Separation of logging allowance permission and trade process in the FTTC.</li> </ul>	<ul style="list-style-type: none"> <li>• Forestry Law and Administrative Permission Law and other related laws need compliance from all sectors in particular the government itself.</li> </ul>
Trade fee	<ul style="list-style-type: none"> <li>• Hongjiang &amp; Liuyang: the FTTC charges acceptance fee, transaction fee, and registration fee. The farmers involved in the trade are fee free.</li> <li>• Zixiang: All subjects involved in FTTC have to pay service fees.</li> </ul>	<ul style="list-style-type: none"> <li>• Fees charged would cover some shortage of the expense of FTTCs.</li> </ul>	<ul style="list-style-type: none"> <li>• Too many items for fee charge increase transaction cost.</li> <li>• The levy of fees is lacking a legal basis and is illegal.</li> <li>• The levy of fee is conflicting with the nature of the FTTC, a public service organ.</li> </ul>	<ul style="list-style-type: none"> <li>• Collective forestry reform gives flexible policy environment to all kinds of experiments.</li> </ul>	<ul style="list-style-type: none"> <li>• The challenges remain how to formulate rational standards of fee and items, and how to balance levied service and public service.</li> </ul>
Information	<ul style="list-style-type: none"> <li>• In the trading hall, LED and computerized posts are well set; message and telephone service are provided to large trade players; paper posts, website, TV advertisement and newspaper are used for the dissemination of information</li> </ul>	<ul style="list-style-type: none"> <li>• The information service is subject to cost and expense that is available where effectiveness is considered second.</li> <li>• The existing ways of information dissemination promote FTTCs in the bottom tiers of society.</li> </ul>	<ul style="list-style-type: none"> <li>• Farmers have limited ways to gain information from FTTCs.</li> <li>• Information collection and dissemination is limited within the county.</li> <li>• A Website is a major means for information, however it is not popularly used enough in the countryside.</li> </ul>	<ul style="list-style-type: none"> <li>• The traditional ways e.g. the forestry work station of the township governments, the village communities and autonomous commission should be not ignored. They are still the most effective means for information and promotion.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial support and technical training are needed for information service;</li> <li>• There are some difficulties in developing web-based information service: low web coverage in remote countryside, less interest in forestry and web information or very weak capacity in learning information as to only the old and young stayed at home.</li> </ul>

Coordinated service	<ul style="list-style-type: none"> <li>Forestry asset appraisal:</li> <li>Hongjiang and Zixing: FTTC provides window service in association with the forestry survey and design services, or accountancy firms.</li> <li>Liuyang: forestry asset appraisal is not compulsory and conducted by the institution the traders selected, which have no business association with the FTTC.</li> </ul>	<ul style="list-style-type: none"> <li>The forestry survey and design service has more professional advantages in forestry appraisal, but its professional status does not exist.</li> <li>Accountancy firms have legal professional certificates for general asset appraisal.</li> <li>Negotiated appraisal is popularly applied.</li> </ul>	<ul style="list-style-type: none"> <li>There is a lack of professional category of forestry asset appraisal both for institutions and professionals.</li> <li>Accountancy firms lack professional skills in forestry sector.</li> </ul>	<ul style="list-style-type: none"> <li>There is some principle policy for establishing forestry asset appraisal profession.</li> </ul>	<ul style="list-style-type: none"> <li>How to establish forestry asset appraisal profession, and coordinate it with other asset appraisal system.</li> </ul>
	<ul style="list-style-type: none"> <li>Mortgage loan: a few mortgage loans have been conducted.</li> </ul>	<ul style="list-style-type: none"> <li>It shows the capital attribute of forestland use right.</li> </ul>	<ul style="list-style-type: none"> <li>The capital attribute of forestland usage rights are still very weak; commercial banks are not keen on it so that long procedures and high interest rate are applied.</li> </ul>	<ul style="list-style-type: none"> <li>The State should encourage commercial banks and development banks to engage in mortgage loan.</li> </ul>	<ul style="list-style-type: none"> <li>The forestation is taking long time and high cost and risk, but affects the low social recognition of forestry properties.</li> </ul>
	<ul style="list-style-type: none"> <li>Forestry insurance: policy forestry insurance is implemented in pilot project but no commercial forestry insurance occurs.</li> </ul>	<ul style="list-style-type: none"> <li>Farmers have high awareness of forestry risks.</li> <li>Policy forestry insurance is popular due to heavy subsidy from the State.</li> </ul>	<ul style="list-style-type: none"> <li>High cost and low return for commercial insurance are rejected by farmers;</li> <li>Commercial insurance companies are not keen on forestry insurance.</li> </ul>	<ul style="list-style-type: none"> <li>The State provides subsidy to forestry insurance.</li> </ul>	<ul style="list-style-type: none"> <li>Technical and operational difficulties exist in forestry insurance, e.g. the asset appraisal, fee collection.</li> </ul>

## **8. Reforms and Options to Improve the FTTCs Operation Based on Policy, Legal, Financial and Institutional Aspects**

### **8.1 Policy**

FTTCs are tools to optimize forestry resources for market-based production and consumption. Their function will rely on the advanced degree of forestry market. At present in China, the forestry market is under developed and forest tenure rights receive very weak recognition in the commercial society. This is the underlying obstacle for the future development of FTTCs. National policy thus should aim to address this issue and promote forestry marketing and scale management by financial and favourable measures. It is recommended:

#### **(i) Financial policy to support forestry development**

- To alleviate forestry fee and tax, and apply tax deductions and exemptions in the forestry sector, and regard forestry as equal in status to agriculture in terms of providing production subsidies and favourable measures; and to motivate farmers in forestation.
- To subsidize or deduce interest to forestry rights mortgage loans, and take at least 10 years long term loans to support forest culture and forestation.
- To intensify the capital attribute of forestry tenure rights through financial monetary instruments e.g. mortgage loan, asset restriction, insurance etc; to apply proper (not strict) procedures and give standard (not lower) lending amounts to forestry rights mortgage loan.
- To increase the areas for national policy forestry insurance by providing more subsidies and financial input for forests resources.

#### **(ii) Supporting policy for forestry rights transaction**

- To guide and encourage farmers to conduct forestry management and transaction upon the forestland usage rights and property rights by taking multiple forms, among them, joint-venture, share holding, joining forestry cooperatives should be promoted as being favourable for farmers without losing control of land.

- To entitle forestland usage rights and forests ownership of public-benefit forests eligible in forestry trade with the precondition of no change of forests nature and use; to encourage the utilization of scenery or tourism value of public-benefit forests, and attract social capital to invest in forest culture and stewardship of public-benefit forests.
- To implement subsidy programmes or favourable policy to encourage the establishment of forestry cooperatives, and enhance forestry cooperatives' capacity in running scale forestry management over clustered forestland; to support the forestry joint-venture establishment by social capital and forestry cooperatives.

## 8.2 Legislation

As analyzed above, forestry law and regulations had not provided enough substantial and procedural rules to FTTCs. It is necessary to overcome such legislative loopholes and provide a better legitimate environment for FTTCs. It is recommended that the state should provide the following national rules and standards.

### **(i) National regulation should be formulated for forest resource property transfer.**

It is necessary to provide principle rules on the forestry tenure property system and collective forest tenure rights, transaction activities and the role of FTTCs etc. in national law or administrative regulations on forestry (e.g. *Forestry Law* or *Implementing Regulations of Forestry Law*).

In the revision or reformulation of *Forestry Law* and its *Implementing Regulations* the following issues need to be addressed. First, the scope of forestry tenure rights that are eligible to trade should broadly contain ownership and usage rights of forests and forestland but also forestry share rights and futures rights and so on.<sup>16</sup>; and second public-welfare forests should be allowed to be transferred with the precondition of no change of forestland scope and usage.<sup>17</sup>

### **(ii) National provisions should be formulated special for FTTCs' transaction.**

On the base of the principles of national legislation and administrative regulations on forestry tenure right and its transfer, the State Council itself or its

<sup>16</sup> Article 15 of Forestry Law 1998 only defined "ownership and use rights of commercial-use forests and forestland" as trade objects.

<sup>17</sup> Article 15 of Forestry Law 1998 clearly restricted public-welfare forests and forestland from transaction and trade.

forestry authority- State Forestry Administration should formulate national provisions (by administrative regulations or ministerial orders) for forestry tenure rights trade and transaction activities of FTTCs, <sup>18</sup> with explicit rules on:

- The scope of forestry tenure rights eligible to trade and the objects of forestry rights compulsory to be traded in FTTCs (e.g. the trade of collective forestry tenure rights).
- General legal principles and procedures of forestry tenure rights trade.
- Legal status of FTTCs and managerial provisions of FTTCs.
- Specific rules and procedures of each trade form in FTTCs, e.g. auction, bidding, negotiation etc.
- Certificate to professionals in trade and transaction service for forestry tenure rights.
- Services quality and fee charge.

**(iii) National provisions special for forests asset appraisal need to be in place.**

With national law and regulations on forestry providing principle rules on forests asset appraisal, specifications on forests asset appraisal should be further provided taking account of the following elements.

- General legal principles and scientific doctrines on forests asset appraisal.
- The scope of asset objects eligible to asset appraisal and the objects compulsory to asset appraisal in given circumstances (e.g. the trade of collective forestry tenure and assets)
- Managerial provisions for forestry asset appraisal and the legal status of engaging institutions and bylaw qualifications.
- Certificate to professionals in forestry asset appraisal and its examination procedures.
- Services quality and fee charge.

### **8.3 Governance and Institutions**

FTTCs are an important impetus to scale forestry development. They optimize

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<sup>18</sup> Forestry Law Article 15(4) has empowered to State Council to enact the regulations for forest tenure transactions. Therefore the State Forestry Administration should push forward this process actively.

forest resources for more efficient and fair use by stakeholders. The pilot practice in the counties have invented different modes of operation and functions of FTTCs. Based on SWOT analysis in Section 7, we provide the following comments and recommendations to improve institutional governance in FTTCs.

First of all, from the practice of FTTCs in Hunan, FTTCs have been defined as public service oriented in nature, but not well integrated into public service system of the governments in terms of funding and service platform. The operation of FTTCs in Hunan shows that forestry bureaus have strong intent to experiment with FTTCs being market agents rather than a public service organ. Thus the FTTCs practices in many aspects for example charging multiple service fees distorted the institutional nature that was originally set for FTTCs. In the future, the objective of forestry management after main and coordinated reform of collective forest tenure is how to improve the FTTCs' service and how to strengthen forestry marketing process through FTTCs. We have to recognize that in this long period of time when China's forestry development still hovers in low marketing level, we need public force to raise the vitality of marketing for forestry. Prematurely taking market approach to develop FTTCs will hinder marketing growth in particular when a majority of farmers have not reckoned FTTCs' merits. Therefore we deem it is more appropriate to set FTTCs as public service in nature, and the function of FTTCs should adhere to public service. From the perspective of farmers, it is recommended to set up FTTCs at country level, either under the governmental public services system or within forestry bureaus. The future trend for FTTCs development is as a market agency for forestry tenure and asset trade when the appropriate time comes.

Second, in the nature of public services, FTTCs' expense in office and information maintenance should be fully met by county governments. Fees charged for forestry tenure trade services should be minimized. Technical training to the professionals who are working in FTTCs should be conducted regularly. With relatively sufficient funds and stable institutional definition, the FTTCs then have neutral stand to serve all kinds of customers in avoidance to being a "richer club".

Thirdly, FTTCs services should be distributed down to township and most widely spread to farmers. The township service could be offered through the well developed township forestry work stations by putting additional appropriate personnel to meet expense reduction. Supply and demand information of forestry production elements including capital investment, joint-venture, mortgage and loan needs be



disseminated and promoted.

Fourthly, the FTTC's township services need to focus more on: educating and assisting farmers in designing and planning scale forestland management by introducing various business models in relation to forestland usage rights, and promote those models that can sustain farmers' long-term livelihood.

Last but most importantly, the FTTCs and township services have to change their customer focus from individual scaled entities or farms to general collective farmers and their largely spread but fragmented forestlands. It needs to change urgently so that government can implement favourable policies for scale forestry management that can simply be used and applied to existing scale managers and farms.

## **8.2 Trade system**

The pilot practice of FTTCs acquires experiences and lessons with regard to the trade system in which FTTCs were operating. We address the following points for its improvement in the future.

### **(i) The scope for trade in FTTCs needs to be expanded.**

FTTCs' trade in Hunan over-focused on forestland-attached property rights, and was conducted by almost the same means - forestland tenure cession, in which the buyers are taking forestlands from collective farmers by purchasing off all forestland tenure use rights. Such trade scope needs to be expanded to include other important forestry production elements such as forestry technology, capitals, futures, forest products and so on, so does trade forms. FTTCs should make more use of other trade forms such as joint-venture, share holding and forestry cooperatives, which numerous farmers could be engaged in for the long term interest from transacted forestry rights.

### **(ii) The equity social principle for FTTCs has to be introduced.**

Different institutional nature will lead to different social benefit. As a public service organ, the FTTC should serve people equally. At present, FTTCs are more like VIP clubs for scale farms, forestry processing enterprises and interested companies. Forestry cooperatives and ordinary farmers have not yet become major customers, or have been ignored because of their weak capacity in forestry market and their small contribution to local forestry economy.

### **(iii) A free trade environment needs to be defended.**

There exists relatively strong administrative interference to free trade of forest

products mainly wood, timber and wooden products. The county governments restrict such products to only being traded within limited jurisdictions (in some circumstances within township) or to particular demand sides. The suppliers usually farmers have seen adverse impacts from such trade restrictions e.g. reduction of timber profit and forest culture interest. County or township governments also take discrimination policy to forestry processing enterprises after identifying the different capacity to produce governmental revenue. Dragon enterprises or large enterprises have been protected by the governments. Obviously farmers have not been protected and their interests are easily damaged.

**(iv) More effective means of information collection and dissemination need to be taken.**

A website is a major means for information dissemination; however it is not popularly used in the countryside due to some difficulties as: low web coverage in remote countryside, the stay at home populations (generally either very old or very young) having less interest in forestry and poor web skills involved in obtaining learning information. The traditional approaches e.g. the promotion by the township forestry work stations and the village councils and newly appearing forestry cooperatives are still the most effective means for information dissemination and should continued to be applied.

**(v) Forestry tenure right trade system has to build up a linkage with general asset trade systems.**

The existing asset trade systems have advantages in terms of good social recognition, a well developed transaction process and procedures etcetera. Forestry tenure rights could be included into the existing trade system of land resource and asset therefore the existing trade hardware system-service window, transaction hall and information network of land resource and asset could be used for forestry tenure trade in order to save relevant cost. This is also good way for the whole society to identify forestland tenure rights as one of normal forms of land asset.

## **Appendixes**

### **Appendix 1: List of interviewed village, enterprises, FFC's and village farms**

#### Hongjiang

Dongping village  
Shuanglong village  
Shuanglong Village FFC  
Hengda Wood Manufacture Co. Ltd  
Huayu Bamboo Manufacture Co.Ltd.  
Qianchen Fir Timber Processing Co.Ltd.

#### Zixing

Chenjiadong Villages  
Pingzi Villages  
Tangbian Village  
Xiadong village  
Qiumu village  
Chenzhou Huaxing Wood Manufacture Co. Ltd  
Qiumu Village Farm Co. Ltd  
Xiangjiang Timber Co. Ltd.  
Chuangxing Wood-based Pane Manufacture Co. Ltd.  
Tangbian Village Wood Processing Co. Ltd.  
Swan Mountain Farm (in Zixing)  
Zixing Pufa Village & Town Bank Co. Ltd.

#### Liuyang

Qixingling Village  
Guanyingtang Village  
Qixingling Village FFC  
Guanyingtang Village Farm Co. Ltd  
Hukang Kitchen Appliance Co. Ltd  
Yuxiang Wood Manufacture Co. Ltd.  
Jiawang Wood&Banboo Manufacture Co. Ltd.

### **Appendix 2: List of interviewed official departments**

#### Provincial

Department of Forestry, Hunan Province

### Hongjiang

Shuangxi township, Jiangshi Township Forest Work Stations

County Forestry Bureau & County FTTC

### Zixing

Tangshi, Longqi Township Forest Work Stations

County Forestry Bureau & County FTTC

### Liuyang

Guandu, Zhangfang Township Forest Work Stations

County Forestry Bureau, County FTTC

## **Appendix 3 : List of law and policy documents under review**

### National level

Constitution Law (NPC,1982)

Forestry Law(NPC, 1998)

Country Land Contracting Law (NPC,2002)

Decision on Accelerating the Forestry Development (CCCPC&SC, 2003)

Opinions on Extensively Carrying out the Reform Collective Forest Tenure (CCCPC&SC, 2008)

Opinions on Enhancing the Transaction of Collective Forestry Tenure 2009 (SFA, 2009)

Property Law (NPC,2007)

Technical Specifications on Appraisal of Forestry Property (on Trail)( FM,1996)

Interim Provisions on the Administration of Forestry Property Appraisal (MOF&SFA, 2007)

Guiding Opinions on Financial Service for Reform on Collective Forestry Tenure System and for Forestry Development (MOF&SFA, 2009)

### Provincial level

Measures for the Management of Forest Resources Transfer (2007)

Opinion on Deepening the Reform of Collective Forestry Rights (2007)

Opinion on Further Standardizing the Levy and Administration of Taxes and Fees to Wood and Bamboo Products (2007)

Notification on the Issues of Service Charges for Forestry Technical Services (2008)

Measures for the Management of Forest Resources Asset Mortgage Loan (2008)

#### County level

Trial Measures of the Management of the Transfer of Management Rights and Use Rights of Forests, Trees and Forestland (Zixing, 2004)

Implementing Measures for Strengthening the Management of Forest Resources to Promote Management Rights and Use Rights of Forests, Trees and Forestland (Zixing, 2004)

Rules for Forest Tenure Rights Trade (Hongjiang, 2008)

Interim Measures for the Transfer of Forestry Rights (Hongjiang, 2008)

Constitutions for Hongjiang FTRTC (Hongjiang, 2008)

Service Guide of Hongjiang FTRTC (Hongjiang, 2008)

Rules for Negotiation Trade of Hongjiang FTRTC (Hongjiang, 2008)

Rules for Listing-Auction of Hongjiang FTRTC (Hongjiang, 2008)

Rules for Negotiation Trade of Hongjiang FTRTC (Hongjiang, 2008)

Rules for Bidding Trade of Hongjiang FTRTC (Hongjiang, 2008)

Rules for Auction (Competitive Sale) of Hongjiang FTRTC (Hongjiang, 2008)

#### **Appendix 4 : Abbreviations**

FTT	Forest Tenure Trade
FTTC	Forest Tenure Trade Center
CFT	Collective Forestry Tenure
CCCPC	Central Committee of the Communist Party of China
CPC	Communist Party of China
SFA	State Forestry Administration
NPC	National People's Congress
FFCs	Forest Farmer Cooperatives
SWOT	Strength, Weakness, Opportunities and Threats
FTRTC	Forest Tenure Rights Trade Center
MPRTC	Mountain Property Rights Transfer Center
MFPRO	Mountainous Forests Property Rights Administration Office
MRPTSC	Mountainous Resources Property Trade Service Center
PAFFT	Professional Associations for Forest Farms Transfer
FAACs	Forest Asset Appraisal Centers
FTCs	Forest Tenure Certificates

## List of the Project Publications

### GCP/CPR/038/EC Working Paper

No.	Title
WP001C	安徽省林农合作组织研究报告
WP002C	福建省林农合作组织研究报告
WP003C	贵州省林农合作组织研究报告
WP004C	湖南省林农合作组织研究报告
WP005C	江西省林农合作组织研究报告
WP006C	浙江省林农合作组织研究报告
WP007E	Assessment of Forest Farmer Cooperatives in Anhui Province
WP008E	Assessment of Forest Farmer Cooperatives in Fujian Province
WP009E	Assessment of Forest Farmer Cooperatives in Guizhou Province
WP010E	Assessment of Forest Farmer Cooperatives in Hunan Province
WP011E	Assessment of Forest Farmer Cooperatives in Jiangxi Province
WP012E	Assessment of Forest Farmer Cooperatives in Zhejiang Province
WP013C	安徽省林权交易中心研究报告
WP014C	福建省林权交易中心研究报告
WP015C	贵州省林权交易中心研究报告
WP016C	湖南省林权交易中心研究报告
WP017C	江西省林权交易中心研究报告
WP018C	浙江省林权交易中心研究报告
WP019E	Assessment of Forest Tenure Trade Centers in Anhui Province
WP020E	Assessment of Forest Tenure Trade Centers in Fujian Province
WP021E	Assessment of Forest Tenure Trade Centers in Guizhou Province
WP022E	Assessment of Forest Tenure Trade Centers in Hunan Province
WP023E	Assessment of Forest Tenure Trade Centers in Jiangxi Province
WP024E	Assessment of Forest Tenure Trade Centers in Zhejiang Province



The project “Supporting policy, legal and institutional frameworks for the reform of forest tenure in China’s collective forests and promoting knowledge exchange” supports the reform of forest tenure in China’s collective forests through strengthening policies, laws and institutions responsible for the management of collective forests in six pilot provinces. Funded by the European Union (EU) and implemented by the State Forestry Administration of China (SFA) and the United Nations Food and Agriculture Organization (FAO), the project will also promote the exchange of knowledge and experiences on forest tenure reform both within China and with other countries.

Website: <http://www.fao.org/forestry/tenure/china-reform/en/>