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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Tariff Liberalization in the Forest Products Sector

Communication from Canada, Hong Kong China, New Zealand, Thailand and the United States

The following communication, dated 14 October 2005 is being circulated at the request of the Delegations of Canada, Hong Kong China, New Zealand, Thailand and the United States.

I. GLOBAL TRENDS

1. The forest products industry is one of the world's largest industrial sectors, with reported annual sales of US\$950 billion and a gross value-added estimated at about US\$354 billion. World trade in forest products is valued at approximately US\$200 billion¹, and has quadrupled over the last three decades.

2. The forest products industry makes an important contribution to the standard of living in developed and developing countries alike. Employing over 13 million people in nearly 200 nations, the forest products industry is an economic engine and a vital part of the global environmental and social fabric. In many developing (and developed) countries, forestry and forest products processing is important for economic development and the livelihood of rural communities. People depend on the goods produced by the world's forest products industry on a daily basis. The forest products sector includes products such as wood (logs, lumber veneer, panelling and engineered wood products, flooring, decorative items, furniture parts and accessories), and pulp and paper products (all mechanical and chemical pulp, paper and paperboard packaging such as kraft paper and linerboard and folding boxboard, newsprint, printing and writing paper, specialty paper, and sanitary products). Forest products are derived from one of the world's few renewable resources and supply the base material for a significant number of other key world industries.

II. BENEFITS OF A FOREST PRODUCTS SECTORAL INITIATIVE

3. Liberalization in the forest products sector would increase market access and offer WTO Members an opportunity to enhance their competitiveness by lowering input costs and by setting the stage for increased investment in forest products processing industries. In addition, a sectoral agreement on forest products would effectively address the "tariff escalation" problem, where protection for goods at more advanced levels of processing often runs as high as 20%. Therefore, imposing tariffs on forest products unnecessarily raises the prices of finished goods, while also providing disincentives for producers to optimize the use of their raw materials and diversify their export base. Currently, the average applied tariff rate in forest products for WTO members is 11%.

¹ Compiled from FAOSTAT Forestry database.

The average bound rate is 36%. Some progress has been made to reduce tariffs in the forest products sector, as evidenced by the eight Members who signed on to the paper and pulp agreement during the Uruguay Round and the ten Members that committed to join in their accession packages. Further liberalization in the forest products sector would potentially include wood products, which were not part of the Uruguay Round and may have tariffs as high as 25%. Lower tariffs would reduce the input costs for many paper and pulp products.

4. Developing countries in particular stand to make significant gains from a sectoral agreement on forest products. It is estimated that, for paper and paperboard production, developing countries might increase their share of world production from 33.7% in 2003 to 39.2% in 2009². This level well exceeds anticipated rates in the traditional producing regions of North America and Western Europe. A similar pattern is evident in wood products, in which global exports have grown by over 24% since 1998.³ In 2002, developing countries represented 12 of the world's top 20 exporters of wood products.⁴ Their dominant position in the trade of a number of specific product categories makes them well-placed to capitalize on new opportunities. A number of developing countries have also sharply increased their share of global trade in forest products. For example, forest product exports from seven geographically dispersed countries – Brazil, China, Chile, Indonesia, Malaysia, South Africa and Thailand – have increased by 47% since 1998⁵. Wood product exports alone have increased 45% among these countries since 1998.⁶ The growth experienced by these countries and others illustrates the changing nature of trade in the forest products industry.

5. At a time when the world is increasingly concerned about the sustainability of its natural resources, trade barriers on forest products have the effect of distorting harvesting decisions and the flow of investment capital. Tariff liberalization would increase forests' intrinsic value and foster long-term planning focused on sustainability, providing substantial commercial, social and environmental benefits.

6. Forest products – unlike competing goods – are derived from one of the world's few renewable natural resources. They are also recyclable and help reduce greenhouse gases by storing carbon dioxide from the atmosphere. Wood products are leaders in environmental performance in terms of water quality, air pollution and energy efficiency. For example, it takes significantly less energy to produce a wood product than a similar product made from competing materials such as concrete and steel, and wood production yields fewer carbon dioxide emissions than production of competing materials. Sound forest policies that encourage law enforcement, good governance and sustainable forest management are far more effective tools to protect the environment than tariffs.

III. BUILDING A FOREST PRODUCTS SECTORAL USING CRITICAL MASS

7. Like other sectoral initiatives, this forest products proposal is driven by industry interest. The *Santa Catalina Group*, which has industry representatives from both developed and developing countries,⁷ has met with NAMA negotiators on several occasions to discuss its members' priorities. Responding to this strong interest, WTO Members have met on a number of occasions to explore the possibility of a sectoral agreement. Discussions are maturing and participation has increased, particularly from developing countries.

8. Critical to the success of any sectoral agreement is the participation of major exporters and importers of the goods in question. In the Information Technology Agreement, for example, Members

² Compiled from RISI data, "International Paper and Paperboard" in RISI World Pulp & Recovered Paper Forecast, April 2005.

³ Compiled from United Nations Merchandise Trade data.

⁴ Compiled from Global Trade Atlas data.

⁵ Compiled from World Trade Atlas data.

⁶ Compiled from United Nations Merchandise Trade data.

⁷ Santa Catalina Group represents forest industry associations from Australia, Canada, Chile, New Zealand, South Africa and the United States.

aimed for participation representing 90% of global trade in information technology products. Currently, 63 Members participate, representing more than 95% of global trade. This demonstrates that additional Members recognized the benefits of participation and signed on.

9. Members are participating in the forest products discussions without prejudice to their ultimate decision about whether to join the agreement. They are discussing how to define critical mass in the sector and will also decide on product coverage, the form of liberalization (e.g., harmonization and/or elimination), and provisions for developing countries. This approach encourages all interested Members to participate in the negotiations, including those that may not currently be major traders but see future opportunities for economic growth and investment in the forest products sector.

IV. PRODUCT COVERAGE

10. In the Uruguay Round, a group of WTO Members⁸ agreed to eliminate tariffs in the pulp, paper and paper products sector. Current discussions centre on the expansion of both participation and product coverage in that agreement. In order to maximize interest among participants, this initiative should be as comprehensive as possible. Product coverage should include Harmonized System Chapters 44, 47, 48 and 49, and additional products in Chapter 94 (e.g., some furniture items and pre-fabricated buildings).

Ch. 44	Wood and articles of wood; wood charcoal
Ch. 47	Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard
Ch. 48	Paper and paperboard; articles of paper pulp, of paper or of paperboard
Ch. 49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans
Ch. 94	Products made of wood such as certain furniture items and pre-fabricated buildings

V. SPECIAL AND DIFFERENTIAL TREATMENT

11. Special and differential treatment for developing countries is one important component of a forest products sectoral agreement. Flexibility could be provided in a variety of ways, taking into account the size and export competitiveness of the Members' forest products industries. Possible options might include, but are not limited to, the following:

- Varied implementation periods to accommodate different needs
- Zero for X (some Members eliminate tariffs while others reduce and harmonize them)
- Limited product exemptions
- Participation credits (if this is agreed as part of the modalities for the formula).

⁸ Group of WTO Members included Canada, the European Union, Hong Kong, Japan, Korea, New Zealand, Singapore and the United States.