

ensure that China's wood imports come from legal and sustainable sources.

The heightened concerns expressed about climate change at the Bali conference are pushing developing countries to tighten their regulations and enforce laws to reduce emissions from deforestation. In return for this, their regulators will receive fresh incentives, in the form of new mechanisms that resemble the Kyoto Protocol's Clean Development Mechanism (CDM). The exact details of these are among the many technical questions that will be debated

and resolved in the course of the Kyoto II negotiations during the coming two years.

Even though it will take some time to create effective ways to substantiate emission reduction incentives, all the reasons mentioned above should prompt investors to re-evaluate and take the material issues that exist in the forest sector into account. They should ensure that they weed out companies with poor environmental performances in the course of their due diligence procedures.

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## B&Q: committed to greening the supply chain in China

**CONSUMERS ARE SHOWING** an increasing preference for certified forestry products, according to a report on the sector by Eurosif (the European Social Investment Forum), whose affiliate members account for over €100 billion-worth of assets. Furthermore, this trend is motivating retailers to enforce stricter environmental guidelines for their suppliers.

B&Q, the world's third-largest home furnishing retail chain, is taking a lead on this issue in its operations in China. At a press

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conference hosted by Greenpeace China last June, the company announced it plans to overhaul its supply chain and take steps to guarantee the legality of all the timber products on the shelves of its 60 stores there.

B&Q Asia's Chief Executive Officer Steve Gilman said that his company recognised that problems existed after Greenpeace raised concerns about the sources of some of its products. "Certainly the supply chain challenges in China are not unique to B&Q," noted Mr Gilman. "However, despite these challenges and the additional costs, B&Q is committed to implementing measures to ensure we are part of the solution to deforestation, not part of the problem."

The company will gradually tighten controls over its supply chain within the next two years, in order to ensure that all the product lines it sells in China come from certified ecologically responsible forestry operations, such as those certified by the FSC. Greenpeace research in China, Africa,



Malaysian timber stored at the Shekou Port, Guangzhou, Guangdong Province, China. Timber from the ancient tropical rain forests of South East Asia is imported into China to be made into plywood and sold to local traders for the Chinese market.

## Helping Banks to Avoid Getting Lost in the Forest

Papua New Guinea and Indonesia will certainly contribute to B&Q's implementation of this plan.

The company has also immediately stopped selling flooring made from merbau, an endangered tropical species that almost exclusively comes from Papua New Guinea. In fact, a Greenpeace survey shows that home improvement companies in China sell many tropical hardwood species. Besides merbau, this includes teak from Burma, jatoba from the Amazon, and sapelli from Africa, all regions where illegal and destructive logging takes place. The survey also revealed that few of these companies implement policies that strongly prioritise purchases of FSC-certified timber products, or ban timber products that are made from wood from illegal operations or which use vulnerable species.

While the trend towards green purchasing policies is still relatively new among retailers, B&Q's decision does at least provide its customers with a chance to make responsible choices. Moreover, China's emerging middle class is predominantly young and predisposed to green living ideas, according to "The Value of China's Emerging Middle Class", an article published in the McKinsey Quarterly during 2006. B&Q is therefore positioning itself to reap a rich harvest as the result of its eco-friendly stance.

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Three Yunnan farmers encircle the stump of a tree logged illegally in natural forest by giant multinational logging company APP. The farmers have all lost their land to APP.



Merbau timber from Indonesia stored at the Yuzhou Wood Market on the banks of the River Pearl, Guangzhou, Guangdong Province, China. Precious Merbau timber from the ancient tropical rain forests in Indonesia imported into China will sold to local traders and fashioned into house fittings and furniture and sold to the Chinese market.

**IN EARLY 2007**, Greenpeace published a report entitled "Carving up the Congo" (<http://www.greenpeace.org/international/press/reports/carving-up-the-congo-exec>). This documented the illegal logging activities that were taking place and the social conflicts that existed in logging concession areas in the Democratic Republic of the Congo (DRC). The DRC is the world's fourth-largest forest carbon reservoir, and it accounts for eight percent of all the carbon stored in the world's living forests. Our report estimated that 40 percent of its forests were in danger of being lost.

Our research also revealed that a company named Olam International was playing a key role in illegal timber trading activities in the DRC. Following the report's publication, we sent details of its findings and relevant documentation to the International Finance Corporation (IFC), which owned a 3.35 percent stake in this Singapore-based global timber trader.

IFC is a signatory of the Equator Principles, a voluntary set of guidelines and policies that address environmental and

social issues in project financing. It has also incorporated environmental policies for forest protection into its investment decision-making. According to its published documents, IFC had previously reviewed Olam's projects and had concluded that they satisfied its sector-specific guidelines and performance standards.

In December 2007, IFC announced that it had decided to sell its entire stake in Olam, which was valued at US\$7.5 million, due to "policy considerations".

Although the incident showed that it is not always easy to make a graceful exit from questionable investments, it did have a positive aspect. The Greenpeace investigation helped IFC to avoid even greater damage to its reputation and its investments. Even more significant was the swift action IFC took, which underlined its commitment to "walk-the-talk", as well as its indirect acknowledgement of the gap that existed between its sound policies and their problematic implementation. It also highlighted the influence that work on the ground by NGOs can have on financial