



WORLD GROWTH

Green Protectionism: *The New Tool Against Forestry in Developing Countries*

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EXECUTIVE SUMMARY

In both Australia and the United States, paper producers have pushed for trade restrictions against cheaper paper products from Indonesia and China, on grounds they are dumped or subsidized.

At the same time, environmental campaigners lobby to restrict imports of forest products from developing countries because they are unsustainable or “illegal”. Their real aim is to halt forestry.

Using trade controls to limit cheaper imports is not new, although modern international trade law now makes it difficult. Resorting to trade barriers by older industries in industrialized economies to limit more competitive product from emerging economies is common in the globalizing world economy.

On the other hand, efforts by campaigners to use trade bans to enforce environmental goals is relatively new. International trade law also limits the scope for that. Green groups argue this should change, arguing that the environmental concerns should take priority over all else.

The fact is, developing countries do not agree the environment is more important than economic growth. Developing countries consistently rebuff the position of campaigners at international environmental meetings. This was most recently illustrated at the Copenhagen climate change summit.

The world’s leading environmental groups – Greenpeace, the World Wide Fund for Nature (WWF), Friends of the Earth and the Rainforest Action Network – have therefore taken to lobbying legislators and officials in Washington DC and Brussels. They are pushing for trade bans on developing countries to pressure them to change environment policies.

The forestry industry is the latest target for this strategy.

A lurid case has been painted against forestry. The case ignores the strategies most developing countries have in place to protect biodiversity. Rates of illegal logging have been exaggerated. Commercial forestry and plantation industries have been wrongly dubbed the leading drivers of deforestation and loss of

biodiversity. The rate of carbon dioxide emissions from forestry has been exaggerated, if not erroneously and mischievously calculated.

These campaigns are constructed to advance the declared aim of international campaign groups such as WWF and Greenpeace: cessation of conversion of forest land in developing countries to other, more productive purposes. The European Union (EU) now has a similar policy goal and is using trade leverage to advance it in three ways.

First, the EU has a Forestry, Environment, Governance and Trade (FLEGT) program, under which it threatens to restrict imports unless developing country exporters apply EU standards in forestry. It also demands developing country exporting partners to surrender their WTO rights to resist such trade coercion.

Second, the EU has also tied restrictions on imports of biofuel – including wood pellets – to compliance by exporters with EU forestry and land management standards.

Third, the European Parliament has adopted a “Due Diligence” directive which will obligate all purchasers of timber products, including imports, to demonstrate they are legally produced.

In a related provision in the United States, the Lacey Act prohibits the purchase of products which are illegal in other countries, including nominated forest species. Now, environmental activists, agricultural protectionists, labor unions and the paper manufacturers have come together to argue that if forest conversion in developing countries is restricted, developing countries would produce less low-cost food and forest products. Less competitive producers in the US would benefit from this. In Australia, Greens are lobbying the Australian Government to either mimic the EU-FLEGT system or the Due Diligence model.

Finally, at the UN climate change negotiations in Copenhagen, a large contingent of environmental campaigners and the EU pressed for agreement to measures which would prohibit further conversion of forest land, but failed.

Green protectionism is alive and well. But it is only one half of the strategy. A global campaign has also been launched to pressure multinational and internationally branded companies to demand suppliers in developing countries comply with Green demands. This is part of a long-term strategy laid out by WWF almost a decade ago.

In the past 12 months, Greenpeace, Friends of the Earth and the Rainforest Action Network have attacked the reputations and leading brands of major corporations such as Gucci, Unilever, and Nestle to pressure them to cease buying from producers in developing countries. A number have folded under the pressure; some have held out.

The industry is fully familiar with the tactic of pressuring major downstream producers of pulp and paper and timber products to adopt Forest Stewardship Council (FSC) certification. A number have complied, in full knowledge supplies of FSC product are simply not available to meet demand. A number of these companies have even joined “industry-based” networks to demonstrate formal support for the Green agenda.

Is this a strategy by campaign groups to take control of global markets in pulp and paper? Could they succeed? A number of companies think not but are keeping quiet. How will these companies unbind themselves from agreements with campaigners that restrict their sources of supply? Can they afford to deny themselves access to the cheapest source of supply to service their own and the rapidly growing emerging markets?

Some companies have adopted new sustainability policies to protect their brands and brand names. They mistakenly think this is a cost-effective way to protect their investment in their brands. Campaigners’ attacks on brands have a relatively low cost, perhaps a few millions dollars. Major brands are worth tens if

not hundreds of millions of dollars. Choosing not to defend brand integrity and instead make these brands hostage to activists in developed countries is risky.

Raising input costs from more expensive suppliers also presents a risky strategy. More risky yet is the possibility of alienating growth markets. Will Indonesian consumers look favourably upon more expensive brands that they know have deliberately boycotted Indonesian forest products and put Indonesian jobs at risk?

Sustainability, corporate affairs and brand managers will have a tough time when company boards and shareholders work this out. It may get even rougher in emerging markets. When Unilever indicated it would restrict imports of palm oil from Indonesia, it sparked a protest in central Jakarta. With a rapidly growing population of 220 million people, Nestle should be listening.

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ACRONYMS AND ABBREVIATIONS

Acronyms and Abbreviations

CSR	CORPORATE SUSTAINABLE RESPONSIBILITY
DFID	DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
DOC	DEPARTMENT OF COMMERCE (US)
ENGO	ENVIRONMENTAL NON-GOVERNMENT ORGANIZATION
EU	EUROPEAN UNION
FAO	FOOD AND AGRICULTURE ORGANISATION FOR THE UNITED NATIONS
FLEGT	FOREST LAW ENFORCEMENT, GOVERNANCE AND TRADE
KCA	KIMBERLEY-CLARK AUSTRALIA
MT	MILLION TONNES
NGO	NON-GOVERNMENT ORGANIZATION
PEFC	PROGRAMME FOR THE ENDORSEMENT OF FOREST CERTIFICATION
PNG	PAPAU NEW GUINEA
RAN	RAINFOREST ACTION NETWORK
SCA	SVENSKA CELLULOSA AKTIEBOLAGET
SFM	SUSTAINABLE FOREST MANAGEMENT
UN	UNITED NATIONS
UNFF	UNITED NATIONS FORUM ON FORESTS
US	UNITED STATES
USAID	UNITED STATE AGENCY FOR INTERNATIONAL DEVELOPMENT
USW	UNITED STEELWORKERS UNION
VPA	VOLUNTARY PARTNERSHIP AGREEMENT
WCFSD	WORLD COMMISSION ON FORESTS AND SUSTAINABLE DEVELOPMENT
WSSD	WORLD SUMMIT ON SUSTAINABLE DEVELOPMENT
WTO	WORLD TRADE ORGANIZATION
WWF	WORLD WIDE FUND FOR NATURE

INTRODUCTION: WHAT IS GREEN PROTECTIONISM?

There has been a major shift in popular views on the environment in the past two decades. There has also been an increased emphasis on implementing a global environmental agreement on climate change.

The European Union has imposed environmental constraints on many industries, reducing their competitiveness. This has generated pressure from European industry to restrict cheaper imports from economies, particularly developing countries. The resulting push to implement new global measures to protect the environment by developed countries – has for the better part ignored the development imperatives of many developing and emerging economies.

At the same time, deteriorating global financial health has been accompanied by a resort to protectionism by industries that have found themselves in poor health during the current crisis. Among these have been protectionist policies that are masqueraded as environmental policy.

At a broad level these include ‘green’ measures contained within national economic stimulus packages that have little measurable economic benefit. At a more specific level they include attempts to exclude imports based on arbitrarily defined sustainability criteria.

These measures are best described as ‘murky’. Murkier still are campaigns from environmental groups against imports from developing countries that have found themselves new partners: struggling industries in developed countries.

Most recently, the agricultural sector in the developing world has found itself at the wrong end of this campaign.

A new report from the protectionist wing of the United States’ farm industry and US-based environmental campaigners argues that conversion of forestlands in developing countries to more productive uses should be stopped so that growth in more competitive agriculture and forestry in those developing countries can be curbed, protecting markets for US farmers and paper producers.¹

New forms of trade protection that are being developed in the European Union and United States. They have little or no regard for the welfare of poor communities in the developing world that require changes in land use to feed growing populations. Nor do they have any regard for the principles of free markets and open competition.

This combination of environmental campaigning and industry lobbying is particularly dangerous for forest industries in developing countries.

This paper examines the proposed and existing green protections that are facing the forest industry in developing and emerging economies and their possible impacts. It also provides a basis for how the industry and governments in developing and emerging economies can respond.

1. Shari Friedman. Farms Here, Forests There: Tropical Deforestation and U.S. Competitiveness in Agriculture and Timber. David Gardiner and Associates. 2010



2. WHY PROTECTIONISM?

Protectionism by developed countries against emerging economy industries is on the rise. The environment for protectionism has been exacerbated by the current global financial crisis. There are two types of protection being undertaken.

The first is conventional – it uses barriers such as anti-dumping measures and countervailing duties against allegedly subsidised industries in other countries. There has been a recent and significant increase in anti-dumping and countervailing duty complaints – particularly in the US.²

The second is new. It involves the imposition of new environmental regulation of natural resource industries and downstream and manufacturing. Controls on imports from many developing and emerging economies are being imposed to protect these less competitive producers.

Pulp and paper exports from emerging economies have found themselves subject to both types of protectionism. The conditions that have given rise to this protectionist environment are both economic and political. They are explored below.

Shifts in global markets

Global pulp and paper markets have changed significantly over the past 20 years.

The past 20 years has seen a transition from ‘traditional’ pulp producers – Northern and Western Europe and North America – to new and emerging producers in Latin America and South-East Asia. New producers were responsible for less than 10 per cent of woodpulp production in 1990; they are projected to make up 30 per cent of the market in 2015. The share of traditional producers in industrialized global markets is projected to fall from almost 80 per cent to under 50 per cent by 2015.³

The key factor in this shift has been increased Chinese demand for pulp and paper products. Chinese demand for wood pulp has tripled in the past 20 years.⁴ In 2009 China purchased 13.68Mt of market pulp – a 44 per cent increase on 2008, representing more than 29 per cent of global market pulp,⁵ outstripping previous projections.⁶

While Europe’s share of world paper and board production was stable between 1980 and 2005, North America’s share declined substantially to 23 per cent from 47 per cent, while Asia’s share has increased to 35 per cent from 23 per cent.

Since the events of 2008, EU consumption of paper and paperboard has fallen and Chinese consumption has increased. In 2008, paper and paperboard demand deteriorated in North America (-7.4%) and Europe (-3.7%). China’s year-on-year consumption increased by 8.7 per cent in 2008.⁷

These shifts have been nothing short of monumental.

Canada’s exports of pulp have soared over the past five years (24.4 per cent year on year) to keep up with Chinese fibre demand, as have Chilean (21.4 per cent year-on-year) and Indonesian (24.6 per cent year-on-year) exports.

Chinese and Indonesian paper exports have also experienced double-digit growth for the past five years, although only making up just over five per cent of global exports.

2. G. R. van der Werf, D. C. Morton, R. S. DeFries, J. G. J. Olivier, P. S. Kasibhatla, R. B. Jackson, G. J. Collatz & J. T. Randerson. CO2 emissions from forest loss. *Nature Geoscience* 2, 737 - 738 (2009)

3. Nils Grafstrom. *Paper, Packaging and Forest Products*. Stora Enso Latin America. 2007.

4. American Forest & Paper Association. *Wood for Paper: Fiber Sourcing in the Global Pulp and Paper Industry*. Prepared by Seneca Creek Associates, LLC. 2007

5. Dave Hillman. “China’s Pulp Purchases Reach 13.68 Million Mt in 2009” Paperage, February 12 2010.

6. Mercer International. “Over Capacity, Low Pricing and Lack of Investment”. Mercer, 2009

7. United Nations Comtrade Database statistics

But the nature of the market requires a closer examination of specific paper products. The paper products with the clearest export growth from China are coated free sheet and sanitary papers. There has been similar growth in exports from Indonesia. These two paper products have been under the most scrutiny from trade administrations and subject to the most lobbying for protectionist measures in the EU, US and Australia.

Shifts in environmental politics

The forest industry in developing countries has successfully been demonized over the past two decades. This has been driven by the progressive globalization of environmental politics, which has prompted a global campaign to restrict or prevent commercial forestry -- either by limiting natural forest harvesting or limiting conversion of natural forests to plantations and for agricultural production.

The campaign has focused on a number of key issues, the sum total of which aim to restrict forestry in developing countries. Environmental campaigners initially campaigned against commercial forestry; they have since broadened this campaign to limit agricultural production and plantations. In all cases, the claims by environmental campaigners against the forest industry have been grossly exaggerated. They are summarised below.

Illegal logging

In 2000, Greenpeace claimed that 90 per cent of timber extraction in the Amazon was illegal and that it presented the 'greatest threat' to the Amazon's forests.⁷ In 2004, it made similar claims against the Papua New Guinea (PNG) and Indonesian forest industries. In all cases, no robust or defensible methodologies support the claims. Moreover, they have ignored all expert assessments on illegal logging on the public record which question the extent of the claims on illegal logging.

A vast majority of the statistics on illegal logging activity and associated trade are reported by environmental NGOs, which analysts suggest serve to exaggerate estimates to support of their own agenda.^{9 10}

The same figures for illegal logging tend to be repeated time and again by environmental groups, often according these numbers undue legitimacy. For example, it is often stated that 50 per cent of logging in Cameroon is illegal.¹¹ Yet a detailed examination of the figure quoted traces the number back to a 2001 ENGO estimate that gives no methodology or sourcing, or to a misquoting of figures on the nature of permits for logging rights.¹² Rigorous studies indicate that the rate of illegal logging in Cameroon was closer to 9 per cent.¹³

Climate change

It is accepted by most within the climate change community that deforestation in developing countries is responsible for 18 per cent of global emissions. Often this figure is rounded up to 20 per cent in public statements by environmental campaigners.

Recently there have been a number of studies that have cast doubt on this figure, stating that 12 per cent is a more likely number.¹⁴ The common presumption is that most of these emissions are generated in the tropical regions; yet it is estimated that temperate and boreal forests contain more than twice as much carbon as tropical forests.¹⁵

The forest industry, particularly the consumer pulp and paper sector, and more recently the palm oil industry, have borne the brunt of the pressure in the public debate. The facts have played little role to date. According to the United Nations Framework Convention on Climate Change (UNFCCC), just 14 per cent of all deforestation can be attributed to commercial forestry.¹⁶ At best, forestry's emissions from deforestation would contribute to less than 1.7 per cent of greenhouse emissions based on these numbers.

8. Greenpeace USA. The Amazon's Major Threat: Illegal Logging. Greenpeace USA, 2000

9. Seneca Creek Associates, LLC (2004). "Illegal" Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry. Prepared for American Forest & Paper Association

10. Department for International Development (2007). Crime and Persuasion: Tackling Illegal Logging, Improving Forest Governance

11. WWF (2005). Failing the Forests: Europe's illegal timber trade. WWF UK, Surrey, United Kingdom.

12. Tacconi, Luca (ed.) (2007). Illegal Logging: Law Enforcement, Livelihoods and The Timber Trade. Earthscan Forestry Library. London

13. Cerutti, P., & Tacconi, L. (2006). Illegal logging and livelihoods. CIFOR Working Paper No. 35. Bogor: CIFOR

14. G. R. van der Werf, D. C. Morton, R. S. DeFries, J. G. J. Olivier, P. S. Kasibhatla, R. B. Jackson, G. J. Collatz & J. T. Randerson. CO2 emissions from forest loss. Nature Geoscience 2, 737 - 738 (2009)

15. Carlson, M., Wells, J., Roberts, D. 2009. The Carbon the World Forgot: Conserving the Capacity of Canada's Boreal Forest Region to Mitigate and Adapt to Climate Change. Boreal Songbird Initiative and Canadian Boreal Initiative, Seattle, WA, and Ottawa. 33 pp.

16. UNFCCC, 2007. Investment and financial flows to address climate change. United Nations Framework Convention on Climate Change.

Biodiversity

The perception of forestry in the global environmental debate is that it is the enemy of flora and fauna. This perception rests on two assumptions. First, that forestry – plantation or natural – is a major cause of deforestation and therefore biodiversity loss. Second, that forest plantations harbor no biodiversity.

While poor forest management of natural forests will inevitably lead to degraded forests or deforestation, the attribution of the majority of deforestation to the forest industry is unwarranted, as demonstrated above. Accusations against the plantation forest industry that it is responsible for the majority of forest loss are equally unwarranted. The FAO reports that of all deforestation – that is land use conversion from natural forest to other uses – just 7 per cent can be attributed to plantation forestry. The remaining 93 per cent of the conversion is a function of agricultural expansion.

Similarly, forest plantations have demonstrated that they can support biodiversity values. Examples of this include populations of Green Macaw species in plantation forests in Costa Rica,¹⁷ and the support for orangutan populations within acacia plantations in Borneo.¹⁸

Ethics and indigenous peoples

There has been a broad attempt by Western ENGOs to assert that their organisations' interests are aligned with local communities, and that these communities are threatened by forestry operations. This has manifested itself as the notion of 'forest dependent peoples'. It is now regularly asserted by environmental campaigners that more than 1.6 billion people are 'forest dependent', warranting broad preservation of forest landscapes.

The World Commission on Forests and Sustainable Development (WFCSD) made the original claim in 1999.¹⁹ A revised figure of 1.6 billion has since been used as the basis for World Bank Forest Policy,²⁰ and NGOs²¹ who use it to argue the case for subsistence-based and indigenous communities living within forests.

There is no basis for the WFCSD numbers. They are not sourced; and neither a methodology nor definition for the term "forest dependent" is provided. In 2000, a study commissioned by UK Department for International Development concluded there was "no reliable regional or global sources of data on forest-dependent peoples," noting also that WFCSD did not respond to requests for the basis of its data.²² High-profile World Bank reports still refer to these numbers.²³

These four issues have provided the backdrop for a broad campaign against forestry in developing countries. It has effectively paved the way for the implementation of a number of new environmental trade measures to be imposed against forest products from developing countries. These are explored in Chapter 3.

17. Daniel Piotto, Florencia Montagnini, Luis Ugaldea and Markku Kanninen. "Performance of forest plantations in small and medium-sized farms in the Atlantic lowlands of Costa Rica". *Forest Ecology and Management*. Volume 175, Issues 1-3, 3 March 2003, Pages 195-204.

18. Meijaard, E. (2009), 'Orang-utan conservation in Indonesia – achievements, new findings, challenges', Presentation delivered to the Orang-Utan Conservation Colloquium. November 1 2009

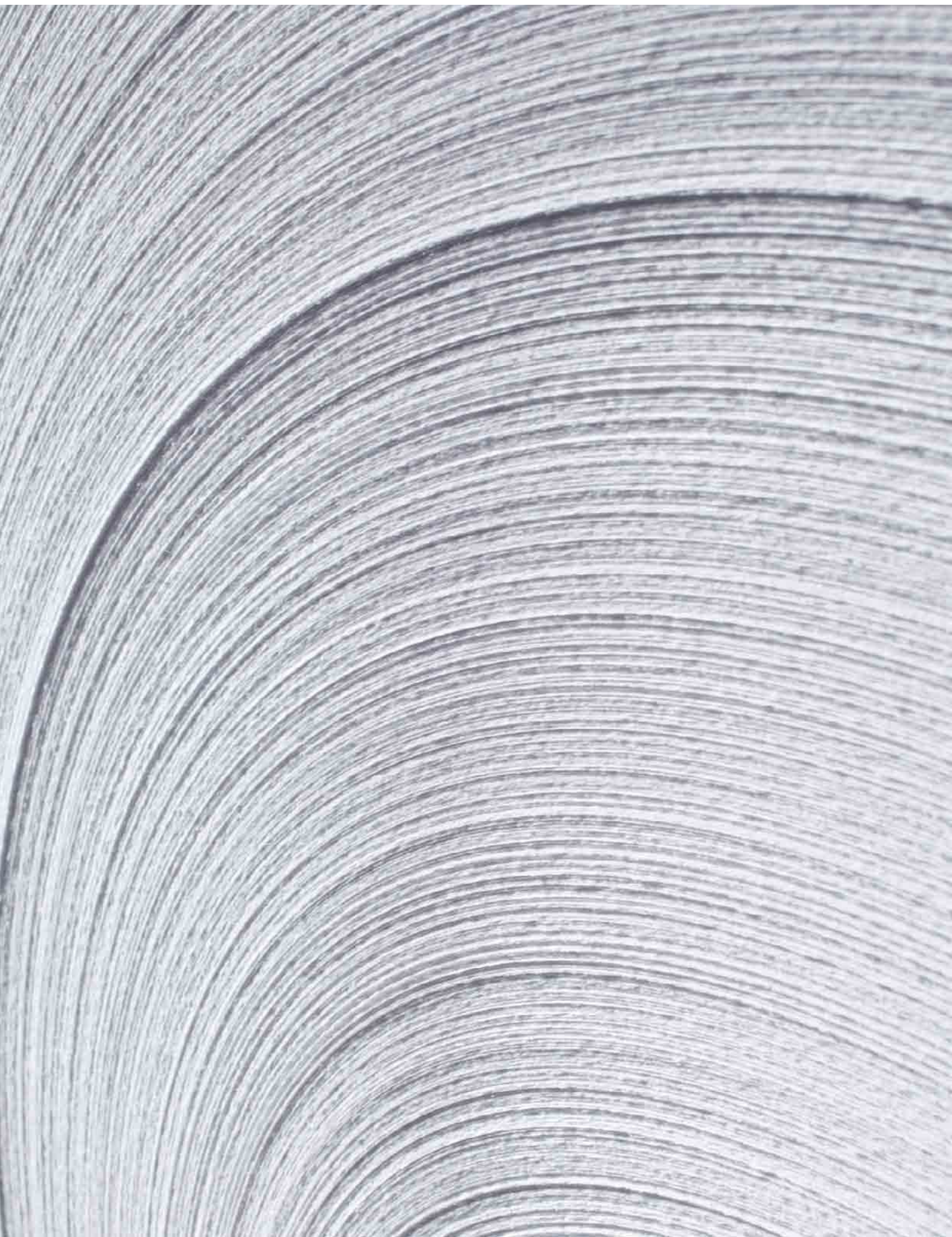
19. World Commission on Forests and Sustainable Development (1999). *Our forests – Our future*. World Commission on Forests and Sustainable Development, WFCSD, Winnipeg, Canada

20. World Bank (2004) *Sustaining Forests: A Development Strategy*.

21. Greenpeace (2008) "Greenpeace briefing on Commission forest package", accessed at <http://www.greenpeace.org/raw/content/sweden/rapporteur-och-dokument/greenpeace-briefing-on-commiss.pdf>

22. DFID (2000) *Numbers of Forest Dependent People - a Feasibility Study*. Calibre Consultants and University of Reading SSC. It should also be noted that while the World Bank acknowledged the DFID feasibility study in a 2005 document, it used the study to reinforce its revised estimate rather than indicating that the study was in fact a critique of both the estimate and the definition. Cf. World Bank (2005). *Development Policy Lending and Forest Outcomes: Influences, Interactions, and Due Diligence*. June 2005. The World Bank Agriculture and Rural Development Department.

23. World Bank (2008). *Forests sourcebook : practical guidance for sustaining forests in development cooperation* World Bank, Washington DC.



3. WHO WANTS PROTECTION?

Developed world industries calling for protection from emerging markets is nothing new. Nor is it anything new in the forest products market. The softwood dispute between the United States and Canada was highly political and immensely protracted. What is new is the alignment of the interests of business and the environmental movement in developing countries from developed markets.

The industry and trade protection

Shifts in the global pulp and paper industry have precipitated significant changes in pulp and paper businesses globally. This has affected specific lines of paper in developed countries where either fibre shortfalls, higher inventories, higher pulp prices or exchange rate fluctuations have adversely affected businesses.

The impact of these fluctuations has been exacerbated further by two factors. First, the global financial crisis has driven consumption down in developed markets. Growth is stagnant and likely to remain so. The crisis has also made credit conditions tougher. For highly leveraged companies, rolling over debt has become more difficult and financing new capital investments has been close to impossible. This leads on to the second, more long-term factor: ageing investments. The lack of investment in developed countries has seen costs blow out relative to newer producers – specifically China – where many years of capacity expansion has seen it become the world leader in paper making.²⁴

Each of these factors has affected parts of the industry differently. They are outlined in two case studies below.

Australian tissue paper

Australia's two largest tissue manufacturers, Kimberley Clark Australia (KCA) and Svenska Cellulosa Aktiebolaget Hygiene Australasia (SCA) have been struggling in the Australian market – SCA more than KCA. Industry projections indicate that the profitability of both will continue to decline. They are relatively inefficient and their wages budgets are bloated by a highly unionised workforce.

KCA is the most profitable firm in the Australian market as it has access to less expensive raw materials and manufactures on a large scale, at least by Australian standards.²⁵ KCA's nearest competitor, SCA, has suffered significant losses over recent years totalling in excess of A\$85 million from 2006-2009.

The newest entrant to the market, ABC Tissue, has enjoyed consistent sales growth since 2000-2001. The company initially experienced negative growth in the years 2004-2007, attributable to corporate and capacity expansion. ABC Tissue's sales growth can also be attributed to the company's low input costs for labour due to its reliance upon non-organized labour.

24. Jaako Jokinen. Presentation: Andritz Capital Market Days. Poyry Forest Industry Consulting, 2009

25. IBISWorld. 2008, Tissues and Other Paper Products Manufacturing in Australia, IBISWorld Industry Report C2339, 11 June

Australian industry profitability is estimated to have risen over the three years up to 30 June 2005 and to have declined since that date.²⁶ The industry's profit ratio (value-added, minus labour costs divided by revenue) was 18.6 per cent in 2002. This rose to 20.6 per cent in 2004-05, but fell to 16.8 per cent in 2006-2007. This can be attributed to falling selling prices for tissue and sanitary products as well as higher imported pulp prices. These trends have been expected to continue due to rising input costs and strong competition in the Australian tissue market from domestic producers and imported products. One analyst predicted the profit ratio would fall to 15.6 per cent in 2008.²⁷

At the same time that ABC Tissue took a significant market share, KCA and SCA found themselves with another competitor – Australian private label supermarket tissue, which was imported from both China and Indonesia. Both KCA and SCA called for an anti-dumping investigation by Australian authorities. At the same time, Australia's pulp and paper workers' union ran a campaign to question the environmental credentials of the supermarket private label products. It led to the dropping of Indonesian and Chinese paper by the supermarkets.

The anti-dumping investigation eventually found that it was not the imported tissue that was damaging the business of the two major Australian companies but the more competitive product of the newer Australian competitor. Nevertheless, the established Australian companies have lobbied the Australian Government to impose anti-dumping duties. They also supported environmental campaigns to restrict imports of timber and paper products, supposedly to control the incidence of illegal logging in the Asia-Pacific.²⁸

US coated paper

Coated paper consumption in the United States has been declining over the past few years, as have imports. Yet the overall percentage of imports as a percentage of US market share has remained relatively steady. What has changed is the percentage of imports from China and Indonesia, which have increased.

Early in 2010, the United States Department of Commerce (DOC) handed down a preliminary finding to place countervailing duties (i.e. tariffs) on imports of coated paper from China and Indonesia. The finding followed a investigation that was commenced in 2009, and was almost a repeat of a similar case presented to the United States International Trade Commission in 2005.

The petitioners in the case were the United Steelworkers Union (USW) and three paper companies: Sappi Papers, NewPage and Sequana Capital (as Appleton Coated Papers). The petition was also supported by the 'Blue Green Alliance' – a coalition between the USW and a number of environmental campaign groups, including Rainforest Action Network, Natural Resources Defence Council and the Sierra Club.

Sappi, in particular, has found itself on the wrong side of the financial crisis. In 2008 it finalized a major investment in Europe, purchasing the operations of M-Real, a major paper producer and forester in Europe. However, it currently holds more than US\$2 billion in debt and recently announced a new capital-raising to improve its debt profile. It reported a net loss in January 2010 of US\$51 million, compared to a net profit 12 months earlier. It has been steadily reducing capacity and has stated publicly that overcapacity in the global coated market is posing problems for the company.²⁹

NewPage has been following the model undertaken by most US businesses in the midst of the financial crisis: it has been clearing inventories. But its future is clouded; it ran a loss of more than US\$300m in 2009, more than double that of 2008.³⁰ It is burdened by heavy debts, with interest payments alone costing the company more than US\$400m last year. It has specifically cited drops in demand for coated papers and difficulty competing with Chinese and Indonesian imports for its financial woes.

Sequana, which owns Appleton, is holding the fort in trying business circumstances. Its balance sheet has improved. However, its profits took a massive hit in 2008, going to a US\$630m loss from a US\$135m profit in the previous year.

26. IBISWorld 2008

27. Ibid.

28. Australian Customs. Certain toilet paper Exported from The People's Republic of China and The Republic of Indonesia: Findings in relation to a dumping reinvestigation (REP 158). 2010

29. Nicky Smith. "Sappi Posts First-Quarter Loss After Closing". Mills http://preview.bloomberg.com/apps/news?pid=newsarchive_en10&sid=aTpFLXZEjHl. January 28 2010

30. NewPage Corporation. "Release: Newpage Announces Fourth Quarter And Year-End 2009 Financial Results: Miamisburg, Ohio - February 18, 2010".

Coated fine papers are used to a large degree for consumer products such as high-end shopping bags, children's books and magazines.

A number of US environmental campaigners, specifically the Rainforest Action Network, launched public actions aimed at purchasers of high-end shopping bags and children's books to pressure them to cease purchasing product from Indonesia on the grounds this would reduce deforestation.

A recent report promoted by the National Farmers Union (one of the leading protectionist groups in the US), the US union covering forestry workers and the US pulp and paper industry has argued that imposing deforestation restrictions on developing countries would benefit US farmers and pulp and paper producers. The economics of the argument were that less cheap product would enter the US market. There has, therefore, been a direct alignment between the aims of commercial operators, unionized labour and environmental campaigners to impose trade restrictions on imports of Chinese and Indonesian paper. It is a classic case of trade protectionism.

NGOs and trade restrictions

Strategies undertaken by environmental campaigners to curb forestry in developing countries have been complex. Historically they have attempted to pressure developing countries to limit forestry through multilateral agreements in intergovernmental organizations.

These proposals have been met with stiff resistance. A proposal to agree on a global convention on forestry at the 1992 United Nations Conference on Environment and Development (the 'Rio Earth Summit') was rebuffed by Malaysia, Brazil and other developing countries.

Following this failure, the term "illegal logging" emerged as part of a broad campaign leading up to the 2005 United Nations Forum on Forests (UNFF) meeting, where a global convention on forestry would again be considered. But, again, the Green groups were snubbed. A convention will not be considered again until 2015.

Environmental campaigners have therefore needed to change tact by attempting to influence trade policy and by campaigning against the private sector.

Trade coercion

Key environmental campaign groups (Greenpeace, Worldwide Fund for Nature, Friends of the Earth and the Rainforest Action Network) have campaigned for years to have new grounds added to the World Trade Organization (WTO) to justify trade restrictions to protect the environment.

WWF has played a leading role campaigning against the WTO. It was a key member of the Eco-Equity Coalition of Green and anti-free market NGOs at the World Summit on Sustainable Development (WSSD) at Johannesburg in September 2002.

WWF has promoted anti-WTO positions for almost two decades. The WWF position on WTO reform has three core goals:³¹

- legitimize the right of countries to restrict imports if environmental standards in the exporting country are inadequate
- use trade sanctions in international environmental agreements to force compliance with the agreements by other parties
- integrate environmental objectives into the WTO and other trade agreements.

These goals have found ready allies in the Environment Directorate in the European Commission. These interests, heavy lobbying by NGOs and a very sympathetic political environment in Brussels has resulted in the implementation of policy initiatives that restrict trade in forest products. These measures are explored in the next chapter.

31. See "Trade and Investment: Seeking reform of global trade and investment policies" at www.panda.org, accessed November 2002.

Global Strategy for the Private Sector

In most industrialized countries there is pressure from environmental campaigners to reduce or halt commercial forestry. In northern Europe, North America and Australia, where best-practice sustainable forest management (SFM) is undertaken, campaigners lobby to reduce areas available for commercial forestry.³² These campaigns have had some success; areas available for production forestry in natural or native forests has progressively reduced in the US and Australia. More recently in Canada, a ‘truce’ between campaigners and the industry was called after a protracted campaign against the industry.

However, most governments will not end production forestry in natural forests, nor will they agree to negotiate a global convention on forestry, an unsatisfied ambition of forestry environmental groups since the Rio Summit in 1992. The reasons for this are primarily economic – the industry provides substantial employment, particularly in rural areas, and provides a raw feedstock for many manufacturing industries.

Consequently, it has been a clear strategy of international environmental campaigners to pressure the private sector to adopt policies to advance their own environmental goals that governments will not.

In the forest sector, these campaigns have created a need for forest businesses to publicly demonstrate they are respecting the environment. For some businesses this is a practical course of action; such measures are incorporated into corporate social responsibility (CSR) programs. The most common response for forest companies is to adopt certification systems to verify practice of sustainable forest management (SFM).

Other businesses follow the same course because campaigners make it clear their corporate reputation is at risk unless they comply. This is referred to by some business commentators as ‘Greenmail’.

A second reason campaigners pressure forest and timber businesses in industrialized economies to adopt privately-based SFM certification systems is to have them exert pressure on suppliers from developing countries to apply similar values in their production processes. This also extends to other businesses such as packaging or paper manufacturers or printers that purchase pulp or paper from foreign suppliers.

This is a declared strategy of campaigners. Pressure is also exerted on financial institutions that provide services to forest industries in developing countries to require producers to adopt ENGO SFM values. These SFM values manifest themselves under the Forest Stewardship Council (FSC) certification system. The tactics deployed to coerce businesses into FSC certification are explored in the next chapter.

32. The campaigns vary according to the locale. They can be to stop forestry in “Old Growth” forests, to protect “High Conservation Values” (a set of indicators deployed by FSC), to protect the forest landscape (this is not strictly an environmental value, but an aesthetic value), or to insist that a higher proportion of recycled material be used in paper products to reduce sourcing from natural forests. It is common to identify species in specific locales which are considered to be threatened or endangered, even if national biodiversity strategies establishing such programs at a national level have already been established.



4. WHAT ARE THE NEW TRADE BARRIERS?

There are two clear spheres for restricting trade of forest products into developed country markets: government-imposed regulations on imports of forest products, and pressuring the private supply chain from developing to developed countries.

New barriers to trade

New trade restrictive policy measures on forestry and climate change are now being instituted by the EU and to a lesser extent the US. Two new EU measures - one to encourage consumption of renewable fuels instead of those derived from fossil fuels, and another to ensure that trade in timber products has been legally harvested - have recently been put in place.

While seemingly legitimate policy goals, both measures restrict trade. They operate to indirectly influence forestry and land-use policy in third, mainly developing, countries. This is despite World Trade Organization (WTO) rules to support open trade and the recent commitment by G20 Leaders not to raise trade barriers in the wake of the Global Financial Crisis.

It is overarching EU policy that environmental issues be addressed in every directive. Instead of absorbing the cost of these environmental measures, it is increasingly common for them to include measures which impose trade restrictions on imports.

Restrictions on imports of renewable energy

The EU Renewable Energy Directive sets mandatory national targets for the use of renewable energy sources in EU Member states by 2020. Each EU Member must ensure that, in their country in 2020, the share of gross final consumption of energy from renewable sources is at least the national overall target for that year as fixed by the Directive. To be included in the contribution to the target, biofuels must meet mandated sustainability criteria³³ related to emissions and land use for the cultivation of biofuels. This includes ensuring that biofuels have not been made from raw materials obtained from land with high biodiversity value, high carbon stock or peatland. The measure would also therefore apply to biomass fuels, such as wood pellets.

The Directive's purpose is to encourage consumption of renewable fuels instead of those derived from fossil fuels - coal, oil and gas. It welcomes biofuels, which replace fossil fuels that generate high carbon emissions. Developing countries such as Indonesia, Malaysia, Brazil and Argentina are major biofuel producers and exporters to the EU market.

Its effects are twofold. The first is to afford protection to EU biofuels by restricting trade in cheaper and more competitive carbon friendly products which compete with EU biofuels in the EU market. Imports of biofuels produced by countries using materials from a tropical climate and landscape with high biodiversity (mostly developing countries) are not likely to meet the land-related sustainability criteria. Incidentally, these are the countries that have a comparative advantage in the production of these products.

The second is environmental. The broad goal is to pressure exporters not to reduce the size of their natural forests. The Directive threatens to block imports of biofuel from exporting countries unless they manage their forests in the way Europe approves. Its effect is to condition market access on compliance with EU policy.

Trade bans on timber products

The European Commission has developed the "Forest Law, Enforcement, Governance and Trade (FLEGT) program". Its professed aim is to encourage developing countries to work with the EU to stop illegal logging. The EU seeks to negotiate a "Voluntary Partnership Agreement" with developing countries. It seeks establishment of regulatory regimes in exporting countries which require producers to adopt verification systems which demonstrate timber exported has been legally produced. In turn the EU then asserts a regulatory right to impede such imports unless its own authorities verify the exporting nation has adopted the required procedures. These arrangements are then enshrined in a bilateral legal agreement.³⁴

33. As set out in Article 17 of the Directive.

34. See Duncan Brack, Yale Forestry Dialogue <http://research.yale.edu/gisf/tfd/logging/1L%20presentations.html>

Although termed “voluntary” the cooperation of the developing country must be regarded as taken in the context of trade coercion. The EU has threatened to cut off trade access if developing countries don’t participate. The Report from the Commission to the European Council and the European Parliament in 2003 on EU strategies to deal with illegal logging sets out an operational proposition that if developing countries don’t cooperate “voluntarily” the EU would reduce import access.³⁵

The effect of VPAs is to institute EU policy in exporting countries. This is regardless of whether it is the most suitable option for reducing illegal timber harvesting to encourage sustainable forestry. Illegal activity mostly represents the failure to enforce law, not the failure of law itself. Governments of the country where the illegal activity occurs have the sovereign right to determine how best to do that, not third countries.

Restrictions on illegal imports

The Due Diligence Directive also operates to restrict purchase of timber products including imports, unless the purchaser can demonstrate the product was produced legally. This is yet to be implemented by an EU member state. Since the overwhelming majority of European product is produced within the terms of national legislation, this appears designed to snare imported timber. A simple measure requiring demonstration of the legality of an import would probably clash with WTO rules which do not permit treatment of imports on terms different to comparable domestic products. The measure is similar to a law passed by the UK Parliament which was clear about its intent to use trade as a form of control over imports.

EU action has been mirrored in the US with passage of amendments to the Lacey Act.³⁶ This Act prevents sale in the US of wildlife, possession of which is illegal in the US or in other countries. The Act has been extended to cover protected plant species and was clearly intended to extend to species of trees. It obliges any US purchaser to demonstrate it has established that any wood product or product containing fibre has been checked to ensure no illegal species is included.

This measure will inhibit the import of timber, pulp and paper products into the US. It has been introduced in the US Just as anti-dumping action has been taken against imports of pulp and paper from China and Indonesia.

Carbon Tariffs

While details of how and if tougher targets to reduce greenhouse gas emissions are currently in limbo, there are proposals on the table in Brussels to levy carbon tariffs on imports if other countries do not match European cuts in emissions. There is similar thinking in the US Congress in respect of any US Emissions Trading Scheme.

This issue will not come to a head until these matters are resolved in international climate change negotiations, but the inclination in the EU to continue to use environmental trade barriers seems clear.

FSC - the NGO effort at trade coercion

Requiring compliance with the sustainability standards of the Forest Stewardship Council has become the leading tool of WWF and Greenpeace to restrict commercial forestry, particularly in developing countries.

This is the culmination of a long term campaign WWF to use external pressure on forest businesses to comply with the forestry standards it has failed to get Governments or international organizations to adopt. WWF laid out its strategy in a document published in 2001. It identified all the major global campaigns in the timber and pulp and paper industry and warned companies that their reputations and brands were at risk unless they applied acceptable sustainability standards.

Initially, WWF and related groups argued to companies that there is a commercial benefit in adopting the FSC system, that consumers will recognize the environmentally superior product through the FSC logo and pay the premium required to meet the cost of applying SFM.³⁷ However, neither large certified areas nor price premiums have emerged.³⁸

35. See EU, COM (2003) 251 Final – Communication from the Commission to the Council and the European Parliament – Forest Law, Enforcement, Governance and Trade – Proposal for an EU Action Plan, p 15 where the Commission indicates it will consider proposing legislation to ban imports of illegal timber products if no multilateral arrangements for this can be negotiated (i.e. under the FLEGT system).

36. See 16 U.S.C. SS 3371-3378 and amendments.

37. Costs are significant, similar to apply quality systems such as ISO 9000 and ISO 14000 across entire businesses.³⁷

38. Klooster, Dan (2006). Environmental Certification of Forests in Mexico: The Political Ecology of a Nongovernmental Market Intervention. *Annals of the Association of American Geographers*. 96(3), 2006.

Instead WWF and its allies (see “Good Cop/Bad Cop” below) have developed sophisticated techniques to pressure companies to adopt the FSC system and join WWF sponsored trade groups. The strategy is to focus on companies at the bottom of the supply chain (retailers, distributors, and consumer product manufacturers) to pressure the upstream parties (the logger and processors) to apply the FSC standard under threat of not purchasing their product.

Both Greenpeace and the Rainforest Action network openly pressure companies only to use FSC certification. Pushing companies to only accept FSC-endorsed feedstock in developed countries has a similar effect to trade restrictions on environmental grounds in that it restricts suppliers to FSC-endorsed companies. Other, more widely accepted certification systems under the PEFC (Programme for the Endorsement of Forest Certification Schemes) banner are not endorsed by any campaign groups. This is despite the systems being almost identical in their on-ground management of forests. Campaigners have gone so far as to launch smear campaigns against PEFC-endorsed certification systems, such as the US-based Sustainable Forestry Initiative (SFI). WWF has aggressively pressure government procurement agencies only to recognize the FSC standard and has campaigned against the PEFC scheme.

Business should be wary of FSC. It carries a high degree of business risk. Important corporate social responsibility and sustainability policies are effectively put into the hands of interests outside of the business. Environmental interests exercise a higher degree of control over the standard-setting and conformance process in FSC. This is due to three key reasons:

- the ‘three chamber’ voting system in FSC, where both social and environmental interests significantly outweigh business interests;
- the significance of ‘high conservation value forests’ within the system, which arbitrarily defines which areas can or cannot be used for forestry;
- the ability of the FSC secretariat to alter ‘rules of association’ at will.

WWF has demonstrated it will pressure FSC not to provide its certification standard to companies, even

if they have fully complied with all FSC requirements. FSC unilaterally withdrew the right of Indonesian paper company APP to use an FSC certification of source material despite being verified by an independent certifier that it met the standard. WWF never denied claims that it pressure FSC to take this action. It is now common practice for WWF and other environmental groups to pressure businesses who have signed up to its various standards to adopt other environmental standards at risk of having its reputation for being environmentally responsible publicly challenged if they do not.

Some companies when finding themselves in a position where they need FSC certification to supply in a particular situation, take the precaution of securing both FSC and PEFC certification. This gives some room to maneuver. In developed countries, the adoption of FSC presents few problems. Most developed countries have high levels of regulation for forest management. The imposition of FSC is simply another conformity test. However, as developing countries emerge as the new ‘woodbasket’ of the world, and the forests of developing countries become more politicized, certification will continue to be a key leverage point in trade campaigns.

Pressure to adopt FSC certification is accompanied by campaigners is accompanied by a very sophisticated range of campaign tools.

Good cop / bad cop

There is a classic ‘double play’ that is mobilized by campaigners, and openly discussed among campaign groups – it amounts to ‘good cop, bad cop’.³⁹

The ‘bad cop’ – usually a radical campaign group such as Greenpeace or Rainforest Action Network – will either threaten or enact a smear campaign against a major forestry company or commodity producer, and/or purchasers of said commodities. This is ‘Greenmail’, as described in the previous chapter. The threat will subside once the company has agreed to implement FSC-based production or purchasing policies. This will be accompanied by time-bound commitments to enact the policy, generally through an agreement with a ‘buyer’s group’.

This second part of the commitment is brokered by the ‘good cop’ – a ‘respectable’ ENGO, such as WWF or the Rainforest Alliance. In WWF’s case, the buyer’s group is the Global Forest Trade Network (GFTN).

39. Thomas P. Lyon (Ed.) *Good Cop / Bad Cop: Environmental NGOs And Their Strategies Toward Business*. Earthscan, London. 2010.

Capturing of aid agencies

Aid agencies wield considerable influence in the developing world, particularly in relation to policy development and implementation. This is mostly due to capacity weakness in developing countries. However, policy reforms, particularly relating to both trade and environmental regulation have opened themselves up to considerable influence from aid agencies.

The key example of influence can be wielded over forest policy can be seen in the World Bank's formal Forestry Alliance with WWF, which was finalised in 1998. The Alliance has shaped World Bank forest policy considerably and subsequently how forests are regulated and used in developing countries.

Formal World Bank policy is not to fund forestry in moist tropical forests. This was instituted in the Bank's 1991 Forest Strategy document. A review of the Strategy by the Bank's independent Operations Evaluation Department (OED) in 2000 stated that Bank's ban on commercial logging loans in moist tropical forests had a "chilling" effect on forest reforms, and that 'experimentation in improved forest management' had been discouraged by the ban and the Bank's country and task managers had become "risk averse".⁴⁰ Moreover, it noted that the impact of the Bank on stemming deforestation had been negligible.⁴¹

The Bank's private sector arm, the International Finance Corporation (IFC), is permitted to fund programs provided they practice sustainable forest management in accordance with standards developed by the Bank. Those standards only recognize the FSC system; this was a direct result of lobbying by WWF. They cannot apply where forestry may entail conversion of forestry to non-forest purposes and therefore do not align with the national development policies of the largest tropical forest economies. The PEFC Secretariat, as well as several developed country members of the World Bank, has pressed the World Bank on more than one occasion to recognize PEFC and other systems for certifying sustainable forest management. Bank staff have refused.

Internally the Bank has recognized that these policies do not work.⁴² Despite this, Bank forest policy has not changed considerably. Subsequently, many donor agencies such as the United Kingdom Department for International Development (DFID) and USAID have since followed the World Bank's lead on only recognizing FSC certification and assessments.

This policy has effectively ensured that non-private funding for forestry projects in the developing world will only fund projects that indirectly implement WWF policies, insuring a growth of FSC-traded product by proxy.

40. North American Regional Consultation for the Forest Policy Implementation Review and Strategy (FRIPS) (2000). The World Bank Forest Policy Implementation Review and Strategy: Report of the North American Regional Consultation, FRIPS, Washington, DC, [http://wbln0018.worldbank.org/essd/forestpol-e.nsf/a084cb073737b7e385256621005b2179/cb2b405ee61945b6852568dd005b2fbf/\\$FILE/NA%20Consultation%203-00.pdf](http://wbln0018.worldbank.org/essd/forestpol-e.nsf/a084cb073737b7e385256621005b2179/cb2b405ee61945b6852568dd005b2fbf/$FILE/NA%20Consultation%203-00.pdf), accessed 21 July 2006.

41. *Ibid.*, page 5.

42. Contreras Hermosilla, Arnoldo & Simula, Markku (2007). Mid-Term Review of Implementation of the World Bank's Forests Strategy. The World Bank / International Bank for Reconstruction and Development. Washington, D.C.



5. THE CHALLENGE FOR BUSINESS

The forestry industry faces a challenge in the developing world and in emerging markets. Trade faces significant risks posed by environmental campaigners. These barriers also pose problems for investment in forestry operations and sustainability initiatives. How should the private sector respond? The private sector needs to undertake three actions: securing competitive supply, applying defensible sustainability policies dictated on its own terms, and defending the value of its brands.

Securing competitive supply

Securing new, competitive fibre supplies in the face of constant rising demand present a challenge for business. These supplies will be sourced from developing markets where levels of certification are either low or non-existent, and levels of environmental regulation will be low.

The global industrial supply of roundwood certified under either PEFC or FSC is very limited, amounting to roughly 26 per cent of total global supply. According to the FAO, supply has decreased over the past year after a period of considerable growth. Similarly, the pace of expansion of certified forest area has slowed significantly over the past four years.⁴³

Similarly, the demand for certified supplies remains low. The demand is heavily concentrated in the EU, US and Japan. Even in the EU, chain-of-custody certificates (CoCs) for manufacturers make up a fraction of all market players. The CoCs are not just concentrated in developed countries – they are concentrated in the operations of the largest players.⁴⁴ This adds to the argument that only the largest global players are in a solid enough financial position to afford full certification.

On a consumer level, preferences for certified product are also low. Market awareness of certified timber or forest products remains a peripheral issue.

This is a situation where the NGO demands for an international supply chain that is certified from forest to shelf is unrealistic, let alone one that is dominated by FSC. This has been reflected in recent agreements between Greenpeace and Kimberly-Clark,⁴⁵ as well

as groups of Canadian NGOs and the Forest Products Association of Canada. Nor will consumer demands for certified supply significantly impinge upon business.

This, in combination with falling demand in mature markets, high levels of overcapacity and rising fiber prices means that the competitiveness of supply should remain the determining factor for companies above all else in mature markets. The demands of environmental campaigners should remain very low on the list of priorities.

Those who are scoring well in the NGO surveys of paper procurement are not those who are performing financially. The annual ForestEthics/RAN Green Grades effectively grades paper retailers against RAN's demands. Interestingly, of the 'top' four listed, only one has a positive net profit margin for the past 12 months. All of the 'bottom' four are operating in the black.⁴⁶ Similarly, a survey of paper and packaging manufacturing companies indicated that the companies achieving double-digit returns on capital are those that have a functional approach to sustainability.

Winning in emerging markets

International environmental groups are of little concern in emerging markets. With the exception of the English-language media, their relevance to the public policy debate is minor. For example, in Indonesia earlier this year, anti-Greenpeace demonstrations were staged in central Jakarta. This was in part response to Unilever stating it would no longer purchase Indonesian agricultural products on environmental grounds.

43. UNECE/FAO. 2009. Forest Products Annual Market Review, 2008-2009. Geneva., Switzerland.

44. Ibid.

45. Hawkins Wright. Feasibility study regarding fiber certified by the Forest Stewardship Council. A report prepared for Kimberly Clark. 2007

46. Based on Thomson Reuters business data

What this demonstrated is that the standard of corporate social responsibility (CSR) practised in mature markets is not necessarily applicable or even appropriate for emerging markets.

The CSR standards for emerging markets must be those of the producer country. As stated above, new and previously untapped forest resources are coming online.

Those wishing to immediately implement Western CSR standards will not succeed in these difficult operating environments. The financial barriers of entry to FSC are high; making such an investment in a potentially unstable environment is a high-risk proposition. Some analysts have placed the cost at as much as US\$52 per cubic meter of roundwood⁴⁷ in or US\$32 per hectare in emerging markets.⁴⁸

The initial standard to be implemented needs to be the regulatory standard of the developing country itself. While it is true that in many developing countries environmental regulations are not practised, even by the country governments and state-owned enterprises, this does not mean the standards are not high. These circumstances provide an opportunity for the private sector to lead in environmental management. It also provides an immediate counter to any claims that any forestry operations are illegal. The Indonesian Standard for Wood Legality Verification (SVLK) is a prime example of a robust legality standard that is yet to be implemented properly. While it will not 'buy off' environmental campaigners, it is completely defensible for both purchasers of fiber and importing nations.⁴⁹

Protecting brands

Brand equity is cumulative and takes many years, if not decades and millions of dollars to cultivate. Greenmail, as described in previous chapters, threatens to diminish or destroy brand value. The Greenmail campaigns that are deployed against major brands, while stretching to the million-dollar mark at least, are small in comparison.

The key assets that environmental campaigners have are:

- A sympathetic media – campaign groups such as Greenpeace are effectively media organisations. They do no actual conservation work or serious scientific research;
- A vocal support base – while campaign noises are large, the actual people making the noise are small in number and the audience they need to reach is small.

These assets and the results they create are less effective than first impressions give. For example, the recent media campaign by Greenpeace against Nestle's KitKat brand was hailed by Greenpeace as one of their most effective campaigns. Yet there was no decline in KitKat sales.⁵⁰

But causing a fall in KitKat sales was not the objective of the campaign – it was to have Nestle alter their sourcing and sustainability policy. This is conceded by Greenpeace.⁵¹ Nestle changed the policy in order to protect the high investment they made in the KitKat brand. However, the brand is now hostage to Greenpeace policy as part of a brokered agreement.

Arguably Nestle have now made the expensive brand building program for KitKat hostage to a relatively cheap campaign by Greenpeace to hold that brand hostage to any renewed attack Greenpeace chooses to make against the brand.

A suitable strategic response to these types of campaigns is not new or changed sustainability policies – it is a response that maintains brand value for investors and customers. For customers to continue to see the brand value in the forest, pulp or paper products on offer, they must be equally convinced of the defensibility of the product. This requires a suitable flow of information to customers and shareholders. This requires resources, but is a smarter long-term strategy than falling hostage to Greenmail.

47. Gambetta, FC, Stoian, D, Joaquín Campos, J, Cancino, JM, Pinelo, G "Guatemala", in Cashore, B, Gale, F, Meidinger, E and Newsom, D. (eds.) *Confronting sustainability: forest certification in developing and transition countries*, Yale University, 2006.

48. Simula, M., Astana, S., Ismael, R., Santana, E.J. and Schmidt, M.L. *Report on financial cost benefit analysis of forest certification and implementation of phased approaches*. Report prepared for the thirty seventh session of ITTO. 13-18 December 2004. Yokohama, Japan, 2004

49. Doddy Sukadri, et.al. *Analyzing Government Policies to Support Sustainable Forest Management*. ITTO PD389/05 Rev 2 (F): Application of the Interntal Monitoring of SFM Performance at the FMY Level. ITTO, Yokohama. 2009

50. Beth Phillips. "Greenpeace attacks fail to dent sales of Nestlé's Kit Kat bars" in *The Grocer*, May 8 2010

51. *Ibid.*



6. THE CHALLENGE FOR GOVERNMENTS

Governments in emerging markets are finding themselves equally challenged by new trade barriers and environmental campaigners. As with business, the response needs to be assertive and defensible.

Measuring the impact

New trade protections on forest products will have an impact on economies reliant upon forest products, pulp and paper. They will negatively impact developing and emerging economies.

Economic modeling on existing EU-FLEGT VPA arrangements indicates that forest harvests in VPA partner countries will decline by 20 per cent (covering Indonesia, Malaysia, Gabon, Cameroon, Congo, Ghana). An expanded VPA arrangement with six other nations (Russia, China, Brazil, Vietnam, Belarus, Ukraine) will decrease harvests in all countries by an average of 10 per cent.⁵²

The impact is projected to be particularly acute in the pulp and paper sector, reducing production by 14 per cent under current arrangements and 16 per cent under expanded arrangements. Under both scenarios, value-added for the forest industry in VPA partner countries is expected to decline by more than 17 per cent in both cases.

This should be alarming for these countries currently engaged in VPA negotiations, and for countries contemplating these negotiations. The modeling work undertaken for these assessments additionally states that VPAs will have almost no impact upon illegal logging. This was recently emphasized in an Australian Government-commissioned report on illegal logging.⁵³

Asserting trade rights

In the face of these impacts, producer countries must aggressively assert their trade rights.

Papua New Guinea is a good example of how an environmental campaign on forestry can work against the development interest of poor countries. Per capita GDP in PNG is around US\$350. Forestry contributes between five and nine per cent of GDP, creates 10,000 jobs, generates US\$80 million in taxes and US\$ 200 million in exports and provides as much hard and soft infrastructure in rural areas as the Government.⁵⁴

Despite these clear economic benefits, Greenpeace mounted a case against the forest industry in Papua New Guinea, claiming high levels of illegal logging and high emission levels from purported deforestation, as well as biodiversity loss and loss of indigenous community rights. None of these claims could be substantiated. The campaign filled what was an information vacuum on Papua New Guinea and its forests. Accompanying this was a lobbying campaign to have action taken against timber imports from Papua New Guinea into the European Union, despite these import levels being small.

PNG's example could probably apply to any number of nations that have large forest resources and/or significant low-cost forest product exports. Indonesia, Malaysia and China immediately spring to mind.

52. Alexander Moseyev, et. al, "Modelling the impacts of policy measures to prevent import of illegal wood and wood products" in *Forest Policy and Economics* 12 (2010) 24-30

53. Centre for International Economics. A Final Report to inform a Regulation Impact Statement for the proposed new policy on illegally logged timber. Prepared for Department of Agriculture, Fisheries and Forestry, Sydney, 2010.

54. ITS Global. 2006. Economic Importance of the Forestry Industry to Papua New Guinea. ITSGlobal July 2006

Despite pressure to do so, PNG has chosen not to join the VPA process that is currently being put forward by the EU. Its forest products exports have not suffered significantly by not succumbing to these policy measures.

This assertion of trade rights by these countries – whether by accident or design – has meant that their environmental policies have not been held hostage by an external government. And it is absolutely vital that these trade rights be asserted and maintained in order to guarantee the long-term prosperity of the forest sector in developing countries.

Implement defensible sustainability policies

While most developing countries would consider their sustainability policies defensible, particularly on development grounds, Western NGOs and aid agencies simply do not see it this way. Defensible sustainability policies that are both transparent and well-communicated are essential.

An additional step on this front is the development of national-level third-party certification. The governments of Brazil and Malaysia have been clear leaders in this undertaking. Both the Malaysian Timber Council Certification and Brazil's Cerflor scheme are prime examples of a government-backed defensible position for the forest industry.

While these systems do not 'buy off' Green campaigners from assailing government land-use decisions, they provide a high level of assurance for both those investing in the forestry sector and for those purchasing from a particular country.

This is the ideal for forest policy in developing countries, requiring significant mobilization of resources. It is a long-term goal worth pursuing for social, environmental and economic reasons.



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About World Growth

World Growth is a non-profit, non-governmental organization established with an educational and charitable mission to expand the education, information and other resources available to disadvantaged populations to improve their health and economic welfare. At World Growth, we embrace and celebrate the new age of globalization and the power of free trade to eradicate poverty and improve living conditions for people in the developing world.

Our Philosophy

World Growth believes that helping the developing world realize its full potential is one of the great moral aims for those of us fortunate to live in the wealthy developed world. We also believe that a misdiagnosis of what ails the underdeveloped world has yielded policy prescriptions that have been useless or even harmful to the world's 'bottom billion.'

World Growth believes that there is enormous untapped human and economic potential around the world. In order to unlock that potential, and allow the poorest of the world's poor a better life, it is necessary to realize changes in institutions and policies that permit growth and human flourishing.

Instead of aid and handouts, what the populations of developing countries need are social and political situations and infrastructure that foster productive economic activity and generate robust economic growth. These include, but are not limited to, property rights and protections, the rule of law, free markets, open trade, government accountability and transparency.

For too long, well-meaning governments, aid agencies and others have promoted policies that fail to address the true problems that afflict poor societies. As a result, too many people around the globe remained locked in pre-modern conditions where their talents and inherent capacities are shackled.

The people of the developing world are fully capable of helping themselves to ensure a more prosperous existence. The path to prosperity does not begin with handouts from the West. Instead it requires identifying the genuine obstacles to growth and highlighting paths to reform that will yield sustainable and lasting change.

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