EUROPEAN COMMISSION
Directorate-General for Trade

Brussels, 26 June 2006

TRADE SIA OF THE FOREST SECTOR UNDER DDA NEGOTIATIONS: POSITION PAPER

Position Paper
Trade Sustainability Impact Assessment of the DDA negotiations

Sectoral Study on Forestry

1. Introduction

Since 2002 an external consortium led by the IDPM of the University of Manchester with financial support from the European Commission has been carrying out a Trade Sustainability Impact Assessment (Trade SIA) of the WTO negotiations. The aim of Trade SIA is to identify and describe the potential economic, social and environmental impacts of the negotiations using analytical assessments and consultation processes. The first set of studies has been completed in three specific market access sectors (textiles and clothing, pharmaceuticals and non-ferrous metals); environment services; and competition. The respective final reports were released in 2003. The second set of studies has been completed in three specific sectors: agriculture, distribution services and forests. The respective final reports were released in 2005[1]. While the reports present the consultant's analysis and opinion, the Commission has committed itself to taking an official position on the challenges identified in each Trade SIA.

This paper describes the current state of the Commission's understanding of the potential impacts identified in the forestry study and also sets out how the Commission intends to address these impacts in relevant policies (both trade and non-trade-related) in order to mitigate identified negative impacts and enhance positive ones. This position paper builds on the findings included in the consultant's report and on the outcome of a consultation process on the report undertaken by the Commission with EU Member States and civil society. Commission position papers are also due on the sector studies on agriculture and distribution services which are also relevant in terms of potential impacts on forests.

2. The forest sector SIA: context and framework

2.1 The context: the Doha round – ongoing negotiations

In the mandate of the Doha Development Agenda (DDA), one of the objectives of which is to contribute to global sustainable development, forest products fall under non-agricultural market access negotiations, NAMA for short. These NAMA negotiations (paragraph 16 DDA) aim at reducing or eliminating tariffs on a range of products, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. According to paragraph 16, product coverage is to be comprehensive and without *a priori* exclusions. The negotiations are to take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments. In this context, it has been agreed, for instance, that developing countries shall have longer implementation periods for tariff reductions and that they shall be given a number of flexibilities including applying less than "formula" tariff cuts as well as keeping, as an exception, tariff lines unbound. Moreover, least-developed countries will not be required to apply the "formula" tariff cut nor to participate in any so-called sectoral tariff reduction approaches.

[1] **Final report and full set of results are available on line at: http://europa.eu.int/comm/trade/issues/global/sia/studies_wto.htm#dda**

2.2 The study

2.2.1 Scenarios

The study assessed two scenarios under NAMA:

- *Base scenario*: implementation of the Uruguay Round Agreements concerning tariffs (the base scenario is a dynamic scenario even without any further liberalisation; consumption and trade projections are based on the current terms of trade, which are also influenced by other factors and initiatives in addition to the Uruguay Agreements.

- *Full liberalisation scenario*: adoption of a zero tariff rate for forest products and possible elimination of various export restrictions such as log export bans or export taxes.

The *average trade-weighted tariffs* for forest products are already low (less than 5%). In a number of countries tariff escalation is common and import tariffs for selected processed products can exceed 20% and even 30%.

2.2.2 Geographical scope

Four target groups were identified in this Trade SIA (countries listed in each group are given as examples):

1. Major developed country forest product importers: EU, USA and Japan
2. Major developed country forest product exporters: USA, Canada, Austria, Finland, Sweden, Norway and New Zealand.
3. Developing country exporter/producers: Indonesia, Malaysia, China (also a major importer), Brazil, Cameroon and the Democratic Republic of Congo.
4. Developing countries with a poorly developed forest sector (very limited exports): Sudan, Ethiopia, Somalia, Tanzania, North African and Middle Eastern countries.

Country case studies include Brazil, Ecuador, Indonesia, Mexico and Tanzania

2.2.3 Causal Chain Analysis and Conceptual Framework

This study examines key impacts associated with the further liberalisation of trade in the forestry sector. The analysis is based on causal chain analysis (CCA) using evidence and information (literature review, modelling results). CCA sheds light on the potential effects of trade measures – tariff reduction, NTMs – on market incentives and opportunities, leading to economic, social and environmental impacts. Significance criteria and sustainable core indicators (real income, fixed capital formation, employment, poverty, health and education, equity, biodiversity, environmental quality, natural resources stocks) are used to characterise the potential impacts on sustainable development.

2.2.4 Mitigation and enhancement measures

The study also aims to identify accompanying measures, both trade and non-trade related, which could be implemented by the EU (either alone or together with other trading partners) in order to mitigate any negative impacts resulting from trade liberalisation or to enhance positive ones.

3. Summary of the study

3.1 Identified impacts resulting from full trade liberalisation

3.1.1 Overall assessment

The study concludes that tariff reductions resulting from the Doha negotiations would bring overall economic gains whereas environmental and social impacts would be ambiguous. Trade liberalisation would increase trade but is unlikely to influence forest product consumption and production much overall due to existing low import tariffs and the small share of forest products traded internationally. Most trade in forest products takes place within EU, NAFTA, APEC, and under regional trade agreements, which may already apply zero or near zero tariffs. However, different countries would respond very differently to the changing terms of trade and the impacts of trade liberalisation. Impacts on sustainable development could be positive or negative, or a combination of both.

Globally, impacts on wood harvesting are likely to be small compared to impacts due to economic growth, population growth and price rises. Trade liberalisation would affect sustainability but in most contexts increased trade *alone* would be unlikely to cause significant direct negative sustainability impacts.

However, trade liberalisation could accentuate negative sustainability trends unless appropriate forest governance systems are in place and enforced. Cumulative impacts and the threshold effect mean small incremental changes could result in significant negative impacts in individual countries with sustainability and governance problems. In biodiversity hotspot countries such as Brazil, Indonesia, the Congo Basin countries and Papua New Guinea possible negative impacts could be irreversible. Developing countries whose forest industries are protected by high import tariffs could incur considerable environmental and social costs due to downsizing of industrial capacity and closure. Social costs may outweigh short-term economic gains unless adequate safeguards were adopted. In such countries, a cautious approach to trade liberalisation, e.g. using a phased approach, and/or mitigation measures is recommended.

Implications of the findings for impacts on the Millennium Development Goals are discussed in the overall project report for the Trade SIA studies.

3.1.2 Economic impacts

Positive and negative producer and consumer welfare impacts depend on whether a country has forests and is export-oriented, and whether it has the capacity to benefit from improved markets access. Some predicted economic impacts are:

- Little change in aggregate production and consumption of forest products, including roundwood, due to tariff reductions.

- Variable impacts on harvesting volumes. The small overall increase in roundwood production hides variations from –2.7 to 5.8%. Some of the significant production increases would be in countries already suffering from deforestation and forest degradation. However, an increasing proportion of such timber would come from sustainably managed forests.

- Liberalisation would affect trade flows more than overall production and consumption.

- Liberalisation would encourage trade in value-added products; trade in industrial roundwood would decline.

- Tariff escalation in developing countries means trade liberalisation would increase production and trade in products previously under "tariff protection", e.g. in South-Asian countries.

- Inter-regional and intra-regional trade flows would be strengthened, especially south-south trade (within Asia and Latin-America, as well as from Latin-America to Asia) where tariffs and tariff escalation are highest. Most developing countries already face low or zero tariffs for their exports to developed countries.

- Impacts on employment would vary depending on industry and location but are projected to be limited: -0.1% reduction for wood-based panels to 0.5% increase for roundwood.

3.1.3 Social and environmental impacts

Overall the net effect of possible trade liberalisation on social and environmental sustainability is ambiguous. In developed countries and developing countries trade liberalisation alone is unlikely to cause significant direct negative impacts on sustainability but it could accentuate negative trends in countries with weak forest governance systems. The most serious negative environmental impacts are likely to be in countries with unique biodiversity resources and sustainability and governance problems.

- Developing countries and some transitional economies that have problems with forest governance may face considerable environmental and social costs which, unless adequate safeguards are adopted, could offset economic gains from further trade liberalisation.

- *All* case study countries (Brazil, Ecuador, Indonesia, Mexico and Tanzania) are likely to suffer negative social (e.g. infringement of indigenous people's rights if illegal logging increases) and environmental impacts (e.g. some impacts on biodiversity and soil conservation) from liberalisation. However, all case study countries also see increases in consumer welfare due to lower prices and in four out of five of them the study also predicts increased employment.

- Trade liberalisation would magnify *existing* policy and institutional strengths and weaknesses rather than be a major driver of forest governance change as such.

- Negative impacts on biodiversity and soil erosion would usually result from unsustainable harvesting, both illegal and legal.

- Unsustainable forest exploitation may cause social conflicts and infringe on indigenous people's rights but such incremental impacts may be relatively small compared to those of agricultural trade liberalisation (e.g. in trade in palm oil, cocoa, soya beans and beef) and other on-going processes, such as population growth, economic growth, infrastructure development, subsidies, product pricing policies and macro-economic reforms.

- Especially in developing countries, there would likely be negative impacts on equity. Most benefits are likely to accrue to large companies. Small and medium-sized enterprises in developing countries would find it harder to benefit from new trade opportunities and may even succumb to increased competition from imports.

- Consumers and producers in developing countries are likely to benefit from cheaper and better quality exports.

3.1.4 Affected countries and products

- Countries with competitive advantages in know-how, labour costs and access to capital will benefit from trade liberalisation.

- Forest-rich, export-oriented developed countries (Canada, US, Finland, Sweden, New Zealand) would benefit more from trade liberalisation than developing countries, especially in paper products. Impacts on employment are predicted to be small given that overall changes in production levels are expected to be small.

- Recently acceded EU Member States, accession countries, CIS and other CEEC countries are likely to increase their sawn wood production and share of the EU market.

- Some developing countries with large forest resources or potential for fast-growing plantation development (Indonesia, Malaysia, Brazil, Chile) could benefit economically.

- Some forest-rich developing countries (Papua New Guinea, the Congo Basin countries) might not gain from trade liberalisation because of poor access to capital, inadequate infrastructure etc. but might increase some exports, e.g. logs, sawn wood and panels.

- Many of the developing and emerging countries that would gain from trade liberalisation in economic terms are the same ones that suffer from deforestation and forest degradation. Trade liberalisation could exacerbate problems with forest governance.

- Exports of wood-based panels, sawn wood and some paper products would increase. Production and exports of furniture and secondary processed wood products (SPWPs) would increase in some countries.

- Benefits from trade liberalisation would likely accrue to forest-rich developing countries with good market access and competitive advantages as they are more attractive to foreign direct investment.

- Pulp, paper and panel industries in these developing countries would become increasingly global and compete against developed country exports. These industries would increasingly rely on forest plantations to compete internationally.

- Opportunities also exist for products made of sustainably managed high value tropical hardwoods.

3.1.5 Non-tariff measures (NTMs)

The study concludes that the reduction or elimination of log export bans and prohibitive log export taxes would bring mixed results. Trade in roundwood would increase in temperate and tropical zones bringing economic gains. Totally free trade of logs in poor governance conditions, however, would likely have adverse environmental impacts and promote illegal logging and trade. Increased trade due to removal of export restrictions would not automatically have negative environmental effects. Impacts would depend on the quality of forest management.

A temporary ban on log exports may be justified where controlling corruption and illegal logging is not yet possible. Economically, it would be better to promote efficient wood pricing and domestic taxes to ensure that export and domestic markets are treated equally and to provide incentives for optimising the use of sustainably produced wood. However, some well-intentioned trade restrictions, e.g. to protect the environment, can distort the market signals needed to promote sustainable practices. Country-specific studies could help understanding of associated economic and environmental trade-offs.

According to the study, an increasing range of environmental and safety NTMs makes it harder or more costly for developing country producers and for small and medium scale enterprises in developed countries to enter the international market. However, legitimate NTMs do not appear to be *major* constraints on trade.

Some other measures e.g. forest certification, offer opportunities to access new markets or maintain existing ones. Phased approaches to certification and support, may help poorer developing countries and small producers to benefit more from such schemes.

3.1.6 Cross-cutting issues

The sustainability impacts of agricultural trade liberalisation are possibly much larger than those of forest product trade liberalisation because the protection rates and subsidies in agriculture are much higher than in forestry. Agricultural production can be increased by clearing forest. In Brazil, a forecast increase in soybean production could cause an expansion of land farmed on the margins of the Amazon and increase pressure on areas with high biodiversity. Expansion of beef exports is also expected to accelerate deforestation.

In the Doha negotiations it is important to consider possible combined impacts of simultaneous trade liberalisation under NAMA and agriculture. Cumulative impacts of trade liberalisation in agriculture and forest products have the potential to exacerbate forest destruction to the detriment of biodiversity and forest-dependent people.

Therefore, mitigation and enhancement measures proposed in the Trade SIA of agricultural trade liberalisation must address cross-sectoral linkages with forestry. Mitigation measures should keep in mind that liberalisation of trade affecting especially edible oils, beef and animal feed, cocoa, and coffee is likely to pose risks to forests in Brazil, Indonesia and West Africa.

3.2 Recommendations Regarding Mitigation and Enhancement Measures

The study identifies a number of possible mitigating and enhancement measures, both trade-related and non-trade-related, that the European Union (in co-operation or not with other countries) could take. The study focuses on mitigation and enhancement measures aimed at environmental effects; there is little coverage of measures to counter or enhance social effects.

3.2.1 Potential trade-related measures

Indicative trade-related measures identified and analysed in the study include:

- Introduction of a licensing scheme to ensure that only legal timber enters a country or a region through a series of voluntary partnerships with wood-producing countries.

- Preferential tariff treatment. Granting preferential tariffs for wood and wood products that are certified or are otherwise confirmed to come from a sustainable source.

- A unilateral ban on imports of logs and wood products not verified as coming from a sustainably managed source.

- A unilateral ban on imports of logs and wood products at a risk of coming from an illegal source.

- A multilateral Kimberley-like ban on all timber from specified areas at risk to illegal logging.

- Labelling and certification, which have long been used in promoting trade in sustainable forest products and improving incentives for sustainable forestry management (SFM).

- Log export bans and prohibitive export taxes.

- Government procurement.

- Sanitary and phytosanitary (SPS) measures.

All these trade-related measures could have positive impacts on sustainable development but their effectiveness would depend on complementary measures. This is because most trade-related measures do not address the main causes of illegal logging and unsustainable forestry, so that they would have to be supplemented by measures to strengthen capacity in forest management and control. Measures which address domestic factors influencing forest sustainability should be a priority.

Voluntary forest certification can provide incentives for improving forest management. Voluntary import licensing schemes can be effective if agreements are extended to more countries and cover more than just roundwood. This could be complemented by support for voluntary third party legal compliance schemes at national level and verification of legal origin. If unilateral bans on imports of unsustainably produced or illegal sourced logs and wood products are considered they must be evaluated with the same intensity and resources as the licensing scheme.

The range of technical standards and regulations and the lack of internationally accepted methods of compliance or recognition of testing sometimes limit market access. Technical barriers to trade (TBTs) are not yet serious constraints to trade but raise costs and may accelerate substitution of wood by other materials.

A comprehensive review of the increasing number and complexity of TBTs may be needed. The existing TBT and SPS Agreements provide a forum for this. Possible action in other fora (e.g. in regional trade agreements) to facilitate trade while ensuring compliance with standards includes:

- Increased harmonisation of standards; the International Standard of for Phytosanitary Measures (ISPM 15) and the EU’s CE marking set positive examples.

- Increased mutual recognition of testing systems and more performance-based standards.

- Technical assistance and resources to help least developed countries develop national standards and infrastructure, and schemes to help small and medium enterprises meet technical requirements.

3.2.2 Non-trade-related measures

Many of the proposed non-trade related mitigation and enhancement measures aim at improving forest governance, creating the enabling environment for sustainable forest management, and strengthening monitoring and enforcement capacity in developing and least developed countries. The measures identified in the study include:

- Support for national forest programmes and improvement of the way national forest policies and legislation are made and implemented.

- Clarifying the legal framework concerning illegal acts in forestry and specifying the mandates in forest sector monitoring and law enforcement.

- Introducing more transparent and competitive log sales and concession allocation systems aimed at reducing corruption, collusion and monopolistic behaviour and improving rent capture.

- Developing wood pricing systems that fully account for environmental costs and benefits (internalising the externalities) and create incentives to use forest products more efficiently.

- Eliminating monopolies in production, harvesting and transport, and processing of wood to improve efficiency of pricing and provide improved incentives for SFM to forest managers.

- Promoting more transparent and participatory institutional arrangements concerning decision-making in the forest sector.

- Promoting forest certification and development of verification schemes and capacity.

- Clarifying and strengthening land tenure (property rights).

- Using policy and legal instruments to ensure more equal distribution of benefits from trade.

- Empowerment of the weaker sections of society to deal with outside pressures.

These measures would help alleviate the negative impacts of trade liberalisation and enhance its positive impacts. The timing or phasing of the reforms and support measures is key. In currently vulnerable countries the implementation of such measures would take some time to create an enabling environment for trade liberalisation. Countries with capacity constraints and governance problems but which have the necessary political will need support to strengthen institutions. Here, trade liberalisation should be phased in to ensure smooth adaptation. Importantly, significant improvement in quality of governance systems may take time.

4. Commission's position on the Trade SIA on Forestry

4.1 General comments

The Commission welcomes the study's high level of detail. The use of tools such as case studies and modelling contribute to the quality and results of the work. Clearer and more accessible presentation of the key results would, however, have improved the study.

With respect to the impacts identified in the study, the Commission shares the analysis that concerning the forest sector trade liberalisation *alone* is unlikely to cause significant, direct negative impacts on sustainability. However, it is aware that – especially in countries with rich biodiversity but problems of ineffective forest governance systems – trade liberalisation has the potential to accentuate existing negative social and environmental trends. At the same time, the Commission notes the expected positive economic impacts for a number of developing countries due to "South-South" liberalisation, although it acknowledges that enhanced trade in natural resources can only be sustained over a longer period if the exporting countries' resource base is managed sustainably.

In terms of the ongoing Doha Round, the study leads the Commission to conclude that in a sensitive natural resource sector like forestry particular caution and prudence are required, especially regarding sectoral initiatives. As regards possible mitigation and enhancement measures, the Commission underlines the key role of non-tariffs measures (NTMs) such as voluntary labelling and certification, the negative impact of a unilateral ban to combat illegal logging and the importance of domestic regulation in addressing consequences of further trade liberalisation on forestry. The Commission notes that this last aspect was studied in detail in some countries such as Ecuador, Mexico, Indonesia and Brazil.

4.2 Comments on the impacts identified in the study

4.2.1 Economic impacts

The Commission endorses the analysis in the study which allows one to conclude that further trade liberalisation will have positive economic impacts *on the whole* (albeit not for *all* developing countries), in particular due to enhanced "South-South" trade, and with some positive effects on employment in developed countries that can tap into increasing export opportunities. Doha being a Development Round, the best way to promote development is to open new trading opportunities to developing countries and then help them with aid to exploit those opportunities. At the same time and as stated above, it should be borne in mind that increased trade in renewable natural resources such as forest products can only be sustained over a longer period if the exporting countries' resource base remains intact.

The study does not consider the long term economic impacts of loss of primary forest. It is disappointing that the study does not contain a cost-benefit analysis of the short term economic benefits of forest exploitation versus the long-term economic costs of deforestation and the impact on lucrative areas such as tourism and especially eco-tourism. It would have been useful if the study had separated out the benefits of open trade in sustainably logged/plantation forests and some of the long term costs of open trade in timber from primary forests.

4.2.2 Social and environmental impacts

The Commission agrees with the study that in the forest sector trade liberalisation *alone* is unlikely to cause significant, direct negative impacts on sustainability but that trade liberalisation could accentuate negative social and environmental trends in countries where forest governance systems are still relatively weak. The net effect of trade liberalisation is, however, somewhat ambiguous: the study predicts both positive and negative effects, e.g. increased employment in export-orientated industries versus closure of some small mills; or further degradation of forest versus efficiency gains in the downstream production process. The relative importance attributed to each of these effects by any given group of policy makers or by a society as a whole will determine the extent to which the overall net effect is perceived as being positive or negative.

From the findings of the Trade SIA on forestry the Commission concludes that in the EU and in Non-EU developed countries social impacts as a result of further trade liberalisation would be limited.

The Commission agrees that in the EU and non-EU developed countries environmental impacts would remain limited. This is mainly due to the fact that developed countries have high forest management standards and also contain most of the world's certified forests. Accordingly, the Commission considers the study's finding that there will always be negative environmental impacts when forests are harvested rather too sweeping: impacts will depend on the type and quality of forestry management (if any) which accompanies harvesting.

As regards developing countries and least-developed countries, the Commission notes that the study does not suggest any major differences in social impacts between the two groups. It also notes the finding of the study that the effect of trade on social sustainability is not clear and uniform: employment growth in some exporting countries could coincide with higher unemployment in producer countries which were hitherto protected by tariff escalation. The types of impacts and their distribution depend on how developed the society and its forest sector are already and on the quantity and quality of available forest resources. The Commission notes that it was not possible to identify and quantify any significant impact related to health and education. The Commission notes that it was also difficult to assess gender-related impacts because of inadequate data.

In terms of biodiversity, the Commission agrees that "base scenario" development is negative, especially in tropical developing countries which contain biodiversity 'hot spots', such as Indonesia, Brazil and the countries of the Congo Basin. However, the Trade SIA also concludes that these negative outcomes cannot be attributed solely to trade liberalisation.

4.2.3 Cross-cutting effects

The Commission notes that with the Doha negotiations it is important to examine possible combined impacts of simultaneous trade liberalisation under NAMA and agriculture, in particular where cumulative impacts of trade liberalisation in agriculture and forest products could exacerbate forest destruction to the detriment of biodiversity and forest-dependent people. In this connection, the Commission will seek to ensure that any necessary mitigation and enhancement measures in agriculture also take into account cross-sectoral linkages with the forestry sector.

4.3 Conclusions for the DDA and NAMA negotiations

In terms of the ongoing NAMA negotiations, the Commission draws the following conclusions from the study:

4.3.1 Negotiations on tariff reductions

Within the NAMA negotiations, the EU remains committed to and is a strong advocate of an across the board "formula" approach, as this is expected to result in comprehensive trade liberalisation thus bringing the largest economic gains, including in terms of "South-South" trade. The Doha mandate requires product coverage of the NAMA negotiations to be comprehensive and without *a priori* exclusions. It would be very difficult, therefore, for any WTO member to propose a carve out of the forestry sector from the NAMA negotiations altogether. As noted in section 2.1 above, developing countries do have the possibility to apply a number of so-called flexibilities as regards tariff reductions (longer implementation periods, applying less than "formula" tariff cuts as well as keeping, as an exception, tariff lines unbound). Moreover, least-developed countries will not be required to apply the "formula" tariff cut nor to participate in any so-called sectoral tariff reductions.

Bearing in mind the comments made above, additional sectoral negotiations could only come in as a "top up" beyond the level of liberalisation achieved by an across-the-board formula.

The analysis of further liberalisation set out in the study shows mixed results for economic, social and environmental aspects. In this light the Commission has no current plans to propose free-standing sectoral liberalisation in the forest sector. Although other WTO members may choose to table sectoral proposals in the forest sector, there is as yet no consensus on whether such a sectoral initiative should be pursued and, if so, what kind of outcome should be aimed for. As regards possible sectoral negotiations, the Commission will remain cautious particularly in socially and environmentally sensitive sectors such as forestry, and be prudent both in terms of its own position and in terms of its reactions to positions taken by other WTO members.

4.3.2 Negotiations on Non-Tariffs Measures (NTMs)

The Commission notes the study's findings on potential impacts of further trade liberalisation on biodiversity in countries where forest governance is weak. The Commission will pursue its efforts to support non-tariff measures to protect animal or plant life and the environment that are in line with existing WTO rules. The Commission is committed to ensuring that any export measures for legitimate purposes to protect the environment or conservation of natural resources remain safe under WTO rules (this being of course consistent with the EU's general approach to seek disciplines on the use of export taxes for industrial policy purposes).

The Commission remains of the view that the discussion and pursuit of environmental and social issues should not be used for protectionist purposes and that existing international and multilateral commitments represent the first best choice on which to base policies. Any unilateral sanctions-based approach should be rejected. The objective is to further enhance environmental and social progress with a view to promoting benefits for all.

4.4 Mitigation and Enhancement Measures

Globally speaking the Trade SIA of forestry allows one to conclude that tariff reductions are not the key driver of deforestation and biodiversity losses. In this context there is, however, a certain risk that negative social and environmental impacts could outweigh the positive economic benefits in countries with weak forest governance unless adequate accompanying measures are taken. Therefore, and as part of the Trade SIA methodology in general, the consultant provides an analysis of mitigation and enhancement measures in order to help screen the measures with best potential. Among those measures analysed the Commission considers the following to be of most interest and, in the case of the study's comments on unilateral bans, the remarks to be useful:

4.4.1 FLEGT

The Commission considers that strengthening governance is a pre-condition to forest sustainability and a necessary condition for sustainable trade. Implementation of the EU Forest Law Enforcement Governance and Trade (FLEGT) Action Plan will directly address illegal logging and related corruption and trade, and some of the governance weaknesses identified in the Trade SIA study. It will help to ensure that imports of timber to the EU come from legal sources and to promote and encourage good practice in timber-producing countries and strengthened forest governance, thereby promoting positive environmental and social impacts.

The main elements of the Action Plan are support for improved governance in wood-producing countries and a licensing scheme associated with bilateral FLEGT agreements to ensure that only legal timber enters the EU from countries with such agreements. Initial consultations on the FLEGT agreements are taking place with at least six countries, in collaboration with Members States.

Capacity building will form an important part of the FLEGT agreements and substantial resources are being mobilised by the Commission, currently of the order of €50m, as well as by Member States.

Capacity-building elements, together with implementation of the FLEGT agreements, will help limit potential negative impacts of further trade liberalisation in FLEGT partner countries. Capacity building needs will depend on the country concerned, supporting the study's finding on the variability of framework conditions in different countries.

The Trade SIA on forestry highlighted a number of potential shortcomings with the bilateral partnership approach proposed in the FLEGT Action Plan. Not least amongst these is the risk that illegal timber could be diverted to third countries and so dilute (but not eliminate) the positive impacts of FLEGT. This risk was also identified in the Extended Impact Assessment of the FLEGT licensing scheme[2], and measures and safeguards have been developed to ensure this issue is carefully monitored. The risk of circumvention cannot be completely avoided in a bilateral scheme of this nature; only a multilateral agreement would effectively address this risk but there is little prospect of any such agreement in the immediate future. As a response to concerns regarding circumvention, the Commission is examining potential additional legislative options (including the use of existing national legislation, the use of existing multilateral frameworks and agreements, and the development of new legislation) and is preparing a paper on the issue.

Beyond the FLEGT scheme the EU is engaging with countries such as China, Japan and Russia through participation in regional Forest Law Enforcement and Governance (FLEG) initiatives, follow-up to G8 statements and through bilateral dialogue.

The Commission will seek to promote sustainability and better governance in the negotiation of Economic Partnership Agreements (EPA) to succeed the Cotonou Agreement with ACP countries and will make efforts to promote, as much as possible, a regional approach for the implementation of FLEGT.

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4.4.2 EU Forest Action Plan

Together with the Member States the Commission is currently drawing up an EU Forest Action Plan in order to support the implementation of the EU Forest Strategy. The Action Plan was adopted in mid 2006. Within the scope of the Action Plan the Commission will facilitate the exchange of experiences among Member States in developing guidelines for application of the Public Procurement Directive to forest products.

4.4.3 Other action on biodiversity

The Commission will continue to implement the EU Strategy on Biodiversity. As set out in the revised Strategy for Sustainable Development, the EU is also committed to pursue its efforts to reverse the loss of biodiversity.

4.4.4 Market incentives

The use of voluntary labelling and certification is one of the flanking measures proposed by the study with highest potential for addressing possible impacts of further trade liberalisation. The Trade SIA indicates that this kind of measure has little impact on overall production volumes and trade flows.

The FLEGT Action Plan also recommends that Member States consider using public procurement policies to offer market incentives for legal and sustainable timber. A Handbook on Green Public Procurement, which provides guidance on sourcing legal and sustainable timber, was published by the Commission in September 2004.

4.4.5 Development Cooperation

The Commission believes that trade liberalisation should support all three pillars of sustainable development. We recognise that opening markets to international competition poses a number of challenges, in particular for developing countries, as well as opportunities.

The Commission is committed to facilitating the increased participation of developing countries in world trade taking into account their national policy objectives and levels of development. The Commission is already the largest provider of bilateral development assistance, including trade-related assistance (TRA) and will maintain its commitment to this important aspect of the DDA.

Upon request by the countries concerned, the Commission will, where appropriate, continue to provide financial support and technical assistance for the preparing and implementing national forest programmes and improving local capacity-building to meet market requirements. This can be done particularly through the Commission Country Strategy Programmes. It is important to note that the development co-operation priorities for Country Strategy Programmes (CSPs) are decided as a result of country specific partner consultations.

Analysis of countries' TRA needs is improving thereby making it more likely that increasing the effectiveness of efforts to address forestry relevant issues such as local governance and the ability to manage natural resources. The Commission's work on Country Environmental Profiling should also make it easier to identify shortcomings in governments' ability to manage natural resources such as forests. Given that the number of focal sectors in CSPs is limited, awareness raising during the country consultations on and the implementation of CSPs could also play an important role.

4.4.6 Ineffectiveness of unilateral bans

The Commission position on blanket bans of illegal and or unsustainable timber imports will be finalized in the context of the preparation of the paper on additional legislative options for FLEGT. Preliminary consideration supports the view of the consultant that such a ban might not achieve the desired effect of reducing diversion through non-FLEGT countries. Very careful thought should be given concerning the potential consequences of a ban, including its practical feasibility, before deciding to try to go down this path. Other potential options should also be considered, including labelling initiatives.

5. Main Conclusions

The Commission is committed to the DDA mandate which calls for reductions or, as appropriate, elimination of high tariffs, tariff peaks and tariff escalation for all non-agricultural products without any a priori exceptions. To achieve such an objective, all WTO members agreed at the latest Ministerial meeting in Hong Kong to an across-the-board reduction through the "formula" approach. They also agreed that additional "sectoral" negotiations could be pursued if they garnered sufficient participation. The Commission fully endorses such results as they correspond to its own original approach.

Other WTO members, such as Canada, New Zealand, US, Thailand and Hong Kong, are pursuing a sectoral initiative for wood-based products. So far, and in line with its general NAMA approach to give priority to across-the-board tariff reductions, the Commission has not supported such initiatives and will remain particularly prudent with regard to them.

The Commission notes the findings of the study and will take them into account as it continues to negotiate trade liberalisation under the DDA mandate. In parallel, the Commission will continue to develop and implement policies which support sustainable forest management. Given the existing negative trends in biodiversity loss, the Commission reaffirms the EU's international commitment to maintaining its leading role in efforts in several multilateral fora to halt the loss of world wide biodiversity, such as UN Convention on Biological Diversity, the Convention in International trade in Endangered Species (CITES) and the UN Forum on Forests (UNFF).