

ROUTES OF EXTINCTION:

The corruption and
violence destroying
Siamese rosewood
in the Mekong



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FRONT COVER:

Rosewood carving in Dong Ky, Vietnam,
October 2013. © EIA

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GLOSSARY OF TERMS:

Siamese rosewood: refers to *Dalbergia cochinchinensis* Pierre spp., also known as Thailand rosewood

Burmese rosewood: refers to *Dalbergia bariensis* spp (synonymous with *Dalbergia oliveri*)

Padauk: refers only to *Pterocarpus macrocarpus* (synonymous with *Pterocarpus pedatus*)

Hongmu: refers to wood species or furniture made with wood species approved as official Hongmu in China's 2000 National Standard for Hongmu

Tonne/s: refers to a metric tonne, equaling 1,000 kilograms

INTRODUCTION

This is a tragic true story of high culture, peerless art forms, and a rich historical identity being warped by greed and obsession, which consumes its very foundations to extinction and sparks a violent crime wave across Asian forests.

It is a stark warning to the range states of the Mekong region that the redwoods of Asia are under assault with violent social and environmental consequences.

It starts in one of dozens of glitzy malls across mainland China, where an aspiring collector admires swathes of shops selling elaborately carved wooden furniture and artworks, each valued at hundreds of thousands of dollars.

In the lobby of a five-star hotel in high-rise Singapore, a wily and animated timber trader laughs while explaining how he bribes senior officials of the Lao government to access stocks of illegal precious woods seized by officials.

In Pakse, Laos, bordering Thailand, a niece of the head of the local military command profits from sales of illegal precious timbers seized by the military. She knows the paperwork from the corrupted sale will launder five times more illegal wood.

In Dong Ky, near Hanoi, Vietnam, a reported triad leader stacks cash into a bag while explaining timber smuggling routes across the land border into China, and advises that his operations are protected by border officials on the pay roll.

In Shenzhen, China, a logistics broker offers official Lao government export permits illegitimately in his possession to legitimise illegal wood stolen from Laos and facilitate its entry into mainland China from Hong Kong, violating an international treaty decision designed to prevent the extinction of the wood species concerned.

In Thailand, yet another Cambodian logger is killed in a firefight with forest rangers. The following week a Thai forest ranger is killed by armed loggers in a nearby national park. Meanwhile, a well-connected commodities trader offers access to hundreds of containers of seized timber held in Bangkok ports for US\$50 million.

Welcome to the corrupt and bloody illegal Siamese rosewood trade, born out of China's growing obsession with "Hongmu".

Over the past ten years, demand in China for luxury reproduction wood furniture and cultural artworks rooted in Ming and Qing dynastic aesthetics has soared. The increasing rarity of the timbers involved has led to dramatic price rises, exacerbated by a flood of hot investment money.

With rare timbers already threatened with commercial, if not biological, extinction, laws put in place to protect Siamese rosewood (*Dalbergia cochinchinensis*) have been swept away by corruption, driven by the huge financial incentives offered by timber traders supplying the Chinese market.

In March 2013, the world agreed to protect Siamese rosewood from unsustainable and illegal trade under the Convention on International Trade in Endangered Species (CITES).

This report details the findings of EIA's investigations into the Siamese rosewood trade in recent years, including in the year since the CITES listing. It reveals how crime, corruption, and ill-conceived government policies from Thailand to China, via Laos and Vietnam, are likely to result in the demise of Siamese rosewood in the coming years, unless significant and rapid reforms are made.

It also reveals weaknesses in the CITES listing that fundamentally undermine the application of the treaty to Siamese rosewood, and doubtless other species.

While responsibility lies with countries in which the tree grows (Thailand, Laos, Vietnam and Cambodia), it is the state-supported commodification and commercialisation of China's rich Hongmu cultural heritage that has provided all the money, and China is where all the timber has gone.

EIA's findings also show how Siamese rosewood is now all but gone, and as a result attention is now being focused on other precious replacement species. Unless governments respond strongly to the crimes outlined in this report, the "redwoods" of Asia will follow Siamese rosewood along the route to extinction.



THE ILLEGAL SIAMESE ROSEWOOD TRADE

ABOVE:

Siamese rosewood logs measuring more than 50cms in diameter are seen in Vietnam for sale. Logs of this size normally take a few hundred years to grow.

CHINA'S LUST FOR 'HONGMU'

With increased purchasing power of wealthy elites and a new acceptance of celebrating the country's rich historical culture, tastes for furniture in China have increasingly leaned toward high-end Ming and Qing dynasty reproduction furniture. Fashioned – often exquisitely – from a range of specific timber species characterised by their dark or red hues, durability, smooth grains and rarity, collectively, this furniture and the timbers that make them are referred to as Hongmu, meaning redwood.

Following government support for the industry and a growing trend for investing in Hongmu as an exclusive asset class, current demand far exceeds domestic supply and China is heavily dependent on imports.¹ From 2000-13, China imported a total of 3.5 million cubic metres (m³) of Hongmu timber² and is the only country to have a specific customs code for Hongmu species, indicating the country's global dominance of trade in these timbers.³

The Mekong region – including Vietnam, Cambodia, Laos, Thailand and Myanmar - has historically been China's supply base and has also been most affected by the Hongmu resurgence of the past decade. Nearly half of China's Hongmu imports since 2000 – amounting to 1,666,471 m³ valued at nearly US\$2.4 billion – came from the Mekong as

Chinese and Vietnamese traders have scoured the region for precious remaining *Pterocarpus* and *Dalbergia* species.⁴ The commercial extinction of higher grade Hongmu species such as *Dalbergia odorifera* ("fragrant rosewood" or *Huanghuali*) due to excessive harvesting for China's Hongmu sector has resulted in Siamese rosewood becoming one of the most prized Hongmu species.

Between 2000-09, Hongmu imports from the Mekong accounted for almost 70 per cent of China's global Hongmu imports, exerting huge pressure on standing stocks, particularly of Siamese rosewood, the most targeted species.⁵ In the run-up to the 2008 Beijing Olympic Games, demand soared, and exploded from 2009.⁶

In 2010, the number of companies in China trading Hongmu furniture grew by 40 per cent.⁷ While trade has boomed, prices for the rarer Hongmu species have also spiked. In 2011, EIA investigators documented a Hongmu bed in Shanghai retailing at US\$1 million. To feed this demand, rosewood has been progressively stripped from the forests of the Mekong, with imports from Laos, Myanmar and Vietnam reaching historically high levels.⁸

Surging demand has also prompted speculators to stockpile timber in

anticipation of future price increases. Since 2010, the Yuzhu Timber Index prices have risen by 56 per cent with the result that, by March 2014, Siamese rosewood was retailing for RMB109,500 (US\$17,633) per tonne, a 37 per cent price increase compared to exactly a year earlier.⁹ Larger and rarer materials are bought and stockpiled solely for the purposes of investment. As of March 2014, EIA investigators were quoted prices up to RMB500,000 (US\$80,000) per tonne by traders in Shenzhen, prices acknowledged in a recent industry association report.¹⁰

While sources of Hongmu have since expanded to include Africa and Central America – resulting in a huge increase in imported volumes – the Mekong continues to be vital source of material for China’s rapacious rosewood industry.

SIAMESE ROSEWOOD

Found in Cambodia, Laos, Thailand and Vietnam, Siamese rosewood is one of the most valuable and threatened of the 33 official Hongmu species. In Thailand, its presence is highly fragmented and mainly concentrated in protected areas in the country’s lower northeast provinces, including Ubon Ratchathani on the eastern border with Cambodia.¹¹ In the absence of systematic surveys, in 2011 it was estimated that the country had just up to 100,000 trees remaining, equivalent to approximately 63,500 m³.¹²

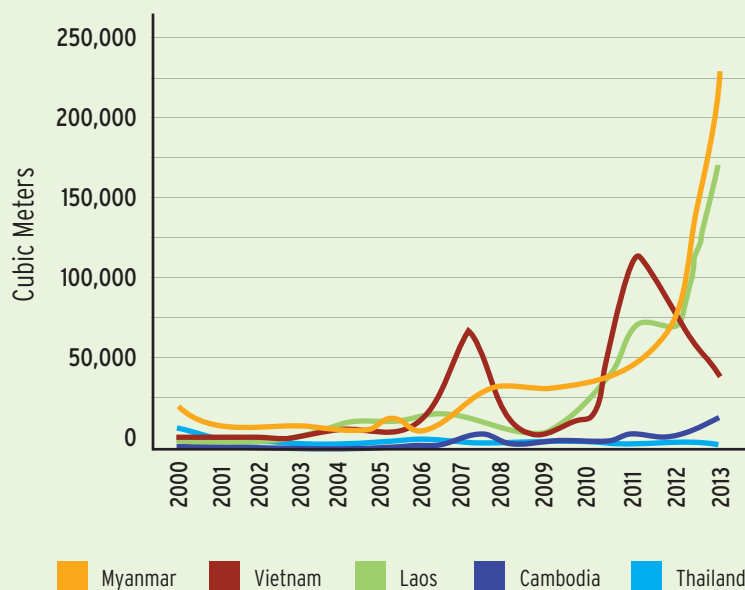
Declines are also occurring in the other range states.¹³ In Laos, it is found in the southern provinces of Champasak, Attapeu and Sekong and the central provinces of Bolikhamxay and Khammouane. Yet 2012 field surveys in the latter two provinces confirmed natural populations are under severe threat and no mature trees were found.¹⁴

In Vietnam, a 2010 survey of five protected areas found a low density of just one to 10 trees per hectare.¹⁵ In 2014, traders were claiming there was no Siamese rosewood left in Vietnam. In Cambodia, mature trees are now considered rare outside of strictly protected areas.¹⁶

Siamese rosewood is protected by law in all range states. Thailand’s 1989 National Logging Ban and prohibitions on logging in rosewood-rich conservation and protection forests apply to all rosewood and precious wood species. Laos’ 2008 Prime Ministerial Order No-17/PM explicitly prohibits harvesting all domestic *Dalbergia* species and was reinforced by Prime Minister’s Order No 010/PM of 2011 – although opaque exemptions to these by the Lao government have created loopholes.¹⁷

CHINESE IMPORTS OF HONGMU LOGS FROM THE GREATER MEKONG SUB-REGION BETWEEN 2000-2013

Source: UN Comtrade



Vietnam has a log and sawn timber export ban covering all domestic timber produced in natural forests and also regulates exports of threatened wood species, including Siamese rosewood, restricting export to finished products.¹⁸ In Cambodia, harvesting rare tree species, including Siamese rosewood, is prohibited under the country’s 2002 Forestry Law.

Despite these controls, all of the range states have been hit by a predatory crime wave of illegal logging and timber smuggling driven almost entirely by booming demand for Hongmu in China. A combination of weak enforcement and corruption, soaring demand and the lack of a legality standard on China’s imports, has enabled the lucrative trade to flourish and has turned forests into conflict zones. Organised syndicates control the trade, and violent and fatal clashes between armed loggers and rangers continue to cost lives on both sides.

Classified as vulnerable on the IUCN Red List, in 2011 it was proposed that Siamese rosewood be listed globally as Critically Endangered.¹⁹ In 2008, range states were unable to reach a consensus to internationally protect the species through the Convention on International Trade in Endangered Species (CITES), but in 2013 it was listed in Appendix II of CITES following a proposal by Thailand and Vietnam. As harvesting is banned in all range states, the listing should prohibit international trade in Siamese rosewood logs, sawn timber and veneers.



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A DIRTY BLOODY BUSINESS

ABOVE:

Armed forest rangers patrol a Thai national park in 2013, seeking Siamese rosewood poachers.

Siamese rosewood has become so rare and valuable that the practice of logging it is now more akin to wildlife poaching. The majority of the timber that finds its way to the markets of China is sought by teams of skilled men from rural villages who will spend weeks at a time in remote forests tracking down the last stands. This model presents almost insurmountable challenges for agencies tasked with enforcing restrictions on harvesting.

In southeastern Thailand's national parks, loggers flood in under the cover of darkness from remote villages and across the porous border from neighbouring Cambodia. The tools of the trade are chainsaws, guns and even rocket-propelled grenade launchers. When loggers are confronted by enforcement officers, violence often ensues. Methamphetamines such as yaba are regularly used as a stimulant to overcome fatigue and as a form of payment for loggers from border communities blighted by drug addiction.

Since 2009, dozens of forest rangers have been killed on Thailand's rosewood frontline.²⁰ Fatalities among loggers are even higher, with 45 Cambodians reportedly shot dead by Thai forces in 2012 alone.²¹

The money on offer to impoverished rural communities from traders lures a stream of people willing to undertake potentially lethal work. Villagers can earn hundreds of dollars from logging

excursions, returns that dwarf those offered by other forms of local employment such as farming.

Away from the frontline lies a web of traders, middlemen and corrupt officials making their fortunes by channeling rosewood from remote forests to the glitzy furniture showrooms of China.

On the surface, the ban on trading Siamese rosewood in Thailand has been tightly enforced. But investigations by EIA in 2011 reveal how bribery and connections with government officials enable some traders to circumvent the law.

In August 2011, EIA investigators met with Piangjai Veratpan, from the company Wood Siam, in a factory on the outskirts of Bangkok. Ostensibly a trader in Burmese teak, Veratpan also revealed that he had access to Siamese rosewood hidden away in a warehouse in the city. The timber had been brought into Thailand from Laos by mis-declaring the species name and bribing officers from a range of agencies – both in Laos and Thailand – along the way. Veratpan assured EIA that a high-level customs officer could ensure safe passage out of Bangkok in return for a bribe of 20 per cent of the cargo value.

The same month, investigators met with Bangkok-based Promphan Suttisaragorn, a representative of PAB Co Ltd, which boasted of connections to the "ruling elites" in advertisements for

timber on trade boards. Suttisaragorn claimed to do business through high-level government contacts from whom he sourced Siamese rosewood in Thailand, Laos and Cambodia. He had previously sold Siamese rosewood to state-owned Chinese firms.

Suttisaragorn offered EIA seized Siamese rosewood that was being held by the Thai authorities. He claimed his was the only company in Thailand with authority to sell the Siamese rosewood, and offered 10,000 m³ for US\$50m. He also boasted of government contacts providing him with access to Siamese rosewood in Cambodia. Suttisaragorn said that rosewood logged in Thailand was often smuggled into Cambodia and re-exported into Thailand to obscure its origin. He said he had access to Certificate of Origin (CO) documents that would facilitate this process and the circumvention of Thai law.

Earlier investigations by EIA in Thailand in 2007 revealed the corrupt practices used by Thai traders to obtain Siamese rosewood in neighbouring Laos. During a meeting with Prakrit Sribussaracum, owner of the company LVT (Laos Vietnam Thailand), EIA was told he had gained access to logging quotas associated with infrastructure projects in Laos by paying senior government officials Thai Baht 50 million (US\$1.5m) in bribes. In addition to large volumes of mixed hardwoods, the deals offered access to Siamese rosewood. Through its government contacts, LVT was able to circumvent both Laos' log export ban and recently imposed species-specific restrictions to export Siamese rosewood fitches into Thailand. Part of LVT's logging quota was linked with the controversial Nam Theun II hydropower dam in central Laos. LVT's Lao partner carrying out logging in the planned reservoir area was Phonesack Group,

an enterprise connected to the upper echelons of the country's government.

In 2007, independent assessments of the impact of the dam highlighted major concerns over Phonesack's role in rampant logging of the National Protected Area (NPA) adjacent to the reservoir area, that was said to be "bleeding rosewood". Phonesack was reported to have offered cash to local villagers for rosewood extracted from the NPA, and subsequently laundered the timber through its quota from the dam site.²²

By March 2012, Siamese rosewood was commercially extinct in many areas of the NPA and poachers had returned to previously logged sites to dig up the roots, removing the potential for regrowth.²³

In Laos, a significant role is also played by Vietnamese and Chinese traders who scour the country to find rosewood. In April 2011, EIA investigators in Laos had a chance meeting with Chinese national Xie Rongjian, the President of Guangzhou-based De Sheng Hang Co Ltd. Over five years he claimed to have become one of the biggest rosewood traders in Laos. Materials he sourced would be trucked to Vietnam, containerised and shipped to China, delivering a tenfold return on investment. Xie had seen prices in Laos rise by 3,000 per cent. Stocks were so depleted and so valuable that Xie said he would travel anywhere in the country for as little as 2 m³. He predicted that the species would be gone from the country in five years.

The complicity of government officials has been a key factor in the failure to enforce legal controls over the harvest and export of Siamese rosewood in Laos. In September 2013, the Minister of Finance admitted that authorities

BELOW:

Stocks of illegal Siamese rosewood seized by Thai forest rangers are a common sight in national parks neighbouring both Laos and Cambodia.



© EIA

“None of the range states, nor China, have laws mandating enforcement officials to seize imports of timber harvested illegally in the country of harvest...”

“may have been cooperating” with traders to export protected timber species.²⁴ In 2014 a government body tasked with tackling corruption revealed that most of the cases it dealt with concerned the involvement of state officials in illegal logging. The Deputy Chairman of the Government Inspection and Anti-corruption Authority warned that corruption could cause the collapse of the regime.²⁵

In February 2013, EIA investigators met Singapore-based Sunny Jeremiah Ong, from the company VIP Partners, who facilitates deals in Siamese rosewood from Laos to the end market in China. Ong explained how he paid off senior contacts in the Lao Department of Forestry to secure access to seized rosewood stocks. Ong also stated that customs officers in Laos were bribed to allow export of Siamese rosewood misdeclared as other species. His network of corrupt officials also included the police and military, and he described how payments were made during social meetings away from the officials’ offices.

Ong said that he was in the process of finalising deals with buyers in China and planned to ship via Hong Kong. He offered EIA more than 100 m³ per month of seized Siamese rosewood that he could access by bribing senior Lao officials. He said it was necessary to go through contacts in the central government, who would in turn agree the sale with provincial authorities. He explained that the logs would be transported to Vietnam, where new documents would be prepared obscuring the origin and mis-declaring the species,

with the requisite bribes being paid to Vietnamese customs officers.

Siamese rosewood consignments from Laos usually cross the border into neighbouring Vietnam unhindered to be either processed in Vietnam or, in most cases, transported onwards to China. Vietnam does not require any proof of legality for logs flowing into the country from Laos, as long as taxes are paid.²⁶ For years, trade boards have featured adverts placed by Vietnamese companies for a range of Laos-origin rosewood species.

In 2012, EIA found Haiphong-based company Vinaca Maiphuong offering hundreds of millions of dollars worth of rosewood logs for sale. The timber was stored in the firm’s warehouse in Laos and could be delivered to either the border with Vietnam or to the port city of Da Nang. EIA reported the company to both the Lao and Vietnamese authorities as a test of their willingness to enforce the law, although there is no evidence any action has been taken.

Another case shows that elements of the Vietnamese authorities both know of restrictions on Siamese rosewood and are capable of effective enforcement. In 2012, a 500 m³ consignment of rosewood was seized by the Vietnamese General Customs Department while it was being loaded onto a ship in Da Nang port. The timber had been imported from Laos and declared as *Dalbergia cambodiana*, but testing by the Vietnamese CITES office revealed it was predominantly Siamese rosewood with a significantly higher value than had been declared. The exporting firm, Ngoc Hung, was subsequently investigated for smuggling of a protected timber species.²⁷

The investigation led to the arrest of the director of Da Nang customs and two of his subordinates. However, the allegation that Ngoc Hung had violated species-specific controls was refuted by the Ministry of Industry and Commerce on the grounds that protection was not extended to imports. While the case remains in limbo, the timber was auctioned by the government.²⁸ The Ngoc Hung case is the exception that proves the rule; the seizure became so high-profile that the Prime Minister intervened to press for a resolution. The fact that the consignment was able to reach Da Nang without being detained indicates entrenched corruption at land border crossings between Laos and Vietnam. Similarly, in 2011, 330 m³ of Siamese rosewood was intercepted in rail wagons at a station in Hanoi. The contraband originated in Laos and travelled hundreds of miles from the border unimpeded.²⁹

BELOW:

A Siamese rosewood square log at Shenzhen Guanlan market, China, showing a Vietnamese customs tab, March 2013.



GOVERNANCE FAILURES

The impending commercial extinction of wild Siamese rosewood is due to fundamental governance failures in range states across the Mekong region, coupled with price rises driven by burgeoning demand from China's Hongmu industry.

Major governance failings across all range states include weak and corrupted law enforcement and ongoing legal and policy contradictions that promote and provide mechanisms for trade in illegal rosewood at the expense of protection for the species.

LAW ENFORCEMENT FAILINGS

Despite national-level legislation prohibiting harvest and trade in Siamese rosewood being in place across its range, and the efforts of some brave individuals within forest administrations and NGO movements seeking protection and law enforcement, on a wider level in Mekong range states regulations have been swept aside by the amount of money being offered by traders supplying the Chinese market.

During EIA's research and investigations into the Siamese rosewood trade since 2007, trader after trader has spoken of cash payments and other inducements for officials able to facilitate cross border smuggling. Media reports of enforcement actions are littered with instances of corrupted forestry, police, customs, military and other officials being actively involved in the illegal trade.³⁰ Despite occasional enforcement successes, most consignments of illicit Siamese rosewood are not intercepted, and even when seizures do occur successful prosecutions of those involved are rare.

CONFLICTING POLICIES

Range state laws on Siamese rosewood and other species, and forestry and timber trade more widely, are littered with caveats and contradictions, many of which have been ruthlessly exploited by traders and officials alike.

In Laos, a log export ban is routinely circumvented through opaque exemptions, leading to the law being largely irrelevant in the country's timber economy. Restrictions on specific species, including Siamese rosewood, are similarly flouted when it suits special interests. Non-transparent quotas for Siamese rosewood are given to elite actors with close connections to the highest echelons of government.

Siamese rosewood illegally cut by locals who are not protected by security apparatus or government actors is seized and auctioned off as legal tender or successfully smuggled abroad.⁵⁰

The laundering of illegal timber into the formal economy through government seizure and auction is systematised and corrupted, and plays a key role in circumventing all existing trade protection for the species in Laos, Vietnam and Cambodia.

Cambodia similarly prohibits harvest and trade in Siamese rosewood but awards exclusive contracts to connected timber barons for illegal seized precious wood, including Siamese rosewood cut from controversial economic land concessions that are decimating the country's forests.⁵¹

Thailand needs to be recognised as the country which spearheaded efforts to put in place credible protection for the species under CITES, and only Thailand seems to have relatively straightforward protection in place for Siamese rosewood.

EIA has witnessed truly dedicated and systematic enforcement efforts to stem illegal harvests and trade in the country, and to date it appears to have largely excluded seizure and auction as an official mechanism to facilitate trade. However, this has resulted in significant stockpiling of seized timber in national parks and ports, which presents costs, invites physical attacks by rosewood thieves and pressure from Chinese traders to buy the seized timbers.⁵² Thailand also suffers significant enforcement and corruption challenges akin to those in neighboring range states, with political turmoil adding to governance problems.

None of the range states, nor China, have laws mandating enforcement officials to seize imports of timber harvested illegally in the country of harvest, and both Vietnam and China – which benefit most from, and play the biggest roles in, international Siamese rosewood trade – have resisted instituting them.

SCALE OF THE ILLEGAL SIAMESE ROSEWOOD TRADE: SEIZURES ACROSS THE MEKONG 2012-14

AGGREGATED FIGURES

Thailand, March 2014	Since 2008, over 363,000 pieces of Siamese rosewood reported seized in Thailand ³¹
Laos, January 2014	Over three tonnes of Siamese rosewood seized in Savannakhet province, ³² while nearly half (46 per cent) of corruption cases of 2013 related to illegal timber ³³
Vietnam	Since 2010, at least 62 tonnes seized, along with 500 logs and 4,513 m ³ ³⁴
Cambodia	Since 2010, at least 49 tonnes seized, along with 1,309 pieces and 1,958 m ³ ³⁵

MEDIA COVERAGE OF INDIVIDUAL CASES ACROSS THE MEKONG

Thailand, January 2014	Thai Navy seizes more than 700 logs about to be trafficked across the Mekong. The courier had made five similar transports before arrest. ³⁶
Vietnam, October 2013	Quang Bing province: seizure of over 500 logs from a house ³⁷ and Quang Ninh province: joint agency seized 30 tonnes of rosewood in transit. ³⁸
Cambodia, September 2013	Siem Reap provincial authorities seize 21 tonnes of Siamese rosewood. ³⁹
China, May 2013	Huangpu Customs conducts Operation Axe, making 48 arrests within 12 gangs smuggling high value timbers, including Malagasy rosewood, padauk and Siamese rosewood, valued at RMB3.16 billion (US\$500 million). ⁴⁰
Cambodia, August 2013	Ratanakiri province district deputy police chief summoned for questioning after raid on his house finds 10 m ³ of illegal timber. ⁴¹

MARCH 2013 - *Dalbergia cochinchinensis* LISTED ON CITES APPENDIX II

Laos, January-June 2013	Khammouane province: Authorities seize 12 tonnes Siamese rosewood in the first six months of the year. ⁴²
Thailand, May 2013	Police arrested a courier reportedly delivering 21 Siamese rosewood logs to an unnamed military chief of staff in Bangkok for a US\$150 fee. ⁴³
Cambodia, March 2013	North-east Cambodia: seizure of around three tonnes of rosewood in transit. ⁴⁴
Laos, December 2013	Laos customs officers in Boten, near the border with Yunnan Province of China, seize 20 tonnes of rosewood. ⁴⁵
Thailand, April 2013	Ubon Ratchathani authorities arrest trader with 600 logs, reportedly purchased from villagers to resell to an investor in Kukhan district, Si Sa Ket province. Also in Ubon Ratchathani, couriers arrested transporting Siamese rosewood on motorcycles for funds to buy drugs. ⁴⁶
Thailand, September 2012	Huge seizure at a checkpoint of 1,500 logs, in transit to a wood fair. ⁴⁷
Thailand, March 2012	1,671 pieces of Siamese rosewood found at a timber fair, some bearing markings showing the wood has previously been confiscated, thereby implicating law enforcement officers. ⁴⁸
Vietnam, May 2012	Quang Binh province: 366 kg seized. ⁴⁹



INTERNATIONAL PROTECTION EFFORTS

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As far back as 1998, the World Conservation Monitoring Centre had applied the CITES Listing Criteria to the species and found an Appendix II listing was justified to prevent unsustainable trade resulting in the need for Appendix I protection.⁵³ In 2008, Thailand sought the support of other range states for a CITES listing but Laos and Cambodia rejected the proposal, arguing a listing would negatively affect regional timber trade – despite harvesting prohibitions across its range.⁵⁴

In February 2012, EIA called for an urgent CITES listing,⁵⁵ and in mid-2012 Thailand indicated it would propose an Appendix II listing for the species. With Vietnam eventually also co-sponsoring the proposal,⁵⁶ it was approved through unanimous consensus at CITES' 16th Conference of the Parties (CoP16) in March 2013, offering the first, albeit long overdue, international protection for the species.⁵⁷ Appendix II regulates trade in threatened species, allowing controlled trade subject to the issuance of CITES permits against agreed quotas. Species listings must be agreed by all range states.

While the listing was a late step forward, in reality it is likely to be 'too little too late' for Siamese rosewood across most of its range. Only Thailand appears to have a realistic chance of preserving any wild stock, and even there it is not guaranteed.

Importantly, the approved listing has an 'Annotation Five' limitation, restricting the application of CITES controls to just logs, sawn timber and

veneers. All other products are exempt from the CITES certification, permitting and quotas system, providing a massive loophole for unregulated, unmonitored and illegal trade in semi-finished products.

Siamese rosewood traders still able to find supplies are already abusing the Annotation Five loophole, threatening to undermine the whole listing. The limited scope has significant negative implications for the effectiveness of the Appendix II listing and will likely result in the species being traded into extinction in the coming years.

Despite domestic laws prohibiting harvests and trade, Annotation Five provides a perverse veneer of legitimacy to ongoing trade in semi-processed rosewood products made with illegal timber. The Annotation also allows countries that seize illegal timber and auction it in local markets to continue doing so. Laos, Vietnam and Cambodia regularly conduct such auctions. This timber is then exported to global markets as finished products outside the scope of CITES. EIA's investigations have shown that such auctions are clearly corrupted, and paperwork generated by them is then used to launder far larger volumes of equally illegal timber into international markets.

Ultimately, Annotation Five provides quasi-legitimacy to international trade in de-facto illegal timber where no legitimacy existed before. Removal of Annotation Five, so that all parts and products are covered, is essential.

ABOVE:

In March 2013, Siamese rosewood was listed on CITES Appendix II, but loopholes and long delays mean this may be too little too late to save the species from extinction.

REGIONAL HONGMU CRIME SCENES

LANG SON



© EIA

Lorries cross the Vietnam-China border into the town of Puzhai. Semi-finished Hongmu is moved via formal crossings into retail hubs close to the border, while illicit, unprocessed logs are smuggled over informal bianmao routes to evade both taxes and CITES restrictions. See page 17.

DONG KY



© EIA

Siamese rosewood logs from Laos are unloaded in Dong Ky, where they will be bought by Chinese traders and smuggled into China by Vietnamese gangsters. Dong Ky and neighbouring villages enable traders to source rosewood without travelling deep into source countries. See page 16.

PAKSE



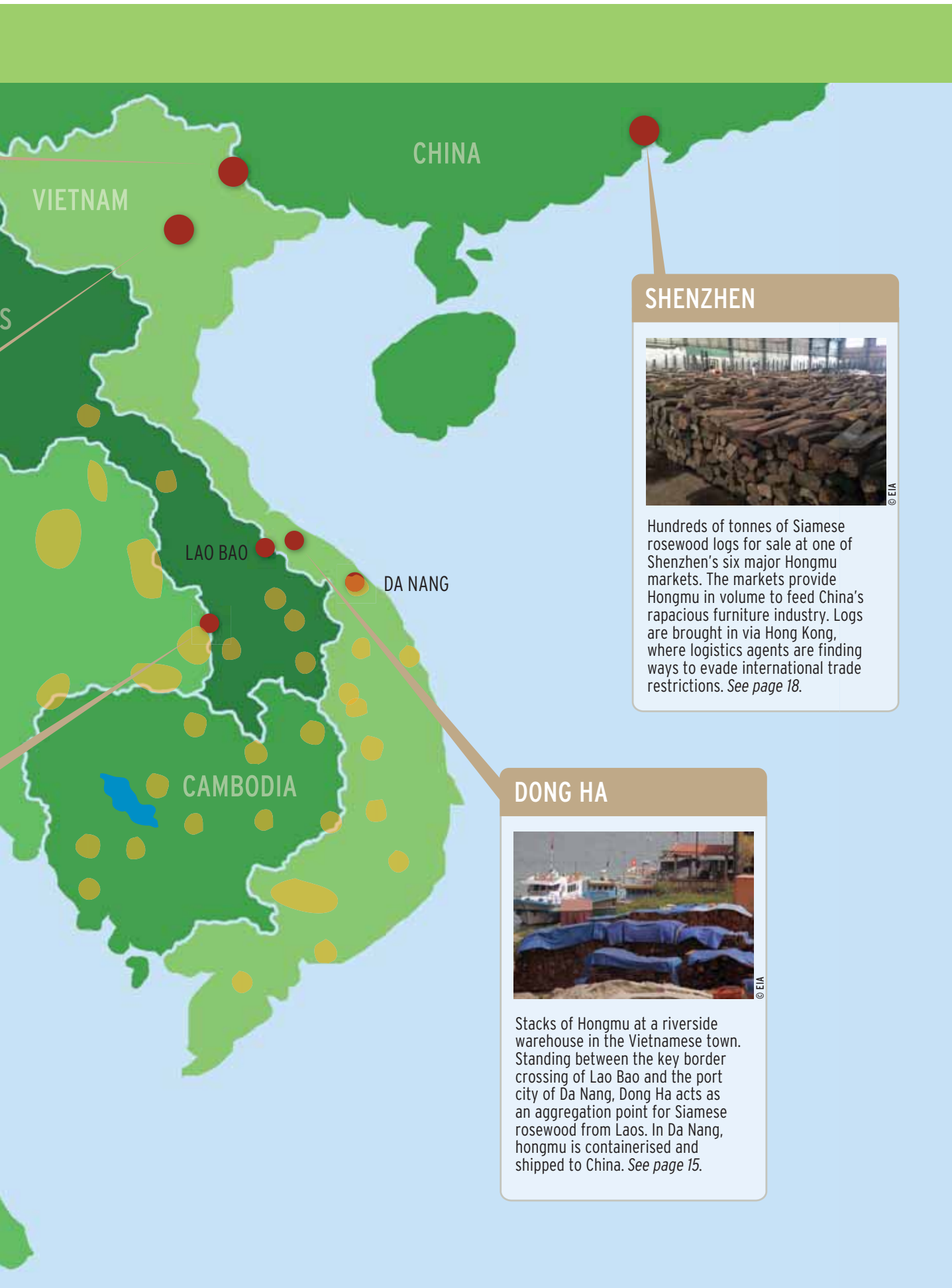
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Siamese rosewood logs for sale at a Lao military auction. Illegally-harvested timber seized in enforcement operations is sold off to Chinese traders, who then use paperwork from the 'legal' stock to launder five times more illegal timber. See page 12.

KEY:

- Recorded geographic distribution of Siamese rosewood.

Source: CITES CoP16 Prop. 60



CHINA

VIETNAM

LAO BAO

DA NANG

CAMBODIA

SHENZHEN



© EIA

Hundreds of tonnes of Siamese rosewood logs for sale at one of Shenzhen's six major Hongmu markets. The markets provide Hongmu in volume to feed China's rapacious furniture industry. Logs are brought in via Hong Kong, where logistics agents are finding ways to evade international trade restrictions. See page 18.

DONG HA



© EIA

Stacks of Hongmu at a riverside warehouse in the Vietnamese town. Standing between the key border crossing of Lao Bao and the port city of Da Nang, Dong Ha acts as an aggregation point for Siamese rosewood from Laos. In Da Nang, hongmu is containerised and shipped to China. See page 15.

INVESTIGATIONS



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THE SIAMESE ROSEWOOD TRAIL

Following the CITES listing for Siamese rosewood, EIA set out to gauge how the new protection is impacting illegal trade across range states and China.

Between October 2013 and March 2014, investigators travelled to the major trade and processing hubs of Pakse on southern Laos' border with Thailand, through north Vietnam's Dong Ha and Dong Ky wood markets, crossing over to China via Lang Son and Pingxiang and on to Shenzhen and Hong Kong.

Posing as buyers, investigators met with a wide range of Siamese rosewood and other Hongmu traders, brokers, logistics companies and middle men, generating first-hand information on the effects of the CITES listing.

EIA's findings offer some evidence that CITES is suppressing international illegal trade, particularly in China, but also that the loophole provided by Annotation Five, combined with ongoing corruption and poor governance in range states and China, is undermining the potential protection.

LAOS LEAKS

Black Markets and Rigged Auctions

In February 2014, EIA investigators visited Pakse, a Siamese rosewood trade hub in southern Laos near the border with Thailand. EIA also met traders and middlemen in Vientiane, the capital of Laos.

In Pakse, undercover EIA investigators met Mr Ouyang, of Shanghai Hongxu International Trading Limited (Hongxu), a firm drawn to Laos in mid-2013 by the riches to be made in the booming Siamese rosewood trade. Expanding from the company's ongoing Vietnam-based business procuring Siamese and Burmese rosewood for domestic processing and onward shipment to China as raw materials, Ouyang readily admitted that Hongxu had "arrived too late" because Siamese rosewood had already been virtually cleared out of the forests in Laos.

Ouyang explained: "*Now, Siam[ese] rosewood in Lao is becoming smaller and smaller, the more they are logged. The bigger ones with diameters of 20cm and above are generally all smuggled in from Thailand.*"

This is a core factor in Pakse's role as a key Siamese rosewood trade hub – its proximity with both the Thai and Cambodian borders. Other traders in the town similarly estimated that 60 per cent of the Siamese rosewood on offer in Laos is actually from Thailand.

Following the CITES listing, many local companies, including Hongxu, have experienced delays and even confiscations of their cargos en route to China. Ouyang explained that when Hongxu had taken its chances the previous year by hiding Siamese rosewood logs inside furniture products and mis-declaring the cargo, only one of its three containers successfully entered China and was being sold in Shenzhen's Guanlan market. The remainder was warehoused in Hong Kong until either shipment to China could be guaranteed or buyers in Hong Kong were found.

Companies such as Hongxu may have arrived late but they were adapting rapidly. Ouyang explained how Hongxu has already switched to other Hongmu species, namely Burmese rosewood (*Dalbergia bariensis*) and Burmese padauk (*Pterocarpus macrocarpus*) where trade is less regulated. Burmese rosewood,



especially, bears some resemblance to Siamese rosewood and is offered at a price enabling significant profits and market growth.

At time of EIA's visit, Hongxu staff were reportedly in Cambodia loading 1,700 tonnes of Burmese rosewood that would be taken to China via Vietnam. Despite a ban on sourcing rosewood from local farmers having been recently announced by the Lao government and communicated by the Chinese embassy, Ouyang admitted that Hongxu had illegally sourced 500 tonnes of Burmese rosewood from local Lao farmers and buried the timber under its factories in and around Pakse.

All the Chinese traders EIA encountered in Laos said they source Siamese rosewood illegally from farmers, directly or via local brokers. Investigators were taken to meet one such Lao broker in his heavily guarded compound, conveniently located between the Mekong and a tributary river along Road 13 in the northwest outskirts of Pakse. The transport links provide easy access to three protected forests in the vicinity but also make the area a gateway for smugglers.

In the compound, investigators witnessed specially adapted vehicles with black-tinted windows and no license plates coming in and out with Siamese rosewood logs illegally cut in Laos, as well as those smuggled into Laos from Thailand and Cambodia. An estimated 20 tonnes of Siamese rosewood was stacked up around the compound. Ouyang confirmed there are many other such timber brokers in the area offering a range of precious Hongmu species, all of which sell to Chinese-run factories in the area. Payment is not made until materials safely reach their premises, having avoided seizure.

The underground black market for rosewood in Laos is only part of the picture. It is augmented by trade in illegal Siamese rosewood seized by government officials and sold at auctions, a business controlled by a few politically connected individuals and their networks.

While in Pakse, EIA also attended meetings with Ouyang where Hongxu sought to whitewash its illegal Burmese rosewood stocks by buying "quota materials" from the Lao military headquarters of Champasak province. At the time of EIA's visit to the military compound, 7 m³ of seized Siamese rosewood was available at a price of US\$13,500 per tonne.



OPPOSITE PAGE:

An army officer in Pakse, Laos, displays seven tonnes of confiscated Siamese rosewood for sale available at a corrupted military auction, February 2014.

ABOVE LEFT:

An army compound in Pakse, Laos, where EIA investigators were shown seized Siamese rosewood for sale.

ABOVE RIGHT:

Lao military auctions of seized timber - known as "quota materials" - are accompanied by paperwork that traders use to launder larger volumes of illegal logs.

ABOVE:

Siamese rosewood logs illegally felled in Laos, Cambodia and Thailand for sale at the warehouse of this broker in Pakse, Laos. Such materials are sold mainly to Chinese-owned furniture factories in Laos.

INVESTIGATIONS (CONTINUED)

Ironically, these quota materials are in reality confiscated wood seized from farmers and illegal brokers, and sold on at up to three times the local market price, usually exclusively to Chinese or Vietnamese traders. Seized timbers across a range of Hongmu species may have been harvested in Laos or seized from traders trafficking wood from neighboring Thailand or Cambodia.

Nevertheless, because the quota material comes with official paperwork, illegal Hongmu traders consider such auctions an important means to add a veneer of legality that is essential to their operations in Laos. Hongxu eventually bought 80 tonnes of the illegal Burmese rosewood from the military, the permits for which will be used to deceive officials when inspecting Hongxu's existing illegal stockpiles.

Traders EIA met in Laos claimed that each tonne detailed in auction paperwork could be used to launder five tonnes of locally traded illegal wood. Ouyang said that forestry officials inspecting local factories generally accept bribes to look the other way when auction paperwork is used to legitimise illegal wood – a factor he relies on himself.

Ouyang also admitted that he had buried 200 tonnes of Burmese rosewood bought illegally from local traders under one of his factories. Purchasing seized illegal wood from the military auction would allow him to dig some of it up – using the auction paperwork to legitimise his haul. He also revealed that information came from contacts in the relevant agencies advising when it was safe to export containers of rosewood.

Hongxu's purchase from the military was brokered with a Lao woman named Chantone Lattavong, who was introduced as a relative of the Champasak governor and the niece of the head of the local military command. A Lao woman who called herself Xiao Wang and spoke fluent Mandarin was translating the meeting. Wang works for another Chinese company, allegedly one of the largest in Pakse, which also deals through Lattavong.



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According to Wang, Lao government agencies such as the Ministry of Agriculture and Forestry (MAF) and Ministry of Industry and Commerce (MIC) as well as the military in Champasak and neighboring provinces all organise auctions of seized timbers, including Siamese rosewood. Such materials are much sought-after and the stock would normally have been sold off well before the official auction. Lattavong had used her family connections to purchase the entire available stock from the military at a discounted rate, with Hongxu having to buy from her. Lattavong was said to have been brokering such deals for more than two decades.

Circumvention by Value-Adding

To circumvent both Laos' log export ban and the CITES listing, Siamese rosewood traders and those dealing in other Hongmu species are increasingly undertaking basic "processing", mainly by adding minor features to the ends of flitches so they can be exported as semi-finished products. Once landed in China, the ends will be cut off so they can be sold or reworked as raw materials.

Hongmu traders do not seek to build long-term industry in Laos and a vibrant factory rental market hosts a fluid network of illicit Chinese and Vietnamese traders looking to export raw materials. The main consideration in a factory rental deal was reportedly the owner's connections when processing paperwork and dealing with Lao officials. Lattavong's younger brother's timber factories were offered for rental for this purpose, or for warehousing for illegally sourced materials, with quota paperwork and materials as a cover.

One such factory in Pakse is owned by a local firm called Jidipeng, which in 2007 was partially acquired by Chinese company Beijing Yixi Technology Ltd, also known as Laoshi Hongmu. While in Pakse, EIA investigators met with a man named Chen Xinghua from Laoshi. He said that the Jidipeng and Laoshi partnership traded Siamese rosewood and other Hongmu species to big furniture factories serving the China market, including at least 100 tonnes to Lian Tian Hong, a Fujian-based furniture company that is said to be one of the biggest buyers in Pakse.

Chen acknowledged that the CITES listing had impacted the trade as the Laos border was closed periodically, and some contacts involved with moving Siamese rosewood out of Laos were no longer willing to take the risk. He said there are local "patrons" in Laos who would guarantee moving timber from Laos to Hong Kong, but even they were not able to make shipments between June and October 2013, and two containers of Laoshi's were taken into Hong Kong last November only after a long wait. Laoshi has now developed a new factory in Pakse focusing on exporting Burmese rosewood – due in part to new restrictions, but largely because Siamese rosewood in Laos was no longer commercially viable, having been logged out.

Chen said that Laoshi's Burmese rosewood business in Laos involves buying illegal timber from local loggers and brokers, and confirmed that the factory also uses the government-auctioned stocks as a cover to launder illegal stockpiles. This is then "processed" into semi-finished furniture essentially made with flitches, exported to China and re-worked as raw materials for furniture.



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THE VIETNAM PIPELINE

Vietnam plays a major role as a transit hub for Siamese rosewood from Laos, Thailand and Cambodia enroute to China via two main routes - by sea from ports such as Da Nang to Hong Kong, or by road via the country's porous northeastern border with China.

Dong Ha

Dong Ha, the capital of Quang Tri province, is one of the biggest timber trading hubs in Vietnam. It is a short drive east of Lao Bao, one of six official border crossings between Laos and Vietnam. While large volumes of timber, including illegal Siamese rosewood, pass through the Lao Bao crossing, smaller consignments transported by motorbikes and mini-buses with blacked-out windows and blanked license plates use back roads and rivers to bypass the official border. In January 2014, Vietnamese media documented smuggling of Siamese rosewood adjacent to the Lao Bao border post managing to avoid enforcement due to army escorts.⁵⁸

When EIA visited Dong Ha in February 2014, the role the town plays in the illegal Siamese rosewood trade was obvious. In just one morning, EIA was shown over 400 tonnes of Siamese rosewood logs stockpiled in three warehouses in the Ai Tu Industrial Zone.

The manager of one such warehouse, owned by the company Ngoc Anh Limited, told investigators that the 80 tonnes of large Siamese rosewood logs in stock had recently been sourced in Laos and half had already been sold to a Chinese client. The manager explained how Ngoc Anh's logs are first taken to Da Nang port and then shipped to Hong Kong, where Chinese buyers will inspect the logs. Once a deal is struck, payment for the logs is made through a contact in the town of Mong Cai, a notorious smuggling hub on Vietnam's northern border with China. Although the manager spoke of delays in moving precious timber such as Siamese rosewood from Hong Kong into mainland China, generally the cargo was still getting through, aided by CITES re-export permits from Vietnam.



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OPPOSITE PAGE:

A relative of the Champasak governor, Chantone Lattanvong (right) brokers timber sales between the army in Pakse and buyers from China and Vietnam.

TOP:

EIA investigators were shown more than 400 tonnes of Siamese rosewood in just three warehouses in Dong Ha, Vietnam, all said to have been imported after CITES restrictions were in place.

ABOVE:

Smugglers move Siamese rosewood across the Sepon river separating Laos and Vietnam.

INVESTIGATIONS (CONTINUED)



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Dong Ky to Lang Son

Lying near the outer suburbs of Hanoi, Vietnam's capital, the village of Dong Ky serves as a hub for artisanal Hongmu processing and also plays an important role in the illegal flow of rosewood logs into China. Timber markets lining the streets enable buyers to source raw Siamese rosewood and arrange transport into China without travelling deep into the source countries.

EIA visited Dong Ky in late October 2013, the week after Vietnam had legally enacted the CITES listing. It was immediately apparent that the listing had not stemmed the flow of Siamese rosewood through the area. One seller offered EIA investigators 1,000 tonnes of Lao-origin Siamese rosewood logs a month, and Chinese traders continued to stream into the area to secure supplies of up to 100 tonnes on each trip.

Laos appeared to be the sole source of the Siamese rosewood available in Dong Ky and surrounding markets. In one warehouse stacked full of logs, a trader pointed to the official Lao hammer-marks on a proportion of the timber. This was, she said, the 'legal' quota material, while the majority of Siamese rosewood logs were unmarked and smuggled out of Laos.

The flow of Siamese rosewood out of Vietnam had reportedly been stifled by Chinese authorities subsequent to the CITES listing. In order to circumvent China's border controls, traders were enlisting the services of local logistics companies. One company, Truong Giang Logistics (also known as "999"), was said to specialise in the smuggling of raw Siamese rosewood logs.

Posing as buyers, EIA investigators met Mr Li of 999. He said that while the Chinese authorities were imposing controls, Vietnamese officials were not, adding that 999's ability to evade border controls stemmed from connections between the company's owner and officials. *"Our boss has bought access to the entire route,"* Li said. *"He is very influential. He's quite powerful. You could say that he's part of the triad"*.

For a fee of US\$2 per kilo, 999 offered to move hundreds of tonnes of Siamese rosewood into China every month. The consignments would be divided into a maximum of three tonnes per truck and concealed by legitimate cargo. Li said that exporting the timber requires paperwork, which would be provided by a forestry department official with shares in the company.

After the first meeting, EIA returned to the company's office to meet 999's owner, Aqiang, or Cuong. During the meeting, Aqiang loaded stacks of cash into a bag while his employees concealed Siamese rosewood logs in gunnysacks for export. He was so confident of his ability to move the illicit wood across the border that he offers a full refund on any cargo seized by authorities. Aqiang owns a network of transport firms and moves an average of seven trucks of timber across the border each day.

Outside 999's office, EIA met a Chinese woman writing her name on Siamese rosewood logs. Huang Lihong had invested US\$160,000 in Siamese rosewood to supply her Fujian-based company, Tianxi Traditional Furniture. She was sourcing in Vietnam for the first time and, as a test, was using 999 to get the logs through to China. Two weeks later, investigators met Lihong again at a Hongmu trade show in China, where she confirmed the logs had arrived safely in China and expressed her intention to return to Dong Ky to source more supplies.

DESTINATION CHINA

Although there is some local processing around Dong Ky, the overwhelming majority of Siamese rosewood logs cut in Laos and transported into Vietnam are bound for China.

Pingxiang

EIA investigators followed the smuggling route from Dong Ky, which runs 160km north to the province of Lang Son. Although there are two official crossings into China at Puzhai and the Friendship Pass, logistics agents told EIA that trucks carrying contraband rosewood usually cross via informal, or '*bianmao*,' routes which crisscross the mountainous border.

At Puzhai EIA observed dozens of trucks laden with Hongmu furniture crossing every day. The goods were unloaded on the Chinese side at a Hongmu market near the border, where skilled workers finished and polished it for the local market. Both Puzhai and the larger border town of Pingxiang have become major retail hubs for Hongmu products.

Furniture malls have sprung up as a consequence, incorporating high-end Hongmu outlets. When EIA visited one of these centres, some of the shops had Siamese rosewood logs in gunnysacks stashed behind furniture. One shopkeeper told investigators her boss keeps a constant stockpile of the species. Another shopkeeper said that importing had become more difficult but admitted his boss still managed to get supplies and had teams of employees sourcing in Vietnam.

The retail furniture sector is supplied by processing hubs such as Banjia Village, located in a southern suburb of Pingxiang. EIA visited the area to find out how firms source materials and the extent of the trade in semi-finished Siamese rosewood from Vietnam.

Investigators met a factory owner who sources exclusively semi-finished Siamese rosewood from Vietnam, applying finishing in China for the discerning local market. The owner claimed that at least 90 per cent of the Siamese rosewood products - whether logs or semi-finished - were smuggled via *bianmao* routes in order to evade taxes. According to

OPPOSITE PAGE TOP:

Siamese rosewood smuggled across the Vietnam border with China are often concealed in gunnysacks to avoid detection.

OPPOSITE PAGE MIDDLE:

Aqiang (right), a triad leader from Lang Son, Vietnam, stuffs bags with wads of cash received for smuggling Siam rosewood logs into China.

OPPOSITE PAGE BOTTOM:

Despite CITES legislation effective from 12 June 2013, Chinese buyers continue to flock to Dong Ky in Vietnam to source raw materials for export to China in October 2013.

BELOW:

Siamese rosewood being carved into furniture in Dong Ky, Vietnam, prior to export to China outside of the scope of current CITES controls.

BELOW LEFT:

A convoy of trucks carrying Siam rosewood semi-finished furniture parts and raw materials being loaded at Puzhai rosewood market, China.

BELOW RIGHT:

Siam rosewood logs, sawn timber, and veneers - hidden in gunnysacks to aid smuggling from Vietnam - on offer at a retail shop in Pingxiang, China.



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INVESTIGATIONS (CONTINUED)



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him, most of the factories in Banjia Village bought semi-finished products rather than logs but principally because the cost of labour in Vietnam was significantly lower than in China. The CITES listing did not influence the form in which his timber was purchased because the goods were smuggled anyway. He said that enforcement on the border was variable but always as a result of Chinese and not Vietnamese action.

Shenzhen

From Pingxiang, EIA investigators travelled eastward to the city of Shenzhen, in Guangdong province, which plays a key role as the entry point into mainland China for Siamese rosewood shipped through neighbouring Hong Kong.

The thousands of tonnes shipped into Hong Kong's ports from Vietnam, Cambodia and Thailand are aggregated at six major Hongmu wholesale markets, which in turn supply factories feeding demand in China's booming cities. The markets are clustered in Guanlan town. When EIA visited Guanlan Hongmu market in early November 2013, tension among traders was tangible after a series of seizures at ports in the region.

Customs authorities in Huangpu port, a major conduit for Hongmu imports, as well as at Wenjindu, had arrested 38 people from 12 reported timber smuggling gangs between May and August. Chinese media reported that 20 Siamese rosewood traders in Guangdong province, in which Shenzhen lies, had been caught falsely declaring the species in June.⁵⁹

Despite the seizures, the market was still stocked with thousands of tonnes of high-quality Siamese rosewood, Burmese rosewood and padauk. Most of the traders said no new Siamese rosewood materials were coming through from Hong Kong, but added that enforcement was focused on the port of entry and not on the market.

Some traders had valuable stock stuck in Hong Kong and the blockage was said to be driving prices up on the mainland. EIA investigators were offered one stack of Siamese rosewood for more than US\$80,000 per tonne. The trader advised that logs at that value were commonly bought solely as an investment – polished, waxed and stored while the value rose.

Most of the Siamese rosewood available in the market originated from Laos and had been shipped via Hong Kong. Proximity to Hong Kong and its port infrastructure, rather than the location of major Hongmu processing hubs, is the principle reason for the location of rosewood markets in Shenzhen.

EIA investigators visited Guangdong-based logistics firms facilitating trade from neighbouring Hong Kong to find out how the CITES listing was affecting imports of Siamese rosewood. It emerged that in response to the enforcement actions, logistics firms were seeking new ways to ensure the flow of contraband resumed.

EIA met with Tuobao Import Export that, prior to the listing, had arranged imports of Siamese rosewood from Hong Kong for Guangdong-based traders. Owner Wang Jie confirmed that imports of Siamese rosewood had ceased after May 2013. He said it would now only be possible with CITES import permits issued by China's State Forestry Administration (SFA), which in turn would require export permits from source countries.

In contrast, there was still no problem with importing Siamese rosewood into Hong Kong. This was later confirmed officially to EIA by Hong Kong's CITES Management Authority (MA), which by February 2014 had still not implemented the listing.⁶⁰ Wang explained how Hong Kong enabled companies such as his to import goods, reload them into new containers and re-export to China, thereby obscuring the origin. This also provided opportunities to mis-declare the species and potentially evade the CITES restrictions.

Wang said he had successfully imported the Central American Hongmu species *Dalbergia retusa* in violation of CITES by declaring it as the unregulated *D. bariensis*, aided by similarities in the texture and colour between the two species. He was exploring ways in which Siamese rosewood could be mis-declared or otherwise smuggled in.

Guangdong logistics firms involved in the rosewood trade use Hong Kong as a stepping stone into mainland China, where incomplete paperwork can be augmented or altered to meet the stringent demands of Chinese customs.

Customs data shows wide scale mis-declaration of freight between Hong Kong and China. Between 2010-13, Hong Kong reported 161,000 m³ more in high-value log exports to China than it reported in imports, indicating significant laundering of illicit timber.⁶¹

The Hong Kong Hub

EIA investigations across Siamese rosewood range states pointed towards Hong Kong as the main route for consignments headed for mainland China. To gather evidence, EIA investigators travelled to Hong Kong to meet with logistics firms involved in the Hongmu business.

A meeting was arranged with Madam Lin, a cautious businesswoman based near the Shenzhen-Hong Kong checkpoint. Before cutting short the meeting, she revealed considerable experience in transporting Siamese rosewood, Burmese rosewood and padauk to China. She had been moving containers of Siamese rosewood by sea freight to ports in Dongguan and Shenzhen. From Hong Kong, she claimed that containers would arrive at any port in

OPPOSITE PAGE:

Dadicheng Hongmu City in Shenzhen's Guanlan town is possibly the world's largest wholesale centre for Siamese rosewood.

BELOW:

Stack of Siamese rosewood logs offered to EIA for more than US\$80,000 per tonne in Shenzhen.

BOTTOM:

Shenzhen container port, China.



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INVESTIGATIONS (CONTINUED)

Guangdong within three days and offered compensation of RMB40,000 (US\$6,500) per tonne should the cargo be stopped. Her fee for transporting Siamese rosewood into China was RMB14,000 (US\$2,300) per tonne.

Lin said she had previously moved containers of Siamese rosewood with CITES permits. She was told by traders that CITES export permits could be obtained in Vietnam for US\$550 per m³ and that import permits could then be applied for in Guangzhou and Beijing. Lin gave the impression that while Hong Kong serves as an important transit point for rosewood shipments where paperwork can be manipulated, the smuggling operations are orchestrated by syndicate heads based on the mainland.

To follow up this lead, EIA travelled back across the border into Shenzhen and met with Deng Changhua, of Shenzhen Zhongyihang Import-Export, at the firm's office at the Guanlan Hongmu market. During the meeting, Deng said his firm was able to transport Siamese rosewood containers legally into China using CITES permits obtained from Laos. He said the permits were secured directly from the Lao government by a Chinese businessman who often travels to Vientiane. Using these export permits, Deng had been able to apply for the reciprocal import permits from China through the Guangzhou authorities, which are then issued by the CITES MA in Beijing. According to Deng, Zhongyihang is one of a few companies to have such permits.

At the time of the meeting, Deng still had permits for a few thousand cubic metres of Siamese rosewood, with each permit covering up to 100 m³. Deng's fee for transporting Siamese rosewood from Hong Kong to China was RMB16,000 (US\$2,500) per tonne.

Like Madam Lin in Hong Kong, Deng said he would not need any documents for the shipment and the only requirement was that the containers arrive in Hong Kong. He said: *"Your goods have to arrive in Hong Kong. If your goods are unable to arrive in Hong Kong, then I can't do anything about it."* Despite being in possession of Lao CITES export permits, Deng made it clear that such documents were only of use in transferring the cargo from Hong Kong to China, and that the trader bore the risk from Laos to Hong Kong – something Deng acknowledged is the riskiest part of the transportation.

A crucial part of the preparation is to ensure that the cargo volume tallies with the specifications on the CITES permits. He said: *"I have to pull together my required cubic metres. If I have papers for 50 m³, and for one permit you exceed 50 m³, it will be a headache for me... I will have containers in Hong Kong that will add onto yours on the same permit... for the customs declaration."*

While Deng asserted that the Lao CITES export permits were not fakes, it was clear they did not relate to any specific batches of timber as is required under CITES. The permits have effectively been issued illegitimately to be used to legitimise any Siamese rosewood to which the certificate-holder chooses to apply them, a clear breach of CITES rules.

Deng said that the majority of Siamese rosewood shipments he transport in 2014 originated from Vietnam, in particular via Ho Chi Minh City, Da Nang and Haiphong ports, while in 2013 most of the containers he received arrived from Thailand.

Following the meeting, Deng sent EIA a CITES re-export permit issued by Vietnam in March 2014, covering Siamese rosewood from Cambodia. The legitimacy of this permit is highly doubtful.





OPPOSITE PAGE:

Hongxu's Siamese rosewood from Laos stored in a private warehouse in Hong Kong after enforcement prevented its import into mainland China.

LEFT:

A banner on a timber warehouse in Yangguang market in Guanlan announces that the company had imported illegal timber.

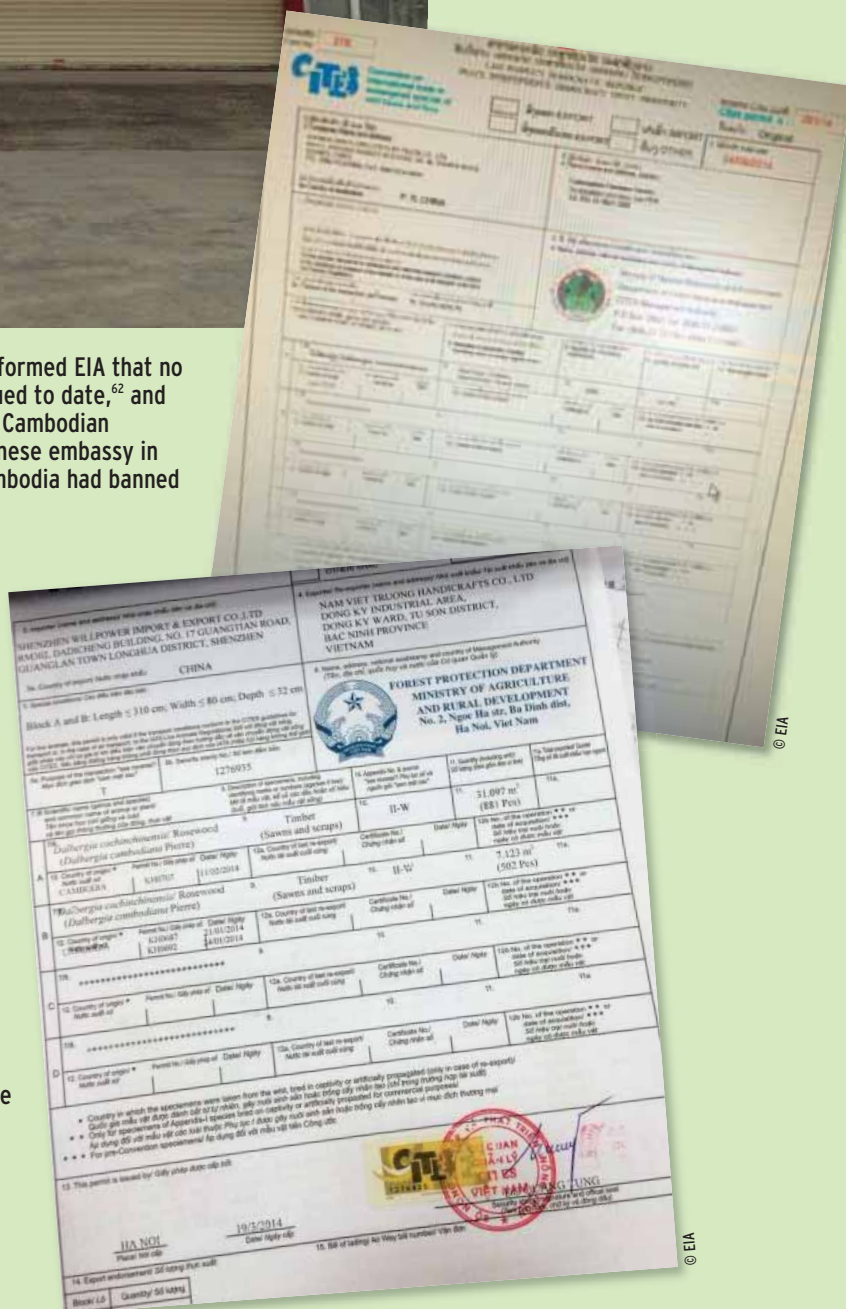
BELOW:

A CITES export permit from Laos and a CITES re-export permit from Vietnam provided by Deng Changhua. Both permits were illegitimately used to apply for CITES import permits from Chinese authorities to enable import into mainland China from Hong Kong.

In April 2014, the Cambodian MA informed EIA that no CITES export permits had been issued to date,⁶² and in March 2014 EIA learned that the Cambodian government had written to the Chinese embassy in Cambodia informing China that Cambodia had banned trade in Siamese rosewood.⁶³

On 15th April 2014, Deng also emailed EIA a photo of a Lao CITES permit for the export of 50 m³ of Siamese rosewood to Xiamen China Long Century Trading Co. Ltd - a firm that reportedly has a processing factory in Laos. It seems Deng's claim of access to such permits to launder illegal timber through CITES controls on the China border were true.

On 3 April 2014, EIA wrote to the Laos CITES MA outlining concerns regarding the illegitimate issuance of CITES Export permits, as explained by Deng, and seeking official information on export permits issued to date. No response had been received by the time this report went to print, in May 2014.





THE IRRATIONAL EXPANSION OF THE HONGMU INDUSTRY

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ABOVE:
While traditionally Hongmu represents a rich cultural heritage, some experts in China warn that the modern Hongmu industry threatens that very tradition.

China's modern Hongmu industry bears little resemblance to its cultural heritage. Unbridled expansion of the sector over the past decade threatens to wipe out some of the iconic species revered in traditional Hongmu culture. Siamese rosewood provides the clearest example of this threat.

China's National Standard for Hongmu identifies 33 tree species, of which 21 are found in Asia (mainly in the Mekong region), seven from the Americas and five from Africa. The standard is intended to protect Chinese consumers and does not seek to safeguard the industry from illegal or unsustainable supply from the countries of origin.

Increasingly, many of the populations of these species are being methodically exhausted in order to meet demand from China's wealthy elite. Top of the list is the native Chinese *D. odorifera*, which can attract up to US\$2 million per cubic meter but is virtually nonexistent in natural forests⁶⁴ and, as such, is the poster child for the Hongmu industry. Surging demand in China, especially since 2009, has progressively led to Hongmu species being stripped from the Mekong region, India, Madagascar, Central America and Africa.

In each region, the nature of timber extraction and sourcing driven by Chinese traders follows the same pattern. Unsustainable levels of extraction lead to domestic protections. Domestic legislation is then undermined by smuggling and rampant bribery of officials. Finally, range states are driven to seek protection through CITES. This has led to seven Hongmu species being listed on CITES.

Range states are increasingly driven to the international protection afforded by CITES because the huge potential profits from the rosewood trade render national regulations impotent, while China has no controls against the importation of illegally logged timber.⁶⁵

The rapid injection of 'hot' money chasing dwindling supplies of Hongmu species into states with weak forest governance allows traders to operate with impunity. In impoverished and potentially turbulent countries such as Madagascar, Laos, Myanmar and Senegal, this can have wide-reaching impacts and can even threaten political stability.

The phenomenon is not simply a case of China's wealthy classes resurrecting long-standing cultural traditions. One of the biggest drivers of demand since 2009 has been market speculation. The consequence of rising demand and a diminishing resource has created a bubble that continues to inflate, with catastrophic implications for range states. The Chinese Redwood Committee, an industry association, has noted this trend in investment-led consumption.⁶⁶ The scarcer a Hongmu species becomes, the higher the price rises. A venerable cultural tradition serves as a cover for rampant speculation.

Yixi, the company EIA met in Pakse, Laos had established an investment fund in China specifically to allow wealthy individuals to sink cash into its Siamese rosewood furniture. The company has attracted more than US\$1.6m that it plans to invest in Burmese rosewood and padauk.

"The scarcer a Hongmu species becomes, the higher the price rises. A venerable cultural tradition serves as a cover for rampant speculation..."



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In spite of the evidence that it is a bubble and the systematic eradication of the resource, the Chinese government has provided considerable financial incentives to promote the Hongmu industry. This has led to a proliferation of processing and retail hubs, with more than 3,000 factories producing Hongmu across 25 areas, in turn driving up demand for a scarce resource.

In the town of Pingxiang, for example, the local government provided financial subsidies and tax reductions to support the Hongmu sector, while state-owned banks have extended at least US\$75m in loans.⁶⁷ As a consequence, there are now more than 2,000 Hongmu businesses in Pingxiang alone.⁶⁸

Such hubs are emerging across the country, predicated largely on an often illegal resource that is threatened with extinction. The rationale behind investment and state backing for an industry which is systematically destroying its own supply chain is unclear.

While the roots of the Hongmu tradition lie in a rich cultural heritage, the modern industry threatens that very tradition. At a meeting on the international timber trade in Shanghai, in March 2014, an expert from the Cultural Relics Restoration Committee of China said that contemporary products do not reflect the true tradition and are intended to show off wealth. Several industry representatives cautioned that the industry was in “chaos” as a result of the influx of speculative investment cash.⁶⁹

The pursuit of Hongmu in the name of China’s cultural heritage is destroying



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the natural heritage of countries across the world. Siamese rosewood is a clear example; it was one of the original Hongmu species centuries ago but has been driven to the brink of commercial extinction by greed and speculation.

Not that this will be of concern to the criminal syndicates involved in the trade; they are already switching to other Hongmu species such as Burmese rosewood.

TOP:

The China-ASEAN Hongmu City in Pingxiang - one of many such specialist markets catering to surging demand for Hongmu products in China.

ABOVE:

While Hongmu products are considered valuable investments and cultural artefacts, few consumers are aware of the dirty bloody business behind the trade.

RECOMMENDATIONS

Parties to CITES should:

- Support any proposal to delete Annotation #5 from the Appendix II listing for *D.cochinchinensis* to ensure all parts and products are covered by the listing;
- Direct the CITES Secretariat to collate and publish the reports from range states on the issuance of CITES export permits for *D.cochinchinensis*;
- Direct the CITES Secretariat to undertake a mission to assess and strengthen the capacity of Myanmar's CITES Management and Scientific Authorities to respond to the imminent trade threat against *D.bariensis*, and other species.

All *D.cochinchinensis* Range States should:

- Submit regular detailed reports to the CITES Secretariat on the issuance of CITES export permits for *D.cochinchinensis*, including information on how many permits have been issued for what volumes of timber, and the applicable laws and rationale justifying their issuance.
- Publish Non-Detriment Findings that demonstrate how CITES export permits issued are in line with scientifically proven stocks;
- Submit to the Secretariat a proposal for listing replacement species, such as *D. bariensis*, or *P. macrocarpus*, on CITES Appendix III with zero quotas, pending full non-detriment findings that might inform future sustainable trade volumes.

The CITES Standing Committee should:

- Direct the CITES Secretariat to undertake a review of the reports and Non-Detriment Findings from range states of *D.cochinchinensis*, as described above to; determine whether or not permits are justified by scientifically credible non-detriment findings; and seek clarification from range states regarding the legality of *D.cochinchinensis* currently exempted by Annotation #5 from CITES controls.
- Direct the CITES Secretariat to provide a report of the review to relevant members of the CITES Standing Committee, including recommendations for further action if required.

Range States of all 33 Official Hongmu Wood Species:

- Submit to the CITES Secretariat proposals for listing all domestic stocks of species in China's Hongmu National Standard on Appendix III of CITES (except those already listed), with zero quotas for harvest and trade, and conduct non-detriment findings to guide any future potential legal trade.

China should:

- Institute a clear legal prohibition on imports of all illegally logged timber;
- Deploy effective border controls on imports of *D.cochinchinensis*;
- Ensure every CITES export or re-export permit for *D.cochinchinensis* is validated by CITES Management Authorities in the Country of Harvest;
- Suspend the issuance of all CITES import permits for *D.cochinchinensis* until the publication of non-detriment findings justifies CITES export permits issued by Range States;
- Reform the Hongmu industry to ensure it stops stimulating demand for endangered species, and trading in illicit timber.

Thailand should:

- Immediately submit in writing a proposal to the CITES Secretariat to delete Annotation #5 from the Appendix II listing for *D.cochinchinensis* before the next Conference of the Parties, so that all parts and products are covered by the listing.
- Investigate and prosecute the main culprits behind illegal trade and strengthen current penalties so that they act as a credible deterrent;
- Ensure *D.cochinchinensis* stocks seized in enforcement operations over the past decade never enter commercial domestic or international trade;
- Ensure enforcement agencies are adequately resourced to protect the last remaining stands of *D.cochinchinensis* in Thailand.

Laos should:

- Stop all government auctions of seized *D.cochinchinensis*, and other species;
- Investigate and prosecute companies and individuals involved in illegal rosewood trade
- Utilize the current negotiations between the EU and Laos for a Voluntary Partnership Agreement (VPA) to combat illegal logging and the illegal trade in *D.cochinchinensis*.
- Investigate the fraudulent issuance of CITES export permits being used by traders detailed in this report.

Vietnam should:

- Prohibit the import of illegal timber into Vietnam as part of the Timber Legality Assurance System currently being developed for the FLEGT VPA negotiations between the EU and Vietnam;
- Stop auctions of government seized illegal timber, including *D.cochinchinensis*;
- Investigate the illegitimate issuance of Vietnamese CITES re-export permits for *D.cochinchinensis* from range states such as Cambodia that have not issued export permits;
- Prohibit exports of illegal rare timbers currently allowed if purchased from government auctions and processed into finished products.

Cambodia should:

- Seek clarifications from relevant CITES Management Authorities on how Vietnam has issued CITES re-export permits for Cambodian *D.cochinchinensis* when no legitimate Cambodian Export permits have been issued;
- Stop government auctions of illegal Hongmu timbers.

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