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Trade and Forests:

Why forest issues require attention in trade negotiations

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Impact of market forces on forest cover and forest type

Forest cover is diminishing at an alarming rate around the world with 9.4 million hectares lost annually.¹ This loss hides two contrasting stories. On the one hand, there is an annual net increase of 5.2 million hectares primarily in monoculture timber plantation. On the other hand, there is a larger net annual decrease of 14.6 million hectares, primarily in natural tropical forests. In Indonesia, for example, forest cover has fallen from 162 to 98 million ha since 1950 and the rate of forest loss is accelerating from 1 million ha/year in the 1980s to approximately 2 million ha/year since 1996.² In the Brazilian Amazon, a 40% increase in annual forest clearance between 2001 and 2002 brought deforestation to 2.55 million ha per year, its highest annual level since 1995.³

Market forces favour the most financially competitive land uses, often to the detriment of sustainably managed natural tropical forests. Contributory factors include:

- *Profitability of other land uses* (often agriculture) such as palmoil in South East Asia or soy production in Brazil.
- *Failure to capture non-market benefits* (including biodiversity and wilderness values) upon which much of the value publicly ascribed to natural forests is based.
- *High sustainable forest management (SFM) costs* – easily marketable products (such as timber and pulp) are much more cheaply produced in

KEY POINTS:

- **Further liberalisation for agricultural products is likely to have a significant impact on forest areas, encouraging increased conversion to agricultural land.**
- **WTO decisions on eco-labelling should support the certification of sustainably harvested timber and non-timber forest products.**
- **The WTO definition of environmental goods should cover sustainably harvested forest products, thereby improving market access for such products and providing an incentive for their production.**
- **Trade negotiators should recognise the legitimacy of values that can't be expressed in monetary terms, particularly in discussions on the forest sector.**

plantations and by harvesting operations based on forest clearance.

- *Market trends* currently favour uniform product quality and design flexibility – increasingly served by softwood fibre-based and moulded products – rather than a multiplicity of variable hardwood species.⁴
- *High cost of protecting property rights* in remote locations and over the long time frames which sustainable forest management requires.⁵

The loss of natural tropical forests is of concern at different levels, particularly to those who value non-timber forest benefits. At the local level, natural tropical forests are needed by a substantial proportion of the estimated 1.6 billion people who rely on different types of forest cover⁶ for at least part of their livelihoods (for example for diverse subsistence goods and craft materials). At the national level natural tropical forests are crucial for providing various environmental services, such as the protection of watershed ecosystems, while at the international level they are important, *inter alia*, for biodiversity conservation and wilderness experiences.

Trade policy and natural tropical forests

Impact of trade liberalisation

The extent to which market forces are driven by domestic or international trade varies enormously, both within the forest sector and in trade originating from competing land uses. For example, Indonesian timber exports

such as sawnwood and panels form a high proportion of forest-based production (57%),⁷ whereas in Brazil 86% of tropical timber felled goes to markets in the south of the country.⁸ Trade liberalisation might therefore be expected to have very different impacts in different regions.

Irrespective of regional differences in the magnitude of international versus domestic trade, tariff levels are already generally low in the forestry sector, having been progressively reduced in preceding decades.⁹ Further tariff reductions are therefore unlikely to substantially alter patterns of land use change (including forest cover) or trends in forest management. An important exception to this is the continuing existence of tariff escalation on some processed products, where a reduction could raise tropical forest land values (and potentially the opportunity for SFM) in competition with other land uses.¹⁰

Evaluating the impact of trade liberalisation in forest products is further complicated by assessment difficulties. Tariffs are increasingly being replaced by non-tariff measures (such as restrictions and bans, product standards and quotas) the effects of which are much more difficult to identify. This is compounded by the fact that such measures can have both positive (e.g. import bans on illegally logged timber) and negative effects (e.g. labelling standards that impede market access for sustainably harvested forest products from developing countries).

In general, impacts relating to forest management within a given area of forest are less significant than impacts on forest cover (through changes in land use). It is the conversion to agricultural land which is the most frequent reason for forest loss,¹¹ often simultaneously liberating low cost timber supplies from land conversion which undermine the prospects for sustainable management in remaining forest areas.¹² Further liberalisation for agricultural products, where tariff levels remain much higher, is likely to have a more significant impact on competitive land use change than further forest product liberalisation.

Harnessing the trade potential

Since trade liberalisation in both agricultural and forest products affects competitive land use values, it is worth considering how the outcomes of the current round of trade negotiations (across all products) could actively support the maintenance of tropical forest cover and SFM, for example by helping to raise the returns from SFM relative to alternative land uses and to unsustainable forest use.

Market-based tools to promote trade in forest products from sustainably managed forests are one positive option, such as certification of forest management and labelling of forest products.¹³ To support these efforts, countries need to ensure that the outcomes of discussions on eco-labelling at the WTO under the trade and environment mandate cater for the certification of sustainably harvested timber and non-timber forest products. Also of relevance here, in particular for developing countries, is ongoing work at the WTO to finalise the conditions for recognising the equivalence of sanitary and phytosanitary measures. This would also include the mutual recognition of countries' forest certification schemes in an effort to avoid having to apply for the different schemes and standards.

More also needs to be done to improve market access for sustainable forest products, especially with regard to

non-tariff barriers and unilateral measures. Such considerations can shape the negotiations on market access for non-agricultural products at the WTO, as well as ongoing negotiations on the elimination of tariff and non-tariff barriers for environmental goods and services. While the definition of environmental goods is yet to be resolved, it could feasibly cover sustainably harvested forest products, thereby improving market access for such products and providing an incentive for their production. The protection of forests and promotion of sustainable forestry has also been suggested for inclusion as an environmental service,¹⁴ thereby helping to give monetary value to some of the non-timber benefits of forests, although the proposal has so far not received major backing in the negotiations.

Keeping trade policy in perspective

Despite the potential for trade policy to support or at least not impede SFM, it is important to put its usefulness to achieve SFM in perspective. Many argue that trade policy is a blunt instrument for addressing problems of forest management and that more direct approaches are needed, including appropriate domestic regulation, adequate institutional arrangements, enforcement and monitoring mechanisms, international approaches outside the WTO and broader poverty reduction strategies.

Conclusion

While forest issues may not feature explicitly in the current round of trade negotiations, they are likely to be relevant in a number of negotiating areas and SFM-related priorities should inform countries' negotiating objectives and strategies. Assessing the impacts of trade negotiations on natural tropical forests is challenging and has to take account of the context and regional dynamics both within and outside the forest sector. It is important to take into account both the limited capacity for effective forest governance in many contexts and the potential for conflict between creating incentives to promote SFM and the removal of non-tariff barriers. Above all it is essential for trade negotiators to recognise the legitimacy of values that cannot be expressed in monetary terms. This underlines the importance of incorporating forest management and forest livelihood expertise in relevant trade delegations. ●

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