

GENEVA TIMBER AND FOREST DISCUSSION PAPERS

**TRADE AND ENVIRONMENT ISSUES
IN THE FOREST AND FOREST PRODUCTS SECTOR**

By
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Another objective of the Discussion Papers is to stimulate dialogue and contacts among specialists. Comments or questions should be sent to the secretariat, who will transmit them to the authors.

Trade and Environment Issues in the Forest and Forest Products Sector

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Preface by the Secretariat

Issues which can be loosely grouped under the heading “trade and environment in the forest and forest products sector” have been some of those most passionately and intensely discussed in international forums throughout the 1990s. For that reason, the UN/ECE Timber Committee, which has a mandate to monitor and analyse all major developments in the sector, organised a special topic at its session in September 1999.

Four high-level speakers presented their points of view on the issues. These presentations were followed by a general discussion (see ECE/TIM/1999/93 paras 17-18).

This document contains the texts and the presentations. These are preceded by an overview and synthesis of the issues, based on the presentations and other documents prepared by Franziska Hirsch, an intern in the UN/ECE Trade Division. The four presentations and the synthesis reflect the opinions of their authors only. The Timber Committee itself made no final statement of its opinion.

The Committee, with its partner body, the FAO European Forestry Commission, will decide whether it will undertake further activities on trade and environment at their joint session in Rome in October 2000, when they will be able to take into account recent developments, notably the conclusions of the Intergovernmental Forum on Forests and the UN Commission on Sustainable Development.

The Secretariat wishes to express its gratitude to the four speakers for their interesting presentations and to Ms. Hirsch for her precise and balanced overview on the issues.

Foreword

This Discussion Paper was written as a follow-up to the special topic discussion on “Trade and Environment Issues in the Forest and Forest Products Sector” in the course of the 57th Session of the UN/ECE Timber Committee in Geneva on 29 September 1999.

Four speakers presented their views on the topic – Dr. Carol Cosgrove-Sacks, Director of the UN/ECE Trade Division, Mr. Jan-Eirik Sørensen, Director of the WTO Trade and Environment Division, Mr. Charles Arden-Clarke, Head of the WWF Trade and Investment Unit and Mr. Albert Fry of the World Business Council for Sustainable Development (WBCSD).

This paper presents an unbiased overview of topics relevant to the trade and environment debate and the speaker’s opinions and statements on them.

Written speeches have been received from Mr. Sørensen and Dr. Cosgrove-Sacks, partial speaking notes were submitted by Mr. Fry (attached in the back of this document). The parts on Mr. Arden-Clarke’s opinion are based upon the points he mentioned during the Timber Committee’s session, as his speech was not submitted.

Trade and Environment Issues in the Forest and Forest Products Sector

by Franziska Hirsch¹

1. Global trade, sustainable development, and UN/ECE

As trade becomes more and more global, the issue of its effects on the environment finds more and more public consideration.

Globalisation results in larger trade volumes between nations. But are increasing international trade flows compatible with sustainable development?² This is one of the most pressing questions confronting governments and civil society all over the world.

In 1989, the UN General Assembly called for a meeting of nations on sustainable development. As a result, the United Nations Conference on Environment and Development (UNCED) took place in Rio de Janeiro in 1992. UNCED insisted that environmental, economic and social development policy objectives could no longer be considered separately. AGENDA 21 - an UNCED-approved plan for attaining sustainable development in the 21st century - enshrined these principles and provided the underlying logic for the debate on trade and environment.

Dr. Cosgrove-Sacks, Director of the UN/ECE Trade Division, highlighted during her presentation the Economic Commission for Europe's concern to promote best practice in the sustainable management of the forests in the ECE region. The idea of integrated sustainable development has always been central to forest policy.

Some items of the existing work programme of the UN/ECE Timber Committee are already contributing to the understanding of trade and environment issues, such as the constant monitoring of market and trade patterns by the Secretariat and the Committee itself. When trade policy measures are relevant, they are reported and discussed. Some of the information collected by the Timber Committee, notably in the context of Temperate and Boreal Forest Resource Assessment 2000 (TBFRA-2000) may serve as quantitative indicators of sustainable forest management (at the national level). Markets for certified forest products and the status of forest certification in the ECE region are also monitored by the Committee on a continuing basis. The Joint FAO/ECE/ILO Committee is focussing more strongly on questions linked to the environmental and socio-economic aspects of sustainable forest operations. An example is the guidelines under discussion for reducing the environmental impact of forest operations.

The region of the Economic Commission for Europe covers more than ninety-five per cent of global temperate and boreal forests. As stated by Dr. Cosgrove-Sacks, the regional Commission's focus is on these forests – and on the wood and non-wood products which they produce. She claims that the temperate and boreal forests of the UN/ECE region constitute one of the most important renewable resources for many of its member countries. The forests of States like Canada, Russia, USA, Sweden and Finland contribute very significantly to the economies of these countries. They provide substantial employment, support the physical infrastructure of many rural regions, account for considerable export revenue and tourism income. Also in countries where the forest sector is relatively less important, forests

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² In 1978, the World Commission on Environment and Development (WCED) defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

and the industries and markets connected to them play a significant role in land use (on average a third of the land area), the rural economy, biodiversity, recreation etc.

The Director of the UN/ECE Trade Division highlighted that many UN/ECE member States with economies in transition are confronted by great challenges in developing economic gains from their forest resources. She claims that Russia, as the host of the world's most extensive natural forests, faces particularly difficult problems in promoting the sustainable development of what potentially could become one of its principal renewable export sources. She stated that "UN/ECE has a special responsibility for promoting the sustainable development of the forests throughout the transition economies."

2. Links between trade and the environment – contrasting views

The links between trade and deforestation and degradation of global forests is an issue which has been discussed in various international forums, including UNCED, the International Tropical Timber Organisation (ITTO), the Intergovernmental Panel on Forests (IPF) and the Intergovernmental Forum on Forests (IFF). In 1992, UNCED reached agreement on "Non-legally binding authoritative statement of principles for a global consensus on the management, conservation and sustainable development of all types of forests" (the so-called "forest principles"). Principles 13 and 14 are of relevance to trade and environment issues:

Principle 13 of the Forest Principles

- (a) Trade in forest products should be based on non-discrimination and multilaterally agreed rules and procedures consistent with international trade law and practices. In this context, open and free international trade in forest products should be facilitated;
- (b) Reduction or removal of tariff barriers and impediments to the provision of better market access and better prices for higher value-added forest products and their local processing should be encouraged to enable producer countries to better conserve and manage their renewable forest resources;
- (c) 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;
- (d) Forest conservation and sustainable development policies should be integrated with economic, trade and other relevant policies; and
- (e) Fiscal, trade, industrial, transportation and other policies and practices that may lead to forest degradation should be avoided. Adequate policies, aimed at management, conservation and sustainable development of forests, including where appropriate, incentives, should be encouraged;

Principle 14 of the Forest Principles

Unilateral measures, incompatible with international obligations or agreement, to restrict and/or ban international trade in timber or other forest products should be removed or avoided, in order to attain long-term sustainable forest management.

The linkages between trade and environment are numerous and complex. There are many differing, even contrasting, views on these linkages.

2.1 The Multilateral trading system – removing trade restrictions and distortions

The prevailing view of the World Trade Organisation (WTO) is that free trade stimulates economic growth, which again supports sustainable development.

Mr. Sørensen, Director of the WTO Trade and Environment Division, mentioned in his presentation that a study completed by the WTO Secretariat on specific sectors, including forestry, noted a positive relationship between the removal of trade restrictions and distortions and improved environmental quality. The study found that:

- ❑ Enhanced competition would lead to more efficient factor-use and consumption patterns.
- ❑ Trade expansion and encouragement of a sustainable rate of natural resource exploitation would result in poverty reduction.
- ❑ Market liberalisation would increase the availability of environment-friendly goods and services.
- ❑ A continuing process of multilateral negotiations would ensure better conditions for international cooperation.³

The Intergovernmental Panel on Forests (IPF) found that deforestation is primarily linked to factors other than international trade, such as changing production patterns, expanding demand for food, land tenure patterns, expansion of subsistence agriculture and the demand for fuelwood and charcoal to meet basic energy needs.⁴ Mr. Sørensen claims that to the extent deforestation is linked to low incomes per capita and poverty, it can be determined that additional economic benefits to poorer countries have environmental benefits.

The WTO Committee on Technical Barriers to Trade, established as a result of the Uruguay Round Negotiations, aims at the reduction of unnecessary trade obstacles. The organization's Agreement on Technical Barriers to Trade (TBT Agreement)⁵ establishes disciplines on the preparation, adoption and application of technical regulations, standards and conformity assessment procedures that might act as technical trade barriers.

2.2 The Compatibility between multilateral trade and multilateral environmental agreements

Environmental non-governmental organizations such as the World Wildlife Fund (WWF) argue that while offering new freedoms to multinational corporations, multilateral trade agreements can also impose sharp limits on the ability of governments to regulate trade and other non-trade issues such as environmental protection.

They claim that trade rules themselves can directly influence environmental policy-making by the treatment of environmental regulations as "barriers to trade".⁶ In this context, Mr. Arden-Clarke, Head of the WWF Trade and Investment Unit, mentioned the examples of the Dolphin-Tuna and Turtle-Shrimp dispute rulings by the General Agreement on Tariffs and Trade (GATT) and its successor WTO:

The Tuna-Dolphin dispute took place in the early 1990s. Mexico had complained to the GATT about the U.S.A.'s ban on imports of tuna caught in nets that kill dolphins. The GATT ruled against the United States of America because of the use of discriminatory sanctions to achieve the protections of dolphins; it suggested the alternative of labelling dolphin-safe tuna as such.

The United States did not only attempt to protect dolphins, but also turtles. In 1996, the USA extended a ban prohibiting US fishermen from using nets without turtle excluder devices to all countries

³ WTO document WT/CTE/W/67

⁴ IPF (1997), Report to the fifth session of the CSD, New York (E/CN.17/1997/12); IPF (1996), Report of the Secretary General on the underlying causes of deforestation and forest degradation, New York, (E/CN.17/IPF/1996/15).

⁵ WTO Agreement on Technical Barriers to Trade <http://www.wto.org/wto/goods/tbtagr.htm>

⁶ WWF Publication: Sustainable Trade for a Living Planet. Reforming the World Trade Organisation.

exporting shrimp to the United States. India, Malaysia, Pakistan and Thailand took the case to a WTO dispute panel which interprets WTO rules. The panel ruled the USA ban illegal.

The WWF criticises the WTO for ruling in favour of free trade over the environment; accuses it of only focusing on trade liberalisation and enforcing the belief that “If trade is good, more trade is better.”

As stated in Article XX to the GATT Agreement, the WTO does have the power to exempt free trade rules for conservation reasons:

Article XX of the GATT Agreement

“Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures.

...

(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restriction on domestic production or consumption.”

At the same time, the WTO commits itself to promoting trade that is environmentally responsible and that encourages sustainable development. In the preamble to the Agreement establishing the WTO, it is stated that members’ “relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the *optimal use of the world’s resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment* and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.”

The WTO Committee on Trade and Environment (CTE), established during the organization’s first Ministerial Conference in Marrakech 1994, assesses the environmental benefits of removing trade restrictions and distortions. It has been given the function of identifying the relationships between trade and environmental measures in order to promote sustainable development, and to make recommendations on whether any modifications to the provisions of the multilateral trading system are required.

Mr. Sørensen mentioned that in its report to the second WTO Ministerial Conference in Singapore 1996, the CTE agreed that WTO members must not use trade restrictions as punitive measures to force countries to raise their environmental standards, such as the U.S. American attempts to protect dolphins and turtles through discriminatory sanctions. The Head of the WTO Trade and Environment Division claims that punitive trade restrictions can cause harm to the trading system, without necessarily yielding environmental improvements.

The relationship between WTO provisions and trade measures applied pursuant to multilateral environmental agreements (MEAs) has been one area of particular focus in the CTE’s discussions. Mr. Sørensen considers it particularly important to the work of the Committee on Trade and Environment that it holds the key to the complementarities that exist between sound trade policy-making and sound environmental policy-making. But he also realises that its full potential has yet to be fully explored, both in the framework of possible market access negotiations in a next round, and in ensuring that the WTO is associated with positive efforts to promote environmental protection and accelerate sustainable development in developing countries.

As stated by Dr. Cosgrove-Sacks, a decision on the compatibility between WTO rules and those of the MEAs is also of particular concern to UN/ECE member States.

3. Measures affecting trade in the forest and forest products sector

A number of measures affect trade in all sectors including the forest and forest products sector, such as tariff levels and tariff escalation, subsidies and labelling. Certification that a product comes from a sustainably managed forest is a particular issue for the sector.

3.1 Tariff levels

Dr. Cosgrove-Sacks underlined UN/ECE member countries' concern about the effect of tariff structures on the sustainable development of forest resources in the region.

Both the WTO and the WWF agree that export bans and taxes are ineffective and cannot contribute to the efficient management of forest resources.

Mr. Arden-Clarke claims that export restrictions are often a result of tariff escalations. The World Wildlife Fund agrees with the World Trade Organization that protectionist measures should be removed, tariff escalation should be dismantled. Tariff escalation is presumed to be bad for the sustainable management of forests, but, in Mr. Arden-Clarke's opinion, there is little convincing evidence.

At the same time, Mr. Arden-Clarke is concerned that further trade liberalisation may result in an increase in paper consumption. He cited research of the American Forest and Paper Association which suggests that paper production could increase globally by 2 – 4 per cent, if the accelerated tariff liberalisation proposal on the forest products sector by the United States was implemented. Accelerated tariff liberalisation proposals to the WTO are also supported by Canada and New Zealand.

Mr. Fry of the World Business Council for Sustainable Development argues that increased consumption of wood and wood products may even be good for sustainable development. The resource is renewable and, as far as he is concerned, reforestation is a net gain for the environment, for biodiversity habitat, and for carbon sequestration. In his opinion, mandatory recycling quotas may be negative for the environment and are definitely negative for developing countries, since they exclude them from markets where they have a clear competitive advantage.

3.2 Subsidies

UNCED generally supports the view that protectionism in trade would have greater negative consequences for environmental conservation than would liberalisation of trade. Dr. Cosgrove-Sacks mentioned the example of agriculture in that context: Continued protection and subsidies for farmers in specific markets result in depressed world markets for agricultural commodities, thus limiting the scope for investment in sustainable farming.

Mr. Sørensen also argues against agricultural subsidies. From his point of view, the removal of land-clearing subsidies in particular may alleviate pressures to clear forests for agricultural purposes.

Furthermore, he claims that concessions on taxes and the terms of logging can constitute indirect or implicit subsidies. These can result in domestic overcapacity and overproduction, the operation of inefficient mills, and the unsustainable use of standing forests. The Director of the WTO Trade and Environment Division believes that potential environmental benefits may flow from removing domestic measures which limit exports. He explained that export taxes and restrictions on unprocessed timber are used by some timber-exporting countries to encourage forest-based industrialisation and that sometimes, these are reinforced by preferential treatment of domestic processing industries, such as supplying raw materials to local producers at lower than world market prices. Mr. Sørensen stated that "in certain cases they may be viewed as a means of compensating domestic processors for tariff escalation and other barriers faced in export markets." The UN Conference on Trade and Development (UNCTAD) found

that some results of using trade restrictions, such as export bans on logs, as a tool for encouraging higher value-added exports and conserving scarce forestry resources, have been discouraging.⁷

However, Mr. Sørensen stated that “in situations where sustainable forest management policies include improved land use objectives to achieve a wider range of benefits from forestry, measures to increase the value-added processing from timber can decrease pressure to harvest larger volumes.”

3.3 Eco-labelling

Both the WTO Committee on Trade and Environment and the Committee on Technical Barriers to Trade have addressed product environmental requirements, such as packaging, recycling, re-use, recovery, and disposal requirements, as well as environmental taxes and eco-labelling.

Mr. Sørensen mentioned that eco-labelling has been one of the most controversial aspects of the CTE's work. The CTE recognises that well-designed eco-labelling programmes can be effective environmental policy instruments which may be used to foster environmental awareness among consumers. However, Sørensen stated that eco-labels have also raised significant concerns regarding their possible trade effects, in particular for small and medium-sized enterprises: When eco-labels are successful in influencing consumer choice, and are necessary to maintain market share, production processes have to be altered as a result.

Eco-labelling schemes are different in their design. Some are based on a single criterion, others on life-cycle analysis, i.e. the consideration of the environmental effects of products starting from their process of production until their final disposal. Mr. Sørensen explained that life-cycle analysis is not easy to conduct in practice; labels following this approach are often based on criteria that relate to only a few aspects of a product or a process of production. Additionally, he mentioned that they are determined through consultation with interested parties at the national level. Mr. Sørensen further explained that a common complaint has therefore been that eco-labelling criteria focus mainly on local problems and neither address the views of foreign suppliers, nor the specific environmental situation of their countries; i.e. that eco-labels result in the imposition of environmental concerns of importing countries on the production methods of their trading partners.

The TBT Agreement applies to labelling requirements, both mandatory ones (referred to as 'technical regulations') and voluntary ones (referred to as 'standards'). Mr. Sørensen mentioned the CTE's concern that a large number of eco-labels are developed by non-governmental bodies, and are applied on a voluntary basis. In his opinion, this restricts the ability of other governments to influence their design. An issue raised in the Committee on Trade and Environment is how the transparency of eco-labelling schemes can be enhanced, including the extent to which they ensure the involvement of trading partners in criteria selection.

The Head of the WTO Trade and Environment Division mentioned that the CTE believes that environmental concerns vary across countries, and that the eco-labels developed by different countries need not be based on the same criteria. In the context of international trade, this raises also the issue of conformity assessment procedures – procedures that shall confirm that products fulfil the criteria used, such as testing, inspection and certification. Mr. Sørensen stated that in the opinion of some, it may be a possible means of reducing trade barriers if one accepts other countries' criteria as equivalent to one's own, and mutually recognises the results of conformity assessment procedures.

Mr. Sørensen explained that the extent to which the TBT Agreement applies to process and production-based labels - instead of to the product's characteristics themselves - is unclear. From his point of view, a major challenge to the effectiveness of the TBT Agreement is currently the increasing use of process-based, as opposed to product-based, regulations and standards. WTO members agree that

⁷ UNCTAD (1995), *Trade, environment and development lessons from empirical studies: the case of the Philippines*, Geneva.

process and production methods (PPMs) that have an impact on the final product (incorporated PPMs⁸) are allowed in the TBT Agreement. However, there is disagreement as to whether PPMs with no effect on the final product (unincorporated PPMs⁹) are allowed. Some WTO members (notably the United States) argue that eco-labels based on non-product related PPMs are covered by the TBT Agreement; some (notably the European Communities) believe they are not covered but should be; and others (many developing countries) believe that they are not covered and are actually inconsistent with the TBT Agreement.

The WWF believes that voluntary labelling should remain outside WTO rules, but that mandatory rules of a non-discriminatory nature should be allowed.

Dr. Cosgrove-Sacks highlighted UN/ECE member States' concern about how to integrate eco-labelling and life-cycle analysis into international timber supply chains. Another urgent question raised by the regional Commission's member countries is how schemes for environmental standards could be implemented cost-effectively and in a voluntary non-discriminatory way.

3.4 Forest certification

The issue of certification of sustainably managed forests also relates to the WTO Agreement on Technical Barriers to Trade. Mr. Sørensen claims that certification and labelling of forest products are considered to be complementary to forest management policies.

In the opinion of Messrs. Hansen and Juslin, forest certification can be described as “a certificate awarded by an independent party, verifying that the forests have been managed in accordance with principles of sustainability”.¹⁰ Certified forest products (CFPs) bear labels demonstrating in a verifiable manner that they come from forests which meet standards for sustainable management.¹¹ Forest products certification attempts to link international trade to the sustainable management of forest resources by encouraging users to purchase only products made from timber from sustainably managed forests.

There are different approaches to forest certification, for example the ISO 14000 EMS, the Forest Stewardship Council and the Pan-European Forest Certification System at the international level, and a wide range of national and local schemes.

The **ISO 14001** Environmental Management System (EMS) requires an audit of forest management systems against the specifications of this standard. Since this standard is non-sector specific, ISO 14061 was developed via a working group led by New Zealand to assist companies in applying ISO 14001 to forest management operations.

Opinions on the success of forest certification systems differ. Messrs. Hansen and Juslin claim that the ISO 14001 series has shortcomings as a market-based tool for improving forest management because it does not include environmental performance requirements or product labelling; and there are doubts about its market acceptance.¹²

⁸ An example of an incorporated PPM would be cotton grown using certain pesticides and which itself contains pesticide residues.

⁹ An example of an unincorporated PPM would be cotton grown using certain pesticides but which does not itself contain any pesticide residues. Sustainable forest management is an unincorporated PPM.

¹⁰ UN/ECE FAO Geneva Timber and Forest Discussion Papers, *The Status of Forest Certification in the ECE Region*, by Eric Hansen and Heikki Juslin, 1999, p. 3.

¹¹ UN/ECE FAO Timber Bulletin – Volume LII (1999), No. 3, *Forest Products Annual Market Review 1998-1999*, p. 105.

¹² UN/ECE FAO Geneva Timber and Forest Discussion Papers. *The Status of Forest Certification in the ECE Region*, by Eric Hansen and Heikki Juslin, 1999, p. 10.

The development of the **Forest Stewardship Council (FSC)**, an NGO founded in 1993, was largely led and continues to be supported by the WWF.¹³ FSC's approach is based on an audit of forests against regional standards based upon ten principles and criteria.

FSC Principles and Criteria¹⁴

PRINCIPLE #1: COMPLIANCE WITH LAWS AND FSC PRINCIPLES

Forest management shall respect all applicable laws of the country in which they occur, and international treaties and agreements to which the country is a signatory, and comply with all FSC Principles and Criteria.

PRINCIPLE #2: TENURE AND USE RIGHTS AND RESPONSIBILITIES

Long-term tenure and use rights to the land and forest resources shall be clearly defined, documented and legally established.

PRINCIPLE #3: INDIGENOUS PEOPLES' RIGHTS

The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognized and respected.

PRINCIPLE #4: COMMUNITY RELATIONS AND WORKERS' RIGHTS

Forest management operations shall maintain or enhance the long-term social and economic well-being of forest workers and local communities.

PRINCIPLE #5: BENEFITS FROM THE FOREST

Forest management operations shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits.

PRINCIPLE #6: ENVIRONMENTAL IMPACT

Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest.

PRINCIPLE #7: MANAGEMENT PLAN

A management plan -- appropriate to the scale and intensity of the operations -- shall be written, implemented, and kept up to date. The long term objectives of management, and the means of achieving them, shall be clearly stated.

PRINCIPLE #8: MONITORING AND ASSESSMENT

Monitoring shall be conducted -- appropriate to the scale and intensity of forest management -- to assess the condition of the forest, yields of forest products, chain of custody, management activities and their social and environmental impacts.

PRINCIPLE #9: MAINTENANCE OF HIGH CONSERVATION VALUE FORESTS

Management activities in high conservation value forests shall maintain or enhance the attributes which define such forests. Decisions regarding high conservation value forests shall always be considered in the context of a precautionary approach.

PRINCIPLE #10: PLANTATIONS

Plantations shall be planned and managed in accordance with Principles and Criteria 1-9, and Principle 10 and its Criteria. While plantations can provide an array of social and economic benefits, and can contribute to satisfying the world's needs for forest products, they should complement the management of, reduce pressures on, and promote the restoration and conservation of natural forests.

FSC's international labelling scheme for forest products provides a guarantee that the product comes from a well-managed forest. All forest products carrying the FSC logo have been independently certified as coming from forests that meet the FSC Principles and Criteria of Forest Stewardship. These

¹³ UN/ECE FAO Geneva Timber and Forest Discussion Papers. *The Status of Forest Certification in the ECE Region*, by Eric Hansen and Heikki Juslin, 1999, p. 10.

¹⁴ FSC Principles and Criteria Document 1.2 Revised January 1999, <http://www.fsoax.org/html/1-2.html>

criteria for forest management shall ensure that consistent performance-based standards are used in evaluating forest management practices through strict chain-of-custody monitoring. Because they are generic, the FSC facilitates development of specific standards in countries or regions around the world.

The forest inspections are carried out by a number of FSC accredited certification bodies, which are evaluated and monitored to ensure their competence and credibility. The Forest Stewardship Council has developed procedures and standards to evaluate whether these certification bodies can provide an independent and competent forest evaluation (certification) service. All accredited certification bodies may operate internationally and may carry out evaluations in any forest type.¹⁵

Mr. Sørensen of the WTO considers the Forest Stewardship Council to have been successful. Mr. Fry of the World Business Council for Sustainable Development does not fully agree with him. Mr. Fry highlighted that the FSC appears to have been a failure, because it has only certified 17 million hectares of forest during its existence, mostly in developed countries. In his opinion, this shows that the FSC “has been very slow to achieve a volume of wood from sustainably managed forests where it could ‘make a difference’”. Mr. Fry criticises that the Forest Stewardship Council has failed to provide any serious protection for “frontier forests” (i.e. natural forests). But he also thinks that the FSC should at least be considered a partial success, since it has emphasised the issue of certification resulting in the establishment of various competing national and regional certification systems.

The **Pan-European Forest Certification (PEFC) System**, launched in June 1999 by representatives of woodland owners and the forestry industry, aims to develop a pan-European framework for the mutual recognition of national forest certification schemes.

The PEFC is based on the six pan-European criteria (“Helsinki Criteria”) for monitoring and measuring sustainable forest management (SFM) which were developed through the Second Ministerial Conference in Helsinki in 1993 and elaborated into Operational Level Guidelines at the Third Ministerial Conference in Lisbon in 1998.

“Helsinki Criteria”	
as approved by the Second Ministerial Conference in Helsinki in 1993	
1.	Maintenance and appropriate enhancement of forest resources and their contribution to global carbon cycles
2.	Maintenance of forest ecosystem health and vitality
3.	Maintenance and encouragement of productive functions of forests (wood and non-wood)
4.	Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems
5.	Maintenance and appropriate enhancement of protective functions in forestry management (notably soil and water)
6.	Maintenance of other socio-economic functions and conditions

Based on these six criteria, PEFC defines the basic requirements of forest certification and sets up the institutional arrangements at pan-European, national and sub-national levels. The PEFC certification process is subject to independent third party auditing. Participating countries or regions will be able to develop their own national certification systems, at the same time adhering to the PEFC Criteria for SFM.¹⁶

¹⁵ To date, FSC has accredited six certifiers: Scientific Certification Systems and SmartWood from the US, SGS Qualifor and The Soil Association from the UK, SKAL from the Netherlands, Institut für Marktökologie from Switzerland.

¹⁶ UN/ECE FAO Timber Bulletin Volume LII (1999), No. 3. Forest Products Annual Market Review 1998-1999. United Nations New York and Geneva, 1999 (ECE/TIM/BULL/52/3).

In particular, the PEFC has obtained the support of European non-industrial private forestland owners, who have been critical to other certification systems such as the FSC, because their criteria are difficult to apply to forestry ownership patterns in Europe (small areas of woodland). Thus, the pan-European scheme has the potential to greatly increase the supply of CFPs on the European market.

Mr. Sørensen mentioned the concern about the additional costs of auditing, monitoring certification and labelling. All approaches have the intention of supporting marketing efforts in countries where environmental factors may influence consumers' purchasing decisions. Studies suggest that the demand for certified and labelled forest products is small and concentrated in a narrow market segment. The Food and Agriculture Organization of the United Nations (FAO) finds that the actual trade impact of certification and labelling has apparently been very small.¹⁷ Furthermore, the FAO notes that of greater concern than the actual trade effects of these schemes is the uncertainty which may exist for exporters concerning the role of such schemes in determining market access.¹⁸

Dr. Cosgrove-Sacks highlighted the concern of UN/ECE member States to prevent certification from limiting export opportunities for forest products.

4. The benefits of sustainable development

Mr. Fry is of the opinion that sustainable development yields benefits for the environment. He claims that well managed sustainable plantations can improve the environment. He considers the Aracruz plantations in Brazil to be an example of such a win-win situation. They were established on degraded lands which had been deforested in the 19th century and failed as farmland in the 20th century. 71 per cent of the land has been reforested and is now managed sustainably, providing improved habitat for biodiversity.

Sustainable development is not only beneficial for developed countries. Mr. Sørensen mentioned in his presentation that in the 1990s, the global market for forest products was largely dominated by developed countries – trade flows between them comprised ca. 85 per cent of total exports and imports of all types of forest products, with the exception of industrial roundwood.¹⁹

Mr. Fry highlighted that sustainable development can also mean poverty alleviation and giving developing countries a chance to work their way out of poverty. In his opinion, sustainably managed plantations can produce jobs, economic growth, and better quality of life for employees. He stated that the development at Aracruz, for example, has had desirable outcomes for its employees and the nearby villages and farmers.

5. Pursuing sustainability in the new millennium

The trade and environment debate and the pursuing of sustainable development in connection with it will continue to play an important role in the immediate future.

Recently, especially in the lead-up to the Third WTO Ministerial Conference in Seattle that took place from 30 November to 3 December 1999, many non-governmental organisations have keenly asserted their concern for threats to the forest environment posed by over-exploitation of the world's

¹⁷ FAO (1997), "Forest Products Certification", Forestry Information Notes, Rome ; IPF (1996), Trade and environment relating to forest goods and services, (E/CN.17/IPF/1996/22); and P. Varangis, C. Primo Braga and K. Takeuchi (1993), Tropical timber trade policies: what impact will eco-labelling have?, Washington: World Bank.

¹⁸ FAO (1997), "Forest Products Certification", Forestry Information Notes, Rome.

¹⁹ UNCTAD (1996), Implications of the Uruguay Round for Trade in Wood and Wood Products, Geneva.

forest resources. The issue of trade in connection with the environment is thus likely to be prominent in the future work of the WTO.

Mr. Sørensen mentioned in his speech that Japan has stated that “the attainment of sustainable forest management is one of the important challenges to the world. In negotiations on trade in forestry products, careful consideration must be given so that sustainable forest management should not be hindered. (...) Also, global disciplines should be established for enhancing public benefits of forests through a sound maintenance and development of the forestry and wood industry in both exporting and importing countries.”²⁰

Other international organisations will also have to find solutions to the answer how to ensure the sustainable management of the world’s forest resources and the protection of the environment.

The fourth session of the Intergovernmental Forum on Forests, IFF4, will take place in New York from 31 January to 11 February 2000. The Forum will adopt a report on its work to be submitted to the UN Commission on Sustainable Development (CSD) at its eighth session in April 2000, and to include recommendations for further actions and perhaps international arrangement and mechanism on forests beyond the year 2000.²¹

The meeting of the CSD in 2002, the so-called “Earth Summit 3”, will also be a major forum for the trade and environment debate.

After the special topic discussion, the UN/ECE Timber Committee asked its bureau to prepare a proposal for future work on trade and the environment, if any, in May 2000, taking into account the results of IFF 4. This proposal will be discussed in October 2000 at the joint session of the Timber Committee and the FAO European Forestry Commission.

²⁰ Negotiations on Forestry and Fishery Products , Communication from Japan WT/GC/W/221, 28 June 1999.

²¹ Fourth Session of the Intergovernmental Forum on Forests. Report of the Secretary General. E/CN.17/IFF/2000/4 Category III - International Arrangements and Mechanisms to Promote the Management, Conservation and Sustainable Development of All Types of Forests: Elements and Functions for a Future International Arrangement and Mechanism - <http://www.un.org/esa/sustdev/ifdy2k-4.pdf>

Further Reading

UN/ECE and FAO Publications

- ❑ The Timber Committee Website: <http://www.unece.org/trade/timber>
- ❑ “Trade Restrictions and their Future”. Forest Products Annual Market Review, 1998-1999. ECE/TIM/BULL/52/3, 1999
- ❑ Study Paper “Status of European Forests and Forestry in 1999” ECE/TIM/SP/16
- ❑ FAO “State of the World’s Forests 1999”
- ❑ The FAO Forestry Magazine “Unasyuva”
- ❑ Secretariat Note TIM/1999/4

UN-ECE/FAO Publications relating to certification of Sustainable Forest Management

- ❑ “Status of Forest Certification in the ECE Region”, a Geneva Timber and Forest Discussion Paper, 1999. (Available on the Timber Committee website and as a reprint. English only.)
- ❑ “Forest Certification Update for the ECE Region, Summer 1999”, a Geneva Timber and Forest Discussion Paper.
- ❑ "Certified forest products marketplace" a special chapter in ECE/FAO Timber Bulletin Forest Products Annual Market Review, 1997-1998. (Only available in English on the Timber Committee website.)
- ❑ "Certified forest products" a regular chapter in ECE/FAO Timber Bulletin Forest Products *Annual Market Review, 1998-1999*. (Available on the Timber Committee website and in print. English, French or Russian.)
- ❑ Certification of Sustainable Forest Management in Countries in Transition, proceedings of a UN-ECE Timber Committee workshop held in Prague, Czech Republic, 1998.

Keynote speech
by
**Dr. Carol Cosgrove-Sacks, Director, UN/ECE Trade Division,
at the Timber Committee, 29 September 1999**

Trade and Environment Issues in the Forest Products Sector

Introduction

Trade and Environment issues will have a high profile at the forthcoming WTO Ministerial Council in November in Seattle.

The theme “trade and environment” is one of the principal so-called “new issues” on the WTO agenda. Other items on this list include labour standards in international trade, protection of intellectual property rights, and linkages between rules governing foreign direct investment and trade.

The forest products sector is one of the most emotive, and at the Seattle meeting it is estimated that there will be many representatives of non-governmental organizations (NGOs) keenly asserting their concern for threats to the forests environment posed by over-exploitation of the world’s forest resources.

Our concern in the UN/ECE Trade Division, which services both the Timber Committee and the Committee on Trade, Industry and Enterprise Development (CTIED) is to promote best practice in the sustainable management of the forests in our region. The UN/ECE covers more than ninety-five per cent of global temperate, and boreal forests. Our focus is on these forests – and on the wood and non-wood products which they produce.

Today, as Director of the Trade Division, I wish to approach the issue of trade and environment in forest products from a business perspective. The temperate and boreal forests of the UN/ECE region constitute one of the most important renewable resources for many of our Member States. The forests of countries like Canada, USA, Russia, Sweden and Finland make very significant contributions to the economies of these countries. They provide substantial employment and support the physical infrastructure of many rural regions. Moreover, they account for considerable export revenue, derived from raw materials and from value-added products from the forests, plus increasingly important tourism income.

Many of our Member States with economies in transition are confronted by major challenges in developing economic gains from their forest resources. Russia, in particular, hosting the world’s most extensive natural forests, faces particularly difficult problems in promoting the sustainable development of what potentially could be one of its principal renewable export products.

The UN/ECE has a special responsibility for promoting the sustainable development of the forest throughout the transition economies. Only nine of the latter are currently members of WTO, and so the majority of the countries in transition will not be eligible to participate fully in the Seattle meeting and the opening stages of what seems to be termed “the Millennium Round of Multilateral Trade Negotiations”, in which the issue of trade and environment is likely to be prominent. It is therefore very important, in the view of the Executive Secretary of UN/ECE, Mr. Yves Berthelot, that we monitor the forthcoming negotiations and keep all our Member States well-informed.

Globalization, trade and environment

One of the most pressing questions confronting governments is whether the globalization of the world economy is compatible with sustainable development. So far, the prevailing view in the WTO has been positive: globalization stimulates economic growth which supports sustainable development.

It is not my intention to challenge this liberal orthodoxy. But we wish to highlight some of the specific issues relating to the forest products sector – and especially to timber from temperate and boreal forests – which are of major concern to our Member States, especially those with economies in transition.

Initially, much of the international debate on trade and environment focused on tropical forests. Since then the discussion has become global.

Some of the most urgent questions raised by our Member States on this subject include:

- How can schemes for environmental standards, certification and eco-labelling be cost-effectively implemented? And in a voluntary non discriminating way?
- Who will constitute the accreditation bodies?
- How to prevent certification and eco-labelling schemes from limiting export opportunities for forest products?
- What are the risks to market access of new environmental trade standards?
- How can eco-labelling and life-cycle analysis be integrated into international timber supply chains?
- How can the many and various stakeholders in the forest products sector ensure that their interests are fully considered?
- What are the implications for the competitiveness of the forest products industries of the region?
- How will environmental constraints on trade in forest products influence product substitution e.g. for metal or plastic items rather than for wood?
- What are the best policy models for sustainable management of temperate forests?
- How can forest owners attract investment in such an uncertain climate?
- What would be the trade impact of imposing new environmental requirements on trade in forest products?
- What is the effect of tariff structure on sustainable development of forest resources in the region?
- To what extent are market mechanisms adequate for pricing wood and non-wood products (and services)? How to incorporate all externalities into forest products prices?
- How is the ISO 14000 environmental quality standard relevant to this debate?
- What role should existing international agencies, governmental or non-governmental have in setting or monitoring trade and environment standards in the forest products sector, and what are the implications for reform of these international processes?
- What will the WTO decide on compatibility between its rules and those of on Multilateral Environment Agreements – and when?

These are only some of the issues which demand your attention.

The discussions in the UN/ECE Timber Committee provide uniquely well-informed insights into the size, scope, scale and trends of timber markets. None of us can afford to be unaware of the great economic significance of the region's forests and the role they play in international trade.

In 1992, UNCED insisted that environmental, economic and social development policy objectives could no longer be considered individually. UN/ECE Member States led the way in promoting integrated sustainable development. AGENDA 21 enshrined these principles and provided the logic which today pervades the debate on trade and environment.

UNCED generally supported the view that protectionism in trade would have greater negative consequences for environmental conservation than liberalization. For example, in agriculture, continued protection and subsidies for farmers in specific markets results in depressed world markets for agricultural commodities. This, then, limits the scope for investment in sustainable farming.

AGENDA 21 supported trade liberalization, advocating an open multilateral trading system facilitating more efficient resource allocation, and encouraging the development of know-how and investment in environmentally-friendly technologies. (If only it was that easy!)

Follow-up to the special topic

After the presentations and discussion this morning, you should decide whether or not the Committee should undertake further work on trade and environment issues, and if so, what form that work should take.

It is, of course, for you to judge whether it is appropriate for the Timber Committee to undertake work at the regional level when the discussion at the Intergovernmental Forum on Forests is not yet complete, although as shown in the annex to the document, there are now only a few points unresolved.

In any case, some items of the existing programme are already contributing to understanding of trade and environment issues:

- constant monitoring of market and trade patterns by the secretariat and the Committee itself. When trade policy measures are relevant, they are reported and discussed.
- information collected by the Committee, notably in the context of TBFRA-2000 serves as quantitative indicators of sustainable forest management (at the national level);
- markets for certified forest products are now being monitored by the Committee on a continuing basis.
- the Joint FAO/ECE/ILO Committee is focussing more strongly on questions linked to the environmental and socio-economic aspects of sustainable forest operations. An example is the guidelines under discussion for reducing the environmental impact of forest operations, and the work of the Team on Participation.
- the proposed seminar on "Promoting the sound and sustainable use of forest products" could well have trade and environment dimension. Both public relations and life-cycle analysis would be expected to be addressed in depth.

If you do decide that further work under the Timber Committee is desirable, there are many possibilities.

One, the most ambitious, would be to hold a major high-profile meeting on trade and environment issues in the forest sector.

A variant of this, well adapted to ECE's mandate, would be to address these issues specifically from the view point of countries in transition.

Another option would be to address specific trade/environment issues through a team of specialists or a seminar of more limited scope. If funds could be raised, "the capacity-building in trade financing for the timber sector" at present being undertaken for north-west Russia might be extended to other countries. The choice of the topic or topics to be addressed might emerge from this morning's discussion.

Thank you for your attention.

Forestry and the World Trade Organization
Presentation for the Timber Committee, 29 September 1999
by
Jan-Eirik Sørensen,
Director, Trade and Environment Division
World Trade Organization

At Marrakesh in April 1994, the Ministers adopted a *Decision on Trade and Environment* calling for the establishment of a Committee on Trade and Environment (CTE) in the WTO. A broad based mandate was agreed upon, consisting of (a) identifying the relationship between trade measures and environmental measures in order to promote sustainable development, and of (b) making appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required.

In a report presented to the Singapore Ministerial Conference in December 1996, the CTE summarized the discussions that it had held since its establishment as well as the conclusions which it had reached. The Report continues to reflect the position of the CTE on many of the issues currently under discussion.

The CTE's work plan consists of 10 items. Three items are relevant to the discussion on forestry: (i) environmental benefits of removing trade restrictions and distortions; (ii) eco-labelling and certification, which is also looked at by the Committee on Technical Barriers to Trade (TBT); and (iii) certain elements of the Agreement on Trade-Related Intellectual Property Rights (TRIPS).

The global market for forest products in the 1990s was largely dominated by developed countries, in terms of both exports and imports. Trade flows in developed countries comprise approximately 85 per cent of total imports and exports across all categories of forest products, with the exception of tropical industrial roundwood.²²

A number of measures affect trade in this sector, including tariff levels and tariff escalation; subsidies; certification of sustainable forest management; labelling of forest products; promotion of less-used forest species; financing and technology to improve sustainable forest management and increase value-added processing of wood and wood products. In assessing the economic impact of various interventions in the forestry sector, it is important to note that government policies play a crucial role in sustainable forest management, given governments' extensive role in matters such as land use regulatory decisions, environmental and biodiversity protection as well as managing and being owners of forest land. Government policies also affect the rate of conversion of forests to other revenue sources, such as agricultural production or urban and industrial development.²³

Trade restrictions/distortions

The issue of the environmental benefits of removing trade restrictions and distortions is the issue on which greatest progress has been made in the CTE since the 1996 Singapore Ministerial Conference. It is particularly important to the work of the CTE in that it holds the key to the complementarities that exist between sound trade policy-making and sound environmental policy-making. Its full potential in the framework of possible market access negotiations in a next round, and in ensuring that the WTO is associated with positive efforts to promote environmental protection and accelerate sustainable development in developing countries, has yet to be fully explored.

²² UNCTAD (1996), Implications of the Uruguay Round for Trade in Wood and Wood Products, Geneva.

²³ IPF (1996), Trade and environment relating to forest goods and services, (E/CN.17/IPF/1996/22).

A study completed by the WTO Secretariat on specific sectors, including forestry, noted a positive relationship between the removal of trade restrictions and distortions and improved environmental quality, through:

- (a) More efficient factor-use and consumption patterns through enhanced competition;
- (b) poverty reduction through trade expansion and encouragement of a sustainable rate of natural resource exploitation;
- (c) an increase in the availability of environment-friendly goods and services through market liberalization; and
- (d) better conditions for international cooperation through a continuing process of multilateral negotiations.²⁴

Deforestation is primarily linked to factors other than international trade, such as changing production patterns, expanding demand for food, land tenure patterns, expansion of subsistence agriculture and the demand for fuel-wood and charcoal to meet basic energy needs.²⁵ To the extent that deforestation is linked to low incomes per capita and poverty more generally, a clear case can be made that additional economic benefits to poorer countries have environmental benefits.

In spite of the relatively minor share of trade in total world production of forestry products, the contribution which the removal of trade restrictions and distortions can make to world deforestation and forest degradation is still important. The link between trade and the loss and degradation of global forests is an issue which has been discussed in various international fora, including the ITTO, the UNCED and the IFF. Work of relevance to the CTE's discussion was initiated in the context of the UNCED, where agreement was reached in 1992 on "Non-legally binding authoritative statement of principles for a global consensus on the management, conservation and sustainable development of all types of forests" (the "forest principles").²⁶

The results of the Uruguay Round in improving market access for forest products by significantly reducing tariffs have been noted by the intergovernmental panel on forests (IPF) as a positive contribution to enhancing sustainable forest management.²⁷

The concerns relating to forestry management are increasingly broadening to encompass integrated land-use issues. One result is that a variety of direct and indirect subsidies are now applied in the forestry sector which have considerable implications for the management of forestry resources and eventually trade. Costs to help achieve sustainable forestry, for example, can be borne through new revenues from e.g. the creation of parks and protected areas, and allocating forests for non-timber uses, that have future economic values.

²⁴ For further details : WTO document WT/CTE/W/67.

²⁵ IPF (1997), Report to the fifth session of the CSD, New York (E/CN.17/1997/12); IPF (1996), Report of the Secretary General on the underlying causes of deforestation and forest degradation, New York (E/CN.17/IPF/1996/15).

²⁶ *Principle 13 of the Forest Principles*: (a) Trade in forest products should be based on non-discrimination and multilaterally agreed rules and procedures consistent with international trade law and practices. In this context, open and free international trade in forest products should be facilitated; (b) Reduction or removal of tariff barriers and impediments to the provision of better market access and better prices for higher value-added forest products and their local processing should be encouraged to enable producer countries to better conserve and manage their renewable forest resources; (c) 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; (d) Forest conservation and sustainable development policies should be integrated with economic, trade and other relevant policies; and (e) Fiscal, trade, industrial, transportation and other policies and practices that may lead to forest degradation should be avoided. Adequate policies, aimed at management, conservation and sustainable development of forests, including where appropriate, incentives, should be encouraged; *Principle 14*: Unilateral measures, incompatible with international obligations or agreement, to restrict and/or ban international trade in timber or other forest products should be removed or avoided, in order to attain long-term sustainable forest management.

²⁷ IPF (1996), Trade and environment relating to forest goods and services, (E/CN.17/IPF/1996/22).

The net effect of subsidies on forestry management is complex. Concessions on taxes and the terms of logging can constitute indirect or implicit subsidies resulting in domestic overcapacity and overproduction, the operation of inefficient mills, and the unsustainable use of standing forests. Environment-related subsidies include the use of grants, tax concessions and other support schemes to promote research and development as well as implementation of sustainable forest management practices.

The removal of certain types of agricultural subsidies, in particular land-clearing subsidies, may alleviate pressures to clear forest for agricultural purposes. Similarly, potential environmental benefits may flow from removing domestic measures which limit exports. Export taxes and restrictions on unprocessed timber are used by some timber-exporting countries to encourage forest-based industrialization. These are reinforced in certain cases by other measures giving preferential treatment to domestic processing industries, such as supplying raw materials to local producers at lower than world market prices. In certain cases they may be viewed as a means of compensating domestic processors for tariff escalation and other barriers faced in export markets. Some results of using trade restrictions, such as export bans on logs, as a tool for encouraging higher value-added exports and conserving scarce forestry resources, have been discouraging.²⁸ However, in situations where sustainable forest management policies include improved land use objectives to achieve a wider range of benefits from forestry, measures to increase the value-added processing from timber can decrease pressure to harvest larger volumes.

Eco-labelling and other product environmental requirements

Both the TBT Committee and the CTE have addressed product environmental requirements (such as packaging, recycling, re-use, recovery, and disposal requirements, as well as environmental taxes and eco-labelling). In its report to the Singapore Ministerial Conference, the CTE agreed that WTO Members must not use trade restrictions as punitive measures to force countries to raise their environmental standards. Punitive trade restrictions can cause harm to the trading system, without necessarily yielding environmental improvements.

Eco-labelling has been one of the most controversial aspects of the CTE's work. The CTE recognized that well-designed eco-labelling programmes can be effective environmental policy instruments which may be used to foster environmental awareness amongst consumers. However, when eco-labels are successful in influencing consumer choice, and are necessary to maintain market share, production processes have to be altered. Such schemes have therefore raised significant concerns regarding their possible trade effects, not least for small and medium type enterprises (SMEs).

Eco-labelling schemes differ in their design. While some are based on a single criterion, others are based on life-cycle analysis, i.e. the consideration of the environmental effects of products starting from their process of production until their final disposal. In practice, life-cycle analysis is not easy to conduct, and labels following this approach are frequently based on criteria that relate to only a few aspects of a process of production or of a product. Moreover, they are determined through consultation with interested parties at the national level. A common complaint has therefore been that eco-labelling criteria focus on local problems and do not address the views of foreign suppliers, nor the specific environmental situation of their countries. In short, that eco-labels result in the imposition of environmental concerns of importing countries on the production methods of their trading partners.

The TBT Agreement applies to labelling requirements, both mandatory ones (referred to as 'technical regulations') and voluntary ones (referred to as 'standards'). The concern has been voiced in the CTE that a large number of eco-labels are developed by non-governmental bodies, and are applied on a voluntary basis. This restricts the ability of other governments to influence their design. One issue raised is how the transparency of eco-labelling schemes can be enhanced, including the extent to which they provide for the involvement of trading partners in criteria selection, etc.

²⁸ UNCTAD (1995), Trade, environment and development lessons from empirical studies: the case of the Philippines, Geneva.

The CTE has supported the view that environmental concerns vary across countries, and that the eco-labels developed by different countries need not be based on the same criteria. In the context of international trade, this raises also the issue of conformity assessment procedures (such as testing, inspection and certification which confirm that products fulfil the criteria used). Some have mentioned that if one accepts other countries' criteria as equivalent to one's own, and mutually recognizes the results of conformity assessment procedures, this may be a possible means of reducing trade barriers.

The extent to which the Agreement applies to process and production (PPM)-based labels (instead of to the characteristics of the products themselves) is unclear. Currently, a major challenge to the effectiveness of the TBT Agreement is the increasing use (not only in the area of the environment) of process-based, as opposed to product-based, regulations and standards. WTO Members agree that PPMs that have an impact on the final product are allowed (referred to as non-incorporated PPMs). However, there is disagreement as to whether PPMs with no effect on the final product are (un-incorporated PPMs).²⁹

Some Members argue that eco-labels based on non-product related PPMs are covered by the TBT Agreement (notably the United States); some believe they are not covered but should be (notably the European Communities); and others believe that they are not covered and are actually inconsistent with the TBT Agreement (many developing countries).

For some WTO Members the issue of eco-labelling has been tied to that of the labelling of forest products. In November 1998, a regulation in one Member concerning the mandatory labelling of timber and timber products was taken up in the TBT Committee. The regulation stipulated that from 1 July 1999 persons placing a wooden product on the market for the first time have to maintain records of the origin of the product, and that from January 2000 the labelling of timber and timber products as either "green" or "red" would take place based on whether or not they come from a sustainably managed forest. One Member complained that the measure violates the TBT Agreement in distinguishing between products based on the way they are produced, and that it contravenes a process initiated in the International Forum on Forests (IFF) and the International Tropical Timber Agreement (ITTA). It stated that the term "sustainably managed forest" had not been internationally defined, and that what was sustainable in one country might not be in another, depending on the type of forest and on socio-economic and cultural factors.

The issue of certification of sustainable forest management also relates to the TBT Agreement. Certification and labelling of forest products are considered to be complementary to forest management policies. There are different approaches to forest certification. For instance, the ISO 14001 EMS requires an audit of forest management systems against the specifications of this standard. The Forest Stewardship Council (FSC)³⁰ approach is based on an audit of forests against regional standards based upon certain FSC approved principles. No regional standards have yet been completed but auditing and certification is proceeding.

Initially, labelling and certification schemes concentrated on tropical forest products but have since been extended to include temperate and boreal timber products. Concerns have been raised about additional costs which auditing, monitoring certification and labelling impose. All approaches are intended to support marketing efforts in markets where environmental factors may influence purchasing decisions. Studies suggest the demand for certified or labelled forest products is small and concentrated in a narrow segment of the market. Also, the actual trade impact of certification and labelling has apparently been very small.³¹ The FAO notes that of greater concern than the actual trade effects of

²⁹ An example of an incorporated PPM would be cotton grown using certain pesticides and which itself contains pesticide residues. An example of an unincorporated PPM would be cotton grown using certain pesticides but which does not itself contain any pesticides residues.

³⁰ The FSC is a non-governmental organization created in 1993.

³¹ FAO (1997), "Forest Products Certification", *Forestry Information Notes*, Rome; IPF (1996), *Trade and environment relating to forest goods and services*, (E/CN.17/IPF/1996/22); and P. Varangis, C. Primo Braga and K. Takeuchi (1993), *Tropical timber trade policies: what impact will eco-labelling have?*, Washington: World Bank.

these schemes is the uncertainty which may exist for exporters concerning the role of such schemes in determining market access.³²

The relevant provisions of the Agreement on the trade-related aspects of Intellectual Property Rights

The objective of the TRIPS Agreement is to promote effective and adequate protection of intellectual property rights (IPRs). IPRs serve various functions, including the encouragement of innovation and the disclosure of information on inventions, including environmentally sound technology. The relationship between the TRIPS Agreement and the Convention on Biological Diversity (CBD) has been the subject of extensive discussion, not only in the CTE but also in the TRIPS Council. Discussions are also ongoing in the preparatory process for the Seattle Ministerial Conference. A number of issues have arisen.

Some Member States, especially India, have called for the revision of TRIPS. Relevant areas to forestry include the definition of some of the terms used in the Agreement, such as "plants", "animals" and "sui generis" protection systems;³³ the appropriateness or otherwise of providing patent protection to genetic material or to inventions which rely on traditional knowledge; the ethical or environmental acceptability of granting patents for inventions of life-forms; access to environmentally sound technology, and the overall compatibility between the TRIPS Agreement and the CBD, for instance, with respect to the CBD's call for the "fair and equitable sharing of benefits" arising from inventions. Views differ on these points.

CTE Observers

To conclude on the activities of the CTE in the area of forestry, the CTE invited representatives from the IFF and the ITTO to make presentations at the June 1999 meeting on trade-related developments in forestry. The IFF reported on their third session and explained that most of the important issues in trade and environment, including eco-labelling, certification and subsidies, are still in square brackets in their draft agreement. The ITTO stressed that efforts by developing countries to supply sustainably managed forest products should be reciprocated by incentives by importing industrialized countries. The CTE will continue to invite representatives from forestry agreements to update Members on their progress.

Preparations for the Ministerial Conference in Seattle

Japan has stated that the attainment of sustainable forest management is one of the important challenges to the world. In negotiations on trade in forestry products, careful consideration must be given so that sustainable forest management should not be hindered. It has recommended that discussions on market access issues should be aimed at a balance of rights and obligations between exporting and importing countries, focussing not only on import tariffs, but also export restrictions and export taxes on trade in wood. Also, global disciplines should be established for enhancing public benefits of forests through a sound maintenance and development of the forestry and wood industry in both exporting and importing countries.³⁴

Substantive and procedural proposals will continue to be discussed by Members in the lead-up to Seattle, which is now two months away.

³² FAO (1997), "Forest Products Certification", *Forestry Information Notes*, Rome.

³³ Article 27:3(b) of the TRIPS Agreement relating to the protection of biological inventions and plant varieties, whether by patents or by sui generis protection, is presently being reviewed in the TRIPS Council.

³⁴ Negotiations on Forestry and Fishery Products, Communication from Japan WT/GC/W/221, 28 June 1999.

Notes for presentation
at the UN/ECE Timber Committee, 29 September 1999
by
Albert Fry, Consultant
World Business Council for Sustainable Development (WBCSD)

“Madam Chairperson and members – thank you for giving me an opportunity to address this Committee.

It is always a pleasure to follow two experts. Mr. Sorensen from WTO and Charles Arden Clarke from WWF have given you all the technical details so there is no need for me to reiterate their excellent presentations.

I have been involved in environmental policy issues for nearly 30 years. However, it is only in the past two years that I have paid particular attention to forests. So I wish to begin with an important caveat – I am not a forestry expert! However, I have been studying forestry issues carefully for two years now and I may have a slight advantage of seeing things through a new lens. I hope my observations will prove useful.

I have just returned from a trip to Brazil during which I visited the Aracruz plantations, pulp mills and seaport. Here is what I learned. Aracruz is harvesting 44 cubic meters of wood per hectare per year. Comparable growth rates for temperate or boreal forests varies between 4 and 12 cubic meters. Aracruz plants a seedling and within 7 years it is over 100 feet tall and ready for harvesting. [Message 1](#) – Tropical plantations have a clear comparative and competitive advantage over non-tropical forests.

The two pulp mills and their huge power systems are state of the art and would put many older pulp mills in the North to shame both in terms of economic and environmental efficiency. [Message 2](#) – There is no inherent reason why modern industrial facilities in the South need be any less clean or efficient than anywhere in the North. Also these mills meet 93% of their total energy requirements from biomass and recycled forest by-products.

The development at Aracruz has produced jobs, economic growth, and better quality of life for its employees and for the villagers and farmers nearby. [Message 3](#) – Sustainable development also means poverty alleviation and giving developing countries a chance to work their way out of poverty.

The plantations were established on degraded lands which had been deforested in the 19th Century and failed as farmland in the 20th Century. 29% of existing older forests were preserved. The other 71% of the land is now reforested, managed sustainably and provides improved habitat for biodiversity. [Message 4](#). – Well managed sustainable plantations can improve the environment – this was a win- win - win situation.

I know from my reading and from personal contact that many responsible forest companies are now establishing plantations in tropical areas on formerly degraded lands. [Message 5](#). – Future forest development, at least in the pulp sector, is likely to take place in the South. Over time we may see a significant portion of the forest industry shift to the South.

Now Charles Arden Clarke indicated that WWF might be concerned if trade liberalization resulted in an increase in paper consumption. I am not certain that he need be alarmed. My conversations with many at WWF indicate a growing awareness that “WOOD IS GOOD”, but with a big IF!! The “if” is, of course, if the wood is produced using Sustainable Forest Management (SFM). Business agrees. [Message 6](#). – increased consumption of wood and wood products may be good for SD! The resource is renewable; reforestation is a net gain for the environment, for biodiversity habitat, and for carbon sequestration.

Related message 7. – Mandatory recycling quotas may be bad for the environment – look at the results of life cycle analyses – and these quotas ARE BAD for developing countries since they exclude them from markets where they have a clear competitive advantage.

There appears to have been a virtual revolution in the way SFM uses wood and former wood waste products. We now use species previously considered undesirable! We now waste virtually nothing. The entire tree down to the sawdust is used to make product, for energy or as a natural soil supplement. Whole new product lines have been created. We can now make laminated wood beams with strength greater than steel. We produce more usable product with less input of resource. We need less and less land to grow the same amount of fiber. Transportation costs have been reduced. We can ship a tonne of paper or pulp 6,000 km from South America to Rotterdam using less than 15.8 kilograms of bunker fuel. Message 8. – The forest industry is getting more efficient every year and that is one definition of SD.

I have also observed a great commonality of interests between ENGOs and the business community on certain forest issues. They want to conserve or set aside more forest lands. We agree. Asset strippers or illegal loggers are bad for conservation, the environment and for business bottom line!! We do not like “cowboys” stripping forest resources and dumping lower cost wood into the market. Further we do not like the bad reputation these asset strippers tend to give all forest companies. However, the worst case is to set aside forest lands and then have no enforcement mechanism. “Paper parks” are not good for the environment or for business. Message 9. – ENGOs and business agree on conservation of high value forest lands for posterity and to provide “non-priced” forest environmental and social services.

However, I do not agree with WWF and my friend Charles Arden Clarke on all issues. I do not agree that FSC has been a glorious success. In fact in one sense it appears to have been a glorious failure. In nine years it has only managed to certify 17million hectares of forest – most in developed northern countries. FSC has failed to provide any serious protection for frontier forests and has been very slow to achieve a volume of wood from sustainably managed forests where it could “make a difference” That said, I do agree that FSC has been a partial success but not in the way that its advocates might like. FSC has dramatized the issue of certification and now there are a host of competing national or regional certification systems springing up. These various systems, including the Finish FSC and the PEFC and others are now investigating the possibility of evolving towards a system of “MUTUAL RECOGNITION”. This could create a large enough network of “sustainably managed forests” to begin to really make a difference. If, suddenly there were several hundred million hectares of SFM certified forests, it could begin to make a difference and place serious pressure on “bad performers” i.e. asset strippers.

Finally I wish to make the observation that it is possible to meet all the needs for commercial forest products, wood and fiber, of a population of 10 billion on approximately 10% of today’s forests. We have a problem not of scarcity but of excess forest capacity to meet commercial forest requirements. Sadly, too much of this forest estate is not well managed or protected because society does not value the “non-valued” services of this forest heritage.

Thank you”

NB – These are partial notes and talking points – a formal presentation was not prepared.

SOME FACTS ABOUT THE TIMBER COMMITTEE

The Timber Committee is a principal subsidiary body of the ECE (UN Economic Commission for Europe) based in Geneva. It constitutes a forum for cooperation and consultation between member countries on forestry, forest industry and forest product matters. All countries of Europe; the former USSR; United States of America, Canada and Israel are members of the ECE and participate in its work.

The ECE Timber Committee shall, within the context of sustainable development, provide member countries with the information and services needed for policy- and decision-making regarding their forest and forest industry sector ("the sector"), including the trade and use of forest products and, when appropriate, formulate recommendations addressed to member Governments and interested organizations. To this end, it shall:

1. With the active participation of member countries, undertake short-, medium- and long-term analyses of developments in, and having an impact on, the sector, including those offering possibilities for the facilitation of international trade and for enhancing the protection of the environment;
2. In support of these analyses, collect, store and disseminate statistics relating to the sector, and carry out activities to improve their quality and comparability;
3. Provide the framework for cooperation e.g. by organizing seminars, workshops and ad hoc meetings and setting up time-limited ad hoc groups, for the exchange of economic, environmental and technical information between governments and other institutions of member countries that is needed for the development and implementation of policies leading to the sustainable development of the sector and to the protection of the environment in their respective countries;
4. Carry out tasks identified by the UN/ECE or the Timber Committee as being of priority, including the facilitation of subregional cooperation and activities in support of the economies in transition of central and eastern Europe and of the countries of the region that are developing from an economic point of view;
5. It should also keep under review its structure and priorities and cooperate with other international and intergovernmental organizations active in the sector, and in particular with the FAO (Food and Agriculture Organization of the United Nations) and its European Forestry Commission and with the ILO (International Labour Organisation), in order to ensure complementarity and to avoid duplication, thereby optimizing the use of resources.

More information about the Committee's work may be obtained by writing to:

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WEB site address: <http://www.unece.org/trade/timber>

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1. Forest Products Prices	
2. Forest Products Statistics (database (chronological series, since 1964) also available on diskettes)	
3. Forest Products Annual Market Review	
4. Forest Fire Statistics	
5. Forest Products Trade Flow Data	
6. Forest Products Markets in (<i>current year</i>) and Prospects for (<i>forthcoming year</i>)	

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