

## Tariffs and non-tariff measures in trade of forest products

The forest products sector is estimated to contribute about 1.2 percent of world GDP and approximately 3 percent of international merchandise trade. Industry annual turnover exceeds US\$200 billion for four product categories: roundwood and sawnwood, panels, pulp, and paper. In 2003, global production of industrial roundwood was close to an estimated 1.6 billion cubic metres, with an increasing proportion of timber originating from planted forests. Forests also provide important goods and services, including wood energy, food and other non-wood products, for 1.2 billion people of whom approximately 90 percent live below the poverty line (FAO, 2004a).

Trade in industrial roundwood has doubled in volume over the past 40 years and is expanding rapidly. Trade in processed products is increasing as well. While exports of forest products from non-tropical countries are on the rise, those from tropical countries seem to have remained fairly static since the 1970s (FAO, 2004b). In terms of markets for forest products, Europe is experiencing growth, markets in the United States continue to be strong, and China has become one of the world's largest log and sawnwood importers, particularly of tropical timber (UNECE/FAO, 2003).

Although global trade in forest products is expanding, it is influenced by trade measures that determine market access and vary considerably by product, region and country, including:

- import tariffs;
- export restrictions, including logging bans;
- technical product standards, including production and processing methods;

- sanitary and phytosanitary measures;
- environmental and social standards, including certification and product labelling.

Import and export tariffs and most non-tariff measures are based on national policies and legislation. Concerns over forest degradation and loss of forest cover, however, are heightening pressure on governments, the private sector and international institutions to address the impact and interaction between trade and the environment, and specifically their relation to sustainable forest management (ITTO, 2003). Deliberations on international and regional trade, including those of the Committee on Trade and Environment (CTE) of the World Trade Organization (WTO), are focusing on these issues. Thus, there are indications that the obligations countries assume when they become members of WTO and regional trade agreements will increasingly affect the terms of trade in forest products and services (Neufeld, Mersmann and Nordanstad, 2003).

### IMPORT TARIFFS AND TARIFF ESCALATION: ATTEMPTING TO MEET INTERNATIONAL OBLIGATIONS

As a means to target market access and market shares for domestic producers of timber and wood-based products, tariff escalations – higher tariffs applied to the import of value-added products – are widely used to support and protect domestic forest industries and small-scale producers. Where the forest sector is evolving, many governments also offer subsidies and other incentives for forest production and processing (Rytönen, 2003).

While the Uruguay Round of trade negotiations brought about significant reductions in import tariffs, tariff escalations still limit trade in forest and wood-based products. Moreover, the fact that some large importers such as China did not participate in the Uruguay Round diminishes the impact of its outcomes. In developed countries, tariffs on forest and wood-based products are low – less than 5 percent for most – and have a limited effect on imports. Significant exceptions for some countries and products apply to wood-based panels and paper products that have tariff rates between 10 and 15 percent (UNCTAD, 2003a).

Tariff rates are more elevated in developing countries, particularly in Asia where they usually range between 10 and 20 percent but can be considerably higher (FAO, 2004a). On the other hand, generalized systems of preferences (GSPs) and special arrangements under regional and bilateral trade agreements reduce the effects of tariffs on imports into developed countries. These tariffs, particularly on value-added products, were established in many countries to support domestic industrialization rather than to support sustainable forest management. However, recent efforts to link tariff measures and environmental issues are meeting with some criticism. An example is the GSP of the EU, which grants a tariff preference for selected tropical timber products from sources that are managed according to internationally acknowledged standards and guidelines (Council of the European Union, 2003).

### **NON-TARIFF MEASURES: CAPTURING THE POTENTIAL**

Non-tariff measures, unlike tariffs, are difficult to characterize. It is not easy to determine whether a non-tariff measure is government initiated or consumer driven. It is also difficult to ascertain whether a non-tariff measure has been put in place to support and protect domestic forest production and industries or whether it was introduced to support sustainability within the forest sector and its industries. Concerns of consumers and civil society groups, mostly

in developed countries, often coincide with government objectives in applying non-tariff measures (Borregaard and Dufey, 2001). In many cases, such action is taken to enhance sustainable forest management, particularly in the tropics. However, non-tariff measures also cover policy decisions that, on the surface, are not connected to trade and market development for forest products – for example, support to markets for environmental services (Shahin, 2002).

In contrast to regulatory mechanisms, many non-tariff barriers to trade are informal, consumer based and government supported. The best examples are forest certification (see Box on page 110) and product labelling schemes, which exporting countries often perceive as trade barriers because of their potentially significant impact on both volume of trade and product composition. Although market based, these schemes influence the development of national policies and government actions such as standard setting for forest management and wood processing. As a result they are subject to controversial debate at all levels.

Empirical evidence shows that non-tariff measures that are driven by environmental and social concerns frequently limit market access, especially to tropical timber (Rytkönen, 2003). Legislation developed by the EU and other consumer countries to restrict imports of illegally harvested and traded timber is an example of such a measure (Council of the European Union, 2003). As a result, trade patterns and geographic distribution of trade in forest and wood-based products tend to shift towards less sensitive markets where concerns over forest management and production and processing methods have less influence on market access and market shares (Sun, Katsigris and White, 2004).

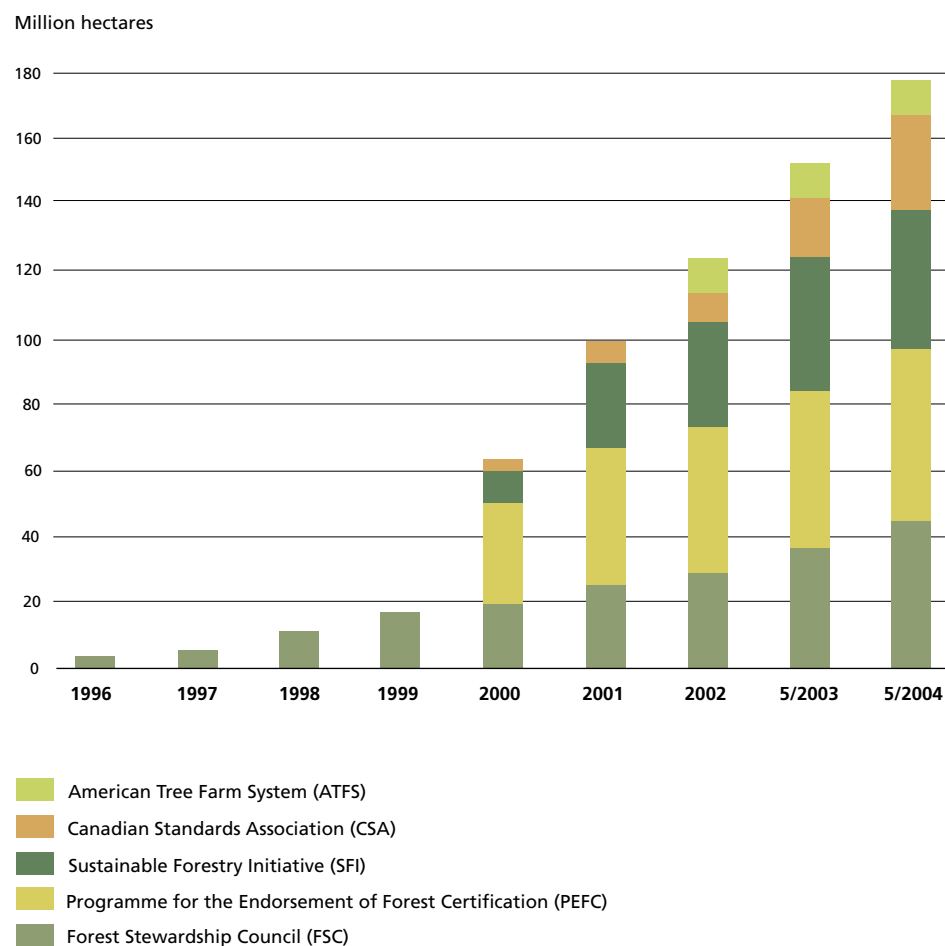
In producer countries, national export restrictions continue to be among the more frequently applied non-tariff measures of significance. They include total export bans, export quotas and selective bans based on species; direct charges such as export taxes or export levies; restrictions on quantity because



## Certified forest worldwide

The area of certified forest has been increasing steadily (Figure 13). Close to 90 percent of the more than 176 million hectares certified around the globe are situated in the Commonwealth of Independent States, Europe and North America. However, this amount represents less than 4 percent of the world's forests.

FIGURE 13  
Area of certified forest, 1996–2004



Note: Area in 2003 and 2004 is through May.  
Source: UNECE/FAO, 2004.

of limits on harvest levels; and administrative controls such as permits and licences. Export restrictions are common in most developing, and in some developed, countries. Compliance with CITES constitutes a trade limitation for those forest products listed in the agreement's annexes (Mulliken, 2003).

In the past, countries exporting tropical timber used export taxes to raise revenue and support domestic industries. Taxes ranged from 10 to 20 percent for logs, while those for processed products such as veneer and plywood were often negligible because of the need to promote forest-based commercial activities (FAO, 2004a). In cases where export taxes are low and represent the only means for governments to capture income, they should not be regarded as a way to discourage exports. Policy objectives, however, have generally shifted towards investment incentives so that export restrictions, including total bans of logs and sawnwood, have replaced export taxes. Although sometimes criticized, such restrictions can contribute to industrial development and prevent the destruction of forests, albeit at a substantial cost. They can also enhance people's well-being, provided that the restrictions are adapted to local situations and used in combination with other policy instruments aimed at rural or industrial development (Hoekman and Kostecki, 2001).

## **POLICIES THAT AFFECT TRADE AND NON-TARIFF MEASURES**

### **Incentives**

Incentives, including subsidies, are common in the forest sector to promote timber production, reforestation and investments in natural and planted forest management where returns are too low to attract private financing (Schmidt, 2003). Incentives have also been used for strategic reasons, for example to build sufficient wood supply to encourage processing ventures. From a trade policy perspective, financial subsidies to promote production particularly influence the competitiveness of individual producers, although such incentives

often result in excessive harvesting and are a concern to governments and some segments of society (ITTO, 2003).

The WTO Agreement on Subsidies and Countervailing Measures contains special provisions for developing countries, including exemptions from prohibiting export subsidies in countries with a per capita gross national product (GNP) of less than US\$1 000 per annum. Among permissible incentives are those that are non-specific with regard to industrial unit or sector and those that support research and development in disadvantaged regions or for environmental purposes. Injured importing countries can impose countermeasures and countervailing duties in certain circumstances (WTO, 2003).

Some constituencies believe that low concession fees and undervalued timber result in underpricing of forest resources, especially in tropical areas, and see this underpricing as a subsidy and as one of the main causes of forest degradation. While WTO may not find that such incentives contravene its provisions, these and similar types of assistance are of international concern. Agricultural subsidies that make crop production or grazing an attractive land use have often caused adverse effects on forests. Intended to foster rural development and sustainable livelihoods, they have proved to be unsustainable if applied without considering environmental, social and ecological implications, including those related to climate, water, erosion control and biodiversity (UNCTAD, 2003b).

Incentives such as grants, tax concessions and schemes to promote research and sustainable forest practices that are linked to the environmental and social services of forests are increasingly finding acceptance. To promote sound management further, especially in developing countries, targeted and temporary incentives may be required. The development of forest policies that conform to international and regional obligations will prevent incentives from becoming a trade issue (FAO, 2004a).



C. ALLARD

### Technical barriers to trade

The objectives of the WTO's Agreement on Technical Barriers to Trade (TBT) are to ensure that technical regulations and standards are not used as disguised protectionist measures and that products from members of WTO are not treated less favourably than like products of national origin; and to reduce the extent to which technical regulations and standards operate as barriers to market access. The following provisions are examples of the TBT Agreement regulations regarding standard setting.

- International standards are to be used if they exist and are relevant.
- National standardizing bodies shall participate in preparing international standards.
- National standardizing bodies shall avoid duplication of, or overlap with, the work of other national, regional and international standardizing bodies.
- Every effort shall be made to achieve national consensus on standards.
- The standardizing body shall specify standards based on product requirements in terms of performance rather than design or descriptive characteristics.

The TBT Agreement sets out procedures to ensure that technical regulations and

*A shipment of logs that have not been debarked, illegally offloaded in the Seychelles for transshipment elsewhere, violates phytosanitary regulations necessary to stem the threat of pest introductions – which could become one of the biggest hidden environmental costs of trade*

standards, including packaging, marking and labelling requirements, do not create obstacles to international trade. However, the text is not explicit with regard to voluntary certification and labelling. At issue are the motives behind these schemes – whether they are protectionist in intent or constitute arbitrary discrimination. While certification of forest products was initiated as a market-based instrument, promotion of this approach by governments and civil society is resulting in closer links' being established with national and international standard setting and policy development (WTO, 2003).

### Sanitary and phytosanitary measures

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) was established to guarantee that the producer has

cleaned, sanitized, sterilized or by other means rendered the offered commodity free from unwanted dirt, seeds, pests or germs. Introduced pests and diseases pose a threat to the forest resource and its biodiversity and could become one of the biggest hidden environmental costs of trade. Standards related to plant health are generally acknowledged as legitimate, as pests and diseases can have devastating effects on domestic forests. Countries may take measures that are stricter than international standards if such action is justified or if it is in response to a prescribed risk assessment. The complexity and severity of requirements and the manner in which they are enforced can have such a substantial effect on trade that some exporting countries consider them to be significant and unnecessary obstacles to trade.

Although national regulations governing sanitary and phytosanitary measures can distort trade, controls are not usually seen as unreasonable if they are scientifically based, given the need to protect human, animal or plant life or health.

## **TRADE AND SUSTAINABLE FOREST MANAGEMENT**

The justification and effectiveness of non-tariff measures are under continuous discussion and are becoming increasingly important in negotiations related to social, environmental and economic issues. The compatibility of national policies, legislation and forest management with WTO rules is also the subject of much debate (Toyne, O'Brian and Nelson, 2002).

To date, deliberations cover more than just disputes over the application of non-tariff measures to stimulate the export of particular products or to protect domestically produced goods and national industries from foreign competition. Rules governing global trade have been established to support sustainable development as well.

WTO multilateral agreements such as the TBT and SPS Agreements are not specific to the forest sector but have important implications on how WTO member countries regulate the

trade of forest products and services. In the Doha Declaration of the Fourth Ministerial Conference in 2001 (WTO, 2001) and in the Doha Development Agenda (WTO, 2004), forest issues arise in connection with subsidies, the environment, environmental goods, ecolabelling, certification, plant health, intellectual property rights, development, market access, technical standards and regulations. Such deliberations serve to strengthen the positive interaction between trade and the move towards sustainable forest management. By the same token, discussions in CTE and elsewhere aim to clarify the relationship between WTO rules and special trade obligations in multilateral environmental agreements, including CITES, CBD, UNFCCC and ITTA (WTO, 2003).

IPF (1997) and IFF (2000) concluded that trade can have both a positive and negative impact on sustainable forest management and thus recommended that countries monitor the effects of trade policies more closely. Recently, trade in wood products derived from illegal logging has been cited as an underlying cause of forest degradation, one that negatively affects market access and market share of products from sustainably managed forests. As a result, calls are being made to take immediate action on domestic forest law enforcement and illegal international trade (see also page 48).

## **CONCLUSIONS**

In 2003, the United Nations Conference on Trade and Development (UNCTAD) underscored that "... tariff escalation biases exports towards unprocessed resource-based commodities, characterized by low value added. This may cause difficulties to commodity-dependent developing countries in their efforts to diversify their export base". Trade in industrial roundwood is increasing rapidly worldwide, but exports, including timber from planted forests, have decreased in the tropics – a situation that reflects the impact of export bans and other non-tariff measures, increased domestic demand and declining supplies. In attempting to diversify their forest products,



developing countries and countries with economies in transition need to identify national incentives that take into account the current and future resource base, community development and the capacity of the private sector, including capital investment. They may wish to draw upon the experiences of other countries that have succeeded in developing domestic policies yet have complied with trade rules at the same time.

Certification of forest management and labelling of forest products increase access for sustainably produced wood-based products in certain markets. While certified forests, including planted forests, constitute only 4 percent of total forest area and certified forest products account for only a fraction of overall trade, producers and consumers no longer perceive certification of forest management as a negative non-tariff measure. Rather, certification schemes are being regarded as effective in improving the link between trade and forest management even though complaints continue over market access and market shares, particularly of forest products from tropical regions (Contreras-Hermosilla, 2003).

Trade measures are being changed and adjusted to respond to specific production and market situations, with most staying within the boundaries of global and regional trade agreements. Those that stem from concerns over sustainability in the forest sector will continue to be evaluated against special trade obligations in multilateral environmental agreements and against global and regional trade rules. ♦

## REFERENCES

- Borregaard, N. & Dufey, A.** 2001. *Effects of foreign investment versus domestic investment on the mining and forestry sectors in Latin America*. Organisation for Economic Co-operation and Development. (Unpublished)
- Contreras-Hermosilla, A.** 2003. *Current state of discussion and implementation related to illegal logging and trade in forest products*. Rome, FAO.
- Council of the European Union.** 2003. *Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EEC) No 2913/92 establishing the Community Customs Code*. Brussels.
- FAO.** 2004a. *Trade and sustainable forest management – impact and interactions*. Main Analytic Study of GCP/INT/775/JPN. Rome.
- FAO.** 2004b. *FAOSTAT database*. Rome.
- Hoekman, B.M. & Kostecki M.M.** 2001. *The political economy of the world trading system: the WTO and beyond*. New York, USA, Oxford University Press.
- IFF.** 2000. *Report of the Ad Hoc Intergovernmental Forum on Forests on its fourth session*. E/CN.17/2000/14.
- IPF.** 1997. *Report of the Ad Hoc Intergovernmental Panel on Forests on its fourth session*. E/CN.17/1997/12.
- ITTO.** 2003. *Market access of tropical timber*. Report submitted to the International Timber Council at its 33rd Session. Yokohama, Japan, International Tropical Timber Organization.
- Mulliken, T.** 2003. *The role of CITES in international trade in forest products - links to sustainable forest management*. Cambridge, UK, TRAFFIC International.
- Neufeld, R., Mersmann, C. & Nordanstad, M.** 2003. *Current state of debate in WTO on market access, technical barriers to trade (TBT) and impact of multilateral environmental agreements*. Rome, FAO.
- Rytkönen, A.** 2003. *Market access of forest goods and services*. Rome, FAO.
- Schmidt, R.** 2003. *Financial investment in sustainable forest management – status and trends*. Rome, FAO.
- Shahin, M.** 2002. Trade and environment: how real is the debate. In K.P. Gallagher & J. Werksman, eds. *The Earthscan Reader on International Trade and Sustainable Development*. London, Earthscan.
- Sun, X., Katsigris, E. & White, A.** 2004. *China and forest trade in the Asia-Pacific region: implications for forests and livelihoods*. Bogor, Indonesia, Forest Trends.
- Toyne, P., O'Brian, C. & Nelson, R.** 2002. *The timber footprint of the G8 and China. Making the case for green procurement by government*. Gland, Switzerland, WWF International.
- UNCTAD.** 2003a. *Trade analysis and information system*. Geneva, Switzerland, United Nations Conference on Trade and Development.
- UNCTAD.** 2003b. *Back to basics: market access issues in the Doha Agenda*. Geneva, Switzerland.

- UNECE/FAO.** 2003. *Forest products annual market analysis 2002–2004*. Timber Bulletin LVI(3). Geneva, Switzerland, United Nations Economic Commission for Europe and FAO.
- UNECE/FAO.** 2004. *Forest products annual market review, 2003–2004*. Timber Bulletin LVII(3). Geneva, Switzerland (also available at [www.unece.org/trade/timber/docs/fpama/2004/2004-fpamr.pdf](http://www.unece.org/trade/timber/docs/fpama/2004/2004-fpamr.pdf)).
- WTO (World Trade Organization).** 2001. *Doha WTO ministerial 2001: ministerial declaration*. WT/MIN(01)/DEC/1, 20 November 2001. Geneva, Switzerland (available at [www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)).
- WTO.** 2003. *Understanding the WTO*. Geneva, Switzerland.
- WTO.** 2004. *Negotiations, implementation and development: the Doha agenda*. Geneva, Switzerland (available at [www.wto.org/english/tratop\\_e/dda\\_e/dda\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/dda_e.htm)). ◆

