

Trade Liberalisation and its Impacts on Forests

an overview of the most relevant issues



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List of Acronyms

| | |
|--------------|---|
| ACP | Africa, Caribbean and the Pacific |
| Apec | Asia-Pacific economic co-operation forum. The Apec countries include: Australia, Brunei, Canada, Chile, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Thailand, United States, Vietnam, Russia and Peru |
| Asean | Association of Southeast Asian Nations. The Asean countries include: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam |
| ATL | Accelerated Tariff Liberalisation |
| Cairns group | Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, South Africa, Thailand and Uruguay |
| CIS | Commonwealth of Independent States |
| CTE | Committee on Trade and Environment |
| EC | European Community |
| EU | European Union |
| EVSL | Early Voluntary Sectoral Liberalisation |
| FAO | Food and Agriculture Organisation |
| ESA | Endangered Species Act (US) |
| FOB | Free on Board |
| FTAA | Free Trade Agreement of the Americas |
| GATT | General Agreements on Tariffs and Trade |
| GFLA | Global Free Logging Agreement (US NGO name for the ATL proposal) |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| GPA | Government Procurement Agreement |
| GSP | Generalised System of Preferences |
| IMF | International Monetary Fund |
| ISAC | Industry Sector Advisory Committee |
| ISO | International Organisation for Standardisation |
| ITTO | International Tropical Timber Organisation |
| Meda region | Algeria, Egypt, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia. |
| MAI | Multilateral Agreement on Investment |
| Mercosur | Mercado Comun del Cono Sur, including Argentina, Brazil, Paraguay and Uruguay. |
| NAAEC | North American Agreement on Environment Co-operation |
| NAFTA | North American Free Trade Agreement |
| NGO | Non-governmental Organisation |
| NTMs | Non-tariff Measures |
| OECD | Organisation of Economic Co-operation and Development |
| PPMs | Process and Production Methods |
| SAP | Structural Adjustment Programme |
| SIA | Sustainability Impact Assessment |
| SPS | Sanitary and Phytosanitary Measures |
| TBT | Technical Barriers to Trade |
| TNC | Trans-national Corporation |
| TRIMs | Trade Related Investment Measures |
| TRIPs | Trade Related Intellectual Property rights |
| UNCTAD | United Nations Conference on Trade and Development |
| UNEP | United Nations Development Programme |
| USTR | United States Trade Representative |
| WTO | World Trade Organisation |

Introduction

This report examines the economic, environmental and social impacts, both positive and negative, of global trade liberalisation on the world's forests. These impacts are reviewed in terms of how they have promoted or undermined sustainable forest management.

It is easy to see why some have linked the fate of the forests with trends in global trade. Forests have disappeared at an unprecedented rate over the last half-century. The same period has also seen sweeping changes in the rules governing global trade in forest products, and a dramatic expansion in the value and extent of that trade. Common sense might suggest a simple equation in which fewer restrictions on trade in forest products prompt an increase in the amount of trade, which in turn leads to more forests being chopped down. However, the actual relationship between trade and forests is complex and the subject of surprisingly little systematic study. The objective of this report is to gather existing information and analysis in a manner that is both accessible and useful to NGOs and others concerned by the destruction of the world's forests.

The starting point is a discussion of the impact of general trends in global trade. Chapter one describes the liberalisation of commerce through successive rounds of international negotiations, which began with the first of the General Agreements on Tariffs and Trade (GATT) in the 1940s. More recently the process has extended with the creation of the World Trade Organisation (WTO). This chapter also looks at the different arguments that have been developed for and against freer trade.

Chapter two focuses more specifically on trade in forest products. It assesses the impact of lower import tariffs on forests world-wide. Particular attention is paid to a plan for 'accelerated tariff liberalisation' (ATL), which caused a great deal of concern among forest campaigners in the run up to the WTO Ministerial Conference in Seattle in December 1999.

Tariff rates on forest goods have generally been low for many years. It is thus likely that the main impact of further trade liberalisation will come from the inclusion of so-called 'non tariff measures', or NTMs. NTMs are assessed in chapter three, which examines how attempts to eliminate NTMs, perceived as potential non-tariff obstacles to the free movement of goods, may undermine the ability of national governments to maintain environmental protection laws and regulations.

Environmentalists' concerns about trade liberalisation have tended to focus on the WTO. However, more than 100 regional and bilateral free trade deals have been concluded in recent years, many of which have implications for forests. In fact, with the global process stalled since the failure of the Seattle summit, these smaller scale negotiations have intensified and there is reason to believe that it is regional and bilateral trade deals that are currently of most immediate concern. Chapter five reviews the evidence on the implications of bilateral and regional trade agreements on forests.

This report mainly focuses on aspects of liberalisation directly associated with trade in wood products, e.g. tariff changes and the elimination of non-tariff obstacles to trade. However, there are several other trade related influences at work that have implications for forest loss. Chapters four, six and seven examine some of these factors. Chapter four draws attention to the implications of liberalisation of trade in agricultural products on forests. Chapter six reviews the impact of structural adjustments programmes, which typically involve national governments in promoting exports, including exports of forest products, in return for financial assistance from international

bodies such as the IMF and the World Bank. Finally, chapter seven looks at the increasing influence of timber companies and their investments.

The overall conclusion is that liberalisation in the forest products sector, along with liberalisation in other areas such as agriculture, is and will continue to be a major underlying cause of forest loss and degradation. In addition, issues such as structural adjustment programmes and the trend towards consolidation in the pulp and paper industry, are directly linked to the forest and trade debate. We therefore urge forest NGOs to give trade and trade related issues more prominence in their campaigning activities.

1 Arguments 'For' and 'Against' Free Trade

Trade is, in itself, neither good nor bad for forests and forest peoples. However, given the lack of effective regulatory structures, continued growth in the export of forest products¹ is resulting in unsustainable pressures on forest ecosystems. Worldwide, the quantity of forest products exported has doubled since 1970², and the value of forest products' exports has tripled between 1970 and 1995 to reach \$152 billion a year. International trade now accounts for 25% of global production of wood based panels and paper, 20% of sawn-wood and wood-pulp, and 6% of industrial roundwood. Ten countries are responsible for 70% of timber exports³.

Commercial logging is by far the greatest threat to the world's old growth forests, affecting 70% of these forests.⁴ Large-scale mining, exploration for oil, road building and land clearing for agriculture – all commonly export orientated activities – are other important causes of forest loss⁵. There is therefore a direct link between trade, trade liberalisation and forest loss. This paper explores that link and focuses on the potential impact of trade agreements on the world's forests.

Although the main subject of this report is the specific economic, environmental and social impacts of global trade liberalisation on the world's forests, to set the scene, we begin by looking at the broader context of the implications of the GATT/WTO process for the world economy.

1.1 Background

The move to liberalise the world trade regime began in the aftermath of the Second World War, with the setting up of GATT, the General Agreements on Tariffs and Trade, in 1947. Eight rounds of trade liberalisation were negotiated through this framework, culminating in the Uruguay round agreements signed in Morocco in 1994. Early GATT negotiations were mainly, though not exclusively, focused on the relatively narrow issue of bringing down the level of import duties (tariffs) imposed on goods crossing international borders. Subsequent talks, notably the Uruguay round, have had a much broader agenda. Increasingly, the focus has shifted from import duty rates to so-called "non-tariff measures", seen as potential obstacles to the free flow of goods.

These non-tariff measures include topics that apparently have little connection with trade, such as government procurement policies or the various regulations governing the specification, safety or environmental standards required of goods sold in shops, which, not surprisingly, vary widely between countries. More or less any aspect of policy or practice in one country that may discriminate, whether deliberately or not, against goods coming from another is potentially a 'non-tariff barrier' to trade. Consequently, international trade agreements now impinge on areas of national and local decision-making quite unforeseen when the process began half a century ago.

The most recent (1994) deal that concluded the Uruguay round also introduced two crucial innovations. First, the World Trade Organisation was set up. This is an intergovernmental body with both the power to decide whether countries are respecting international trade rules, and the authority to impose penalties. Second, a requirement that member nations must agree to comply with every aspect of the agreements was introduced. Previously, countries could choose not to ratify aspects they disagreed with. With the notable (probably temporary) exception of China, the world's most significant economies are now members of the WTO, and have agreed to comply with all its rules.

The common justification for the creation of this powerful framework of trade rules backed by an enforcement mechanism that, in some areas, supersedes the sovereignty of national governments, is that it has enabled an unprecedented growth in the world economy and in individual living standards. There is, of course, a fierce debate on whether this is or is not in fact the case. The remainder of this section reviews the arguments used by both supporters and critics of the GATT/WTO model of free trade.

1.2 The economic case ‘for’ free trade

One commonly used argument for advocating the extension of the WTO/GATT process has been that, over the past half century or so, high levels of global economic growth have gone hand in hand with a proportionately even bigger rise in the volume and value of international trade. Between 1950 and 1998, the volume of world exports rose eighteen-fold (1,800 percent), while world production multiplied six and a half times. Over the same period, world exports of manufactured goods expanded thirty four-fold, while production of manufactured goods rose nine-fold. David Korten points out that each of the four decades after 1950 saw a greater expansion in the value of world economic output than had taken place in the entire course of human history up to the mid-twentieth century⁶. Thus, in the view of some commentators, international trade has been the engine of unprecedented economic growth, which ultimately benefits everyone by enabling higher standards of living⁷.

This beneficial combination of more trade and higher growth, as proponents see it, has been inextricably linked with the GATT/WTO process. The arguments for yet more liberalisation are both positive and negative. On the one hand, free traders argue that further liberalisation will lead to further economic growth. On the other hand, if the process stops, there is a danger of a creeping return to the ‘protectionist’ policies that, in hindsight, have been blamed in large part for the enormous scale and longevity of the global economic depression of the 1930s. No one denies that some national economies have stagnated or even declined in size despite the general expansion of the world economy. However, proponents of free trade point out that the extreme cases – Sierra Leone or Burma, for example – tend to be places that have been excluded from or unwilling to take part in international trade, rather than obviously be ‘exploited’ by it.

A key element in the case for free trade has been the theory of ‘comparative advantage’. According to this view, the elimination of barriers to the flow of trade means that goods tend to be produced in places where it is most efficient and cheap to do so. Producers can specialise in whatever it is that they are good at, and through unrestricted trade, have the benefits of an unlimited market. Consumers in another part of the world, meanwhile, get access to the highest quality products at the lowest prices. They can then devote the resources freed up by getting better products at lower prices to invest in areas where they have the comparative advantage. Thus, a virtuous circle is created where people obtain more wealth with which to buy things produced by somebody else, somewhere else.

1.3 The economic case ‘against’ free trade

The principle arguments against unrestricted free trade are centred on the issues of sustainability and the distribution of the benefits of trade. Policies that produce maximum economic growth are perceived as having little value if they also generate unsustainable demands on the earth’s resources and/or only add to the wealth of already wealthy people and wealthy countries.

Another line of criticism is that in reality the rhetoric of free trade has just been a smokescreen

behind which successive rounds of global trade negotiations have re-written the rules to the further advantage of the powerful economies. According to this view, developing nations with little bargaining power have made endless concessions by opening up their markets, but have not been given adequate access to rich, developed-country markets in return.

On the question of who benefits from trade, it is clear that not everyone has gained from trade liberalisation. In fact, according to Martin Khor, director of Third World Network, *“only a few countries have enjoyed moderate or high economic growth in the last two decades whilst an astonishing number have actually suffered declines in living standards, as measured in per capita income.”*⁸

The UN Development Programme’s Human Development Report 1999 notes: *“The top fifth of the world’s people in the richest countries enjoy 82 percent of the expanding export trade and 68 percent of foreign direct investment – the bottom fifth, barely more than 1 percent. These trends reinforce economic stagnation and low human development. Only 33 countries managed to sustain 3 percent annual economic growth during 1980-96. For 59 countries (mainly in sub-Saharan Africa and Eastern Europe and the CIS) GNP per capita declined. Economic integration is thus dividing ‘developing’ and ‘transitional’ economies into those that are benefiting from global opportunities and those who are not.”*⁹

One problem facing poorer countries is that they have frequently been required to open their markets to imports from elsewhere, but have not been given compensatory access to rich countries’ markets in goods where they may have competitive advantage. Commonly quoted examples include textiles and agricultural products. For example, ‘developing’ economies have campaigned to end quotas restricting their exports of clothing to ‘developed’ nations. This is clearly an area where, because of lower labour costs, ‘developing’ nations have a comparative advantage. The 1994 Uruguay round deal sought to end textile quotas, phased out over a period of years. In practice, though, there have been complaints that implementation has been ‘end loaded’ allowing high cost, richer nations to delay opening their markets for many years right until the end of the period specified.

Some previously ‘developing’ countries have experienced very rapid economic growth in the last few decades, with South Korea, Taiwan, Singapore and a number of others actually making the transition to ‘industrialised’ status. However, in many cases, the growth was partly linked to an ability to nurse infant industries behind high tariff walls and other protections until they were strong enough to face international competition. Such an approach is not allowed by current WTO rules.

Arguably, trade liberalisation has also stripped national governments of the ability to protect disadvantaged groups or to make laws that put environmental considerations ahead of economic ones. Critics have said that the erosion of national controls has, in reality, unleashed a ‘race to the bottom’, in which poorer nations have little choice but to compete at the global level by progressively eliminating minimum standards of labour rights, wage levels and environmental safeguards. The converse argument has also been used that, where it suits them, developed nations have tried to impose minimum standards as a covert means of protectionism designed to keep out imports of lower-cost goods.

1.4 Conclusion

The progressive liberalisation of world trade clearly has been associated with enormous economic expansion, and with rising living standards for many people. However, it is also true that the benefits of this growth have been very unevenly distributed. One commentator points out that in 1900 the ratio of real incomes between the world’s richest and the world’s poorest countries was 10 to one¹⁰.

By 2000, that ratio had risen to 60 to one. Meanwhile, the UNDP's Human Development Report points out that, in 1998, the assets of the world's two hundred richest people were equal to the combined income of 41 percent of the world's (six billion or so) people. By the same token, the three richest people had assets worth more than the combined gross national products of all 'least developed' countries¹¹.

Growing inequality cannot be attributed entirely to the liberalisation of world trade, but it is undoubtedly a significant element in a complex mix of factors. Thus, the question arises of whether the economic growth, based on liberalised trade, that has characterised the last half century or so is environmentally and socially sustainable in the longer term. The price of creating a richer but less fair world has included a long list of environmental problems, such as climate change, loss of species, destruction of fish stocks, excessive consumption of finite mineral resources and a global forest crisis. This report looks in detail at the impact of trade liberalisation and more specifically the reduction of tariffs and non tariff measures, on the world's forests.

Trade Liberalisation within the WTO

tariffs, non-tariff measures and agricultural liberalisation

2 The tariff debate

The move to liberalise the world trade regime began in the aftermath of the Second World War, with the setting up of GATT, the General Agreements on Tariffs and Trade, in 1947. Eight rounds of trade liberalisation were negotiated through this framework, culminating in the Uruguay Round agreements signed in Morocco in 1994. Early GATT negotiations were mainly, though not exclusively, focused on the relatively narrow issue of bringing down the level of import duties or tariffs imposed on goods crossing international borders.

2.1 Tariffs

Even before the launch of the Uruguay Round, tariffs in the forest products sector were the lowest of all major industrial product groups at 45% below the average of all products. The Uruguay agreement brought the average tariff on forest products down further from 3.5% to 1.1%. The average tariff on imports of forest products from 'developing' countries fell from 4.6% to 1.7%.¹² Thus most studies have concluded that further tariff reductions in the forest products sector will not have a major impact.¹³

The impact of the Uruguay Round

The tariff reductions decided in the Uruguay Round were expected to add a net \$340 - 472 million to the value of trade in forest products.¹⁴ Compared to the import value of global forest products trade in 1996 (\$152 billion), this amounts to an increase of less than 0.5%. A GATT Secretariat study in 1994 was slightly more optimistic in its economic forecast predicting that the world's forest products exports in 2005 would be 3.7% - 5.6% higher than if there had been no Uruguay Round.¹⁵

Who would benefit from further tariff liberalisation?

There is a divergence of opinion as to which export countries would benefit economically from further tariff reductions (and ultimately their elimination). Sizer *et al* conclude that the elimination of tariffs in the forest products sector would not have a large overall impact, yet countries that currently dominate the world wood export markets (e.g. Indonesia, Canada and the US) are expected to benefit most. High cost countries (e.g. Sweden and Finland) are expected to benefit less.¹⁶ A study by the USTR comes to the conclusion that the elimination of tariffs would lead to a 2% increase in forest products trade and an increase of 0.5% in the global timber harvest in the period to 2010. Yet the study also predicts that timber harvests will increase sharply in some countries – by 2.6% in Malaysia, 4.4% in Indonesia, 7.6% in Sweden, 9.2% in Australia and 11% in

Finland.¹⁷ The conclusion that harvests are forecast to increase in Sweden and Finland is in contrast to other studies (see above).

What does the industry perceive to be the potential economic benefits of tariff elimination on the forest products sector? In summary, it considers that tariff liberalisation will decrease the cost of raw materials (for example in the housing sector thereby stimulating the construction industry), improve the overall quality of products and decrease the price of finished products thereby increasing the choice for consumers.¹⁸

Environmental and social impacts of tariff liberalisation

It is generally felt that since tariffs are already low, further reductions – and their effect on global production, trade and consumption – will not have significant environmental and social impacts. However, several issues require closer examination:

1. Supply – i.e. the impact of tariff reductions on certain high volume export countries. Both the USTR and Sizer *et al* studies confirm that Indonesia will certainly be affected by further tariff reduction. Brazil, with a growing timber-processing sector, is also likely to be affected. If the USTR

Box 1 China

China is poor in forests but rich in people and has phenomenal economic growth. With 4% of the world's forests, 22% of the world's population and a rapidly growing economy, China's impact on the world's forests is and will be very significant. Historically, the country has maintained high import tariffs on wood products, but these have already come down substantially and are due to fall further in the context of China's accession to the WTO. The combination of a large population and greater individual spending power seems very likely to prompt an explosion in demand for wood products in coming years. With tariffs greatly reduced, the concern is that much of this additional demand will be met by imports, with serious consequences for rates of forest loss extending far beyond China's borders. Already China is the most significant net timber importer among 'developing' nations. Forty % of consumption is imported, a total of 150 million cubic meters in 1999.¹⁹ The forest products sector is the largest import sector in the country. Economic growth is in most cases linked to an increase in consumption of wood products, specifically paper.²⁰ China's economy may well overtake that of the US (in absolute size not income per head) within the next 30 years. The dramatic fall in tariffs on forest products entering China will have a potentially huge impact on forest trade worldwide – especially in South East Asia, which supplies China with most of its wood. Imports have already increased from less than 32 million cubic meters in 1995 to over 65 million cubic meters in 1999, due to two factors: the logging ban under the Natural Forests Protection Program (NFPP) and tariff reduction. Between 1996 and 1999, forest products tariffs were reduced from about 35% to 17% under the NFPP (to meet the domestic timber shortage through imports) and because of the expected accession to the WTO.²¹ The recent bilateral agreement between the US and China will reduce them even further by 2003, to between 5.0 and 7.5%.²² The social and environmental issues related to tariff reductions are immense. Domestically, the poor efficiency of the country's paper mills could increase unemployment by 700,000, although it will be argued that in the longer-term 'competition' will raise efficiency in the domestic wood industry. Abroad, the impact of China is likely to be significant as exports from Russia and Indonesia, the US and Canada are increasing. The import of illegally felled timber into China is also increasing, with Indonesia's wood panel association (APKINDO) stating that illegal suppliers had grabbed a substantial portion of Indonesia's log market in China.²³ Furthermore, Chinese logging companies are now operating in Central and West Africa and have just been granted a concession in Guyana.²⁴ It should be noted that the import and consumption of forest products in China, although increasing rapidly, are still a fraction of those in Europe and the US.

study is correct, sharp rises in harvest levels can be expected in some other countries; serious negative environmental and social impacts will inevitably follow, particularly in countries that are rich in biodiversity and contain large numbers of forest dwelling people. It is therefore important to look beyond the macro economic level and identify more localised effects of increased trade in forest products. In other words, it is not only a matter of determining whether and by how much trade liberalisation will result in increased logging and economic activity in the forestry sector (scale effects), but also how it will affect geographical/regional production and consumption patterns.

2. Demand – i.e. the impact of tariff reductions in certain high volume import countries. In 1996, China, Chile, Malaysia, India, Mexico and Thailand all had high import tariffs on forest products of on average 20% (by contrast, the comparative figures for the EU and US were 5.3% and 1.4% respectively).²⁵ As these countries together have about half of the world's population, they provide a large market for timber products. Tariff reduction in these countries could therefore have a significant impact on forests and forest peoples in those countries supplying the wood. China is a case in point and is discussed in more detail in Box 1.

3. Costs – reducing tariffs, according to the USTR²⁶, will decrease the cost of raw materials and therefore the price for consumers. As the current price of forest products does in many cases not reflect the full environmental and social costs of production and consumption, further price reductions will not contribute to internalising 'externalities'. This would also run counter to one of the goals of the Forest Principles signed at Rio: *"Incorporation of environmental costs and benefits into market forces and mechanisms, in order to achieve forest conservation and sustainable development, should be encouraged both domestically and internationally"*.

2.2 Tariff escalation

Tariff escalation, i.e. higher tariffs on processed products than on logs, still exists despite successive waves of liberalisation. Escalation, from an economic and developmental perspective, is highly inequitable. First, it potentially denies producer countries from benefiting from value added. Second, it is used to 'protect' processing operations in the North from the increasingly competitive global market. The GATT Secretariat argued in 1994 that both these impacts are evident in the plywood and wood panels sector and thus concluded that tariff escalation should be reduced.²⁷

Who would benefit from the reduction of tariff escalation? Sizer *et al* argue that, from an economic perspective, some producers of plywood – Indonesia, Malaysia and Brazil – would gain from a reduction in tariff escalation as would those countries exporting mostly logs and sawn timber, notably the Congo basin, PNG, the Guyanas and Bolivia.²⁸ Yet an analysis of the actual economic impact of tariff escalation suggests that the issue is far more complex for two reasons.

First, despite the fact that tariff escalation exists in the plywood and panels sector, countries such as Indonesia and Malaysia have still managed to increase plywood production and exports. By contrast, ACP countries have unlimited tariff-free access to the plywood market in the EU (i.e. there is no escalation) but plywood production and exports have hardly increased at all. ACP countries continue to export logs and thus forego the value added. Arguments for understanding such patterns are not new and have been formulated at least some 15 years ago.²⁹ Basically, there are other important factors at play, most notably the lack of infrastructure, the availability of capital and control by trans-national companies (particularly those with strong residual colonial ties).

Second, the EU 'protects' its plywood industry against foreign competition (primarily to safeguard jobs). The plywood industry in the EU is more efficient than, for example, in Indonesia but is less

competitive because Indonesia achieves an undesirable comparative advantage due to weak environmental laws, low labour costs, illegal logging, subsidies, poor collection of forest fees, etc. The price of Indonesian plywood has consistently been below the global price (in 1980 these prices were \$227/m³ and \$409/m³ respectively). Recently, the price discrepancy has been reduced mainly because Indonesian exports make up a significant proportion of global exports.³⁰

In theory, the environmental and social impacts of reducing tariff escalation should be positive. They would include a decrease in the pressure on natural forests and the developmental and social prospects for a country should be enhanced as value added provides more export revenue. On that basis, the EU's Sustainability Impact Assessment concludes that tariff escalation contributes to an increase in environmental pressure in terms of natural resources, in that higher tariffs on plywood, rather than logs, may increase the extraction rate from forests in exporting countries³¹. Yet increasing access to, say, the EU's plywood market could produce negative environmental and social impacts if tariff escalation reduction expands trade without adequate forest protection laws in place.

2.3 The ATL proposal

In the run up to the world trade summit in Seattle in 1999, considerable attention focused on a proposal for 'Accelerated Tariff Liberalisation', or ATL. This proposal was vigorously supported by the US, Canada, Indonesia and New Zealand, and remains firmly on the agenda despite the failure of the Seattle summit.

The ATL initiative has its origins in the Uruguay Round concluded in 1994. During the GATT negotiations, Canada and the US proposed the complete elimination of tariffs on all wood products. This target was not achieved but the talks did produce a 'zero for zero' tariff arrangement applying to paper products traded between the US, Canada, Japan, the EU, Korea and New Zealand. Subsequently, in 1997, Indonesia, Canada, the US and New Zealand came up with plans for a further push towards tariff elimination on forest products, only this time within the framework of the Asia Pacific Economic Co-operation forum (Apec). They proposed to include forest products in a list of eight product categories nominated for Early Voluntary Sectoral Liberalisation (EVSL). A modified version of this initiative, by then relabelled as 'accelerated trade liberalisation' (ATL), came up at the 1998 summit of Apec leaders in Malaysia. This meeting agreed to move discussions on the ATL initiative from the regional forum of Apec to the global framework of the World Trade Organisation. The ATL initiative aimed for the complete elimination of tariffs on all forest products, including rattan. This would bring forward the tariff elimination on pulp, paper and paperboard agreed in the Uruguay Round by four years to January 1, 2000. Tariffs on all other forest products categories were scheduled to end by January 1, 2002.³²

Adoption of the ATL proposal would therefore have meant bringing forward the complete elimination of tariffs on paper and paper products agreed by major industrial countries as part of the Uruguay Round by four years to 2000. It would also have involved significant new commitments to eliminate all remaining tariffs on processed wood products.

2.4 Positions of the main trading powers on tariffs

The EU's position on tariffs

The EU³³ has always opposed the Apec-proposed acceleration of tariff liberalisation, the ATL proposal. European forest based industries are not in favour of the ATL proposal but do support tariff liberalisation as part of a new trade round, which "*includes improved market access covering*

*reduction of non tariff barriers and tariffs, further trade facilitation as well as new issue such as trade and environment, competition and investment which will have a much greater influence on future trade than the traditional tariffs”.*³⁴

This position is understandable as labour and related costs in Europe are considerably higher than in the US or Canada. As the ATL proposal would have quite likely benefited ‘low cost’ countries more than ‘high cost’ countries, this is one of the reasons for the lack of support for the ATL proposal from EU industries. This, however, does not preclude the fact that both EU governments and forest-based industries are and have always been in favour of further tariff liberalisation in general, and are strong proponents of market access as part of a new trade round.

The US’ position on tariffs

At the end of the Seattle Ministerial Conference, the US government held firm to its commitment to the Accelerated Tariff Liberalisation proposal. A few weeks after the Ministerial, David Sandalow, Assistant Secretary Oceans, Environment and Science, United States Department of State, responded to a question on ATL by reaffirming the US government’s continued commitment to the agreement, a position which has been repeated several times since. The elimination of tariffs and the discussion of non-tariff barriers for forest products are all likely to remain part of any future US agenda.

Japan’s position on tariffs

The Japanese government was one of the few governments within Apec³⁵ against the ATL proposal. It continued to oppose the ATL in the run up to and during the Seattle Ministerial. In an unprecedented move, the Japanese Ministry of Agriculture, Fisheries and Forests (MAFF) consulted NGOs in Europe and the US to secure their co-operation in influencing the position of their government. Japan has adopted a similar position to that of the EU on this issue: it is not against tariff liberalisation in general but it has made its opposition against tariff liberalisation in the forest products sector clear. The main reason for this opposition is that Japan wants to protect its own forests and forestry industries, which are under serious threat from cheap imports from abroad.

2.5 Conclusions and recommendations

Although further tariff liberalisation in the forest products sector is unlikely to have a major global impact on forests, it will increase the pressure on remaining forests. In some regions, there can be a significant negative impact. It is therefore important to look beyond the global level and examine potentially harmful effects at local and regional levels. Tariff liberalisation in the forest products sector should therefore be opposed. Furthermore governments should conduct a comprehensive assessment on forest ecosystems and forest peoples and local communities ahead of any new trade agreement in the forest products sector.

At the same time, tariff escalation should be reduced and ultimately eliminated because it is an inequitable practice with significant negative effects. This does not necessarily mean that tariffs themselves should be reduced. Tariffs on raw materials could be increased thereby increasing and (to some extent) internalising the environmental and social costs of production and consumption.

3 The significance of Non-tariff measures (NTMs)

Under WTO rules, more or less any aspect of policy or practice in one country that may discriminate, whether deliberately or not, against goods coming from another country other than tariffs, is potentially a 'non-tariff measure' (NTM), and can be treated as a non-tariff barrier – and therefore subject to challenge within the WTO system. This does not mean that all restrictions on the free flow of trade in wood products are banned. WTO rules allow importing countries to set limited safeguards on grounds of health or environmental concern. However, so far WTO dispute panel rulings have generally imposed the narrowest possible interpretation to the scope of permitted restrictions on trade. Environmentally supportive activities potentially subject to reduction or prohibition under WTO rules include eco-labelling and forest certification schemes, import and export quotas, log export bans, requirements for recycling, and subsidies. Due to already low tariff rates in the forest sector, NTMs have become much more significant in recent years. Therefore they have greater potential implications for forests than simply eliminating tariff barriers.

3.1 Non-tariff measures (NTMs)

Whilst NTMs have been an increasing part of the WTO's remit, it has been the Apec countries³⁶ that have recently focused on NTMs in the forest products sector. When ministers from Apec countries called for nominations of sectors for Early Voluntary Sectoral Liberalisation (EVSL – see chapter 3.3) in mid 1997, the US, Canada, New Zealand and Indonesia all proposed forest products.³⁷ The EVSL would include tariffs and NTMs. The tariff element of the EVSL for forest products was pursued through the WTO (the so-called 'ATL proposal'); in the meantime, Apec has been concentrating its efforts on NTMs in the forest sector. This culminated in the release of a report in 1999 undertaken by Forest Research.³⁸

Box 2 The flaws in the Apec report on NTMs

The report on *Non-Tariff Measures in the Forest Products Sector* from the Apec countries was released in August 2000. Aiming to assess the impacts of non-tariff measures (NTMs) on trade in forest products, the report represents the first serious attempt to categorize the myriad of NTMs in use in the Apec region. However, it also reveals an out of date and complacent attitude to environmental protection and fails to recognise the role of trade in causing deforestation. Defining NTMs as either environmental, economic or social, the report identifies the most widely encountered NTMs in Apec countries as afforestation subsidies, logging bans, log export bans and quotas. Environmentally motivated NTMs, such as certification, logging bans, recycling and emission-control policies, are viewed as not having a significant impact on trade. Illegal trade activities – in many countries vast and beyond control – are in some cases seen as the result of NTMs and are acknowledged as significantly distorting trade.

However, despite the report's useful overview of the current use of NTMs, its analysis and conclusions are weak. Free trade is consistently supported even though the authors acknowledge that its benefits are compromised by restrictions to the free flow of labour, and by the distortion of prices that fail to reflect the true costs - such as environmental and social costs – of goods and services. In addition, tropical deforestation is blamed on population growth and poverty – an argument discredited by CIFOR and World Resources Institute, among others.

There is no agreed definition of NTMs.³⁹ Furthermore, because little research has been conducted into this issue (apart from the Apec study by Forest Research, which covers Apec countries only), the subject is poorly understood. The Apec study was flawed due to poor qualitative analysis, a lack of adequate quantitative analysis and not being impartial or independent.

Economic impacts and forests

According to the Apec study, the influence of NTMs on trade in forest products was both prominent and increasing prior to the Uruguay Round. The most common were quantitative restrictions and/or quality controls directed at specific products.^{40,41} However, following the Uruguay Round, it appears that (at least in the Apec region):⁴²

- The number of NTMs is falling;
- NTMs apply more to raw and semi-processed materials than to manufactured products;
- Export bans, quotas and licenses (economic NTMs) have had the most obvious impact on trade;
- Afforestation subsidies potentially have the most significant impact;
- The impact on trade of forest certification is relatively minor, because the market currently is small;
- Other environmentally motivated NTMs are unlikely to affect trade in major ways;
- Finally, NTMs may not be the best way of achieving environmental goals.

Government subsidies to develop forestry industries are significant. Estimates range from \$6 billion a year worldwide⁴³ to nearly \$10 billion a year.⁴⁴ These include tax breaks, low interest loans, under pricing and inducements for agriculturalists to settle in tropical forests. The World Resources Institute estimates that the total subsidy to the forestry industry in Canada alone amounts to US \$4 - 5.2 billion, half of which is considered to be 'perverse', i.e. harmful for forests and forest peoples. Further research into the nature of forestry subsidies and a steady elimination of environmentally and socially harmful subsidies is essential.

Box 3 Log export bans and logging bans

Log export bans are common throughout the world: examples can be found in Thailand, USA, Canada, China, the Philippines, New Zealand, Vietnam, Indonesia, Malaysia, Mexico, Ghana and Brazil.^{45,46} However, this is one NTM where the economic justification (for example the development of the local economy) often contains elements of environmental protection in its rationale.⁴⁷ At the WTO's ministerial in Seattle, log export bans were widely discussed by governments (notably the Japanese) and NGOs (especially the US-based NGOs), as the Japanese Government made clear it wanted the logging ban in the Pacific North West of the US to be removed.

It is important to note that the effect of log export bans is not always positive for the environment. In Indonesia the internal prices of logs following implementation of the log export ban were reduced by as much as 40-50%. This in turn lowered the incentive to invest in forest regeneration and management, and has probably led to increased logging.⁴⁸ Furthermore in countries where the logging ban has had positive environmental effects, such as Thailand,⁴⁹ there is often a negative impact on forests in neighbouring countries. The logging ban currently in place in China is putting pressure on forests in Siberia and the Russian Far East. Trade in logs between Russia and China has increased nearly 200% between 1998 and 1999.⁵⁰

An FAO study⁵¹ looking at the environmental impacts of logging bans concludes that there is as yet little information available. It notes that the effectiveness of logging bans is often hindered by a lack of political will and enforcement capacity, and that in very few cases the desired conservation effect of the logging ban was achieved.

Environmental and social impacts on forests

Proponents of free trade such as the International Tropical Timber Organisation (ITTO) attempt to take an all-embracing definition of NTMs so as to categorise them all as barriers or restrictions to trade, when some are deliberately designed to protect and enhance the environment and health and safety.⁵² These include:

- Standards at borders to prevent the import of exotic species and diseases. After habitat loss, invasive species are the second most important factor responsible for species extinction⁵³ and forest degradation; in both the US and Europe, the introduction of bark beetles and moths are increasing disease in forests;
- There are even suggestions⁵⁴ that NTMs could embrace technical regulations, either for health and safety reasons (e.g. formaldehyde glue) or regulations designed to increase the strength of buildings. Increasing the longevity of wood products is important if we are to move towards more sustainable consumption patterns, but this could be undermined by further trade liberalisation negotiations;
- Labelling and certification. This includes both government supported and voluntary schemes. The ability of consumers to make informed choices as to whether wood originates from sustainable forest management is under threat as the relationship between WTO rules and labelling and certification schemes is unclear (see box 4) ;
- Government procurement contracts requiring minimum recycling content. Again, such initiatives are important if society is to progress towards more sustainable consumption patterns.

But, as the Apec study by Forest Research clearly notes, “*environmental NTMs are not technically trade impediments and some of these measures have the potential to have positive influences on trade and resource management*”.⁵⁵ The study furthermore states: “*environmentally motivated NTMs and environmental measures are not having a significant effect on trade. However the*

Box 4 Certification and labelling

There is no official WTO position on certification, but it is clear that in general the WTO prefers voluntary above mandatory labelling requirements. Any certification regime that affects trade is by definition a NTM. The question remains whether it is a non-tariff barrier, and if so, whether it is permitted under WTO provisions. However, the Apec study, as well as governments from Japan and the EU, state that voluntary, non-governmental certification schemes are not NTMs.⁵⁶ NTM or not, certification and labelling are a contested area within the WTO as there have been official competing statements from different governments on certification and labelling. The Canadian government stated its unhappiness with the increasing use of voluntary international standards based on life cycle considerations⁵⁷ hinting at the EU’s eco-label scheme, and the EU has been seeking confirmation that its EU eco-label scheme is WTO compatible. Whether certification or labelling schemes are WTO compatible will not be known for certain until one is the subject of a dispute settlement proceeding resulting in a decision of general application. If a certification scheme is challenged it would be against a member government and would probably allege failure to meet obligations under the Government Procurement Agreement (GPA), the Technical Barriers to Trade (TBT) and GATT Article III⁵⁸. With regard to the TBT agreement there seems to be disagreement among WTO members on whether product-related Product and Processing Methods (PPMs) and non-product related PPMs are permitted, prohibited or even within the scope of the agreement. In short, there is no clarity on whether certification and labelling regimes are WTO compatible.⁵⁹

The Dutch Senate is considering a bill, already approved by the Dutch Parliament, which would require mandatory labelling of all imports of forest products (e.g. with a red or green sticker), depending on whether the timber comes from a sustainable or unsustainable source. If passed, this law might serve as a test case, as it would be the first high-profile labelling requirement for forest products to be adopted by a WTO member.

*uncertainty they have created remains a threat to the global trading system because the interface between trade, development and the environment will continue to be contentious”.*⁶⁰

3.2 The position of the main trading powers on NTMs

The EU's position on NTMs

The European Commission has made clear that it wishes to include NTMs in trade negotiations. At the same time, however, it risks running into trouble regarding WTO compatibility over its own eco-label scheme. According to the database created by the Commission on trade-distorting measures, non-tariff barriers to trade in forest products include import prohibitions and quotas, export restrictions such as log export bans, standards and other technical requirements, and subsidies. The EU's position to include NTMs in market access negotiations at the WTO was reiterated in the EU's official submission on trade at the Intergovernmental Forum on Forests in New York (31 January - 9 February 2000).⁶¹

The US' position on NTMs

At the end of the Seattle Ministerial Conference, the US government held firm to its promises to discuss NTMs in the forest sector and produced a statement to end discussions on the elimination of non-tariff trade barriers for forests.⁶² David Sandalow⁶³ stated: *“there is a need to address government subsidies that promote over-logging and distort trade. Such subsidies can skew resource decisions, cost tax revenues and damage ecosystems. Some experts estimate that these subsidies total*

Box 5 The EU and the US on eco-labelling

The EU Directorate General for Trade wants to include the EU's eco-label scheme in market access negotiations. As the EU eco-label scheme is a government-led scheme, harshly attacked by the forestry industries particularly in Canada, the EU fears that a complaint might be presented to the WTO, to be dealt with by the WTO's dispute settlement procedure. The outcome of a challenge to the eco-label scheme would be very uncertain. Therefore, the Commission – under its WTO negotiating agenda proposals for environment – is seeking to ensure the WTO recognises the EU eco-label scheme as WTO compatible. The Commission is more likely to obtain WTO recognition for the eco-labelling scheme under a new negotiation round.

The EU eco-label scheme deals with products varying from washing machines and dishwashers to tissue and copy-paper. Forest NGOs have been concerned about the EU eco-label scheme, as the criteria for sustainable forest management are extremely vague. President Clinton has presented the position of the US on eco-labelling in his declaration of principles on trade and environment⁶⁴: *“Market based approaches to environmental challenges, such as environmental labelling programmes (eco-labels), are important and effective policy tools but should not be misused as hidden forms of trade protectionism. Consumers have a legitimate interest in the environmental impacts of the products that they buy. Providing accurate information to consumers is an important market-based means of engaging consumers in and achieving health and environmental objectives. We will promote a domestic and international environment that is supportive of such approaches.”*

“We believe and will defend our position that WTO rules provide sufficient flexibility to permit all forms of eco-labelling, including those involving criteria based on processes and production methods and those developed and maintained by private bodies, subject to the relevant disciplines of multilateral trading system, including transparency and non-discrimination.”

billions of dollars per year worldwide, but more information is needed. We should gather information about the scope and nature of subsidies affecting the forest sector that are environmentally damaging and trade-distorting and develop appropriate responses worldwide.”

Many US environmental groups would agree and support the idea of using the NTMs debate to put pressure on the US government to eliminate subsidies that have negative impacts on forests. For instance, the US government should stop subsidising road construction that provides access to forest areas and below-cost sales on timber to logging companies. Other NGOs, including the World Rainforest Movement, are of the opinion that to use the WTO to attack ‘bad’ subsidies legitimises the WTO and the entire process.

Japan’s position on NTMs

At the Seattle Ministerial, Japan raised the issue of exporting countries’ NTMs like export taxes and export bans. Japan seeks the elimination of what it calls border measures, such as log export bans or taxation systems that impact on the flow of tradable forest products. However, it wants to see the protection of measures that ensure the sustainable management of forest resources. As opposed to the definition commonly used of NTMs, the Japanese do not consider that export bans fall under the NTM rubric. Their definition of NTMs only includes import barriers to trade. Therefore, it is consistent for them to oppose the discussion on tariff elimination and NTMs at Apec and the WTO while at the same time advocating the elimination of export barriers to trade (such as the US ban on the export of raw logs from some forest areas).

Most major wood exporting countries implement log export restrictions that could violate Article 11 of the GATT⁶⁵. Japan is concerned that current trade rules provide insufficient tools against those measures. Furthermore, some wood exporting countries impose discriminatory levies of export tax between logs and finished products in order to protect their domestic industry.

3.3 Conclusions and recommendations on NTMs

Available analysis on the economic, social and environmental impact of NTMs is embryonic. Discussions are further hampered by the fact that opinions diverge as to what is an NTM and what is not. Current lack of clarity about NTMs, as well as interpretation of the Technical Barriers to Trade (TBT) Agreement, means that there is a risk that countries are deterred from developing environmental regulation to encourage sustainable forest management since these could be challenged as being unfair barriers to trade. More research is clearly needed, particularly on the environmental and social impacts of NTMs. The fact that very little sound research has been carried out on environmental or social (and even economic) aspects discourages the development of a full discussion on these issues. The potential negative impact on forests of liberalisation of NTMs could be significant. The following NTMs used in the forest products sector seem to be the most hotly debated: subsidies, certification and labelling, and log export bans.

NGOs must become more pro-active on this issue to counter initiatives such as the Apec study, e.g. by conducting more research in this area. This research should include all potential environmental, social and economic NTMs in the forest products sector, recognising there is some overlap, and assessing them qualitatively and quantitatively. This would require a substantive piece of work with detailed life-cycle analysis measuring such impacts as global warming, biotic depletion etc. The advantages of such an all-embracing approach are four-fold:

- First, that the full scale effects of the economic NTMs that most distort trade – perverse and covert subsidies (including illegal activities) – would become apparent (the Apec research barely covered this subject);

- Second, to confirm Forest Research's own judgement that social and environmental measures are not NTMs, in that they do not distort trade and are imposed for non-trade related objectives (or if they do restrict trade, they are out-weighed by environmental, social or developmental benefits and thus compatible with Article 20 of the GATT);
- Third, as various institutions have begun to describe NTMs in very broad terms, they need to be counteracted by NGOs;
- Fourth, environmental and social NTMs have to be included to refute any suggestion that they are only imposed in the North for economic-protectionist reasons.

Potentially, the most trade distortive and environmental harmful NTMs are subsidies given by governments to develop forest based industries. They include tax breaks, low interest loans, under pricing and inducements for agriculturalists to settle in tropical forests. It is likely that the majority of these subsidies are harmful for the forest environment and forest peoples. Further research into the nature of forestry subsidies and a steady elimination of environmental and social harmful subsidies is essential.

Certification is a hotly contested area within the WTO with no clear outcome yet. It is quite likely that within the near future some clear statements will be made. NGOs should closely monitor this debate and be prepared to influence the debate once voluntary non-governmental certification schemes, such as the FSC, might come under attack within the WTO framework.

4 Impacts of agricultural trade liberalisation on forests

The agriculture negotiations are a hot potato within the WTO. The aim of the negotiations is to further reduce tariffs on agricultural products, as well as to eliminate subsidies. Although tariffs came down considerably during the Uruguay Round, remaining tariffs are still high. The ongoing stand-off between the EU and Japan on the one hand, and the US and other members of the Cairns group⁶⁶ on the other hand, has blocked any progress so far. For the EU the main battle will be to keep some of its recently renegotiated Common Agricultural Policy in place. A comprehensive trade round would have been advantageous for the EU, as it would have been able to play off any losses in agriculture against other sectors. The US therefore dubbed the EU's position towards the Seattle meeting as the ABA (Anything But Agriculture). In the absence of a broad round of trade talks, current negotiations are fraught with difficulties. The situation was exacerbated by the US announcement, on 20 June 2000, to increase its domestic farm subsidy by up to \$15 billion, which provoked a furious response from the EU.⁶⁷

4.1 Market access and subsidies

Little has been reported about the potential impacts of further liberalisation in the agriculture sector on forests. There appear to be three main areas of concern surrounding additional liberalisation through the WTO Agreement on Agriculture (AoA):

First, liberalisation would entail the progressive dismantling of extremely high tariff barriers applied in industrialised countries. For example, the tariff on beef into the EU is over 200% and that of wheat and barley is over 300%.⁶⁸ Whilst such barriers are inequitable and should be removed, this could lead to further production and exports of cash crops in 'developing' countries, which could directly or indirectly lead to forest loss.

The oil seeds sector – including palm oil, soy bean oil, rape oil and sunflower oil – is one area where further trade liberalisation is envisaged, as this was one of the EVSL sectors nominated by Apec (see chapter 3.3). The potential for trade liberalisation in this sector became evident during the Uruguay Round when a zero-for-zero proposal was put forward, albeit without success. Such a proposal continues to attract attention, and according to the Department of Agriculture and Agri-Food in Canada, oil seeds may well become one of the areas of focus for trade liberalisation during the (re)negotiations of the AoA.⁶⁹ In the medium term, stronger demand is expected for vegetable oils, and palm oil is forecast to capture most of this expanding market.⁷⁰ The increasing expansion of palm oil plantations worldwide is currently one of the main causes of forest loss, particularly in Indonesia and Malaysia, and increasingly in Latin America and Central Africa. Whilst tariffs for palm oil are not high (5% - 14.4%), trade liberalisation will almost certainly compound this situation, especially because an increase in the export of palmoil (and other commodities) is often linked to aid programmes for infrastructural projects, such as roads

Second, liberalisation in agriculture will mean reduced agricultural subsidies in OECD countries. Such subsidies are estimated to amount to some \$362 billion a year.⁷¹ Reductions in subsidies are quite likely to increase world agricultural prices and this could give producers and exporters further incentives to push the agricultural frontiers into forest regions. Equally, higher prices could slow down the conversion of land from forest to field, and therefore have a beneficial effect. More research into this area is needed.

Third, import bills for net food importing 'developing' countries will increase. Governments will have less expenditure available for forest conservation or regulatory institutions and the deteriorating macro-economic situation will hit the poorest hardest, potentially displacing people into the more marginal areas of the country, including forest areas.

4.2 Relation between agriculture expansion and forests

The links between international trade, agricultural expansion and forest loss are complex and vary by country and product. A publication on the subject by UNRISD-WWF⁷², based on five case studies – China, Guatemala, Brazil, Cameroon and Malaysia – concludes that trade of commodities has, in some cases, contributed to worsening the livelihoods of many low income groups, while in other cases it has helped to improve the livelihood of the same groups. In general, however, international trade in commodities has stimulated deforestation: trade was either a predominate factor driving deforestation or a marginal one. All case studies emphasised the central role of public policies and land tenure agreements in stimulating, or slowing down, tropical deforestation.

In Brazil, the government's policy of modernising and expanding agricultural production into relatively sparsely populated regions of the country, without the participation of low-income groups, was largely responsible for accelerated deforestation.⁷³ The study concludes that: *"it is tempting to attribute the negative social and environmental impacts associated with agricultural expansion and deforestation to 'market failures' and 'policy failures'"*. This conclusion acknowledges that efficient and fair markets do not exist and that many government policies are not aiming at sustainable development but at maintaining the status quo.

In a presentation on underlying causes of forest loss at the IFF Intersessional on Underlying Causes⁷⁴ CIFOR came to similar conclusions: *"Nothing in economics tells us that poor people can get a livelihood from the market without government intervention"*, and: *"government policies often reflect the underlying power relations in society. If powerful groups are not concerned about deforestation, government policies are likely to reflect this."*

To counteract the negative impacts of the deforestation that follows agricultural expansion, the UNRISD-WWF study suggests supporting local groups of poor peasants in order to overcome some of the social-economic and political constraints that prevent them from improving their livelihoods: *"Most of the political and economic constraints on sustainable use of natural resources by people in a rural locality originate elsewhere. They can seldom be removed, only through local initiatives. Secure and equitable access to land, for example, is no longer purely a local matter anywhere. Local level initiatives aimed at approaching more sustainable development through community-based resource management necessarily imply a struggle for greater control over resources and institutions by those hitherto excluded from such control. Such struggles for self empowerment are inevitably highly conflictive"*.⁷⁵

The issue of land rights and access to land is crucial in any discussion on deforestation and more so in the debate on the impact of agricultural expansion and deforestation. Indigenous peoples, many of whom are fighting legal battles for their lands, inhabit the majority of tropical forests. Trade liberalisation in the agricultural sector will inevitably lead to an expansion in the export of agricultural products. Against the backdrop of the situation where local people often have no say about government policies, and where governments are less interested in the conservation and sustainable use of forests than in economic gains to maintain the status quo, it is virtually inevitable that expansion of agricultural activities will lead to forest loss.

4.3 Conclusions and recommendations

The current system of high protectionist tariffs, combined with massive domestic subsidies, both in the EU and the US, is unacceptable and will have to be changed. Reducing or removing tariffs on agricultural products might have a negative impact on forests, as it is likely to increase the export of commodities that could directly and indirectly lead to forest loss. This is particularly true of oil palm, soya and beef. Although current tariffs on oil palm and soya are not high (between 5% and 10% depending on the product), the increase in the export of these products has been directly linked to forest loss. Importing beef into the EU and the US currently faces very high tariffs of over 200%. Reducing these tariffs might have a large impact on the beef export from regions like the Amazon.

Governments should closely examine the links between agricultural liberalisation and forest loss and ensure that trade agreements in this area are preceded by a proper assessment of trade and trade related impacts. Preventative measures and mitigation policies stemming from these assessments should be an integral part of negotiations on trade in agriculture.

A more fundamental, but equally important issue: forest NGOs should proactively support the land rights campaigns, community building and local democracy initiatives of indigenous peoples living in forest areas. Where local communities are politically isolated or kept silent, forest loss continues without criticism or control, as is one of the conclusions of the UNRISD/WWF study. The fact that forest loss is as much a social as an environmental issue should be clearly recognised and creative solutions should be found to deal with forest loss in a more holistic way. The study suggests that supporting the fight for customary rights by indigenous peoples might be more effective than conservation policies. More direct co-operation with indigenous peoples in order to examine these issues is essential.

Trade Liberalisation outside the WTO Framework

a *preliminary* summary of trade related issues

5 The bilateral and regional trade agreements

In addition to multilateral negotiations, governments are increasingly developing bilateral and regional trade agreements. For example, the EU has just finalised trade agreements with Mexico and South Africa and is starting to negotiate new trade deals with Mercosur.⁷⁶ Countries in North and South America are already involved in more than a hundred different bilateral trade deals. Japan is the only OECD country that has not negotiated bilateral trade deals with other countries, but there has been a recent move by the government to establish bilateral trade links. Even China recently showed it was ready to join the run towards regional free trade agreements by floating a proposal for a free trade zone with the Asean countries⁷⁷.

Many of these bilateral and regional trade agreements include provisions for tariff liberalisation in forest products as well as other sectors. They also often include issues such as investment and government procurement. The link between trade and forests, therefore, goes far beyond the realm of the WTO.

5.1 The EU's bilateral and regional trade agreements

The EU has signed a number of bilateral trade agreements including trade agreements with Mexico, South Africa, Canada, and the Meda⁷⁸ region. The most recent trade agreements with South Africa and Mexico both support the EU's comprehensive trade liberalisation approach: investment, government procurement and competition are all included. However, environment protection and the recognition of Multilateral Environment Agreements are conspicuous in their absence.

On 23 June 2000 the European Community (EC) and 71 African, Caribbean and Pacific (ACP) States (i.e. the 'former colonies') concluded negotiations on a Partnership Agreement (PA) aimed at establishing a new framework for future relations. The Agreement will, *inter alia*, regulate trade between these two groups of countries as well as the political dimension of their relations, their development co-operation strategies and their financial co-operation subsequent to the expiration of the fourth Lomé Convention on 29 February 2000.

The trade provisions of the new ACP-EC partnership agreement cover a period of eight years (Art. 37.1) in preparation of a WTO-compatible regime. The Parties' ultimate objective is to integrate the ACP States successfully into the world economy and the multilateral trading system. At the end of the preparatory period, the Parties will conclude a new trading arrangement that will be fully compatible with their WTO obligations and which will progressively remove barriers to trade between them and enhance co-operation in all areas relevant to trade.⁷⁹ In the meantime, a waiver has been requested from the WTO regarding the preferential treatment given by the EU to the ACP countries.

The EU has signed an Interregional Framework Co-operation Agreement with the Mercosur countries. The European Commission intends to start the trade negotiations in earnest with these countries and with Chile in the summer of 2001. Furthermore, the EU is also in the process of negotiating a Euro-Mediterranean free trade zone with its 12 Mediterranean partner countries. It is too early to tell what the potential impact of these agreements on forests will be, as discussions on tariffs and NTMs, as well as issues such as investment, have not yet started. However, provisions of these agreements have potential implications for forests and forest peoples.

5.2 The US' bilateral and regional trade agreements

There are over a hundred bilateral and regional trade agreements in the Americas. The US has recently agreed a bilateral agreement with China in light of China's pending accession to the WTO. This agreement will reduce Chinese trade barriers across a range of goods, services and agricultural products; eliminate or sharply reduce restrictions on imports and distribution of goods in China; and address technology transfer and job creation in China.

North American Free Trade Agreement (NAFTA)

One of the largest and most comprehensive free trade agreements in the world is NAFTA (North American Free Trade Agreement) between the US, Canada and Mexico. NAFTA entered into force on 1 January 1994. NAFTA does not only include the reduction of tariffs but also NTMs such as import licensing and performance requirements. NAFTA is accompanied by the North American Agreement on Environment Co-operation (NAAEC), which is supposed to ensure that trade liberalisation and efforts to protect the environment are mutually supportive.

A study conducted by Lyke⁸⁰ concludes that NAFTA has had little effect on the forest products trade between the US and Canada. This conclusion, however, is slightly surprising given that in the two years following the implementation of NAFTA – 1994 and 1995 – US forest products exports to Canada increased by 45% and US imports from Canada increased by 36%.

With regard to the large increase in the forest products trade from Mexico to the US between 1994 and 1995, this appears to have been more heavily influenced by other macro-economic events such as the 40% devaluation of the peso in 1994. However a recent study⁸¹ shows that the imports of paper and pulp from the US into Mexico have increased rapidly since NAFTA took effect (see box 7). Producers in Chihuahua are therefore under pressure to keep their prices low in order to maintain their share of the Mexican market. This dynamic puts pressure on the forestry industry in Chihuahua to oppose environmental regulations that increase the production costs.

Box 6 **The China-US agreement and its potential impact on forests**⁸²

China will reduce high tariffs on processed wood (currently 18-21%) and paper (currently 10-25%) to levels generally about 5% and 7.5% respectively. China will reduce its current tariff rate of 22% to 0% on most furniture items by 2005. Furthermore, China has agreed to implement the ATL proposal if and when consensus is achieved. Agricultural tariffs will drop from an average of 31% to 14% for major US priority items such as beef (45% current level to 12% under new agreement). China will further liberalise its purchase of key agricultural commodities like wheat and soybean through tariff-rate quotas – that is, the application of low tariffs (1% for bulk commodities) on a set volume of commodities.

Free Trade Agreement of the America's (FTAA)

The US is currently negotiating a Free Trade Agreement of the Americas (FTAA). The FTAA is modelled after NAFTA. The FTAA would create a free trade area between North, South and Central America. The FTAA includes tariff elimination for forest products and discusses the elimination of NTMs as well. The US government strongly supports the FTAA⁸³. The first negotiations for FTAA are to conclude before 2005. Considering this time line, it is important to note that in the final two years of negotiations from 2002 to 2004, the US and Brazil will co-chair the Ministerial and Vice-Ministerial meetings. Both countries have large areas of forest and are also large importers and exporters of forest products – they will surely use their weight to get an agreement. (Argentina is chair for 2000-2001 and Ecuador from 2001 to 2002.) An environmental review of the FTAA will begin in 2000.

5.3 Conclusions and recommendations

A review of the developmental and social impacts of trade on the forest products sector should not be limited to trade liberalisation within the framework of the WTO. It is essential to assess the impacts of bilateral and regional trade agreements on the world's forests. Governments, in co-operation with relevant international organisations, should conduct such assessments. Organisations, such as the WTO, World Bank and IMF should also work with UN agencies, such as UNEP, UNDP, and UNCTAD, in carrying out joint analysis and case studies on the impact of trade flows on forests and forest peoples. Technical and financial assistance to implement these assessments should be made available to countries in the South. Full participation of civil society groups in North and South should be an essential part of these assessments.

Box 7 The impact of NAFTA on forest loss in Mexico

An independent study exploring the impacts of NAFTA on forests and peoples in Mexico has found that as timber production has increased, forests, the environment, justice and local peoples have suffered. Domestic economic conditions, such as the value of the peso and the inefficiency and the under-capacity of the Mexican forest products industry, have played an important role. The findings represent the first proper scientific assessment of the impact of trade liberalisation in the forest products sector, and show that the promised 'environmental and social benefits' of low tariff agreements, like NAFTA, are in this case spurious claims.

The study was presented by the Commission de Solidaridad y Defensa de los Derechos Humanos and the Texas Center for Policy Studies at a seminar organised by the North American Commission for Environment Cooperation, an organisation established under NAFTA to examine the links between trade and the environment. The authors conclude that despite low tariffs in the forest products sector, NAFTA has had a substantial negative impact on the forests in the Mexican state of Chihuahua. Trade data shows that imports of pulp and paper products from the United States into Mexico have increased rapidly, and this has forced local producers to keep prices low and avoid environmental regulations. In addition, hundreds of citizens' complaints about illegal logging and unsustainable forestry practices have been filed, but the Mexican government has failed to respond, and has violated environmental and forestry laws.

Indigenous leaders and NGOs have asked the government to enforce environmental laws, to assess the damage done by forestry-based industries, and to provide a basis for a land management system that will protect forests, peoples and the environment. The authors of the study want to see more attention placed on sustainable forest management and believe that illegal logging, which is not counted under the official statistics, has also increased since NAFTA.

6 Structural Adjustment

Like the WTO, the IMF and World Bank also place great emphasis on the promotion of exports, i.e. to stimulate economic growth through increased trade. The World Bank and the IMF use financial leverage to coerce nations to open their economies and to conform to WTO rules. One of the tools they use is structural adjustment and other policies that facilitate 'supply expansion'. Structural Adjustment Programmes (SAPs) have, in many countries, led to currency devaluations aimed at promoting exports. Research by CIFOR and WWF shows that currency devaluations have been extremely important in increasing the rate of forest clearance and degradation.⁸⁴ Furthermore, Structural Adjustment Programmes have facilitated massive influxes of foreign capital into primary extractive sectors such as logging and mining without strengthening the capacity to control and plan the activities to reduce negative environmental and social impacts.⁸⁵

6.1 Economic, environmental and social impacts

Kaimowitz *et al*⁸⁶ contend that SAPs – and in particular devaluations – contribute substantially to forest loss and degradation by encouraging product exports. The most common way of expanding supply is to improve the terms of trade for products aimed at the export market. SAPs often achieve this through three, sometimes complementary, policies: (1) exchange rates (devaluations), (2) export (fiscal) incentives and (3) removing price controls. A further means of supply expansion are policies related to trade liberalisation (i.e. the removal of export bans), investment liberalisation and restructuring of a sector, usually involving privatisation. At the same time, structural adjustment policies usually require some 'demand restraint', for example reduced government expenditure, which may involve those forest regulatory institutions that should regulate and police 'supply expansion'.⁸⁷

'Developing' countries are often advised that their 'comparative advantage' lies in products such as wood coffee, cocoa, oil palm, pineapples etc. Policies are implemented that increase these exports, which will consequently pay for imports of other goods. The evidence of macro-economic data in countries such as Bolivia, Indonesia and Ghana suggests that SAPs have been an economic success. However, this should not obscure the fact that the impact on poorer sections of society has often been negative, in some cases forcing people into forest areas.⁸⁸ Environmental costs have often been severe.

6.2 Currency devaluations

Devaluations have been by far the most common policy to promote exports. Devaluations raise prices in favour of tradable exports, for example forest products. In one study of structural adjustment programmes in Bolivia, Indonesia and Cameroon, Kaimowitz *et al* conclude: "*Currency devaluations have been the most important factor increasing forest clearing and degradation under the SAPs, at least in the short term. Devaluations greatly encourage forest product exports*"⁸⁹ Although in many cases there are other political and economic factors at play, the table below shows a clear link between currency devaluations and the export of forest products.

6.3 Structural adjustment and agriculture

Forest loss and degradation may also worsen in the context of SAPs, focused on the agricultural sector. This has occurred, for example, in Bolivia and Indonesia where forests have been cleared for mechanised soybean production and for oil palm, coffee, cocoa and rubber.⁹⁰

The expansion of shrimp farming has also been promoted under SAPs, and this has had disastrous impacts on mangrove forests. For example in Bangladesh, between 1979 and 1996, structural adjustment policies included the reductions of the anti-export bias in the tax structure, tariff rationalisation and overall trade liberalisation through exchange rates, privatisation and price decontrol. These policies favoured exports, and the shrimp industry expanded. However, this led to the indiscriminate loss of mangrove forests, and therefore the destruction of marine breeding grounds and the erosion of shorelines.⁹¹

6.4 Conclusions and recommendations

The liberalisation of trade in the agricultural sector (either through the WTO or SAPs), could have significant long-term impacts on forests worldwide, particularly in the South. These negative impacts could be compounded if trade liberalisation focuses on products grown in forest areas such as oil palm and rubber (both products were earmarked by Apec for EVSL).

Structural Adjustment Programmes should be assessed against environmental and social impact criteria. We urge governments, in co-operation with relevant international organisations, to conduct such assessments. As indigenous peoples will be affected, measures to encourage local democracy and to support community participation should be built into the terms of reference and the elaboration of Structural Adjustment Programmes.

| <i>Country</i> | <i>Year of Devaluation</i> | <i>Comments on forest products exports</i> |
|----------------|----------------------------|--|
| Mexico | 1994 | By 1995, exports to the US increased by 50%. ⁹² |
| Cameroon | 1994 | In 1994, after devaluation, the country produced 34% more logs than the preceding year. |
| Bolivia | 1985 | Sawn wood exports increased from 31,000 m ³ in 1984, to 162,000 m ³ in 1991. |
| Ghana | 1981-1987 | Between 1983 and 1988 exports increased nearly fivefold. ⁹³ |

7 Trade liberalisation, companies, investments and forests

7.1 Introduction

During the Uruguay Round, the traditional focus of the trade system was expanded to cover areas not normally associated with trade such as investment (TRIMs) and intellectual property (TRIPs). The inclusion of new investment rules failed at the Seattle Conference but its champion, the EU, still holds this as a priority issue. Many countries in the South, including Brazil and Indonesia have restrictions on the investment by foreign companies. A new investment agreement could jeopardise these restrictions leading to even more investments in forests already seriously under threat. Any renewed attempts to get further investment liberalisation rules into a Multilateral Agreement on Investment (MAI) could also have a large impact on forests worldwide.

At the same time, forest product companies, now recognise that the only way to thrive, perhaps even survive, in the increasingly competitive, global market is to consolidate and expand; this has heavily influenced their investment decisions. One way of achieving consolidation and expansion is through mergers and acquisitions, which not only cut costs but also gives companies market access, greater corporate mobility and control over all aspects of production.

Over the past few years (and the trend has increased recently), a number of very large mergers and acquisitions have been conducted in the forest products sector. With this comes increasing political influence and power. Recently merged companies include Weyerhaeuser and MacMillan Bloedel, Enso and Stora, UPM-Kymmene and Repap, International Paper and Champion International, Norske Skog and Fletscher Challenge, Abitibi Consolidated Inc and Donuhue.

To remain competitive and reduce costs companies are also acquiring new concession areas and establishing new manufacturing plants in locations where costs are lower. This could be because labour is cheap, environmental laws are weak or through the provision of subsidies. For example, most of the new investments in the forestry sector between 1996 and 1998, worth \$4.5 billion, have been in low-cost countries with large forest areas such as Indonesia, Chile and Mexico. Abundant wood fibre supplies, minimal environmental regulations and cheap labour make these countries globally competitive locations for new investments.⁹⁴ Competition between countries to attract investment is driving standards down worldwide, fuelling what is known as the 'race to the bottom'. Transnational companies are furthermore threatening that some environmental policies, regulations or taxes would reduce their competitiveness leading to a 'policy chill'.⁹⁵

The increasing dominance of companies through mergers and acquisitions, either geographically or economically, confers considerable political influence. Large transnational companies with many foreign operations are, per definition, highly influential in the global trade debate, as they are able to lobby trade ministers in different countries. Currently in the US, paper and timber companies sit on so-called Industry Sector Advisory Committees (ISACs). The American Forests and Paper Association sits on the agricultural policy advisory committee. All these committees advise the highest positions in the USTR including Charlene Barshefsky, the US Trade Representative. Only after putting forward a lawsuit have now two environmentalists been appointed to the ISACs committee.

7.2 The ‘race to the bottom’, economic impacts and forests

Invariably ‘lower cost centres’ are located in the South, some distance from the main markets in the North. Thus global trade will increase. The economic performance of companies will improve as they reap the benefits from lower costs of production. But all this will be achieved at great cost to forests, the environment and to people who live in these countries. Companies are at the forefront of the ‘race to the bottom’, and the age-old process of ‘globalisation’ – the cultural, economic and political integration across the world.

As Carrere and Lohmann conclude for the pulp and paper industry, “*globalisation and subsidisation advance hand in hand*”.⁹⁶ In Brazil, Chile, Indonesia, Thailand and elsewhere, subsidies (together with low paid labour, weak environmental laws and the fact that plantation trees grow faster in these locations) have persuaded companies to expand plantations in the South, often bringing them into conflict with indigenous people. For example, planned and actual investments in Indonesia have included Scott Paper in West Papua, Enso in Kalimantan and UPM-Kymmene in Sumatra; in Chile, they include International Paper, Bois Cascade and Mitsubishi; and in Brazil, Champion International and Oji Paper.

The process described in Box 7 is not restricted to paper companies. In the late 1980s, the Government of Guyana announced a new investment code, which was probably one of the most liberal in South America, if not the world. Not only did this code welcome foreign companies with open arms, it also offered a wide range of fiscal incentives. TNCs have acquired thousands of square kilometres of concessions in a country where there is almost a complete lack of environmental and social legislation or regulation, with serious impacts on Amerindian communities.^{97,98}

The US Trade Representative also believes that trade liberalisation will bring benefits to consumers by increasing choice.⁹⁹ However, with the number of mergers taking place, this has led Consumer International to conclude: “*Whilst the Uruguay Round contained some liberalisation measures which could benefit consumers, the package overall may be having a negative impact because of its*

Box 8 **Race to the bottom – an example of Mexico** (see also box 7)

The ‘race to the bottom’ is graphically illustrated in Mexico. In the mid 1990s, after the devaluation of the peso, it was expected that US demand for Mexican forest products would increase and remain strong. Yet Mexico’s ability to provide high quality exports remained uncertain; this situation was expected to change as more US producers shifted their production centres to Mexico and began exporting to the US.¹⁰⁰ It is reported that since Mexico joined NAFTA in 1994, “*fifteen US wood product companies set up operations in Mexico, and much of their investment is in regions processing some of North America’s largest remaining intact forests. Forest protection was given no consideration by those who drew up NAFTA, but its effect is the voracious demand for wood-fiber packaging created by the maquiladoras, the export-oriented factories that line the US-Mexico border*”.¹⁰¹

The maquiladoras sector in Mexico is infamous for transnational companies taking advantage of lower wages and weaker environmental and labour standards. Mexico is now planning to triple the production capacity of its forestry sector to serve the booming demand for wood-fibre for packaging in the maquiladoras sector. Boise Cascade established operations in Mexico in the mid 1990s as environmental legislation in the US became stricter and forest resources were becoming increasingly depleted; they were able to take advantage of this situation due to the recent signing of NAFTA.¹⁰²

Furthermore, in order to join NAFTA, Mexico began the process of privatising its forests, the majority of which are owned by communal land holdings, called *ejidos*, or in indigenous reserves.

impact on consumer rights. . . it has increased the global concentration and the market power of large multinational corporations. This has tended to reduce competition, and therefore choice and value for money for consumers, rather than increasing it, undermining the basis for consumer support for trade liberalisation".¹⁰³

7.3 Conclusions and recommendations

The growing concentration of power and influence in the hands of a few companies has implications economically, politically, for the environment and people, and for consumers. Global regulation of TNCs is required – many important issues simply go unrecorded or unchecked (e.g. illegal activities and anti-trust behaviour).

Global regulation should be negotiated in a more open forum such as the United Nations; it should retain governments' ability to screen and condition foreign investment projects (i.e. if necessary limiting their control to natural resources); promote local, small-scale economic activity; set strong standards; restrict inflows and outflows of speculative capital; investigate illegal activities and anti-trust behaviour; and oversee a system that severely restrains the ability of TNCs to set and challenge standards.

At the same time, greater participation of NGOs and indigenous peoples representatives in advisory bodies or at relevant meetings is required. The unbalanced access of companies to key decision makers within governments or institutions such as the WTO needs to be challenged both at national and international level.

8 Recommendations

8.1 General recommendations

Forest NGOs should play a more prominent role in the trade liberalisation debate where the forest products sector is concerned. However, we believe that other sectors, such as agriculture, might have an even greater impact on forest loss. In addition, issues such as structural adjustment and the consolidation of the corporate sector (with increasing political influence) should not be left out. The direct impact on forests and forest peoples of these issues is likely to be even greater than that of trade liberalisation in the forest products sector.

8.2 Sustainability Impact Assessments

Any new trade agreements, specifically in the forest, mining and agriculture sectors, should be preceded by a comprehensive assessment of the environmental and social effects of trade on forests and forest peoples. This includes the development and implementation of preventative or mitigation measures to address potential negative effects on forest ecosystems and communities.

A review of the environmental and social impacts of trade agreements should not be limited to WTO-led trade liberalisation. It is also essential to assess the impacts of bilateral and regional trade agreements, as well as Structural Adjustment Programmes, on the world's forests. Governments, in co-operation with relevant international organisations, should conduct such sustainability impact assessments.

8.3 Trade liberalisation

Tariffs

Trade liberalisation is, in itself, neither good nor bad for forests and forest peoples. However, in the absence of appropriate policies guaranteeing the sustainable management of forests, further tariff liberalisation in the forest products sector will exacerbate current trends of forest loss and increase land conflicts with local communities and indigenous peoples. NGOs should therefore oppose any proposal for further tariff liberalisation.

Tariff escalation should be reduced and ultimately eliminated, although tariffs themselves should not necessarily be reduced. Tariffs on raw material could be increased thereby increasing, and to some extent, internalising the environmental and social costs of production and consumption.

NTMs

Further research is needed on the economic, social and environmental impacts of eliminating non-tariff measures (NTMs), seen as hindering free trade. The potential negative impact on forests of the liberalisation of NTMs could be significant. Governments have a responsibility to ensure that WTO rules do not restrict the use of environmental NTMs that are in place to inform consumers or protect the environment.

Governments and NGOs should take a pro-active approach in the discussion on defining NTMs. Further research is needed on the impact of different types of NTMs used in the forest products sector from an environmental, social and economic perspective.

Subsidies given by governments to develop forestry industries are an area of particular concern. Worth at least six billion dollars worldwide, they amount to a form of NTM that can be both trade distorting and environmentally harmful. Further research into the nature of forestry subsidies and elimination of environmentally and socially harmful subsidies is essential.

Certification is a hotly contested area within the WTO with no clear outcome yet. NGOs should closely monitor this debate and be prepared to influence the debate once voluntary non-governmental certification schemes, such as the FSC, might come under attack within the WTO framework. Governments should commit themselves to a process of clarification of WTO rules to ensure these do not interfere with the rights of consumers to make informed choices.

Agriculture

The current system of high protectionist tariffs, combined with high domestic subsidies, both within the EU and the US, is unacceptable and will have to be changed. Governments and NGOs should engage in the debate over the liberalisation of tariffs on oil palm, soya and beef, as these are likely to have a serious impact on forests and forest peoples.

Governments should closely examine the links between agricultural liberalisation and forest loss, and ensure that trade agreements in this sector are preceded by a proper assessment of trade and non-trade related impacts. Preventative measures and mitigation policies stemming from these assessments should be an integral part of new negotiations on trade in agriculture.

NGOs should pro-actively support land rights campaigns, community building and local democracy initiatives of indigenous peoples and local communities living in or close by forest areas. Close co-operation with indigenous peoples fighting for land demarcation and land rights is essential.

8.4 Trade related activities

Structural Adjustment

Structural Adjustment Programmes (SAPs) should be assessed against environmental and social impact criteria. Governments should, in co-operation with relevant international organisations, conduct such assessments. As indigenous peoples will be affected, measures to encourage local democracy and support community participation should be built into the terms of reference and the elaboration of any Structural Adjustment Programme.

Companies, investments and forests

The growing concentration of power and influence into the hands of a few TNCs companies has economic, as well as political implications. Global regulation of TNCs is required – many important issues simply go unrecorded or unchecked (e.g. illegal activities and anti-trust behaviour).

Any global regulation should retain the opportunity for governments to screen and place conditions on foreign investment projects (i.e. if necessary limiting their control to natural resources); promote local, small-scale economic activity; set strong standards; restrict inflows and outflows of

speculative capital; investigate illegal activities and anti-trust behaviour; and oversee a system that severely restrains the ability of TNCs to set and challenge standards.

Greater participation of NGOs and indigenous peoples representatives in advisory bodies or at relevant meetings is required. The unbalanced access of companies to key decision makers within governments or institutions such as the WTO needs to be challenged both at national and international level.

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Footnotes

- 1 Forest products as a category refers to all wood based products and excludes 'non timber forest products' (NTFPs) such as rubber, berries etc.
- 2 Sizer, Kaimowitz and Downes; Tree trade; WRI, 1999
- 3 Sizer, *et al* (1999). *Op cit*
- 4 Bryant, Nielsen and Tanglely; The last of the frontier forests; Bryant; WRI 1997.
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- 9 UNDP Human Development Report, 1999, page 31
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- 21 To estimate the increase in forest products it would be interesting to compare it to a country in Asia eg Japan or India where the economy has grown by 10% a year over a couple of years and see the trend in forest product consumption.
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- 26 USTR (1999). *Op cit*.
- 27 In CTE (1997). *Op cit*.
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- 30 Forest Research (1999). *Op cit*. Page 67.
- 31 Kirckpatrick C and Nee N (1999). *WTO New Round: Sustainability Impact Assessment Reports*.
- 32 For some 'developing countries' the deadline can be extended to 2004.
- 33 The European Union has a common tariff level for all forest products. On most forest products the tariff level is zero, with the exception of some manufactured goods, such as builders joinery and carpentry wood (2.1%), boards (4.9%) and plywood (7.0%), and also live trees (8.4%).
- 34 *Position paper of the Confederation of European paper industry* (CEPI) (1999): CEPI's position paper on the WTO Trade Round.
- 35 The Apec countries include: Australia, Brunei, Canada, Chile, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Thailand, United States, Vietnam, Russia and Peru.
- 36 The Apec countries include: Australia, Brunei, Canada, Chile, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Thailand, United States, Vietnam, Russia and Peru.
- 37 See also page 13, Chapter 3.3.
- 38 Forest Research (1999). *Op cit*.
- 39 The Apec study (Forest Research (1999). *Op cit*) defines NTMs as: "Government laws, regulations, policies and or practices which either protect domestically produced products from the full weight of foreign competition or artificially stimulate exports of particular domestic products". The same study however notes that "definitions of NTMs are contentious. There is a diversity of opinion over what is or is not an NTM, based on the experience of the concerned party."
- 40 Barbier (1996). *Op cit*.
- 41 Forest Research (1999). *Op cit*.
- 42 Forest Research (1999). *Op cit*.
- 43 Meyers N (1999). *Perverse subsidies, Tax\$s undercutting our economies and environments alike*.
- 44 Sizer N (2000). *Perverse habits: the G8 and subsidies that harm forests and ecosystems*. WRI.
- 45 Forest Research (1999). *Op cit*. Page 58.
- 46 Rice T and Counsell S (1993). *Forests Foregone: The European Community's Trade in Tropical Timbers and the Destruction of the Rainforests*. Friends of the Earth, London. Page 100.
- 47 Forest Research (1999). *Op cit*. Page 58.
- 48 Forest Research (1999). *Op cit*. Page 62.
- 49 PER (1992). The future of people and forests in Thailand after the logging ban.
- 50 Log imports from Russia into China increased from 1,591,272 in 1998 to 4,304,946 in 1999. Source: Recent China-Russia timber import, Lu Wenming, professor Chinese Academy of Forestry.
- 51 Armitage Consulting. *Op cit*.
- 52 Sizer *et al* (1999). *Op cit*.
- 53 Menotti V (1999). *Op cit*. Page 17.
- 54 Sizer *et al* (1999). *Op cit*. Page 6.
- 55 Forest Research, 1999. *Op cit* Page 83.

- 56 Forest Research, 1999. *Op cit.* Page 83: "Environmental measures, such as certification, are considered to be outside the influence of GATT/WTO. In the language of trade negotiators trade restrictions are confined to formal institutional measures that restrict trade and are the subject of normal international trade negotiations. Certification appears to fall outside this ambit".
- 57 Canada's communication to the WTO on Trade and Environment WT/GC/W/358.
- 58 GATT article III: "National treatment on international taxation and regulation".
- 59 Personal communication with David Stewart Christy, Jr; Kaye Scholer; Washinton DC.
- 60 Forest Research, 1999. *Op cit.* Page 92.
- 61 EU submission called for: "continued efforts by countries and the WTO to liberalise trade and to improve market access, including for sustainably managed forest products and services, with special attention to substantially reducing tariffs as well as non-tariff measures that restrict or distort trade while allowing for the optimal use of the world's resources in accordance with the objectives of sustainable management." It further urges: "countries, international organisations [including WTO] and other interested parties to undertake as appropriate, further co-operative work on voluntary certification and/or labelling schemes, in line with the recommendations of IPF while seeking their international compatibility and considering their equivalence...".
- 62 In a private meeting during the Ministerial at which Fern was present, Barbara Norton, the USTR lead negotiator for forest products, explained that any ATL discussion would also include discussion of NTMs.
- 63 David Sandalow, Assistant Secretary of State for Oceans, Environment and Science, speaking on 6 January 2000 on Protecting and Conserving the World's Forests, to the National Press Club, Washington DC. www.state.gov/www/policy_remarks/2000/000106_sandalow_forests.html
- 64 Declaration of Principles on trade and environment, November 1999.
- 65 Article 11 of GATT: "General Elimination of Quantitative Restrictions"
- 66 Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, South Africa, Thailand and Uruguay.
- 67 Franz Fischler, EU Commissioner for Agriculture stated: "Providing supplementary support of over \$15,000 m to US farmers severely undermines the credibility of the frequent US statements on the need for a global reduction in agricultural support. In fact, US direct support to agriculture has increased by about 700% since 1996. Time and again the US denounces other countries, in particular the EU, for providing support to their farmers while at the same time, year after year, they provide special financial packages for their own farmers, over and above that already foreseen under the FAIR Act". Statement by Franz Fischler, 21 June 2000.
- 68 Lal Das B (1998). *The WTO Agreements: Deficiencies, Imbalances and Required Changes*. Third World Network, Zed Books, London and New York.
- 69 AAFC (1998). *An Evaluation of Oilseed Trade Liberalisation*. Agriculture and Agri-food Canada.
- 70 CEC (1999). *Prospects for Agricultural Markets 1999-2006*. European Commission, Brussels.
- 71 OECD, 1999. *Agricultural Policies in OECD Countries: Monitoring and Evaluation 1999*. Organisation for Economic Co-operation and Development, Paris, France.
- 72 Baraclough, Krishna & Ghimire (2000). *Agricultural Expansion and Tropical Deforestation*. Earthscan, London.
- 73 Baraclough et al. *Op cit.*
- 74 Presented at the IFF intersessional on underlying causes, Costa Rica January 1999.
- 75 Baraclough et al. *Op cit.*
- 76 Argentina, Brazil, Paraguay and Uruguay.
- 77 Financial Times 23.11.00: China signals interest in trade pact
- 78 Algeria, Egypt, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia.
- 79 Art. 36.1 and 36.2.
- 80 Lyke J (1998). 'The impact of NAFTA on US forest products trade'. *Forest Products Journal*. Jan 1988.
- 81 Guerero M.T and de Villa F (2000). 'The Forestry Industry in the state of Chihuahua, economic, ecological and social impacts post NAFTA'. Paper presented to a seminar on Understanding the linkages between trade and environment by the North American Commission for Environment Co-operation.
- 82 Charlene Bashefski, 3 May 2000. China's WTO Accession and Permanent Normal Trade Relations.
- 83 In November 1999, a ministerial meeting in Toronto brought together 34 trade ministers from North, Central and South America, to adopt a negotiating agenda for the next 15 months. Nine negotiating groups (covering different thematic issues, such as market access, intellectual property, and competition policy) will submit draft text for the agreement at the ministerial meeting in April 2001 in Quebec, Canada. Hence, preliminary negotiations will intensify in the year 2000. A Committee of Government Representatives on the Participation of Civil Society was established to enable civil society input in the negotiating process.
- 84 See Kaimowitz, Erwidodo, Pacheco & Sunderlin (1998). *Considering the impact of structural adjustment policies on forests in Bolivia, Cameroon and Indonesia*. Unasylva, 1998:49. Also see WWF's programme Macroeconomics for Sustainable Development Program Office (MPO) at <http://www.panda.org/resources/publication/sustainability/mpo/index.shtml>.
- 85 Sizer and Plouvier (2000). *Increased Investment and Trade by trans-national logging companies in the ACP countries*; WWF-WRI.
- 86 Kaimowitz et al (1999). *Op cit.*
- 87 Hogg D (1993). *The SAP in the forest: the Environmental and Social Impacts of Structural Adjustment Programmes in the Philippines, Ghana and Guyana*. Friends of the Earth, London.
- 88 A good example is the Philippines. See Hogg (1993). *Op cit.* Pages 84 to 85.
- 89 Kaimowitz, Erwidodo, Pacheco & Sunderlin (1998). *Considering the impact of structural adjustment policies on forests in Bolivia, Cameroon and Indonesia*. Unasylva, 1998: 49.
- 90 Kaimowitz et al (1999). *Op cit.*
- 91 UNEP (1999). *Environmental Impacts of Trade Liberalisation and Policies for the Sustainable Management of Natural Resources: A Case Study on Bangladesh's Shrimp Farming Industry*. United Nations Environment Programme.
- 92 Lyke J (1998). *Op cit.*
- 93 FoE (1992). Plundering Ghana's rainforests for illegal profit.
- 94 Menotti V (1999). *Free trade, free logging*. IFG US.
- 95 Companies in Canada have argued against the endangered species legislation and subsequently the British Columbia forest code was amended to take on board industry concern over cost implementation.

- 96 Carrere R and Lohmann L (1996). *Pulping the South*. Zed Books, London, 1996.
- 97 Hogg (1993). *Op cit*. Pages 139 to 148.
- 98 Colchester M (1997). *Guyana: Fragile Frontier*. Forest Peoples Programme, Pages 123 and 144.
- 99 USTR (1999). *Accelerated Tariff Liberalisation: Forest Products*. Submission to the WTO (Addendum), WT/GC/W/138/ Add.1.
- 100 Lyke J (1998). 'The Impact of the North American Free Trade Agreement on US Forest Products Trade with Canada and Mexico: An Assessment'. *Forest Products Journal*, Vol 48, No 1.
- 101 Menotti V (1999). *Globalization and the Acceleration of Forest Destruction since Rio*. WRM bulletin.
www.wrm.org.uy/english/tropical_forests/globalization.html
- 102 EIA (1996). *Corporate Power, Corruption and the Destruction of the World's Forests*. The Environmental Investigation Agency, London.
- 103 Consumer International (1999). *Consumer Rights and the Multilateral Trading System: What needs to be done before a Millennium Round*. Consumer International, UK.