



Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

The Linkages between Anti-Deforestation with Trade and Investment and Policy Implications for G20 Countries

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TF04

Abstract

As global environmental concerns intensify, the integration of anti-deforestation measures into trade-related policies has become a focal point for countries worldwide. By incorporating sustainability criteria into domestic policies and trade agreements, countries aim to incentivise responsible forestry practices, deter illegal logging, and combat deforestation. The adoption of such measures reflects a broader commitment to align trade activities with global sustainability goals, emphasising the interconnectedness of economic development and environmental protection. The examination of these policy measures reveals the potential for trade to be a force for positive change, driving sustainability practices and policies on a global scale.

Keywords: Deforestation, Trade and Investment, Environment, Trade Policy



The Need for Designing Effective Trade Measures to Tackle Deforestation

Forests play a crucial role in sustaining life on our planet, as well as in tackling the planetary crises of climate change and biodiversity loss. Forests cover around one-third of all land on Earth and provide food and fuel for over 2.6 billion people, including many Indigenous communities. Forests are also home to over 80% of terrestrial biodiversity, including 80% of amphibians, 75% of birds and 68% of mammals (FAO 2022). Deforestation, therefore, is heavily linked to the loss of livelihood and habitat for a substantial proportion of people and living creatures on earth. Furthermore, life quality is inextricably linked to forest health, as forests play the role of the second-largest carbon sink and a defence line against natural disasters such as floods and rising sea levels (WWF n.d.).

Global forest resources have been shrinking at an alarming rate. The United Nations Environmental Programme (UNEP) and the Food and Agriculture Organization (FAO) found that 420 million hectares of forest were lost through deforestation between 1990 and 2020, at a rate of 10 million ha of forest loss per year in 2015-2020 (FAO 2022), and that another 100 million hectares are at risk (FAO and UNEP 2020). Agriculture expansion (crop and grazing), resource extraction and illegal logging are closely linked to natural forest loss (Hosonuma et al. 2012). Large-scale commercial agriculture, such as cattle ranching and the cultivation of soya beans and oil palm, accounted for 40% of all tropical deforestation between 2000 and 2010, and local subsistence agriculture for another 33% (UNEP n.d.).

Trade and investment have significant linkages to deforestation. Global trade contributes to deforestation and associated environmental damage through the exchange of ‘forest-risk’ commodities that require the clearing of trees for space to produce goods.

In addition to timber products, other forest-risk commodities may include palm oil, beef (for cattle rearing), soybeans, and cocoa (Raza et al. 2020). Furthermore, investments in industries like agriculture, mining, and infrastructure also often lead to deforestation (WWF n.d.). Considering the flow of forest-risk goods in international trade, deforestation should be considered a trans-bordered issue, as reduced deforestation in one geography may be due to the outsourcing of forest-risk commodity production and deforestation to other countries and ecosystems. As noted in the 2023 Forest Declaration Assessment report, “*In a globalised economy, all countries bear the responsibility of addressing continued forest loss*” (Climate Focus 2023).

Trade policies, however, can also contribute to reaching a solution. Multilateral Environmental Agreements (MEAs) have long used trade-related provisions to control trade and prevent harmful effects on the environment. A key measure under the Convention on International Trade in Endangered Species of Wild Fauna and Flora 1973 (CITES) aiming to protect endangered species is through controls of international trade in specimens of selected species, thus contributing to biodiversity reservation. Article 6.2 of the Paris Agreement creates the basis for trading in GHG emission reductions (or “*internationally transferred mitigation outcomes*”) across countries. Furthermore, positive trade incentives promoting sustainable agriculture and agroforestry may also play an important role in promoting the sustainable use of land and forest resources.

The issues at the intersection of trade and investment and forest protection contribute to the achievement of the Sustainable Development Goals and, therefore, the G20 Action Plan on the 2030 Agenda for Sustainable Development. Specifically, discussions on forest protection are integral to achieving several Sustainable Development Goals (SDGs), particularly SDG 13 (Climate Action), SDG 15 (Life on Land), and SDG 17 (Partnerships for the Goals). Fighting deforestation again so far has

remained a patchwork of international and national efforts. Unilateral responses, such as the EU's Deforestation Regulation, may not be the most effective and development-friendly approach to tackle. Given the G20's influence on global economic policies and its role in shaping international cooperation, forest protection issues fit well within its agenda. The G20 is an ideal forum to drive efforts to promote collaborative policy frameworks, mobilise financial resources, strengthen technology transfer, foster partnerships to combat deforestation and promote sustainable forest resources management based on the results of existing frameworks and initiatives.

Recommendations

1. Revamp international commodity frameworks with linkages to deforestation

For the last five decades, key stakeholders have worked together to help protect the world's forests. Since 2013, the UN-led Reducing Emissions from Deforestation and Forest Degradation (REDD+) has played a central role in combating deforestation, forest degradation, and climate change (UNEP 2021). Data reported by 54 developing countries on their REDD+ implementation indicated over 8 Gigatons of verified emission reductions (UNCC 2021a). In 2021, under the scope of COP26, Glasgow Leaders' Declaration on Forests and Land Use was pledged by 144 countries, representing more than 90% of the world's forests, to eliminate forest loss by 2030 and to support restoration and sustainable forestry (UNCC 2021b).

Despite all efforts, the state of forest loss remains concerning. The Forest Declaration Assessment report finds that nearly 6.6 million ha of forest were lost in 2022, putting the world 21% off track to meet the goal of ending deforestation by 2030 (Climate Focus 2023).

There are a number of international treaties governing certain forest-risk commodities, such as the *International Cocoa Agreement*, the *International Coffee Agreement*, and the *International Tropical Timber Agreement*. However, except for the International Tropical Timber Agreement, other international commodities agreements lack consideration for the potential impact of these commodity's production on deforestation.

G-20 leaders should commit to updating these frameworks, taking into consideration the externality of these production sectors and measures to ensure environmental sustainability as part of the global strengthened efforts to achieve zero gross deforestation.



2. Common principles for forestry resource governance

Two key principles for forestry resource governance are recommended: forest as an exhaustible resource and the Common But Differentiated Responsibilities (CBDR) principle in anti-deforestation efforts.

To ensure the policy space for governments to develop anti-deforestation measures, forest resources should be explicitly recognised as exhaustible resources under Article XX(g) of the GATT General Exceptions. Albeit the lack of a specific framework on environmental protection in general, the WTO accommodates public policy space for environmental protection as a general exception. Specifically, Article XX(g) allows WTO members to justify GATT-inconsistent measures if the measures relate to the conservation of exhaustible natural resources, subject to the ‘chapeau’ conditions to prevent the misuse of trade-related measures in a manner disguising trade protectionism. The phrase “exhaustible natural resources” under Article XX(g) has been interpreted broadly to include not only “mineral” or “non-living” resources but also living species which may be susceptible to depletion (WTO n.d.). The exhaustible nature of forest resources can be clearly demonstrated by the rate of forest loss: despite conservation efforts, around 10 million hectares of forest still disappeared in the world every year in 2015-2020 (FAO 2022).

In dealing with deforestation, the CBDR principle should be adopted. This considers the specific stage of development and socio-economic conditions of all countries, especially the developing and least developed countries. The Forest Transition Model contemplates the transition from decreasing to expanding forest cover that has taken place in many countries (Ritchie 2021). The demand for forest resources changes with population growth and economic development under four stages (Figure 1).

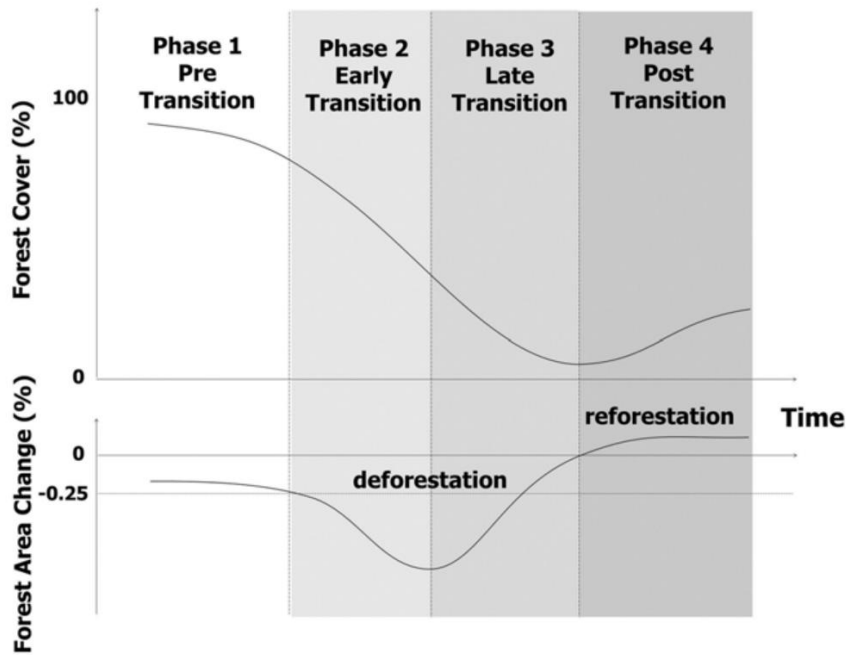


FIGURE 1. Forest Transition Model

Source: Hosonuma et al. (2012)

G-20 Leaders should endorse the adoption of the CBDR principle as a foundation to support developing countries in choosing alternative development pathways to avoid deforestation as their economy follows their growth trajectories. In line with Special and Differential Treatments provided under the WTO Agreements, carveouts or longer transition periods for LDCs may be considered. Additionally, the G-20 should confirm that forests are exhaustible natural resources. Finally, the G-20 should promote anti-deforestation trade measures consistent with Article XX(g) of GATT.

a. Regional collaborative framework for forest-related trade measures

There has been limited progress in the WTO's plurilateral discussions that aim to liberalise trade in environmental goods and services (EGS) (Reinsch, Benson and Puga 2021). Analysis of existing agreements suggests that 28% of the more than 460 free trade

agreements (FTAs) reviewed have one or more references to forest-related measures (Figure 2). This figure is relatively low compared to the 74% of FTAs referencing environment, according to UNESCAP’s Legal TINA database (ESCAP 2024).

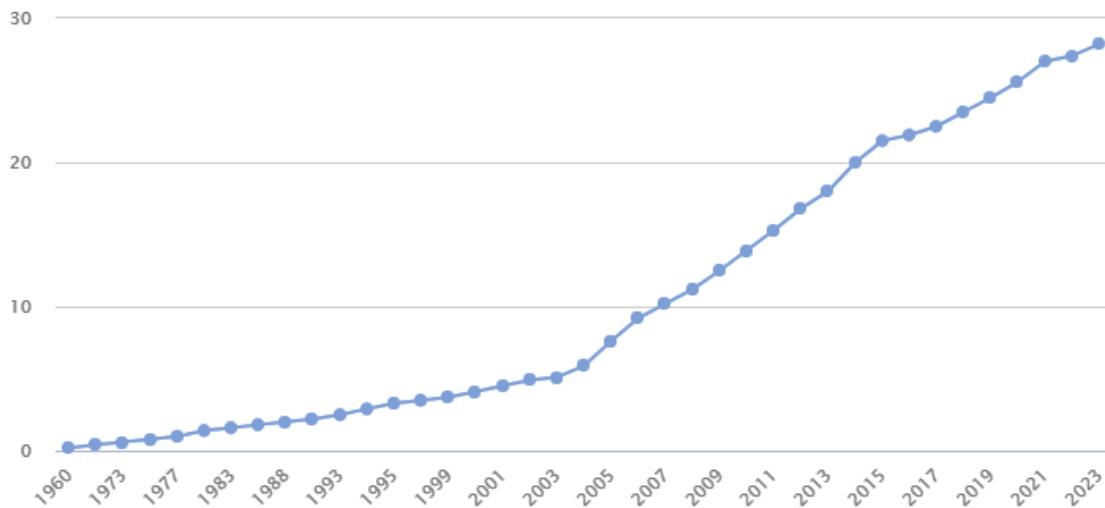


FIGURE 2. Percentage of FTAs with explicit inclusion of 'forest'

Source: Author based on UNESCAP Legal TINA, accessed on 15 March 2024.

The EU and the US are the two promoters with differentiated approaches to forest-related measures in FTAs. Trade and Sustainable Management of Forests has been an element of most FTAs (including the EU), using best endeavour language, which renders their implementation largely dependent on goodwill and consultations among parties (Raza et al. 2020). On the other hand, US trade agreements include stronger binding provisions which subject infringement to dispute settlement and economic sanctions mechanisms (Baker and Le 2022).

Examining satellite-derived data on deforestation and the content of environmental provisions in FTAs, Abman et al. (2021) find that the inclusion of specific provisions

aimed at protecting forests and/or biodiversity entirely offsets the net increases in forest loss observed in similar RTAs without such provisions.

The G-20 should promote the inclusion of forest-related provisions in FTAs, which has shown a positive impact and should be promoted in a systematic way. In terms of substance, regional trade frameworks may target different areas of trade associated with forest resources, such as promoting the conservation and sustainable management of forests, prohibiting trade associated with illegal logging and illegal deforestation, promoting trade in forest products sustainably managed forests in accordance with parties' domestic laws and regulations; promoting trade in legally and sustainably produced commodities which could otherwise be associated with deforestation; etc.

b. Common trade policies supporting anti-deforestation efforts

The EU has proactively promoted forestry governance to combat the problems of illegal logging and deforestation. Recently, the EU also marked a shift in its approach to sustainable forestry following the introduction of the European Union Deforestation Regulation (EUDR). As part of the EU Green Deal and a broader EU strategy to protect the world's forests, the EUDR obligates both EU and non-EU companies importing or exporting forest-risk commodities from the EU to prove the products are deforestation-free (Annex 1). The UK also recently amended its Environment Act (Forest Risk-Free Commodities) to apply similar requirements as the EUDR (DEFRA 2023). Such measures, however, have been criticised because of the one-size-fits-all approach, the lack of consultation (Cotula and Nanda 2023), and the extraterritorial application that risks infringing upon other nations' sovereignty (Munhoz 2024).

Countries may also take a step further to ensure that there are no harmful agriculture subsidies for products linked with deforestation and forest degradation. According to FAO, every year, between USD 378 and USD 635 billion are provided by governments as agricultural subsidies—activities that are potentially harmful to forests (Climate Focus 2023). An international framework at the WTO on harmful subsidies may provide the necessary lever for domestic reforms.

The G-20 should promote a multilateral framework on harmful subsidies associated with deforestation. The G-20 should also promote a common understanding of trade measures to combat deforestation that is inclusive, differentiated and compensatory in nature.

Scenarios of Outcomes

This section considers the impact of the trade policies supporting anti-deforestation efforts. Using the list of most Forest-Risk Commodities, based on the EUDR, we calculate the relative importance and exposure of countries by exports in Figure 3. We observe that Brazil has a significant forest-to-land mass ratio and exposure to deforestation risks due to the commodities it is exporting. Indonesia and Argentina also share a high exposure to the risks of deforestation, with Indonesia also enjoying a high forest-to-total land mass ratio. As mentioned earlier, trade measures are critical instruments in the policymaker’s toolbox to address deforestation.

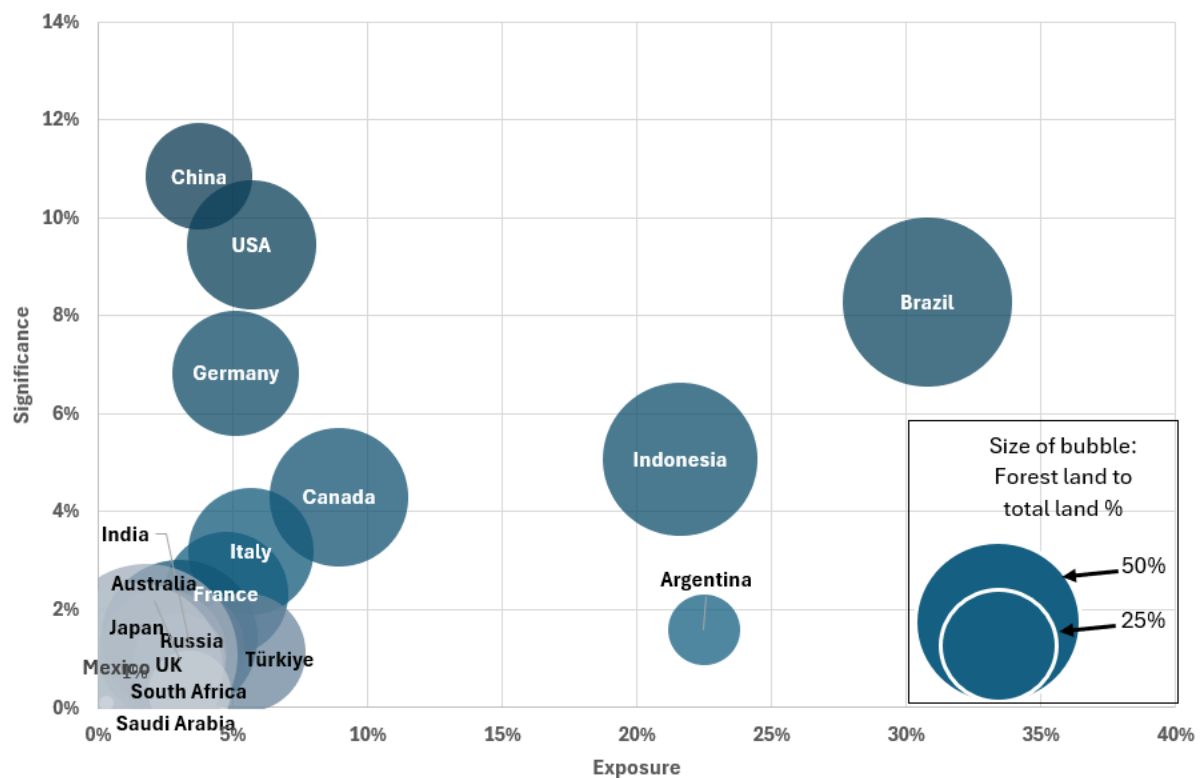


FIGURE 3. Importance and Exposure of FRC Export for G20 countries, 2022

Source: Author’s compilation; World Bank WDI; ITC Trademap data

Notes: Significance is calculated as the share of a country in the world’s total exports of Forestry commodities in 2022. Exposure is calculated as the sahe of that country’s FRC

export over its total export in 2022. The size of the bubble represents the forest surface as % of the country's total land surface in 2021.

While efforts have been made to ensure the environmental sustainability of international trade through environment-related trade measures, it is not easy for a large number of countries to reach a consensus on highly binding rules, considering each country's specific socio-economic condition and stage of development. Instead, initiatives have been made at the plurilateral, regional, and national levels, creating a patchwork that may cause controversies and even polarisation in the international trade landscape. Without a coordinated framework, global trade may face the risk of polarising in terms of forest-related trade policies, whereby some countries adopting restrictive measures drive trade to countries with laxer regulations. In such a polarised scenario, forest conservation efforts could be rendered incapacitated due to trade diversion. Of greatest concern is that unilateral measures, such as those adopted by the US, the UK and the EU, would lead to two parallel trading systems, one with significantly lower forestry sustainability at its core (Table 1). In Without coordinated and committed tariffs among countries, tariffs on deforestation would largely be ineffective due to the leakage of trade on forest-risk commodities to countries without regulation (Hsiao 2022; Dominguez-Iino 2023; Balboni et al. 2023). As such, there is a need for a global forum to agree on the principal framework for strengthening the trade linkages of forest-related measures to ensure no deforestation leakage.

TABLE 1. Scenarios of trade-related deforestation-free regulations (DFRs)

	Outcome
No implementation of trade-related DFR	Trade-related anti-deforestation measures largely depend on country-level forest governance; production of forest-risk commodities for trade continues to be a major cause of deforestation.
Trade-related DFR implemented by some countries	Polarised and disrupted trade systems; deforestation leakage from higher and the other with lower forestry sustainability
Trade-related DFR implemented by all countries	Significantly lower levels of deforestation; possible friction still among countries' DFR calling for a global common framework
Trade-related DFR common framework implemented by some countries	Possible achievement of zero deforestation post-2030; minimal trade disruptions

The building blocks towards regional cooperation and alignment are incorporated into the recommendations made in section 2. Namely, a common understanding and joint statement on the principles of forestry governance will pave the way for regional cooperation and designing effective commodity frameworks. From there, trade rules that are effective in improving forestry governance can be designed, including non-derogation principles to not lower environmental standards to encourage trade or investment and to promote sustainable forestry management production processes.

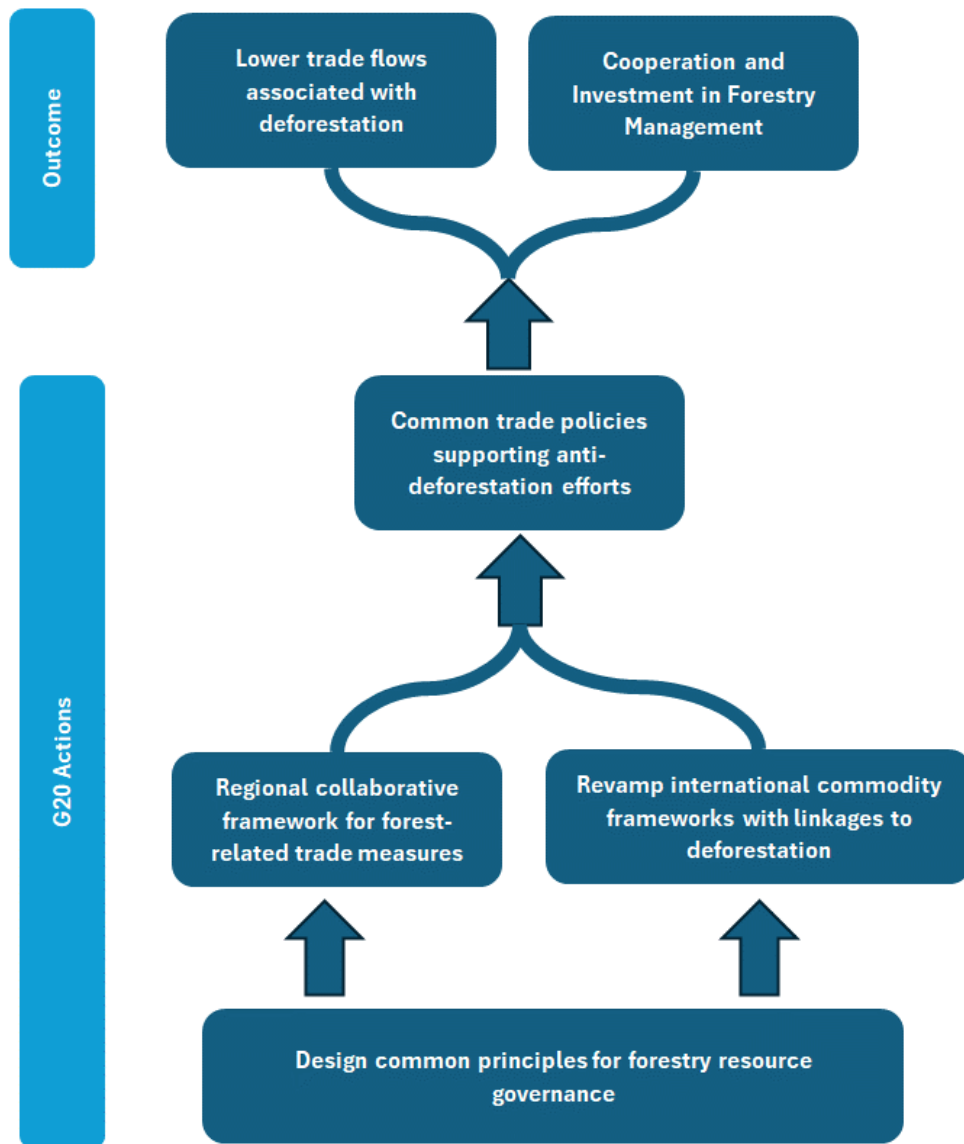


FIGURE 4. Theory of Change of G20 Recommendations

Source: Authors

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