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II PROGRAM



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Summary (Mikhail Popkov)

This report prepared at the request of the Ministry of Economy and Trade of Ukraine:

- summarized international experiences in application of prohibitive measures in the foreign trade in timber regulation;
- showed the causes aggravating conflicts related to access to timber and as a consequence the adoption of a law implementing a moratorium;
- analyzed the moratorium first after-effects;
- forecasted long-term efficiency of the moratorium as a timber market regulation activity;
- substantiated the list of activities aimed at forming in Ukraine of a civilized timber market and replacement of the moratorium with other market regulation instruments.

As an appendix, an overview of the timber trade practices used by public forest agencies in EU member-states is shown.

The report shows that:

Adoption of the law implementing the moratorium was a reaction of the wood processing sector to the trade policy of the State Forest Resources Agency of Ukraine, which for several years has been lobbying the export of timber in the round form, using non-transparent trade procedures.

Current expectations of a positive impact of the moratorium on the development of the forest sector are exaggerated. In the context of unbalanced demand and supply in the domestic market, bans on timber export shall:

- a) reduce the price of timber and forest owners income;
- b) have a negative impact on the state of forests and forestry management activities;
- c) lead to a rapid development of small, technologically primitive sawmilling focused on foreign markets;
- d) cause a decline in demand for low-quality timber and increase in saw log deficit;
- e) contribute to growth of illegal logging, shadow timber trade and corruption;
- f) lead to an inevitable bankruptcy of uncompetitive segments of the forestry sector formed in reliance on cheap raw materials;
- g) will serve as the basis for Ukraine's prosecution in violation of international agreements and trade rules, and response.

A reasonable way out of this situation is the replacement of the moratorium with other methods aimed at timber market regulation and wood processing segments of the forest sector development. Among these, the top priorities are:

- a) the adoption of effective measures aimed at fighting the shadow trade and corruption;
- b) revision of trade rules aimed at improving procedures and technologies; quoting volumes sold to “loyal customers engaged in deep processing of wood”; strengthening the guarantees and responsibilities of buyers and sellers;
- c) improving the regulatory framework for timber classification, measurement, marking and registration;
- d) ensuring open access to information on timber resources and their use, prices dynamics, unscrupulous trading partners, etc. following practices of public forestry companies of European countries;
- e) encouraging the development of deep processing of wood by introducing changes in tax and customs legislation (tax holidays for investors, reduction of import duties on woodworking equipment, export licensing).