

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

**Effects of New Global and Regional Trade Agreements on
Forestry**

**A Background paper for the Global Project: Impact Assessment of Forest
Products Trade in Promotion of Sustainable Forest Management**

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Draft Report

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Abbreviations and acronyms

Andean Community	Andean Community (Comunidad Andina de Naciones (CAN))
AEC	African Economic Community
AFTA	ASEAN Free Trade Area
ANZCER	Australia New Zealand Closer Economic Relation
APEC	Asia-Pacific Economic Co-operation
ASEAN	Association of Southeast-Asian Nations
ATL	Accelerated Tariff Liberalization
CACM	Central American Common Market
CARICOM	Caribbean Community
CET	Common External Tariff
CEPT	Common Effective Preferential Tariff
CFA Franc Zone	Franc des Colonies Françaises d'Afrique
CILSS	Permanent Interstate Committee for Drought Control in the Sahel
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
COMESA	Common Market for Eastern and Southern Africa
CRTA	WTO Committee on Regional Trade Agreements
CTE	WTO Committee on Trade and Environment
DSB	Dispute Settlement Body
EC	European Community
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
EVSL	Early Voluntary Sector Liberalization
EMU	European Monetary Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FTAA	Free-Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
MAPA	Manila Action Plan for APEC
MEAs	Multilateral Environmental Agreements
MERCOSUR	Southern Common Market
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
NTCs	Non-Trade Concerns
NTMs	Non-Tariff Measures
OAU	Organization of African Unity
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDT	Special and Differential Treatment
SLA	Canada – United States Softwood Lumber Agreement
RTA	Regional Trade Agreement
TTMA	Trans-Tasman Mutual Recognition Agreement
UR	Uruguay Round

WAEMU
WTO

Western African Economic and Monetary Union
World Trade Organization

I. INTRODUCTION

Institutions governing international trade exist at the global level and the regional level. The World Trade Organization (WTO) now provides the basic rules of the global trading system, a role formerly undertaken by the General Agreement on Tariffs and Trade (GATT). Regional trade is governed by a large number of regional trade agreements (RTAs), which have been a feature of international trade throughout the past fifty years, but have proliferated since the creation of the WTO. The main objective of RTAs is to enhance trade among participating regional member countries. This can act to facilitate the objective of increased global trade. At the same time, RTAs have the potential to offset global initiatives by hindering trade between member and non-member countries.

Box 1. Regional Trade Agreements

Over 200 RTAs have been notified to the GATT or WTO over time. Currently over 150 agreements are in force. In the period 1948-1994 GATT received 124 notifications of RTAs (relating to trade in goods) and since 1995 over 100 agreements covering trade in goods or services or both have been notified to the WTO. (WTO, 2001c)

Trade in forest products is highly regionalised within three important trading blocs – the Pacific Rim, North America and Europe. One result of this is the significance to forest product trade of RTAs associated with these blocs. Trade within these regions is associated with three distinct regional associations, known as Asia-Pacific Economic Co-operation (APEC), North American Free Trade Agreement (NAFTA) and the European Community (EC). Japan, North America and Western Europe are dominant not only in production and consumption of industrial forest products, but also in the world trade in these products. In addition to their role within the regional associations, the commitments made by these major players under WTO agreements as individual members therefore also has a considerable impact on global trade in forest products.

Trade agreements at the regional and global level impact on the forest sector through a variety of issues. These include: tariff levels; tariff escalation; non tariff measures; trade and environment; and agriculture. These issues are discussed in the following sections, together with an examination of regional agreements and the extent to which they may enhance or hinder global liberalization efforts.

II. RECENT DEVELOPMENTS IN GLOBAL TRADE AGREEMENTS

This section surveys the progress of trade negotiations at the global level under the auspices of the WTO with reference to forest products and RTAs. It begins with a brief background to describe the situation at the formation of the WTO.

2.1 Background

From 1947 until 1994, the General Agreement on Tariffs and Trade (GATT) provided the basic rules of the global trading system. The primary focus of the GATT was liberalisation of trade in goods through the elimination of tariff barriers. Multilateral negotiations under the auspices of the GATT proceeded through a series of Rounds.

The most recent of these was the Uruguay Round (UR), which concluded in 1994. The UR resulted in commitments to significant tariff reductions, as set out in the Marrakesh Protocol¹. It also produced agreement to initiate negotiations concerning agricultural products, which had hitherto been excluded from the GATT Rounds.

In addition, the UR paved the way for the creation of the new institution governing global trade known as the World Trade Organization (WTO)². The mandate of the WTO for the liberalization of global trade is far wider than the GATT, which has been incorporated as Annex 1A to the WTO Agreement³. As a global international organization dealing with the rules of trade between nations, the WTO encompasses an array of agreements to which its members accede. The implications for forestry vary considerably across this array. Some agreements build on voluntary agreements begun under the GATT to deal with various non-tariff measures, such as technical barriers to trade and phytosanitary standards. Other agreements reflect the broadened scope of the WTO to cover topics such as trade in services and intellectual property rights⁴. Forestry has particular significance in the emergent issue of trade and the environment.

2.1.1 Effects of the UR on forestry

Even prior to the Uruguay Round (UR), tariff rates on most forest products in developed countries were, in general, relatively low. As a result, the changes in tariff rates for forest products agreed under the UR were never likely to produce effects as spectacular as changes in some other sectors. Entering the UR, tariff rates on forest products averaged 3.5 % on a trade weighted basis, representing only 55 per cent of the average rate across all industrial products (6.3%). The outcome of the UR for the forest products sector was a reduction in tariff rates to 1.1%, a cut of more than two thirds, while the average for all industrial products fell by two fifths to 3.8%. In trade-weighted terms, the absolute fall in tariff level achieved by the UR was almost identical for forest products (2.4%) and for all industrial goods (2.5%) (Barbier, 1996).

One result of the UR was agreement to a total elimination of tariffs for pulp and paper items by 2004 on the part of a number of major importers (Canada, Japan, the United States and the European Union). Other countries felt unable to agree to complete elimination of these tariffs but most committed to a reduction in tariff levels. For solid wood products, developed country importers committed to a 50% reduction in tariffs on an average trade-weighted basis. These reductions were to take place over a five-

¹ “The Marrakesh Protocol to GATT 1994 is the legal instrument that incorporates the schedules of concessions and commitments on goods negotiated under the Uruguay Round into GATT 1994, and establishes their authenticity and the modalities for their implementation.” (WTO, 2001b).

² The WTO was established under the Marrakesh Agreement, 1994, which marked the end of the UR.

³ While many of the provisions of the original GATT have been retained, the agreements are considered legally distinct and are referred to as the two GATTs. GATT 1947 is the original agreement dated October 30, 1947, which was annexed to the Final Act of the United Nations Conference on Trade and Employment (Havana Conference). GATT 1994 is a Uruguay Round agreement. GATT 1994 specifically excludes the Protocol of Provisional Application of GATT 1947. This contained the "grandfather clause", which provided that the rules in Part III, dealing essentially with non-tariff trade measures, need be applied only to the extent that they were not inconsistent with legislation in effect when a country acceded to the GATT. (WTO, 2001b).

⁴ The complete set runs to 60 pages (WTO, 2001b)

year period starting in 1995. Most other parties also agreed to reduce tariffs on these products, or at least committed to bound rates.

Apart from changes to average tariff levels, the UR resulted in other changes of particular significance for forest products. Going into the UR, forest products tariff escalation, i.e. increasing tariff levels with increased levels of value-added processing, was an issue of greater concern for many exporters than the average tariff levels. A major contribution of the UR to trade in the forest products sector was the reduction in the degree of tariff escalation in the major developed markets (Bourke and Leitch, 1998). At the same time, by continuing the process of reducing rates from their already low levels, the UR raised the profile of, and interest in, non-tariff measures (NTMs) and their impact on trade.

2.2 Global trade governance – the WTO

Multilateral consultations under the auspices of the WTO have proceeded at the level of Ministerial Conferences on a regular basis since its formation. Given the enhanced scope of the WTO, these deal with a multitude of issues, including proposals to launch a new round of trade negotiations. In addition, specialised committees address particular topics such as RTAs and dispute settlement. The main areas of interest for forestry in a future trade round would include the traditional concerns of tariff levels and tariff escalation, as well as non-tariff measures, and also the emergent issue of trade and environment. In addition, the inclusion of agriculture in trade negotiations has implications for forestry.

2.2.1 Post UR Multilateral Trade Negotiations

Implementation of trade liberalization commitments agreed to in the UR have proceeded with no major delays. WTO members have phased in lower tariff rates on schedule. They have also proceeded with gradual reductions in export subsidies and in other measures of assistance, particularly those related to agricultural products. Since the formation of the WTO, however, the pace and purpose of future multilateral negotiations has itself become an issue.

Those most convinced of the benefits of trade liberalisation, and who had pushed hard towards the achievements of Uruguay Round, envisaged an accelerated pace along the established path of trade liberalization towards the logical conclusion of global free trade. The institutions of the WTO appeared tailor-made to pursue this end by building on the commitments of the Uruguay Round. Market access for merchandise goods could be improved still further by continuing the reduction in tariffs towards the goal of complete elimination. Mechanisms were also in place for dealing with non-tariff measures revealed by, or possibly provoked by, reductions in tariff barriers. In addition, the UR had opened the door to travel along the same route for agricultural products and trade in services.

Others, however, adopted a more cautious approach, advocating a slower pace to allow for necessary adjustments in the transition to more liberalised trade. Even if the benefits of trade were undisputed, there were concerns over side-effects and distribution as well as about decision-making mechanisms to resolve these various matters. Issues ranged from environmental considerations to the interests of civil

society, and also included the particular challenges faced by developing nations as well as the role of labour in trade liberalisation.

The conflict between these two approaches erupted, quite literally, from the quiet halls of WTO discussions into the streets during the 1999 Ministerial meeting of the WTO in Seattle. The agenda for that meeting appeared weighted towards those favouring an accelerated pace, to the exclusion of consideration of issues perceived as outside the arena of trade.

Box. 2 WTO Ministerial Conference in Seattle 1999

The year 1999 produced difficulties for the WTO in agreeing on a new Director General. The organisation was without leader for four months until the WTO's third Ministerial Session, held in Seattle, United States, in 1999. This session was widely expected to mark the launch a new round of multilateral trade negotiations. Not only did the Seattle meeting fail to reach an agreement on the launch of a new round of trade negotiations, but the meeting itself, and the WTO in particular, became the focus for a wave of popular protest over, and civil society concerns with, many aspects of the global economy.

The failure of the Seattle Conference forced a slow-down in the launch of a new round of global trade negotiations, and provided time for the WTO to re-think its role and agenda. The preparations for the November, 2001, meeting in Doha envisaged a more ambitious and comprehensive approach to globalisation (WTO, 2001d). Many of the concerns of those advocating a slower approach were incorporated in the Ministerial Declaration and Implementation Decisions agreed at Doha (WTO, 2001f). Neither of these documents made explicit reference to forestry but did nonetheless contain implications for forestry.

Box 3 Doha agreement on market access for non-agricultural products

“We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without *a priori* exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of ... GATT 1994 To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.” (WTO, 2001f)

The agreement at Doha included an 18-point work programme. This involved, *inter alia*: market access for non-agricultural products (see Box 3); trade and environment; and agriculture. Forestry was noted as one of the sectors in which the link between trade and environment should be considered within the framework of subsequent trade liberalization negotiations.

2.2.2 The WTO and Regional Trade Agreements

Regional trade agreements (RTAs) establish preferential terms of trade or free-trade groups. Concurrent with the evolution of global trade negotiations under the auspices of GATT, a large number of regional trading agreements (RTAs) came into existence. The number of such agreements has proliferated since the formation of the WTO (see Box 1). This increase has highlighted debate on whether RTAs complement or challenge the global multilateral trading system.

Box 4. WTO Committee on Regional Trade Agreements

WTO members are bound to notify the organization of the RTA's in which they are participants. Each notified agreement then undergoes an in-depth review designed to clarify various aspects (legal, procedural and economic) of the agreement and to gauge its conformity vis-a-vis the relevant WTO rules. Established in 1996, the WTO Committee on Regional Trade Agreements (CRTA) has the responsibility of centralizing and coordinating the efforts of the WTO working parties examining individual RTAs. In addition, it provides a forum for discussion of the general implications of RTAs for the multilateral trading system. The Committee is currently addressing the topic of interpretation of the elements of the WTO rules governing the RTAs and whether there is a need for further clarification of the WTO rules. (WTO, 2001)

Concerns have been raised that growing regional integration through RTAs could adversely affect efforts to liberalize global trade (FAO, 1999). Others envisage RTAs as building blocks towards more liberalised trade at the global level. Beyond the initial hurdle of tariff reduction, the path towards trade liberalisation encounters challenges of policy harmonisation which may be more readily addressed initially in smaller, less diverse groupings. Sub-regional groups can in turn negotiate agreement to form larger regionally integrated economic units (FAO, 2000b).

Box 5. Doha declaration on Regional Trade Agreements

“We stress our commitment to the WTO as the unique forum for global trade rule-making and liberalization, while also recognizing that regional trade agreements can play an important role in promoting the liberalization and expansion of trade and in fostering development.” (WTO, 2001f)

Within the WTO, the focus of debate has shifted from concern over the risk that the growth in RTAs might lead to a reduced effort at global liberalization, to examination of WTO rules governing RTAs. The rules are currently under study concerning their interpretation and the possible need for their clarification (see Box 4). The declaration following the most recent Ministerial meeting (Doha 2001) included an endorsement of RTAs (see Box 5).

2.2.3 Dispute settlement mechanisms under a rules based system

The WTO provides the institutional mechanism for overseeing an increased number of agreements resulting from the UR. Even with the rules based system used by the WTO to implement these agreements, disputes are an inevitable consequence of ongoing implementation. The rules-based system is only as effective as the enforcement of the rules and requires a means of settling disputes. The Dispute

Settlement Body (DSB) of the WTO has continued to grow in importance as members' familiarity with it, and willingness to use it to resolve conflicts over trade, has grown. It also appears to serve the role of higher level appeal court for disputes arising within the boundaries of individual RTAs. Forestry provides a significant example of this in the referral of the softwood lumber dispute between Canada and the US to the WTO concurrent with the pursuit of acceptable resolution within the framework of NAFTA.

The infant years of the WTO can be considered as a test for a rules-based multilateral trading system, one which the system appears thus far to have passed. The way in which the Asian economic crisis was handled was clearly affected by the existence of an effective rules-based international trade system. The WTO rules and disciplines undoubtedly contributed to the rebound from the downturn of 1997-98 so evident in trade data for 1999 (FAO, 2000). They helped crisis-ridden Asian governments to resist protectionist calls. In addition, they ensured that the main, as well as potential, export markets of the Asian countries resisted calls for protection, thus allowing the Asian economies to trade their way out of the crisis.

The rules-based trade system did not of itself ensure that the crisis management would be without contention. Likewise, the existence of such a system does not guarantee universal agreement with, and acceptance of, the outcomes produced by the system.

2.2.4 WTO membership

Despite the concerns of civil society about the WTO, globalisation in general, and the implications of a rules-based trading system in particular, the membership of the WTO has continued to grow. The WTO had 128 members when it was established in 1995. By January 1, 2002, the WTO had added 16 new members, the most recent being China and Chinese Taipei whose accessions were accepted at the Doha Ministerial Conference. These 144 member countries account for more than 90% of world trade in goods and services (WTO, 2001) and are of comparable significance to forest products trade. However, WTO members account for a smaller proportion of the world's forests, representing about three-quarters of global forest cover.

In addition to the current membership, applications for accession to the WTO covering a further 30 parties are also under negotiation (WTO, 2001)⁵. Many of the applicants are economies in transition and several are developing and small developed economies. Some have forestry sectors that are significant, particularly the Russian Federation, which has approximately a quarter of the world's forest resource. Accessions to the WTO through its first six years of existence, together with applications for accession to it, appear to represent a significant vote of confidence in the system as a whole.

2.3 Trade and Environment

⁵ Algeria; Andorra; Armenia; Azerbaijan; Bahamas; Belarus; Bhutan; Bosnia and Herzegovina; Cambodia; Cape Verde; Ethiopia; Former Yugoslav Republic of Macedonia; Kazakstan; Lao People's Democratic Republic; Lebanon; Nepal; Russian Federation; Samoa; Sao Tome and Principe; Saudi Arabia; Seychelles; Sudan; Tajikistan; Tonga; Ukraine; Uzbekistan; Vanuatu; Vietnam; Yemen; Yugoslavia, Fed. Rep. of.

In any discussion on trade and environment two themes appear regularly. These are the questions of the relationship between trade liberalization and environment, and that of trade rules, environmental protection policies and international environmental agreements. Regarding forests, these concerns are often linked to questions of perceived decline in forest health, reduction in species diversity, and deforestation. Industrial forestry is often the target for most of the blame concerning problems in these areas, even though other factors may have as much or more impact. Particular issues addressed range from eco-labelling to the role of forests in carbon storage/sequestration and/or the use of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) to protect tree species.

The WTO's main forum for discussion of environmental issues is the Committee on Trade and Environment (CTE). Although the focus of the CTE is trade in general rather than the trade of a specific sector, the forest sector is a sector in which many issues that the CTE has to consider come together.

Box 6. WTO Ministerial Declaration – Trade and the Environment Doha 2001

“When Ministers approved the results of the Uruguay Round negotiations in Marrakesh in April 1994, they took a decision to begin a comprehensive work programme (see below) on trade and environment in the WTO. During the past six years, this work programme has provided the focus of discussions in the Committee on Trade and Environment (CTE). The CTE's main aim is to build a constructive relationship between trade and environmental concerns. The CTE has a two-fold mandate: first “to identify the relationship between trade measures and environmental measures in order to promote sustainable development”; second, “to make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and non-discriminatory nature of the system.” (WTO 2001d)

In response to growing concerns over the issue of trade and environment being very much a growing concern in 1999, the WTO produced a special study on Trade and Environment (Nordström & Vaughan, 1999). The study pointed out a number of issues of relevance to forestry, and the potential impact of still greater liberalization of trade on forest products. Among these issues are:

- Trade liberalization reinforces the need for environmental cooperation
- Environmental degradation is driven not by trade but by market and policy failures
- Environmental standards should not necessarily be harmonized, but rather that specific local problems should be addressed by standards targeted at the specifics of the local conditions.
- Trade barriers are poor environmental polices.
- The environmental repercussions of trade cannot be unambiguously determined from theoretical considerations. (WTO, 1999)

When applied to forestry, the findings suggest that it is not possible to give a globally comprehensive answer to the question of the impact of trade liberalization on forests. If trade is liberalized while market and policy failures remain uncorrected, the result may be greater environmental damage than if no liberalization had occurred. Similarly

the findings also suggest that where possible the first best solution should always be sought, i.e. recognized environmental problems should be targeted with measures that directly address the specific problem, rather than by measures which simply mask for the moment the fact that a problem exists. What the findings do suggest though is that each proposal to liberalize the trade needs to be looked at carefully, and its implications for current rules and policies needs to be fully considered. In that context the NTMs are clearly going to be a critical issue.

The example of trade and environment illustrates some of the difficulties of trying to tackle interdependent issues separately. The breakdown of talks on Seattle also highlighted that various concerns overlap. Trade and environment is one of a number of issues of concern to both agriculture and forestry which can be considered within eight major headings as follows:

1. Trade and Environment
2. Domestic Objectives and Trade Liberalization
3. Safety
4. Price and Income Variability
5. Security and Trade
6. Competition Policy
7. Non-Tariff Measures (NTMs)
8. Implementation

One example of overlap among these issues is that questions of domestic objectives and trade policy cover not just issues of national sovereignty in a rules based system, but also the aspects of safety, security, price stability competition and environment. Interdependence is recognized in the general acknowledgement that the relationship between international trade rules and multilateral environmental agreements (MEAs) should be synergistic and mutually supportive. Divergence in views concerns the precise nature of the links between these two issues. Opinions differ over the areas requiring the most immediate attention, and over whether trade or environmental

Box 7 UNEP discussions along the road to Johannesburg

At the Cartagena meeting the Ministers agreed, *inter alia*, to enhance civil society engagement in the work of UNEP and to adopt guidelines on compliance with and enforcement of multilateral environmental agreements. They spoke of the environment in the context of sustainable development and recognized that environmental protection and conservation demanded effective action at the local, regional and global levels and that ecosystems did not stop at national borders. They agreed to use the UNEP Governing Council/Global Ministerial Environment Forum (GMEF) to promote international cooperation in the field of environment, and make it a more effective, results-oriented forum in which environment ministers could craft a common agenda and see it through. They also agreed to develop and inter-governmental strategic plan for technology support and capacity-building for developing countries. They further agreed to pursue opportunities to improve the coordination between, and the effectiveness of, multilateral environmental agreements. Finally, Ministers had agreed to strengthen the United Nations inter-agency Environment Management Group. (UN, 2002)

bodies should predominate when conflicts between these two arise (FAO, 1999).

The Johannesburg Earth Summit planned for 2002 is likely to see calls for a global environmental institution on a par with the WTO. A verbal report from the Third Global Ministerial Environment Forum held in Cartagena in February 2002 to the preparatory Committee for the World Summit on Sustainable Development indicated recognition of the need to strengthen international environmental governance (Box 7). Another report concerned discussions on forest management issues within the context of sustainable development at the recent Global Environment Facility (GEF) Round table on Forests. The Round table had concluded that it was essential to strengthen institutions, or develop new ones, which could manage forests across jurisdictions in an integrated, holistic way. It was pointed out that, despite commendable efforts made to face deforestation in the past 10 years, the situation was still deteriorating rapidly (UN, 2002).

Box 8 GEF Round table on Forests

The report pointed out that even though much new knowledge had been gained in forest management, such information was often not available at the field level, or to the range of stakeholders. It must be made accessible. In addition, new mechanisms for financing forest preservation had begun to be developed, channeling resources through multilateral conduits, for example. Such mechanisms must continue to develop. Cross subsidization must grow, along with the dissemination of lessons on what works, what doesn't and why. In all those areas, the private sector needed to be enlisted as part of the solution and not just part of the problem. Certification of forest products had a role to play, as did measures to eliminate unfair competition from illegal logging operations. (UN, 2002)

2.4 Agriculture

The UR established a framework for reform in agricultural trade known as the Agreement in Agriculture (AoA). Previously excluded from multilateral trade negotiations, the AoA was the vehicle to put agriculture products and policies on the table for global negotiations. Much of the impetus for pursuing reform to place trade in agricultural goods on the same basis as trade in other goods came from the Cairns Group⁶. Domestic support policies were identified as a particular source of market distortions and a classification system was developed to categorize domestic support policies according to whether and how they would be disciplined. The analogy of traffic lights is used as policies are defined as amber box, green box, and blue box.

The negotiations on the AoA were mandated independently of other sectors. Thus, they began on schedule at the beginning of 2000, undelayed by the failure in Seattle to launch a new round in other sectors. Two phases were initially agreed in the process of progressive reform. The first phase lasted until March 2001 and the second phase was completed one year later. The wide range of negotiating proposals received during the first phase highlighted the contrasting views of certain groups. A significant amount of the debate focused on whether or not the objective of the negotiations should be the full integration of agriculture into the rules and disciplines of the WTO. A further issue is the need to identify the winners and losers that will be

⁶ Formed in 1986, the Cairns Group is a coalition of 18 agricultural exporting countries, which together account for one-third of the world's agricultural exports. The members of the Group are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay (**Cairns Group, 2000)

produced by agricultural reform together with the formulation of an appropriate adjustment strategy.

Box 9. Traffic light analogy categorizing domestic support policies

An indicator called the Aggregate Measurement of Support (AMS) measures support by combining direct payments and price support benefits that directly influence production decisions (amber box policies).

A special exemption from the reductions required of amber box policies was allowed for payments tied to limits on production (blue box policies).

Policies having little or no effect on production or trade (green box), such as research, domestic food aid, environmental programs, and certain crop insurance and income safety net programs, were also exempted.

From the start, the Cairns Group has argued for a market approach with a full and speedy integration, and continued to press for an ambitious schedule. Their objectives included deep cuts to all tariffs (including tariff peaks) and removal of tariff escalation, the elimination of all trade-distorting domestic subsidies; the elimination of export subsidies and clear rules to prevent circumvention of export subsidy commitments. In addition, their negotiating proposals reaffirmed the Group's support for the principle of special and differential treatment for developing countries (including least developed countries and small states) remaining an integral part of the next WTO agriculture negotiations (Cairns Group, 2000).

The developing countries clearly wanted a longer time frame to any integration than is desired by the Cairns Group. They were seeking mechanisms for the reform that would recognize both their experiences with implementation of the UR reforms and current circumstances. The majority of developing countries were therefore reluctant to embark on a further round of liberalization, before having had a chance to better absorb the results of the existing agreements. Their preference was that negotiations focus on implementation issues relating to their commitments under the UR. This interest is understandable given that a number of these countries have reported implementation difficulties. Developing countries also argued for negotiations to be based on an impact assessment of the UR in terms of costs and benefits.

In addition, the developing countries desired a stronger commitment to implement the concept of special and differential treatment (SDT). They considered the transitional forms of special and differential treatment to be inadequate, and called for more substantive measures to help them overcome the under-developed nature of their agricultural sectors. There were two basic types of special and differential treatment in favour of developing countries embodied in the AoA. The first are transitional measures that provide longer implementation periods and lower reduction commitments, for example on tariff cuts. The second provide exemptions for measures that are normally prohibited, such as export subsidies to cover the costs of internal freight or input subsidies for low-income resource-poor farmers.

There were also concerns that reforms associated with greater liberalization of trade in agriculture would impact negatively in least-developed countries and the net-food importing developing countries, such as through the effect of rising prices on their access to adequate supplies of basic foodstuffs. The developing countries proposed

that the SDT should take as its starting point the extremely important food security and rural employment concerns of many developing countries. They also argued that the SDT should recognize that a purely market-oriented approach will not achieve the socio-economic objectives.

A third group, consisting mainly of developed and transition economies led by the EU, placed an emphasis on non-trade concerns (NTCs) related to agriculture. Like the developing country group these concerns included food security, but they also raised a number of other issues ranging from environmental protection to animal welfare. The Cairns Group, in turn, frequently makes reference to the multi-functional role of agriculture in their economies and societies – a role which requires the retention of a degree of government support and regulation of the sector.

The second phase, concluded in March 2002, focused on more in depth work on all issues and options for policy reform set out in Members' proposals during the first phase. Special and differential treatment for developing countries was to be an integral part of all elements of the negotiations. The outcome of the WTO Doha Ministerial Conference in 2001 provided new impetus for the negotiations on agriculture. Agriculture is now part of a larger round which is to be completed as a "single undertaking" by January 1, 2005. The outcome also establishes a specific timeframe for the negotiations on agriculture over the next three years. Three more phases are likely: the "third phase" (from March 2002 to March 2003) to be devoted to establishing the modalities for further commitments; the "fourth phase" (from March 2003 to the date of the Fifth Ministerial Conference in the Autumn of 2003) to be devoted to the completion and submission of comprehensive draft Schedules based on these modalities; finally, the "fifth phase" (from the Autumn of 2003 to January

Box 10. WTO Ministerial Declaration – Doha, 2001

13. We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 Members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture. (WTO, 2001f)

2005) to conclude the process as part of the envisaged single undertaking.

2.4.1 Implications for forestry of agricultural negotiations

Agricultural reform has implications for a number of sectors including forestry. Reduction in agricultural support can affect the forestry sector through the potential impact on land use. The result may be increased profitability of commercial forestry in some countries, with an attendant switch in land use from agriculture to forestry in these countries.

Box 11. Agricultural reforms – the New Zealand example

The New Zealand agricultural reforms of the mid-1980s, in which agricultural subsidies were removed, have been variously estimated as increasing the area of land for which commercial forestry is the most profitable use by some 3 to 5 million hectares.

III REGIONAL AND BILATERAL TRADE NEGOTIATIONS

RTAs vary widely, not only in relation to the role of forestry, but also in the scope of their mandate and purpose, as well as in the geographic relationship of their members. The role of forestry varies across RTAs in terms of the share of global forest cover, the contribution to world output of forest products, and the amount of trade in forest products accounted for by their members.

Box 12. Types of RTA

In a free trade area, members eliminate tariffs among themselves but retain their original tariffs against the rest of the world. As on the global stage, so too the reduction of tariff barriers at the regional level tends to reveal other measures which hinder trade and prevent members of a free trade area from fully capturing the benefits of trade liberalization. Administrative difficulties often lead to the need for policy harmonization in other areas and an associated system of enforceable rules to address non-tariff barriers. Examples of potential difficulties are incompatible technical or sanitary and phytosanitary standards.

In a customs union, members adopt a common tariff against imports from the rest of the world in addition to eliminating tariff barriers among themselves. A common external tariff regime reduces — but may not eliminate — the need for rules of origin on internal trade among members, because arbitrage on the basis of tariff differentials is no longer possible.

A common market goes a step further, as members remove barriers to movements of factors of production (i.e. labour and capital) across member countries. The free movement of labour, in particular, may pose difficulties for members that have substantially different levels of economic development, employment opportunities or social programmes.

A full economic union involves, in addition, the harmonization of other micro- and macroeconomic policies, such as foreign exchange rates and agricultural supports, as well as trade and investment rules.

Adapted from FAO (2000b)

One feature which most RTAs have in common is the harmonisation of certain policies and practices across member states designed to enhance trade among members. Mechanisms usually involve at least the reduction or elimination of tariffs for internal trade, thereby representing a degree of preference for partners in the agreement vis-à-vis other countries. RTAs can be distinguished by their institutional form with respect to economic integration. This is conventionally classified by degree as follows: free trade area, customs union, common market and economic union (Box 12).

3.1 AFRICA

In Africa there has been growing interest in the mutual benefits that may be available from increased economic cooperation. The continent contains a number of RTA's with overlapping memberships, primarily based on geographic proximity. These agreements mainly seek to improve regional cooperation and integration, and to develop a local industrial base and viable internal markets. In addition, a number of countries are opening up their trade and investment regimes under comprehensive structural programmes with the International Monetary Fund (IMF).

The first free-trade area in Africa was established in October 2000, by COMESA. In the same year, an ambitious project for continent-wide integration was endorsed at the 36th summit of the Organization of African Unity (OAU). Reaffirming their intention to form an African political and economic union, African Heads of State and Government proposed a significant acceleration of the schedule embodied in the 1991 Abuja Treaty. They compressed the time frame for the creation of an African Economic Community (AEC) into two years, compared to the completion date of 2030 that was originally envisaged. This intent reflects the new urgency African leaders place on the economic and political revitalization of the continent (FAO, 2000b).

Box 13 Components of pan-African trade liberalization

The major pillars of the AEC, as outlined in the Abuja Treaty, are the Arab Maghreb Union (UMA), COMESA, the Economic Community of Central African States (ECCAS), ECOWAS, and SADC. These regional economic communities (REC) each have similar objectives, i.e. forming a free trade area and a customs union, and aim toward promoting domestic, cross-border and direct foreign investment through the free movement of capital, services and labour. Other goals include improving transport and communication within the area, promoting the private sector and harmonizing macroeconomic and monetary policies. (ZADFA 2002)

Pan-African initiatives will be needed to bring together the integration efforts of the different RECs. While there are slight variations in the stated objectives of the different RECs, they appear to be consistent. Agriculture, forestry and fisheries probably would not be the first sectors where agreements could be reached on continent-wide free trade or policy convergence, as the most sensitive products are usually the last ones to be brought into compliance with such trade and policy integration agreements. However, the existence of nodes with common sanitary and phytosanitary standards/policies and of country groupings with other already integrated sub-sectoral policies (food security, early warning, monetary, etc.) in Africa should provide a useful springboard for continent-wide harmonization. The same opportunities may exist in some of the fishery or forestry conventions and standards. These country groupings should be seen as the key functional units in any programme aimed at removing unjustified trade barriers. (FAO, 2000b)

The significance of trade in forest products varies across the continent as does the extent and type of forest cover. In general, forests are important sources of fuel. The most heavily forested areas are found around the equatorial region and form part of the world's tropical timber resource. Production of roundwood has expanded in all regions, and at a rate about three times the world average⁷. Production and consumption of roundwood in Africa are similar and in 1998 each represented about 15 per cent of the global total, with the per capita figure only slightly above the world average. As far as industrial roundwood is concerned, consumption and production in Africa are again similar and in 1998 each accounted for less than 4 per cent of the global total, but the per capita amount for Africa was only one third of the global average.

The region is a net importer of most forest products but especially sawnwood, and pulp and paper products, with North African countries accounting for about 70 per cent of the continent's wood imports in 1998⁸. South Africa ranked second among importers of forest products in Africa in 1998, accounting for over 15 per cent. South Africa is also the major exporter of forest products in Africa and in 1998 accounted for almost 40 per cent of the region total. Four countries in the tropical timber area

⁷ Between 1990 and 1998 roundwood production in Africa as a whole grew at a rate of 2.6 per cent as compared to 0.9 per cent as the global average *Source*: Derived from FAOSTAT data

⁸ Four Mediterranean states of North Africa accounted for over 60 per cent of Africa's forest products imports in 1998 with Egypt alone accounting for almost one-third. The other three were Morocco, Tunisia and Algeria.

together accounted for a further forty per cent of exports of forest products from African countries in 1998⁹. (FAO, 2002; 2000b)

Deforestation and forest degradation is a major problem in much of Africa, with half of the forests having disappeared during the last 30 years. Sustainable management of Africa's forests has implications for international trade in forest products, both in terms of supply availability, and access to markets. Organizations that have a direct interest in forestry issues include the African Timber Organization, the Permanent Interstate Committee for Drought Control in the Sahel (CILSS), and the Intergovernmental Authority on Development (IGAD). Current activities for CILSS focus on how economies and policies influence the demand and supply of forest resources, fuelwood supply and land use management. IGAD is dealing with wider land use issues.

Agriculture and forestry overlap in many regions of Africa and thus negotiations concerning trade in agricultural products have special relevance to forestry in Africa. At the same time, the integration between forestry and agriculture is not recognized within the negotiation mechanisms since forest products are treated as a separate sector and forestry is not included in the Agreement on Agriculture (AoA).

3.1.1 Eastern and Southern Africa

Regional trade initiatives in Eastern and Southern Africa began with the Preferential Trade Area for Eastern and Southern Africa States (PTA), conceived in 1965, and operationalized in 1982. The PTA evolved into a common market through the Treaty establishing the Common Market for Eastern and Southern Africa (COMESA¹⁰) in 1993. COMESA stretches from Egypt to Swaziland and to the Indian Ocean. The first African Free Trade Area was launched in 2000 by COMESA with a group of nine participating states which had eliminated tariffs within the FTA. Current priorities are to bring more members into the FTA, to remove non trade barriers, and to prepare for the Common External Tariff by the year 2004 (IMF, 2002). Trade in forest products plays a minor role for countries in COMESA except for Egypt which accounts for almost one third of the continent's imports of forest products. However, one member country, the Democratic Republic of the Congo itself accounts for about 3 per cent of global forest cover.

3.1.2 Southern Africa

Regional cooperation in Southern Africa occurs within the South African Development Community (SADC¹¹), which was established in 1992. Although the stated objectives of SADC do not include trade negotiations, member countries have started to harmonise tariff rates. The 14 members of SADC include nine states which also belong to COMESA, and five SADC member states form the Southern African

⁹ Cameroon, Côte d'Ivoire, Gabon and Republic of Congo

¹⁰ COMESA comprises Angola, Burundi, Comoros, Congo D.R, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

¹¹ SADC member states are Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Customs Union (SACU¹²). SADC has a direct interest in forestry issues and is focusing, *inter alia*, on improved forest resource management and forest products utilization and marketing.

Objectives of SADC include achieving sustainable utilization of natural resources and effective protection of the environment. The SADC region includes nine per cent of global forests, over one-third of which is located in the Democratic Republic of the Congo (also a COMESA member). Trade and industrial production of forest products in the region is dominated by South Africa. Overall, member countries of SADC account for a small share of world trade in forest products. In 1998, SADC production of wood fuel represented 8 per cent of global production of woodfuel (FAO, 2001).

3.1.3 West Africa

In West Africa, the movement towards creation of regional common markets has built on long standing ties forged in establishing monetary unions. The umbrella RTA is the Economic Community of West African States (ECOWAS¹³) with 15 members. Established in 1975, ECOWAS is now governed by a revised treaty signed in 1993 (IMF, 2002). The principal objective of the Treaty is the creation of an economic and monetary union. A regional trade liberalization scheme was initially adopted for the creation of a free trade area by the end of 1999, with a common external tariff being implemented in phases. The planned integration of markets is still a work in progress. One indication that the trade liberalisation scheme is not yet operational is shown by the low level of intraregional trade, which is only 11% as compared to trade with third countries. The December 2001 meeting of the Council of Ministers urged acceleration of the harmonization of trade liberalization schemes in order to ensure the emergence of the envisaged single market for the sub-region (ECOWAS, 2002).

While ECOWAS members together contain only 2 per cent of global forests, they include a significant area of the world's tropical forests. Member countries account for a tiny share of world trade in forest products. More than 90 per cent of wood production is used as woodfuel, representing 10 per cent of global production of woodfuel (FAO, 2002).

¹² SACU comprises of Botswana, Lesotho, Namibia, South Africa and Swaziland.

¹³ ECOWAS comprises Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo

Box 14 UEMOA common policies on forestry

DEPARTEMENT DU DEVELOPPEMENT RURAL ET DE L'ENVIRONNEMENT

Il est dirigé par le Commissaire Félix Essou DANSOU (Bénin) et assure l'élaboration, la coordination et le suivi des politiques sectorielles communes dans les domaines ci-après :

- Agriculture et élevage,
- Pêche et sylviculture,
- Autosuffisance et sécurité alimentaire,
- Maîtrise de l'eau,
- Reboisement,
- Lutte contre la sécheresse,
- Lutte contre la désertification et l'érosion côtière,
- Protection des ressources naturelles et biodiversité,
- Amélioration de l'environnement en milieu rural et urbain (UEMOA, 2001)

Within ECOWAS there are eight countries which belong to the CFA Franc Zone¹⁴, and form one branch of that zone. Initially established as the West African Monetary Union (UMOA), in association with the Central Bank of West African States (BCEAO), this group created the West Africa Economic and Monetary Union (UEMOA¹⁵) in 1994. One of the aims of UEMOA is to create a common market among Member States based on the free circulation of the people, goods, services, and capital and on the right of people exercising an independent or remunerated activity to establish a common external tariff as well as a common commercial policy (IMF, 2002). UEMOA considers forest issues under its department of rural development and the environment (see Box 14).

3.1.4 Central Africa

The second branch of the CFA franc zone includes the six members of the Customs Union of Central Africa (UDFAC¹⁶) with its associated Monetary Co-operation Agreement. These countries belong to the Bank of Central African States (Banque des Etats de l'Afrique Centrale (BEAC)), which is declared a "Multinational African institution in the management and control of which France participates in return for the guarantee she provides for its currency." under its Convention and statutes (IMF, 2002).

¹⁴ The CFA zone covers fourteen West and Central African countries. These countries form two distinct groups, each with their own currency linked to the French Franc. One group is the members of UEMOA with Banque Centrale des Etates de l'Afrique de l' Ouest (BCEAO) as their central bank issuing the Franc of the Communauté Financière Africaine. The other group is the members of UDFAC, with the Banque des Etates de l'Afrique Centrale (BEAC) acting as their central bank and administering the Franc of the Coopération Financiere Africaine. (Dearden, 1999)

¹⁵ The 8 members of UEMOA are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo

¹⁶ Cameroon, the Central African Republic, Chad, (Congo Brazzaville / Republic of the Congo), Equatorial Guinea and Gabon compose the Customs Union of Central Africa (UDFAC) (Dearden, 1999)

The economic community of Central African states (ECCAS) was established in 1983, following agreement in principle in 1981 by the leaders of the Central African Customs and Economic Union (UDEAC) to form a wider economic community of Central African states. ECCAS links UDEAC members and the members of the Economic Community of the Great Lakes States (CEPGL¹⁷), as well as Sao Tome and Principe. The aim of ECCAS is to promote regional economic co-operation and establish a Central African Common Market. ECCAS began operations in 1985, but it has been inactive since 1992. Thus, although ECCAS has been designated a pillar of the African Economic Community (AEC), no formal contact between the AEC and ECCAS has yet been established (ZADFA, 2002).

3.1.5 North Africa

The Arab Maghreb Union (AMU) encompasses five North African countries¹⁸ that have strong historical, cultural, and language affinities. According to the initial plan laid down in 1964 the aim of AMU was to coordinate and harmonize the development plans of the original four countries as well as intraregional trade and relations with the EU. The plan saw little implementation until the goal was revitalized in the late 1980s. Following a decision in 1988 to set up the Maghreb High Commission and various specialized commissions, the Treaty establishing the AMU was signed in 1989 by the Heads of State of the five countries.

Free circulation of goods, services, and factors of production is one of the objectives of the AMU Treaty. The agreement provides for bilateral arrangements as well as the development of multilateral relations. In addition, it offers the possibility for other Arab and African countries to join the Union at a later stage. While numerous multilateral agreements have been signed since 1990, only five have been ratified by all members of the union. They include agreements on trade and tariffs (covering all industrial products); trade in agricultural products, investment guarantees; avoidance of double taxation; and phyto-sanitary standards (IMF, 2002).

The amount of forest cover in the AMU countries is not significant at a global level. However, some members, such as Algeria and Morocco, have significant areas of “other wooded land” which are important for forest products, grazing and desertification control. The major forest product is woodfuel. Demand for industrial forest products is met primarily by imports (FAO, 2001).

3.2 THE AMERICAS AND THE CARIBBEAN

The creation of the Free-Trade Area of the Americas (FTAA), which will link Latin America and the Caribbean with North America, is still a work in progress. The initiative for its formation was announced at the end of 1994. The negotiations for the FTAA were formally launched in Santiago, Chile, at the Second Summit of the Americas in April 1998. The original goal to have the FTAA in place by 2005 is still on track. It should result in the progressive elimination of barriers to trade in goods, services, and investment. The current expectations are that the FTAA negotiations will produce a single undertaking which will improve on WTO rules and disciplines

¹⁷ Burundi, Rwanda and the then Zaire

¹⁸ The AMU comprises Algeria, Libya, Mauritania, Morocco, Tunisia

wherever possible (FTAA, 2001). In the meantime the Americas are home to a number of RTAs, with surprisingly few overlapping memberships.

3.2.1 Latin America and the Caribbean

The Latin American Economic System (LAES¹⁹) is a regional intergovernmental organization involving most countries in Latin America and the Caribbean. Established in 1975, LAES serves to promote cooperation and integration among the countries of the region, and the development of joint positions and common strategies on economic issues in the region. It is not itself a regional trade agreement, but most countries are members of one or other of the region's RTAs. According to the WTO, Latin America and the Caribbean has been moving towards an increasingly open trade and investment regime as a result both of autonomous measures and regional initiatives.

At present South America contains three regional groupings of neighbouring countries belonging to distinct RTAs: countries in the central and southern part belong to the Common Market of the South (Mercado Comun del Sur (MERCOSUR); countries in the northern and western part belong to the Andean Community (CAN); and countries along the north east coast are linked to those in the Caribbean as members of CARICOM. Certain countries in Central America formed their own common market (CACM). The situation of Mexico is exceptional as it is linked with its developed neighbours to the north within NAFTA.

The existence of several RTAs can be a source of either divergence or convergence on the road to wider economic integration and trade liberalisation. The early experience of FTAs in Latin America originating in the 1950s focused on internal integration within a common protective barrier of high external tariffs. The more recent trend incorporates negotiation of trade liberalisation with external partners, including other RTAs, particularly others in the region. Sub-regional economic groupings are able to recognize that different integration paths and speeds of internal liberalization are appropriate for different subsets of countries. They may reduce implementation problems of harmonization and coordination by reducing initial diversity. As individual countries or sub-regional groups establish ties with other groups, they provide an impetus toward policy convergence.

Member countries of LAES account for one quarter of global forest cover. Together they are significant producers of wood-based products, ranging from wood fuel, which represents 13 per cent of world production, to wood panels with a 4 per cent share in world production. At 6 per cent and 5 per cent, respectively, woodpulp and paper products are intermediate in terms of the region's share of global production, but they represent the most highly traded wood products of the regions. Exports of pulp from countries in the region account for 13 per cent of world exports, but only 3 per cent of imports. The more highly processed product group of paper and paperboard is found on the other side of the ledger: imports by countries in the region account for 6 per cent of world imports of paper and paperboard, while exports

¹⁹ LAES has 28 member countries: Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela.

account for only 2 per cent of the global total. As far as other wood products are concerned, the total share of global trade for all countries in the region ranges from minor to 4 per cent (FAO, 2001).

3.2.2 MERCOSUR

The Common Market of the South (Mercado Comun del Sur (MERCOSUR²⁰)) is the vehicle of economic integration for countries in the central and southern part of South America, with the exception of Chile, which has associate status. Bolivia also has associate status, but in addition is a member of CAN. In recent years there have been negotiations between CAN and MERCOSUR to set up a Free Trade Area between the two groups²¹. MERCOSUR had its roots in a treaty signed by all four members in 1991²², signalling their intent to establish a Common Market by the end of 1994. Implementation of the progressive elimination of tariffs and non-tariff restrictions or equivalent measures took about five years longer to achieve than originally scheduled. Zero tariffs inside MERCOSUR were applied by Argentina and Brazil on 1st January 1999 and by Paraguay and Uruguay on 1st January 2000. (Mercosur, 2002)

In 2000, the share of MERCOSUR countries in overall global trade was approximately 1.4 per cent for both imports and exports. Using 1998 figures, their share in world trade in forest products was slightly higher, as they accounted for 2.1 per cent of exports and 1.5 per cent of imports. In terms of internal trade, forest product imports represent a higher than average proportion. For all products, internal trade represented about 20 per cent of trade by member countries (2000), while internal imports of forest products by members accounted for over 27 per cent of total forest product imports by MERCOSUR members (1998). Much of the large percentage of global forest cover found in Latin America is due to the Amazon Basin, which is largely in Brazil. Correspondingly, Brazil is the most significant producer and exporter of forest products in MERCOSUR. (FAO, 2001)

²⁰ Mercosur is comprised of Argentina, Brazil, Paraguay and Uruguay. The associated members include Chile and Bolivia.

²¹ In April, 2001, representatives of the MERCOSUR and the Andean Community (CAN) met in Asunción (Paraguay), to resume negotiations for setting up a Free Trade Area between the two blocks (CAN, 2002).

²² Treaty of Asunción, signed 26th March 1991

Box 15. Objectives of MERCOSUR

“This market implies:

Free movements of goods, services and factors of production (capital and labor), by means of, among others, the elimination of customs duties and non-tariff restrictions on the movement of goods

The establishment of a Common External Tariff (CET) and undertaking a common trade policy vis-à-vis third States or group of States, and the coordination of positions in economic, trade, regional and international forums.

The coordination of macroeconomic and sectorial policies between member States in the areas of: foreign trade, agriculture, industry, fiscal and monetary issues, foreign exchange and capital, services, customs, transport and communications as well as others that are agreed upon, in order to assure adequate conditions of competitiveness amongst member States.” (Mercosur, 2002)

The actions of MERCOSUR at the end of 1997 offered a backward glimpse to an earlier model of economic integration in Latin America and the days of high external protective tariffs. Members instituted a 3% increase in the Common External Tariff (CET), an action running counter to global liberalization of trade. The increase was prompted in part by the deterioration in Brazil’s current account deficit and was a short term measure. It was eliminated on schedule by the end of 2000 despite the fact that the MERCOSUR experienced a contraction of its intra-trade by almost a quarter in 1999 when the outputs in its member countries either stagnated or declined (source?). Overall the example of MERCOSUR has shown that lowering import duties and improving enforcement mechanisms can actually increase fiscal revenues from tariffs and customs duties (FAO, 2000b).

3.2.3 Andean Community

The Andean Community (Comunidad Andina de Naciones (CAN²³)) is the economic integration initiative of countries in the northern and western part of South America. CAN became operational in 1997, but its origins date back to 1969, with the signing of the Andean Pact²⁴. The early purpose included the gradual creation of a Latin American common market. Over the next three decades, Andean integration passed through a series of different stages²⁵. The main objectives were attained, such as: the liberalization of trade in goods in the subregion; the adoption of a common external tariff; and the harmonization of foreign trade instruments and policies, and of economic policy (IMF, 2002). An example of common policy was their joint call for a new Round of Multilateral Trade Negotiations to be launched at the WTO Ministerial

²³ CAN is made up of Bolivia, Colombia, Ecuador, Peru and Venezuela. The trade in goods between Bolivia, Colombia, Ecuador, and Venezuela is fully deregulated, which means that goods originating in any one of those countries can enter the territory of the others duty-free. As a result, these four countries have a free trade area that Peru is becoming a part of through a Liberalization Program

²⁴ Formally called the Cartagena Agreement

²⁵ The progress of integration and the emergence of new challenges stemming from global economic change brought to the fore the need for both institutional and policy reforms in the Cartagena Agreement. These were accomplished through the Protocols of Trujillo and Sucre, respectively. The institutional reforms gave the process political direction and created the Andean Community and the Andean Integration System. The policy reforms, for their part, extended the scope of integration beyond the purely trade and economic areas (IMF, 2002).

meeting in Doha, with level of development as an explicit principle in the new Round (Box 16).

Box 16. CAN position on a new Round of Multilateral Trade Negotiations

The CAN Ministers of Trade, in a Declaration signed in February 2001 and delivered to the Director General of the WTO, called for the launching of a new Round of Multilateral Trade Negotiations at the Fourth Ministerial Conference to be held on November 9 to 13 of this year in Doha, Qatar.

At their Thirteenth Meeting, held in June 2001, the Andean Presidents, after underscoring the importance of the Doha (Qatar) Conference, entrusted the Commission to "encourage the coordination of the Andean countries in that forum, so that future negotiations will make level of development the guiding principle for multilateral trade relations." (CAN, 2002)

The members of CAN account for a somewhat smaller share of world trade than MERCOSUR, representing 0.9 per cent of global exports and 0.6 per cent of global imports in 2000. Internal trade shares are also lower. For all products, internal trade accounted for 8.8 per cent of member exports and 13.9 per cent of member imports.

Box 10 CAN Guidelines for Environmental Management and Sustainable Development

The Andean Subregion is an area with an immense natural wealth, accounting as it does for roughly 25 percent of the world's biological diversity. Sustained use of this rich biodiversity poses a challenge to the CAN countries, particularly considering that the frequently irreversible loss of valuable biological and genetic resources has been speeding up in recent decades.

On July 3, 2001, the environmental authorities of the five Andean countries approved the "Guidelines for Environmental Management and Sustainable Development in the Andean Community," the Subregion's first collective effort in this sector. These guidelines consist of measures to be taken over the next five years in four major areas: Conservation and sustainable use of the biodiversity, environmental quality, trade and the environment, and international environmental forums.

The activities under trade and the environment include providing environmental backing to the technical negotiating groups responsible for drawing up a Community strategy vis-à-vis the FTAA and continuing to carry out the joint UNCTAD-CAF-CAN Program in Support of the Biotrade Initiative.

Insofar as the international environmental forums are concerned, the preparation of common and coordinated stands in international environmental and sustainable development forums is planned, together with the start on putting together a common Andean position toward the World Sustainable Development Summit (Johannesburg, 2002), the Convention on Biological Diversity, and the United Nations Forum on Forests.

Under the conservation and sustainable use of the biodiversity, for example, what is proposed is the adoption of the Regional Biodiversity Strategy for the countries in the Andean Tropics, in 2002; the implementation of Decisions 391 and 345, referring to access to the genetic resources and promoting the valuation of native forests and ecosystems, among other things.

The region also has a smaller, though not insignificant, amount of forest cover. Trade and production of forest products in the region represents only a minor share of global totals. However, the role of forests in the environment and sustainable development is an explicit concern for CAN as the Andean sub-region is home to 25 per cent of global biodiversity (Box 17).

3.2.4 Central America

Central American economic integration through the Central American Common Market (CACM²⁶) has a long history but the groundwork for its present form was laid at the signing of the Central American Peace Agreement (Esquipulas II) in 1987. Formal action to restart the integration process began in 1990 at the leaders' summit where the Economic Action Plan for Central America (Plan de Acción Económico de Centroamérica-Paeca) was approved. This plan foresaw a new conceptual and legal basis for a Central American economic community. It emphasized insertion of the region's economy into the global economy based on export-led growth. Concurrently, the maximum CET for the region was to be reduced from 40 percent to 20 percent and

²⁶ CACM comprises Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica.

was expected to average between 10 percent and 15 percent for most products. In 1991 it was agreed to include Panama in certain aspects of the new economic community. (Library of Congress, 2002)

In its original version, the CACM was motivated not by the ultimate goal of global trade liberalisation but by the theory of import-substitution industrialization. The purpose of regional integration was to overcome the limitations to implementing the theory within individual countries by expanding the domestic market to a larger common market among like groups of countries. The idea was that nascent industries could then develop behind a common external tariff protecting local manufacturers from extraregional competition.

During the 1960s and 1970s, the model appeared to be working and CACM had a significant positive impact on trade flows in Central America. Intraregional exports as a percentage of total exports grew dramatically, from 7 percent of total exports in 1960 to 26 percent in 1970. However, lack of progress on structural reforms of the member economies hindered the evolution of the CACM from a customs union into an economic community. One problem was that governments faced a drop in traditional revenues due to the zero tariffs within the FTA. By the early 1980s, Central America's profound economic problems and political upheavals had undermined most CACM activities and institutions.

Since its rebirth in 1990 the CACM has been involved in various initiatives with other RTAs and individual countries in the Americas. In 1992 a Framework Free Trade Agreement was signed among the five Central American republics and Mexico, establishing the procedures for the formation of a free-trade area projected to enter into force in December 1996. Inclusion of Central America in a free-trade area with Colombia and Venezuela was also foreseen in the Caracas Commitment adopted at a regional summit in February 1993. In addition, free-trade agreement talks were initiated between CACM and CARICOM (Library of Congress, 2002).

The Central American Common Market and the Andean Community have been making technical approaches to each other in order to deepen their relations since 1997. Trade between the CAN and the CACM followed a steadily upward trend between 1991 and 2000, with the exception of 1998. It is far from balanced as CAN exports to the CACM were more than ten times its imports from that market in 2000. Agreement has so far proceeded through partial groupings. In 2000, the CAN began negotiating the signing of an economic complementarity agreement with three CACM countries: Guatemala, El Salvador, and Honduras, known as the "Northern Triangle." The two parties agreed at the meeting held in November 2000 to exchange consolidated lists of products of interest containing the preferences requested and offered by the member countries and this was effected in May 2001. Thus far only Colombia and Venezuela have signed Partial Scope Agreements with the three Central American countries, in which they grant preferences to several products but receive none from those countries. (CAN 2002)

Trade in forest products does not play a significant role in CACM. The most heavily forested country in the geographic land mass is Belize, which is not a member of CACM, but is a member of CARICOM. Forests are or have been of importance to countries in the region in various ways. Costa Rica initiated action to manage the

exploitation of local forests for use in pharmaceuticals. Deforestation may have exacerbated the devastating effects of Hurricane Mitch, particularly in Nicaragua.

3.2.5 The Caribbean

The Caribbean Community and Common Market (CARICOM²⁷) links countries along the north east coast²⁸ of South America to island states in the Caribbean and the Central American country of Belize. CARICOM began in 1973 under the auspices of a treaty signed by four countries²⁹. Eight new members signed on the next year, and two more since then³⁰ (IMF, 2002).

The Caribbean Common Market replaces an earlier free trade agreement (CARIFTA), and provides, among other things, for the establishment of a Common External Tariff. Having already achieved a single market for intra-regional trade in goods, the Caribbean Community is currently implementing a programme towards the creation of a single market for services, capital and the establishment of businesses by CARICOM nationals. Intra-regional trade has risen over the past two decades. The share of intra-regional imports rose from 8.8 per cent in 1980 to 10 per cent in 1996; and for exports the intra-regional share rose from 8.7 per cent in 1980 to 18.4 in 1996 (Caricom, 2002).

Trade and production of forest products do not play a significant role in CARICOM's economy, but three member countries, Suriname, Guyana, and Belize, are all heavily forested (FAO, 2001).

3.2.6 North America - NAFTA³¹

The North American Free Trade Agreement (NAFTA) came into force in 1994. It was preceded by the U.S-Canada Free Trade Agreement (FTA), which was started in 1989, and was between Canada and the US only. NAFTA also includes Mexico. This RTA was explicitly designed as a free trade agreement for the purpose of fostering increased trade and investment. NAFTA established a new framework for doing business and facilitating economic interdependence among the three countries. It also set a precedent as the first reciprocal free trade agreement negotiated by Canada and a Latin American country. The articles of agreement included provision for the

²⁷ CARICOM has 14 member countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, Suriname, St. Vincent and the Grenadines and Trinidad and Tobago. Haiti became a provisional member of CARICOM in 1997. In 1991, the British Virgin Islands and the Turks and Caicos Islands were granted Associate Membership in the Caribbean Community, and in 1998, Anguilla was granted Associate Membership in the Caribbean Community.

²⁸ The north east coast means Suriname and Guyana. French Guiana is not a member of the regional organizations since it remains a department of France.

²⁹ The Treaty establishing CARICOM was signed by the Prime Ministers of Barbados, Guyana, Jamaica, and Trinidad and Tobago at Chaguaramas, Trinidad on July 4, 1973, and entered into force on August 1, 1973

³⁰ In 1983, the Bahamas became a member of the Caribbean Community, but not a member of the Common Market. Suriname acceded to membership of the Caribbean Community and Common Market in 1995.

³¹ NAFTA comprises the United States, Canada and Mexico.

establishment of the NAFTA Secretariat, which is responsible for the administration of the dispute settlement provisions of the Agreement³².

Together the NAFTA countries account for 14 per cent of the world's forest area, but have a much larger share in global production of, and trade in, forest products. In 2000, NAFTA accounted for 19.4 per cent of the world's merchandise exports, with internal trade representing 56 per cent of exports from NAFTA members; and for 26.6 per cent of the world's merchandise imports, with internal trade representing 40 per cent of imports by NAFTA members. In 1998, shares in forest products trade were notably higher than the merchandise average in terms of internal share of imports, and overall share of global exports. NAFTA accounted for 32 per cent of global exports of forest products, with internal trade representing 56 per cent of exports from NAFTA members; and for 21.5 per cent of the world's imports of forest products, with internal trade representing 77 per cent of imports by NAFTA members.

Production shares in 1998 ranged upward from 34 per cent of the world's paper and paperboard through 35 per cent of wood panels, 41 per cent for industrial roundwood and 43 per cent of sawnwood to 47 per cent of the world's pulp. Exports shares exceeded import shares in all products except wood panels, which were close to 20 per cent of the world total for both imports and exports. Pulp topped the list with a 48 per cent share of global exports, but a much smaller share of global imports, at 17 percent. The share of sawnwood exports was almost as high at 45 percent, and sawnwood was at the top of the list for imports at 30 per cent of the global total. Paper and paperboard exports from NAFTA accounted for 28 per cent of global exports while imports of the same product accounted for 23 per cent. Industrial roundwood exports accounted for 21 per cent of the global total while imports accounted for only 5 per cent.

³² The mandate of the NAFTA Secretariat also includes the provision of assistance to the Commission and support for various non-dispute related committees and working groups (<http://www.nafta-secretariat.org/>)

Box 18. NAFTA and the softwood lumber trade between the U.S. and Canada

Trade disputes concerning the imports of Canadian softwood lumber into the United States have a long tradition. The disputes have centred around the claim by the United States industry that Canada subsidizes its lumber (sawnwood) sector, representing a countervailable action. In the most recent dispute, the US has also ruled that Canadian exports of softwood to the United States constitute dumping.

The immediately prior phase in this ongoing dispute was addressed through the Softwood Lumber Agreement (SLA), which was signed into force for a five-year period in 1996. The SLA was an export control regime permitting free entry to the U.S. of a specified softwood lumber quota, with export fees applied to exports above the base level. When the SLA expired in March 2001, trade in softwood lumber entered a new dispute phase, and a new round of negotiations.

The determinations concerning Canada's softwood policies are made under U.S. trade law by the U.S. Department of Commerce. In the current dispute a preliminary determination was made in August 2001, resulting in the temporary imposition of a countervail duty of 19.4 per cent. In December, an additional anti-dumping duty was imposed. These findings were confirmed in the final ruling on March 21, 2002 with the result that a total duty of 29 per cent is due to come into effect on May 2, 2002. (BCMof, 2002)

Canada has appealed the US determination to the WTO, as it has done on past occasions. Since the last WTO ruling, however, which was in Canada's favour, the U.S. has made changes in its trade law which affect how conditions of countervailability are defined. While discussions at the highest political level failed to produce a resolution to the current dispute prior to the March 21, 2002 deadline, political negotiation may yet be revived.

The high percentage of internal trade in NAFTA imports of forest products reflects a long history of Canada as the major importer of forest products into the U.S. market. That situation is the outcome of a number of factors which pre-date the signing of NAFTA. They include geographic proximity, the extent of Canada's forest resource, and the considerable disparity in market size between the two countries. Demand from other countries for Canadian forest product exports has traditionally also affected the reliance of Canadian producers on U.S. markets³³. The softwood lumber dispute represents a challenge to the implementation of free trade between the two countries. It highlights the problems that can arise in the harmonisation of policies associated with free trade³⁴ and also the role of distributional questions³⁵.

³³ This is particularly the case for producers in the Coastal region of the province of British Columbia. When the SLA came into force their main markets were offshore and they were therefore not included in the quota determination. They then felt the effect of the Asian crisis through a decline in offshore demand.

³⁴ The preliminary countervail determination catalogued a long list of policies and programmes in Canadian provinces which were considered by the US to represent subsidies. They also highlighted a different institutional approach in Canada compared to the US in dealing with public forests. The newly elected government in one province, British Columbia, included the offer of a considerable package of policy reform as part of the negotiations.

³⁵ See Forest Research (1999) for analysis modelling the distribution of costs and benefits of lifting the quota restrictions under the SLA.

3.3 ASIA

The best known regional grouping involving countries in Asia is probably the Asia Pacific Economic Conference (APEC), which also involves countries in the Americas and the South Pacific region. A number of the Asian members of APEC also belong to the Association of Southeast Asian Nations (ASEAN). The South Asian Association for Regional Cooperation comprises a separate regional grouping, and one which has no overlapping membership with APEC.

3.3.1 The Association of South East Asian Nations

The Association of South East Asian Nations (ASEAN)³⁶ was established in 1967. ASEAN economic cooperation covers several areas, and includes among others: trade, agriculture, and forestry. When ASEAN was established, trade among the member countries was insignificant, leading to an early focus on ways to address this situation. Tariff preferences for trade among ASEAN economies were first accorded under the Preferential Trading Arrangement of 1977 (IMF, 2002).

The path towards an ASEAN Free Trade Area (AFTA) was launched in 1992 under the Framework Agreement on Enhancing Economic Cooperation. The aim of AFTA is to increase the ASEAN region's competitive advantage as a single production unit through the elimination of tariff and non-tariff barriers among the member countries. By 1996 the share of intra-regional trade from ASEAN's total trade had risen to 25 percent from 20 percent when AFTA was launched. In 1995, an accelerated timetable for the realization of AFTA was adopted, compressing the original 15-year time frame to 10 years (IMF website). After a decade of preparation AFTA officially went into effect on January 1, 2002 (AFTA, 2002)

The first stage in preparations for AFTA was the institution of a comprehensive program of regional tariff reduction known as the Common Effective Preferential Tariff (CEPT). Other activities have been initiated more recently, including efforts to eliminate non-tariff barriers and quantitative restrictions, and harmonize customs nomenclature, valuation, and procedures. The major NTBs affecting intra-regional trade have been identified as: customs surcharges, technical measures and product characteristic requirements, and monopolistic measures (ASEAN, 2002)

The CEPT is the mechanism by which tariffs on goods traded within the ASEAN region, which meet a 40% ASEAN content requirement, will be reduced to 0-5% by the year 2003 (2006 for Vietnam, and 2008 for Laos and Myanmar). The average CEPT tariff rate of products in the Inclusion List fell to 6.38% in 1997, from about 12.76% in 1993 at the start of the tariff reduction program (ASEAN, 2002).

In the wake of the Asian crisis, AFTA members accelerated trade liberalization and agreed to bring a minimum of 85% of the tariff lines under the CEPT³⁷. Tariffs on

³⁶ The five original Member Countries of ASEAN were Indonesia, Malaysia, Philippines, Singapore, and Thailand. They were later joined by Brunei Darussalam (1984), Viet Nam (1995), Laos and Myanmar (1997) and Cambodia (1999).

³⁷ As of 2001, almost 85 per cent were on the inclusion list, 13 percent were on the temporary exclusion list, just over 1 per cent on the general exception list and less than 1 per cent were on the sensitive list. <http://www.us-asean.org/afta.htm>

goods in the fast track were scheduled to be reduced to 0-5% by the year 2000. Reduction in the CEPT and the Most Favoured Nation (MFN) rates has proceeded in parallel, so that the preference margin for regional suppliers has remained relatively stable.

Forestry is represented among several specialized bodies and arrangements promoting inter-governmental cooperation in various fields in the form of the ASEAN Timber Technology Centre. The forest area of ASEAN member countries accounts for only about 6 per cent of the global forest cover but a significant proportion of the world's tropical forests. Forests in the region are of particular importance in terms of biological diversity conservation. Three-quarters of total wood production is used as fuelwood and charcoal, and comprises 17 per cent of global production of woodfuel. The region is an important exporter of industrial roundwood, contributing 10 per cent of the world total, while accounting for 5 per cent of global production.

Wood-panels are the most significant product of the region, accounting for 11 per cent of world production and 21 per cent of global exports, most of which comes from two member countries, Indonesia and Malaysia. Pulp is the only commodity that ranks higher in the share of global imports, at 5 per cent, than global exports, at 4 per cent. The proportions of production and trade, both import and export, for paper and paperboard are the same, at 3 percent. ASEAN accounts for 2 per cent of global production and global imports of sawnwood while providing 5 per cent of global exports of sawnwood. In addition, many ASEAN countries are major exporters of non-wood forest products, in particular rubber, rattan, and bamboo. (FAO, 2001).

3.3.2 The South Asian Association for Regional Cooperation

Established in 1985, the main aim of the South Asian Association for Regional Cooperation (SAARC)³⁸ is to accelerate economic and social development in its member states through joint action in agreed areas of cooperation. Those areas include, among others: forestry, environment, and agriculture and rural development. A Preferential Trading Arrangement (SAPTA), designed to reduce tariffs on trade between SAARC member states, was signed in 1993 and entered into force in 1995 (IMF, 2002). Tariff concessions have been achieved gradually over a series of rounds.

One of the core principles of the SAPTA Agreement is that there should be special treatment for Least Developed Countries through the consideration of additional measures. It was accordingly decided in 1999 to reduce the domestic content requirement further under the SAPTA Rules of Origin to enable the smaller and Least Developed Countries to benefit equitably from economic liberalization. This reduction would apply to all products covered so far in the trade negotiations (SAARC, 2002)

SAPTA was envisaged primarily as the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading subsequently, towards a Customs Union, Common Market and Economic Union. In 1998 the Tenth Summit of SAARC directed that the text of the regulatory framework for creating a Free Trade Area in the Region should be finalized by 2001. A Committee of Experts was constituted to draft

³⁸ The members of SAARC are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka

a comprehensive treaty and worked out its broad terms of reference following its first meeting in 1999. (SAARC, 2002)

Forest cover in the region is relatively low, representing 2 per cent of global forests and about 19 per cent of land area. However, there is considerable overlap between forestry and agriculture as trees on agricultural land provide an important source of non-wood forest products. Wood for fuel is the main forest product accounting for 90 per cent of wood production in the region and representing 21 per cent of world production of woodfuel. The region plays little role in trade in forest products.

3.4 EUROPE

Europe is the source of nearly 60 per cent of the notified regional agreements in force at the end of 2000 (WTO, 2001). Two of those considered here each have roots among the earliest RTA's but they have evolved along very different institutional paths. The European Free Trade Area (EFTA) has retained its status as a free trade area while the European Community (EC) incrementally broadened its institutional mandate to emerge as an integrated entity known as the European Union (EU). This section also includes the Commonwealth of Independent States, not all of whose members lie within the borders of Europe.

3.4.1 European Community

The European Community (EC) is the direct descendant of three Communities related to economic integration. As the EC was evolving, so too was the more comprehensive European Union (EU) which is run by five institutions, each playing a specific role. The Doha Declaration appeared to meet a number of the key concerns raised by the EU prior to the 2001 WTO meeting.

Box 18. Excerpts from the EC response to the Doha Declaration

The EU was the driving force to get the issue of sustainable development and the environment into the Declaration. WTO members agreed that sustainable development will be an overarching goal of the negotiations. By giving a special role to the WTO Committee on Trade and Environment (CTE), sustainable development and environmental concerns will be mainstreamed throughout the negotiations.

The declaration provides the basis for coherent and effective assistance for the integration of developing countries in world trade. Members committed to a comprehensive strategy for trade-related capacity building, as part of efforts to mainstream trade in development policies and in co-ordination with other donors.

WTO members reconfirmed the commitment to core labour standards and co-operation between the WTO and the ILO. The EU intends to work to ensure that the WTO contributes in a constructive fashion to the ILO process, especially in light of the establishment by the ILO of a world Commission to deal with the social aspects of globalisation.

The EU objective to start negotiations for clear and quite strict rules defining the conditions to be met for FTAs and regional trade agreements to be WTO compatible was agreed.

With regard to market access the negotiating mandate reflects the essential objective of reducing, and where possible, eliminating tariffs, and it holds the prospect of bringing significant trade and growth gains for all WTO members. (Europa, 2002)

The first of the economic communities was the European Coal and Steel Community (ECSC) established in 1951 as the result of agreement among the original six member states to liberalize trade in coal and steel. In 1957 the Treaty of Rome initiated a customs union to be implemented over the next 12 years and known as the European Economic Community (EEC). A common external tariff was established as the arithmetic mean of the tariffs applicable at the time by the member states. Duties were to be eliminated for imports from other member states, providing a de facto preference for members. When the customs union became effective in 1968 it encompassed the free movement of goods, labour, services, and capital. The third Community was the European Atomic Energy Community (EURATOM) created in 1958.

In 1965, the three communities were linked through the establishment of a single Council of Ministers and a single Commission of the European Communities under the Treaty of Brussels. The 1986 Single European Act signalled a further deepening of economic integration among the members. Part of the EC process has been harmonization of policy and practices in member countries. An example is the Eurocodes which harmonizes standards, including those related to forest products.

Box 19 Institutions and aims of the EU

The EU is run by five institutions, each playing a specific role:

- *European Parliament* (elected by the peoples of the Member States);
- *Council of the Union* (composed of the governments of the Member States);
- *European Commission* (driving force and executive body);
- *Court of Justice* (compliance with the law);
- *Court of Auditors* (sound and lawful management of the EU budget).

The principal objectives of the Union are:

- *Establish European citizenship*
- *Ensure freedom, security and justice;*
- *Promote economic and social progress;*
- *Assert Europe's role in the world).* (Europa, 2002)

The early 1970s saw the introduction of the goal of European political cooperation, with the aim of going beyond the economic and social framework set up by the Community Treaties to achieve a genuinely common strategy of the Member States in the field of foreign policy. Political union was created by the Treaty on European Union, which was signed in Maastricht in 1992. This agreement recognised the need to incorporate into foreign policy a jointly operated common security dimension and extend cooperation in principle to all areas of international policy involving the interests of the European Union. It also brought about considerable changes to the existing treaties concerning the European Communities and changed the name to the European Community. By 1995 membership in the EC/EU had gradually increased from the original six to 15³⁹.

Another component of integration was the establishment of a European Monetary System (EMS), which was adopted in principle in 1978. This became a three-stage process. It began in 1990 with steps to improve economic and monetary policy convergence among member states, including the removal of exchange controls in most member states. The second stage was mandated by the Maastricht Treaty and created the European Monetary Institute (EMI) in 1994. It also paved the way for the final stage beginning in 1999. This involved a European System of Central Banks and the introduction of the *euro* as the single currency and a single monetary policy for the 11 member countries participating in the euro area⁴⁰. Individual currencies were formally removed from circulation in 2002.

The EC contains only 3 per cent of the world's forest area and almost three-quarters of that is located in just four countries: Sweden, Finland, France, and Germany. Nonetheless the EC is a major player in the forest products sector. Based on 1998 data⁴¹, the EC share in global production ranged from 15 per cent for industrial roundwood to 26 per cent for paper and paperboard. The EC accounted for even

³⁹ The original six were Belgium, France, Germany, Italy, Luxembourg and the Netherlands. These have since been joined by Denmark, Ireland, and the United Kingdom, (1973); Greece (1981); Spain and Portugal (1986); and Austria, Finland, and Sweden (1995).

⁴⁰ Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland

⁴¹ 1998 was not a typical year because of the Asian crisis. Thus the EC accounted for a somewhat higher than average share in global trade in forest products in 1998

higher proportions of trade. Exports ranged from 16 per cent of industrial roundwood to 53 per cent of paper and paperboard. Imports of sawnwood comprise the lowest share of global totals at 39 percent, followed by industrial roundwood and wood panels at 40 per cent each, paper and paperboard at 44 per cent and pulp at 46 percent. The highest share of global imports was actually held by woodfuel at 55 per cent, compared to an export share of 19 per cent and production at just 2 per cent of the global total (FAO, 2001).

Overall the EC share in global forest product imports was 42 per cent in 1998, with internal trade comprising two thirds of the region total. Exports of forest products from EC countries also accounted for almost 42 per cent of the global total in 1998, with internal trade accounting for 73 per cent of the region total (FAO, 2002).

3.4.1.1 The EU and other trade agreements

The EU and Turkey formed a customs union which entered into force in 1996. This union provided a new impetus to Turkey's liberalization process, offering an example of how reform can be driven by regional agreements. In many cases, the agreement with the EU took Turkey beyond its UR commitments. Turkey has adopted the EU's common external tariff (CET) for most industrial goods, and legislation in a large number of trade-related areas has been harmonized with the EU *acquis communautaire*, which comprises the entire body of legislation of the EC.

In the last few years the EU has also concluded five bilateral free-trade agreements around the Mediterranean (Israel, Jordan, Morocco, Tunisia and the Palestine Authority). These are part of the EU's Euro-Mediterranean Free-Trade Area initiative. In addition, the EU has established framework agreements aimed at achieving reciprocal trade liberalization, as part of its cross-regional integration initiative, with Mexico, Chile and the MERCOSUR grouping.

The EC has a long tradition of providing preferential treatment to developing countries in Africa, the Caribbean and the Pacific region (ACP). Initially established under the Lomé Convention, negotiations between the EU and the ACP countries were recently concluded for a successor cooperation agreement, known as the Cotonou Agreement. A major feature of the new partnership agreement is the commitment of the parties to negotiate, beginning in 2002, new WTO-compatible trade arrangements that shall come into force on 1 January 2008. These are envisaged to be reciprocal free trade agreements. During the eight-year transition period beginning 1 March 2000, the ACP countries would continue to enjoy the non-reciprocal trade preferences provided under successive Lomé agreements. The least developed ACP countries are guaranteed free access to the EU market for "essentially all" their products by the year 2005. (FAO, 2000b)

The Cotonou Agreement encourages ACP countries to negotiate and implement regional economic partnership agreements amongst themselves. The EU would then negotiate reciprocal free trade areas with these regional partnerships. The WTO Ministerial meeting in Doha gave approval to extend the waiver for the Cotonou agreement to the end of 2007. This enables the EU to continue to provide preferential tariff treatment for products originating in ACP States without being required to

extend the same preferential treatment to like products of any other WTO members, subject to certain conditions. (WTO, 2001f)

3.4.2 European Free Trade Association

The European Free Trade Association (EFTA) was originally formed in 1959 by seven West European countries⁴² that were not members of the European Economic Community. The goal of EFTA was to remove import duties, quotas and other obstacles to trade in Western Europe and to uphold liberal, non-discriminatory practices in world trade. The membership of EFTA has since undergone considerable changes. Six early members left to join the EC but three new members joined⁴³. The forest products sector was of more significance to the early membership as it included Sweden, a major exporter of forest products, and the U.K., a major importer of forest products. These two countries each left EFTA to join the EC. EFTA unites the markets of its four members in a free trade area, but it is not a customs union as there is no common external tariff. It also provides the liaison for three of its members, namely, Iceland, Norway, and Liechtenstein, to participate with the EC in the European Economic Area (EEA)⁴⁴. The EEA forms the world's most integrated regional market. EFTA also has formal relations with a number of states outside the European Union and has signed free trade agreements with 15 partners (IMF, 2002).

3.4.3 Commonwealth of Independent States

The Commonwealth of Independent States (CIS) was established in 1991. The CIS is a voluntary association, the main aim of which is to develop and strengthen cooperation and to serve the cause of peace and security. It thus does not fall under the definition of a regional trading agreement. Furthermore, only a few of its members have so far acceded to the WTO⁴⁵, though others have observer status⁴⁶. The CIS is significant to forestry in that it contains nearly one quarter of the world's forests, with the Russian Federation alone accounting for 94 per cent of the group's total forest area. Belarus and Georgia are also heavily forested.

The share in global production and trade is minor compared to the share in forest area. The most significant product is industrial roundwood. In 1998, the CIS accounted for 16 per cent of global exports of wood fuel and 15 per cent of global exports of industrial roundwood. Production of industrial roundwood comprised 5 per cent of the world total. Sawnwood had the next highest share of global production at 5 per cent, but trade in sawnwood was lower. The Russian Federation accounts for about 90 per cent of production and consumption of forest products, while other products are highly dependent on imports to meet their wood requirements. Nonetheless imports are not significant at the global level, with wood panels and paper and paperboard

⁴² The original members of EFTA were Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom

⁴³ Norway decided against membership of the EU in a referendum in 1994. Switzerland also remained in EFTA. Iceland joined EFTA in 1970 and Liechtenstein became a member in 1991.

⁴⁴ Switzerland decided against EEA membership in a referendum in December 1992.

⁴⁵ Georgia (2000), Kyrgyz Republic (1998), the Republic of Moldova (2001).

⁴⁶ Other CIS members are Armenia, Azerbaijan, Belarus, Kazakhstan, the Russian Federation, Tajikistan, Turkmenistan Ukraine, and Uzbekistan which all have observer status at the WTO.

each accounting for about 1 per cent of the world total and other products less than that (FAO, 2001).

3.5 SOUTH PACIFIC REGION

The South Pacific region encompasses both developed and developing countries, all of which are island states of various sizes. A number of agreements for regional cooperation exist, with varying emphasis on trade. The South Pacific is home to one of the oldest regional organisations in the world, the SPC⁴⁷, which celebrated its 50th anniversary in 1997. The SPC is a non-political, technical assistance and research body that fills a consultative and advisory role in the social and economic development of the Pacific Island region. The heart of the SPC is its integrated Work Programme which covers, among other areas, resources, agriculture, and forestry. Timber is a major export commodity from Melanesia, the western sub-region of the Pacific Islands. The other two sub-regions are Polynesia (southeast) and Micronesia (north).

3.5.1 The Pacific Island Forum

The Pacific Island Forum⁴⁸ was founded in 1971. The Vision statement, endorsed in 1996, noted that resources, including fisheries, forestry, minerals, water and land, are to be developed with proper regard for conservation, the legacy of past generations and the future. The meeting in 2001 approved a regional focus and strategy for the upcoming WTO Ministerial Conference in Doha, including support in principle for the launching of a new round of negotiations.

The establishment of a free trade area was an objective of the Forum from the first. In 1980 a non-reciprocal trade agreement known as the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) was signed, and came into effect in 1981. Under SPARTECA the two developed nation members of the Forum, Australia and New Zealand, offer duty free and unrestricted or concessional access for virtually all products originating from the developing island member countries of the Forum. The principle of a free trade area among Forum members was endorsed in 1999 and officials were directed to negotiate the details of the draft Agreement. In 2001, the recommended texts of the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Island Countries Trade Agreement (PICTA) were opened for signature, with the expectation of ratification by sufficient states to enable them to come into force in 2002. (PIFS, 2002)

⁴⁷ The SPC was originally established in 1947 as the South Pacific Commission, which comprised six 'Participating Governments' that administered territories in the Pacific: Australia, France, New Zealand, the Netherlands, the United Kingdom and the United States of America. Since then, all 22 Island countries and territories have become full members. These are American Samoa, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, New Caledonia, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Pitcairn Islands, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, and Wallis and Futuna. Following the fiftieth anniversary the name for the members was changed to the Pacific Community and the organization became the Secretariat of the Pacific Community (SPC).

⁴⁸ Sometimes also called the South Pacific Forum (SPF), the 16 members are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

The member countries together account for less than 3 per cent of the world's forest area, with a major portion (94%) of the region's forested area located in Australia and Papua New Guinea (PNG). Like PNG, the Solomon Islands and Vanuatu are heavily forested and form part of the world's tropical timber resource. Most of the industrial production in Australia and New Zealand comes from plantation forests. The most significant product in the region in terms of global production and trade is industrial roundwood, which represents 3 per cent of world production and 7 per cent of world exports. The group's processed forest products only account for between 1 and 2 per cent of global production and trade, both imports and exports (FAO, 2001).

3.5.2 Australia New Zealand Closer Economic Relations Trade Agreement

When the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) entered into force in 1983 it already contained rules concerning a wide range of trade liberalization aspects. These included, among others: tariffs, quantitative import restrictions, tariff quotas, quantitative export restrictions, export subsidies and incentives, anti-dumping action, countervailing action and customs harmonisation. The agreement was fairly comprehensive in its coverage, but goods subject to modified application of the agreement included certain forest products, and in particular, reconstituted wood based panel products.

The subsequent signing of the Trans-Tasman Mutual Recognition Agreement (TTMA) in 1996 provided the impetus for harmonization work, particularly in the area of standards. Incorporated into law in 1997, the TTMA has as its basis the principle that "a Good that may legally be sold in the Jurisdiction of any Australian Party may be legally sold in New Zealand" and vice versa. Although the agreement contains exemptions for the protection of health, safety, and the environment, the parties have undertaken to work towards comprehensive realization of the basic principle.

Since 2000 the agreement has been under study for possible extension through various stages leading to integration. Issues include: the future directions and role of ANZCERTA as a platform for other Free Trade Agreements; potential for harmonisation of tax, customs and business law; and a single trans-Tasman currency.

Box. 13 Forestry effects of the harmonization of standards under the TTMA

As far as forestry is concerned, the TTMA has meant a move towards harmonizing of standards. The main issue to date has been sawn timber dimensions, moisture content, grade, treatment and adhesives. In the case of sawn timber, the result has been that New Zealand producers have to manufacture specifically for the Australian market. This issue is gradually being resolved by educating the New Zealand market to accept products manufactured to Australian standards. The adhesives issue concerns the glue to be used in products such as finger jointed framing and has yet to be resolved.

3.6 ASIA-PACIFIC REGION

The Asia-Pacific Economic Cooperation (APEC)⁴⁹ spans several geographic regions and many of its members also belong to other regional groups. APEC thus encompasses all three members of NAFTA, the developed country members of the Pacific Island Forum together with PNG; seven of the ten members of ASEAN, one member each of CAN, MERCOSUR, and CIS, and five other member states which do not belong to other regional groupings but are members of the WTO. The significance to production and trade in forest products of the various sub-groupings has already been noted. Taken in aggregate, inclusive of the members not belonging to RTA's, the result is a regional grouping of major economic significance at the global level, including with respect to forest products.

APEC differs essentially from the other regional trade group in a number of ways. Trade liberalisation is clearly one of its aims and its internal trade certainly accounts for a major portion of its total trade and a significant share of total global trade. For APEC the target of trade liberalisation is not the formation of a free trade area among its own members but is at the global level. When APEC was established in 1989 one of its main concerns was to promote a positive conclusion to the Uruguay Round of GATT negotiations. The founding members were also responding to the growing interdependence among Asia-Pacific economies and its stated goal was "to advance economic dynamism and sense of community within the Asia-Pacific region" (APEC, 2001b).

Unlike either the WTO or other RTA's, APEC is not a rules-based institution nor does it have an agenda of binding commitments along the road to economic integration. It has by-passed the route of preferential tariff reduction inside the region and the creation of mutually agreed external tariffs in favour of an approach it calls open regionalism (see Box 20). This means that any tariff reductions on the part of APEC members are not limited to APEC members but are extended to all countries in the WTO as the most favoured nation (MFN) rate. Within APEC a major focus of liberalisation has been the harmonisation of administrative procedures, a task usually reserved for a stage closer to full integration.

The first formal meeting of APEC took place in 1993. The meeting in the following year saw translation of the idea of open regionalism into the stated goal of achieving "free and open trade and investment in the Asia-Pacific by 2010 for developed member countries and 2020 for developing ones." This mission was known as the Bogor Declaration. Subsequent annual meetings were directed at achieving this goal. The meeting in 1995 produced the Osaka Action Plan and established the three pillars of APEC activities: trade and investment liberalization, business facilitation, and economic and technical cooperation.

⁴⁹ APEC comprises Malaysia, Singapore, Thailand, Indonesia, Brunei, the Philippines, and Vietnam (also ASEAN members); Australia, New Zealand, and Papua New Guinea (also members of the Pacific Island Forum); Canada, Mexico, and the United States (the members of NAFTA), Peru (a member of CAN), Chile (an associated member of MERCOSUR); Russia (a member of CIS) and the Republic of Korea, Japan, China Hong Kong, China, and Taiwan Province of China, the last two mentioned being the WTO's newest members.

Box 20 The open regionalism policy of APEC

- “The WTO is a rules-based multilateral trade agreement; APEC is a consultative process operating on a voluntary basis and consensus among members
- “The WTO focuses primarily on tariffs and other at-the-border trade barriers, while APEC has a much broader view encompassing trade liberalisation, business facilitation and providing support through economic and technical cooperation to enable economies, particularly those relatively less advanced, to maximise their gains from trade liberalisation.
- “APEC member economies are working to achieve free trade and investment by 2010 (for developed economies) and 2020 (for developing economies) while the WTO has not committed beyond the Uruguay Round Agreements, including the Built in Agenda. We register steps towards our 2010/2020 goals, which are very comprehensive in coverage through Individual Action Plans, revised and improved annually. Also through Common Action Plans. These IAPs and CAPs are the key instruments of APEC liberalisation process. IAPs progress is entirely voluntary. But peer pressure can also be influential.”

(APEC, 1999)

The next step in implementation was the Manila Action Plan for APEC (MAPA), which was adopted at the 1996 meeting, and compiled members’ initial individual action plans (IAPs) to achieve the objectives outlined in Bogor. Six areas of economic and technical cooperation were to be given high priority as follows: developing human capital; fostering safe and efficient capital markets; strengthening economic infrastructure; harnessing technologies of the future; promoting environmentally sustainable growth; and encouraging the growth of small and medium-sized enterprises.

In 1997 it was agreed that action should be taken with respect to early voluntary sectoral liberalization (EVSL) in 15 sectors⁵⁰, with nine to be advanced throughout 1998 and implementation to begin in 1999. Forestry was one of the EVSL sectors (see Box). In 1998 the Leader’s highlighted the goal of contributing towards sustainable growth and equitable development while reducing economic disparities and improving the social well-being of the people, through skills upgrading/improvement. This objective was adopted through the Kuala Lumpur Action Program on Skills Development.

⁵⁰ The 15 sectors were environmental goods and services; fish and fish products; toys; forest products; gems and jewelry; medical equipment and instruments; chemicals; energy; telecommunications mutual recognition arrangement (MRA); food; natural and synthetic rubber; fertilizers; automotive; oilseeds and oilseed products; and civil aircraft.

Box 21 EVSL in APEC

The Early Voluntary Sector Liberalization (EVSL) agreement of the APEC economies reflected the desire of APEC members to continue the momentum towards trade liberalization achieved in the UR. Under the EVSL, APEC countries aimed to liberalize their trade in 15 different sectors, including forest products, ahead of any schedules agreed as part of the UR. The EVSL initiative envisaged a unique three-pronged approach to liberalization including market opening measures, trade facilitation activities and economic and technical cooperation (APEC, 2001).

The impact of the EVSL in forest products was analysed as part of MAPA. Model simulations showed that removal of tariff barriers to forest products trade would increase the Gross Domestic Product (GDP) of the APEC economies by about 0.4%. This relatively small percentage increase in the GDP represents actually an absolute increase of some \$69 billion per annum (1995 dollar terms) given the size of some member economies, and their dominant position in forest products trade.

In addition to quantifying the aggregate potential benefits of implementing EVSL in the forest products sector, the APEC simulations indicated that the impacts would not be spread uniformly throughout the APEC region. In terms of relative percentage increase, explicit modelling for 16 of the 21 economies in the group showed country-specific impacts varying from a high of 7.4% of GDP (Malaysia) to a low of 0.1% of GDP (USA). This wide variation in impacts was probably one factor in hindering the adoption of the forestry liberalization plan as it was initially envisaged. At the same time the region was dealing with the effects of the 1997-98 Asian economic crisis. One of the effects was a general slowing in all moves towards accelerated liberalization. Many APEC nations therefore preferred to abide with the timing for liberalization agreed in the UR rather than the accelerated EVSL rate.

However, the Asian financial crisis had already arrived in 1997 and its effects continued to be felt through the following year. The crisis reinforced the reality of the gap that still existed between developing and developed members of APEC. Given the implementation difficulties that began to accompany the voluntary nature of the EVSL plan, APEC chose to seek broader support for the EVSL plan by pursuing negotiation of the tariff elements of the EVSL exercise within the WTO.

Although the EVSL initiative was not proceeding as originally envisaged, APEC remained committed to achieving the goals of EVSL. With the decision to transfer the tariff element of EVSL to the WTO, work focused on the non-tariff measures, facilitation, and economic and technical cooperation components of the sectoral initiatives. Research conducted under the auspices of the APEC Committee on Trade and Investment included a study on non-tariff measures in the forestry sector and their impacts. This study suggested that there were significant small gains to be made if a number of NTMs could be removed. In addition, it revealed that the process of removing the NTMs is likely to be challenging, and will almost certainly produce definite winners and losers (Forest Research, 1999).

By the time of the APEC meetings in 1999 and 2000 signs of economic recovery were evident. The goal of sustaining economic recovery was added to the continuing focus on strengthening markets and improving the international framework governing trade and investment flows. The failure of the WTO meeting in Seattle represented a considerable challenge for APEC because it indicated that its central aim of trade and

investment liberalisation would have to share the global stage with other concerns that had come to the fore. These other issues included trade and labour, trade and environment, and the method of decision-making.

From early on, APEC has envisaged environment and sustainable development as a cross-cutting issue that should be addressed by all APEC fora. Priorities on sustainable development were outlined in five areas as follows: cleaner production; protection of the marine environment; sustainable cities; food, energy, and the environment in relation to economic and population growth (FEEEP); and the APEC Framework for Capacity Building Initiatives on Emergency Preparedness.

A key feature distinguishing APEC from other international organizations is its commitment to facilitating business. APEC recognizes that business has always been the primary force behind the dynamic growth in the Asia-Pacific region. Thus APEC regularly brings the business/private sector into a wide range of APEC activities. The continuing globalization of business means that the APEC economies must develop region-wide practices and policies to encourage the free flow of goods, services, investment and capital within the region. Therefore business is a key constituency for APEC both regionally and in individual member economies. APEC aims to achieve both concrete and pragmatic results that will benefit business, contribute to increased income and create jobs in the region. (APEC, 2001b)

Although there is no separate working group on forestry in APEC, forest products have a clear place on the APEC agenda as indicated by the priority in the EVSL list. In addition, the gradual harmonization of codes among a number of the APEC economies has implications for forest products. The examination of Japanese standards for newer, non-traditional building products exported to Japan showed them to be almost verbatim copies of the corresponding North American standards. Naturally this favours North American exporters over other potential suppliers, since any product that they manufacture which is suitable for their home market is also suitable for the Japanese market.

By the end of the twentieth century APEC economies accounted for about 47% of all global trade (APEC, 2001b). The share in forest products trade was even slightly higher than that, representing 48 per cent of world imports of forest products and 50 per cent of world exports of forest products. These figures show a slight rise from 1995 and a considerable increase compared to 1998 due to the impact of the Asian crisis at that time.

In 1998 APEC countries accounted for closer to 40 per cent of world imports of forest products and around 45 per cent of exports. Internal trade within APEC countries accounted for a around 80 per cent of total trade (both imports and exports of forest products). The United States alone accounted for almost 40 per cent of the imports from APEC countries, followed by Japan and China which together accounted for over 30 per cent. Canada alone contributed 45 per cent of the internal trade with respect to forest product exports, followed by the United States which accounted for over 20 per cent.

3.7 Discussion

Regional cooperative initiatives of one kind or another appear to be a feature of every region of the world. The scale and scope of these initiatives as well as the degree of economic integration varies considerably. While most have historical roots dating back over several decades, recent years have seen an increasing focus on trade liberalisation through the negotiation of regional free trade agreements. Although many are still at the early stages, other are further down the path and can illuminate the challenges and pitfalls as well as illustrating the benefits.

On balance, current regional trade liberalization initiatives appear to be proving themselves complementary to global initiatives, rather than competitive alternatives. APEC provides a particular demonstration that commitment to regional initiatives does not mean that global liberalization efforts need suffer. The open regionalism model adopted by APEC means that tariff concessions are not limited to other members but are available as the MFN rate for all WTO members. Others are strictly FTAs offering a preferential zero tariff to agreement partners. Those that have evolved into customs unions have generally established common external tariffs consistent with, or lower than UR commitments, and in that respect are consistent with WTO rules concerning MFN rates. Recent practice contrasts with earlier models of FTAs where the intent was to promote industrial development over a larger market than that of a single country by developing import substitution industries behind a high protective tariff.

The survey of RTA's reveals that achieving the benefits of free trade requires steps beyond the elimination of tariffs, and even beyond the simple outlawing of non-tariff measures. In most cases this implies going further along the road to economic integration. This involves addressing a variety of issues and problems. National and regional barriers to integration, including domestic and trade policies, price differences that result from differing policies and market conditions and the likely impacts of integration on trade flows, producers and consumers, need to be analysed. Ways of harmonizing different standards (SPS and technical) and regulatory frameworks need to be examined.

Consideration must be given to possible negative revenue impacts due to reduction in earnings from tariffs and customs duties, and to alternative tax mechanisms and sources of revenue. Adjustments may take time to redistribute the gains from trade among the winners and losers. Governance frameworks may need to be altered or strengthened at the national level and instituted at the regional level. The institution of relevant decision-making mechanisms and rules appears to have a crucial role as well as the adoption of specific binding commitments to be taken by specified dates.

Regional or subregional agreements lend themselves more easily to the integration and harmonization process, especially when countries already share certain features in common such as stage of development and cultural attitudes. Concurrent participation at the global level, and/or in a more open regional forum such as APEC, can serve to offset too great an inward focus.

The forest sector provides examples of all these challenges. Trade in industrial forest products is more or less typical of merchandise trade in general. It experiences particular problems with the harmonization of standards and as well as with industrial

policy at the national level. The latter is demonstrated in the softwood lumber dispute between the U.S. and Canada. As an environmental resource, forests also illustrate other challenges, highlighting the need for different levels of governance. The production of forests introduces other institutional questions that impact on the basic assumptions of trade rules. Traditional reliance on state forestry is giving way to plantation forestry in some areas, and to community institutions linking forestry and agriculture in others.

IV THEORETICAL IMPLICATIONS OF LIBERALIZED GLOBAL TRADE

This section concerns trade models which consider the gains and losses associated with trade liberalization and spatial effects. It does not address theories concerned with transition and adjustment considerations related to distributive effects⁵¹.

4.1 Traditional models

Traditional theories of macro economics contain basic predictions concerning the implications of liberalized trade. Empirical experience to date has been reasonably consistent with these predictions. One prediction is that liberalized trade will result in traded volumes exhibiting a faster rate of growth than total demand. That is indeed what happened in the forest products sector during the final three decades of the twentieth century. During those 30 years, trade in forest products has grown at approximately twice the rate of the increase in world demand for industrial forest products. International trade is now much more important to forestry than it was 30 years ago.

Box 22. Increased trade in processed forest products

By 1998 the value of world exports of forest products had grown to two and half times the level in 1981 (based on nominal US \$). In the same period, the value of world exports of pulp rose by about 50 percent while over that for pulp and paper increased by 250 per cent. Thus while pulp accounted for 18 percent of the value of global exports of forest in 1981 and paper and paperboard for 39 per cent in the same year, by 1998 the share of pulp had dropped to 11 per cent and that of paper and paperboard had risen to 54 per cent. Over the same interval, the share of industrial roundwood exports dropped from 13 per cent to 5 per cent. The increase in the share of wood-panels in export trade from 9.6 per cent in 1981 to 11.8 per cent in 1998 does not fully capture the accelerated growth in wood panel exports over the period as the value in 1998 was three times that in 1981. Sawnwood exports in 1998 were more than twice the value of those in 1981, but due to the dramatic effect of the growth in paper and paperboard exports, the share of sawnwood in overall forest product exports actually declined from 20 per cent to 18 per cent (FAO, 2002).

The emergence of growth in the importance of trade in processed products is also predicted by theory, provided tariff escalation is reduced as part of the liberalization process. Reduction in the levels of tariff escalation has, in fact, been accompanied by a decline in relative importance of trade in unprocessed forest products, and growth in the importance of trade in processed products. At a world level, trade in both

⁵¹ See eg Osada (2000)

processed and unprocessed products has increased, but the increase for processed products has been much greater than that for unprocessed products. Whether further liberalization will necessarily result in an even greater percentage of trade being in processed products is still an open question. Traditional theory does not provide any reasons why it should not. The standard Heckscher-Olin (H-O) model of gains from trade suggests that the liberalization might have some influence. In the H-O model the location of production is determined by differences in technology and/or factor endowment. However, in contemporary mobile information society the same technology is available virtually at any location on the globe. This, among other factors, increases the mobility of capital and allows Foreign Direct Investment (FDI) by the nationals of one nation in the economies of other nations. Access to appropriate technology is therefore becoming less of an issue.

With the most appropriate technology available to anyone anywhere on the globe, reducing trade barriers will, in the H-O model, simply facilitate the separation of production from consumption. In the limiting case, when barriers and transport costs are trivially small, according to H-O model geography ceases to matter and industry is randomly dispersed.

The prediction of random dispersion has not been observed in practice. Instead, industries have clustered in particular countries and locations, some of which are not well endowed with production forests. In addition, some of the text-book assumptions of the H-O model are violated in the real world. In contrast to the assumption of diminishing returns to scale, increasing returns to scale are in fact often observed as a result of the promotion of free trade, reduction of transportation costs, and the progress of information technology. Furthermore, the incidences of oligopsonistic competition are increasing, as compared to the model's assumption of atomistic markets (Osada, 2000).

4.2 Recent trade models⁵²

More recent trade models have explored the issues of trade and industrial location with a view to explaining the empirical observations. These have raised the possibility that geographical clustering results in synergies, such as increasing returns to scale, better market access, a higher skilled (although higher cost) labour force. These synergies raise the productivity of capital in the cluster environment over that which would be obtained from a more dispersed industry. These newer models attribute the distribution of industry not only to comparative advantage, such as that underlying the traditional analysis of the H-O model, but they also include recognition of gains from various types of geographical concentration externalities that serve to encourage the agglomeration of firms. According to the recent models, concentration of industry to take advantage of these externalities is the first result of reduced trade barriers.

These models further note that, as the economy continues to grow, the costs of meeting the demand for immobile factors of production (land, water, etc.,) in a single area, rises to offset, and eventually exceed, the value of the concentration benefits at that particular site. Accordingly, as demand continues to rise, industry then looks for a

⁵² An overview of both traditional and new approaches to trade and development is provided for instance by the World Bank Group (2001) at http://www1.worldbank.org/wbiep/trade/TradePolicy.html#industrial_location

new site at which to start over with the process again. Thus starting with a concentrated industry, the newer trade models predict waves of rapid industrialization in one region/country after another. As each one of them catches up with and becomes part of the established agglomeration, the increase in demand will start the process all over again in a new region/country.

Box 23. Geographical advantage, cumulative causation, spatial agglomeration and trade – the Asian example

The more recent trade models partly explain the observed growth of industry in East Asia during the last 50 years. Applying such models to forestry raises the interesting possibility that in the future new processing industries may be developed in regions which have large numbers of potential consumers, but relatively limited forest resources. India, China and Pakistan are all locations that would fit this scenario. Correspondingly, if new processing plants were to be based in these areas, it is quite conceivable that these plants would facilitate a rapid increase in trade in unprocessed from countries/area whose wood supply is expanding.

4.3 Discussion

At present the bulk of the international forests products trade occurs between countries with relatively low tariff barriers. It could thus be inferred that further moves to liberalize international trade, will be unlikely to have much of an effect on forest products. Tariff rates for forest products imports into the developed countries were already low before the UR. When the UR commitments are fully implemented, it is estimated that 85% of all forest products imports into these nations (on trade weighted basis) will have duty free access to their markets.

However, further liberalization will not necessarily have only minimal effects since the impacts will depend on the form that the liberalization takes. It may still focus on tariffs, as there are remain a number of developing and transition economy countries with significant tariff barriers to trade in forest products (Bourke & Leitch, 1998). The focus may be extended to NTMs, which also impact on trade, as revealed by the APEC's non-tariff barriers study (Forest Research, 1999). That study showed NTMs to be both widespread and capable of producing significant trade distortions. Given the low level of tariff barriers in developed countries, it appears likely that more and more attention will be focused on the NTMs. The experience of the softwood lumber dispute between the US and Canada demonstrates the significance of NTMs and the need for further investigation into what constitutes an NTM and how they are defined.

Although simplistically the NTMs are measures and institutions that affect trade, this is something that may be claimed for just about any measure or institutions. The challenge with the NTMs will be in knowing where to draw the line. In the area of forest products there are a number of restrictions, many of which are of a relatively recent nature, falling into the so-called gray area. While it is acknowledged that these measures impede trade, unlike the justification for some of the more traditional NTMs, this is not the stated reason of existence for the measures. Where, for example, in the past a ban may have been put in place to contribute to local economic

wellbeing, currently an identical ban is much more likely to be justified on the basis that it will ensure sustainability or protect some aspects of the local environment.

V CONCLUSIONS

RTAs have maintained their momentum at the forefront of trade liberalization efforts over the past few years. On balance, regional and multilateral trade liberalization have proved to be complementary to one another, rather than competitive alternatives. The risk that the growth in RTAs might lead to a reduced effort at global liberalization does not appear to have materialized, nor does it seem likely to do so in future. In a number of cases domestic reforms have initially been locked in at a regional level through RTAs. Global liberalization has followed as the benefits are “multilateralized” through wider integration.

Given the wide WTO membership, the overlapping membership of RTAs with the membership of the WTO, and the WTO’s mechanism for examining RTAs, future regional trade pacts will be more likely to build on, and extend, WTO rules rather than conflict with them. Thus it is likely that future RTAs will prove beneficial to global trade and vice versa. Forestry, however, is seldom the main, or even a major, focus of RTAs. Nevertheless the reforms that these agreements promote, such as harmonization of codes, performance based or joint standards, and common external tariffs, do have implications for trade in forest products.

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