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TRADE AND ENVIRONMENT IN RELATION TO FOREST PRODUCTS AND SERVICES

Programme element IV

Report of the Secretary-General

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* E/CN.17/IPF/1996/1.

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INTRODUCTION

1. The present document reports on category IV, "Trade and environment in relation to forest products and services", of the work programme of the Ad Hoc Intergovernmental Panel on Forests scheduled for initial discussion at the second session of the Panel. It aims to provide a preliminary overview of the issues related to trade in forest products in general as well as its implications for the environment and sustainable forest management, in preparing for the substantive discussion of this programme element at the third session of the Panel.

2. The work under this category is guided by the decisions taken at the third session of the Commission on Sustainable Development and further elaborated at the first session of the Ad Hoc Intergovernmental Panel on Forests.

3. At its third session, the Commission on Sustainable Development defined the terms of reference for the Panel of the programme element under category IV as follows: "Examine relevant factors affecting trade in forest products and other forest and trade issues in an integrated and holistic approach that promotes a supportive relationship between trade and environment. In this connection, identify opportunities and recommend measures for improving market access for forest products on a non-discriminatory basis and consider factors that may distort trade in forest products and affect their value, including pricing, import/export controls, subsidies and the need to remove unilateral bans and boycotts inconsistent with the rules of the international trade system. Promote the development of methodologies to advance the full valuation, including replacement and environmental costs, of forest goods and services, with a view to promoting full cost internalization. Taking account of the interests of all sectors and particularities of different countries and ensuring full transparency and participation of all interested parties, examine the issue of voluntary certification and labelling of forest products so as to contribute to a better understanding of the role of voluntary certification with regard to the sustainable management of forests including the impact of certification on developing countries." 1/

4. The Panel, at its first session, subsequently emphasized that "the broad mandate assigned to the Panel by the Commission on Sustainable Development should be examined in an integrated and holistic manner. The overall goal is to promote the mutually supportive roles of trade and environment. Reports should be prepared in order to identify opportunities and recommend measures for improving market access for forest products on a non-discriminatory basis and consider factors that may distort trade in forest products and affect their value, including pricing, import/export controls, subsidies and the need to remove bans and boycotts inconsistent with the rules of the multilateral trading system. Reports should include an assessment of means to promote the development of methodologies to advance the full valuation, including replacement and environmental costs, of forest goods and services, and of wood substitutes, with the view to promoting full cost internalization. Reports must, taking into account the interests of all sectors and the particularities of different countries and ensuring full transparency and participation of all interested parties, examine the issue of voluntary certification and labelling

of forest products, so as to contribute to a better understanding of the role of voluntary certification with regard to the sustainable management of forests, including the impact of certification on developing countries. The Secretary-General, in carrying out the consultative process outlined in paragraph 13 above, is requested to draw on the expertise of organizations, such as the United Nations Environment Programme (UNEP), the United Nations Conference on Trade and Development (UNCTAD), the International Tropical Timber Organization (ITTO) and the World Trade Organization, able to contribute to the preparatory work under this programme element". 2/ At the Panel's first session, it was decided to schedule the programme element of category IV for substantive discussion at the third session of the Panel, to be held from 2 to 13 September 1996.

5. This document was prepared by ITTO, as the lead agency for programme element IV, in consultation with the secretariat of the Ad Hoc Intergovernmental Panel on Forests in the Division for Sustainable Development of the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat.

I. CURRENT STATUS AND PATTERNS OF INTERNATIONAL TRADE IN FOREST PRODUCTS

A. Wood and non-wood forest products

6. Wood is still the most important commercial forest product. It is being used, inter alia, for building material, paper production and generating of energy for cooking and heating. Production of wood from forests has been increasing for the past decade. Wood products have been traded in the form of roundwood, sawn wood, plywood, wood chips, furniture, pulp and paper products. In view of its essentially renewable and environmentally friendly nature, an increase in the demand for wood and the volume in international trade are expected to continue in the future.

7. Trade statistics on non-wood forest products (NWFPs) are not well established. This may be due to their relatively smaller volume and value in international trade compared with those of wood. Recent developments, however, show evidence of the emerging importance of NWFPs, including increased revenues from international trade. The relatively smaller importance of NWFPs in international trade may also be attributed to the current system of classification of products that are regarded as NWFPs. While for wood, timber from forest plantations is regarded as a product of forests, the NWFPs from tree plantations such as rubber latex and palm oil, which generate billions of dollars of foreign exchange for many countries in South-East Asia, are classified as agricultural products.

B. Forest services

8. Conventionally, services provided by forests and forest land were reflected only as an intangible value of forests. Owing to the increasing importance being given to the environment, the emerging importance placed on forest

services as a potential area of trade has only just begun. Unique forest habitats and ecosystems have a great potential for, among other things, ecotourism, biological diversity in the form of biotic samples that have been marketed for pharmaceutical prospecting, and carbon sequestration which has a potential for being traded under schemes of joint implementation and tradable permits. Although there exists a potential for forest services to be marketed internationally, the current value of this trade is still very small and not yet fully defined and developed. The issue of valuation of forest services is explored under programme element I.3.

C. Scope of analysis

9. Available statistical information does not allow for a proper analysis of trade in services provided by forests, despite the increasing recognition of the importance of cross-border watershed management, ecotourism and carbon sequestration. For practical purposes, therefore, the effects and effectiveness of measures based on the linkage between environment and trade in forest products and services will be assessed in terms of wood products alone in this document.

D. Trade in wood products in general

10. To illustrate the status of trade in terms of volume traded from developed and developing countries, statistics of the Food and Agriculture Organization of the United Nations (FAO) on the production, import and export of wood products from 1981 and 1992 3/ are used. In roundwood production, several observations can be made:

(a) World production of roundwood increased by 21 per cent from 2.9 billion cubic metres (m^3) in 1981 to about 3.5 billion m^3 in 1992. The increase came mainly from additional extraction in developing countries, while the increase in developed countries was marginal;

(b) Despite the increase by 25 per cent in roundwood production in developing countries, from 1.6 billion m^3 in 1981 to about 2.0 billion m^3 in 1992, nearly 80 per cent of the production in 1992 was directed towards fuelwood and charcoal production. In contrast, fuelwood and charcoal production in developed countries is negligible. More than 84 per cent of roundwood production in the developed countries is used for industrial purposes;

(c) Of the 415 million m^3 in roundwood production from developing countries that is used for industrial purposes, only about 25 per cent is exported in the form of various products.

11. The value of international trade in wood-based products increased about 100 per cent from US$ 51 billion in 1981 to about US$ 103 billion in 1992. Despite higher production of roundwood in developing countries, international trade is still dominated by the developed countries with a market share of about 84 per cent. Furthermore, about 80 per cent of forest products imported into developed countries also originate in developed countries.

12. As a group, developing countries are net importers of wood-based products with a net deficit of about $3.8 billion in 1992. They have a surplus in exports of logs, plywood and panel products, and are marginal net importers of sawn wood; however, they have a large deficit in paper and paper products.

13. Only a few countries dominate the export of wood products in the international market. Canada, Finland, Germany, Sweden and the United States are the major exporters among the developed countries, while Indonesia and Malaysia are the major exporters of wood products from tropical and developing countries. Malaysia and Indonesia dominate the world export of tropical timber products; they had a combined market share of about 86 per cent of total export from tropical countries in 1992. The remainder was shared by a dozen other countries from tropical regions.

14. Owing to rapid industrialization in the East Asian region, trade in tropical timber products among countries in this region has surpassed by far the trade with their traditional European and North American partners. The Republic of Korea, China and Thailand have now emerged as major buyers with a combined share of about 33.6 per cent of total world import. By including Japan, the market share of East Asian countries is further increased to about 76.7 per cent. Countries of the European Union account for only about 13 per cent of the total market share.

E. Promotion of lesser-used species (LUS)

15. Greater utilization of lesser-used species including their promotion in the international market has been recognized as one of the positive measures to increase the value of forests and improve the economic feasibility of managing forests on a sustainable basis. The problem is more acute in Latin America and Africa where the number of species of timber traded in the international market is more limited compared with that of timbers from South-east Asia. This has resulted in a smaller logging intensiveness in Latin America and Africa, of about 10-15 m^3 per hectare (ha) compared with that in South-East Asia, which amounts to about 30-40 m^3 per ha.

16. There are several signs of progress being made in the increased utilization of lesser-used species in the international market. It was reported in an ITTO publication 4/ that, in Cameroon, export of secondary species had doubled in the past three years. In Malaysia, the export of logs under the mixed-hardwood category accounted for about 600,000 m^3 in 1993, representing more than the export of any individual traditional species.

17. There are ongoing efforts to support the promotion of lesser-used species for the international market. These efforts include ITTO's projects on the technical characteristics of lesser-used species coupled with various trade promotion efforts. Although there have been some improvements in the number of species upgraded as "more popular species", those improvements were rather limited. In addition, it has not been conclusively established whether the improvements are due mainly to the efforts made in promoting lesser-used species or to the decline in the availability of more popular species in the market. This has been a common phenomenon in forest history where the movement of unused

species, in both temperate and tropical forests, moved from rejected to accepted and even to preferred status in the markets, without any assistance from trade policy measures.

F. Increasing market transparency

18. Market transparency is recognized as an important factor in enhancing trade in forest products. The difficulties in making intermarket and interproduct comparisons, at present, is a reflection of the lack of transparency in markets in forest products. This low level of market transparency is probably the most intractable of all the obstacles to promoting sustainable forest management through trade in forest products.

19. There are considerable ongoing activities in the improvement of statistical and marketing reporting that support efforts to increase the transparency of market in forest products. The ITTO and FAO national and regional training courses focus on the improvement of data collection on forest resources, production and industry. Furthermore, the International Trade Centre (ITC)/ITTO joint initiative provides market reporting on forest products in international trade through its Market News Service. These activities have already shown a notable effect on the quality of data and market information. Consequently, strengthening of these kinds of activities will contribute to increased market transparency in forest products trade.

G. Market access

20. International concern over trade in forest products has been focused mainly on how to overcome obstacles in protectionist policies. As about three quarters of international trade of forest products takes place among developed countries, where protectionism has not been a major obstacle, market access is, relatively speaking, not a major problem on a global scale.

21. While the issue of tariff and non-tariff barriers may be regarded as insignificant at the global level, they are still important for the developing countries. Some studies indicate that, while tariff rates are not seen as a restriction on the export of wood products from developing countries, the non-tariff barriers on processed products imposed by developed countries could still pose a danger in hindering the effort to increase downstream activities. A wide range of non-tariff barriers that affect forest products trade include quantitative restrictions; measures influencing prices, including variable levies; health and technical standards, such as those for pest and disease control; and customs and administrative entry procedures.

22. The negative impacts of imports barriers by developed countries on the pace of forest-based industrialization in developing countries are not expected to lead to increased export of raw wood because of the many restrictions on raw wood exports imposed by most tropical timber exporting countries. Several developing countries (Cameroon, Ghana, Côte d'Ivoire and Malaysia) have revised their policies and the export tax on their forest products to encourage further downstream processing.

23. Removal of import barriers especially on processed timber products will most likely increase trade flow, as well as investment and the value of forests. Although there are some pessimistic views that argue that increased processing will further increase demands for timber and ultimately promote deforestation, it is also recognized that increased activities in value-added processing will further increase economic benefits and consequently enhance the potential for sustainable forest management in the developing countries.

24. The improvement of market access for forest products is strongly linked to the issue of environment. The work of the Panel in this aspect is facilitated by the ongoing work of the Committee on Trade and Environment of the World Trade Organization in analysing the environmental benefits of removing trade restrictions and distortions; and the work by the Organisation for Economic Cooperation and Development (OECD) on the effects of trade liberalization on the environment.

H. The types of trade-induced environmental impacts

25. The types of trade-induced environmental impacts for the utilization and management of forests begin with harvesting. Modern timber harvesting employing heavy machinery could severely damage the soil, the natural drainage system and watercourse, and the residual stand if the operation is not conducted according to strict rules and regulations of sustainable forest management. The second stage of environmental damages occurs during processing. Industrial waste in the form of various types of chemicals used during processing will flow and pollute the water stream which will inflict greater damage to the human population. Current international debates on forestry have so far been giving greater attention to management of resources compared with manufacturing processes. This may be due to urgent efforts to address the issue of deforestation.

26. None of those potential damages are a direct result of international trade in forest products. They occur regardless of whether the products are exported or not, albeit possibly at a lower level when products are not exported. However, as about 15 per cent of global roundwood production is exported, and prices in domestic markets are strongly linked to prices of export products, it is expected that international trade in forest products will have significant influences on the production and processing of forest products and the forest-related environment.

I. Feasibility of "full cost internalization"

27. The main issue as regards full cost internalization, as mandated by the Commission on Sustainable Development at its third session and the Panel at its first session, is to explore the incorporation of the cost of sustainable forest management into market mechanisms. The incorporation of this additional cost into market mechanisms would effectively enable trade to support the attainment of sustainable forest management especially in the developing countries.

28. The development of a methodology for full cost internalization could be closely linked to the development of criteria and indicators (C&I) for sustainable forest management. Costs for additional activities to be carried out as determined by C&I could form a good basis for addressing the issue of full cost internalization of the production of forest products.

29. Although there is still uncertainty as to what would constitute the full cost of production of forest products, it is almost certain that this cost would be higher than the current cost of production. The implications of full cost internalization for sustainable forest management therefore warrant much more critical analysis concerning its feasibility and application. For some products involving high-value species and grades, a higher price will allow it to absorb the additional cost for sustainable forest management. For other products, however, the prospects may be less favourable. Industrial solid wood, for example, will have fewer prospects in future, as its main application is in the construction industries where prices are much lower.

30. Further analysis in the Panel's work on full cost internalization would take advantage of the ongoing work by UNCTAD on the assessment of the impact of internalization measures on various social-economic variables, and of lessons learned from the work of FAO in the development of methodologies for the economic valuation of agricultural commodities.

J. Certification of origin from sustainably managed forests

31. Timber certification was introduced with the main objective of informing consumers of the origin of timber and the sustainability of the forest areas where the timber was produced. The scheme was given greater attention and has now been identified as an important strategy for promoting sustainable forest management. There are several examples of important processes that have been initiated in this vein: the Lembaga Ekolabelling Indonesia (LEI) certification scheme, the Canadian Standard Association (CSA) certification scheme, the "Swiss Wood" scheme, the "Woodmark" scheme in the United Kingdom of Great Britain and Northern Ireland, the Forest Stewardship Council (FSC) and International Organization for Standardization (ISO) 14000.

32. The significance of the current patterns of trade in forest products becomes evident in relation to the effectiveness of forest product certification in different markets. As stated earlier, most trade in forest products takes place within and between developed economies where the conservation ethic is both strongest and spreading. Certification could well become an effective trade measure in promoting sustainable forest management in these markets especially in the major exporting countries.

33. That the situation in developing countries, particularly tropical countries, is somewhat different can also be seen in their trade patterns, as discussed earlier. Only a small share of the roundwood produced in developing countries goes into international trade, with just a couple of countries accounting for a dominant share of the export value of tropical timber. The effectiveness of consumer-driven certification, as a trade measure to promote

sustainable forest management, is then limited, mostly to those countries that are major exporters in the international trade of forest products.

34. As 85 per cent of global roundwood production is used domestically, it is recognized that consumer-driven certification in international trade alone is not sufficient to promote sustainable forest management at the global level. The concepts and principles of wood certification could, however, also be applied in the management of forests, irrespective of whether the timber produced is for export or domestic consumption. The scheme could be used effectively to strengthen monitoring and enforcement aspects of implementation as well as compensation so as to overcome the lack of manpower to supervise and enforce regulations in many developing countries.

35. Despite the many processes that have been initiated both nationally and internationally on certification, there are still too many gaps for the scheme to be fully implemented. For instance, there are some basic questions including who will be responsible for the certification? Who will agree on the principles concerning producer participation in, and geographical distribution and harmonization of, different schemes? Who will certify the certifiers? How are the products from forests that are being cleared for non-forest uses to be dealt with? Who will finance and authorize the field inspections to calibrate certification? And, even, what are the criteria and indicators by which the quality of forest management can be assessed?

36. At the first session of the Panel, the following two government-sponsored initiatives were proposed in support of the work of the Panel relevant to this issue. They were as follows:

(a) International Conference on Certification and Labelling of Products from Sustainably Managed Forests. This conference, sponsored by Australia, will take place in Brisbane, Australia, 26-30 May 1996, and will consider, in particular, the issue of voluntary certification and labelling of forest products, so as to contribute to a better understanding of its role with regard to sustainable management of forests, including its impact in developing countries;

(b) Expert Working Group Meeting on Trade, Labelling of Timber, and Certification of Sustainable Forest Management. This expert group meeting, co-sponsored by Germany and Indonesia, will take place in Bonn, Germany, 12-16 August 1996, and will consider issues of trade and labelling, and the impact of certification on demand, as well as sustainable forest management.

37. In addition to these two government-sponsored initiatives on the issue of wood certification, the issue will be further discussed in a workshop on "Ecological, social and political issues in certification of forest management", to be held in Kuala Lumpur, Malaysia, from 12 to 16 May 1996. The workshop is being jointly sponsored by the University of British Colombia (UBC), Canada, and the University of Agriculture, Malaysia (UPM).

38. To further support the Panel’s work on forest products trade, the Government of Norway is sponsoring a study on "Long-term trends and prospects in supply and demand for wood products and possible implications for sustainable

forest management". The main issues to be covered include factors affecting long-term trends of industrial and non-industrial supply and demand for wood, and possible implications of such trends for sustainable forest management. A progress report of the study is expected to be available at the second session and results of the completed study will be presented at the third session of the Panel.

II. FINANCING AND TECHNOLOGY

A. Investment patterns and their influence on trade

39. It is acknowledged that successful forest management is closely related to the ability to increase the value of forests through value-added downstream processing. As future forest products-related trade and industry will have to become more efficient and will require better technology, higher investment is needed in developing countries to increase the productivity and quality of the products as regards gaining competitive advantages in international trade.

40. Investments in wood-based industry and trade are carried out mainly by the private sector. This is in contrast to the development of forest resources in the developing countries, where the public sector is largely involved. In the countries where forest industry is an important sector of the economy, medium- and large-scale enterprises dominate. In the majority of developing countries, however, most of the industries are small-scale and the expansion of the industry is hampered by lack of capital and technology.

41. Foreign investment is carried out mainly by the transnational corporations that are operating in many developing countries. Foreign financial and technical assistance, however, is mainly coming through official development assistance (ODA). In view of the large involvement of the private sector in forest industry and trade, the donors have a tendency to give lower priority to the development of forest industry and marketing. This is reflected in the share of only 3.3 per cent of ODA received for development of forest industries in 1993.

42. Lack of investment is therefore likely to limit the ability of developing countries to develop their downstream processing activities as well as to produce products requiring heavy investment such as medium-density fibre (MDF) board and paper products.

B. Technology and research

43. Investment in forestry research in most developing countries has traditionally been low. This has resulted in a smaller number of forest scientists and research institutes. Most of the research and technology transfer activities in forestry in developing countries is carried out by institutions with an international mandate and scope whose perspectives differ from a much-needed national focus on industry and marketing. As a result, the promotion of downstream processing does not benefit from local research; and the promotion of, for example, lesser-used species in the international market will

have to rely heavily on market forces rather than on their actual technical properties.

III. PROPOSALS FOR ACTION

44. The Ad Hoc Intergovernmental Panel on Forests at its second session may wish to take note of the present progress report and provide further guidance for the preparation of the report scheduled for substantive discussion at the third session of the Panel.

Notes

1/ Official Records of the Economic and Social Council, 1995, Supplement No. 12 (E/1995/32), chap. I, annex I, sect. III (IV).

2/ See document E/CN.17/IPF/1995/3, sect. II (II.1).

3/ See FAO Yearbook on Forest Products, 1981-1992, FAO Forest Series, No. 27, FAO Statistics Series, No. 116 (Rome, 1994).

4/ ITTO Annual Review and Assessment of the World Tropical Timber Situation, 1993-1994 (Yokohama, Japan, ITTO, 1995).
