

Trade barriers and forest product exports

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ABSTRACT

Tariff levels on most forest products have been reduced to low levels. For individual products, however, such as panel products (particularly plywood), manufactured wood products, some paper and paperboards, and furniture, rates are still high in some markets. As tariffs have declined non-tariff barriers (NTBs) have become more important. New Zealand's expanding wood supply will result in increasing volumes of forest products being exported. Unless these exports are of unprocessed products, trade barriers will become an increasing restriction. In most developed country markets this is not a major constraint. Every effort must, however, be made to reduce or overcome these barriers since any improvement will assist New Zealand's competitiveness. The importance of trade barriers is likely to be greatest in developing country markets, many of which are considered to hold considerable future potential as markets.

PROTECTIONISM A PROBLEM

Exporters face many difficulties in trading on foreign markets, not the least of which are trade barriers. Like most products, forest products face protectionist pressures in many markets. Barriers make exporting more difficult by limiting entry, making entry complicated and difficult, or increasing the cost (in both time and money) to the exporter. A wide array of formal trade barriers are used to limit competition from imports ranging from well known and easily recognized barriers such as tariffs to less obvious and more difficult to identify non-tariff barriers (NTBs). The latter includes a wide variety of measures ranging from volume restriction, such as quotas or licensing systems, to health and safety regulations. With an expanding wood supply most of which, if harvested, will be directed to export in the future, New Zealand must be aware of what barriers face its products and how these barriers will affect future exports. This paper provides an overview of the barriers affecting forest product exports.

TARIFF BARRIERS ARE DECLINING

Average tariff rates are relatively low for most forest products in most markets. However certain products in some markets face difficulties. In most developed country markets unprocessed wood products such as logs, squares or rough sawntimber are either free of duty or only face low rates. Semi-processed products such as veneer, fibreboard and dressed timber generally face higher rates. More highly processed products such as plywood, some reconstituted panels, wood manufactures (mouldings, builders' carpentry etc) and furniture usually face the highest tariffs. This tendency, known as tariff escalation, makes it more difficult for exporters to trade in more processed products. Paper and paper products which require much more capital-intensive, sophisticated processing technologies to a degree show the same pattern. Basic prod-

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ucts, such as wood chips and pulp, have zero or low tariffs, while paper and paperboard products usually have higher but still relatively low rates.

These characteristics of tariffs can be readily seen in the

TABLE 1 – Most Favoured Nation (MFN) Tariff Levels facing Forest Products: (as at December 1986; Japan as at April 1987)¹

General Product Description	Tariff Rate (%)			
	Australia ²	EEC	Japan	USA
Wood in the rough and roughly squared	0	0	0	0
Wood simply sawn	5	4.1	0-4.8	0
Wood chips	5	0	0	0
Wood planed, grooved etc.	2-15	4.3	0-8	0-2.5
Veneer	5	6.1	5	0
Plywood	28	10.4	S.W. 12.5 H.W. 13.5-17.5	20
Laminated lumber	15	11.1	15	7.34 c/kg + 3.4% ³
Manufactured wood products	15-22	2.6-10.5	2.5-4.8	0-8
Furniture	30	5.6-6.3	4.8	2.8-5.8
Wood pulp	2-15	0	0	0
Newsprint	0	5.4	3.9	0
Other paper and paperboard	0-30	4.1-12.8	5-12	0-3.3

Notes: ¹These are MFN rates. Special preferences may be available for certain products and supplying countries. MFN rates apply to member states who are contracting parties to the GATT articles unless other lower special rates apply. These are the rates faced by New Zealand in the EEC, Japan and the USA.

²Zero tariffs for NZ products.

³Converted from US currency at April 1986 exchange rate.

S.W. – softwoods

H.W. – hardwoods

Sources: National tariff schedules; official documents.

tariff schedules of Australia, EEC, Japan and the USA – four major import markets of interest to New Zealand (Table 1). Tariffs on unprocessed products are zero or negligible. Rates on sawntimber tend to be higher, and in some instances vary in size, wood species and degree of finishing. Levels also vary between countries. For example, Japanese non-preferential rates on sawntimber are 10% for the main hardwood species, 7% for spruce, pine and fir softwoods, but zero for other species. Thus, Douglas fir¹ and hemlock which are important North American species, and some other species, enter free of duty while New Zealand radiata pine faces a 4.8% duty. This type of customs schedule difference therefore results in different import sources being affected differently.

More processed products in these markets such as laminated

¹ Douglas fir is not a true fir and is therefore not included in the spruce, pine, fir category.

timber, planed, tongued and grooved timber and veneer have rates ranging from 0-15%, while rates on plywood, beadings, mouldings, carpentry and furniture can be as high as 30%. Paper and paperboard tariffs vary considerably, depending on the specific category, but in general are much lower than those on most wood products. Newsprint, for example, is free of duty in the USA and Australia, compared to 3.9% in Japan and 5.4% in the EEC²; other types of paper and paperboard have tariffs typically in the range 0-6%.

Special preference schemes allow products from developing countries to enter duty free in many instances. This places countries such as New Zealand at a disadvantage in some important markets. Of special note is the fact that Brazil, Chile, Argentina and to a lesser degree Fiji and Venezuela, all developing countries with rapidly expanding softwood resources, have tariff advantages in markets such as Japan, the EEC and the USA. In Japan, for example, Chilean sawn radiata pine enters duty free and therefore has a 48% tariff advantage over New Zealand. Of special importance to New Zealand is the fact that all forest products from New Zealand enter Australia duty free under the Closer Economic Relations (CER) agreement. This therefore places us on an equal footing with Chile (and other developing countries) in that market, and gives a useful advantage over other developed countries.

Tariffs in the main developed country markets can be seen to be relatively low in most situations. In the four market areas shown in Table 1 the only products where New Zealand faces significant tariffs are plywood and laminated timber, particularly in Japan. Other countries and other timber species such as Douglas fir and hemlock do not have any significant advantage over New Zealand radiata in Japan now that tariff rates on a number of forest products have been reduced. Of special interest to New Zealand in the recent reductions were those on rough sawn pine timber (which was reduced from 7% to 4.8%); dressed pine timber (reduced from 10% to 8%); softwood plywood (>6mm) (reduced from 15% to 12.5%); and veneer for plywood (reduced from 15% to 5%). Some paper products were reduced from the previous low levels. Hardwood plywood tariffs, although reduced, are still above those of softwood plywoods³.

Although tariff rates in developed countries are in general low, those in developing countries are often substantial. Many of the markets which seem to offer the greatest potential for future NZ exports are developing countries, particularly in the Asian region. Markets such as the People's Republic of China, South Korea, Taiwan, Hong Kong, Singapore, Malaysia and India figure prominently in likely future target markets. New Zealand already exports some products to many of these markets, particularly pulp, paper and some panel products, but to date exports of sawntimber, plywood, veneer and wood manufactures to these have been small. In many of these markets high rates are imposed to provide protection for small uncompetitive local industries. In others, however, they are used to conserve the country's limited foreign exchange. Of note is the fact that even unprocessed products such as logs, wood chips and pulp are in many cases subject to tariffs of over 10%. More processed products such as panels, wood manufactures, furniture and paper commonly have rates in the range 20-40%.

Table 2 indicates tariff levels in India, Malaysia, Korea and China as examples of rates applying in developing countries.

² A tariff quota allows much of the newsprint traded into the EEC to enter duty free, however.

³ It should be noted that the basis of assessing tariffs can have an impact on their severity. Japan and the EEC, for example, base tariffs on a cost, insurance and freight (c.i.f.) value, while the USA uses a free on board (f.o.b.) base. The duty element for USA can therefore be considerably less than if it was using a c.i.f. basis.

TABLE 2 – Tariff levels for selected products in four developing countries* (% ad valorem)

	India	Malaysia	Korea	China (a)
Wood in rough	40	20	5	13
Wood sawn lengthwise	50	20	15	19
Fibre building boards	140 ^(b)	25	20	7.5
Plywood	70	40	30	15
Newsprint	0	5	40	
Kraft paper		5	40	
Furniture	90	55,60	50	150

* In most cases as at December 1986

(a) In addition product taxes are imposed which average about 10%.

(b) Basic tariff plus products tax (NFPA 1986).

Note: These rates should only be regarded as indicative.

Tariffs on many products into India have been extremely high. Until recently rates on most wood products (tariffs plus additional charges) were 100% or higher. Levels for logs, sawntimber and veneer were reduced to 10% in 1986, but recent changes have returned sawntimber to 50% and veneer to 110%. Presently there is considerable uncertainty over where they may finally settle. Plywood, fibreboards, and furniture rates range from 70% to 140%. Rates on paper are generally considerably lower, while pulp has no duty. Wood chip rates were recently reduced from 100% to 25%.

Tariffs in China range from 3% on logs and rough sawntimber and 12% for plywood to 30% for veneer, 40% on dressed timber, and up to 150% for furniture. In addition to these, which are published tariff levels, there are reportedly also additional product taxes which average about 10%.

NON-TARIFF BARRIERS (NTBs)

Non-tariff measures used are wide-ranging. They include direct quantitative controls such as quotas, tariff quotas or voluntary export restraints; less direct controls such as important authorizations (licences, permits etc) which may be automatic or at the discretion of customs authorities; price level controls such as minimum prices, price investigations, variable levies, and countervailing duties; and health and technical standards which may be liberal or highly restrictive in their interpretation. In addition, customs formalities, import deposits, government trading policies and marketing and packaging requirements can also act as NTBs depending on their application. Even more difficult to categorize are internal subsidies which are often classified as NTBs. The list of possible NTBs is therefore long.

Forest products are less affected by NTBs than most other products. Quantitative restrictions, price controls and other forms of NTBs are not widespread. In particular voluntary export restraints, which are becoming an increasing problem for many other products, are uncommon but not unknown for forest products. However some NTBs create considerable problems for some forest products. For example, a number of products entering Japan and the EEC are subject to tariff-quota limitations. Newsprint and plywood into the EEC are controlled in this manner, as are a number of wood products entering Japan under tariff preference schemes.

Health and technical standards and import authorizations

create difficulties for forest products in some markets. Whether or not they are being used for legitimate health or safety reasons or mainly to control trade is often difficult to establish. Disputes between exporting and importing countries on the reasonableness of individual standards indicate the diversity of opinion that can exist. Technical difficulties over the use of plywood for construction purposes in Japan and the current tightening of standards regarding timber treatment with pentachlorophenol compounds in a number of countries, with consequent effects on imports, are examples of problems involving technical standards.

For many years New Zealand sought a revision of Japanese technical standards which classified radiata pine as being inferior in strength and quality because of its ring width. Most radiata was ruled as unacceptable for building purposes under this regulation. An extended period of testing and negotiation was necessary before the Japanese agreed to modify this regulation in 1981. Japanese building codes restrict wood use in non-residential buildings and it is often difficult or at least time consuming and expensive to meet these standards. Similarly, building codes have the potential to limit market development in a number of other markets, such as the United Kingdom. Marketing radiata as a construction timber rests on being able to meet the local building standards. In the case of the United Kingdom, however, reported acceptance by the EEC of Spanish radiata may enable New Zealand to gain access under rulings negotiated by other countries. If not, a lengthy and involved procedure is likely.

In developing countries barriers such as import licensing controls, the need to work through State trading organizations, or controls over foreign exchange create difficulties. For example, in India import licences are needed for most forest products other than logs, sawntimber or veneer. All newsprint purchases must be made through a State Trading Corporation, which only approves imports when domestic mills are unable to meet demand. Timber imports into the People's Republic of China are controlled by a Foreign Trade Corporation or the China Timber Import Export Corporation. Imports of wood must be approved by the State Planning Commission, and must conform to national priorities in the State Plan. Foreign exchange availability can also control the level of import approvals, as shown by Chinese cut-backs in log imports in 1986, which fell by 26% from the previous year's level.

Examples of Countries Employing Selected Non-tariff barriers (Indicative only)

Non-tariff barrier	Country employing (examples)
Tariff quota	EEC
Prohibition	Many DCs (e.g., Colombia)
Quota	France, various DCs
Import procedures, licences	Most countries (e.g., China, India, Korea)
Foreign exchange controls	China, India
Anti-dumping investigation/duty	USA
Standards	Numerous (e.g., Japan, EEC, Canada)
Government procurement	China, Korea, India
Marking and packaging	Numerous
Export controls	Indonesia, Malaysia, various South American countries

Note: The above barriers do not necessarily apply to all forest products in the named countries.

DC = developing country.

Anti-dumping investigations can be used to restrict imports, and many investigations appear to be used to create access difficulties rather than because a legitimate case exists. Their use appears to be growing, although this is mainly restricted to a small number of developed countries which have formal legal provisions and procedures and which have an administrative structure for enforcement. The EEC, the USA and Australia have all made use of these procedures. USA accusations that softwood lumber exports by Canada were subsidized recently resulted in Canada agreeing to impose a 15% export tax on its softwood lumber exports. This move was forced on Canada by a USA decision to impose a 15% countervailing import duty on softwood lumber imports from Canada.

New Zealand sawntimber exports faced a similar situation in Australia in 1982, culminating in New Zealand exporters agreeing to voluntary restraints. These involved observing minimum export prices based on 'normal' values set by the Australian Customs Service, and limiting the monthly volume of shipments of structural grade timber. The restraints were in place for about two years before Government to Government negotiations and improved market conditions facilitated their removal.

IMPLICATIONS FOR NEW ZEALAND EXPORTS

Forest produce exports were valued at \$NZ768 million in 1986. Two markets, Australia and Japan, accounted for 68% of total exports, with Australia accounting for 43%. Exports to Australia are mainly processed products such as sawntimber, paper and paper products, and wood manufactures. Pulp exports are the only relatively unprocessed product of consequence. Those to Japan on the other hand are unprocessed products, mainly pulp, wood chips, logs and flitches⁴. In total about 42% of New Zealand's forestry exports (by value) can be broadly categorized as unprocessed.

New Zealand's exotic wood supply is projected to almost double by the year 2000, with exports quadrupling to about 12 million m³. This will require an expansion of existing markets and the development of new markets. Any significant growth in exports to Australia seems unlikely because of increasing supplies of Australia's own softwood resource. This will rule out the benefits of duty-free entry under CER for much of the export volumes. In other markets, unless the expanded wood supply is exported in unprocessed product form, tariff barriers and NTBs will become more important for a much greater proportion of New Zealand's exports than at present.

High tariffs, tariff escalation, and the use of NTBs which are difficult to identify, are some of the concerns which must be addressed by New Zealand in expanding its exports. New Zealand can expect to find that trade barriers are more of a problem in the future than now, as efforts to increase the export of more processed and higher value products accelerate and as emphasis on exports to developing countries grows. With increased volumes of clearwood which will be directed to higher-value uses such as furniture componentry, joinery, veneers and plywood becoming available in the future, trade barriers, particularly tariffs, will be more important if this wood is exported in finished or semi-finished form. Although tariff barriers are still declining in both developed and developing countries, rates on more processed products will continue to be greater than on unprocessed products. Similarly NTBs will be more prevalent on these products. In particular technical and health standards, and anti-dumping investigations appear to be coming more prevalent. In general the restrictions are likely to be less of a problem in developed country markets. However many of the Asian developing countries are seen as important markets in the future, and trade barriers in these are of more significance.

⁴ Flitches are classified for official statistical purposes as sawntimber but are essentially squared logs.

In order to reduce the impacts of these barriers every effort should therefore be made to encourage a reduction in both tariff and NTBs. This should involve effort in international negotiations such as the current GATT multilateral negotiations, and in bilateral discussions with countries which hold potential as markets. Individual companies, industry organizations and Government also have an important role to play in establishing an environment which will encourage the reduction of barriers. Each group must monitor barriers and identify problems and ways of overcoming these problems.

The important point is to be aware of the barriers that do exist, and to take appropriate action to minimize them. This may include ensuring tariffs are included in costings, or that appropriate technical or test data are available to meet the requirements of standards.

The issue of tariff and non-tariff barriers must, however, be placed in perspective. Although barriers have an important effect on exports in certain situations, and can create major difficulties for individual firms from time to time, in most cases

they are not significant problems for forest products, certainly not in comparison to marketing and distribution problems. While making every effort to ensure trade barriers are reduced, it will continue to be far more important for exporters to have a complete understanding of existing and potential markets and their requirements, and to identify opportunities that exist. Marketing procedures and strategies, and product developments can then be used to equate New Zealand's skills and advantages with the markets' requirements.

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INSTITUTE NEWS

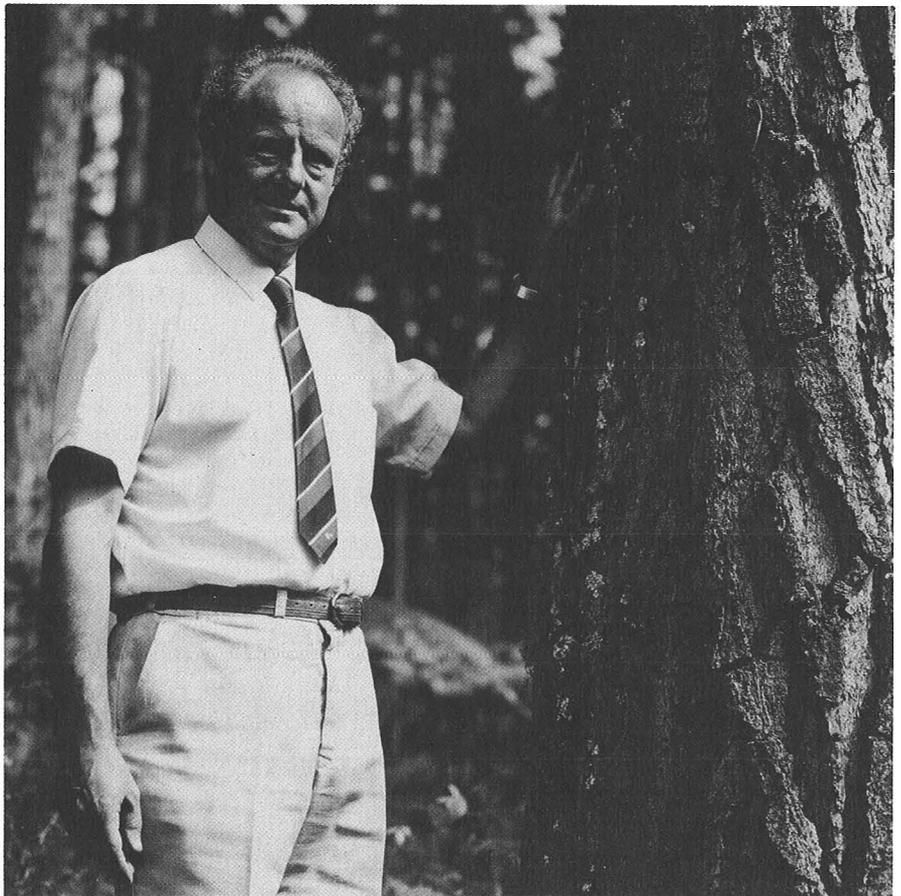
Institute's new President – Dr W. R. J. Sutton

Wink Sutton is 49 years old. He began his career in forestry 32 years ago when he joined the NZ Forest Service as a trainee. He gained a B.Sc. at Victoria University (1963) and then a B.A. (For.) at Oxford (1965). On his return to New Zealand he joined the newly formed Economics and Silviculture Group at the FRI in Rotorua. Apart from three years back at Oxford to do his doctorate (1972-1975) on the long-term export prospects for New Zealand's radiata pine he spent the next 20 years on silvicultural and economic research of radiata pine. Wink's greatest achievement was as leader of the Radiata Pine Task Force (1979-1982) which developed the stand simulation model SILMOD.

He left the FRI in 1985 to join Tasman Forestry Limited's Head Office in Rotorua as Strategic Development and Technology Executive, a position he still holds.

When asked for a few words on what we might expect during his presidency, Wink replied:

"The new Council has yet to meet and formulate its policy and direction. For my part I see that there is an urgent need to challenge much of the negative comment about forestry's contribution and its future potential. I will do what I can to increase awareness to forestry's critics and the public of what forestry has achieved in saving the remaining indigenous forests, in improving soil-stability, providing forest products for the country



Dr W. R. J. Sutton, the Institute's new President.

and the enormous potential forestry has as a future industry and export earner.

"Advocacy of forestry in its widest sense will be a major feature of the Institute over the next two years."