

PROCEEDINGS

Expert Consultation on

Trade and Sustainable Forest Management – Impacts and Interactions

Rome, 3 – 5 February 2003

ADVANCE COPY

Global Project: Impact Assessment of Forest Products Trade in the
Promotion of Sustainable Forest Management (GCP/INT/775/JPN)

Forest Products Division
Forestry Department
Food and Agriculture Organization of the United Nations



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1. Introductory Speech

By Mr Wulf Killmann, Director, Forest Products Division, FAO

Distinguished Guests, ladies and gentlemen, dear colleagues,

On behalf of Mr. Hosny El-Lakany, the Assistant Director General, and Head of the Forestry Department of the Food and Agriculture Organization of the United Nations, I welcome you to Rome, to FAO, and to the International Expert Consultation "Trade and Sustainable Forest Management – Impacts and Interactions". Unfortunately Mr. El-Lakany cannot be with us today, and I will therefore speak on his behalf.

It is a pleasure to have you with us - participants from government institutions, the private sector and their associations, NGOs and the research community to discuss and exchange views on this important topic.

FAO's mission in Forestry is to enhance human well-being by supporting member countries in the sustainable management of the world's trees and forests. We try to achieve this in close cooperation with other international organizations, NGOs and the private sector. One instrument we use is the provision and facilitation of neutral fora, where different stakeholders can freely exchange their views on forestry issues - Fora such as this one.

The UNCED Forest Principles aim is to promote better management and conservation, as well as sustainable development, of all types of forests. During the past ten years, the Agenda for Sustainable Development and the Poverty Reduction Strategies have been added.

In this context we have to ask ourselves whether economic growth through trade should be the only engine for meeting the UNCED goal.

We certainly need multi-perspective frameworks to accommodate diverging views and interests. The challenge is to balance trade with social and environmental aspects. These complex issues, as well as the increasing reliance on market-oriented approaches and the private sector, induce us to take a new look at governance, and in particular at

- the establishment of conducive and coherent policies and legislation;
- the steering of processes for public participation;
- the re-organisation of institutions; and
- a new definition of the roles and tasks of governments and civil society.

International and regional financing institutions, bilateral donor agencies and international NGOs support efforts to strengthen decision-making and overall governance at national levels, as well as to build capacity for participation in international debates. These include the implementation of the Doha Declaration of member states of the World Trade Organisation and the debates in the framework of the Committee for Trade and Environment of WTO.

Ladies and Gentlemen, we all know that the sustainability of forests is influenced by social, environmental and economic factors - but what do we know about the role of trade?

To take a closer look at the complexity of interaction and impact between Trade and Forest Management, the Project entitled "Impact Assessment of Forest Products Trade in the Promotion of Sustainable Forest Management" was set up.

Generously supported by the Japanese Government, this project enables FAO to provide information, analysis and a platform for discussion. Its implementation is guided by a Project Advisory Group consisting of eminent members of the international community. They are well-versed in issues related to forests and forest products trade.

This expert consultation is part of that Project and was prepared jointly by FAO and the International Institute for Environment and Development.

What is the objective of this meeting?

We want to contribute to a better understanding of how current trends in trade policy and market development will impact on and interact with forest management.

We do not seek to find consensus, but rather to reflect on diverging views and to identify potential for fruitful future collaboration.

As a result of this meeting, we expect to have some answers to two questions:

What are the impacts of more sustainable management of forests on trade patterns and market shares for forest products?

How can the trade of forest products contribute towards more sustainable management of forests?

Today's plenary presentations and tomorrow's working groups will address topics such as policies, agreements on multilateral trade and environment, governance, cross-sectoral influences and emerging markets for environmental services.

Issues emerging during this consultation will be further explored and analysed during the implementation of the Project. FAO will publish the results of this process on trade in forest products and sustainable forest management later on this year.

Moreover, the outcome of this consultation will guide future activities carried out by FAO and its collaborators.

We sincerely hope that our joint efforts will facilitate the discussion on how to address environmental and social concerns in trade negotiations at all levels.

I would like to put on record our thanks to the Japanese Government for making this meeting possible. I also want to acknowledge the work of our IIED colleagues and their collaborators from international institutions and national organisations, as well as that of the members of the project advisory group

Dear colleagues, please be reminded that you have been invited in your personal professional capacity.

Again, I welcome you on behalf of FAO and wish you success in an open and constructive dialogue on an interesting topic – the impacts and interactions between trade and sustainable forest management.

Thank you for your attention.¹

¹ The expert consultation was covered by the Earth Negotiation Bulletin (ENB) of the International Institute for Sustainable Development (IISD). Their report is available online.

2. Co-Chairs' Summary²

The expert consultation entitled “Trade and Sustainable Forest Management – Impacts and Interactions” was organized by the Food and Agriculture Organization (FAO) of the United Nations and was held at FAO Headquarters in Rome from 3 – 5 February 2003. Seventy three experts from governmental institutions, the private sector, NGOs and the research community from 26 countries came together in their personal capacity.

The objective of the expert consultation was to contribute to a common understanding on how current developments in trade policies and their implementation impacts on sustainable forest management and how efforts in sustainable forest management are changing trade patterns. In order to achieve the objective, participants approached the topic in a comprehensive way based on an analysis of a broad variety of issues. The meeting was not expected to come to agreed results, but was rather aimed at providing a forum to discuss issues related to trade and SFM in an open and informal manner.

Presentations and discussions in plenary during the first day included³:

- current debates on trade and forest management
- global trends in trade in forest products
- public policies as well as private sector and NGO initiatives
- trade restrictions and trade agreements
- links between trade, finance and industrial structure
- links between governance and trade in forest products
- cross-sectoral policy impacts
- trade policy and patterns of forest land-use
- new markets for environmental services

Four working groups convened during the second day of the consultation and discussed key issues. The plenary and the working groups provided a forum to exchange ideas and to analyse trends and developments in further detail without necessarily aiming to reach consensus on the subjects discussed. The preliminary outputs of these working groups were presented and discussed in plenary on the third day.

The **first working group on “Trade Measures and Policies”** exchanged views on how to put in place more comprehensive policies that might foster sustainable forest management. The working group considered policies with both direct and indirect linkages to trade, such as poverty reduction, environmental services, public procurement and others. Trade-related instruments and mechanisms such as certification as a market-based instrument and their inherent social, and environmental standards, were discussed.

² Co-Chairs of the expert consultation were Mr Amha bin Buang, Assistant Director, Economic Information and Market Intelligence, International Tropical Timber Organization (ITTO) and Mr Wulf Killmann, Director, Forest Products Division, FAO.

³ The items are not listed in order of priority.

The working group then sought to identify the more important linkages between trade and forest-related policy processes at different levels. Improved information sharing between trade and forest policy processes was identified as one important area, as well as increased transparency and a better common understanding of the issues at stake. It was noted that trade agreements, such as WTO rules, recognise the principle of sustainable development, but clarification of the role of such provisions for SFM was felt to be needed. The definition of the term "trade restrictions" varied considerably and their justification, also with regard to the local community level was left open for further discussion. In the discussions on the current development of bilateral agreements to address illegal logging and timber trade, its interrelation with national sovereignty in forest management, conservation and development was also considered. The group concluded that a wide range of issues needs further consideration and that the potential of trade and related agreements for SFM continues to be an important, but controversial topic.

The **second working group on "trade, finance and industrial structure"** assessed current trends in the consolidation of resource ownership, processing facilities, distribution networks and consumer groups for different sub-sectors of the forest industries. Pulp and paper, solid wood and timberland investment companies in boreal, temperate, tropical and subtropical regions were the subject of discussion.

The view that the tropical solid wood sub-sector faced more severe challenges in terms of its economic competitiveness, social acceptability and ecological sustainability was discussed. The fragmented industrial structure and varied ownership patterns of this sub-sector were taken by some participants to be indicative of the current state of forest management, but not substantially responsible for the difficulties faced in enhancing sustainable management in the sector. Some causal factors were also addressed, such as the lack of profitability of the sector, due to ecological characteristics, price competition from 'illegal' timber sources and substitute materials, and the high risk associated with political and insecurity of tenure, compounded by inadequate insurance provision.

With a view to strengthening the potential for sustainable forest management, the group discussed the current emphasis on capturing a greater spectrum of forest values through markets for environmental services, and the continued efforts by companies to improve industrial efficiency through technological investment. The need for stakeholders to meet to discuss and facilitate financing for natural forest management in the tropics was highlighted by various participants.

It was debated whether or not the current adversarial relationship between the private sector and some major international NGOs needed to be overcome to make way for a more constructive dialogue. It was further suggested that concerted efforts should be made to improve public relations and promote the renewable nature of wood in comparison with competing substitutes.

The **third working group on "Governance and Trade"** decided to concentrate on two general contexts: (i) 'production for export' context - based primarily on the group's Latin America and West-Central Africa case experience; and (ii) 'consumption of imports' context – based primarily on the group's European case experience.

The group discussed the interactions between forest products trade and governance which were viewed as critically dependant, but also as often indirect, diffuse and/or weak. The impacts of agricultural and oil trade were considered to be often greater than those of forest product trade. It was felt that improved research and analysis, as well as monitoring, should go hand in hand with institutional strengthening and improved internal regulations. Decentralisation and the way in which policies are established were discussed, including regulations on foreign direct investment. Some participants felt that further trade liberalization should not be promoted without prior establishment of an effective regulatory regime at the national level.

Policy actions, institutional reforms and their implementation in situations where trade and governance are not mutually supportive might cause displaced impacts which could be hard to predict and may prejudice one group against another. It was proposed that trade agreements and major trade policies changes could possibly be preceded by a sustainability impact assessment. Some participants were of the view that national forest policy processes, such as NFPs could assist in overcoming problems in governance, trade-SFM relationships and, in particular, land ownership and access to the resource. Some participants also suggested that some fundamental principles for actions shaping trade in support of improved forest governance should be identified like transparency, inclusive participation in decision-making processes and public debate

The **fourth working group on "extra-sectoral influences and the environment"** analysed the impact of major extra-sectoral influences on SFM and trade in forest products and discussed the potential of environmental forest services in international trade.

Relevant sectors influencing forest activities such as agriculture, finance and investment, technology, demand in forest products and infrastructure have been identified and discussed. The analysis of these influences has shown that they affect the forest sector as a whole rather than being specific to trade in forest products. General trends are difficult to assess and need to be addressed in their specific context. Cross-sectoral linkages hinder the identification of key opportunities and limitations for SFM. Further research is needed in order to verify how the direct influences identified affect trade in forest products and services.

Key forest services potentially tradable on the international level are watershed protection, carbon sequestration/storage, biodiversity and recreation. At the local and national levels also other forest services can be important and could be valued to support sustainable forest management. Most of these services could and should complement the production of and trade in wood and non-wood forest products in the context of an integrated production system on a landscape/ecosystem level.

The **plenary discussion of these issues** following their presentation on the third day resulted in a rich debate amongst the diverse range of participants, revealing diverging views and different ideas. While the meeting had deliberately not sought to come to a consensus on these sensitive topics, there was considerable interest in some of the promising ways forward identified by the working groups. The encouraging interchange achieved in the working groups underlines the importance of an enhanced dialogue amongst constituencies to continue to inform and shape the debate on trade in forest products and services in the promotion of sustainable forest management. The plenary discussions indicated that there is some interest in international policy processes relating to forest products trade and those on SFM being receptive to take up the findings of this expert consultation.

Continuing to build on research findings of the recent past and extending the process of meaningful engagement with the many actors and their institutions will foster the common understanding on the impacts and interactions between forest products trade and sustainable forest management.

The outcome of the expert consultation portrayed the wide range of issues and views discussed and presented during the consultation. However, considerable research, monitoring and debate between interest groups and constituencies need to be undertaken. This expert consultation showed the constructive and positive spirit of communication and cooperation on a sensitive topic.

3. Annex

3.1 Agenda

Monday, 3 February

- 8:00** Registration (Entrance FAO Building A)
- 9:00** Opening by Wulf Killmann, Director Forest Products Division
- 9:15** Key Note Address by Wulf Killmann on behalf of Hosny El-Lakany, ADG, Forestry Department
- 9:45** Organization and logistics
- Election of Co-Chairs
 - Adoption of Agenda
 - Conduct of the Expert Consultation
- 10:00** Coffee break
- 10:30** Presentations and discussions in plenary:
- Current Debate on Trade and Forest Management
(Duncan MacQueen)
 - Global Trends in Trade of Forest Products and Services
(James MacGregor)
 - Public Policies and Private Sector/NGO Engagement
(James Mayers)
 - Trade Agreements and Trade Restrictions
(James Bourke)
- 12:30** Lunch Break
- 14:30** Presentations and Discussions in Plenary (continued)
- Links between Trade, Finance and Industrial Structure
(Maryanne Grieg-Gran)
 - Links between Governance and Trade in Forest Products
and Services
(Michael Richards)
- 15:30** Coffee Break

16:00 Presentations and Discussions in Plenary (continued)

Cross-sectoral Policy Impacts between Forestry and other Sectors - An Agenda for Action (Yves Dubé)

Extra-Sectoral Influences on Trade in Forest Products and Services (William Hyde)

Impact of New Markets for Environmental Services on Trade in Forest Products and Services (Christian Mersmann)

17:15 Identification of Key Issues for Deliberation

17:45 Organization of Working Groups

18:00 Closing of the Day

19:00 Reception hosted by FAO (Indonesia Room, FAO Building B, 8th Floor)

Tuesday, 4 February 2003

9:00 Working Groups (full day with moderation)

1. Trade Measures and Policies
2. Trade, Finance and Industrial Structure
3. Governance and Trade
4. Extra-Sectoral Influences and the Environment

Wednesday, 5 February 2003

9:00 Presentation of Working Group Results and Discussion

10:30 Coffee Break

11:00 Plenary Discussion on Issues arising from the Debate

12:00 Chairperson's Summary of the expert consultation and discussion

13:00 Closing of the Expert Consultation

3.2 Presentations (Plenary)

CURRENT DEBATE ON TRADE AND FOREST MANAGEMENT (DUNCAN MACQUEEN)



Current debates on trade and sustainable forest management



Duncan Macqueen
duncan.macqueen@iied.org

“If we don’t change direction soon, we’ll end up where we’re going”
Irwin Corey



iied
International Institute for
Environment and
Development



Basic differences between forests and other production systems

- › Forests grow slowly (risk + social and environmental sensitivity ↑)
- › Forests are land extensive (stakeholder interactions ↑)
- › Forests supply environmental services & subsistence (objection to timber production ↑)
- › Plantations less problematic




Many different benefits from Sustainable Forest Management

<i>Framework for assessing trade impacts on SFM</i>	Financial benefits	Social benefits	Environmental benefits
Local benefits at stand management level			
National benefits through mosaic of forest land use			
International benefits to the global community			

Many different forest trade perspectives on values and facts

- › Spectrum of opinion from trade negotiators to forest dwellers...
- › ...based on legitimate value differences.
- › Degree of influence on forest trade varies
- › Processes to manage trade-offs are rarely adequate at any level



Some of the main forest trade debates (i)



- 1. Invisible hand or Achilles heel?
- 2. Rising returns or deteriorating terms?
- 3. The golden straight jacket?

Some of the main forest trade debates (ii)



- 4. Rise to integrity or slide to corruption?
- 5. Wealth first or society and environment first
- 6. Steady hand or growing instability?

Some conclusions for handling forest trade debates

- › Impacts \equiv values of actors
- › A priori theory \neq contextual reality
- › To resolve conflicts, be explicit about values and trade offs...
- › and serious about process.



Some issues to contemplate

- › How can value-based trade debates best be resolved?
- › How can historic inequality be overcome through trade policies?
- › How can a balance between local, national and international needs for SFM be realized?
- › Must every forest product and service be sustained in every forest area?



**GLOBAL TRENDS IN TRADE OF FOREST PRODUCTS AND SERVICES
(JAMES MACGREGOR)**

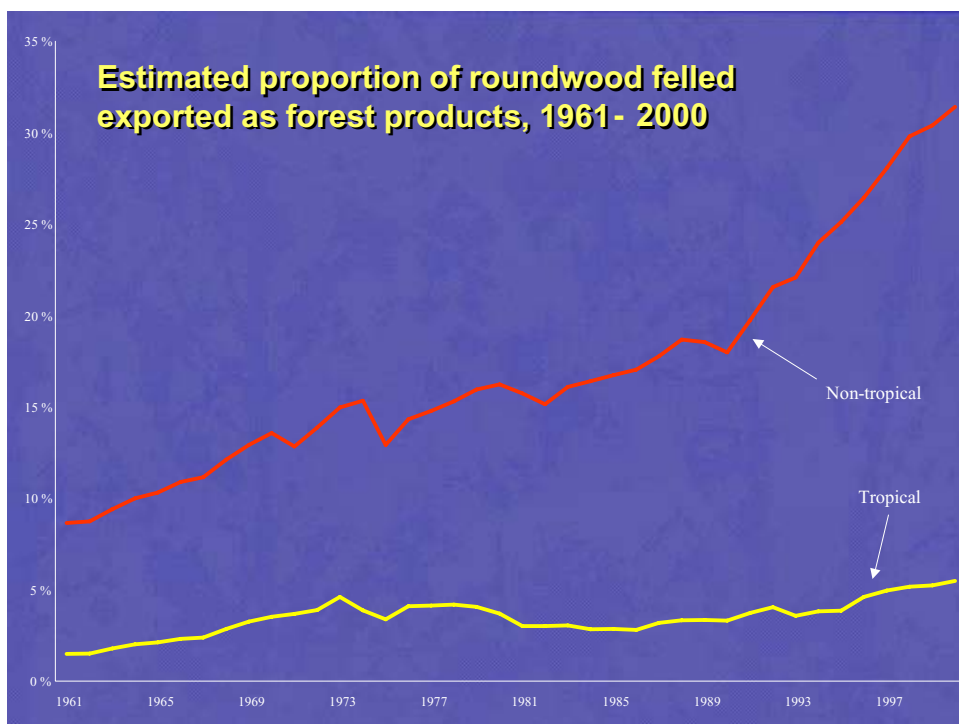
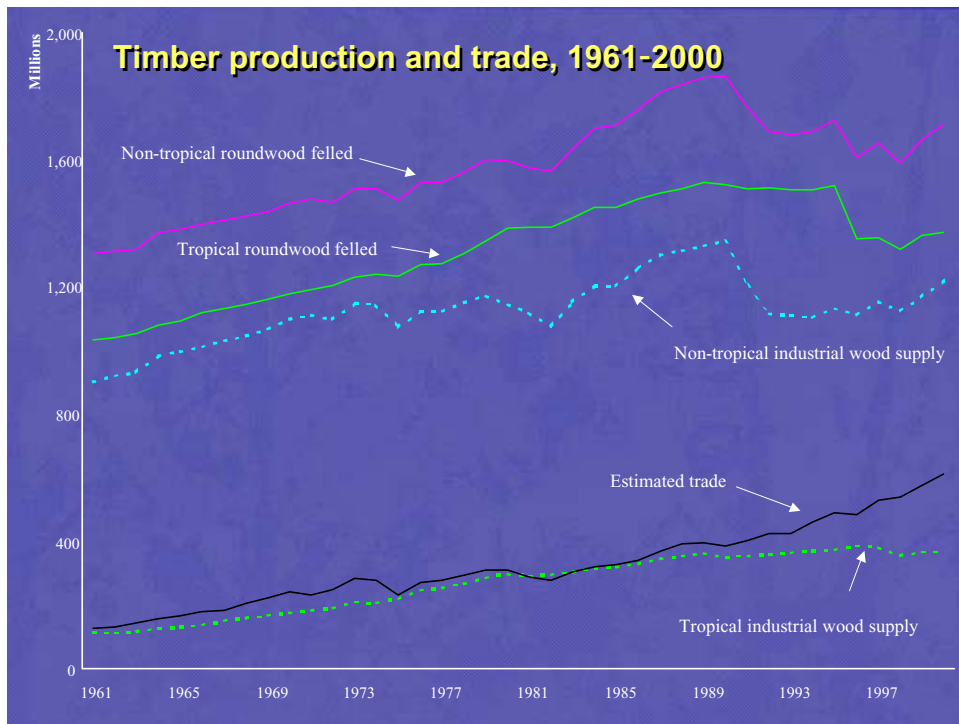
Global trends in international trade of forest products and services

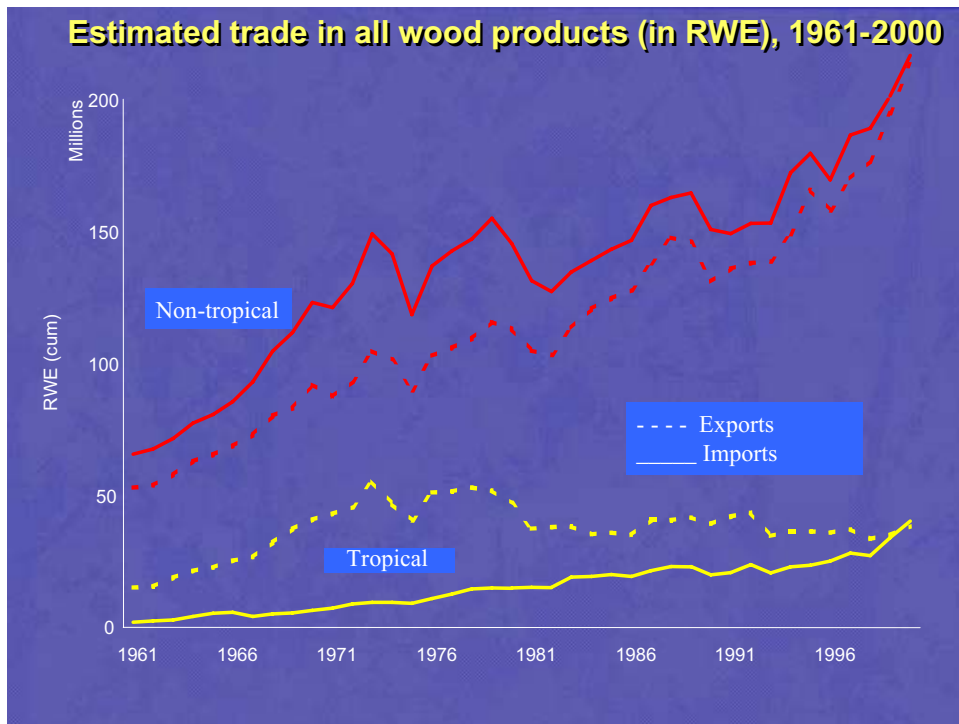
**James MacGregor
IIED**

Trade and Sustainable Forest Management – Impacts and Interactions
3 – 5 February 2003
FAO, Rome

Key Trends

- Increased specialisation
- Increased intra- regional trade
- Domestic consumption
- Timber composition
- Disappearing forests
- Evolving competition
- SFM – is increasing but ‘the exception rather than the rule’





Forecasts

Many views but consensus that:


- Consumption and production of all timber products will rise [est. = 2010: +10%; 2020: +15%]
- The percentage of plantation wood will rise [est. = 2000: 35%; 2020: 50%; 2040: 70%]
- Trade/output ratios will continue to rise
- Capture of non-timber values associated with forests will increase

Key Issues


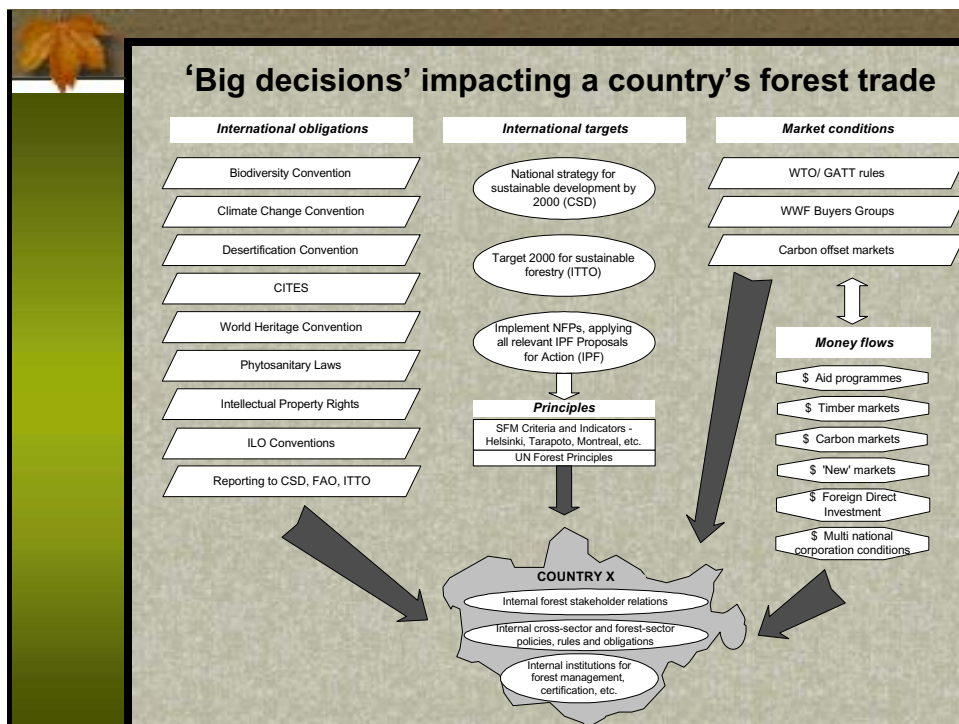
- **How relevant is trade to the improvement of natural forest management in the tropics ?**
 - only small proportion of tropical timber felled enters international trade
 - in aggregate, tropical countries are becoming net wood importers
- **What are the likely impacts of consumer interest in SFM?**
 - divert trade away from tropical countries and natural forest operations?
 - boost exports from temperate countries?
- **What are the implications of the shift towards plantations for trade patterns and for natural forest management?**

**PUBLIC POLICIES AND PRIVATE SECTOR/NGO ENGAGEMENT
(JAMES MAYERS)**

Public policies and private initiatives impacting forest trade



James.Mayers@iied.org



Impacts from forest sector policy

- › *Nfps* – depend on strong processes and systems
- › *Logging bans* – displace rather than solve problems
- › *Forest tenure* – new players with privatisation and decentralisation
- › *Sector rules* – “no log export bans, collect the rent, long-term concessions, and management plans” – not always the best mantra
- › *Production and processing subsidies* – winners and losers



Impacts of extra-sectoral policy

- › *Sectors competing for inputs or land* – dictate whether there's any forest to trade
- › *Investment policies* – shape what type of investment
- › *Labour laws* – shape trade competitiveness and local benefits
- › *Support sectors* – shape forest trade options
- › *Sectors using forest products* – shape forest trade scale
- › *Macroeconomic policies* – shape everything



Impacts of international processes

- › *Regional agreements* – some with major forest trade impact – APEC, NAFTA and EU
- › *'Soft' law* - UNFF, CBD, ILO, OECD on Multinationals and Bribery - weak trade impact
- › *'Hard' law* - WTO needs ITTO to install pro-forest principles and clarify trade uncertainties
- › *New processes on illegal trade*
 - › E.Asia and Africa FLEG and EU FLEGT processes
 - › WSSD 'Type 2s' - Japan-led Asia Forest Partnership and USA-led Congo Basin initiative

= Early days. Building regional from bilateral agreements (e.g. UK, Norway and China with Indonesia) looks best bet



Private sector and civil society initiatives

- › *Demand side* - certification and labelling, supply chain management, product campaigns
- › *Supply side* - investment guidelines, corporate citizenship, company-community partnerships, C&I, civil society projects and advocacy

= *Growing impact - changing minds rather than changing markets so far*



Some key issues



1. Which public policy instruments, in which contexts, affect forest trade most?
2. What key policy opportunities for improved impact on forest trade?
3. How to get forestry priorities into extra-sectoral policy?
4. How can international processes better influence social and environmental effects of forest trade?

**TRADE AGREEMENTS AND TRADE RESTRICTIONS
(JAMES BOURKE)**

FAO Expert Consultation “*Trade and Sustainable
Forest Management – Impacts and Interactions*”
Rome, Italy
3-5 February 2003

***Trade Restrictions – Impacts on
the World’s Forests***

by
I.J. Bourke
Consultant

I.J Bourke

1

SITUATION

- D Tariffs - very country and product specific**
- D Generally less than 5% in developed countries; higher on plywood and builders woodwork etc (5 - 10%)**
- D Developing countries tariffs often considerably higher (10 – 20%), but declining rapidly**

I.J Bourke

2

SITUATION

- D** NTMs variable but more of a problem. Some falling others rising
- D** Trade Impediments - small effect but growing
- D** Problem is the combination
- D** Export restrictions growing
- D** Environmental issues increasing and could act as barriers e.g. certification

3

I.J Bourke

ONGOING ACTIONS

Further negotiations to:

- D** reduce barriers
 - D** WTO/regional/bilateral
- D** raise barriers for environmental reasons
 - D** E.g. EU; ngo proposals; CITES
 - D** Export restrictions

4

I.J Bourke

ISSUES

- E** Disagreement over trade liberalization. Reduction good or bad?
- E** Should restrictions be used for non trade-related reasons?
- E** Can the use of restrictions assist SFM?

5

I.J Bourke

FINISH

“Trade Restrictions”

6

I.J Bourke

**LINKS BETWEEN TRADE, FINANCE AND INDUSTRIAL STRUCTURE
(MARYANNE GRIEG-GRAN)**

Industrial Structure, Trade and Forest Management

Maryanne Grieg-Gran

ified

Trade and Sustainable Forest Management

Impacts and Interactions

3-5 February 2003

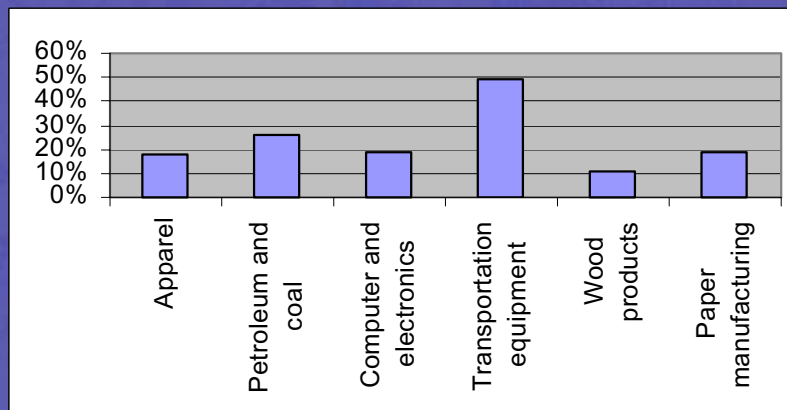
What is Industrial Structure?

- Structural characteristics of the forest products sector which influence company behaviour
 - Market structure
 - Industrial organisation
 - Ownership including foreign investment

Key Trends

- Consolidation through mergers & acquisitions
 - Eg: Mead and Westvaco
 - 10 companies produced 28% of world paper and board output in 2001 up from 19% in 1993
- Vertical integration
 - Backwards into logging and forwards into processing
- Foreign investment
 - Primarily North-North but N-S and S-S on increase

Market Share of Top 4 Firms US Manufacturing Sectors 1997



Trade and Industrial Structure

- Complex two-way linkages
- Liberalisation drives consolidation and foreign direct investment (FDI)
- Trade restrictions drive FDI and vertical integration
- FDI can reduce trade
- But FDI primarily a driver of trade

Industrial Structure and SFM

- Increasing size of companies
 - Means more power?
 - But more visibility to regulators and public?
- Vertical integration
 - Facilitates pressure from end-users for SFM
 - SFM leading to backwards integration
- Foreign direct investment
 - Global policy on SFM vs race to the bottom

The Role of Financial Institutions

- Finance is critical in investment decisions
- Could financial institutions drive SFM?
- Official finance eg export credit involved in some controversial forest operations
- Some private institutions have made SFM a condition eg: Gethal, Brazil
- But no investment where political risk high

Key Issues

- Does consolidation matter? - Why? For whom? And where?
- Does the level of foreign ownership matter for forest management?
- What role can financial institutions play?

**LINKS BETWEEN GOVERNANCE AND TRADE IN FOREST PRODUCTS AND SERVICES
(MICHAEL RICHARDS)**



Impacts of trade policies

- Weak, indirect and perverse impacts
- Non-trade drivers in all case studies
- Governance, policy & market failures
- Trade is a magnifier: “Failure to place a value on environmental resources would undermine SD even in a completely closed economy. Trade is seen, rather, as a ‘magnifier’. If the policies necessary for SD are in place, trade promotes it” (1992 GATT Report)

Liberalisation, corruption and transnational corporations

- Removing trade restrictions lowers discretionary powers BUT:
 - higher rents (Ross: Asia analysis)
 - redistribution of corruption benefits
- TNCs less law-abiding
- TNCs more law-abiding
- Sectoral policies & regulatory capacity

	Weak regulatory capacity	Stronger regulatory capacity
Trade liberalisat'n: higher prices <i>Case study evidence</i>	Increased returns from corruption and illegal logging	Higher returns from SFM, and more efficient use of wood <i>market opportunities, rise in certification</i>
Trade protection: lower prices <i>Case study evidence</i>	Lower profits: incentive to reduce compliance costs <i>log export ban ineffective</i>	Reduced incentives for SFM/efficiency, but illegalities prevented <i>better regulated export sector, rise in certification</i>

Multi-lateral trade policies and green market pressures

- The 'ecological footprint' problem:
"Logging restrictions in some places will simply be offset by logging increases elsewhere. In short, the issue is not whether to log, but where to log" (Sedjo)
- FLEGs and consumer country measures:
 - verification costs
 - increase in legal production costs
 - market diversion inc. domestic market
- Certification/procurement: similar problem

Trade and forest governance: the bigger picture

- Weak trade-governance causation
- Trade policy and demand trends
- Domestic trade is bigger challenge
- Gap between market & real values
- Broader economic/political factors

Key questions/issues

- Is trade policy only a magnifier, or does it directly undermine or stimulate good forest governance?
- What are the key complementary institutional and environmental policies to trade liberalisation in weak governance situations?
- What is needed to complement certification so that it encourages positive governance, including domestic forest governance?
- How will consumer country measures (illegal imports) affect producer country governance? What complementary measures are needed?

CROSS-SECTORAL POLICY IMPACTS BETWEEN FORESTRY AND OTHER SECTORS - AN AGENDA FOR ACTION
(YVES C. DUBÉ)

Expert Consultation:
Trade and Sustainable Forest Management
(3-5 February 2003, FAO Rome)

Cross-sectoral Policy Impacts
between Forestry and other Sectors -

An Agenda for Action

by

Yves C. Dubé
FAO Forestry Department

An Agenda for Action

1. integrated spatial approach

An Agenda for Action

2. facilitate involvement of all actors

An Agenda for Action

3. measuring and monitoring

An Agenda for Action

4. **incentives for public goods supply**

An Agenda for Action

Summary

1. **taking a broader view**
2. **improving policy decision-making and governance**
3. **integrating economic & environmental accounting**
4. **providing incentives to local suppliers of forest public goods**

An Agenda for Action



**Proceedings of September 2002
Technical Meeting are available on
FAO Forestry Web Page under**

**Interdisciplinary Issues/
Cross-sectoral Linkages**

(<http://www.fao.org/forestry>)

**EXTRA-SECTORAL INFLUENCES ON TRADE IN FOREST PRODUCTS AND SERVICES
(WILLIAM HYDE)**

Trade Policy and Patterns of Forest Land Use

William F. Hyde
prepared for IIED and FAO
February 3-5, 2003

1

Background:

a book on the economics of forest development

The critical distinctions:

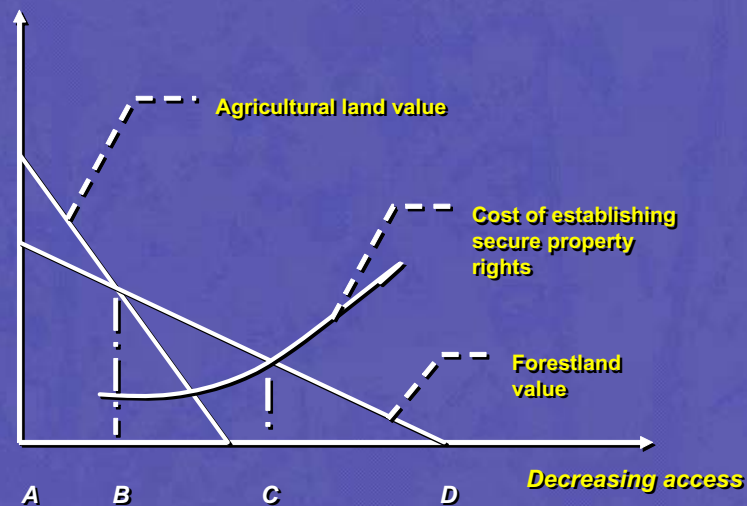
- short-run and long-run
- managed and natural (unmanaged?) forests

2

- **Natural** (unmanaged?) forests:
 - Economic access determines the short-run limits of forest extraction (e.g., Cambodia's army)
 - Lower wages means greater forest degradation and larger areas of deforestation (e.g., India and Nepal)
- **Managed forests**
 - Property rights are essential but they only occur with real costs that will not be absorbed everywhere
 - Therefore, we cannot expect forest management to replace harvests from the natural forest everywhere (e.g., N. Canada, US Rocky Mtns, Siberia, Kalimantan)

3

Land value



4

Implications for trade and land use?

- In the short-run, we will observe graphic cases of forest destruction wherever external shocks, including shocks resulting from changes in trade policy, cause sharp changes in timber harvesting.
- Most noticeable in frontier natural forests (not managed forests) and in low wage countries.
- Even these short-run effects, however, have their limits.

It is easy to focus on these—because they are so graphic. They make good newspaper stories and they capture everyone's attention.

However, we have to wonder about the big picture. What happens after the short run adjustments are complete.

5

What is the bigger (long-run) picture?

Both the empirical and the analytical evidence suggest that there is no universal conclusion—trade is neither always good nor always bad for the forest environment. However

- H_1 : Trade leads to general improvements in economic welfare and in the environment and some forests recover with trade (Y. Zhang, Singh evidence)
- H_2 : The imposition of environmental standards in developed countries only shifts the environmental costs to developing countries which cannot afford or enforce these higher standards. It doesn't improve the global forest environment.

6

- **H₃:** Agricultural policy impacts dominate (EU and N.Am. farm subsidies are immense—US\$45 billion each annually):
 - Decreases forest cover in developed countries
 - Mixed effects in LDCs (through exports of foodstuffs and increased competition with LDC producers)

- **H₄:** Other government policies generally favor capital over labor—which decreases wages.
 - This causes agricultural intensification and decreases some agricultural land use.
 - It also leads to an expansion in low wage subsistence agriculture which competes for forest cover.Which effect dominates?

**IMPACT OF NEW MARKETS FOR ENVIRONMENTAL SERVICES ON TRADE
IN FOREST PRODUCTS AND SERVICES
(CHRISTIAN MERSMANN)**

Markets for Environmental Services

Impacts on Trade in Forest Products and Services

by
Christian Mersmann

The idea

- **Payments for services rather than subsidies**
- **Cost-benefit situation and internalizations of externalities**
- **Incremental cost coverage versus re-distribution of costs**
- **Impact on type of forestry**
- **Bundling of services for producers?**
- **Changing forest products trade**

**What is the potential beyond the
political and theoretic debate?**

What services?

- **Biodiversity**
- **Carbon sequestration**
- **Watershed protection and water**
- **Landscape beauty and recreation/tourism**

What role do the different services play for consumers and governments?

Markets, their development or creation

- **Political and legal frame conditions at different levels**
- **Consumer interest, tradability and commercialisation**
- **Strategies for market development or creation**
- **“Bundled services” marketing or individual markets**

Who is taking interest or charge?

Key Issues

- Which environmental services have potential for international trade?
- Which services lend themselves to trade and which are better handled through other instruments?
- What could be a concept of combining environmental services for producers and selling them individually to consumers in different markets?

Markets for Environmental Services

Impacts on Trade in Forest Products and Services

by
Christian Mersmann

THANK YOU

3.3 Presentations (Working Groups)

WORKING GROUP NO 1

**TRADE MEASURES
AND
POLICIES**

POLICY ASPECTS

- International Agreements – Obligations/National Sovereignty
- Coherent set of policies fostering reinvestments to SFM
- National Policies
- Poverty Reduction Policies
- Land Use Policies – trade policy changes impact on forestry option
- Sustainable Livelihood Policies
- Increased Forest Values through:
 - Environmental Services
 - Public Procurement Policies

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES

INSTRUMENTS/MECHANISMS

- **Certification as market-based instrument/credibility**
- **Debate on evidence of green premium from certified products**
- **Certification may/may not provide financial incentives for SFM**
- **Mechanisms to structure trade to support commitments to SFM including through social, environment & economic standards**

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES

LINKS

- **Trade Rules/Policies neutral and limited impact on achieving SFM**
- **Links between trade & SFM identified**
- **Debate on degree of direct/indirect impact of trade on SFM**
- **Debate on dependencies/interactions between GDP growth, free trade, demand, markets, supplies, ability to achieve SFM**

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES

POLICY PROCESSES

- **Lack of integration/transparency/linkages between policy processes**
- **Lack of information/understanding on policy issues related to trade and SFM**
- **Established policy processes such as NFPs exclude consideration of trade-related issues**
- **Necessity to refer to WTO proceedings**

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES

TRADE AGREEMENTS

- **Sustainable Development part of WTO objective**
- **SFM part of Sustainable Development, and consequently free trade (?)**
- **Existing WTO provisions relating to trade and SFM to be examined**
- **Clarification on possibility of inter-linking forest-related issues**

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES

TRADE RESTRICTIONS NON-TARIFF BARRIERS

- TR/NTB need careful consideration as could be counterproductive
 - (Ban on log imports/log export ban)
- Need to ensure fair framework for all timber producers regardless of origin or resource ownership
- Trade restrictions to stimulate local industries
- Certification/Labelling – opportunity/restriction?
- Unilateral actions of local governments
- Bilateral agreement v illegal trade – enforceability?

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES

TRADE RESTRICTIONS NON-TARIFF BARRIERS

- Trade agreements & trade restrictions are highly inefficient /ineffective for SFM
- Trade agreements to include performance indicators on SFM
- Incorporation of 'soft law' into trade agreements a bad idea - international law?
- MEAs with trade measures have in some circumstances been effective – CITES.
- Any other provisions?
- Co-operation agreements/investment rules possible instruments for SFM?

WORKING GROUP NO 1
TRADE MEASURES AND POLICIES


Trade, finance and industrial structure



Group 2
Presenter – Jukka Tissari


Original questions

- › How does consolidation affect trade based on SFM?
- › Does the level of foreign ownership matter?
- › What role might financial institutions play?




Matrix of trends in industry structure - 1

	BOREAL AND TEMPERATE		
Trends in:	Pulp & Paper	Solid wood	Timberland investment
Resource base	Divest	Private ownership	Buying from divesting companies
Processing	Consolidation	Diversification	
Distribution	Forward integration	Concentrated	
Customer	Consolidation	Variable	




Matrix of trends in industry structure - 2

	TROPICAL AND SUBTROPICAL		
Trends in:	Pulp & paper	Solid wood	Timberland investment
Resource base	Expansion of land holdings	Concessions	Plantations in low risk areas
Processing	Consolidation	Lack of consolidation	
Distribution	Forward integration	Oligopsony	
Customer	Consolidation	Lack of consolidation	



Major issues

- › Concern for tropical solid wood sector
- › PROFITABILITY
 - › Price not high enough / illegality
 - › No payment for SFM benefits / MES
- › REPUTATION
 - › Damage from NGOs / substitution
 - › Multiple SFM definitions / certification
- › CONFIDENCE
 - › Land ownership / stability
 - › Risk / insurance



Ways forward

- › Bring stakeholders together to discuss finance in primary forest
- › Payments for social and environmental services
- › Public relations and promotion
- › Technology, value addition
- › Change NGOs from adversaries to partners

WORKING GROUP NO 3

GOVERNANCE AND TRADE

Approach of the group

- Clarified specific **problems** to be tackled
- Decided to focus on two general **contexts**:
 - Production-Export (based on Latin America and West-Central Africa case experience)
 - Consumption-Demand (based on European case experience)
- Developed possible **solutions** for each context: *actions that can shape trade in support of improved forest governance*

WORKING GROUP NO 3
GOVERNANCE AND TRADE

Problems - general

1. Impact of trade dependent on non-trade governance (trade is governance “magnifier” – if governance already good, trade will improve it; if governance already bad, trade can worsen it)
2. Market and policy failures - no internalisation of externalities (trade favours lowest-cost producers)
3. Liberalisation usually “out of sequence” – should come after improving governance
4. Power of trade decisions not held by people mostly impacted by these decisions
5. Displacing the problem – “successful” measures in one country result in costs in another (= “footprint”) e.g. China soya

WORKING GROUP NO 3
GOVERNANCE AND TRADE

Production / supply-side problems

1. Agriculture and oil trade - bigger effect on forests than forest product trade
2. People cannot trade what they cannot control - weak effective ownership amongst rights-holders e.g. Ghana
3. Cheap imports - cause low domestic market values and problems for forest governance
4. Domestic markets less well governed than export markets
5. Perverse subsidies
6. Illegal logging
7. Unregulated Foreign Direct Investment

WORKING GROUP NO 3
GOVERNANCE AND TRADE

Consumption / demand-side problems

1. Incoherence / conflict between policies – e.g. trade policy inconsistent with development policy
2. Corruption in importing chain
3. Unsustainable consumption patterns –incomplete views of sustainable forest management; choices shaped by concentrated corporate sector
4. Weak consumer pressure for SFM
5. Tariff escalation
6. Systems of import-reprocessing-export prevent tracking and influence of trade flows
7. Lack of market signals for sustainable timber production

WORKING GROUP NO 3
GOVERNANCE AND TRADE

Solutions – General

1. Increase transparency in trade and forest governance decision-making - participation of civil society, independent monitoring
2. Improve systems for collection and management of trade data
3. Require participatory sustainability impact assessments before any trade agreement or deal which impacts land use
4. Open WTO to observers from other agencies and civil society participation

WORKING GROUP NO 3
GOVERNANCE AND TRADE

Production / supply-side solutions

1. National forest programmes – cross-sectorally engaged, prioritized and participatory
 - Agricultural subsidies – impact assessments required
2. Land rights and user rights - clarified and enforced, to enable enterprise and trade
 - Decentralisation – of trade decisions and benefits
3. No subsidies to plantations – direct, indirect or hidden; but environmental service payments vital

WORKING GROUP NO 3
GOVERNANCE AND TRADE

..Contd supply-side solutions

4. Institutions, consumer awareness and internal regulation – strengthened concession bidding, forest taxation, monitoring of logging and revenue flows
5. Perverse subsidies - grey area – scale and spread - improve understanding
6. FLEG(T) processes – data improved, bilateral to regional to international, link to UNFF and practical governance processes, independent monitoring
7. FDI proposal scrutiny and investment monitoring systems improved

WORKING GROUP NO 3
GOVERNANCE AND TRADE

Consumption / demand-side solutions

1. Government policy processes – reformed and integrated
2. Independent monitoring, transparency, chain of custody verification
3. SFM awareness raised, paper consumption reduced
4. Reduce tariffs on processed products
5. Data collection improved, chain of custody verified
6. Procurement policies and forest certification, short term displacement problems tackled (e.g. through regional-multilateral agreements)

WORKING GROUP NO 3
GOVERNANCE AND TRADE

***“The first flying swallow
may indeed bring summer”***

WORKING GROUP NO 3
GOVERNANCE AND TRADE

WORKING GROUP NO 4

EXTRA-SECTORAL INFLUENCES AND THE ENVIRONMENT

Presenter – H.K. Chen

Original questions

- 1. Which are the most relevant extra sectoral influences on trade in forest products and services and how do they affect SFM?**
- 2. Which environmental forest services have potential for international trade and how does/could trade in these forest services affect SFM?**

Working Group No 4
Extra-sectoral influences and the environment

Inter-sectoral influences on SFM

- 1. Agriculture**
(policy, law & regulation, credit & investment)
- 2. Finance and investment**
(international finance, private banking)
- 3. Technology**
(biotechnology, industrial forestry technology)
- 4. Demand for forest products**
(substitution, certification)
- 5. Infrastructure**
(shift of investment from/to forest sector)

Indirect influences on trade in forest products

Working Group No 4
Extra-sectoral influences and the environment

Direct inter-sectoral influences on trade in forest products

- 1. Infrastructure**
 - New market chains;
 - Lower production costs;
 - Shifting of production centers;
 - Improved quality of production (combined with public services).
- 2. Demand for forest products**
 - Consumer sensitivity translated into the market chain.

Working Group No 4
Extra-sectoral influences and the environment

Direct inter-sectoral influences on trade in forest products

3. Technology

3.1 Biotechnology

- Good quality (hybrids)
- Improved yields

3.2 Industrial forestry technology

- Reduced prices
- Improved competitiveness
- New market chains;
- Consolidation of certain sectors

Working Group No 4
Extra-sectoral influences and the environment

Direct inter-sectoral influences on trade in forest products

4. Finance and investment

- Less access to international finance for tropical countries
- Better opportunities for access for selected sectors (e.g. pulp & paper)

5. Agriculture

- Increase/decrease timber supply (short term/long term)
- Reduction in price for certain forest products (short term)
- New market chain
- Agricultural subsidies for planting trees (North)

Working Group No 4
Extra-sectoral influences and the environment

Environmental forest services

Main services for *international* trade:

- Recreation/tourism
- Watershed protection
- Carbon sequestration/storage
- Biodiversity

Other services to be included?

Working Group No 4
Extra-sectoral influences and the environment

Environmental forest services

Do environmental service enhance timber production?

Yes, in an integrated large-scale production system.

Working Group No 4
Extra-sectoral influences and the environment

3.4 Documentation of Working Groups

WORKING GROUP NO. 1 – TRADE MEASURES AND POLICIES

Policy Aspects

- International Agreements – Obligations/National Sovereignty
- Coherent set of policies fostering reinvestments to SFM
- National Policies
- Poverty Reduction
- Land Use Policies – trade policy changes impact on forestry option
- Sustainable Livelihood Policies

Increased Forest Values through:

- Environmental Services
- Public Procurement Policies

Instruments/Mechanisms

- Certification as market-based instrument/credibility
- Debate on evidence of green premium from certified products
- Certification may/may not provide financial incentives for SFM
- Mechanisms to structure trade to support commitments to SFM including through social, environment & economic standards

Links

- Trade Rules/Policies 'neutral' and limited impact on achieving SFM
- Links between trade & SFM identified
- Debate on degree of direct/indirect impact of trade on SFM
- Debate on dependencies/interactions between GDP growth, free trade, demand, markets, supplies, ability to achieve SFM

Policy Processes

- Lack of integration/transparency/linkages between policy processes
- Lack of information/understanding on policy issues related to trade and SFM
- Established policy processes such as NFPS exclude consideration of trade-related issues
- Necessity to refer to WTO proceedings

Trade Agreements

- Sustainable Development part of WTO objective
- SFM part of Sustainable Development, and consequently free trade (?)
- Existing WTO provisions relating to trade and SFM to be examined
- Clarification on possibility of inter-linking forest-related issues

Trade Restrictions/Non-Tariff Barriers

- Needs careful consideration as could be counterproductive (ban on log imports/log export ban)
- Need to ensure fair framework for all timber producers regardless of origin or resource ownership
- Trade restrictions to stimulate local industries
- Certification/Labelling – opportunity/restriction?
- Unilateral actions of local governments
- Bilateral agreement v illegal trade – enforceability?
- Trade agreements & Trade restrictions are highly inefficient/ineffective for SFM
- Trade agreements to include performance indicators on SFM
- Incorporation of 'soft law' into trade agreements a bad idea/international law?
- MEAs with trade measures have in some circumstances been ineffective – CITES
- Any other provisions?
- Co-operation agreements/investment rules possible for SFM?

DOCUMENTATION OF CHARTS:

POLICY ASPECTS

- International Agreements
- Obligations
- National Sovereignty

- SFM will differ across countries (an expression of values)
- Trade policies are unlikely to be helpful in defining SFM at the national level

- Poverty eradication

- Forest value
- National Land Use Policy

- Lowest risks for the most critical stakeholders (local people and forests) or highest potential gains?

- Set of policies should be based on local needs. In many cases, SFM is a local issue: IS TRADE?

- Make forests more valuable by developing markets: international trade (eg. carbon); national trade (eg. water)

- Consider SFM as an environmental service

- Public Procurement Policy
- Impact on SFM trade barrier

- Role of national policies and market (complementarity)

- Illegal Logging: Internationally binding agreements are difficult to craft because of the need to ensure consistency with existing International Agreements and with National Sovereignty

MECHANISMS

- Certification / National Policies / Non-Tariff Barriers

- How can mechanisms/policies be developed to structure trade to further existing commitments to SFM?

- Forest Certification: link between SFM and trade

- Credibility of the scheme

- A tool for the private sector

- Certification is private: complicates relation to rule-based policies

- Develop social, environmental and economic standards for SFM and link to trade and economic development

- While certification is and should be “voluntary and market based”, governments should develop policies to stimulate the sound use of wood, notably compared with other non-renewable materials. Vibrant demand/markets for forest products should be recognised as an essential part of SFM

- Should also consider the impact of trade policy changes (liberalisation) for other commodities (esp. agriculture) on forests (if profitability of soybeans increases, it is likely to put pressure on forest land)

- Certification may create a premium in price, market access, etc. depending on many factors (eg. which system, which products, which markets, etc.)

- There is no clear evidence of a green premium from certification

- Certification (as a private, voluntary, marketing effort) may or may not provide financial incentives for SFM

2 SEPARATE QUESTIONS:

1. Is there a price premium for certified timber? If so, who benefits (owner, middle-man, retailer...)?

2. How much of the forest rent is reinvested in SFM (regardless of certified or not)?

COHERENT POLICIES

- Trade policies are inefficient instruments to ensure SFM

- Trade issues are difficult to address without becoming specific, but general rules must be observed

1. Link between trade, economic development and SFM: no guarantee
2. Facilitate trade: inbuilt protection of environment and social issues

- GDP growth – Free trade
- Demand for forest products – Comp.
- Markets – Suppliers
 - Threat or opportunity?
- Income of owners – Value of forests
- Ability to “do” SFM

- Certification: the link between trade and SFM

- Profitable trade opportunities for commodities such as soybeans and palm oil may accelerate deforestation via land conversion (eg. Indonesia, Brazil, MYL (??))

- A coherent policy includes sufficient re-investment of rents in the resource to enable/incentivise SFM

- The lack of returning of rent of SFM to the ground (not only related to certification) should be addressed

- It is an element of SFM that insufficient rent is reinvested to preserve the resource with all its environmental, social and economic attributes and values

LINKS

- Trade rules are neutral with respect to SFM and limited in the degree to which they can affect SFM

- Non-discrimination and multilateralism (notification, consultation...)

- SFM: Forests – Cuttings – Industry – Trade --
 - Trade has a weak/indirect link to SFM

- Trade can serve SFM (diversification) but needs to be restricted (e.g. to avoid over-exploitation (non-tariff barriers))

- Make forests valuable through trade in products and services

- Sometimes “trade” agreements (e.g. FTAA) have consequences in processes other than trade

QUESTION:

- Where do the economic rents of certification go? Are there additional economic rents?

POLICY PROCESSES

- Trade questions are complicated. There are many issues. They are not simple; analysis is therefore difficult

- There is not one single “big” issue: makes integration necessary
- Lack of integration between trade institutions and forestry

- Greater transparency in trade – stakeholders and their economic inter-relationships

- Weak understanding of the situation, interactions/link options
- Global/Local/Regional
- Between “commodities” (forest, trade policy, environmental policy...)
- Good data and research do exist!

- Lack of information and understanding because different discussions are not linked horizontally (social, environment, economic, trade) but linked vertically (local, regional, international)

- Difficulty of communication
- Progress on definition of SFM (Certification, C+I...)
- Next step: better mutual understanding between international forest dialogue (policy) and WTO (rules based system)

TRADE AGREEMENTS AND RESTRICTIONS

- Link the different dialogues around SFM to trade dialogues

- Avoid being “driven” by WTO, but be aware of WTO discussion

- Intergovernmental processes (Helsinki, Montreal, ITTO, etc.)
- C&I and operational land guidelines
- Process is transparent and participatory
- WE KNOW WHAT SFM IS!
- National Forest Programmes: efficient tool to promote SFM (process transparent and participatory)

- Need to address the wishes of a full range of stakeholders and comprehend how international trends impact across and among

- Links between trade agreements and NFPs: trade agreements could encourage to create NFPs. NFPs could help to implement trade agreements

- Comparable “fair” framework for the timber producers in different countries, different ownership: for example, state owned, privately held
- Different direct and indirect subsidies, for example taxes

- Restricting trade to stimulate local processing industries (mixed performance): lessons for interventions to incentivise SFM?

- Sustainable Development is an objective of the WTO, as stated in the preamble to the Marrakech Agreement

- Free Trade: increases demand (products, raw materials); increases value for forests; increases the level of management; SFM

- WTO rules to be looked at:
 - subsidies
 - TBT
 - government procurement
 - Doha negotiation regarding environmental goods and services

- Trade agreements should set and/or clarify rules.
- SFM relationships should be addressed at a lower level, but within the “rules”

- Trade Agreements – WTO clarity on:
 1. Certification
 2. Payments for Env. Services
 3. Public procurement policies
 4. Bilateral agreements against illegal logging

- Clarification on formal synergies between international forests and biodiversity policies and free trade policies

- Trade restrictions: log export bans do not usually slow down logging but do reduce welfare. Need to develop a clear position on this

- Restrictions related to illegal trade need careful consideration
- Same for public procurement

- Certification/Labelling: opportunity or restriction for some market access denied as NOT certified although sustainably managed
 - Preference for any given scheme (public procurement/marketing) – Trade restriction/Non-tariff barrier – Anti-competitive/unfair advantage?
 - Link to SFM? Less value to natural forests – may result in conversion to plantations or other economic uses

- What happens if country X decides on an interpretation of international law and concludes that country Y is in violation and decides not to import forest products any more?

- Cooperation to include forestry (SFM)

- Need to develop practical and fair ways of full-cost internalisation for wood and competing materials, which must be WTO-compatible

- Trade agreements allow each member to set its own level of protection of plant life provided it is not discriminatory

- Agreements at international and national levels
- Adopt mechanisms to support C.I.T.E.S

- Trade agreements and trade restrictions are highly inefficient and largely ineffective approaches to achieve national resource policy objectives. MEAs with trade measures have, in some circumstances, been effective

- Bilateral Agreements – Enforceability

- Development of bilateral trade agreement (like one between UK and Indonesia (Norway & China)) would be easier to develop and effective than a multilateral trade agreement
- Is it a trade restriction if a government obliges itself to use only one certification system in its public procurement policy?
- Unilateral actions by local governments and municipalities (procurement)
- Investment rulers in trade agreements have to be analyzed (f.e. non-discriminatory national treatment)
- Mahogany inclusion on C.I.T.E.S is a trade barrier to those who produce it in sustainable terms
- The use of trade restrictions to promote SFM is unlikely to be effective and will be generally counter to broadly-agreed economic, social and environmental goals and objectives
- Trade agreements may include (be based on) measurable performance indicators (and thresholds) for SFM (including environmental, social, economic attributes)
- Incorporating “soft agreements” including generalized measures and targets into trade agreements as performance elements is a bad idea

WORKING GROUP NO. 2 – TRADE, FINANCE AND INDUSTRIAL STRUCTURE

Introduction

- Questions abstract
- Problems needed to be identified
-
- What is the Problem?

- Production-Export side as detailed in different regions
- Consumption and Demand side
- Possible Solution

- No consensus

Problems

1. Impact of Trade is critically dependent on non trade governance issues: trade is a multiplier effect. If trade has a negative impact, increased trade will as well. Market and policy failures: no internalisation of externalities (trade favours lower cost producers)
2. Sequencing. Trade liberalisation happens without any regulatory regimes or in countries with weak institutions is wrong way round
3. Power of trade decisions does not lie with the people impacted by these decisions
4. Trade measures in one country result in costs to another country (footprint). China as a case soya bean.

Production and export problems

1. Other land uses such as agriculture and oil exploration and the trade in products coming from them probably have a bigger effect on forests than trade in forest products
2. Problems of ownership and tenure result in negative trade impacts. Ability to control tied to ownership. Ghana case study
3. Cheap imports
4. No interest for lesser known species
5. Tariff escalation: higher tariffs for processed products
6. Domestic markets are less well governed than export markets
7. Perverse subsidies
8. Illegal logging

Consumption/Demand problems

1. Lack of coherence between different policies (trade policy inconsistent with development policy)
2. Corruption in importing chain
3. Unsustainable consumption patterns, depends on definition of Sustainable Forest Management. Forest product consumer preferences shaped by corporate sector;
4. No consumer pressure in China and Japan. Swallow

5. Imports, reprocessing and exports complicate understanding trade flow
6. Lack of market signals for sustainable timber production

Solutions

General Solutions

1. Transparency; participation of civil society in decision making processes, support for independent monitoring
2. Better collection of trade data and management
3. Any trade agreement which has an impact on land use needs to be preceded by a sustainability impact assessment including full stakeholder participation
4. WTO needs to allow for observers of other bodies as well as civil society participation

Solutions re: Production, Consumption

1. National forest programmes, based on participatory approach
2. Sustainability Impact Assessment of any trade agreements, particularly agriculture negotiations
3. More emphasis on impact of agricultural subsidies and negative impact and empower the right forces
4. People cannot trade what they cannot control. Land rights and user rights should be clarified and enforced. Clear land rights would facilitate enterprise and trade
5. Decentralisation
6. Ensure no subsidies go to plantations; illegal supply should not undercut legal supply; paying for environmental services
7. Wait for markets to appear, market promotion
8. Get rid of tariff escalation
9. Institutional strengthening, consumer awareness, paying for environmental services, better internal regulation (concession bidding and forest taxation, monitoring and logging and monitoring of revenue flows)
10. Research is needed, better understanding. Grey area
11. FLEG(T) process (data, regional to international, link to other processes, independent monitoring); UNFF

Solutions re: Consumption, Demand

1. Changing way policies are made, governments work
2. Independent monitoring, transparency, chain of custody verification
3. Raising awareness, reducing paper consumption, education
4. Raising awareness
5. Improved data collection, chain of custody verification
6. Procurement policies and forest certification, short term displacement problems (regional-multilateral agreements)
7. Lack of regulation of Foreign Direct Investment by receiving country and the financial institution itself

DOCUMENTATION OF CHARTS:

SUPPLY-SIDE PROCESSES

- Cross-sectoral planning coordination (especially agricultural policies – important role NFPs) and discuss in Doha/WTO
- FAO NFP facility programme and cooperation

- Developing sustainable livelihoods for forest based communities (raising social capital)
- Decentralisation processes

- Managing cross-sectoral influences:
 - Agriculture
 - Energy
 - Tourism
- Theoretical considerations:
 - World Bank efforts

- Promotion of SFM:
 - NFP
 - NBSAP
 - Certification
 - Participation
- Regional C&I processes:
 - National, regional and international initiatives on NFPs and NBSAPs
 - Several certification initiatives

- Institutional strengthening and capacity building:
 - National level
 - Sub-national level
 - Increase transparency
- Examples
 - Bolivia, Mexico
 -
 - Ecuador (Green surveillance)
- Promote the use of non-traditional species
- Old story, why hasn't it worked?

- Increasing awareness/education/ understanding of the costs of non-sustainable forestry management and the adoption of alternative policy options (needs research)
- Transparency general principle

- Support independent monitoring
- Include participation of civil society in decision making processes

- Eliminate “perverse” subsidies
- Forest trade data collection and management at global level improved

DEMAND-SIDE ACTIONS

- General Recommendations:
 - All actions need financial and technical support
 - Capacity building
- Promote effective due diligence by investors in forestry
- Improved demand for certified wood products through public procurement and public awareness
- Decrease tariffs for wood products from sustainably managed forests
- Bilateral agreements (MOUs)
- Investigate potential to use existing money-laundering legislation
- Include SFM considerations in public procurement regulations (EU and other fora?)
- Demand side impacts:
 - Reduce paper consumption in North
 - Certification
 - NGOs, Germany/USA
 - Stop dumping
 - campaigns against illegal unsustainable plantations
 - WTO subsidies
 - Improve financial conditions for sustainably produced timber
 - USAID

SUPPLY-SIDE INSTRUMENTS

- Clear land ownership rights
 - Diversity in ownership
 - Land management planning
- Examples:
 - Eastern Europe, Thailand
 - Cameroon
- Promote payments, markets for environmental services
- Example:
 - Costa Rica
- Log tracking/certification, NGOs activities

INTERNATIONAL ACTIONS

- Reform/improve trade regulations framework
- Increase transparency
- Support civil society participation unions?

- Increase equality:
 - Support 677?
 - Develop alternative channels
- Impact assessments:
 - EU?

- UNFCCC:
 - Increase forest lobby:
 1. Get informed
 2. Get involved
 3. Get united (NGOs)
- Current decisions are not good for forests

- FLEG(T):
 - Data and statistical analysis
 - Regional & international
 - Link to other merger processes
 - Independent monitoring

- International legally binding instruments
- CBD/UNFF processes

- Agreed framework at global level on SFM definition (context: public procurement, non-discrimination)

WORKING GROUP NO. 3 – GOVERNANCE AND TRADE

Winners	Losers
“Facts”	Values/perspectives
Plantations	Natural forests
Primary products	Processed
Marketed	Non-marketed
Wood	Non-wood - Services - Alternatives
Producer	Consumer
Local	“External” “Footprint”
Domestic	Export markets (Other)
Forest area	Forest value
Sectoral	Extra-sectoral
Large-scale enterprise	Small

- Incentives for plantation development provided by consumption has negative social and environmental consequences
- “Internal” temperate trade growing – has negative consequences too (e.g. reduction in management when cheaper to import from elsewhere)
- Very little consumer pressure to improve management in some major importers (whilst own exports may require improved management) (e.g. China 10 million m³ imports and one own forest certified)
- “Country of origin” of product may not be origin of timber (in trade terms) = C.O.C. problem
- Energy policy – oil company power to override governments and other sectors
- Few public policy levers available

Demand-side/consumption problems

- Trade/import policies inconsistent with development cooperation policies, e.g. low level of linkage with producer government capabilities to capture resource rents
- Tropical timber a relatively low proportion of imports (when it is zero proportion – problem too – no leverage)
- Any action which can take likely to have some perverse consequences (e.g. displacing illegality)
- Illegal/corrupt transport and import chain
- Few mechanisms for deciding what/how much to consume
- Economic policy tends to override all sectoral policies
- Challenge to gain control over domestic market first (management for export market generally “better”)
 - NFP is promising
- Little plantation investment where natural forest (still) available
- High consumer country tariffs (20-30% on processed timber?) plus rules on domestic controls limits ability to promote local processing
- Security forces, customs, ports and harbours not working in concert with forestry governance
- Low formal constitutional benefits to local society leads to incentive for informal/illegal forestry
- Consumer “countries” have responsibility to invest in producer country capacity and to sort out import barriers
- Ability to control tied to ownership
- “Capacity-building” can be mis-targeted and is meaningless without stimulating incentives for improvement – “carrots and sticks”
- In “out of control” situations log export bans seen as one of few governance options. Others:
 - Increase engagement/stakeholder participation-negotiation
 - Improved log-lumber tracking systems
- Too many dogmatic/crass macro-economic prescriptions
- Massive revenue losses from illegality = domestic market less controlled than export market (Latin America and Central Africa)
- Small group of producers/buyers have most power (Brazil, Mexico, Central Africa)
- Changes in policies/subsidies in other countries + trade liberalisation = rise of land use alternatives (e.g. soybeans)
 - Will out-compete forestry
- Roads – catalytic of markets
- Impact of trade critically dependent on non-trade governance decisions
- Link to other policies, e.g. beef tariffs + soybeans as inputs to beef production chain
- Soybeans in Brazil might help forest management in China!
- Small number of big companies in control of cash crops

Context: Tropical timber production – from “forest rich” areas

- Domestic market may be big
- Different types of producers
 - Small-scale – follow the frontier – “termites”. Legal and illegal
 - Big. More static producers
- Should be able to control because all goes through key gateways (e.g. Belem)
- Trade focused on small number of species – but key factors can enable use of a wide range of others (Latin America + Central Africa)
- Protest/advocacy groups
 - Significant effect on export companies leaving free-reign of domestic enterprises
- Consumer pressure and government policy has stimulated certification
 - Secured market share (Bolivia)
- Removal of subsidies to parastatals has stimulated community forestry = socially vital
 - Regional trade agreement helps this (e.g. NAFTA)
- Trade agreements may increase gap between well-managed export sector and poorly-managed domestic sector
 - Knock-on effects: erosion of local governance or stimulus to better practice?
- Cheaper/more available (subsidised) plantation timber out-competes natural forest (community) management (e.g. US + Chile plantations)

WORKING GROUP NO. 4 – “EXTRA-SECTORAL INFLUENCES AND THE ENVIRONMENT”

1. Theme 1: Extra-sectoral influences

1.1 Key questions

- a) Which extra-sectoral influences affect trade in forest products and services?
- b) How do these influences affect SFM? What are positive and negative impacts?
- c) What is the direct impact of key extra-sectoral influences on international trade in forest products (e.g. prices, quality, type of products, flows)?

1.2 Documentation of issues discussed (based on key questions a) and b))

Positive impacts	Influences	Negative impacts
AGRICULTURE		
	Support to agriculture <ul style="list-style-type: none"> • Credit • Research • Foot & mouth control 	Increased agriculture profitability leased to reduced SFM competitiveness
	Agricultural reform	Land distribution Laws (Agrarian reform)
	Land tenure, colonization, “frontier issues	
	Agricultural commodities policy, increasing commodity crops for foreign exchange gains	reduce forest land through conversion
<i>Reduction of agricultural and expansion of forest land</i>	Agricultural subsidies in the North (US + EU) and effects on Soya bean prices	<i>Expansion of agricultural lands (e.g. Brazil)</i>
		<i>Social-environmental dumping</i>
Decreased commercial agriculture and increased forest cover in the South	Agricultural policies in the North	Expand commercial agriculture and reduced forest cover in the North
Increased forest cover	Trade leads to macroeconomic growth and development	
Agricultural intensification and increased forest cover	The sum of general subsidies and tax policies etc generally favour capital over labour	Shift labour to the frontier and decreases forest cover
	<i>Protection of natural resources for food security</i>	
	<i>Agricultural EU subsidies for planting trees</i>	

Positive impacts	Influences	Negative impacts
FINANCE AND INVESTMENT		
	Fiscal policies - balance of payment	Greater exploitation of forest resources
Increase support for trade in forest products to generate funds	International finance	Limited international finance support to SFM
World Bank new policies	Finance policies (Banking)	
TECHNOLOGY		
Higher growth rate/yield	R&D on GMO (tree spp.)	Reluctance of consumer to buy
Integrated models of SFM – Forest industry and environmental services	New technologies and global economic scale	Limitation to access of new technologies for small producers
DEMAND IN FOREST PRODUCTS		
	Consumer demand for certified products	
Increase in demand = more trade potential	Sectors using forest products e.g. housing, newsprints, etc	Increase in demand may put pressure on sustainability of existing forest resources
Less pressure on forests	Sectors producing substitutes to forest products (e.g. steel, plastics)	Potential for more energy consumption and GHG emissions
- greater concentration of consumers, higher purchasing power movement of forest products manufacturers closer to markets – greater efficiency	Urbanization policies, movement of rural populations to urban areas (increase service provision)	Reduce forest land due to conversion of forests
Consumer is educated and choose in better way	Communications on conservation of nature and consume	Effect prices and demand
INTERNATIONAL TRADE AGREEMENTS		
POLITICAL INSTABILITY		
	PROPERTY RIGHTS UNCERTAINTY	Reduced investment in SFM
	LEGAL ISSUES: EASING PROCEDURES FOR SFM VS OBTAINING TIMBER AS RESULTS OF DEFORESTATION	
POVERTY ALLEVIATION POLICIES		
Investment in <i>capacitation</i> and <i>asociation</i>	Social policy to solve problems of poverty	Less funds for direct conservation / protected areas
	Increasing value of forests vs increasing conflict on forest resources	
INFRASTRUCTURE		
Potential to improve timber processing (add value)	New infrastructure (road, energy)	Increased agriculture profitability, decreased SFM competitiveness
Higher potential for investment in forest sector	Infrastructure (roads, ports)	Less funds available for SFM
ENERGY		
	Use of wood for energy - firewood	

Note: Statements in *ITALIC* have been included by the moderator based on group discussions, other statement have been formulated by group members.

1.3 Promising initiatives identified during discussion (related to agriculture)

- Shape public policies
- Zoning of national forests
- Increase value of land/forest/timber and parallel measures (e.g. property rights, community forestry)
- Long term planning
- Good balance of productive/protective forests
- Property rights
- Emerging markets?
- Certification

1.4 Other comments

- Does forest matter?
- Forest not good competitor

1.5 Identification of issues related to key question c)

a) Agriculture

- Increase of timber supply (short term)
- Reduction of price (short term)
- Better infrastructure
- New market chain
- Agriculture subsidies for planting trees (North)
- Decrease of timber supply (long term)
- Higher local demand (?)

b) Infrastructure

- Reduced costs of production
- Shift of production centers
- Shift of products traded
- Better trade opportunities (transport)
- Increased opportunities for improved quality (infrastructure + public services, “industrial zones”)

c) Technology

- C1) Biotechnology
 - Ø Good quality (hybrids)
 - Ø Improved yields
 - Ø Reduced prices
 - Ø Improved competitiveness
 - Ø New market chain
- C2) Industrial Technology
 - Ø Consolidation of certain sectors (e.g. veneers, plywood)

d) Finance and Investment

- Less opportunities for trade in tropical countries
- Better opportunities for selected sectors (e.g. pulp and paper)

e) Demand in forest products

- Consumer sensitivity translated into the market chain

2. Theme 2: Environmental forest services

2.1 Key questions

- a) Which environmental forest services can contribute to SFM through international trade?
- b) How does/could trade in these services affect SFM?

2.2 Documentation of issues discussed (based on key questions)

Positive impacts	Influences	Negative impacts
Inputs for conservation and management	RECREATION/TOURISM	If not well managed may destroy forests
		Negative cultural impact
Forest cover maintained for water production	WATERSHED PROTECTION	Reduce areas for wood production
Reforestation of highlands	Water – its importance over wood production	
Promotion of secondary forests, agroforestry systems, plantations	Carbon sequestration	reduce forest land through conversion
<i>Reduction of agricultural and expansion of forest land</i>	Replace “sequestration” with “storage” (natural forests)	<i>Expansion of agricultural lands (e.g. Brazil)</i>
GEF projects	BIODIVERSITY	Might paralyze investment in SFM
	Market for conservation	
- income sharing to local communities - sharing/documentation of indigenous knowledge	Genetic resources	
	Private investors buying forests	
- income - indigenous knowledge documentation	HEALTH SERVICE	
- employment and income generation - , local guides, lodging, equipment - fees - sustainability	HUNTING (controlled game hunting) - income + foreign exchange gain	Environmental groups objection
	FISHERIES supported by forest ecosystems (floodplains, mangroves, etc.)	

Examples for watershed protection:

- Malaysia selling water to Singapore
- Electricity (e.g. Honduras – El Salvador, Venezuela-Mexico, Lao-Thailand)

3.5 Background Material

Key Issues and Draft Executive Summaries of Background Papers

for Discussion

in preparation of the

Expert Consultation:

**Trade and Sustainable Forest Management -
Impacts and Interactions**

**3 – 5 February 2003
Food and Agriculture Organization (FAO)
Green Room in Building A
Viale delle Terme di Caracalla
0100 Rome, Italy**

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1. Brief Description and Background of the Expert Consultation
2. Key Issues and Questions on Trade and Sustainable Forest Management
3. Tentative Outline of the main study for the Project GCP/INT/775/JPN
4. Summaries of Background Papers

How can trade promote sustainable forest management?

(Draft Executive Summary of first 4 chapters)

By Duncan MacQueen, Maryanne Grieg-Gran, James Mayers and James MacGregor

Trade Restrictions and Trade Agreements affecting international trade in forest products

By James Bourke

Linkages between Industrial Structure, Trade and Forest Management

By Maryanne Grieg-Gran and Duncan MacQueen

The Impacts of Forest Product Trade Liberalisation on Forest Governance

By Michael Richards

1. Brief Description and Background

Expert Consultation

Trade and Sustainable Forest Management - Impacts and Interactions

3 – 5 February 2003
FAO Rome
Viale delle Terme di Caracalla
00100 Rome, Italy

Introduction

The Expert Consultation entitled *Trade and Sustainable Forest Management - Impacts and Interactions* constitutes one of the activities within the framework of the Food and Agriculture Organization (FAO) global project *Impact Assessment of Forest Products Trade in the Promotion of Sustainable Forest Management*. The project is financed through a trust fund arrangement with the Government of Japan. With regard to the substantive discussions on impacts of trade of forest products on sustainable forest management, the project aims to provide information, analysis and a platform for informal debate in order to assist governmental institutions, international organisations, the private sector and civil society groups like NGOs in the elaboration of policies that encourage sustainable forest management. The project is supported by a project advisors group composed of eminent individuals from a range of international institutions, including NGOs.

Background

Many factors, including social, environmental and economic variables, influence the sustainability of forests. The links between forest products trade and sustainable forest management are complex and there are many differing views on all aspects relating to the subject. Certainly trade has an effect - both positive and negative - but the actual influence of various trade policies affecting the sustainable management of forests remains unclear. Despite the fact that their actual contribution is often uncertain, trade policies continue to be suggested as a major means of overcoming some of the problems.

Objective

The objective of the expert consultation is to contribute to a common understanding on how current developments in trade policies and market development will impact on the sustainability of forest management and how efforts in sustainable forest management are changing trade patterns and market shares.

Process of Project Implementation

FAO and the International Institute for Environment and Development (IIED) in London are cooperating with a variety of international and regional institutions in the aforementioned impact analysis. A major study on trade and sustainable forest management is being established which analyzes the issue from various perspectives, including market dynamics, policy making, governance and extra-sectoral influences. An outline of this study can be found in Annex 1.

In February 2003, the preliminary findings and research results will be presented based on the evaluation of experiences, analysis of policies and implementation as well as a review of literature and documentations on the topic. Several country case studies from the Philippines, Brazil, Mexico and Indonesia complement the work. The study will be finalised in May 2003.

The structure of this study will guide the expert consultation to be held in February. Since the study will be a comprehensive and holistic analysis of the issue of trade and sustainable forest management, the expert consultation with its broad range of participants will be also instrumental in enriching the document. Through the consultation process the document will be turned it into a contemporary analysis of the topic which fully reflects the current debate and the prevailing positions. The study therefore aims to identify the consensus found thus far and to present the diverging positions of various constituencies in order to arrive at constructive conclusions and identify further analytic work and research needs.

The process of project implementation will finish with a second expert consultation in April to which FAO intends to invite trade policy makers and trade specialists involved in debates on a new International Tropical Timber Agreement (ITTA), the implementation of the WTO Doha Declaration, regional trade agreements and national trade policy making. The results of this second expert consultation will also be reflected in the aforementioned main study of the project.

Organization of the Expert Consultation in February

The expert consultation is organized as an open and informal platform for discussions with participants acting in their personal capacity. The invitees come from a broad range of governmental and non-governmental institutions, international organizations and the private sector, and constitute a group of experts with a variety of backgrounds, experiences and views. In order to record these different views and substantive interventions, a full documentation of the expert consultation will be published on the FAO website.

2. Key Issues and Questions on Trade and Sustainable Forest Management

Current Debate on Trade and Forest Management

1. How can the current differences in perspectives regarding the impact of forest trade on sustainable forest management and their dynamics be developed into better common understanding and basic consensus for appropriate policies at different levels?
2. What is the nature of the inequities of developing countries in trade negotiations caused by capacity deficits and what are the unfavourable trade conditions deriving thereof?
3. Do environmental concerns limit trade in forest products and therefore further erode opportunities to manage forests in an economically viable way – particularly in developing countries where the capacity to add value to primary forest products is rather limited?
4. Must the multiple functions of forests (products and services) be maintained in every forest area, or might sustainable land use mosaics in a given country involve some legitimate unsustainable forest use or even deforestation in some parts? What role could trade play in such a scenario to maintain an effective balance of production and non-production forests?

Global Trends in Trade of Forest Products and Services

1. Given that only a small proportion of tropical timber felled enters international trade, and that in aggregate tropical countries are becoming net importers of wood, how relevant is trade to the improvement of natural forest management in the tropics?
2. Is the interest in SFM on the part of consumers and end users of wood likely to divert trade away from tropical countries and from natural forest operations and boost exports from temperate countries?
3. What are the implications of the shift towards plantations for trade patterns and for natural forest management?

Public Policies and Private Sector/NGO Engagement

1. Which public policy instruments, in which contexts, have most effect on trade in forest products and services?
2. What key opportunities/points of leverage in public policy are there for improving trade in forest products and services?
3. How can concerns about forest management be given more explicit consideration in extra-sectoral policy processes relating to trade and macroeconomic development?

4. How might one increase the weight of international processes on social and environmental issues and their impact on forest management and trade in forest products and services?

Trade Agreements and Trade Restrictions

1. Do current tariffs on forest products create significant problems for exporters and what are those problems (reducing possibilities for added value and investment in SFM)?

2. Should trade restrictions (tariffs, standards, government interventions, customs/administrative entry procedures etc.) be used for addressing social and environmental problems even if these problems are not being caused by trade?

3. What potentials do regional and international trade agreements carry for a positive impact of trade in forest products and services on sustainable forest management? What specific role could the Doha Declaration and its implementation process play in terms of policy development and operations?

Links between Trade, Finance and Industrial Structure

1. Will consolidation in the forest products sector lead to greater efficiency in the use of forest resources and more responsible practices? Or will such development towards a more compact industrial structure increase the market power of relatively few companies in the sector and enable them to exploit weak forest governance and undermine systems of environmental control?

2. Does the level of foreign ownership in a country's forest products sector matter in relation to forest management?

3. Can financial institutions play a role in promoting sustainable forest management (for example by making provision of capital conditional)? Or else, are questions of financial return, political risk and macroeconomic climate likely to limit the interest of those institutions to planted forests/ plantations in high and middle income countries?

Links between Governance and Trade in Forest Products and Services

1. Does international trade in forest products and services without appropriate consideration of social and environmental concerns act as a magnifier of existing forest governance problems or virtues? Or could liberalized trade lead more directly to the development of good forest governance systems?

2. How will forest governance in tropical producer countries be affected by consumer country measures or consumer behaviour to restrict imports of forest products from illegally harvested (tropical) timber and/or to avoid procurement of such products?

3. In the long-term certification may be the best market-based and trade-linked instrument for positive governance impacts. But how can certification be complemented to

prevent or minimise more negative short-term consequences? How can it become a tool to help domestic trade governance?

4. What are the key complementary institutional and environmental policies which should accompany trade liberalisation in weak forest governance situations?

Interactions between Extra-Sectoral Influences on Forest Products Trade and Land Use

1. Is the imposition of social and environmental standards in developed country forest sectors justified and appropriate or does it merely shift undesirable forest activities to developing countries?

2. To what extent does agricultural policy in the North America and Western Europe dominate forest and agricultural policy in the South and determine forest product trade patterns and forest management?

3. Are policies at the macro-level which favour capital over labour likely to lead to increased forest cover through agricultural intensification, or to increased pressure on forests from subsistence agriculturalists or other developments impacting on forests?

Impact of New Markets for Environmental Services on Trade in Forest Products and Services

1. Which forest environmental services can have potential for international trade?

- carbon
- biodiversity
- protection of international watersheds
- (eco)tourism and recreation related services
- other?

2. Which services lend themselves for trade and which are better handled through other instruments (e.g. user fees, taxation)?

3. What kind of market development strategies can be considered for each type of service with trade potential?

4. How to address timber benefits, particularly in carbon sequestration (incl. intensively managed reforested/planted areas), in connection with trading of environmental services and what implications can be expected for the promotion of sustainable forest management?

3. Tentative Outline of the Main Study for the Project GCP/INT/775/JPN

EXECUTIVE SUMMARY

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 - 10.4.1 Valuing forest goods and services, including non-market values
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REFERENCES

4. Summaries of Background Papers

How Can Trade Promote Sustainable Forest Management?

By

Maryanne Grieg-Gran, Duncan MacQueen, James Mayers and James MacGregor

DRAFT EXECUTIVE SUMMARY OF IIED CONTRIBUTION TO MAIN STUDY OF FAO PROJECT GCP/INT/775/JPN

Why trade-forest links are so important today

As the increasing momentum behind globalisation and the various movements opposed to it demonstrate, the question of how trade influences the balance between the rich, the poor and the environment becomes more important by the day. Previous analyses have covered vital ground in tracing the links between policies changing freedom of trade (primarily in forest products) and environmental impacts (on the forest itself).

This study broadens the analysis to consider what it might take to ensure that forests meet the diverse needs of multiple interest groups at local national and international levels in a sustainable manner. It seeks to assess the impacts of the forest trade on the provision of these forest-related products and services and, therefore, how trade might promote 'sustainable forest management' (SFM). The study is necessarily broad because it is increasingly recognised that many different policies (within and outside the sector) affect the comparative costs of forest products and services which are themselves diverse.

The shape and trends of forest trade

The study begins with an assessment of the main trends affecting forests and trade in forest products (and also to a lesser extent, forest services). A spotlight is directed at areas which have particular relevance for the impact of trade on SFM:

- The marked differences between geographical regions in terms of remaining natural forest areas (led by South and East Asia, former USSR and South America) and economically accessible forests (of which South America still has comparatively little) will have implications for future trade.
- The expansion of plantations (led by Asia) will divert supply away from less competitive natural forests to their benefit or detriment depending on contextual factors.
- The complexity of patterns of deforestation and lack of simple correlations between forest cover and deforestation rate, indicating that there are likely to be complex contextual drivers of deforestation and potential trade-forest impacts in different regions.

- The tiny proportion of certifiable SFM despite numerous international targets to the contrary, which is indicative of the low governance priority which SFM has.
- The trends towards increasing consumption, production and increasing trade as a percentage of production which is particularly true in developed countries for highly processed products
- The continuing importance of intra-regional trade flows and the gradual fall in concentration in global trade
- The transition of tropical countries from net exporters to net importers of wood due to growth in domestic consumption outstripping sluggish export expansion despite significant productivity advantages.
- The development of markets for environmental services which will change the incentives for the production of timber from particular forest types or in particular locations although as yet not to any significant extent.

The importance of an ample notion of sustainable forest management

Amongst the defining characteristics of forests, three are particularly notable for the prospects and impacts of forest trade:

- Forests take a long time to grow (which increases risk and requires high returns or incentives to stimulate investment)
- Forests occupy large areas of land (which increases interactions with multiple stakeholders)
- Forests supply important present environmental services and subsistence options (which makes their use for longer term commercial production contentious)

Any vision of SFM must therefore accommodate long time frames and balance the different needs and perspectives of multiple actors at local national and international levels. The study develops a framework of SFM which balances needs at all of these three levels: sustainable management at the stand level, sustainable forest land use mosaics at the national level, and sustainable levels of global forest cover to maintain the climate and global biodiversity. Sustainability at one level does not necessarily translate into sustainability at other levels.

Since the concerns of people to whom forest are important encompass financial, social and environmental issues, the notion of SFM within which trade impacts are assessed also has to incorporate these three dimensions.

The study argues that this it is only when the multiple perspectives and values which people hold are addressed within forest-trade analyses that the entrenched positions of particular interest groups can be broken down. The lens or framework of SFM through which the study views trade impacts is therefore a matrix with at least nine elements as depicted below. It is not necessarily possible to achieve all nine types of benefit

simultaneously and tradeoffs are likely to be involved. But it is important to broaden the assessment of trade impacts beyond financial benefits aggregated at the national or regional level.

A framework with which to evaluate the impacts of trade on SFM

Framework for assessing impacts on sustainability	Financial benefits	Social benefits	Environmental benefits
Local benefits adjacent to forest stands	Access and conditions for local enterprise and employment options ensured	Local institutions to negotiate forest activities developed	Local needs from forest environmental met
National benefits through mosaic of forest land use	National welfare from forest land use optimised	Transparent national institutional partnerships for forestry strengthened	National conservation and environment targets attained
International benefits at global level	The efficiency of international economic activity enhanced	Worldwide cooperation for good forestry fostered	Global climate and biodiversity

Because assessment of trade impacts on SFM goes well beyond management considerations at the stand-level, the study argues that it is important to pay particular attention to interactions between trade and forest governance – enabling policy, legal and institutional conditions – which must be developed if forest trade is to contribute to SFM.

The cast of characters and debates

Since, in order to make progress, we must engage with different stakeholder perspectives, we consider it vital to adopt a pluralist perspective – one that recognises multiple and potentially irreconcilable interests associated with forest trade. In so doing we acknowledge the validity of different value systems working to achieve outcomes at different levels (as indicated in the framework above).

The study characterises these positions (in the table beneath) - in an undoubtedly simplistic manner – the idea being to keep debate provoked and so to work towards

solutions or promising initiatives that result from areas of convergence within these conflicts.

The cast of characters and what they [might] say about forestry and trade

Characteron forestryon trade	Increasing influence on forest trade
• WTO trade negotiators	<i>No comment</i>	<i>Free it!</i>	
• Multilateral finance agencies	<i>Manage and conserve!</i>	<i>Liberalise it!</i>	
• National governments	<i>Mix sustainable use and conservation (vaguely)</i>	<i>Protect national producers and consumers</i>	
• Forest authorities	<i>Manage and conserve sustainably</i>	<i>Protect export duties or import tariffs that pay for management</i>	
• Transnational companies	<i>Give us control of healthy forest supplies!</i>	<i>Liberalise it harder – cut the red tape!</i>	
• National companies	<i>Make supplies and production systems economically viable</i>	<i>Liberalise it – unless we can be protected by import tariffs and export subsidies</i>	
• Private investors in forest industries	<i>(Some) Manage ethically! (Others) Make us rich quick!</i>	<i>(Some) No barriers to certification and fair trade (Others) No controls</i>	
• Consumers of forest products	<i>(Some) Manage sustainably (Others) Cheap wood – now!</i>	<i>(Both) Liberalise it!</i>	
• Consumers of forest services	<i>Here's the cash for storing carbon or saving biodiversity, but rarely both</i>	<i>Yes, liberalise it!</i>	
• Environmental donors and NGOs	<i>Environmental sustainability – now!</i>	<i>Control it!</i>	
• Social development donors and NGOs	<i>Social sustainability – now!</i>	<i>(Some) Liberalise it (Others) No - control it!</i>	
• Researchers and consultants	<i>(Foresters) Good forestry – soon! (Economists) Maximise human welfare – sometime!</i>	<i>(Foresters) Protect good forestry (Economists) No – you can't!</i>	
• Farmers at the forest-agriculture interface	<i>Secure our neighbourhood forests and enable tree farming</i>	<i>Protect our agricultural products we'll worry about forest trade later!</i>	
• Artisans and small-scale entrepreneurs	<i>Sustainable supplies of timber and ntfps</i>	<i>Protect our businesses!</i>	
• Forest dwellers	<i>Self-determination!</i>	<i>We reject export-led development</i>	

Drawing on these differences in perspective the study then explores the substance of some of the more substantial of trade debates. The debates are typically triggered both by disputes over values (whether a particular affect of trade is 'good' or 'bad') and in many cases disputes over facts (whether the stated impact of trade is hypothetical or actual). Some of the more common trade disputes which spill into the forest sector include the following:

1. *Invisible hand or Achilles heel?* Is there evidence that the predominance of trade through transnationals in the forest sector is precluding the capture of the national and local benefits predicted by standard economic trade theory?
2. *Rising returns or deteriorating terms?* Is there evidence that the historic differences between developing and developed countries in the forest sector leads to institutional inequality in the negotiation of trade policy, worsening balance of trade and an increasing skills deficit between the 'haves' and the 'have-nots'?
3. *The 'golden straight-jacket'?* Is there evidence that forest trade liberalisation is adopted voluntarily, or is it forced on national and local governance structures in defiance of what they perceive to be in the own interest?
4. *Rise to integrity or slide to corruption?* Is there evidence that trade liberalisation has led to improved governance, or is it usually implemented in parallel with governance cuts leading to an increase in corruption and illegality in the forest sector?
5. *Wealth first or environment first?* Is there evidence that, in meeting international demand through liberalised forest trade, social and environmental externalities are addressed, or is the reverse the case?
6. *'Steadying hand' or growing instability?* Is there evidence that increasing consolidation of trade in forest products and services leads to instability for developing countries with negative impacts on the environmental sustainability, economic viability and social acceptability of the forest sector?

For some of the debates currently raging in the forest sector there is substantial evidence, and the arguments are well rehearsed. But in several key areas evidence is sparse, and it is to these areas that the study turns:

- legitimacy of tariff and non-tariff barriers and other trade measures - current trade restrictions in the forest sector are few, and the debate is shifting towards an examination of the extent to which trade restriction is legitimate in order to protect social and environmental ends.
- inter-sectoral land use competition - international forest trade policies are not the main drivers of deforestation, but they may contribute to the level of competitiveness of forest land use in comparison with alternatives, which is a much more important driver of forest conversion.
- corruption and illegality - the extent of illegal international forest trade is enormous and whether trade has a causal link to illegality is an important issue.
- forest financing and industrial structure - the patterns of ownership and market power, particularly where transnational companies are involved, have generated concern over the distribution of benefits from forests.
- the development of markets for forest environmental services (MES) - potentially offering a market mechanism to address social and environmental concerns, MES are receiving increasing attention even if their impacts to date have been minimal.

- Rather than being restricted to issues of management, most of these issues fall within the broad remit of forest governance, thus endorsing the suggested governance approach.

The main policy instruments and processes

The arsenal of policy instruments and processes are available for the governance of forests and forest trade extends to all measures which affect the cost structure of the forest products sector relative to other sectors and relative to competitors in other countries.

Yet it is not just the measures themselves that are of interest. The study contends that forest trade also affects and is affected by the processes by which those measures are developed and implemented. This requires an examination of way some people are involved while others are not; the way institutional frameworks succeed or fail to integrate different objectives; the capacity people have to make changes; and the difference between what people say they will do and what people actually do. The attention to both policy and process is required in relation to:

- National policies - These include both forest related policies such as (National Forest Programmes (nfps) or forest trade policies and equally influential policies in other sectors with forest trade effects. Some of the policies which affect the competitive nature of sectors which vie with forestry for land and other inputs can have much more significant impacts than forest sector policies themselves. Pro-agricultural policies which support large-scale agriculture have had particularly significant effects on forestry. Policy support for sectors which use forest products, or which develop infrastructure, supply energy, promote security etc. will also have knock on impacts for forest trade. In addition to sectoral policies there are important macroeconomic policies which affect interest rates, stability and risk, investment, procurement and employment.
- Regional processes - There are more than 100 regional agreements which affect a range of processes from political and economic issues, to security and of course trade. Regional trade agreements are the most prominent of these. But regional mechanisms to control illegality in forest trade have also begun to receive support and provide more workable platforms upon which to develop new ideas.
- International processes - Although dominated by the legal strength of the World Trade Organisation (WTO) negotiations, there are host of other international agreements relating to environmental issues (climate change, trade in endangered species, biodiversity conservation etc.) and to social issues (core labour standards, guidelines for multinational enterprises, conventions on combating bribery etc.). The implementation of many of these social and environmental agreements is at the heart of many of the proposals of the United Nations Forum on Forests (UNFF). The challenge is to give these social and environmental agreements teeth in assessments of trade policy.
- Voluntary initiatives - Significant headway has been made with both demand side processes (e.g. certification and labelling, supply chain management, boycotts etc) and supply side initiatives (e.g. investment guidelines, corporate citizenship,

partnerships, criteria and indicators etc). The scale of influence of these initiatives is currently still small and it is not expected that the scale of desired change will be achieved through voluntary mechanisms alone given the extant competitive paradigm.

Trade Restrictions and Trade Agreements Affecting International Trade in Forest Products

By James Bourke

Draft EXECUTIVE SUMMARY

Introduction

Trade restrictions have important impacts. The difficulties they impose apply to exporters in both developed countries and developing countries. They also apply to those seeking to export to both developed and developing countries. The type and effect of different restrictions vary considerably, and are very product and country specific. This report is an input into the study '*Impact Assessment of Forest Products Trade in the Promotion of Sustainable Forest Management*' being prepared by IIED as part of the FAO/Government of Japan project of the same name. The IIED study is addressing the relationship between trade and sustainable forest management. In the context of the overall study, this present report focuses on the specific issue of trade restrictions. By considering what restrictions exist, to what level, and what the trend in them is, it is possible to consider the extent to which trade is being hampered. The overall thesis is that trade restriction limit trade, and hence liberalisation will expand trade. The difficult issue to consider is, if this is the case, is this increased trade supportive or not of sound forest management i.e. does increased trade assist or conflict with sustainable forest management. This latter question is much more complicated and difficult to answer with any certainty.

The report does not address the broader question of the impact of the trade on the sustainable management of the forests to any extent, but largely limits itself to the identifiable effects of trade restrictions on the sustainable management. Its main attention is on trade restrictions. It examines whether, and in what way, trade restrictions of various types impact on forest products trade. A related but separate issue that is addressed is that of regional trade and economic agreements, with a focus on the aspects that are aimed at encouraging trade liberalization. There are a number of these agreements which have forestry trade elements in them, and in particular which aim to reduce trade barriers.

Current Situation

a) Tariffs: Although generalized statements are difficult to make, it is clear that in **developed countries** most tariffs on forest products are currently generally quite low (less than 5 percent for most products) and only have a relatively limited impact on imports. There are, however, some significant exceptions to this statement, both in terms of countries and products. Wood-based panels (especially plywood), some value-added products, and various types of paper products have rates between 10-15 percent in several countries. For **developing countries** rates are much higher in many countries - typically 10-20 percent, but in some cases considerably higher. They are therefore more restrictive than those in most developed countries. As with developed countries rates tend to be highest on wood-based panels, some value-added products, and some paper products.

Many exporting countries are able to avoid full tariff rates by benefiting from special preferences which apply in specified countries. Members of regional groupings get benefits from others in the group, e.g. NAFTA (North American Free Trade Agreement), ASEAN (Association of Southeast-Asian Nations), New Zealand-Australia, and some countries give special rates to countries that they have close trade or political ties with e.g. European Union-ACP (African, Caribbean and Pacific Group of States), Commonwealth countries – while most (but not all) developing countries get the benefits of the Generalized System of Preferences (GSP).

Tariffs are both country and product specific, and whether they create problems depends very much on who the exporter is and who the importer is. It is difficult to state that any particular country is good or poor in this respect. Most countries are a mixture, with some products having low rates and others higher rates.

b) Non-tariff barriers (NTBs): These are much more difficult to evaluate, but as tariffs fall they become of more significance than tariffs. The main difficulty is in determining whether the non-tariff measures (NTMs) that exist are primarily being used as non-tariff barriers (NTBs) to restrict trade, or for other legitimate reasons.

Individual NTMs do not appear to be of major significance, but there are much greater difficulties when a number of measures exist together, and where tariffs are also present. Some NTBs have also been declining. Others, however, have been increasing. The main problem areas for forest products continue to be health and phytosanitary, and technical regulations and standards. These often create major difficulties.

c) Export restrictions: Although import restrictions are the most obvious barriers in forest product trade, export restrictions currently have a greater impact. They are common in most developing countries and in some developed countries, and have had a major impact on world trade patterns for some forest products – notably logs, sawnwood and plywood. Log export controls have increased markedly in recent years, especially as many tropical countries have attempted to retain logs for domestic processing, or as is the case more recently, to reduce harvesting levels in order to protect forests from overuse.

Export restrictions are likely to continue, since developing countries find them the most direct way of controlling some of the undesirable practices that exist in their forestry sectors, such as illegal harvesting and trade. The forms of controls are continually being changed or re-assessed.

In addition to this upsurge in export restrictions there is increasing use of controls on harvest levels. These are in place or scheduled in many countries. Although not trade restrictions these clearly have trade impacts which are similar to export restrictions.

As an overall assessment, in general import tariffs are not a major problem in most developed countries, but for specific products they can be significant. They are of more significance in many developing countries however. NTBs are more difficult to assess, but some appear to create considerable difficulties.

Liberalisation efforts are resulting in declining tariffs, and in many cases NTBs are either declining or the rules concerning their use and interpretation are being improved, resulting in less abuse. Their use is also becoming more consistent between countries.

In reverse, there are some individual restrictions (in particular trade impediments such as certification and labelling) that are increasing. Declining trade restrictions have largely given a more level playing field in international trade to all producers, rather than impacted environmental aspects; increasing restrictions are occurring in some cases and having an impact on sustainability issues.

While in general tropical countries are not singled out for more difficult treatment than non-tropical countries, there are certain exceptions to this. Typically the same rules and regulations apply to each. There are, however, situations in which it is more difficult for them to meet the specified requirements, some where they face higher tariffs or requirements, and some where they are specifically targeted. The latter is particularly true of those that fall under the category of trade impediments, such as in the regulations being developed for imports by local governments and municipalities. In this, tropical countries appear to be facing much greater difficulties than non-tropical countries.

Future trends in restrictions

Moves are underway on a new Round of WTO multilateral trade negotiations (the Doha Development Agenda). The new negotiations are 'comprehensive' and negotiations will cover a number of trade sectors. As a result countries will be able to make cross-sectoral trade-offs. In this process forest products often receive little focus when compared with some other sectors. Issues of significance to forestry are being addressed in many different fora and negotiating groups.

Few trade negotiations, including those concerning RTAs, place much direct emphasis on forestry issues, but most address development and environmental issues, both of which have an important forestry element. There are still many details to be resolved in the Doha negotiations, but tariff and non-tariff issues will be addressed together with a range of other issues, some of which have significance for forestry. There are many issues which will be addressed that may result in benefits to forestry trade but, as in previous rounds of negotiations, the benefits are unlikely to be substantial, although it must be borne in mind that many impacts could be significant for selected products and countries.

When the Uruguay Round commitments are fully implemented, tariffs in developed countries on many products will have been reduced to very low levels, or completely eliminated. Even before this occurs, further reductions may have been agreed to through the Doha negotiations. In addition, regional trade agreements (RTAs) are likely to continue to exert further downward pressure on tariff rates. In developing countries reductions will also result, and since their tariffs are considerably higher, their reductions will, in absolute terms, be greater – but the final level of their tariffs will still, in most cases, be higher than in the developed countries.

Overall it does not seem likely that the Doha negotiations will have major implications for forest products trade, though the effects will nevertheless be valuable to some individual countries. The impact for forestry should be for continued progress in the directions set in the Uruguay Round negotiations. Further tariff reductions will occur, with the reductions phased in over a period of years, but because tariff rates on forest products are already generally quite low, they will not be great. As a result of this, efforts will probably be directed to extending reductions to a wider range of countries than previously,

speeding up reductions already underway, and increasing the reductions on products that still remain a problem, such as panels and secondary processed wood products.

In most countries tariffs will become less significant. They will, however, remain high in some developing countries. The gains will be country-specific, being limited to certain products in particular markets, with some countries continuing to maintain high tariffs on some, but not all, of their products. Wood-based panels (especially plywood) and some value-added products will continue to face greater tariffs than most other products.

As far as NTBs are concerned, the outcome is more difficult to predict. Nevertheless it has been clearly indicated that the negotiations should aim to reduce or eliminate non-tariff barriers. There will be further progress on strengthening the rules surrounding them in order to limit or remove their ability to be used as trade barriers. Benefits to forestry will also come from the continuing scrutiny and the fine-tuning of existing Agreements, particularly to the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement); and the Agreement on Technical Barriers to Trade (TBT). Considerable attention will be directed to environmental issues. For forestry this may result in clarification of some relevant issues, such as how and where ecolabelling may be used without being considered a trade barrier. This would remove some of the ambiguity that exists at present and give clearer guidelines to work from.

The exact effect and direction in which the trade impediments will move continues to be difficult to predict with any real certainty. It will be heavily dependent on which markets institute them, the degree of support that is given by consumers, legislators and traders, and the extent to which harmonization or at least mutual recognition of different practices is achieved. While many have valuable objectives, they can also have undesirable effects and act in the same way as more formal trade barriers. A factor which makes them especially troublesome to exporters is that they are currently outside formal international trade rules. The attention they will receive in the Doha round may result in an increased focus on aspects that are of interest and concern to forestry.

RTAs will continue to expand, and efforts will be made to encourage greater integration between them. While their central focus is usually not on trade restrictions, most have an interest in at least harmonising restrictions within their RTA. Thus in the broader scheme RTAs will continue to encourage trade, and also to encourage improved efforts to achieve sustainability. On the narrower issue of trade restrictions, most encourage reductions between members of a particular RTA, and indirectly support and encourage greater global efforts to reduce trade restrictions. RTAs are also being both affected by the proliferation of bilateral trade agreements that have been or are being signed at present.

RTAs are likely to continue to contribute to further trade liberalization, either directly or indirectly. They now have a greater interest in sustainability aspects than previously, but not directly linked to liberalisation efforts. There is still, however, some variation of opinion on whether they are supportive or contrary to the global liberalisation efforts.

Impact of trade restrictions on sustainable forest management

It is difficult if not impossible to determine whether current efforts concerning trade restrictions are having any significant effect on sustainable forest management. Global trade in forest products has continued to expand, but much of this has little to do with changes in trade restrictions. Most of the changes in trade restrictions show little clear evidence of having a substantial effect on sustainable forest management – either positively or negatively. All it seems possible to conclude is:

- a) trade restrictions do have some impacts on sustainable forest management
- b) these impacts appear in most cases to be relatively limited
- c) trade restrictions can in some situations be used to support or assist improved environmental policies
- d) they may also have negative effects the contribution of trade restrictions to sustainable forest management are considerably less than other more direct policies, financial assistance, and human-resource development.

Perhaps the clearest message is that trade restrictions have only indirect effects on SFM, and where they appear to be able to make their greatest contribution to SFM they require careful development in order to ensure the effects are as expected. They must be associated with other related, and often more direct, measures and policies; be developed specifically for individual countries; and associated with bilateral and multilateral agreements between affected parties.

Because of this, major efforts should be put on other more direct policy and assistance mechanisms, but, where appropriate, coordinated with policies on trade restrictions. The aim should be to ensure that trade restriction policies are not against environmental policies. But equally environmental benefits should not be used as an excuse to move back to restrictive actions which are against free-trade principles.

The main drive on restrictions has been on their reduction, and to make their use and application more consistent and equitable. However, recent heightened interest in reducing deforestation and forest degradation, improving the management of forests, and/or reducing environmental impacts, has directed attention towards using restrictions as a means of encouraging/forcing improved management. This has resulted in actions and proposals which increase the level of restrictions, rather than reduce them.

On the surface it is easy to conclude that increasing restrictions might increase sustainable forest management. There are, however, many qualifications to this conclusion, and any use of trade restrictions should be carefully evaluated before being used. Whether the apparent positive benefits would in fact occur is very speculative. The most likely result is that overall, further liberalisation is unlikely to have much impact on SFM. Different restrictions affect different countries differently, thus the impacts are often country and even regional specific.

In developing countries the effects are more likely to be negative unless accompanied by sound country-level forest policies which place clear limits and controls on exploitation, and are able to be effectively enforced. This increases the importance of paying close attention to any moves to increase restrictions, in order to ensure that trade is not disrupted and that environmental problems are addressed. One thing is clear: trade restrictions are a poor mechanism for addressing deforestation and degradation problems. They may, however, if soundly developed, assist more direct policies.

Overall, continued reductions in tariffs are unlikely to have any substantial effect on sustainable forest management since tariffs have in most cases reached low enough levels for them not to have a major impact on trade and/or consumption. There are nevertheless situations where they may have an effect on some countries or on particular products.

Increased emphasis on NTBs which focus exclusively on environmental issues, may have environmental benefits, but again there is considerable uncertainty on a) what these benefits might be b) what other negative effects might exist c) whether the environmental benefits more than counteract the loss in economic benefits and thus d) what the net situation might be. For NTBs, apart from health regulations, improvements in SPS and TBT rules may not be directly impacting environmental issues. Trade impediments on the other hand may be having some direct effect where imports are limited to certified or similar products, but the exact effects appear to be ambiguous.

Linkages between Industrial Structure, Trade and Forest Management

By Maryanne Grieg-Gran

DRAFT Summary Discussion Paper
January 2003

Aims of the Sub-Study

This sub-study examines how the structure of the forest products industry affects the expansion of trade and the impacts of trade on forest management. The term industrial structure is used here to refer to some key characteristics of the forest products sector which are thought to influence the conduct and performance of companies within it. These include characteristics related to:

- *market structure* such as the number of sellers and buyers at different stages in the production chain, the extent of horizontal and vertical integration and the presence of barriers to entry,
- *industrial organization* - the extent of specialized sub-contracting and outsourcing- ownership

Background

Forest product companies, like those in other sectors, have been both consolidating through mergers and acquisition and investing in other countries. Some estimates put the percentage of world forest product trade controlled by trans-nationals at 80-90% but these date from a study carried out in the 1980s. Nevertheless, foreign investment has been on the increase since the 1980s. Many of the leading pulp and paper companies, which in the 1960s and 70s typically operated solely in their home country, now have a global reach with forest operations, manufacturing facilities and distribution activities in a range of countries. In Cameroon, only 25 out of 300 forestry companies are purely national. In Indonesia, the top ten timber companies recently held 47% of the total forest concession allocation, amounting to 24 million hectares – more than one fifth of the total Indonesian forest area.

There are potential advantages to such changes in the structure of the forest products sector. Larger companies can exploit economies of scale and so increase efficiency, foreign-owned companies can bring new technology and skills and the injection of additional capital can enable a more long-term perspective, crucial for sustainable forest management.

Yet there is concern that the growing power of these trans-national companies as they increase their size and market share will fuel the race to the bottom and contribute to forest destruction. It is also believed that the presence and interest of large companies will undermine forest governance and existing rules on land use.

Implicit in this concern is the fear that any economic gains from trade liberalisation will be captured by large powerful companies rather than bringing increased benefits to local communities, landholders or governments. Thus, the World Rainforest Movement points to the huge profits of trans-national companies and banks and the cheap prices paid by consumers at the expense of loss of natural capital to local peoples such as the Baka pygmies in Cameroon, the Nahua people in Peru and the Saramaka people of Suriname.

It is therefore important to study the changes in industrial structure which have taken place in the forest products sector at an international level and more specifically in different countries, to examine what has driven these changes, in particular the link with trade and trade liberalization efforts, and to assess implications for the extent of sustainable forest management and the benefits and costs which accrue to different groups from forestry.

A general analysis of trends in the structure of the forest products sector and their likely implications will be supplemented by detailed examination of the situation in three case studies in Ghana, Philippines and Brazil. These case studies are ongoing and results are not yet available. The discussion that follows is intended to provide an overview of the issues and stimulate debate.

Changes in the Structure of the Forest Products Sector

The forest products sector is heterogeneous but in terms of industrial structure a broad distinction can be made between companies engaged in pulp and paper production and those primarily concerned with solid wood products.

Pulp and paper production tends to be more capital intensive than most types of solid wood production, which implies greater barriers to entry by new producers. In the pulp and paper sector, there has been a noticeable trend towards consolidation both within and across national boundaries, with for example, outward FDI from Finnish forestry firms increasing tenfold over the period 1988 to 1998. The sector however, is considered fragmented in comparison with other manufacturing sectors.

The biggest deals in the pulp and paper sector are typically between companies in developed countries. North-South foreign investment, although on the increase, is relatively minor compared with trends in the solid wood sector. International Paper, the world's leading company in terms of paper and board output, has the majority of its overseas operations in New Zealand and Europe and the only developing country where it has investments is Brazil.

Much of the merger and acquisition activity has been of the horizontal integration type that is between companies at the same stage in the production chain. Trends in vertical integration and diversification are less easy to discern and the picture is rather mixed. Over the long term the trend has been towards both of these. For example, the Canadian company, Kruger, which started off as a fine paper wholesaler integrated backwards into paper production in 1950 and since then has expanded its range of products and countries of operation. A more recent trend though, is for companies to divest non-core assets and to concentrate on core businesses. Stora Enso, for example, has moved out of energy generation and specialty paper for this reason, but with its significant capacity in both paper products and timber products is still relatively diversified. Georgia Pacific has recently announced plans to sell a majority stake in its global paper distribution subsidiary and to split into two companies, one concentrating on consumer products and packaging and the other on building products and distribution.

Companies in the solid wood sector are typically smaller than the companies in the pulp and paper sector. The Danzer Group, which is considered the market leader in hardwood veneers, had 5000 employees worldwide and sales of €540 million in 2001 and Louisiana Pacific, a leading manufacturer of wood-based building materials had about 8,000 employees and net sales of US\$1.9 billion. By way of comparison, Stora Enso, ranked number 3 in the world terms of output volume, had 43,000 employees and sales of €13.5 billion in 2001. There has perhaps been less of a marked recent trend to consolidation at the international level than in the pulp and paper sector. This reflects the fact that foreign investment generally started earlier than in the paper sector. European companies have been investing in forest operations in Africa for decades while Asian companies have had significant foreign investments in the forestry sector since the 1960s but primarily within Asia. They have however, intensified their foreign investments since the 1990s and moved into other regions, notably South America and Africa. More recent moves by European companies are into Eastern Europe, for example Danzer Group is closing veneer production in Germany and Belgium and building a new veneer mill in Prague.

Specialised sub-contracting is more common in the solid wood sectors than in the pulp and paper sector and is particularly important for furniture. 75% of Malaysia's furniture exports are produced under sub-contracting arrangements.

It is also more common for solid wood companies to be family-owned, private companies or at least family-controlled in the case of listed companies. In contrast most of the large pulp and paper companies are listed companies, with shares increasingly held by financial institutions. There are some important exceptions though, for example the Canadian company, Kruger, is privately owned.

Companies in both pulp and paper sectors and the solid wood sectors in spite of consolidation trends are still small in relation to those in the sectors they sell to. More important though is the level of concentration in the buying sectors. This varies but is thought to be growing in some sectors.

The Relation between Industrial Structure and Trade

To what extent have these changes in the structure of the forest products sector impacted upon trade patterns and to what extent are they a result of trade expansion and changes in trade policy? In practice it is difficult to separate the two.

The expansion of trade and the opening up of markets through trade liberalization has been an important driver of the process of consolidation and of mergers and acquisitions across national boundaries. This is because in order to compete on the global market, companies have to search for ways to maintain competitiveness. They can lower costs of production through exploiting economies of scale and scope, implying consolidation, or by shifting certain stages of the production process to low-cost locations, implying foreign direct investment. But trade restrictions, in particular the log export bans in South East Asia, have also played a role prompting wood processing companies in search of raw materials to invest in logging operations in other regions.

Foreign direct investment can sometimes have a trade-reducing or trade-diverting effect by giving companies direct access to the market in the host country. Norske Skog's investments in South America, for example, are motivated by the growing market for newsprint there. The company is now the largest supplier of newsprint in the region. But these types of market-seeking investments appear to be less common in the forest products sector, than resource or labour-seeking investments. Thus foreign direct investment appears to have been primarily a driver of trade, facilitating access to forest resources in host countries, to supply home country markets as well as other markets and supplying the capital and technology to enable an export industry to develop. This applies to both the solid wood sector and the pulp and paper sector.

Exports of logs from West and Central Africa have been driven by the investment of European companies there and latterly Asian companies, while export-oriented plantation developments in South America have involved significant amounts of foreign investment.

Links between Industrial Structure and Forest Management

The implications of different types of industrial structure for forest management are complex and no firm predictions can be made without reference to the governance and policy context.

As companies increase their market share through expansion and horizontal integration and wield greater amounts of market power, they increase their buying power in dealing with suppliers, particularly of wood raw materials and their selling power in relation to consumers and end-users. This means that they may be able to exert pressure on their suppliers for improvements in forest management. At the same time they may be able to ensure that it is their suppliers that incur the additional costs. But greater selling power may mean that they can resist calls from their buyers for improvements in forest management.

Increases in the size of companies can affect their bargaining power with governments as they become more crucial for employment and government revenue. This may influence the terms on which they access forest concessions and increase the scope for discretion in the enforcement of forest policy. Cameroon, where just ten parent groups (including five wholly or partially French-owned) hold half of the country's logging concessions, is widely cited as an example. According to Global Forest Watch, despite a theoretical maximum holding of 200,000 hectares per parent company, three of the parent groups operate in direct violation of this law or through their subsidiaries.

Alternatively, the unit costs for government agencies of monitoring larger companies are generally lower making them the most likely target of government inspection activity. Moreover, large companies are generally more visible to the general public, facilitating NGO campaigns.

Trends to vertical integration, particularly to downstream activities, may have the effect of simplifying the production chain and making the company at the forest operation level more visible to consumers. In environmentally sensitive markets this may intensify pressures for improvement in forest management and give a stimulus to forest and chain of custody certification. However, there are few examples of this happening, and in some cases companies have been able to keep a low profile even where they produce items sold at retail level.

Stationery products originating from Asia Pulp and Paper, allegedly from unauthorized natural forest clearance in Indonesia, were sold through British retail outlets under other brand names and were not easily associated with the company.

Rather the pressure from end-users and consumers for SFM has led some wood product manufacturing companies to integrate backwards and increase their control over their sources of wood raw materials. An example is given by Tramontina a producer of wooden kitchen utensils and garden furniture in Brazil which having had little success in persuading its suppliers to change their practices, has bought forest land in order to apply for forest certification. Similarly, Castle Doors, a US company with a manufacturing subsidiary in Bolivia, and a supplier of Home Depot, has stated plans to move into lumber production by acquiring forest concessions from the Government of Bolivia in order to achieve 100% certification of its products. Other advantages for the company of such backwards vertical integration would also be price and availability control.

Increasing foreign involvement can have both positive and negative impacts and the outcome can vary depending on the business strategy of the investing company, its sources of finance, the markets it is targeting and the policy context in which it operates.

Foreign direct investment may bring improvements if the investing company has a global set of environmental and social standards and a declared policy on sustainable forest management and is concerned about maintaining its reputation. Most of the leading pulp and paper companies have policies or declarations on their commitment to sustainable forestry available on their websites and some solid wood companies also, for example Danzer Group. Shell had a policy of sustainable forest management for its plantations divisions and obtained FSC certification in 2001 for all its forest operations in South America.

But it can be equally argued that the prime interest of some investing companies is to secure raw materials and labour at low cost, making forest mining without any consideration to long-term management the most financially rational strategy for them. One implication though is that the companies that are concerned about their reputation will shift their investments away from natural forests in the tropics to plantations where requirements for certification can be more easily met without compromising commercial viability and competitiveness.

Transfer of technology and skills may improve harvesting techniques and increase processing efficiency and so increase the viability of SFM. Moreover, there may be spill-over effects on the forest management of small and medium companies that are linked with foreign-owned companies as suppliers. Gethal, a plywood producer in Brazil with majority US capital, is actively encouraging its suppliers to improve their forest management practices and to seek certification.

Foreign investors may facilitate access to markets in their home countries or regions and so may bring contact with environmentally sensitive consumers. The implications of this depend on the size of these markets.

As foreign investment decisions are often heavily dependent on the availability of finance, the interest in sustainable forest management of the financial institutions can be important. The involvement of official finance institutions, multilateral and bilateral development finance institutions such as IFC and FMO of the Netherlands and export credit agencies should in theory provide scope for looking beyond financial returns to questions such as social and environmental and overall development impact. In practice export credit agencies and to a lesser extent DFIs have been heavily criticized for their involvement in some controversial forest investments, notably Asia Pulp and Paper in Indonesia.

Both types of agency have been taking steps to adopt more comprehensive ways of assessing their investments in order to address environmental and social issues. But CDC, which was one of the first bilaterals DFIs to develop and monitor ethical principles for investment and which in the past had an extensive forestry portfolio, has decided to move out of forestry because of its low returns in relation to other sectors.

IFC has taken environmental issues more seriously than other agencies with safeguard policies on forestry and a range of other issues. Its involvement in the forestry sector aims to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development. The effect of its policy though has been to limit its investments in natural forest management. Between 1992 and 1998, 64% of its total forest-related investment involved plantations and 36% boreal/temperate forest. There were no investments in tropical forests as IFC's safeguard policy in operation since 1991, states that it does not finance commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.

The involvement of private financial institutions that specialize in socially responsible investment or that have a particular interest in forest management also provides scope for influencing the performance and attitudes of the company. In the case of the Brazilian plywood manufacturer, Gethal, forest certification was one of the conditions required by the U.S. investment fund manager GMO which acquired a majority holding in the company in early 2000. Other timberland investors in the US, such as Hancocks are also investing outside of the US, but a prime consideration in choosing and assessing an investment location is political risk. Their preferred investment locations have been developed countries or middle income developing countries in Latin America. Africa, apart from South Africa has received little attention from them.

Higher International Standards or Rent-Seeking Race to the Bottom?

The Impacts of Forest Product Trade Liberalisation on Forest Governance

By Michael Richards

DRAFT EXECUTIVE SUMMARY

The objective of this study is to assess the impacts of forest trade policies, especially trade liberalisation, on forest governance. This was based on a literature review and three country case studies – Brazil, Indonesia and Mexico. The emphasis is put on national (public, private and community sector) forest governance in developing and transition economy countries, since this is where governance problems like illegal logging and corruption are most problematic.

A brief review of trade policies found that it is difficult to establish an overall trend towards trade liberalisation. Reductions in tariffs have been counteracted by a range of non-trade measures – mainly trade restrictions by poorer countries, and subsidies by wealthier nations - to protect domestic forest industry.

An analysis was carried out of the various pro and anti-trade liberalisation positions over forest governance impacts. Evidence surrounding the following overlapping issues was collated and assessed:

- Impacts of trade policies on rent seeking and corruption
- The effect of increased external demand pressures on forest level governance
- The role of green international market pressures, especially certification
- The role of transnational companies and the ‘race to the bottom’
- The effect of trade policies on the temptation to cut compliance costs
- The capacity of governments to limit or internalise externalities
- The links between trade liberalisation, wealth creation and improved governance

It was found that the empirical basis for both (pro and anti-liberalisation) sets of arguments was weak, fundamentally because trade policies and pressures are weaker drivers of forest governance than non-trade factors. The impacts of trade policies on forest governance are weak, indirect and sometimes perverse. They are also difficult to identify due to the complexity of trade and governance interactions.

Much of the evidence is therefore conflicting. For example, while political corruption tends to fall following removal of trade restriction (since discretionary powers are reduced and transparency increases), there is likely to be an increase in rent-seeking opportunities to other actors. There is also evidence from Southeast Asia that export booms can lead to forest sector institutional breakdowns due to political interference with the concession allocation system. Increased external demand pressures can have positive or negative governance and environmental effects depending on regulatory capacity and other policies. Even neo-classical economic theory is ambivalent about the effect of higher rents on corruption.

The evidence does however suggest that trade policies and pressures can be a stimulus to either a virtuous governance cycle (providing regulatory weaknesses and externalities are tackled) or a downward spiral. The impact of trade policies depends on the presence or absence of underlying market, policy and institutional failures. External trade is thus a magnifier of these failures or of successful efforts to rectify them, for example through internalising the externalities. Accompanying non-trade policies, both sectoral (regulatory, competitive concession bidding, forest taxation, etc.) and extra-sectoral (decentralisation, state downsizing, devaluation, etc.), can therefore either ameliorate or exacerbate the potential adverse impacts of trade policies.

The three case studies confirmed these literature-based findings. They showed that both freer trade (tariff reductions in Mexico) and increased protection (Indonesia's log export ban, and Brazil's ban on mahogany exports) could exacerbate underlying problems and result in incentives for non-compliance. They confirm the concern that trade policies are unreliable for pursuing environmental objectives, and can cause perverse incentives. For example, Brazil's attempts to control the mahogany trade have increased corruption, especially species mis-specification, and diversion of mahogany to less discriminating markets, including the domestic market.

The Brazil case study found that in general external trade pressures are encouraging better governance; certification is exerting an important market access incentive for, in particular, foreign companies operating in Amazonas State, and is having a knock-on effect on the domestic market with the establishment of a buyer's group. But the superior governance record of the export-oriented Amazonas companies, in comparison with the largely nationally-owned and domestic market oriented operations in Pará State, is due to a range of more powerful determinants of forest governance like road access, tenure security and the scale of frontier clearance timber. The increased media and regulatory attention to the mahogany and export sector issues has however been at the cost of reduced vigilance of the domestic trade in which forest governance problems are worse. The Mexico case study also found the governance problems are more acute for lower value domestic production.

In Indonesia, external trade policies and pressures are reported to be less important drivers of corruption and illegal logging than political and financial instability, and the lack of law and order. At the same time the demand for logs from Sabah, China and other countries was found to be fuelling the illegal export trade. An important aspect of this is that China's logging ban and marginally better control in Malaysia have increased the governance pressures on Indonesia forests. Another observation from Indonesia is the way decentralisation has caused a shift in rent-seeking opportunities and corruption away from central government and large companies to local government and small operators.

In Mexico it was felt that trade liberalisation has probably had an overall net positive governance impact, but that other inappropriate policies and the structural adjustment programme (SAP) have been more important drivers of negative governance impacts on the community forestry sector. The timing of the SAP before the first wave of tariff reductions in 1986, and the deregulatory forest law before the implementation of NAFTA in 1994, were both very poor preparations for trade liberalisation, and resulted in large increases in unregulated logging. This brings out the vital issue of sequencing.

As argued by Stiglitz and others, regulatory and institutional strengthening must precede trade liberalisation, not follow it. Another clear consequence of trade liberalisation in Mexico has been to widen the governance gap between the higher value, formal, regulated and more export-oriented community forestry sector, and the lower value, informal, unregulated and more domestic-oriented community forestry sector.

In all three case study countries, the domestic trade was much bigger than the export trade, and the forest governance problems considerably more acute and less well regulated. Therefore much greater efforts are needed to tackle domestic market governance issues. Again, building institutional capacity for greater regulatory control, combined with efforts to increase civil society participation in policy and monitoring processes, and to increase the incentives for sustainable forestry, like environmental service payments, are critical. This is an essential complement to the multilateral trade-based approaches espoused in the EU Forest Law Enforcement and Governance process.

The Indonesia case study and wider literature confirm the concern that an improvement in forest control in a wealthier country, which can afford to substitute imported for domestic production to meet a domestic market shortfall, will increase the environmental and governance pressures in poorer neighbouring countries. An FAO report also reports that countries which have imposed logging bans have greatly increased their log imports. As Sedjo (1996) comments, in the context of stricter controls in the US and Canada, “logging restrictions in some places will simply be offset by logging increases elsewhere. In short, the issue is not whether to log but where to log.”

The implication of this is that unilateral approaches to improving forest governance are unlikely to result in a net overall improvement in forest governance, and that regional and multilateral approaches are essential. While this confirms the importance of the regional Forest Law Enforcement and Governance initiatives, there is a concern over the EU-led consumer country measure to legislate against illegal timber imports. As with certification, there could be perverse governance impacts in poorer producing countries, at least in the short term. The verification costs required for importing are likely to further reduce the competitiveness of natural tropical forest products compared to temperate and plantation products, resulting in their diversion towards less discriminating domestic and external markets. A recent ITTO study reports a consensus view among tropical timber producers that consumer country measures to prevent illegal timber will be another major obstacle for them. The higher costs of legal production will also be a further incentive to illegality.

The most important accompanying ‘stick’ for the ‘carrot’ of trade liberalisation is a strengthening of forest sector institutions or regulatory capacity in poorer producer countries – although great care is needed to ensure that increased effective, as opposed to paper, regulation does not increase the transaction costs of ‘good forestry’. When regulatory capacity is weak, either higher stumpage values (higher returns from illegal logging) or lower prices (increased pressure to reduce compliance costs) can increase the incentives for illegality.

It is clear that considerable financial support, as well as domestic political will, is needed to make this transition. The strengthening of producer country regulation and institutions should be regarded as the other side of the coin of consumer country moves to ban illegal imports. This includes adequate resources, training and incentives to implement stricter control, as well as a greatly enhanced role for civil society, as shown in the *vigilancia verde* programme in Ecuador. The bilateral partnership approach, as in the UK-Indonesia Memorandum of Understanding, is therefore a critical model.

Finally there is an important political economy aspect to forest governance. The transition towards more effective forest governance usually only happens in more economically developed countries with mature democracies, although the recent progress in Bolivia and Ecuador does not make this an iron law. There is a strong correlation between the quality of governance and income per capita. Poorer producer countries like Indonesia are still heavily dependent on natural resource exports, and thus often suffer from 'resource curse' governance problems. Democratic progress and political stability are also essential. For these reasons, Brazil and Mexico are making some progress in improving forest governance, while Indonesia is caught in a downward spiral. Improving forest governance is therefore integral to the wider processes of economic and democratic political development.



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