

# **TOMORROW'S TRADE**

## **INITIATIVE**

### **The Role of Trade in Forest Products and Services for Sustainable Forest Management and Poverty Reduction**

Outline

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Contact:

Sebastian Winkler  
Policy, Biodiversity, International Agreements Unit  
IUCN-The World Conservation Union  
28, Rue Mauverney; CH-1196 Gland, Switzerland  
Phone: +41-22-9990299  
Fax: +41-22-9990025  
e-mail: [sebastian.winkler@iucn.org](mailto:sebastian.winkler@iucn.org)

Christian Mersmann  
Trade and Marketing in Forest Products and Services  
FAO Forest Products and Economics Division (FOP)  
Viale delle Terme di Caracalla  
00100 Rome Italy  
phone +39 06 5705 6682  
fax +39 06 5705 5137  
e-mail [christian.mersmann@fao.org](mailto:christian.mersmann@fao.org)

## Summary

The objective of the initiative “Tomorrow’s Trade” is to increase trade of forest products and services and market access for local communities and small forest owners. Through its activities, the initiative contributes to community-based forest management which is ecologically and socially sound as well as economically viable.

The initiative, founded by IUCN and FAO aims to help rural communities and small forest owners by inducing investment and forest management decisions which are based on present and future trade opportunities and market development for forest products and services. While the initiative focuses primarily on domestic and intra-regional markets, it also assists communities accessing niche markets for quality wood products in industrialized countries in close cooperation with wood-processing industries.

The initiative is designed to be complementary to forest policy processes such as national forest programmes as to raise trade policy issues and assist in the development of trade-related measures in support of community-based forest management. Forest policy making and planning in the forestry sector should be increasingly based on trade prospects and market opportunities as to enable communities and small forest owners to take the right decisions, including species selection and investment levels in the rehabilitation of secondary forest and other degraded forest lands.

Through the promotion of trade and market development in forest products and services, this initiative is therefore geared to add to the enhanced development and implementation of overarching development strategies such as poverty reduction strategies and sustainable development strategies. Sustainable trade<sup>1</sup> in forest products and services would assist to better position the forestry sector and its contributions in development planning, structural adjustment operations and macro-economic reform

In summary, the initiative explores and strengthens opportunities of trade for rural communities at the micro-level, while informing and influencing forest and trade policy making as well macro-economic developments.

The justification for this initiative is that trade considerations have not sufficiently driven the forest policy agenda or operational decisions at the community level, despite the fact that trade in forest products and services has been identified as the main motor for sustainable forestry development (World Bank Forest Strategy, 2000). Therefore, the potential of sustainable trade of products from communities and small forest owners as an important economic factor needs to be enhanced to achieve development goals.

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<sup>1</sup> Definition: Sustainable trade implies a trading system that does not harm the environment or deteriorate social conditions while promoting economical growth. Source: <http://www.euractiv.com/Article?tcaturi=tcm:29-117546-16&type=LinksDossier>

In order to achieve its objective of complementarity at the operational level, the initiative will cooperate closely with the Global Partnership for Forest Landscape Restoration which is already supported by IUCN and FAO as well as numerous governments and NGOs. This initiative will also associate with other field-level initiatives in support of sustainable management of natural resources..

The Program on Forests (PROFOR) in the World Bank is currently launching an analytic partnership entitled "Empowering national forest programmes (nfp) to deliver poverty reduction" in which IUCN is already involved. The initiative "Tomorrow's Trade" should seek the cooperation with this partnership in order to assist in positioning forestry as an economic factor and a safeguard for sustainable livelihoods in development planning and poverty alleviation efforts.

The initiative will seek a close cooperation with the National Forest Programme Facility (NFP Facility) hosted by FAO. Through its trade-related work, this initiative would contribute to the Facility's operations aimed at supporting forest policy processes at national and decentralized level.

In order to service local decision making and implementation as well as policy development at the national level, the initiative is process-oriented and will provide continuous support upon demand by interested communities, governments and civil society constituencies.

The focus of the initiative is capacity building of rural communities, civil society stakeholders and governments. Activities of the initiative include:

- (i) cooperation with communities in a selected number of interested countries on present and future trade opportunities and market access,
- (ii) provision of information and analysis of domestic and intra-regional trade prospects and market development as well as niche market access at the international level to support communities in decision making and to inform national policy processes such as national forest programmes (NFP)
- (iii) facilitation of South-South and international dialogues on sustainable trade promotion through enhanced collaboration with rural communities.

This initiative is foreseen to be a network of partners offering opportunities for international organizations, bilateral donor agencies, NGOs and industry to increase positive interactions between trade and SFM at the community level. The initiative should therefore not be seen as "programme" or project, but a complementary service provision..

## Outline of the Initiative “Tomorrow’s Trade”

### Objective

The objective of the initiative “Tomorrow’s Trade” is to increase trade of forest products and services and market access for local communities and small forest owners. Through its activities, the initiative will support community-based forest management which is ecologically and socially sound as well as economically viable.

The initiative, founded by IUCN and FAO, is designed to be complementary to forest policy processes such as national forest programmes as to integrate trade policy issues and the development of trade-related measures in support of community-based forest management. Domestic efforts to achieve sustainable forest management (SFM) and to contribute to poverty reduction demand the promotion of trade in forest products and services, including support to promotional instruments such as forest certification.

The objective of the initiative is derived from the Millennium Development Goals (MDG) and in particular the MDG 7 to promote environmental sustainability for safeguarding the livelihoods of the poor. This initiative will therefore add to the enhanced development and implementation of overarching development strategies such as poverty reduction strategies and sustainable development strategies. Sustainable trade<sup>2</sup> in forest products and services would assist to better position the forestry sector in development planning, structural adjustment operations and macro-economic reform.

### Background and Justification

Since the 1960s to the mid-1990s global wood demand grew by over 50 percent and tropical countries lost over 500 million hectares of forest. On the other hand, international trade in processed wood products grew by more than 250 percent world wide since 1990, from USD 1.8 to 6,5 billion in 2002. There has been a major shift in international trade flows, but domestic markets continue to play the most important role.

The discussion on the potentials of trade in forest products has focused primarily on market access, import tariffs, export restrictions and non-tariff barriers which limit trade liberalization in the world market, *inter alia* because of environmental and social concerns. Most of the policy issues are geared at trade in forest products deriving from existing resources, particularly with regard to natural forests in the tropics. While this debate is ongoing, the establishment of forest resources through plantations is rapidly

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expanding, however only in a small number of developing countries and countries with economies in transition.

According to a recent survey of FAO, timberland investors focus their engagement on a few countries in South America leading to a concentration of plantations in Brazil, Chile, Uruguay and Argentina. This is mainly due to enabling policy conditions and governmental incentives. The most rapid expansion of plantations can be observed in Asia with 79 percent of the global annual planting. Forest plantations have often been established at the cost of natural forests, particularly secondary forests because of capital return rates.

Multilateral environmental agreements as well as international and national policy deliberations to safeguard environmental and social services of forests have an increasing impact on regional and global trade dynamics, particularly on the trade in tropical timber. With regard to impact on the ground, numerous approaches to standard setting for sustainable forest management, forest certification and product labelling have been developed during the past decade are increasingly influencing trade dynamics

International support in standard setting for sustainability in forestry is often geared at forest conservation rather than the sustainable use of production forests. Some constituencies see this trend as a non-tariff measure limiting market access. Analytic work, however, is ongoing to increase the positive impact and interactions between trade in forest products and forest management practices taking into account the environmental and social services.

In order to limit detrimental effects of liberalized trade, the policy debate circles around weak governance situations, ineffective decentralization and the prevailing influence of timberland investors and forest industry which is often resulting in an unbalanced use of forest resources, including the limited access of communities to forest resources.

Last, but not least, structural adjustments and macro-economic reform processes in developing countries and countries with economies in transition do not tend to take into account the current or future potential of forests and trade in their products and services, particularly in forest-poor countries or in countries where secondary forests prevail. In order to maintain rural subsistence and the continuous provision of environmental services, however, the dimension of trade is crucial to contribute to poverty reduction, even if its macro-economic value is rather low in monetary terms of production. Hence, the initiative focuses on complementary economic growth models for areas and constituencies that will not automatically benefit from macro-economic growth. It will strengthen the interlinkages between micro and macro approaches and thereby enhance the policy-practice loop which is too often ignored.

Furthermore, the future demand for timber for local consumption or in national and intra-regional markets has not been sufficiently addressed in national policy processes. Trade and market prospects are often lacking. In particular, the trade potential of products and services deriving from secondary forests and other degraded forest lands

community level has rarely been analysed. The same holds true for the establishment of forest resources in rural communities.

### **Investments and Assistance**

Currently, there is no visible positive development in terms of increased domestic or international investment and support to forestry in community development which are based on a profound analysis of trade opportunities and market developments, in particular with regard to secondary forests or the establishment of forest resources. There are, however, a number of examples which show that tapping the potential of trade leads to focused investments and creates important benefits at the community level, as a recently published paper clearly shows<sup>3</sup>.

The support to community-level forest management, in particular international support, is primarily driven by social and environmental reasoning, including conservation. However, this support has been declining over the past 10 years with the declining overseas development assistance (ODA) for the forest sector from an annual contribution of \$2–2.2 billion in the early nineties to \$1–1.2 billion at the beginning of this century. Domestic public expenditure on forests and protected areas in developing countries has also been declining and is currently estimated to be around \$1.6 billion and \$598 million respectively.

The least recognized forestry investment comes from communities themselves. Community investment in the forest sector of developing countries is estimated to have increased continuously, but reliable data are not available (IUCN, 2002). However, these investments can not meet the financial requirements, particularly against the background that communities often have access to degraded forest resources only.

### **Expected Benefits**

An increasing number of developing countries<sup>4</sup> are becoming net wood importers for local consumption – a resource which they could grow themselves. On the other hand, timber imports are projected to triple or quadruple in India, China, and countries with economies in transition, while Brazil's domestic consumption of tropical timber, estimated at 34 million cubic meters in 1997 exceeded tropical timber consumption in all Western European Countries. This increasing consumption puts an enormous pressure on forest resources, but also offers new market opportunities. However, in a number of developing countries, standing volumes of plantation wood, particularly of exotic species, can neither be consumed locally for reasons of insect damage nor harvested or processed economically given the current low prices in the world market. In the overall analysis, Carle et al. (2002) found that despite the important value for development, "the end

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<sup>3</sup> A New Agenda for Forest Conservation and Poverty Reduction: Making Markets Work for Low-Income Producers" by Forest Trends, CIFOR, and IUCN (2004)

<sup>4</sup> FAOSTAD 2003

purpose of the plantations is not clearly defined at the outset (...) and a lack of planning may result in plantations that have little commercial value and a low potential for local use”.

While about 240 million people live in predominantly forested ecosystems<sup>5</sup>, roughly a quarter of the world's poor and 90% of the poorest depend substantially on forests for sustaining their livelihoods. The role of trade in wood and non-wood forest products and services therefore needs to be strengthened to increase sustainable livelihoods through the provision of safety-nets for livelihoods and to reduce poverty in rural communities through forest production and pro-poor strategies and policies<sup>6</sup>. Safety-nets are a crucial element for poverty reduction and can be of value in case that the macro-economic framework is not in place to temper economic shocks.

The discussion on approaches to sustainable forest management has been focused on environmental and social services which justify preferential treatments, incentives, including subsidies, ODA-financed projects and other support measures. These kinds of benefits, however, are not sufficiently available to the majority of the communities which often do not invest into degraded forest resources without external support, but rely on alternative land-uses for their survival in subsistence production. This development is taking place partly because investment decisions by rural communities and their households are not based on longer-term market outlooks in forest products demand nor are they supported by coherent forest and trade policy decisions at the national level.

### **The Way Ahead**

The World Bank Forest Strategy of 2002 mentions trade in forest products and services as the motor for forestry development without giving sufficient indications on how trade can be promoted to positively impact on sustainable management of existing forest resources. There is also little mention of how trade could possibly foster the regeneration of secondary forests or the establishment of appropriate forest resources, both in terms of species selection for producing marketable products and services as well as integration of these resources into the overall rural landscape context.

The Program on Forests (PROFOR) in the World Bank is currently launching an analytic partnership entitled “Empowering national forest programmes (NFP) to deliver poverty reduction”. The initiative in which IUCN is already a partner will be global with a case study for East Africa in its initial phase.

This initiative builds on the analytic study of PROFOR, the Ministry of Foreign Affairs of Finland and the European Forest Institute (EFI) on the role of the forestry sector in Poverty Reduction Strategy Processes (PRSPs) in 2002. The initiative “Tomorrow's Trade” would link up with this partnership to determine the role of trade in forest

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<sup>5</sup> World Bank, 2003

<sup>6</sup> IIED, 2003

products and services in the overall development context and to increase the contribution of forestry production to poverty reduction.

Both IUCN and FAO are members of the “Global Partnership for Forest Landscape Restoration” - along with other CPF members, including 14 countries and numerous NGOs - with the objective *“to get the right activities in the right places in order to conserve biodiversity and enhance options for people’s livelihoods at the landscape level. Like a good investment portfolio, it sets out both to reduce risk and ensure a good, long-term rate of return by valuing forest goods and services to begin to quantify and evaluate how stakeholders can directly benefit from these”*.

The partnership includes the support to a comprehensive approach to community-based forestry and to improved practices within joint forest management, regeneration of secondary forests and the establishment of appropriate plantations/planted forests at the farm and community levels. The partnership can draw upon many years of experiences in soil conservation, village-based rural development and afforestation in the eighties and nineties. The introduction of trade issues, including wood-fuel trade, would facilitate positive developments at the local level.

The global partnership on Forest Landscape Restoration is based on an integrated landscape approach, thus promoting the achievement of multiple ecosystem services rather than small scale specialization in land use. Increased ownership and participation of the drylands communities in financially remunerative activities and in the decision making process will contribute to diversify land uses, optimize land management and improve their livelihood. At the same time, it will also provide incentives and motivations to re-invest in landscape conservation and restoration thus preventing increasing degradation due to indiscriminate exploitation of natural resources.

The initiative will seek a close cooperation with the National Forest Programme Facility (NFP Facility) hosted by FAO. Through its trade-related work, this initiative would contribute to the Facility’s operations aimed at supporting forest policy processes at national and decentralized level.

The initiative “Tomorrow’s Trade” will link up with the work of World Bank/PROFOR, the Landscape Restoration Partnership and the NFP Facility to maintain the focus on rural communities and small forest owners being the primary beneficiaries of the initiative in terms of capacity building in decision making. The scope of these capacity building efforts should include the close cooperation with policy makers and civil society constituencies in support of national forest programmes and other policy processes.

Re-thinking the forest agenda by considering trade issues is especially urgent now in order to avoid further forest loss and to respond to the growing demand for forest products and services which are crucial assets for national development, sustainable livelihoods and the provision of essential ecosystem services. However, the untapped potential of trade in forest products and services can not be developed without joint and

collaborate interventions by governments, civil society constituencies and the international community.

### **Expected Results**

Based on the objective of promoting sustainable trade in support of SFM at the community level and to complement and integrate it into forest policy processes to support decision-making and mobilize resources, Tomorrow's Trade Initiative is expected to produce the following results at community, national and international levels.

#### *Community-level Results*

Activities carried out at community level will be mainly focused on enhancing market access of forest communities by addressing micro-management related issues to support decision-making and increase their participation into SFM. Expected results are:

- Building the producers' capacity in marketing and sustainable business management as to increase their understanding of market dynamics, improve their decision-making capacity, provide incentives for reinvestment in forest conservation and restoration while mainstreaming their products into local, intra-regional and niche markets;
- Enhanced supply chain management for those production clusters with higher market potentials by strengthening Micro/Small Enterprises (MSEs), producers organizations and networks as to better position them in the value chain and to facilitate links with private sector investors;

#### *National-level Results*

National-level activities will be aimed at creating the enabling environment for enhanced integration of trade into forest policy making and planning to support policy and strategic decisions, including the contribution of trade to financing SFM. Expected results are:

- Definition of the policy framework for the development of a coherent trade strategy integrated with the country forestry processes (i.e. National Forest Programmes) and with the overall development strategy (i.e. PRSPs);
- Identification of trade prospects for forest products and services of communities and small forest owners and cooperation with national and international investors and corporations to identify potential marketing channels;
- Creation of the enabling environment for enhanced market access by strengthening governance structures and institutional capacity in providing information, technical assistance, capacity building and financial support.

#### *International-level Results*

International-level activities will focus on advocacy, policy dialogue and information management to mainstream trade into international forest processes for better

positioning the forestry sector in the overall development context, including structural adjustment operations and macro-economic reform processes. Expected results in this respect are:

- Mainstreaming of TTI findings in the international debate through analysis and synthesis of findings and experiences gained through this initiative on a regular basis as a service to the forestry community at all levels;
- Awareness building in the international forest and trade communities and advocacy campaign also taking advantage of already established clusters of responsible consumers (i.e. fair trade, organic products) and of corporate social responsibility (CSR) as an entry point with the private sector;

### **Approach and Instruments**

Since this initiative will complement the ongoing support to sustainable forest management, the approach is geared at the provision of information services and capacity building. This initiative would therefore also support improved governance, including decentralization and participation in decision-making processes. Beyond the primary focus of the initiative on the local level, the initiative contributes to a broader inter-sectoral debate on SFM through the promotion of sustainable trade.

This initiative would cover all forest products and services of the collaborating communities, both for subsistence production and industrial roundwood production at the community level as well as wood processing. Non-wood forest products (NWFP), fuel wood production and environmental and social services would also be subject to the work of this initiative.

Outreach to the local communities will be particularly pursued through increased involvement of the private sector in pilot/project experiences in order to identify concrete opportunities. In particular, the involvement of the private sector should be pursued at two levels. On one end, big enterprises are becoming increasingly aware that social and environmental concerns lead to sustainable business success. Corporate Social Responsibility (CSR) can be the entry point for possible collaborations. These would help in identifying opportunities in niche markets and, at the same time, contribute to the development of local and intraregional ones. On the other end, Small and Medium Enterprises (SMEs) could also play a key role, since they could work as both business models for the development of the local entrepreneurship and business partners for the local producers/entrepreneurs.

Opportunities with fair trade will also be explored. The target consumers of fair traded products represent the most mature group of consumers in terms of sensitiveness and responsiveness to ethics based trade. These could be the drivers for the development of new niche markets and for shifts to more responsible trade. Contacts will be developed with institutions within the fair trade movement, such as the International Fair Trade Association (IFAT) and the European Fair Trade Association (EFTA).

A value chain approach will be promoted to help the low-income producers take advantage of market opportunities and increase their incomes. In particular, networking efforts should be oriented at strengthening producers' organizations and at facilitating vertical and horizontal integration for better positioning them within the value chain. This would enhance a progressive shift towards value-added products and the development of market linkages with buyers at different levels of the chain.

The initiative would only be active in countries where field operations, national forest programmes or other policy processes and poverty reduction strategies offer a niche for the comprehensive approach to the promotion of sustainable trade in support of SFM.

The instruments to be applied through this initiative could be:

- comprehensive and continuous analysis and information sharing on trade prospects and market development with communities in interested countries for informed consent and local decision making
- analysis, consultations and capacity building measures at the regional and/or national level to remove barriers to trade and to develop promotional instruments,
- publication of the results on a continuous basis at the international level and linking the activities with ongoing global policy processes
- workshops, expert consultations and training programmes at different levels, including governance-related issues

### **Partners and Institutional Arrangement**

“Tomorrow's Trade Initiative” is primarily focused on the development of domestic, intraregional markets and niche markets. This calls for increased interaction between those who deal with forestry and those who deal with trade. The Forest Landscape Restoration Partnership could provide a solid contribution in terms of networking and partnership building. A close cooperation has already been established with interested organizations in the forestry sector (i.e. ITTO, IUCN, WB, WWF). Further efforts are being made to extend this participation to institutions representing the business sector (i.e. Chamber of Commerce, Trade Commissions) and the related Ministries (i.e. Ministry of Industry, Ministry of Commerce, Ministry of Finance) as well as all to the other governmental organization and NGOs working on trade related matters (i.e. UNCTAD, ITC, WBCSD, IFAT).

The initiative will establish a small coordination group as to service the partners in terms of information management, promotion and coordination of the acquisition of funding and project design, the organization of consultations at regional and international levels as well assisting in the establishment of contacts with the private sector.

## **Business Plan**

The initiative is articulated into two phases. The first phase (Phase I) will have a duration of 18 months as of June 2005. It is aimed at promoting and launching the initiative while designing a concrete approach for implementation at the national level as well as pilot activities with local communities. Phase II will focus on mainstreaming TTI's findings in international trade and forest processes and on finding out best practices for the elaboration of country specific TTI modules for possible up-scaling and/or replication of the initiative. The expected duration for the second phase is two years as of January 2007.

The overall objective of the initiative is to increase trade of forest products and services and market access for local communities and small forest owners. Through its activities, the initiative will support community-based forest management which is ecologically and socially sound as well as economically viable.

The aim of Tomorrow's Trade Initiative is to improve decision-making at the local level and increase community participation while informing and influencing forest and trade policy for better positioning the forestry sector and its contributions in development planning, structural adjustments and macro-economic development.

### **Phase I**

#### **Results and related Activities**

Overall, Phase I is expected to promote the initiative and establish a network of partners to support its implementation. It will mainly focus on promotional activities at international level and on identifying the key stakeholders and organizing the pilot initiatives at the national levels. Initial piloting activities with local communities will also be started in order to assess the effective needs and identify the key areas for intervention.

#### *Community-level Results & Activities*

Design of capacity building activities on marketing and sustainable business management as to increase small producers' understanding of market dynamics, improve their decision-making capacity, provide incentives for reinvestment in forest conservation and restoration while mainstreaming their products into local, intra-regional and niche markets;

- Identification of production clusters with higher market potentials;
- Value chain and stakeholders analysis, including producers' organizations and networks;
- Value chain mapping to target bottlenecks to be addressed through capacity building;
- Market linkages development with the private sector;

### *National-level Results & Activities*

Identification of trade prospects for forest products and services of communities and small forest owners and cooperation with national and international investors and corporations to identify potential marketing channels;

- Identification of the key stakeholders at the country level – including governments, private enterprises and civil society – and definition of the respective roles and of the consultation and coordination mechanisms;
- Definition of the policy framework for the development of a coherent trade strategy focused on local, intra-regional and niche markets of community-based forest products and services and integrated with the country forestry processes (i.e. NFP) and with the overall development strategy;
- Design of a system for information management (gathering, dissemination and analysis of trade related information) and identification of the indicators for Monitoring & Evaluation of the pilot initiatives;

### *International-level Results & Activities*

Awareness building in the international forest and trade communities and advocacy campaign also taking advantage of already established clusters of responsible consumers (i.e. fair trade, organic products) and of corporate social responsibility (CSR) as an entry point with the private sector;

- Presentation of TTI during COP7 Side Event on Trade (Nairobi 17-28 October 2005);
- Promotion of the initiative, at both international and regional levels, through participating to relevant meetings and through networking with donors and relevant institutions, both forestry and trade related, by organizing presentations of the initiative;
- Organization of a start up workshop with all the relevant stakeholders for the official launch of the initiative and for establishing the indicators for M&E of the pilot initiatives and setting up a framework for knowledge management.

### **Deliverables**

- Finalized TTI project document including the outline of three pilot initiatives;
- Indicators and project framework for Monitoring & Evaluation of the pilot activities;
- Action Plan for Phase II to be submitted to donors for financing;
- A network of partners, including international organizations, bilateral donors, NGOs and private companies able to assist and serve the countries for the implementation of the initiative;

### **Time Frame**

The current time frame for launching the initiative is:

- Networking and informal consultations with interested parties for fine tuning the outline of the initiative (June 2005 – December 2005);
- Presentation of the initiative during a side event in occasion of COP 7 (17-28 October 2005 Nairobi, Kenya);
- Participation to relevant meetings and workshops at international and regional levels to promote the initiative (Agenda to be defined on the basis of 2006 calendar);
- Organization of a start-up workshop with all the relevant stakeholders for coordination between the pilot initiatives (October 2006);
- Initial operations of the initiative to start in October 2005 as Phase I and to be further expanded during the following Phase II to be started in January 2007.