

# **The Lacey Act Amendment of 2008 and the U.S. Trade Balance in Forest Products**

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# US: Lacey Act Amendments of 2008

- Passed on May 22, 2008
- Demand side effort
- Supported on the supply side by bilateral efforts by US Agency for International Development
- Elements
  - Declaration requirement—Must file form PPQ505
  - “Due Care” requirement for importers, to assure legality
  - Violation penalties include product forfeitures, fines, imprisonment
  - Strict liability (intentional or unintentional importing does not matter)
  - The government must prove illegality of suspected wood
  - Applies to foreign production, but also to interstate transport of illegally sourced wood, domestic and foreign

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**SECTION 1 - Shipment Information**

1. ESTIMATED DATE OF ARRIVAL: (mm/yyyy)

2. ENTRY NUMBER:

3. CONTAINER NUMBER:  Non-Hazardous

4. BILL OF LADING:

5. MTD:

**Plant and Plant Product Declaration Form**  
Section 3, Lacey Act Amendment (16 U.S.C. 3072)



**U.S. DEPARTMENT OF AGRICULTURE**  
ANIMAL AND PLANT HEALTH INSPECTION SERVICE

6. IMPORTER NAME:

7. IMPORTER ADDRESS:

8. CONSIGNEE NAME:

9. CONSIGNEE ADDRESS:

10. DESCRIPTION OF MERCHANDISE:

**SECTION 2 - Compliance with Lacey Act Requirements (16 U.S.C. 3072(f))**

For each article or component of an article, provide the following:							
11. HTSUS NUMBER (no abbreviation)	12. EXTRACT VALUE:	13. ARTICLE/COMPONENT OF ARTICLE	14. PLANT SCIENTIFIC NAME GENUS SPECIES	15. COUNTRY OF HARVEST:	16. QUANTITY OF PLANT MATERIAL:	17. UNIT	18. PERCENT RECYCLED:

I certify under penalty of perjury that, to the best of my knowledge and belief, the information furnished is true and correct.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Printed name of the importer: \_\_\_\_\_ Printed name of the exporter: \_\_\_\_\_

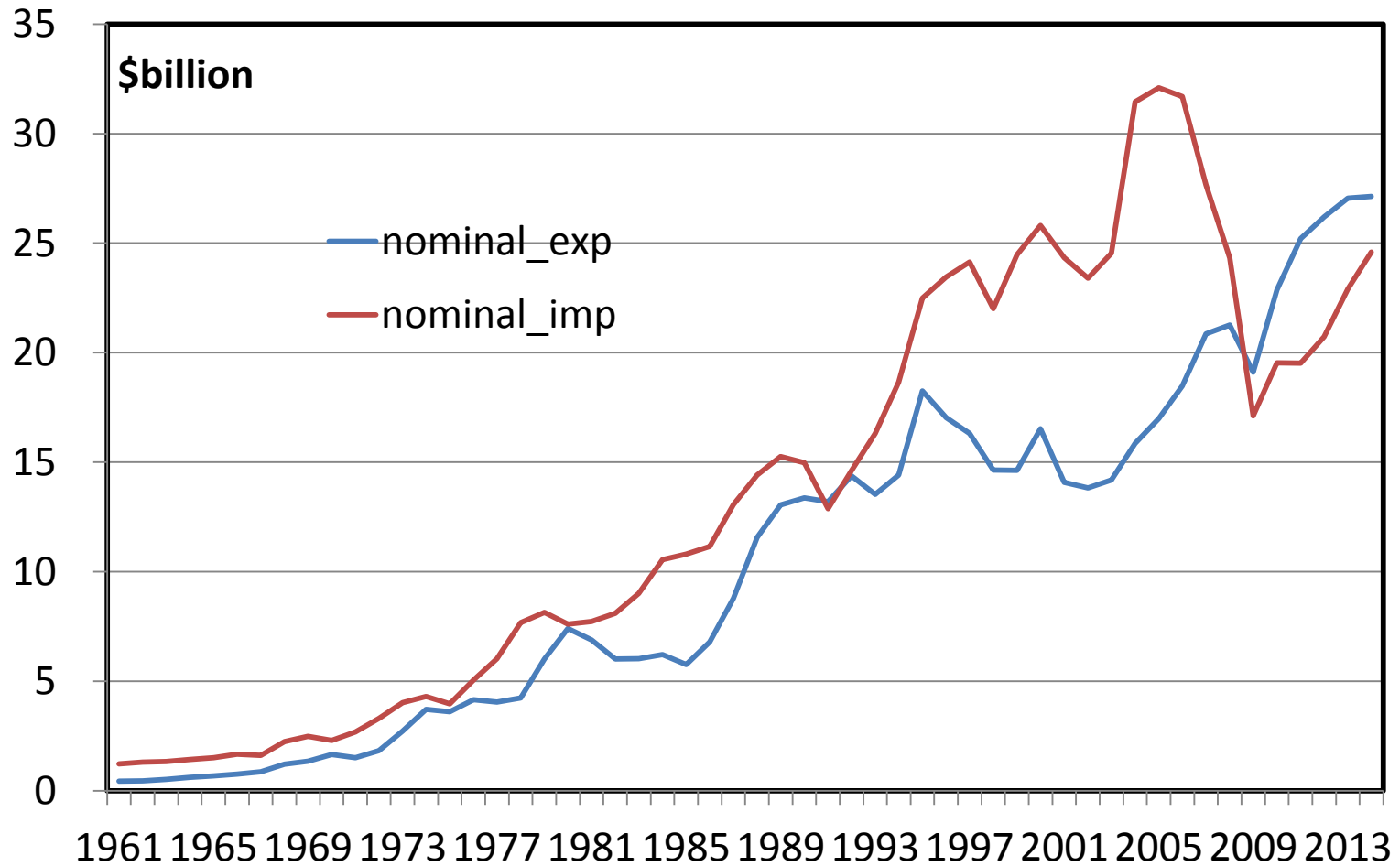


# Results from Simulation and Statistical Modeling

- Effects of actions on timber & roundwood (simulation results only)
  - Increase prices for imports and globally
  - Decrease quantities of imports and global trade
  - Export quantities from legal producers rise
  - Owners of timber in major legal producing countries benefit from actions
    - US owners benefit from European actions
- Effects of actions on secondary wood products (statistical & simulation results)
  - Increase prices for imports and globally
  - Decrease quantities of imports and global trade
  - LAA has steep effects on particular products from particular countries



# Nominal Value of U.S. Forest Products Exports and Imports



## Top five forest products importers and exporters in the world: 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Value of exports (\$ billion, nominal value)								
Canada	28.2	27.8	24	17.1	21.3	22.7	21.7	24.1	24.3
Finland	14.3	15.9	15.2	11.1	13.2	14.4	13.1	13.9	12.8
Germany	18.2	23.8	24.2	18.7	20.8	23	20.4	20.4	20.3
Sweden	14.6	16.6	17.2	14.1	15.5	17.3	15.2	16	15
US	18.5	20.9	21.3	<b>19.1</b>	<b>22.9</b>	<b>25.2</b>	<b>26.2</b>	<b>26.5</b>	<b>27.1</b>
World	203.4	231.7	237.1	188.1	222.6	246.9	232.1	248.4	249.7
	Value of imports (\$ billion, nominal value)								
P.R. China	16.6	20.5	20.9	20.1	27.6	36.9	35.2	38.7	47.0
Germany	16	20.8	21.5	15.8	19.3	21.6	19.1	19.3	19.0
Japan	12.8	12.3	12.4	9.9	11.9	14.1	13.4	13.4	12.4
UK	11.3	13.6	11.8	9.1	10.6	10.9	10.1	10.5	11.8
US	<b>31.7</b>	<b>27.7</b>	<b>24.3</b>	17.1	19.5	19.4	20.5	22.9	24.6
World	208.5	238.8	242.8	191.9	231.5	261.3	242.4	255.2	261.8



## *Export Revenue*

$$x = a_0 + a_1 y^* + a_2 r + \sum f_i D_i + \varepsilon \quad (1)$$

## *Import spending*

$$m = b_0 + b_1 y + b_2 r + \sum g_i D_i + \mu \quad (2)$$

## *Trade Balance*

$$b = (a_0 - b_0) + a_1 y^* - b_1 y + (a_2 - b_2)r + \sum (f_i - g_i)D_i + (\varepsilon - \mu) \quad (3)$$

- Vector Autoregressive model (VAR)
- 54 years of data
- Nominal values--- have a trend variable
- All continuous variables are nonstationary, but the first differences of them are stationary.



# Estimation Results: Exports

Variables	Coefficient
Ln (exchange rate)	<b>-0.829*</b>
Ln (exports) <sub>t-1</sub>	-0.006
Ln (rest of the world GDP)	<b>2.015*</b>
Recession	-0.069
<b>1 year after Recession</b>	<b>-0.155***</b>
Forest Industry slowing down (2007-2010)	0.018
Constant	0.030
R2	0.346



# Estimation Results: Imports

Variables	Coefficient
Ln (exchange rate)	-0.019
Ln (imports)t-1	0.162
Ln ( <b>U.S. GDP</b> )	<b>11.691*</b>
Ln ( <b>U.S. GDP</b> ) <sup>2</sup>	<b>-0.760*</b>
<b>Recession</b>	<b>-0.120***</b>
<b>1 year after Recession</b>	<b>-0.124***</b>
<b>Lacey Act Amendment</b>	<b>-0.349**</b>
Constant	0.133***
R <sup>2</sup>	0.453





# Estimation Results: Trade Balance

Variables	Coefficient
Ln (exchange rate)	<b>-0.766*</b>
Ln (trade balance)t-1	0.037
Ln (rest-of –the world GDP)t-1	<b>2.184*</b>
Ln (U.S. GDP)	6.785
Ln (U.S. GDP)2	0.347
Recession	0.031
1 year after Recession	-0.015
<b>Forest Industry slow down (2007-2010)</b>	<b>0.169***</b>
Lacey Act Amendment	<b>0.103</b>
Constant	-0.096**
R2	0.369



# Conclusions and discussion

- Exchange rate + GDP (rest of the world) affect exports + trade balance
- Recessions has a bigger impact on imports than on exports
- LAA has an negative impact on imports
- Is the forest industry slowdown (2007-2010) unprecedented?
- Continuing to have a trade surplus? Depends on continued global economic growth and U.S. exchange rate policy



# Further studies

- The US and EU actions are effective at discouraging illegal imports into the US and EU
  - Some unintended consequences
  - LAA has been tested with some cases (Gibson Guitar; Lumber Liquidators)
  - The EU FLEGT VPA-sponsored licensing agreements not in effect
  - EUTR (timber regulation) being implemented, no case law
- Global actions pushing illegal production to non-acting importers?
  - Evidence from Chatham House-sponsored studies
- A study on the effects of LAA, EUTR, VPAs, and Japan and Australia's law?



# Background

- Efforts have blossomed over the past decade
  - Japan's Green Purchasing Law of 2006
  - European Union's FLEGT of 2003
  - European Union's EUTR of 2010
  - Australia's Illegal Logging Prohibition Act of 2012
  - United States' Lacey Act Amendments of 2008
- These are not all measures/laws/actions that have an impact
  - Convention on International Trade in Endangered Species (CITES)
  - OECD Convention on Bribery
  - Bilateral efforts at improved governance (e.g., by USAID)
- These are not all countries that have taken specific actions
  - E.g., Canada has the Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act of 1996 (WAPPRIITA) (focused especially on CITES)



# Japan: Green Purchasing Law

- Established in 2006

- Elements

- Focused on imports
- Requires legality verification for imported wood and wood products
- Holds individual companies responsible
- States that sustainable wood (“Goho wood”) should be imported “where possible”
- No requirements for third-party monitoring of legality
- Perceived as weaker than European, US, and Australian measures



**Ministry of the Environment**

Government of Japan



# EU: Forest Law Enforcement and Government and Trade (FLEGT) Action Plan

- Established by the European Union in 2003
- Elements
  - Promotes better forestry governance in suspected source countries
  - Promotes private sector initiatives to improve forestry practices in suspected source countries
  - Encourages development of due care procedures by credit-granting financial institutions
  - Implements Voluntary Partnership Agreements (VPAs)
    - Bilateral trade agreements between the EU and individual source countries
    - Specify implementation of legality verification systems
    - Aids in connecting exporters of legal wood with EU importers
    - As of March 2015: 6 VPAs currently in effect, 9 in process, 11 others in exploration phase
    - First FLEGT-licensed imports expected in 2016
  - Calls for creation of legislative instruments to support FLEGT



# EU: European Union Timber Regulation (EUTR)

- Officially, EU Regulation 995/2010
- Took effect in March 2013.
- Demand side effort (primarily)
- Modeled or inspired in part by the amended Lacey Act
- Elements
  - The EUTR is a legislative instrument called for by the FLEGT
  - Requires importers to have a due diligence system in place to verify legality—risk assessment and documentation
  - Exceptions to due diligence allowed for already CITES-licensed or FLEGT-licensed product imports
  - Individual EU member states have an implementing agency that enforces the EUTR—A “Competent Authority”
  - Violation penalties include product forfeitures, fines
  - Applies to domestic (EU) as well as foreign production
  - The importer must prove due diligence when asked



# Australia: Illegal Logging Prohibition Act

- Took effect late 2012
- Demand side effort (primarily)
- Modeled and inspired in part by the EUTR of 2010/2013 and the Lacey Act Amendments of 2008
- Applies to domestic as well as foreign production
- Elements
  - High-level prohibition
    - Criminal offense
    - Applies to intentional or reckless imports of illegally sourced wood
    - Applies to businesses or profit-seeking private activities
  - “Due Diligence” requirement
    - Business to assess and manage risks



## Introduction

Illegal logging is a significant problem in many countries, generating environmental, economic and social impacts. In Australia, the trade in illegally logged timber disadvantages legitimate businesses and undercuts market prices.

The Australian Government is committed to supporting the purchase and sale of legally logged timber products. Legislation to combat destructive illegal logging activities is now in place.

The *Illegal Logging Prohibition Act 2012* has been in effect since

## Key points

- The *Illegal Logging Prohibition Amendment Regulation 2013* requires that importers and processors undertake due diligence from 30 November 2014.
- For the 18 months following

