

Forest Land Acquisition by Stora Enso in South China

Status, Issues, and Recommendations

Li Ping and Wang Xiaobei

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Landesa
Rural Development Institute



THE RIGHTS AND RESOURCES INITIATIVE

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EXECUTIVE SUMMARY

Since the 1980s, agrarian land reform in China has lifted hundreds of millions of Chinese farmers out of poverty through a process of decollectivization, granting titles for individual use rights on collectively owned farmland and creating hundreds of millions of private family farms. In order to provide opportunities for forest farmers to enjoy similar economic and social benefits, in the early 2000s the central government launched a wide-ranging forest land reform policy to similarly enable forest collectives to allocate forest land to individual households. Since then, China has promulgated a series of laws, regulations, and central policies to secure such individual forest land rights, including those designed to protect farmers' property interests when such land rights are transferred to third parties, such as private enterprises.

During China's rapid economic growth, in which forest and land tenure reforms played a large part, a number of multinational corporations began to invest in Chinese land and resources. Stora Enso Oyj (Stora Enso), one of the world's largest pulp and paper companies, entered Southern China in 2002 and has since acquired use rights to large areas of collectively owned forest land in order to produce wood fiber for its planned pulp and paperboard mills. The firm's land acquisition practices have triggered local and international concern over their impacts on forest farmers' property rights and livelihoods.

Researchers from Landesa conducted three rounds of field research in Guangxi province in 2006 and 2009, in collaboration with the Rights and Resources Initiative (RRI). Our research indicated serious violations of farmers' forest land rights in the process of forest land acquisition by Stora Enso and its collaborating government agencies, and proposed a series of recommendations for improving its land acquisition practices.¹ We returned to Guangxi in February 2013 and conducted field work to assess Stora Enso's efforts to address the irregularities identified in 2009. We randomly choose 12 villages in which to conduct interviews and then randomly choose individuals within those communities. In contrast to the 2009 visit, we received cooperation of the management of Stora Enso, who provided information regarding its land acquisition policies and how they had changed over time.

Our recent research confirms positive steps to redress the situation taken by Stora Enso since 2009. These include a moratorium on leasing collectively owned forest land and a process of contract screening and correction for all previous leases. However, the new field research also indicates that neither the contract screening nor the correction processes are sufficiently protecting farmers' property rights to the acquired land. Additionally, the new processes have not been implemented with farmers' full awareness and participation. In most pre-moratorium land acquisitions, the company relied upon local governments and intermediaries (identified in the 2010 report as "middle men") who applied forms of coercion upon local farmers, thereby triggering a number of violent confrontations. In those situations Stora Enso reportedly acquired individual forest land rights without the legal right holders' consent, thus violating Chinese laws on transfer of farmers' land rights. Furthermore, though women make up the majority of the rural work force in rural China, their right to active participation in land transfer negotiations were reportedly ignored in almost all transactions. The forest reform policies require collectives to allocate collectively owned and collectively managed forest land to households and prescribes strict rules restricting corporate acquisition of such land prior to this allocation by the collective. This round of field research found that these central rules were not being consistently followed in Stora Enso's land acquisitions.

While this report recognizes the significant effort on Stora Enso's part to rectify its forest land acquisition practices, it also puts forth a series of recommendations to ensure that all lands held by Stora Enso were

legally acquired, and improve the company's activities in Guangxi Autonomous Region to bring them in line with accepted best practices in Chinese law and policy as well as emerging international standards of Corporate Social Responsibility (CSR). These recommendations include:

1. Designing and implementing a contract screening and correction process that fully respects farmers' property rights;
2. Strictly following the laws and central government policies in any future land acquisitions;
3. Exploring the out-grower approach as an alternative to any future land acquisition;
4. Making rental payments directly to individual households; and
5. Further improving institutional grievance mechanisms to effectively address farmers' concerns.

There is also a need for Stora Enso to pay much greater attention to the rights and roles of women across all of these five recommendations.

Thanks to its admirable global commitment to corporate social responsibility and international efforts to implement this commitment, Stora Enso has made welcome improvements on its land acquisition practice in the four years since our last visit to its plantation area. However, our research has demonstrated that there is much more to be done. In recent years, and especially under the new leadership, the Chinese government has shifted its development focus from primarily GDP growth toward improving the overall wellbeing of its people. A key part of this effort is to further strengthen farmers' forest land rights, to increase their asset value and improve their long term livelihoods. This policy shift presents new challenges to investors, particularly to those with high demands for rural land. Under such circumstances, ensuring proper land acquisition practices to enable all stakeholders, especially rural farmers, to share and enjoy the benefits of growth should be a priority of every investor's operation.

For Stora Enso, adapting its forest land acquisition to this sweeping reform is undoubtedly a challenging task, but one they will need to embrace in order to operate legally in China. Tailoring its land acquisition program within this new regulatory framework, both for existing and any future land acquisitions, will not only respect and strengthen the rights of a vast number of farmers, but also help Stora Enso explore a socially responsible way to create a business model that enables the company's growth, and results in genuine improvements to the livelihoods of local communities in southern China.

INTRODUCTION

While rapid economic growth has boosted China's economy to the second largest in the world and agrarian reforms have bolstered farmers' livelihoods, rural Chinese still do not proportionally enjoy the full benefits of this growth.² Fifty-six percent of Chinese farmers (and predominantly the poorest) live in mountainous areas; for them, forest land and its resources are an important means of income, household security, and social identity.³

In order to lift rural forest farmers out of poverty, improve their livelihoods, and revitalize forest areas, the Chinese government launched a nationwide forest reform in 2008. The reform mandates a process whereby collectives must consider allocating their managed forest land to member farmer households for a term of 70 years, based on a two-thirds vote of community leaders. Once allocated, such land rights are legally defined as usufruct property rights.⁴

Recognizing that China's economic growth has increased market demand for forest products, investors, including multinational forest and paper companies using timber as raw material, began acquiring⁵ large areas of collective forest land rights for tree plantation farming and production. While such investments, if done correctly, can help stimulate local economies, their impacts on forest farmers may diverge because of farmers' dependence on forest land for their livelihoods.

Stora Enso Oyj (Stora Enso) is a leading international forestry company with headquarters in Finland. Since 2002, the company has acquired 90,200 ha of leased forest land rights from six municipalities in Guangxi Autonomous Region, of which 32,990 ha is collectively owned forest land and 22,864 ha is located in Beihai Municipality.⁶ The company plans to use the land for fast-growing eucalyptus plantations that will supply the raw material for its pulp and paper production facilities.⁷

In order to understand how Stora Enso acquired forest land from farmers and assess the impacts of such acquisition on farmers' livelihoods, we as researchers from Landesa, in collaboration with the Rights and Resources Initiative (RRI), conducted three rounds of field research in 2006 and 2009 in Hepu County, Beihai Municipality⁸ and produced a research report on Stora Enso's collective forest land acquisition. Our findings, as reported in the 2010 report,⁹ indicated serious violation of farmers' forest land rights in the process of forest land acquisition by Stora Enso and proposed a series of recommendations for improving its land acquisition practices.

Again in collaboration with RRI, we revisited Hepu County in February 2013 and conducted a new round of field research. In contrast to the 2009 visit, we received cooperation of the management of Stora Enso in Hepu, where the company's Guangxi headquarters is located. Stora Enso officials gave us an informative briefing at the beginning of the fieldwork. We then interviewed farmers to examine the improvements, if any, that Stora Enso has made in the last four years, and to identify any emergent issues of concern arising from Stora Enso's land acquisition program. We note here that this research was conducted using a Rapid Rural Appraisal (RRA) framework that identified relevant issues of concern, but did not disclose the full extent of these problems.

Section II of this report discusses the legal and regulatory frameworks governing the property structure of collectively owned forest land, and the transfer of use rights to such land. Section III reports on our discussions with Stora Enso officials on issues relating to the company's forest land acquisition and the findings of our fieldwork conducted in the Stora Enso plantation sites in Hepu County. Section IV

analyzes the Stora Enso acquisitions in light of Chinese law and central government policies on the forest reform, and the company's internal principles for Corporate Social Responsibility (CSR). In Section V, we offer a series of updated recommendations with respect to large-scale, land-dependent investments, as well as more targeted recommendations with respect to Stora Enso's project. Section VI presents our conclusions.

SECTION II

REGULATORY FRAMEWORK GOVERNING COLLECTIVELY OWNED FOREST LAND

In China, rural forest land is governed by a combination of rural land laws and a series of central policy directives promulgated to regulate distribution, transaction, and dispute resolution with respect to collective forest land rights. This section will briefly discuss China's legal and policy frameworks with implications for the acquisition of collective forest land rights.

Property structure of collectively owned forest land

With respect to the property nature of rural land including forest land, China adopts a two-pronged property regime: public ownership of land and private use rights to land. Under this system, use rights, once legally acquired through land allocation or subsequent land transaction, become formal usufruct property rights independent of ownership.

Ownership and exercise of ownership rights

Under China's Constitution, all land (including forest land) located in rural and suburban areas, except for that owned by the state, is owned by rural collectives.¹⁰ The 1998 Land Management Law (LML) reiterates this constitutional principle, and authorizes collective economic entities at various levels of the rural collective to "operate and manage" collectively owned land.¹¹ However, neither the Constitution, nor the LML clarifies the relationship between members of the collective (member owners) and administrative bodies of the collective (the collective entity) with regards to land ownership.

This legal vacuum was filled by the Property Law of 2007, which provides that collectively owned real properties "are owned by all members of the collective."¹² With respect to the relationship between member owners and the collective entity, the Property Law further prescribes the role of the collective entity as merely "exercising ownership rights on behalf of the collective."¹³ In other words, such exercise of ownership rights must be carried out on behalf of member owners. To prevent the collective entity from abusing its power in dealing with collectively owned land, the law specifically requires that plans and proposals for contracting land to external entities or individuals be approved by member owners.¹⁴

Taken together, these provisions of the Property Law answer critical questions concerning the nature of collective land ownership. First, they clarify that rural land, including forest land, is owned by all members of the community rather than by an administrative device, be it a village committee, a villager group, or a collective economic organization.¹⁵ Stated otherwise, each member of the collective has an indivisible ownership interest in all collectively owned land. Accordingly, as non-owner of rural land, the collective entity does not have any property interest therein, and therefore should not be entitled to compensation when such land is transferred to a third party. Second, exercising ownership rights exercised by the collective entity is a power specifically delegated by member owners of the collective.

Third, such exercise of ownership rights, including leasing collective forest land to a third party, is subject to the approval of member owners.

Central government forest reform policies reinforce this principle of member ownership. The 2003 Central Committee Decisions on forest reforms takes a two-pronged position. Collective forest land that is suitable for household contracting must be allocated to individual households. Conversely, the property interests of collective forest land that is not suitable for household contracting must be converted into shares and allocated amongst all member owners.¹⁶ The 2008 central document further reiterates that property interests in collectively managed forest land be allocated to villager households in the form of shares of stock.¹⁷ Clearly, both national law and central policy documents support the principle that forest farmers, not the collective's administrative body, are joint owners of collective forest land and therefore maintain vested property interests.

Use rights to collectively owned forest land

Both Chinese laws and central policies permit individual as well as collective possession of use rights to forest land under collective ownership, with property interest allocated to individual households. A default rule stipulates that the forest land that is suitable for household contracting must be allocated to individual households in the village.

Individual use rights to collective forest land

Individual use rights to forest land can be broadly divided into two categories. The first pertains to the land acquired through household contracting implemented nationwide in early 2000s, and the second to the forest land that was allocated to individual households in 1960s and has been recognized as “private mountain rights” by farmers, central policies and laws.

Household contracting

The 2002 Rural Land Contracting Law (RLCL) specifically mandates that collectively owned land suitable for household contracting must be contracted to individual households for farming.¹⁸ The 2007 Property Law reinforces this requirement by stating that with respect to collectively owned forest land, the state must adopt the land contracting and operation system.¹⁹ That is when—exercising ownership on behalf of all member owners in the community—the collective entity is legally bound to allocate land use rights to individual farmers as long as the land is suitable for household contracting.

The central policies on reforming collective forest land also require allocating collectively owned forest land to individual households within the village through household contracting and ownership of trees on the land to the households. Additionally, they establish household use rights to the collectively owned forest land allocated thusly, as well as ownership rights to trees located on such forest land.²⁰

These land rights have a term of 70 years,²¹ renewable when the term expires.²² Once allocated through household contracting, the rightsholder may possess, use and benefit from the allocated forest land,²³ and transfer such rights.²⁴ The Property Law further defines such land rights as usufruct property rights,²⁵ thus making farmers' individual land rights legally independent of land ownership of the village.

Private mountain rights

Another category of individual forest land rights is the use rights to private mountains, which refers to forest land rights first allocated to individual households for a “long time without change” in the people's commune period in 1960s,²⁶ and reaffirmed by the Supreme People's Court in 1986 as farmers' “long

term” land rights.²⁷ Although such rights are essentially the same in nature as forest land rights contracted to individual households, central policies have granted them heightened protection. Document No. 9 of 2003 emphasizes that allocated private mountains are “for farmer households to use for a long time without charge; no compulsory taking-back is permitted.”²⁸ In Document No. 10 of 2008, which sets forth the guiding rules for the nationwide forest land reform, the term of use rights to private mountains is reiterated as a “long time without charge” while the term for non-private-mountain rights is set at 70 years.²⁹ Moreover, under no circumstances shall such private mountain rights be compulsorily taken back or administratively readjusted.³⁰ Clearly, the central government recognizes the unique private property nature of such private mountain rights and has taken special measures to shield them from violation.

It is important to note that, under Chinese laws, individual land rights are created when the land is allocated to individual households through household contracting.³¹ The government at county level or above is required to register such land rights and issue land rights certificate to individual farmer households, but such registration and certification are a process to reaffirm farmers’ individual land rights,³² created at the time of household contracting. Although the 2007 Property Law creates a rule of “no registration/certification, no right,” rural individual land rights are an exception to this rule.³³ Therefore, possession or non-possession of a land document such as land certificate does not establish the nature of the land rights at issue; rather, the deciding factor is the land allocation through household contracting.

According to a 17-province survey conducted by Landesa in 2010,³⁴ nearly 40 percent of Chinese farmers lack land certificates even though nearly 100 percent of China’s farmland has been individualized through reforms. The central government’s recent and repeated emphasis on registering and certifying farmers’ individual land rights nationwide within the next five years also demonstrates that many farmers’ individual land rights are not registered and certified even though such rights were conferred a long time ago.

Collectively managed forest land

Collective management of collectively owned forest land is permitted under laws and central policies, with two important conditions for maintenance of this management structure. First, the forest land under collective management must not be suitable for household contracting, and the decision to maintain collective management must be made by farmers in the village.³⁵ Second, the benefits of forest land under collective management must be ascertained and distributed among all member owners in the form of stock shares.³⁶

Transfer of use rights to collectively owned forest land

Both individual and collectively managed forest land rights may be transferred. However, transfer of these two distinctive categories of forest land rights is subject to regulation by different sets of rules.

General principles

From the outset, the central government directed that all transfers of rural land rights, including forest land rights, must be “voluntary, with compensation and in accordance with law.”³⁷ Based on these fundamental principles, the 2002 RLCL states that all transactions of rural land rights must be voluntary,³⁸ pressuring a farmer into a transaction of his land rights under the pretext of “minority submitting to majority” is prohibited.³⁹ This law also excludes government officials from coercing farmers to transfer their land rights.⁴⁰

Anticipating the increasing interest of commercial entities in farmland and forest land, in 2004, the central government issued a series of policy directives to regulate development of rural land rights

markets in order to prevent coerced transfers.⁴¹ In its “Urgent Notice on Properly Resolving Rural Land Contracting Disputes,” the State Council requires local governments to “resolutely stop and correct various acts that compel farmers to transfer their land rights against their willingness” and states that “any contract involving compulsory transfers should be deemed void.”⁴² In its 2008 decision, the Central Committee reiterates the principle of voluntariness in land rights transactions and prohibits any transactions that may violate farmers’ property interests in land contracting.⁴³ In 2013, the Central Committee further stresses that “land transfers shall not be conducted through compulsory orders, nor shall farmers’ interest be injured through land transfers.”⁴⁴

To prevent local governments from designing and initiating compulsory land transfers in order to attract investment, in April 2013 the State Forest Administration (SFA), reiterated that in principle, “it is up to farmers to decide whether to transfer.” This decree resolutely rejects using the scale of forest land transfer to evaluate the performance of local officials. More importantly, it prohibits local governments from pushing forest land transfers to attract investments, promising assistance to investors looking to acquire forest land rights, or making such promises as a favorable condition to attract investments.⁴⁵

In this spirit and based on existing laws, China’s Supreme Court holds that “where the contract issuing party [the collective entity] compels the contracting party [the farmer] to convey his rural land contracting and operating rights to a third party, the contracting party’s claim for voiding the transfer contract should be supported” by the local court who reviews the claim.⁴⁶ The 2008 Supreme Court decision on implementing the new Central Committee’s decision further requires local courts to void land transfers that violate farmers’ property interests in land contracting as well as to correct any act that unlawfully interferes with the transfer of land rights.⁴⁷

Transfer of individual land rights

Chinese law and central policies permit and encourage farmers to transfer their individual rural land rights, including forest land rights, to other farmers and non-farmer third parties. The 2002 RLCL provides that individual forest land rights “may be transferred [to other village households], leased [to non-village households], exchanged, assigned, or transacted by other means in accordance with law.”⁴⁸ The 2007 Property Law subsequently echoes the RLCL’s original support for market-based transfers.⁴⁹ Moreover, the central decision on further rural land reforms in 2008 reiterates this legal permission.⁵⁰ Such individual forest land rights may also be used as contributions to investors in exchange for shares of such investors or as contributions for development of a cooperation agreement with forest enterprises.⁵¹

To protect forest farmers, Chinese laws require that all transfers be voluntary and conducted through arms-length negotiation and consultation, and that no institution or individual shall compel farmers to transfer their forest land rights.⁵² Considering the possible power imbalance between individual farmers and the collective entity, commercial interests, or government agencies who may pressure individual farmers, the land transfer laws specifically state that individual land rights including forest land rights should not be compulsorily transferred under the pretext of “minority submitting to majority.”⁵³ The central document on reforming collective forest land reiterates such regulatory mandates.⁵⁴

In order to safeguard farmers as a willing party to any transfer deals, the law further requires that any transfer of individual forest land rights be witnessed with a written transfer contract signed by the farmer transferee;⁵⁵ and any contract that was formed under deceit or duress must be deemed void.⁵⁶

Rights to private mountains are categorized as individual rights to collectively owned forest land, but subject to greater protection. Private mountain rights were allocated to farmers for private use for a

“long time without charge” even during the collective farming period under the people’s commune system.⁵⁷ All central documents on the collective forest reforms state that private mountains shall be used by farmers for a long time without charge; and that compulsorily taking-back or at-will readjustment of farmers’ private mountain rights are strictly prohibited.⁵⁸ The Guangxi Autonomous Region Government recognizes these rules and includes them in its own forest reform directive.⁵⁹ Clearly, any transfer of such private mountain rights is a gross violation of law if the transfer involves the slightest compulsion.

Transfer of rights to collectively managed forest land

As discussed above, collectively owned forest land that is not suitable for individual household contracting may be maintained under collective management. Use rights to such forest land may be granted to villagers or non-villagers upon public notice in the village and consent of the villagers in accordance with the law.⁶⁰ Both the 1998 LML and 2002 RLCL define the consent as agreement by two thirds of all villagers or two thirds of villager representatives.⁶¹ In addition, both laws require further approval of the transfer deal by the township government.⁶²

To ensure transparency in such land deals, the RLCL requires use rights to collective owned land that is not suitable for household contracting be granted through competitive bidding, auction, open negotiation, or similar methods.⁶³ Moreover, both laws and related central documents give villagers the preference to acquire such rights to collectively managed land under equal conditions.⁶⁴

In addition to the aforementioned legal requirements and central policies, the SFA issued a directive in 2009 establishing special rules regulating large scale transfers of collective forest land rights to large transferees, most of which should be enterprises.⁶⁵ This directive was issued to control unregulated markets for collective forest land and to prevent arbitrary or under-the-table transactions that could lead to loss of collective forest land and its asset value. The directive states that collectively managed forest land should be allocated to individuals within the village before being transferred to non-villagers, except for “absolutely necessary” circumstances.⁶⁶ Even under such circumstances, the transfer must go through the following procedures: (1) a property value assessment of forest assets; (2) advance public notification of the transfer plan within the collective entity; (3) consent to the transfer plan by two-thirds of collective members or their representatives and approval by the township government; and (4) through bidding, auction, or public negotiation with respect to the terms of the transfer.⁶⁷ In addition, members of the collective entity have priority rights to acquire such collectively managed forest land under the same conditions.⁶⁸

The new rules are based on the following principles. First, collectively managed forest land is primarily for household contracting. It should therefore be allocated to individual households in the village as members are joint owners of the land under both the Property Law and forest land reform policies.⁶⁹ Allocation helps prevent landlessness in forest areas, thus maintaining social stability, encouraging forest farmers to invest in forest land, and creating an equitable basis for the development of forest land rights markets. Second, forest farmers should be the primary players in forest land rights markets because as individual operators of the land, they possess expert knowledge of when to transfer out their contracted forest land, to whom, at what price, and for how long. Third, because of concerns over rent seeking by collective cadres in cooperation with local government officials, the value of collectively managed forest land must be assessed before transfer takes place. Fourth, all existing laws and policies on transferring collectively managed forest land must be strictly enforced in order to tighten further restrictions on such transfers.

Transfer of forest land rights to corporate enterprises

Transfer of rural land rights to enterprises, though not completely prohibited, is consistently discouraged and restricted by the central government.⁷⁰ As far back as 2001, the Central Committee of CPC issued its Document No. 18, discouraging “enterprises from contracting rural land in large scale for a long time.”⁷¹ Central policy makers have repeatedly expressed grave concerns over the potential threat of corporate land acquisition to the livelihoods of hundreds of millions of farmers relying on rural land as their primary income source.⁷²

For occupying farmland to plant trees by enterprises, the State Council requires a comprehensive review. Where local government at municipal, county and township levels signed a contract with an enterprise to provide farmland for growing trees without farmers’ consent, the contract should be voided and terminated. Where the enterprise failed to enter a direct contract with farmers for planting trees on farmers’ contracted farmland, the enterprise should negotiate with farmers whether to continue growing trees. If farmers do not agree, they may uproot the trees and return the land for farming.⁷³ For occupying basic farmland for planting fast-growing trees, the State Council further requires resuming farming on such land.⁷⁴

The central intent to tighten restrictions on corporate acquisition of rural land rights for agricultural purposes is perhaps best demonstrated in Document No. 1 of 2013 of the Central Committee issued under China’s new leadership, which took office in 2012. In this important policy document, the new Central Committee makes a clear distinction between rural land transfers to farmers and farmer associations, and rural land transfers to enterprises. While “encouraging and supporting” transfers of use rights to rural land, including forest land, to farmers, family farms and farmer associations, Document No. 1 of 2013 specifically emphasizes the need to “explore and establish strict rules on permitting and regulating industrial and commercial enterprises’ leasing of contracted arable land, forest land and grassland from farmer households.”⁷⁵

In addition to such central guidelines, Chinese laws and administrative rules on transfer of forest land rights also disfavor corporate acquisition. These are summarized below:

- Unless “absolutely necessary,” use rights to collectively owned forest land should not be granted to a third party (including a corporate entity) before it is allocated and contracted to individual farmer households in the village;⁷⁶
- Where forest certificates are not issued to farmers, transfer of forest land rights is prohibited;⁷⁷
- Any unit or individual shall not force farmers to transfer their forest land rights through coercive and deceitful means, nor force them to accept low transfer prices;⁷⁸
- The subject land to be acquired is not suitable for household contracting;⁷⁹
- The acquired subject land rights are under no dispute;⁸⁰
- Farmers of the village where the subject land is located have the priority over a non-villager entity in acquiring the land under the same conditions;⁸¹
- If use rights to the subject land are individually held, the company transferee and the farmer transferor must agree on all transfer terms,⁸² and the company must sign a transfer contract with each individual household;⁸³
- If the subject land is under collective management, a property value assessment must be conducted prior to the transfer;⁸⁴
- The transfer plan must be publicized in advance within the village;⁸⁵

- The transfer must be agreed by two thirds of villagers or villager representatives and approved by the township government.⁸⁶ It must be conducted through competitive bidding, auction, open negotiation, or other methods;⁸⁷ and
- Even if the transfer is lawful, the acquired rights shall not be registered nor certified if the transferee is a non-villager entity such as a corporation.⁸⁸ This implies that the acquired rights to collective forest land may not be regarded as property rights under Chinese laws.

To provide better protection of farmers' forest land rights within its jurisdiction, the Guangxi Autonomous Region People's Government (provincial government) has promulgated three additional, more stringent rules to restrict corporate land acquisition from collectives. First, it explicitly prohibits transfer of use rights to collective managed forest land before the forest reform is completed and property rights to collective forest land are clarified.⁸⁹ Second, it requires application of competitive bidding or auction in granting use rights to collective managed forest land when such rights are transferable.⁹⁰ Third, it mandates that a 30-day advance notification be handed to villagers when use rights to collective managed forest land are transferred.⁹¹

Improved regulation of existing large-scale transfers

Realizing the extent of irregularities of large-scale transfers of collective forest land rights that occurred prior to the forest reforms, the central government issued a set of rules in 2009 requiring a comprehensive review of historical problems associated with collective forest land transfers in order to enhance social stability.⁹² The general approach for the review is to "respect history while taking into account of reality, with an emphasis on consultation and adjustment of financial interests."⁹³ For transfers of "oversized" areas, for a low rate, lengthy transfer period, and over strong opposition from farmers, the document requires an adjustment of the agreement by increasing transfer payment, shortening the contract period or converting payment entitlement into shares of stock, based on mutual consultation.⁹⁴ In general, the central government takes a three-pronged position: transfers that are compliant with existing laws should be retained and confirmed; those that fall short of common standards should be improved; and, those that do not conform to legal requirements should be corrected in accordance with the law.⁹⁵

The Guangxi Autonomous Region People's Government embodies these requirements into local regulations in its Regional Measures on Management of Transfers of Collective Forest Rights, adopted in 2011. According to this regulation, all existing large-scale forest land transfers that are not in compliance with existing laws are required to "be resolutely corrected."⁹⁶ For those transfers that are in compliance with existing laws but are deemed oversized for an excessive time period, paying low rent, and eliciting strong opposition from farmers, the regulation requires an adjustment of rent and shortening the contract period, or a combination of adjustment of rent and sharing of the transferee's profits.⁹⁷

Dispute resolution

Chinese law provides holders of forest land rights with a variety of remedies for redress when forest land transactions contravene existing laws and policies. Under the Property Law, if a decision made by the collective entity or the person in charge of such entity violates members' lawful rights, the aggrieved members may file a lawsuit to nullify the decision.⁹⁸ In addition to nullification, the RLCL further prescribes both equitable remedies and legal damages for farmers who are forcibly compelled to transfer their land rights, including injunctive relief, restitution, and monetary damages.⁹⁹ Government agencies or employees involved in such violations are subject to administrative or criminal penalties in addition to monetary damages.¹⁰⁰

FIELD RESEARCH FINDINGS

In February 2013, we conducted a six day field study in Hepu County of Guangxi Autonomous Region February of 2013. This was our fourth visit to Hepu, following the previous three rounds of field study conducted in April 2006, September 2006,¹⁰¹ and December 2009.¹⁰² It was during these three rounds of field research that we originally found irregularities in Stora Enso's forest land acquisition that deserved serious attention. The purpose of our 2013 visit was to evaluate Stora Enso's response to irregularities in the company's land acquisition practices identified in the 2010 report, and to reveal any further issues.

The field study in 2013 consisted of two parts: meetings with field managers of Stora Enso in Hepu, and farmer interviews. A notable change in our methodology was that unlike in 2009, the company accepted our request for briefing us on its acquisition of collective forest land rights from their perspective and discussed with us how to improve its land acquisition program.

Farmer interviews were conducted in Hepu County and Qinzhou Municipality. We spent four days in Hepu County and one day in Qinzhou Municipality, holding semi-structured interviews in 12 villages in seven townships where all or part of the village's forest land was acquired by Stora Enso. In most cases, farmers participated in these interview sessions in groups. In some cases, more than 10 farmers were present to offer their views and perceptions of the Stora Enso acquisition. In addition, we conducted a separate interview with the village chief of one administrative village in order to find out how these issues were perceived by collective cadres.

The interviews were conducted utilizing the Rapid Rural Appraisal (RRA) method. We asked the farmers questions about their experience with Stora Enso's acquisition of forest land rights in their villages based on a checklist of issues prepared before the interview. All interviewed farmers were active participants in these discussions. In order to minimize undue influence, no government officials or Stora Enso employees attended the interview sessions. We randomly selected villages, gave no advance notice, and talked with the first farmer or first group of farmers we met in the village to ensure the objectivity of interviews. In all farmer interviews, no officials representing collective governance were present because they were not notified in advance of our visit to the village.

Meetings with Stora Enso officials

In order to learn what actions Stora Enso had taken to address the forest land acquisition problems observed in 2009, and to understand how the company perceives its current land acquisition practices, in February 2013 we met with a group of Stora Enso's field officers charged with forest land acquisition and corporate social responsibility. Findings are summarized below.

Moratorium on land acquisition since 2009

Stora Enso officers reported that in 2009, the company had suspended its acquisition of collective forest land rights or acceptance of such land rights acquired by the Beihai Forest Investment Company (BHC)¹⁰³ on behalf of Stora Enso. The suspension has remained in place through the publication of this report. According to the officers, Stora Enso would not resume taking over collective forest land rights

acquired by BHC unless such land deals are verified and deemed lawful. At present, all land acquired by BHC after 2009 and ready for delivery to Stora Enso is currently “outsourced” to unidentified business individuals or entities. However, such outsourcing agreements are constructed under the understanding that once Stora Enso agrees to accept the acquired land, it will receive the delivery.

Improvements on BHC’s role

In 2009, we found that, as the sole land acquiring agent of Stora Enso, BHC mobilized the government apparatus in Hepu to compel collective entities and farmers to give up their forest land rights for the benefit of Stora Enso through a variety of coercive measures. In our 2010 report, we recommended that Stora Enso stop using BHC as the shadow acquirer of collective forest land rights. Stora Enso officers reported that, at the company’s request, BHC had agreed to change its role from a direct purchaser of forest land rights to a service provider for Stora Enso to help the company identify forest land for acquisition and facilitate direct deals between Stora Enso and collective communities and farmers.

Improved contracting approach

According to the Stora Enso officers, the company made a strategic change in acquisition of collective forest land rights in 2009. The objective of the change was to exclude intermediary contractors (“middlemen”)¹⁰⁴ from the leasing process and to sign transfer contracts directly with farmers and village collectives. There are four steps in this new approach: (1) renegotiation with the intermediary contractors to essentially buy them out; (2) obtaining two thirds consent of villagers to the terms of the new contract between Stora Enso and the village; (3) direct payment of rent to the village; and (4) setting up a mechanism to adjust rent overtime. This approach would also apply to future acquisitions.

Contract screening and correction

In 2009, Stora Enso admitted that it was aware of irregularities in its acquisition contracts. In order to identify any irregular contracts and make improvements on them, Stora Enso launched in 2009 an internal screening and correction process for all of its 1,067 forest land acquisition contracts with BHC, private businesses, and village collectives, encompassing 90,200 ha in Guangxi, of which 32,990 ha is collective forest land, and 22,864 ha located in Beihai municipality.¹⁰⁵ As of December 2013, the company had completed screening for all contracts and made corrections on 35 percent of them.

Contract screening is conducted by a group of Stora Enso’s corporate lawyers and CSR officers. According to the officers interviewed, every contract is scrutinized against a 19-point checklist designed by the company.¹⁰⁶ If a contract is found to be defective on one or multiple points, the screening team will initiate the correction process. Officials stated that Stora Enso employees would go to the village and discuss these points with villagers in order to improve the defective contract. Multiple rounds of consultation may be conducted to secure farmers’ agreement on the corrective course. If the contract is not correctable despite repeated efforts, the company will drop the acquisition and return the land to the village.

Dispute resolution

Stora Enso officers reported that an effective dispute resolution system was established within Stora Enso to address farmers’ complaints. This includes a hotline to receive complaints; a bi-monthly newsletter to publicize, among other things, the company’s commitment to following Chinese laws and CSR in land acquisition; an office established at the company’s Hepu headquarters to receive office visits by farmers;

and dispatching field officers to villages to collect farmers' complaints. In 2011, the office received more than 100 visits. In 2012, the hotline received 57 call-ins, but only eight calls from farmers.

When asked whether farmers were aware of these dispute resolution channels and actually made use of them, the officers showed us a publicity card containing the number of the hotline and address of the Stora Enso's Hepu headquarters, and reported that information regarding dispute resolution channels had been widely publicized to farmers in Stora Enso project areas.

Attitude toward the out-grower approach

In our 2010 report, we recommended that Stora Enso consider adoption of a contract farming (out-grower) arrangement for meeting its demand for raw materials. At a meeting in 2011 with officials from International Finance Corporation (IFC) and upper management of the Stora Enso China operation, we were told that the company was considering piloting an out-grower approach in its Guangxi operation. We therefore raised this issue again at the meeting with the Stora Enso officers in Hepu in 2013, and were told that the company had decided not to take the out-grower approach primarily for three reasons. The first consideration was cost. Self-produced eucalyptus timber is less expensive than purchasing the same material on timber markets. Second, the operation requires a constant and reliable supply of raw material, but the out-grower approach reportedly produces an irregular supply and depends on farmers' cooperation in selling timber products to the company. Third, the timber certification process requires every step of the product chain to be legal and compliant with international standards, and is therefore extremely difficult, if not impossible, to track the legality of every piece of timber produced and sold by out-growers on markets. In subsequent discussions with the company, Stora Enso reported that they are testing out-grower models in Guangxi and that they regard these schemes as a complementary wood source.

Interviews with farmers

To update the information on Stora Enso's acquisition of collective forest land rights and understand how and to what extent the company has improved its land acquisition practice from the farmers' perspective since our last visit to Hepu, we conducted a new round of interviews of farmers in late February of 2013. Our findings are reported below.

Improvements on forest land rights acquisition

In all 12 villages visited, farmers confirmed Stora Enso's claim that no land acquisition has taken place since 2010. Except for two villages where forest land rights in the village were acquired by or for Stora Enso in 2009, most reported acquisitions in the villages we visited occurred between 2000 and 2006.

Although Stora Enso officials did not report raising the rental payment as a measure to mitigate farmers' dissatisfaction, we did find a positive response in one village. An old couple in this village told us that, as compensation for Stora Enso's land acquisition, their rent was increased from 200 to 240 yuan per person in 2012, from which we inferred that Stora Enso had raised the overall rent payment to the village in recent years.

Farmers also reported some goodwill activities conducted by Stora Enso in its project areas although these activities are not directly related to land rental. For example, when we inquired about their general attitude toward Stora Enso's land acquisition, farmers in one village, instead of directly responding to the question, uttered their appreciation of Stora Enso for its distribution of grain and edible oil to the elderly on the Chinese New Year.

Coercive land acquisition

As reported above, all forest land rights acquisitions we found were conducted before 2010 either directly by Stora Enso, or by local government officials on behalf of Stora Enso. Coercion had reportedly been pervasive in the villages we visited. In eight of the 12 villages, farmers complained that a level-by-level administrative pressure was exercised when Stora Enso was acquiring forest land rights from the village. According to the farmers interviewed, a typical approach was for the township government to force administrative villages within its jurisdiction to come up with a target amount of land. This task was allocated among all villager groups within each administrative village, who were then compelled to transfer collective forest land rights to Stora Enso. In at least one village, the township government threatened the village group leader with removal if he did not cooperate with the Stora Enso acquisition.

In two villages, interviewees reported violent confrontations between the township government and the villagers. In 2009, apparently under pressure of the Hepu County government's campaign for acquiring forest land for Stora Enso,¹⁰⁷ the township government and the township police came to these two villages and forced farmers to give up land, some of which was already planted with sugar cane, cassava and pine trees. They met strong resistance from farmers, triggering a severe physical altercation. In both incidents, several villagers were arrested for "obstruction of justice." Under the threat of "no land, no release" made by the township government, protesting farmers gave in and surrendered the land.

According to interviewed farmers, "attracting Stora Enso investment" was most frequently cited by local government to justify coercive land acquisition. In seven of the 12 villages visited, Stora Enso's investment was cited by local government officials as the motive for government's compulsion. In three of these 12 villages, government officials simply announced the acquired land was state owned, leaving the farmers without any evidence to justify their claim so that they could "legally" take the land back. In two of these three villages, however, farmers presented the collective ownership certificates for the acquired land issued by the county government in 1962 and 1981.

Reports of fraudulent land transfers

Through our interviews with local farmers, we found an allegedly fraudulent transfer of a villager group's forest land orchestrated by the Party Secretary of the administrative village. Three hundred mu¹⁰⁸ of the villager group's land was originally contracted on a yearly basis to a few non-villager farmers to grow watermelon, sugar cane and cassava. When Stora Enso worked with local government to acquire forest land rights for its plantations in 2004, the village Party Secretary reportedly seized this opportunity for his own gain, purportedly manipulating the villager group to transfer use rights to that 300 mu of land to Stora Enso for 30 years at 38 yuan per mu per year. With a belief that the land would be transferred to Stora Enso, farmers reportedly signed their names or affixed their fingerprints on the villager consent form, and the villager group leader signed his name in the place of the transfer contract designated for the transferor party. However, the Party Secretary left the transferee party field blank and cheated farmers into believing that it would be signed by Stora Enso. After completing the contracting formalities, the Party Secretary typed and signed his wife's name as the transferee. With his wife as the documented "transferee," the Party Secretary then allegedly subleased the land to Stora Enso for a rental amount believed to be much higher than 38 yuan per mu per year. Through this maneuvering, the Party Secretary was alleged to have intercepted and pocketed the difference in rent between what Stora Enso actually paid him and what he paid the villagers.

It is unclear why Stora Enso did not spot this contract fraud in its contract screening. When we brought the case to the attention of Stora Enso's officials in Hepu in 2013, they expressed shock. However, after

Stora Enso examined the copied documents we obtained in the field, we received a formal response asserting the legality of the deal, and that farmers did not have evidence to support their allegations of the Party Secretary's actions.¹⁰⁹

Legally questionable transfers

Although Stora Enso denied that it was linked to any fraudulent actions in the above-mentioned case, it appeared to be involved in several legally questionable transactions. In two villages, we found that farmers' use rights to private mountains were transferred to Stora Enso despite the holders' disagreement. In one village, use rights to 100 mu of private mountains, referred by farmers as "ancestors' mountains," were compulsorily transferred to Stora Enso under the pretext of "minority submitting to majority." The land was allocated to the household in 1960s for long term use and planted with pine trees. At the time of the transfer, the trees were more than 20 years old, with a diameter of 30-40 cm. According to the farmer interviewed from this household, although all farmer households were allocated with private mountains, most of them had already transferred these rights to non-village business ventures before Stora Enso entered Hepu and begun to capitalize on the transfers. Because the household we interviewed relied on forest farming for living, it had not transferred its rights to private mountains as the other villagers had. However, when Stora Enso began acquiring forest land rights in the village around 2006, the villager group leader manipulated a villager conference to gain majority consent and compelled the household to surrender its private mountains. Ironically, all proceeds from transferring the household's property rights to its private mountains were delivered to the village and distributed among all villagers.

In another village, 20-30 mu of a household's private mountains was reportedly rented through compulsive measures to Stora Enso and is now planted with eucalyptus trees. However, the farmer had yet to receive any compensation due to a contract dispute between the village collective and Stora Enso.

Reliance on government and intermediaries for land acquisition

Interviewed farmers confirmed that more than 80 percent of forest land rights acquired by Stora Enso were procured via BHC or other intermediaries, rather than through direct contracting with villages or farmers. Of the 12 villages visited, we found direct transfers in only two. In the remaining 10 villages, forest land was found to have been either compulsorily surrendered initially to township government or government-owned companies (in six villages) or contracted out to private intermediaries (in four villages) before being transferred to Stora Enso.

Interviewed farmers in these villages voiced strong complaints about these intermediary land acquisition schemes. Several problems were identified. First, in the remaining 10 villages, Free, Prior and Informed Consent (FPIC) was not obtained before the village's forest land rights were transferred to government agencies or intermediaries. Although FPIC is not required under China's legal framework (though strongly implied) or by Stora Enso's CSR protocols, the Guangxi operation was funded in part by the IFC, which has defined FPIC in its social responsibility standard since 2011 (albeit nonspecifically) and requires its clients to adopt the principle. While the land in question does not meet the FPIC standard (it was acquired before the 2011 IFC guidelines) field evidence suggests that Stora Enso would not meet this standard if it acquired land in the same manner today.

Even though villager meetings were convened in some cases, farmers were not informed about the specific details of the transfer deals, nor were they consulted about their willingness to transfer out forest land rights. In villages where forest land rights were acquired through government or government owned

companies, especially BHC, coercion was common and pervasive, leading to the above-mentioned violent confrontations in at least two villages.

Second, whether the land acquisition was conducted through government or intermediaries, it was reportedly difficult for farmers to receive adequate compensation for the forest land rights eventually delivered to Stora Enso. When asked about the level of rent Stora Enso paid for leasing the village's forest land, all farmer interviewees in these 10 villages expressed frustration over not having been notified when Stora Enso signed transfer contracts with township governments, government owned companies, or private intermediaries. Such land acquisition schemes often installed barriers for farmers to receive due compensation. In four villages, farmers complained that they had not received any compensation since their villages' land was taken by township government or private intermediaries several years ago. In the other six villages where farmers had received some compensation, the interviewed farmers told us that they received payment from government or intermediaries, but did not know how much Stora Enso actually paid to these entities for leasing their forest land.

Third, although the lack of direct contracting relationship may provide a certain shield for Stora Enso, it has impeded farmers from seeking dispute resolution over the land acquisition. In all 10 villages, we asked farmers whether they had complained to Stora Enso about the land acquisition deals. They told us that when they approached company employees, they were redirected to the township government or to private intermediaries because the village did not have a contractual relationship with Stora Enso. For example, in one village where 2,100 mu of the village's forest land was initially acquired by the township government for 30 yuan per mu per year and subsequently passed to Stora Enso in 2003 for an unknown amount, farmers continuously complained to Stora Enso employees for several years after about the low rent they received. However, Stora Enso employees rejected their complaints on the ground that their contract was signed with the township government and it had nothing to do with Stora Enso. In the above-mentioned fraudulent transfer case, the upset farmers were reportedly told by Stora Enso employees that they needed to resolve the dispute with the Party Secretary who committed the fraud.

Implementation of the Stora Enso's corrective measures

In our 2010 research report, we identified a series of violations of farmers' forest land rights in Stora Enso's acquisition program. During this round of field research, we asked farmers a set of questions concerning which corrective measures, if any, that had been taken by Stora Enso to address these violations.

Dispute resolution: The Stora Enso officers reported in the briefing meeting that the company had taken several measures to improve its dispute resolution mechanism, including a telephone hotline to receive complaints, a bi-monthly newsletter to publicize the company's commitment to following Chinese laws and CSR in land acquisition, and an office at the company's Hepu headquarters to receive office visits by farmers. However, farmers reported that all three solutions had been inactive or ineffective in addressing their concerns.

In all 12 villages we visited, no farmer reported his or her awareness of the publicity card containing the contact information for the hotline. When we presented the card to the interviewed farmers, they said they had never seen it. Nor had any farmer seen the bi-monthly newsletter, though the chief of an administrative village had. Although the company claimed that it had established an office designated to receive and handle farmers' complaints about land acquisitions, few of the farmers interviewed were aware of this grievance channel.

The only exception we found was in a village where farmers lodged a formal complaint at Stora Enso's operation headquarters in Hepu County.¹¹⁰ A group of villagers reportedly went to the headquarters on June 19, 2012. According to those interviewed, the group was ushered to the second floor of the building where Stora Enso's operation headquarters is located and handed a formal complaint and relevant evidence to a Stora Enso employee. However, Stora Enso denied any knowledge of the farmers' complaint.¹¹¹

Addressing farmers' complaints: In all 12 villages we visited, farmers expressed their dissatisfaction with Stora Enso's land acquisition practices, ranging from the resentment over forced taking of farmers' forest land by local government to meet Stora Enso's request for land, to the complaints over extremely low rent. In at least three villages, farmers did not receive any financial compensation from the township government, the intermediaries, or Stora Enso itself for forest land currently controlled by the company.

Farmers in five villages reported that they had approached Stora Enso field officers regarding owed rent that was never received, rent they perceived as too low, or transfers they believed to be fraudulent. In two cases concerning rent, the field officers responded that the transfer contracts were entered or agreed either between the village and township government or between the village and the intermediary businesspeople, and therefore had nothing to do with Stora Enso. In the alleged fraudulent transfer case, the field officers' response was essentially, "there is nothing we can do," according to interviewed farmers.

However, farmers in two other villages did tell us that the field officers had been open to discussing options to settle the disputes over low rent. While the farmers in these two villages clearly had hope for a resolution in their favor, there had been no concrete result at the time of the interview.

Contract screening and direct contracting with the rural collectives: The Stora Enso officer we interviewed highlighted these two measures in the briefing as an effective means to improve their land acquisition practice. While we acknowledge the company's well-placed intentions, we found no corresponding implementation of these measures in the villages we visited. For example, Stora Enso told us that they had completed screening of all transfer contracts and made corrections in 35 percent of all problematic contracts after a lengthy process including consulting farmers. However, in at least 10 villages where farmers had a variety of claims against Stora Enso, none reported having been consulted by Stora Enso for contract screening and correction, nor did they seem to know anything about the company's new plan for contract screening and its implementation. Even in the remaining two villages, where Stora Enso's field officers approached farmers to resolve disputes, farmers reported that they were uninformed of the efforts related to contract screening and correction.

In seven of the 12 villages, all or part of the village's forest land was initially acquired by private businesses at low cost and subsequently subleased to Stora Enso at an apparently higher rent. According to Stora Enso representatives, the company intended for such intermediary contractors to be phased out and replaced with direct contract schemes in order to minimize intermediaries' profit margin and directly channel profits to farmers as the rightful owners of the collective forest land. However, in all seven villages, we found no evidence that this plan had come to fruition. More surprisingly, in its formal response to farmers' allegations of a fraudulent transfer by a private intermediary, Stora Enso showed no indication of plans to remove that intermediary from the transaction chain. Instead, the company defended the intermediary's position and termed that transfer contract as valid. In this case, apparently Stora Enso did not want to take the opportunity to oust the intermediary even when the intermediary was under the allegation of fraud in cheating villagers into the transaction.

Farmers' attitudes toward Stora Enso's forest land acquisition

Most farmers expressed mixed feelings toward Stora Enso and its forest land acquisition practices. On one hand, they were extremely upset about compulsory takings, the lack of transparency, and fraudulent transactions by which Stora Enso had gained control of their land. Even though no farmer expressly accused Stora Enso of being involved in any such illegal or wrongful actions, they believed the company knew they were occurring and did not take effective action against them. On the other hand, they expressed preference for direct contracting with the company as opposed to a middle man, if they had no other option and the transfer terms were reasonable. Because Stora Enso was not directly and physically involved in compelling or cheating farmers to give up their forest land rights, and especially because there was a widespread perception among farmers that Stora Enso is more flexible and negotiable than other private businesses or government agencies regarding rent, the villagers we interviewed generally did not report strong objections to transferring their forest land rights to the company directly.

We asked farmers a series of questions concerning the terms of transfer they were willing to accept. In 10 out of 12 villages we visited, farmers ranked rent as their top concern. Interestingly, when asked how much rent per mu per year they believed would be reasonable, instead of giving us a direct quote they offered a series of calculations of how much income could be derived from the forest land if kept in the village rather than transferred to Stora Enso. Farmers would either grow sugar cane, or plant pines or eucalyptus trees on their lands. In case of sugar cane, farmers can produce four tons of cane per mu of land per year and sell for 470 yuan per ton, for total gross revenue of 1,880 yuan per year. After deducting 1,000 yuan per mu per year for the cost of production, farmers can have a net profit of 880 yuan per mu per year. Pine trees become mature for cutting in 12 years. Farmers can harvest seven to eight tons of pine timber per mu and sell them at a price of 600-800 yuan per ton, for total revenue of 4200-6400 yuan per mu or annual revenue of 350-530 yuan per mu. In addition, farmers can collect pine oil from the eighth year and sell it for 40 yuan per mu per year or 160 yuan per mu for four years between the eighth year and the twelfth year when the tree is cut. Because pine trees grow naturally with virtually no input cost, the average annual net revenue for farmers could be 360-550 yuan per mu if the land were not in the hands of Stora Enso. In contrast, Stora Enso currently pays 30-140 yuan per mu per year for the collective forest land it acquires. These calculations were based on the information provided by farmers with regard to the crops on, and incomes from, the land before it was acquired by Stora Enso.¹¹²

The second greatest concern was the length of the lease. Perhaps due to the recent rent hikes in forest land rights markets in Hepu, most farmers we interviewed did not want to enter a long term transfer contract with Stora Enso. Given the fact that most, if not all, Stora Enso leases last for 30 years, farmers expressed the wish that Stora Enso would periodically adjust the rental amount in response to market price. Though 30 year leases were reported by the farmers, in subsequent discussion with the company, Stora Enso reported that their contracts have varying lengths: from seven to 30 years, averaging 23 years.

The forest reform and its implication to Stora Enso land acquisition

As mentioned previously in this report, a key component of the central government's 2008 nationwide forest reform was to enable collectives to allocate collective-managed forest land to individual households for 70 years.¹¹³ To prevent businesses from taking advantage of the decollectivization of collectively managed forest land to acquire forest land rights, the central government requires that collectively owned forest land and wasteland under collective management not be transferred out of the village before being contracted to individual farmer households, except under "absolutely necessary" circumstances.¹¹⁴

In response to the central government's demand, forest reform was formally launched in Guangxi in 2009. According to the official report on implementation of the forest reform in Beihai Municipality, by the end of 2011, more than 90 percent of collective forest land had been allocated to individual households and 91 percent of the allocated land had been officially recognized with forest certificates issued to individual farmer households.¹¹⁵ Moreover, Hepu County was ranked as an “excellent implementer” of forest tenure reform.¹¹⁶

Because the central policies on collective forest reform have significant implications for Stora Enso's land acquisition program, we asked farmers a series of questions concerning the forest reform itself. In all of the villages, with the exception of one located in Qinzhou,¹¹⁷ villagers reported a complete lack of meaningful implementation. In six of the remaining 11 villages, farmers were merely informed of the forest reform either through the television or from collective cadres. In five villages, the forest reform and its relevant policies were completely unknown to farmers.

In all 11 villages, there was no allocation of collectively managed forest land to households, nor were forest certificates issued to households. Even in the few villages where collectively managed forest land remained after the Stora Enso acquisition, no individual allocation to households had been carried out. Only in one village, where the collective still maintained 300-400 mu of forest land, farmers were told that each villager would receive an allocation of two mu of collective forest land. However, this plan had not been enforced at the time of our interviews.

Nevertheless, when asked about their attitude toward the forest reform policies designed to allocate collective managed forest land to individual households, all farmers in all 12 villages warmly applauded the central government's measures to protect farmers' interest in forest land and care for their well-being. However, they did express serious doubt about the possibility of realizing these policies due to Stora Enso's strong presence in Hepu, and its influence over local policy.

When we debriefed the Stora Enso officers on our findings after the fieldwork, they appeared to have been caught off-guard. The Beihai Municipal Government had committed in 2006 to provide 600,000 mu of collective forest land to Stora Enso. According to the company officers present, the 2009 moratorium on new forest land acquisitions was already in place when Stora Enso accepted the 330,000 mu of collective forest land acquired by BHC. Because Stora Enso decided to stop relying on BHC to acquire forest land from villages, if it chooses to continue with its acquisitions, it should acquire the remaining 270,000 mu of land directly from the villages, with BHC as a service provider to facilitate direct contracting. With the central policy requirement for individualizing collective managed forest land in place, and the accompanying prohibition of corporate acquisition of collective forest land before decentralizing rights to individual households, it is unclear how Stora Enso will acquire the remaining 270,000 mu if they are indeed willing to do so.

Women's forest land rights

Although Stora Enso's land acquisition naturally affects both men and women, we questioned whether the acquisition had affected men and women differently, and if yes, how.

In each village we visited, we interviewed both men and women. Most women interviewed had very limited information about what happened to the forest land in their villages, compared to male interviewees. They were not clear about Stora Enso's land acquisition in their villages and appeared unaware of their own forest land rights. In contrast, the male villagers we interviewed had much more information regarding the details of the forest land transaction. This lack of adequate information

prevents women from making informed decisions on the crucial issues affecting their land and livelihoods.

In most of the villages we visited, women also appeared insufficiently represented in the decision-making process of forest land transaction. Indeed, there were no female representatives in any of the village collectives we visited.¹¹⁸ Thus, women appeared to be significantly marginalized in the decision-making process. Their interests are therefore not likely to be considered, and their rights more likely to be violated.

In two of the 12 villages visited, women were excluded from distribution of the rent paid by Stora Enso or intermediaries to the village collective in the case of a change in their marital status or official residential registration. For example, in at least one of the villages visited, village rules were set to exclude the following groups of women from receiving rent: women who married out to other villages before June of the year the rent is due; women who married in but have not moved their residential registration to this village; women who married into this village but got divorced within six months; and women who have divorced and remarried to a non-villager for more than six months.

Neither in the briefing, nor in the documents the Stora Enso officials presented to us, did we find any institution-wide company measures to ensure women's rights in Stora Enso's forest land acquisition. Even in relation to a 19-point screening list designed to review all contracts for possible defects (see below), we did not find any targeted measure to ensure women have access to information, active participation in the decision making process, and equal economic benefits from the forest land acquisition.

SECTION IV

ANALYSIS

Stora Enso has publicly stated its commitment to strictly following Chinese laws, regulations, and central policies in its land acquisition program in China. This section provides a comparative analysis of the practices we uncovered in our research against the Chinese relevant regulatory framework and internationally accepted CSR standards.

Assessment of the contract screening and correction mechanism

Stora Enso has made important improvements in its acquisition of collective forest land rights in Hepu County since our last round of field research in 2009, such as introducing the moratorium on land acquisition, changing BHC's role from directly acquiring land to providing a broker-like service for Stora Enso, and reinstating direct contracting with collectives and farmers. However, based on our findings, such improvements seem to be far from sufficient. The following is an assessment of some of the improvements claimed to have been made by Stora Enso since 2009.

The 19-point screening device

In order to investigate the legality of its existing acquisition contracts, Stora Enso designed a screening list consisting of 19 issues that the contract screener must check against all existing contracts. Only a contract that passes the 19-point screening can be accepted as qualified. If it fails on one or more points, the contract correction process is triggered. While all these 19 points are valid, some important issues are

missing when evaluating the list against existing laws, regulations and the central policies regulating collective forest land transfers in China.

First, the screening list is designed based on a seemingly incorrect assumption that all forest land rights acquired by Stora Enso are the rights to collectively managed forest land. While most of the land to which Stora Enso acquired use rights may be under collective management, there is an indisputable fact that some land was allocated to individual farmer households for private use, such as private mountain rights, prior to the Stora Enso acquisition. Under Chinese laws, transfer of such individual rights must proceed through negotiation between Stora Enso and the farmer transferee and be witnessed with a contract signed by the latter. The two thirds consent rule, the only point in the list for checking procedural compliance in the contracting process, simply does not apply to a transaction involving individual forest land rights. However, the 19-point list does not evaluate whether the contract for screening includes individual land rights, and if it does, how to correct the defects.

Second, compulsory transactions are a key source of contract illegality, but the screening list does not address this issue. Most farmers reported coercive acts when local governments seized collective forest land for Stora Enso plantations. Such actions alone are sufficient to trigger the concern for the illegality and therefore invalidity of land deals local governments obtained for Stora Enso because Chinese laws and the central policies are crystal clear in prohibiting coercive transactions of farmers' forest land rights.

Third, women's rights to collective forest land appeared to be completely ignored in the screening process. Our findings indicate that rural women were unaware of Stora Enso's acquisitions and did not participate in decision making on the transfer of village land to Stora Enso, although the majority of rural women are economically dependent on farming, including forest farming. Stora Enso vows to respect human rights, including women's rights, in its corporate social responsibility commitments, and it is therefore highly puzzling why its screening process does not emphasize special attention to the issue of gender equality. Moreover, the International Finance Corporation, which finances Stora Enso's Guangxi operation, requires its client to consult both men and women in separate forums if necessary when the project is expected to generate impacts on local communities.¹¹⁹ The failure to include consultations with women in its contract screening process seems to suggest Stora Enso's ignorance of this obligation to its financial supporter.

Fourth, the list does not include an item for checking whether farmers actually receive contractually mandated compensation. As stated above, Chinese law mandates that rural land, including collective forest land, is owned by members of a collective. Central policies further require that property interest to collectively managed forest land be allocated to farmer owners in the form of shares because the collective entity, be it a village committee or other administrative body, maintains no property interest in the land. Naturally, all compensation paid by Stora Enso should go to every household either on an egalitarian basis or in accordance with household share value. Farmers in many villages complained to us that they did not receive the rent for the land Stora Enso acquired. Although it is not entirely clear why this happened, interception or embezzlement of the funds by village cadres or township government (or both) cannot be ruled out. Moreover, when farmers do not receive rent, they tend to accuse Stora Enso of non-payment, causing damage to the company's reputation.

Farmers' participation

No matter how well Stora Enso's contract screening and correction process is designed, it is rendered meaningless without input from affected farmers. During our field study, few farmers reported having been approached and contacted by Stora Enso employees with respect to the land transferred to Stora

Enso. One possible explanation for this is that the Stora Enso screeners and investigators only approached village officials to solicit input to the screening process. For example, the 19-point screening list calls for verifying compliance with the two thirds consent rule with respect to transactions of forest land under collective management. We do not know how this could be verified without contacting and meeting with farmers. Moreover, the screeners are instructed to merely check the signed receipts of rent by farmers; if more than two thirds of farmers sign the receipts, then the two-thirds consent requirement is considered met and the contract is rendered legal. This approach appears to be inconsistent with the principle of FPIC as mandated by responsible international organizations, including the IFC that finances Stora Enso's Guangxi operation,¹²⁰ and is clearly at odds with relevant Chinese laws. Second, farmers' signing on the rent receipts alone does not necessarily constitute their willful consent to the land acquisition because the signing may be under duress or may be influenced by constrained options, such as when the signatory may feel unable to resist a compulsory acquisition.

Dispute resolution

Stora Enso states it has been operating a 24-hour telephone hotline since 2005 to receive farmers' complaints, has distributed cards to farmers publicizing this service, and publishes a bi-monthly newsletter for distribution in the villages.¹²¹ However, in all 12 villages we visited, none of the farmers reported ever seeing the card or the newsletter.¹²² Even the Stora Enso officials briefing us on the performance of this hotline admitted that in the entire year of 2012 it received only 57 call-ins, only eight of which were from farmers. Since farmers are unaware of this service, it is virtually inaccessible and therefore ineffective.

When farmers approached Stora Enso employees with concerns over land issues, they were often redirected to local governments on the ground that Stora Enso did not directly acquire their village land. When farmers in a village came to the local government office in Hepu about an alleged fraudulent transfer, they reported that they were not properly received by the state officials.¹²³ When we brought the case to Stora Enso's attention, its officials bluntly rejected the accusation by unilaterally adopting the view of the local administration, even without meeting and discussing with the farmers to triangulate their claims.

Although Stora Enso has made good progress on addressing the problems with its land acquisition that were identified in 2009, there is clearly room for improvement. Its grievance mechanism seems to be primarily for public relations purposes as it does not provide an effective grievance mechanism to address farmers' complaints. Moreover, Stora Enso's reluctance or unwillingness to encourage farmers' participation in addressing land acquisition problems substantially reduces the chance of dispute resolution, and tends to invite even greater grievances and resistance to its land acquisition program.

Acquisition of individual forest land rights

While most of the forest land rights Stora Enso has acquired since its Guangxi operation appear to be collective forest land under collective management, there is ample evidence that the Stora Enso acquisitions also includes individual forest land rights, such as rights to private mountains. In two villages, farmers reported transfers of their private mountains rights to Stora Enso despite their resistance.

"Private mountains" are forest land rights that were allocated to farmer households in 1960s, long before China decollectivized its agriculture. Together with rights to private plot (farmland) and foundation plot (residential land), private mountain rights were legally defined as individual land rights "for a long term without change" and perceived by farmers as their private property even in the people's commune era.¹²⁴

Under the Property Law adopted after the termination of the people's commune system, private mountain rights are legally defined as individual property rights together with other land rights allocated to individual farmer households.¹²⁵ Because of their unique nature, being created 60 years ago and used by farmers as their de facto private property for decades, even the drastic current nationwide forest reform overhauling the collective forest land system not only excludes private mountain rights from administrative reallocation, but also explicitly and resolutely prohibits any attempt to take them back from farmers or put them under readjustment.¹²⁶ Furthermore, while giving farmers 70 year rights to collectively managed forest land allocated to individual households through the forest reform, the central policies term private mountain rights as rights for an indefinite "long time without charge."¹²⁷ Clearly, under the existing regulatory framework, farmers' private mountain rights enjoy much greater protection and deserve special treatment when taking any action.

Although there is no special law governing the transfer of private mountain rights, existing laws and central policies regulating the transfer of individual land rights are definitely applicable in this case. All legal requirements, including the principles of "voluntariness, with compensation and in accordance with law"; direct negotiation and contracting with the rights holder without fraud, deceit or duress; and direct compensation for the rights holder, as discussed in Section II, must be followed in transactions that involve private mountain rights.

As a prestigious company with a large legal team and CSR protocols, Stora Enso either knows, or should be aware, that its acquisition of collective forest land would most probably include farmers' private mountain rights. It appears that either in its initial acquisition or subsequent contract screening, Stora Enso did not scrutinize its forest land deals for the issue of private mountain rights. For example, while its 19-point screening manual does include rights to "ancestors' mountain" as a screening criterion, it fails to include private mountain rights, rights to self-developed wasteland, and other allocated land rights in the screening. Although the screening manual does require its contract screeners to check for the compliance with the two thirds consent rule in the village, it ignores the fact that the rule does not apply to transactions of private mountain rights.

Stora Enso seems to be operating under the assumption that farmers' individual land rights are under a title registration system (a Torrens system),¹²⁸ whereby the lack of land rights certificate meant a lack of household land rights. In this manner, Stora Enso apparently treats non-certified farmers' household forest land rights, including private mountain land rights, like collective-managed forest land rights. They seemed to assume that the two thirds consent rule applied to private mountain rights. Such assumption is clearly a misunderstanding of Chinese laws.

With respect to rural land rights, China does not operate by way of a title registration system. Rather, farmers' rights are created through the allocation of collectively owned land to individual households through household contracting rather than registration and certification. The RLCL states that individual land rights are created when land is allocated to individual households at the time of household contracting.¹²⁹ Although local government at the county level or above is asked to register such land rights and issue land certificate covering them, registration and certification are merely processes to reaffirm such land rights.¹³⁰ Even the 2007 Property Law, which establishes a rule of "no registration/certification, no rights," creates an exception to this uniform rule clearly for farmers' individual land rights. The law provides that land rights do not become valid and effective until they are registered by government, except for land rights otherwise regulated under other laws.¹³¹ Based on a synthesized reading of all these laws, it is clear that the existence of individual land rights does not depend on the issuance of land certificate by government and the possession of the land certificate by individual farmer households.¹³²

As reported in our 2010 paper, most collective forest land rights secured by Stora Enso as we found in the interviewed villages were compulsorily acquired by BHC on behalf of the company, through administrative pressures on village cadres, using of local police to force farmers to surrender land, and even arresting the farmers contesting the transaction.¹³³ During this round of field research, eight out of 12 villages reported coercive transactions, including two villages where violent confrontation was triggered by the Stora Enso's forest land acquisition between farmers refusing to transfer their forest land rights and township governments seizing the land on Stora Enso's behalf.

Neither in 2009 nor in 2013 did we find any evidence that Stora Enso itself was physically involved in these coercive transactions. It is important to note, however, that Stora Enso is the direct beneficiary of such coercive acts conducted by local governments in cooperation with BHC because the collective forest land thus obtained has been or will be handed over to Stora Enso eventually. Moreover, in an official letter to Stora Enso in 2006, the Beihai Municipal Government made a commitment to provide 600,000 mu of forest land for Stora Enso plantations, most of which would be collective forest land located in Hepu County. To fulfill the commitment, the Beihai Municipal Government set up BHC in 2006 for the sole purpose of acquiring collective forest land on behalf of Stora Enso.¹³⁴

In effect, the acquisition of land by BHC for Stora Enso constitutes an agency relationship. Given the official commitment by the Beihai Municipal Government, the creation of BHC for the sole purpose of acquiring collective forest land for Stora Enso, and the status of Stora Enso as the sole beneficiary of the BHC activities, this relationship between Stora Enso and BHC can hardly be excluded. According to a UNDP report that was publically accepted by Stora Enso, when Stora Enso went into Guangxi in early 2000s, the company engaged a state-owned company, Guangxi Gaofeng Group, as its purchasing agent, "entrusting" it to acquire collective forest land rights for Stora Enso.¹³⁵ In 2006, that company was replaced by BHC, another state owned company formed for the sole purpose of acquiring forest land for Stora Enso. Both the past experience and the present cooperation between Stora Enso and BHC (before BHC's role was downgraded) suggest the existence of an agency relationship between Stora Enso and BHC.¹³⁶ If an agency relationship can in fact be established, there is no doubt that Stora Enso must be liable for any illegal action taken by BHC. Under the General Principles of Civil Law of China, the principal bears civil liability for the agent's act of the agency.¹³⁷ If the principal is aware that the agent's acts are illegal but fails to object to them, the principal and the agent shall be held jointly liable.¹³⁸ Stora Enso is ostensibly aware of all Chinese laws governing transfer of collective forest land rights and is aware of illegal acts performed by BHC, its apparent agent, and thus cannot evade liability by simply asserting its physical non-involvement.

Even if the agency relationship cannot be established between BHC and Stora Enso, Stora Enso may still be held accountable. To clear itself from liability for illegal activities conducted by BHC, Stora Enso would have to establish that it is a good faith purchaser of what BHC has acquired on its behalf. Under Chinese law, if a purchaser of immovable property pays a reasonable price and takes the property in good faith believing that the seller had the asserted legal rights to the property, the purchaser takes the property free of any claims against the rights of the seller.¹³⁹ In China, a good faith purchaser is a person who "has no knowledge of the relevant facts sufficient to influence the legal effects and has no fault with respect to having no knowledge."¹⁴⁰ That is to say, a good faith claim must fail if the purchaser knows or should know the illegality of the subject property.

Applying these principles, if Stora Enso has knowledge of any facts suggesting the illegality of the initial transfers or has knowledge that the farmers or collective have claims against BHC relating to those

transactions, any contract between Stora Enso and BHC for the land is potentially subject to the claims of the original landholders against BHC.¹⁴¹ Any claim for being unaware of Chinese laws on transfers of rural forest land rights would not be convincing.

Stora Enso did not directly tell us whether they were aware of any issue with the underlying transactions between BHC and affected farmers. However, our findings suggest cause for concern. Various farmers interviewed reported having contacted Stora Enso employees regarding rights violations in their forest land transactions. Moreover, the media, including that in Finland where Stora Enso's headquarters is located, has reported violence in several villages caused by allegations that land was taken from the farmers for Stora Enso's operations without the farmers' consent.¹⁴² If indeed the company's response was to deny responsibility based on the lack of a contractual relationship between Stora Enso and the farmers, the company may have too narrow an understanding of the scope of its legal obligations under Chinese law.

Forest land acquisition under the forest tenure reform

Although the collective reform was launched in Hepu County in 2009 pursuant to the central demand and was reported to have been completed in 2011, our findings indicate that in 11 of the 12 villages we visited the forest reform was not carried out at all. Collectively managed forest land was not allocated to individual households, and farmers did not receive forest rights certificates. Such non-implementation raises new questions for Stora Enso's forest land acquisition. As mentioned, according to the Stora Enso officers, the company had taken 330,000 mu of the 600,000 mu pledged by the Beihai Municipal Government by the time it instituted a moratorium on its collective forest land acquisition in 2009. If Stora Enso acts as planned, it would acquire through direct contracting the remaining 270,000 mu of collective forest land, most of which is located in Hepu. Although it is unclear how much of this 270,000 mu has been already acquired by BHC on behalf of Stora Enso and how much is still in the hands of village collectives, it is clear that any future Stora Enso acquisition must fully adhere to central policy directives on the forest tenure reform and relevant Chinese laws governing farmers' forest land rights.

The central policies are very clearly stated: collectively managed forest land shall not be transferred to a non-villager in large scale before it is allocated to individual households unless it is absolutely necessary; even if a proposed transfer is qualified as absolutely necessary, an asset evaluation must be conducted.¹⁴³ In addition the Guangxi provincial government has tightened the restriction by explicitly prohibiting transfer of use rights to collective managed forest land before the forest reform is completed,¹⁴⁴ requiring post-reform transactions through competitive bidding or auction,¹⁴⁵ and mandating a 30 day advance notification of villagers.¹⁴⁶

Clearly, if Stora Enso upholds its commitment to compliance with laws and regulations of its host country, future acquisition of collective forest land (whether it is currently in the hand of BHC or still under collective management) must be conducted after the land is allocated to individual households and evidenced with forest certificates issued to the households. In other words, Stora Enso must acquire the land through direct contracting not with rural collectives, but with individual households.

As discussed above, transfer of individual forest land rights is significantly different from transfer of collective managed forest land rights. Once the land is allocated to individual households, it becomes individual farmers' property rights. With respect to transfer of individual property rights, the rules of two thirds consent and "minority submitting to majority" are not applicable; it is entirely up to the

individual farmer transferor to decide whether, when, and under what terms to transfer his or her forest land rights. If a farmer refuses to transfer, no one can force him or her otherwise. Moreover, if the farmer transferor agrees to the offer by Stora Enso, the land transaction will not be completed until Stora Enso and the transferor enter into a binding contract containing at least all the required elements of the RLCL.

SECTION V

RECOMMENDATIONS

We are pleased to see that Stora Enso has adopted many of the recommendations made in our 2010 report. For example, we recommended that Stora Enso institute a moratorium on its land acquisition program, replace relying on BHC for land with direct contracting with villages and farmers, and review existing contracts and correct problems in accordance with Chinese laws. All these recommended actions have become reality today. Although it is not clear whether our recommendations triggered these actions, it is much more important that Stora Enso has made real progress in realizing its commitments to social responsibility.

With this positive development in mind, and based on the analysis of our findings about Stora Enso's forest land acquisitions in Hepu in light of the Chinese regulatory framework governing collective forest land rights, we offer the following recommendations for Stora Enso to further improve its forest land acquisition practices, both by rectifying existing contracts and correcting certain procedures in the event that Stora Enso acquires additional forest land in the future:

1. Design and implement a contract screening and correction process that fully respects farmer property rights

Setting up a contract screening and correction process demonstrates Stora Enso's acknowledgment of irregularities in its collective forest land acquisition and its determination to successfully address these problems. While we recognize Stora Enso's goodwill, in order to comply with the laws, the company must embrace an approach that fully respects farmers' property rights in designing and implementing this correction process in all existing and future acquisitions.

We recommend improvements to the 19-point screening list to include more vital issues affecting farmers' land rights. The existing list, while still a good start, seems to be more focused on technical issues in order to account for small defects that are easy to fix. In doing so, it fails to address the arguably more important issues that concern farmers most (see below), as well as more fundamental issues related to Stora Enso's commitment to compliance with Chinese laws and regulations.

First, the screening process should examine existing contracts to see whether the contract with the village collective includes individual land rights allocated to individual households either in the form of household contracting rights or in the form of private mountain rights, and propose a set of measures to address the issue if the contract does encompass individual rights. Whether with written documents (government-issued certificate or village-issued contract) or not, individual forest land rights are private property rights under Chinese laws, and transaction of such rights is heavily regulated by a set of special laws designed to protect farmers' usufruct rights to collectively owned forest land. Failure to respect or comply with the laws not only injures farmers' property interest in

land, but also gives rise to questions about the legality of the entire contract between Stora Enso and the village collective.

Second, the screening list should be redesigned for any future acquisitions with both men and women in mind, acknowledging the gendered impacts of Stora Enso's current practices. With China's industrial development and rapid urbanization, women have become the majority workforce in rural areas as male outmigration continues. In other words, women are more dependent on rural land, including forest land, for their livelihoods. However, their rights and voices are traditionally overlooked in practice. Even existing Chinese laws are admittedly inadequate in securing women farmers' land rights, including their forest land rights, and protecting their voices when their land rights are at stake in transactions. International CSR standards, including those publically accepted by or imposed on Stora Enso, require paying special attention to women's rights. For example, the performance standards IFC imposes on its clients, including Stora Enso, require special consultation of women in land acquisition and even requires a separate forum to ensure women's participation. Thus, Stora Enso's list should reflect these internationally accepted standards and include examination of whether women's forest land rights and their right to decide transfer of collective forest land rights are infringed upon, and if yes, how the problems should be resolved.

Third, the screening and correction process should include checking and recording farmers' receipt of whatever compensation Stora Enso pays to rural communities for the land it has acquired. It is important to note that as member owners of collective forest land, only farmers, not collective entities nor township governments, are entitled to the proceeds of the property transaction under Chinese law, which clearly states that farmers, not collectives, should receive compensation. It would not be sufficient for Stora Enso to pay the collective administrative body and expect that farmers will receive their share in due course. This principle should be made explicit in Stora Enso's revised screening checklist and rectified in its correction process.

Fourth, when conducting screening and correction, greater attention should be paid to farmers' active and engaged participation in the process. It is important to note that farmers' participation or non-participation determines success or failure of implementation of the contract screening and correction. Stora Enso's screening and correction process seems to serve two mutually related purposes: making the contract legally valid and obtaining farmers' support. With little or no farmers' participation, all screening and correction results may not be recognized by farmers; without farmers' recognition and cooperation, the legal validity would be questionable because Chinese laws require such participation in land acquisition. Even if the contract is determined legally valid, its implementation would be subject to various forms of disturbance and resistance if farmers did not cooperate. Our field findings indicate that the company's contract screening and correction process is unknown to farmers in all 12 villages we visited.¹⁴⁷ A possible explanation is that the process involves only desk review or at most includes interviews with official collective party leaders in the village.

2. Strictly follow laws and central government policies in the event of future land acquisitions

According to the arrangement made between Stora Enso and the Beihai Municipal Government, Stora Enso would continue to acquire collective forest land for an amount of as much as 270,000 mu once the 2009 moratorium is lifted. Yet according to Stora Enso headquarters, Stora Enso has been offered this land but has not committed to take it. With such magnitude of potential land acquisition and its impacts

on rural communities and farmers' livelihoods, if Stora Enso does indeed acquire this or any other land, the company should act cautiously and ensure its acquisition in strict compliance with relevant laws, regulations and the central policies regulating transfer of collective forest land rights.

The reason for the extra caution is the collective forest reform mandated by the central government. The rules under the central policy directives on the forest reform that will have implications to Stora Enso's acquisition can be summarized as follows:

- Collectives must consider allocating its managed forest land to its member farmer households for a term of 70 years, based on two-thirds vote of community members, and once allocated such land rights are legally defined as usufruct property rights.
- The household must be issued a forest certificate and registered by county government to evidence such individual forest land rights.
- Granting use rights to collectively managed forest land to institutional acquirers before they are allocated to villagers is prohibited unless it is "absolutely necessary."

We can infer that most, if not all, future land acquisitions would be expected to come from individual households because of implementation of the mandated forest reform. Acquisition of individual forest land rights obtained through the forest reform requires: (1) voluntariness, with compensation and in accordance with law; (2) arms-length negotiation with the farmer transferor; and (3) a written transfer contract with each individual household transferor who is willing to lease its forest land rights to Stora Enso. Even if some of its acquisitions are qualified as "absolutely necessary," Stora Enso is subject to the requirements for: (1) a 30-day advance notice; (2) forest asset evaluation; (3) two-thirds consent; (4) competitive bidding or auction; and (5) priority rights for villagers.

To adhere to its strong commitment to comply with host country laws and regulations, maintain its reputation as a socially responsible company, and avoid a subsequent contract screening and correction process that is costly and time consuming, we strongly recommend that Stora Enso conduct any new acquisition in an equitable and lawful manner from the very beginning. That is, even if land acquisition becomes inevitable, it must be done correctly and in compliance with all requirements under the existing regulatory framework.

Another issue is how to deal with the collective forest land that has already been acquired by BHC on behalf of Stora Enso but not yet handed over to it perhaps because of its moratorium policy or the forthcoming forest reform. According to the Stora Enso officials, this category of land is currently "outsourced" or temporarily contracted by BHC to private businesses. Based on our findings and other supporting evidence,¹⁴⁸ most if not all of this land was acquired compulsorily. If BHC were found to be a purchasing agent conducting land acquisition for the principal (Stora Enso who is the sole beneficiary of the BHC's act), Stora Enso would be jointly liable along with BHC for such illegal activities. If there is no agency relationship, Stora Enso still cannot resort to the good faith purchaser defense because, at the minimum, it should have known of the illegality of these acquisitions. If Stora Enso took the land, regardless of how it was acquired, the company would be held legally liable for knowingly taking and using an illegally obtained property. Further, its reputation as a socially responsible company would be largely compromised.

Stora Enso has already discontinued using BHC as its purchasing agent and decided to conduct transactions directly with villages.¹⁴⁹ But the question remains: how to deal with the forest land rights that have already been acquired by BHC on behalf of Stora Enso? If the firm directly accepted the land from BHC, it would betray its commitments to CSR; if acquiring the land through direct contracting

with the village collective alone, it would directly contravene central policies prohibiting transfers of collective managed forest land before individualizing it.

Based on the above analysis, we strongly recommend that Stora Enso return the land currently held or outsourced by BHC to the villages in order for the forest reform to proceed, and restart its acquisition after the reform.

3. Further explore the out-grower approach as an alternative to land acquisitions

The Stora Enso officials told us at the briefing meeting in 2013 that the company had dropped the idea of introducing an out-grower business primarily because of concerns over cost, reliability of wood supply, and difficulty in tracking the legitimacy of wood sources. While we later learned from Stora Enso headquarters that this was an unfortunate miscommunication and that Stora Enso was indeed exploring this option, it bears repeating here that the out-grower approach may indeed be a possible alternative to the company's current model.

First, for forest farmers, forest land is an important source of income and a primary asset. According to the Chinese State Forest Administration (SFA), incomes from forest farming after individualizing forest land through the forest reform accounted for nearly 20 percent of farmers' annual income.¹⁵⁰ Our findings also suggest that the net annual incomes from forest farming and non-timber production on forest land would be several times of the annual rent if the land were not acquired by Stora Enso. Moreover, given the lack of social safety net for forest farmers in present-day China, forest land is widely perceived by forest farmers as a retirement fund of sorts. Taking land from them even with market-priced compensation might be a serious threat to farmers' long term livelihoods. That is why the central government is making meaningful attempts to strike a balance between meeting investors' demand for land and safeguarding forest farmers' rights.

Second, even from Stora Enso's own perspective, dismissing the out-grower approach may cause undesirable consequences for Stora Enso's operation. As discussed above, if it continues acquiring use rights to collectively owned forest land in the context of the mandated forest reform, Stora Enso may have to negotiate with every household for each tiny parcel to which the household has property rights after the reform, and sign a transfer contract with the household. It would substantially increase its transaction costs and the difficulty of supervising contract implementation. Also, because transfer of individual forest land rights requires complete voluntariness, Stora Enso might not be able to acquire a large contiguous tract of land if one or more households refuse to transfer their rights which happen to be located within the tract.

Third, the concern for certifying the legality of source may be mitigated by applying international certification standards taking into account the Chinese context. For example, given the lack of institutional infrastructure for wood source certification in China, many export oriented wood companies, such as furniture companies, meet the international certification standards on source legality by asking farmers to present when selling wood a letter with the village seal certifying that the wood comes from the farmers' land and was cut with permits. In some other companies, permits for shipping wood issued by relevant authorities are also accepted as proof of the source legality.¹⁵¹ All these approaches to satisfy the international certification standards may be considered by Stora Enso.

While it may not be realistic to expect Stora Enso to shift its land acquisition in its entirety to the out-grower practice, we recommend that the company at least consider testing the approach by working with local communities to ensure wood supply and explore alternatives of certification.

4. Make payment of rent directly to individual households

Many farmers complained that they had not received payment of rent for the forest land rights transferred to Stora Enso. Perhaps it was because the land had not been accepted by Stora Enso due to dispute over land ownership or other problems, or perhaps Stora Enso actually paid but the fund was intercepted by collective entities or township governments. No matter what the cause, we were led to believe that Stora Enso had fulfilled its duty of payment for the land they accepted. But what we found in practice is that farmers did not, or were not able to, make the distinction. Instead, they all accused Stora Enso of failing to pay the rent.

Based on Landesa's research in many parts of the country, it is not uncommon for collective entities and township governments to intercept or embezzle the compensation for land expropriation paid by the state,¹⁵² despite the legal mandate that the farmers, as rightsholders, receive rent payments. On one hand, rent-seeking motivations have led easily corrupted local officials to infringe upon farmers' property interest in land. On the other hand, there is an institutional defect that has made such rent-seeking activities possible. That is, the compensation is not made directly to affected farmers; instead, it is made to collective entities or township governments apparently on an assumption that the collective entities and township governments will fulfill their duty and distribute the fund among all affected farmers.

To ensure benefits are channeled directly to farmers, to forestall the chance of rent seeking, and to maintain Stora Enso's reputation as a socially responsible business, we recommend that the company explore ways to directly disperse rental payments to individual households according to the household's share of the collective forest land determined at the villager conference. Stora Enso could work with local government to establish an individual account for each of the affected farmer households and arrange for depositing the rent directly into these individual accounts. The Chinese government is currently making agricultural subsidies to farmers each year, and depositing the subsidies to individual household accounts. This system could be a vehicle for the Stora Enso payments.

5. Further improve the grievance mechanism to effectively address farmers' concerns

In our 2010 report, we recommended that Stora Enso set up an internal dispute resolution system and improve the performance of its hotline. Not much progress was made in this regard. During our field research in 2013, farmer interviewees reported unawareness of the hotline, and even when farmers visited the Stora Enso's office in Hepu with their complaints, they were redirected to local government. Stora Enso should make greater efforts in improving its grievance mechanism.

First, the existing hotline is a good tool, but it is essentially useless if most farmers are not aware of its existence. Farmers in most villages we visited expressed dissatisfaction, frustration and anger over forest land acquisition by Stora Enso, by BHC for Stora Enso or by intermediaries that subleased the land to Stora Enso eventually. It appears unimaginable under such a context for a hotline operating 24 hours a day, seven days a week to be merely receiving 57 call-ins per year, and just eight call-ins from farmers. Stora Enso should widely distribute the hotline card that contains the contact information, and the company should encourage farmers to call the hotline when they have complaints. The hotline operators should be trained with CSR guidelines and Chinese laws on rural land rights and transfers, their performance should be reviewed periodically based on the feedback from farmer callers, and their compensation could even be tied to their performance.

Second, Stora Enso could conduct an independent review of most frequently reported complaints based on the phone log of the hotline and invite these most frequent callers to the review meetings. The company

may take immediate actions if the dispute can be resolved internally, or pass the complaint to local government with the company's suggested approaches if the dispute is related to a government conduct.

Third, Stora Enso could design a “publicity pamphlet”¹⁵³ that includes a description of farmers' land rights under the law in a concise and farmer-understandable language and include the hotline number and the address of the company's dispute resolution unit. This pamphlet could be widely distributed together with the hotline contact information card in areas where Stora Enso acquisitions have occurred or will occur, and widely publicize it through local media.

Fourth, Stora Enso should proactively improve performance of its dispute resolution unit by training the staff with the company's CSR standards and Chinese laws, regulations and the central policies on farmers' forest land rights, and with skills to deal with complaints. If the complaint is beyond their authorized response scope, they could still provide advice on what farmers' rights are under the law and refer them to a higher level of management. Even when farmers' complaint is related to government actions, they could help farmers arrange meetings with relevant government agencies.

SECTION VI

CONCLUSION

Thanks to its admirable global commitment to corporate social responsibility and international efforts to implement this commitment, Stora Enso has made welcomed improvements on its land acquisition practice in the four years since we last visited its plantation area. However, our research indicates that there is still land, now held by Stora Enso, that was illegally or coercively acquired. In recent years, and especially under the new leadership, the Chinese government has shifted its development priorities from being primarily focused on GDP growth toward improving the overall wellbeing of its people. A key part of this effort is to further strengthen farmers' forest land rights, to increase their asset value and improve their long term livelihoods. This policy shift presents new challenges to investors, particularly to those with high demands for rural land. Under such circumstances, ensuring proper land acquisition practices to enable all stakeholders, especially rural farmers, to share and enjoy the benefits of growth should be a priority of every investor's operation.

For Stora Enso, adapting its forest land acquisition to this sweeping reform is undoubtedly a challenging task, but one it will need to embrace in order to operate legally in China. Tailoring its land acquisition program within this new regulatory framework will not only respect and strengthen the rights of a vast number of farmers, but also help Stora Enso explore a socially responsible way to create a business model that enables the company's growth, and results in genuine improvements to the livelihoods of local communities in southern China.

ENDNOTES

- ¹ Li, Ping and Nielsen, Robin. 2010. A Case Study on Large-Scale Forest land Acquisition in China: The Stora Enso Plantation Project in Hepu County, Guangxi Province. Washington, DC: Rights and Resources Initiative. Seattle, WA: Landesa. Available at http://www.rightsandresources.org/documents/files/doc_1800.pdf.
- ² According to the official statistics, the urban-rural income disparity increased from 1.74:1 in early 1985 to 3.1:1 in 2012. See the National Statistics Bureau. Statistical Bulletin on National Economy and Social Development for 1985. Available at http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20020331_15379.htm. And the National Statistics Bureau. Statistical Bulletin on National Economy and Social Development for 2012. Available at http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20130221_402874525.htm.
- ³ See <http://politics.people.com.cn/GB/7546460.html>.
- ⁴ The Central Committee and the State Council Comments on Pushing Collective Forest Rights Reform at Full Scale (Document No. 10 of 2008).
- ⁵ Used interchangeably in this paper. The terms of “land acquisition,” “land transfer,” and “land transaction” refer to an act of conveyance of forest land rights from one party to another. Such act includes lease, sub-lease and assignment.
- ⁶ These figures were reported directly by Stora Enso.
- ⁷ According to a media news report, Stora Enso decided to postpone construction of the pulp/paper facility in Beihai to the beginning of 2016. Stora Enso delays Beihai BM startup, pulp line in China. Pulp and Paper International Asia. July 26, 2013.
- ⁸ We chose Hepu as the fieldwork site because most of collectively owned forest land rights acquired by Stora Enso in the Beihai Municipality is located in this county, which is also the headquarters of Stora Enso’s Guangxi operation.
- ⁹ Ping, Li and Nielsen, Robin. 2010. A Case Study on Large-Scale Forest land Acquisition in China: The Stora Enso Plantation Project in Hepu County, Guangxi Province. Washington, DC: Rights and Resources Initiative. Seattle, WA: Landesa. Available at http://www.rightsandresources.org/documents/files/doc_1800.pdf.
- ¹⁰ PRC Const., art. 10.
- ¹¹ The 1998 Land Management Law, art. 10.
- ¹² The 2007 Property Law, art. 59.
- ¹³ *Id.*, art. 60(i).
- ¹⁴ *Id.*, art. 59, stating that “[f]armers’ collectively owned immovable and movable properties are owned by all members of the collective. Following matters shall be decided by members of the collective in accordance with procedures legally prescribed: (1) land contracting plan and contracting [village] land to units and individuals outside of the collective; ...”
- ¹⁵ After the decollectivization in late 1970s and early 1980s, the old collective structure—commune, production brigade and production team—has been abolished, and replaced with a new structure composed of township, administrative village, and villager group. In present-day China, the vast majority of collectively owned real properties are owned at the administrative village and villager group levels. In all villages we visited in Guangxi, collective forest land is owned at the villager group level. Under the Organic Law of Village Committee, the village committee is an administrative body set up at the administrative village level. The committee consists of three to seven people elected by villagers aged 18 or above. See *id.*, art. 9. Most administrative functions of the villager group, a successor of the production team under the commune system, are delegated to the village committee at the administrative village level, but real properties located within the villager group boundaries are still owned by members of the villager group according to the Property Law. Collective economic organizations may be created at either administrative village or villager group, with the function of “independently performing economic activities.” See the Organic Law of Village Committee, art. 5.
- ¹⁶ The Central Committee and the State Council Decisions on Speeding Up Forest Development, Document No. 9 (2003).
- ¹⁷ The Central Committee and the State Council Comments on Pushing Collective Forest Rights Reform at Full Scale, Document No. 10 (2008).
- ¹⁸ The 2002 Rural Land Contracting Law, art. 4.
- ¹⁹ The 2007 Property Law, art. 124.
- ²⁰ Document No. 9 of 2003; Document No. 10 of 2008.
- ²¹ *Id.*; Document No. 10 of 2008.

²² Id.

²³ Id., art. 125.

²⁴ Id., art. 129.

²⁵ Id., Chapter III.

²⁶ The 1962 Sixty-Article Regulation for People's Communes, art. 40.

²⁷ The Supreme People's Court's Response on Citizens Only Having Use Rights Rather Than Ownership Rights to Foundation Plot (1986).

²⁸ Document No. 9 of 2003.

²⁹ Document No. 10 of 2008.

³⁰ Id.

³¹ The 2002 Rural Land Contracting Law, art. 22.

³² Id., art. 23.

³³ The 2007 Property Law, art. 9.

³⁴ For an English language summary of survey results, please see <http://www.landesa.org/china-survey-6/>.

³⁵ Document No. 10 of 2008.

³⁶ Document No. 9 of 2003; Document No. 10 of 2008.

³⁷ The Central Committee Document no. 18 of 2001.

³⁸ Id., art. 33.

³⁹ Id., art. 35.

⁴⁰ Id., art. 61.

⁴¹ The State Council General Office "Urgent Notice on Properly Resolving Rural Land Contracting Disputes," April 30, 2004.

⁴² Id.

⁴³ The Third Plenary Session of the 17th Central Committee of the CPC Decisions on a Series of Key Issues Concerning Pushing Forward Rural Reform and Development. October 12, 2008.

⁴⁴ The Central Committee Document No. 1 of 2013.

⁴⁵ The State Forest Administration of China. Notice on Further Strengthening management of Transfers of Collective Forest Rights. Available at http://www.gov.cn/gzdt/2013-04/16/content_2378983.htm.

⁴⁶ The Supreme People's Court of the People's Republic of China. 2005. Interpretation of Applicable Laws When Reviewing Cases Concerning Rural Land Contracting Disputes.

⁴⁷ The Supreme People's Court of the People's Republic of China. 2008. Comments on Provision of Judicial Protection and Services for Pushing Forward Rural Reforms and Development. December 3, 2008.

⁴⁸ The 2002 Rural land Contracting Law, art. 32. The law uses different terms to refer to leasing of land rights to a person who resides within the same village as the lessor does and leasing of land rights to a person who lives outside of the lessor's village. If the transaction occurs when both parties are within the same rural community that has collective ownership to the subject land, that lease is referred to as "zhuanbao," which could be literally translated as "transfer the contract." In contrast, where the lessee lives outside of the community, the transaction is termed "chuzu," which is commonly translated as "lease."

⁴⁹ The 2007 Property Law, art. 144.

⁵⁰ The Third Plenary Session of the 17th Central Committee of the CPC. Decisions on a Series of Key Issues Concerning Pushing Forward Rural Reform and Development. October 12, 2008.

⁵¹ Document No. 10 of 2008.

⁵² The 2002 Rural Land Contracting Law, art. 33.

⁵³ *Id.*, art. 35.

⁵⁴ Document No. 10 of 2008.

⁵⁵ The 2002 Rural Land Contracting Law, art. 37.

⁵⁶ The 1999 Contract Law, art. 52 (1).

⁵⁷ The 1962 Sixty-Article Regulation, art. 40.

⁵⁸ The Central Committee and the State Council Document No. 9 of 2003; the Central Committee and the State Council Document No. 10 of 2008.

⁵⁹ Guangxi Zhuang Autonomous Region People's Government Implementing Measures on Fully Pushing Collective Forest Reform. Available at <http://sys67.gxcic.net:8080/show.asp?id=8546&sk=1>.

⁶⁰ Document No. 10, sec. 15.

⁶¹ The 1998 Land Management Law, art. 15; the 2002 Rural Land Contracting Law, art. 48.

⁶² *Id.*

⁶³ The 2002 Rural Land Contracting Law, art. 44.

⁶⁴ *Id.*, art 47.

⁶⁵ The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7 (issued on October 16, 2009), available at <http://www.forestry.gov.cn/ZhuantiAction.do?dispatch=content&id=205357&name=lqgg>.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ The Central Committee and the State Council Document No. 9 of 2003, widely viewed as the document launching the forest land reform, explicitly requires collective-managed forest land, if not contracted to villagers, to be converted into shares of stock to be allocated among all households in the village even if the land is not physically allocated. This clearly indicates the central recognition of individual property interest in collective-managed forest land. See The Central Committee and the State Council Decisions on Speeding Up Forest Development, sec. 13 (Document No. 9 of 2003).

⁷⁰ Local governments may have a position different from, or be completely at odds with, that of the central government in terms of corporate acquisition of rural land rights, and thus leave corporate investors an impression that such corporate acquisition is welcome in China. It is important to note, however, that different views seem to suggest different policy agendas between the central and local governments.

⁷¹ The Central Committee Document No. 18 of 2001.

⁷² See Chen Xiwen. 2010. Participation by Industrial and Commercial Interests in Agricultural Operation in Large Scale and for a Long Time Should not be Encouraged. Available at http://www.cs.com.cn/xwzx/03/201008/t20100809_2543590.htm. Chen Xiwen. 2013. Leasing Land from Farmers by Industrial and Commercial Interests in Large Scale and for a Long Time Should not be Encouraged. Available at <http://finance.sina.com.cn/nongye/nygd/20130305/071114718384.shtml>. Han Jun. 2011. We Cannot Let Companies Become the Main Force of Agricultural Operation. Available at <http://finance.qq.com/a/20111225/000719.htm>.

⁷³ The State Council. Urgent Notice on Properly Resolving Disputes Concerning Rural Land Contracting. Available at <http://www.law-lib.com/lawhtm/2004/83854.htm>.

⁷⁴ The State Council. Urgent Notice on Resolutely Banning Growing Trees on Basic Farmland. Available at <http://www.chinaacc.com/new/63/73/142/2006/7/zh263815483977600213725-0.htm>.

⁷⁵ The Central Committee of CPC Document No. 1 of 2013.

⁷⁶ The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7 (issued on October 16, 2009).

⁷⁷ *Id.*, sec. 9.

⁷⁸ *Id.*, sec. 10; the Central Committee of CPC Document No. 1 of 2013; the 2002 Rural Land Contracting Law, art. 33.

⁷⁹ The 2002 Rural Land Contracting Law, Chapter III; Document No. 10 of 2008, sec. 8.

⁸⁰ Document No. 10 of 2008, sec. 8.

⁸¹ The 2002 Rural Land Contracting Law, art. 33(5); The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7.

⁸² The 2002 Rural Land Contracting Law, art. 36.

⁸³ *Id.*, art. 37.

⁸⁴ The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7.

⁸⁵ Document No. 10 of 2008, sec. 15. The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7.

⁸⁶ The 2002 Rural Land Contracting Law, art. 48; Document No. 10 of 2008, sec. 15. Also see: The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7.

⁸⁷ The 2002 Rural Land Contracting Law, art. 44; the State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7.

⁸⁸ The 2007 State Forest Administration Notice on Strengthening and Regulating Registration and Certification of Forest Rights.

⁸⁹ The 2011 Guangxi Zhuang Autonomous Region People's Government Provisions Measures on Management of Transfers of Collective Forest Rights, art. 22.

⁹⁰ The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights.

⁹¹ *Id.*, sec. 12.

⁹² The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, Sec. 11 (issued on October 16, 2009). Available at http://www.jxly.gov.cn/lyzt/lqgg/lgzc/200912/t20091222_42202.htm.

⁹³ *Id.*, sec. 12.

⁹⁴ *Id.*, sec. 13.

⁹⁵ The Central Committee Document No 10 of 2008, sec. 8.

⁹⁶ The 2011 Guangxi Zhuang Autonomous Region People's Government Provisional Measures on Management of Transfers of Collective Forest Rights, art. 25.

⁹⁷ *Id.*

⁹⁸ The 2007 Property Law, art. 63.

⁹⁹ *Id.*, art. 54 (4).

¹⁰⁰ *Id.*, art. 61.

- ¹⁰¹ For field findings in 2006, see Li Ping and Zhu Keliang. 2007. Legal Review and Analysis of China's Forest Tenure System with an Emphasis on Collective Forest Tenure.
- ¹⁰² For field findings in 2009, see Li Ping and Robin Nielson, *supra* note 9.
- ¹⁰³ A state-owned company created by the Beihai Municipal Government in 2006 for the sole purpose of finding and acquiring forest land rights on behalf of Stora Enso. All collective forest land rights acquired by Stora Enso since 2006 were initially taken from farmers by BHC and subsequently handed over to Stora Enso. For a detailed discussion on the company's role and its land acquisition practice, see Li Ping and Robin Nielson, *supra* note 9.
- ¹⁰⁴ Termed "middlemen" in our 2010 report, these intermediary contractors acquired forest land rights from villages and subsequently signed a sublease contract with Stora Enso and transferred related forest land rights to Stora Enso.
- ¹⁰⁵ According to the Stora Enso officials, 47 percent of contracts were entered with BHC, 33 percent with private businesses who acquired forest land rights from villages and subsequently transferred the same land rights to Stora Enso, and less than 10 percent with villages.
- ¹⁰⁶ For details of the checklist, see Stora Enso Guangxi, Land Acquisition and Social Risk Management Manual (on file with Landesa)
- ¹⁰⁷ The 2009 campaign, which carried an acquisition target of 141,906 mu of collective forest land by June of 2009, was described in detail in a county forest bureau's report put on the Hepu government website. To fulfill the target, the county government invented a risk deposit mechanism, requiring the party secretary and the governor of each of all 14 townships in the county to put up a cash deposit. If any township fails to complete its quota assignment, the deposit made by both leaders of the township will be forfeited together with a yellow pad warning to be publicized in the county. If the quota is completed, the deposit will be returned together with a monetary reward. However, after our 2010 research was published, the report on the 2009 campaign was deleted from the website. The authors retain the original report.
- ¹⁰⁸ 1 mu in hectare = 0.06666667 ha.
- ¹⁰⁹ For details of Stora Enso's response, see "Social Land Contract case in Shuironggen VG (Dachong VC/Changle Town in Hepu) brought to SEGX's attention by lawyer Li Ping from Landesa/RR1" in the Appendix.
- ¹¹⁰ For details of the farmers' complaint, see "Report of fraudulent transfers" in Section III.b.iii of this paper.
- ¹¹¹ In his email to us dated June 3, 2013, a senior officer of Stora Enso stated that the company had not received any direct complaint from farmers and had not been aware of the complaint until we handed over to them the complaint documents.
- ¹¹² While it is true that farmers are not allowed to grow agricultural products on forest land, growing trees on farmland is also prohibited before the farmland is legally rezoned into forest land. See the State Council "Urgent Notice on Properly Resolving Disputes Concerning Rural Land Contracting." Available at <http://www.law-lib.com/lawhtml/2004/83854.htm>.
- ¹¹³ The Central Committee and the State Council Comments on Pushing Collective Forest Rights Reform at Full Scale, Document No. 10 (2008).
- ¹¹⁴ The State Forestry Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7 (issued on October 16, 2009), available at <http://www.forestry.gov.cn/ZhuantiAction.do?dispatch=content&id=205357&name=lqgg>.
- ¹¹⁵ The forest rights certificate, which is different from a land ownership certificate issued to the collective entity of the administrative village or villager group, is issued by the government to reaffirm a farmer household's use rights to collectively owned forest land and ownership of the trees standing on such land after it is allocated to the household, making the household the holder of use rights for the land.
- ¹¹⁶ <http://news.hexun.com/2012-10-22/147057251.html>
- ¹¹⁷ This is the only village we found in the Qinzhou Municipality where Stora Enso acquired collective forest land rights. In most villages we visited in Qinzhou, farmers reported the completion of the forest reform, suggesting that the Qinzhou government had been much more active in implementing the central policies on the collective forest reform.
- ¹¹⁸ The Chinese laws require that at least 1/3 of the villagers' representative assembly be female. See the 2010 Organic Law of the Villagers' Committee, art. 25.
- ¹¹⁹ International Finance Corporation. 2012. International Finance Corporation's Performance Standards on Social & Environmental Sustainability.
- ¹²⁰ *Id.*
- ¹²¹ Stora Enso. 2012. Global Responsibility Report. Helsinki, Finland: Stora Enso.

- ¹²² The only exception is a village committee chief we interviewed who acknowledged having that card. A possible explanation is that the card was issued to village leaders only.
- ¹²³ Even though Stora Enso denied the farmers' visit, we believe the visit did occur because the farmers told us the exact name of the building and the address where Stora Enso's Beihai headquarters are located.
- ¹²⁴ The 1962 Sixty Article Regulation, art 40.
- ¹²⁵ The 2007 Property Law, Chapter III.
- ¹²⁶ These explicit rules can be found in the central policies on collective forest reform, including but not limited to, the Central Committee and the State Council Document No. 9 of 2003 and the Central Committee and the State Council Document No. 10 of 2008.
- ¹²⁷ The 2008 Central Committee and the State Council Document No. 10.
- ¹²⁸ The title registration system, also called the Torrens system, is a land registration institution under which the competent government authority registers ownership of land and issues a land certificate of title to the owner of the land upon the registration. The certificate is legally defined as the conclusive evidence of the land ownership, thus creating a legal rule that a land right does not become legally valid until and unless it is registered and issued with a title certificate. Such a system is adopted in many countries, including Germany, Australia and some states/provinces of US and Canada.
- ¹²⁹ The 2002 Rural Land Contracting Law, art. 22.
- ¹³⁰ *Id.*, art. 23.
- ¹³¹ The 2007 Property Law, art. 9.
- ¹³² Document No. 10 of 2008 also follows this rule. In Section Eight, the Document requires allocation of collectively owned land to individual households and clarification of various types of property rights, including rights to private mountains. In Section Nine, the Document requires mapping, registration and certification of individual rights after the allocation and clarification.
- ¹³³ For details of the devices used in compelling farmers to give up their forest land for the benefit of Stora Enso, see Li Ping and Robin Nelson, *supra* note 9.
- ¹³⁴ UNDP. 2012. Stora Enso Guangxi Forest and Industrial Project: Summary Integrated Environmental and Social Impact Analysis Final Report. New York, US: United Nations Development Programme.
- ¹³⁵ In 2003, Stora Enso signed a contract with Guangxi Gaofeng Group entrusting that company to acquire collective forest land for Stora Enso. That company handed over to Stora Enso all contracts with rural collectives in 2005. See UNDP, *supra* note, 132.
- ¹³⁶ Agency is a relationship between two natural or legal persons, by agreement of otherwise, where one (the agent) may act on behalf of the other (the principal) and bind the principal by words and actions.
- ¹³⁷ The 1986 General Principles of Civil Law, art. 63.
- ¹³⁸ *Id.*, art. 67.
- ¹³⁹ The 2007 Property Law, art. 106.
- ¹⁴⁰ The Legislative Work Commission of the National People's Congress of China. Terminology of the Property Law.
- ¹⁴¹ The 2007 Property Law, art. 106.
- ¹⁴² Tuohinen, Petteri. 2009. Chinese farmers lose land to Stora Enso tree plantations. Available at <http://www.hs.fi/english/article/Chinese+farmers+lose+land+to+Stora+Enso+tree+plantations/1135245537698>; Eronen, Eeva and Miska Rantanen. 2009. Finnish Prime Minister wants investigation into claims of violence linked with Stora Enso activities in China. Available at <http://www.hs.fi/english/article/Finnish+Prime+Minister+wants+investigation+into+claims+of+violence+linked+with+Stora+Enso+activities+in+China/1135245537984>; Green Peace. 2006. Investigation Report on APP Hainan Project. Available at http://www.greenpeace.org/eastasia/publications/reports/forests/2005/APP_Hainan_Project/.
- ¹⁴³ The State Forest Administration Comments on Effectively Strengthening Management of Transfers of Collective Forest land Rights, sec. 7 (issued on October 16, 2009). Available at <http://www.forestry.gov.cn/ZhuantiAction.do?dispatch=content&id=205357&name=lqgg>.

¹⁴⁴ The 2011 Guangxi Zhuang Autonomous Region People's Government Provisions Measures on Management of Transfers of Collective Forest Rights, art. 22.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*, art 12.

¹⁴⁷ Although we do not know for sure if or how many of these 12 villages have gone through the contract screening and correction, we believe at least some did because many of them were recommended to us for interviewing by the Stora Enso officials.

¹⁴⁸ See *supra* notes 107 and 140.

¹⁴⁹ See Stora Enso, *supra* note 120.

¹⁵⁰ <http://cpc.people.com.cn/GB/66888/77791/18013705.html>.

¹⁵¹ Authors' phone interview with an international certification organization, dated June 26, 2013.

¹⁵² Fengtai County of Anhui Province: Village Cadres Act as Real Property Developers. May 28, 2007. Available at <http://ah.people.com.cn/GB/channel2/16/200705/28/82009.html>; Beijing Times. The Illegal Construction of Villas in Qinglongtou Village of Beijing City Once as a New Socialist Countryside Project. April 27, 2007; Jiangnan Times. Why Relevant Authorities Turn a Blind Eye to 'Yicheng's Problems. June 23, 2007.

¹⁵³ In our previous fieldwork across China, we found such a publicity pamphlet on rural tax reforms, printed on durable paper, which proved to be extremely useful for farmers in understanding their rights under the tax reform and the way to communicate with local government with respect to local implementation of the central policy on the tax reform.

Leasing forest land in Guangxi – Stora Enso's view (January 29, 2014)

This is Stora Enso's response to the report by the Rights and Resources Initiative (RRI) and Landesa entitled "Forest Land Acquisition by Stora Enso in South China: Status, Issues and Recommendations".

At Stora Enso, we would like to thank RRI and Landesa for the report, as well as for involving us in the report preparation process from an early stage. Our co-operation with RRI and Landesa goes beyond this report. We have been receiving development ideas and recommendations from RRI since 2006, following its research work on land rights and participating in stakeholder dialogues.

We were also pleased to support Landesa in its field study, and to have had the opportunity to meet Mr Li Ping and Ms Wang Xiao Pei of Landesa in Hepu, Guangxi, in February 2013 to hear their reflections and findings of the field research.

Overall, we regard the dialogue we have had with Landesa and RRI as constructive and valuable. In many ways, it supports our responsibility strategy in Guangxi, as well as our vision for the future.

We have also had the opportunity to comment on the report draft, and while doing so we have taken the liberty of correcting some factual errors and misunderstandings in it. To some extent, these factual errors have resulted in analysis with which we do not agree. These issues are discussed in this response.

Stora Enso's investment in Guangxi – Current status

Today, Stora Enso operates on 90 200 hectares of FSC Forest Management certified plantations in Guangxi, of which 85 200 hectares are also certified according to CFCC (Chinese Forest Certification Council, the first forest certification standard in China). These plantations make up 4.5% of all the tree plantations in Guangxi.

The 90 200 hectares comprise both state land and social land that Stora Enso has leased. The social forest land, in total 32 990 hectares, consists of land mainly leased from village collectives and by households, and also includes limited areas owned by local state-owned farms; 22 864 hectares (342 960 mu) of the social land are located in Beihai municipality. Stora Enso has not purchased or acquired land in Guangxi. All land is leased, with collective social land lease periods ranging from 7 to 30 years.

The purpose of the plantations is to provide eucalyptus pulpwood for an industrial facility that Stora Enso is constructing in Guangxi. In March 2012 Stora Enso announced it would invest, together with a local partner, in an integrated pulp and paperboard production facility. Initially, we aimed at constructing an integrated pulp and consumer board¹ mill in one go. In July 2013 Stora Enso announced that the project would be implemented in two phases. Stora Enso has revised the investment schedule and will start by building a consumer board machine scheduled to be operational in the beginning of 2016. Construction of the previously announced pulp mill will be started after the board machine has been completed.

Together with the new construction schedule, Stora Enso also announced, "We will not be leasing new collective or household land for eucalyptus plantations before we have solved the existing challenges concerning land leasing."

¹ Stora Enso's **Consumer Board** product range covers all major board categories and end-uses such as liquid packaging boards, cigarette boards, graphical boards and general packaging boards for packaging cosmetics and luxury products, chocolate and confectionery, pharmaceuticals and food.

At this stage, however, we would like to correct one basic misunderstanding: contrary to the report, Stora Enso has no obligation to lease more collective forest land; additional land is not a prerequisite for the industrial operations to start.

All in all, responsible land leasing is a top priority for Stora Enso in Guangxi. Over the years, we have faced a number of challenges and definitely striven to learn from our mistakes. As stated in the report, Stora Enso had already identified faults in some of the social land contracts in 2009. Since that time, Stora Enso has been conducting a land lease contract screening process and has initiated a contract correction process. In 2010 Stora Enso publicly stated that it is committed to correcting the faults in the existing social land lease contracts. The correction work is complex and time consuming, but it is progressing well. As of today, 35% of the contracts with irregularities have been corrected.

We believe that our social engagement approach today shows much more maturity and observes much better than earlier the concerns and aspirations of rural communities, households and individual people. But we agree that there are still areas for improvement. The interventions of RRI / Landesa are a welcome input to this work.

Forest land reform and land use rights in Guangxi

The report discusses at length the land reform process in China. We would like to make it very clear that Stora Enso supports the land reform and has supported relevant government agencies in implementing land reform policies, for example by providing technical support (maps of land borders, contract copies etc.). It is not in Stora Enso's interest to stand in the way of the land reform process in any way. We wish to note at the same time that the land reform as such does not change the right of Stora Enso to continue the existing social land lease agreement, as stated on page 16 of the report.

Stora Enso does, however, fully recognise its obligation not only to correct the defects in the social land contracts, but also ensure that the rent is fair and that it is being paid to the original lessor or land in cases where the land is leased through a chain of intermediaries.

The report makes references to farmer interviews and findings of fraudulent land transfers and legally questionable transfers. As we do not know the names of the villages and exact cases discussed in the report, we can only refer to the allegations related to Dachong village. Please find our report of the Dachong village case as an annex to this response.

There are situations where use rights of collectively owned forest land are allocated to one or several households within the village collective. As an example, the term Reserved Mountain originates from regulations made in 1962, in which it is required that certain uncultivated or firewood mountains be allocated to commune members (later on being named households of village collective) for long-term use. Although the regulations made in 1962 have long been ineffective, resulting in no more Reserved Mountains being created, their legacy (i.e. the existence of Reserved Mountain) was recognised in a 1980 State Council decision and confirmed in Document 10 of 2008, which prohibits the Reserved Mountain from being taken back by the village collective or arbitrarily adjusted.

We fully agree with the report on the special household land use rights related to private reserved mountains. Operating under the fact that household land use rights are easily undocumented, which creates potential for disagreements among different stakeholders in the forest, Stora Enso understands and

respects the individual forest land rights and they form a part of our legal screening criteria and also our correction process. We strongly disagree with the statement that our organisation does not possess the necessary understanding of Chinese law. On the contrary, we believe that Stora Enso operates as a leading forestry company in southern China, especially in developing legal and down-to-earth practices to identify, address and respect individual forest land rights.

If there are allegations of contract screening errors, especially in cases where a household claims its individual rights in a collective land contract, we will investigate them and take actions following laws and regulations.

Key elements of our land leasing and contract correction

Informed Consultation and Participation process is the starting point for all our land leasing in Guangxi. We take it into account in our land lease contract screening and enforce it in our contract correction. Our contract correction process includes a desktop exercise, field investigations, legal and operational analysis, stakeholder consultations, review of documentation and missing documentation, as well as a final contract agreement with the village or contract termination.

The report refers to lack of farmers' participation in Stora Enso's contract correction. Each village that Stora Enso is contracting land from has been visited and consulted about the contract directly at least once – this being the very minimum – but usually twice or three times, and in some cases over ten times. Currently, Stora Enso has issued around 2 800 written contract investigation reports for initial legal screening and contract improvements and correction, summarising information about the village, date of investigation, people met and interviewed, main findings and proposals for corrective actions. At the initial contract screening visit in each village, we typically interview 7-8 people including village leaders and farmers, and the information collected from these interviews is documented.

Stora Enso is working to reduce intermediaries from the land lease chains and negotiate the land lease contracts directly with villagers. In cases of irreconcilable conflicts, we are prepared to return the land.

In addition to these consultations, our field staff and social engagement specialists talk with the farmers as a part of our everyday forestry operations. These discussions involve informing the farmers about Stora Enso's operations, and asking for their concerns or suggestions. Stora Enso's specialists are trained to receive grievances even in cases where the village is not in a contractual relationship with the company. The report refers to a case where Stora Enso employees have redirected farmers to the township government to submit their grievances – this is difficult for us to verify without knowing the village the report refers to, but it is absolutely not the way grievances are dealt with by Stora Enso. Our grievance channel is open to all complaints, regardless of the contractual relationship between Stora Enso and the farmer or village.

The current remaining lease period is on average 15 years. According to the report, the farmers expressed the wish that Stora Enso would periodically adjust the rents in response to market price. Stora Enso is doing this already – we adjust the rents every five years. The rental increase is based on the CPI increase for the past period. We are also working on cascading down the rental increase to the original contract to benefit the farmers.

The report states that Stora Enso is prohibiting development of non-timber products on the lands it manages. This is a misunderstanding we would like to correct. Stora Enso actively promotes the integration of plantations with other land uses and has been active in developing agroforestry models in different parts of the world, including Guangxi. Multiple use of plantation land is a crucial part of Stora Enso's operations in for example Uruguay, where over 100 000 ha of plantations are used for cattle grazing, and in Laos, where eucalyptus is intercropped with upland rice (read more about these initiatives in Stora Enso's 2012 Global Responsibility Report: www.storaenso.com/annualreports). In Guangxi, we have been both allowing and actively supporting chicken farms in plantation areas and investigating other agroforestry systems. There are currently more than one hundred chicken farms in our plantation area. (Read more about our support for chicken farmers in our Rethink Annual Report 2012: www.storaenso.com/annualreports)

The report criticises Stora Enso's current contract screening criteria. Specific shortcomings include the following:

1. *Screening criteria do not take into account the individual forestland rights.* We disagree with this statement, as individual forestland rights are clearly included the screening criteria.
2. *Compulsory or forced transactions not adequately addressed.* Our contract screening criteria *do* include forced or fake contracts, and on top of these standard criteria we investigate claims or complaints related to coercive land leasing.
3. *Women's land rights are not addressed.* We agree with this finding and will start looking into how to include this in the screening criteria in a meaningful way.
4. *Farmers do not always receive the due compensation and this is not checked.* We disagree with this, this item is included in our screening criteria.

Even if our criteria for the screening and contract correction process fully comply with the requirements described by RRI (except for the issue of Women's land rights), we understand that we need to expand and clarify our document to fully capture our actions taken in practice. We want our contract screening process to be absolutely clear to external stakeholders, too.

We would also like to point out that Stora Enso actively encourages farmers to resolve their disputes with intermediaries and forest farms, and supports them in these efforts.

We would also like to point out that Stora Enso actively facilitates resolution of farmers' internal disputes as well as problems with intermediaries and local government, Stora Enso's support may include advice to farmers on their legal rights.

Stora Enso's land leasing and the role of Beihai Company

As stated in the report, Beihai City Investment Co., Ltd (hereafter BHC) was founded in 2006 to support the development of the fibre base for the Stora Enso integrated pulp and paperboard project. Since the fibre base stopped increasing already in 2009, the role of BHC has changed. Today the co-operation between

Stora Enso and BHC is focused on BHC supporting the ongoing contract correction process, for example by providing documents, facilitating meetings with intermediaries and participating in litigations.

From a Chinese law and contractual perspective, the old agreement to support the development of the fibre base executed between Beihai Company and Stora Enso does not create any agency relationship between the parties. From legal point of view, Beihai Company did not act as an agent for Stora Enso, contrary to the statement in the report.

We would like to make it clear that contrary to the RRI report, Stora Enso has never been offered 270 000 mu of land in addition to the land now contracted. There was an old commitment from the Beihai government stating a target for the total size of land, but it was never close to being fulfilled. During the period from 2006 to 2009, some 97 000 mu (485 contracts) of social land was offered by BHC to Stora Enso, but it was rejected as the land did not meet our requirements on the legality of the original contract. Based on our investigations, less than 11 000 mu out of these 97 000 mu is still controlled by BHC. We are investigating the status of these 11 000 mu, and will support BHC in returning these lands to the original lessor.

In the agreement, BHC warranted that forest land that was to be transferred to Stora Enso was free and clear of any defect or dispute, and that BHC had the full right to lease or transfer lease contract to Stora Enso. In the old agreements Stora Enso had the right to refuse to accept such forestland. Stora Enso is not obligated to the offered forestland where a dispute or security interests exist in relation to the use right.

Our position on out-grower schemes

The report discusses the out-grower approach to fibre sourcing under the field research findings as well as in recommendations. The statement that Stora Enso has dropped the idea of introducing out-grower schemes into its wood supply must have been based on an unfortunate misunderstanding. We regard out-grower systems as a potential complementary source of wood, and we are currently investigating and testing different alternatives to develop out-grower systems in Guangxi. (Note that out-grower models form an integral part of the wood supply in other Stora Enso plantations. In Veracel, Brazil, close to 20% of the total wood supply currently comes from out-growers.)

We would nevertheless like to clarify that out-grower schemes are unlikely to become the *main source* of our wood supply in Guangxi. First of all, the existing plantation base can meet much of the needs of the mill. Secondly, and most importantly, there already is a very active and functioning wood market in Guangxi – a great number of farmers grow wood and sell it to a multitude of wood-processing industries, the annual volume of eucalyptus harvested in Guangxi being around 15 million m³.

Out-grower schemes are only one form of company-community partnership. Ultimately, Stora Enso is in Guangxi to help create a dynamic forest cluster, which means going beyond out-grower schemes. Our aim is to promote sustainable forestry in the region and create shared value throughout the value chain. To do this, we will not focus on only one solution, but will look for many different business models to create shared value.

Grievance Mechanism and Dispute Resolution

The report finds room for improvement in Stora Enso's grievance mechanism. We agree with this finding. Stora Enso has been working on improving the grievance mechanism and our communication of it to the people affected by our operations.

We have been working to develop a system to collect grievances and other communications since 2005. We understand that the current system does not result in sufficient communication.

We have implemented several steps in the existing system to increase the number of communications we receive. We have held information days in villages, we have distributed cards and we have prepared banners. While we continue developing a better system, we will also continue developing better ways to inform villagers, and other segments of society, of its existence.

Finally, and most importantly, we realise that any functional grievance mechanism and communication channel must start with confidence among the villagers that we are a reliable partner. We work to build and maintain that trust on a daily basis. We are evaluating the measurement systems that will allow us to effectively evaluate that progress.

We have an effective conflict resolution mechanism in place, documented and audited by FSC. However, even here we find room for improvement, especially in training and educating staff.

As a part of our dispute resolution we analyse the source, type and reason of the dispute, and follow a strict non-violence policy throughout the process. All grievances and disputes are documented and brought to the attention of Stora Enso Guangxi's management. Action is taken based on the type of grievance or dispute.

Gender and forestland rights

The report discusses women's forest land rights and the issue of women not always being informed of their collective forestland rights or consulted in decision-making. We acknowledge this issue in Guangxi overall, and understand our role as a company in enhancing gender sensitivity in land leasing.

Stora Enso is committed to the United Nations Global Compact and its ten principles, as well as to internationally proclaimed human rights. Gender equality also forms a part of our Code of Conduct – Stora Enso's ethical rules that are applied everywhere we operate.

Currently gender is not included in our land leasing criteria, but we are looking into ways of including it there, as well as other means of ensuring women's rights in land leasing. As previously mentioned, we have expanded the gender diversity of our sustainability team. This will enhance our ability to gather input from women in the communities where we operate. We will continue to expand our focus on taking action to empower women to address their concerns, grievances and suggestions directly to Stora Enso.

Stora Enso is also developing more inclusive social engagement models together with Guangxi University. Guangxi University has carried out field studies in Stora Enso's operational areas and come up with suggestions for more participatory community engagement. In these models women are always to be consulted and informed about issues related to their land use rights or generally Stora Enso's operations in the area in order to improve understanding of gender-specific concerns and needs.

Review of the recommendations

The report sets out a list of recommendations for Stora Enso, for which we would like to thank Landesa and RRI. We have looked into the recommendations and would like to comment briefly on them.

a. Design and implement a more pro-farmer contract screening and correction process

We agree with all the four parts of this recommendation – however the first part of the recommendation (examining individual land rights), third part of the recommendation (checking and recording farmers' receipt of compensation) and fourth part (farmers' participation in the contract correction process) we are already doing.

The second recommendation of including gender aspect in the screening we are looking into and plan to implement. The fourth recommendation on farmers' more active participation is something where we find room for improvement and take the field study findings of this report very seriously.

b. Strictly follow laws and the central policies in future land acquisition

If Stora Enso decides to lease more forestland in Guangxi, it will do so by fully respecting prevailing laws and regulations, as well as sustainable forest and land management.

c. Explore the out-grower approach as an alternative to land acquisition

Stora Enso is already developing and testing out-grower schemes as a social engagement tool and as a complementary source of wood supply.

d. Make payment of rent directly to individual households

Stora Enso is already making payments to individual households whenever an individual household is a direct contract party. Stora Enso is also making an effort to ensure that the payment reaches the individual household that is the original land use right holder in a contract chain.

e. Further improve the grievance mechanism to effectively address farmers' concerns

The first part of the recommendation about increasing farmers' awareness of the grievance channel hotline is rather clear to us and we are taking action to promote and advertise the hotline more effectively.

The second part of the recommendation we are to some extent already doing as we support villagers in raising legal claims. The idea of organising review meetings about grievances is a good suggestion for the future.

The third recommendation about informing farmers about their land rights under the law is a part of our local stakeholder communications but to do it for a larger audience as proposed is something we will look into and possibly co-operate with relevant stakeholders.

The last, fourth part of the recommendation, which encourages us to train our staff on farmers' forest land rights, is something we fully agree on and will implement.



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