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ANALYSIS OF EXPORT POLICY OF TIMBER TRADE IN THE CONDITIONS OF INTERNATIONAL ECONOMIC ACTIVITY

Abstract
The position of Ukraine and the EU regarding the moratorium which is introduced on the export of rough wood was considered in the paper. The preconditions for introducing a ban of the exports of timber are analyzed. The analysis and generalization of domestic normative legal acts and international commitments of the WTO and Ukraine, including the Association Agreement between the EU and Ukraine and the General Agreement on Tariffs and Trade (GATT), in the field of forestry regulation, is conducted. The actual problems in the forest product industry of Ukraine are found out. The main objective of the article is to propose recommendations for the development of the export policy of timber trade in conditions of European integration that will not contradict the international obligations of Ukraine. Investigations have shown that in the provisions of the GATT and the Association Agreement there are exceptions, which allow non-compliance of commitments in certain extreme cases. However, in adopted bills there is no ample evidence regarding the necessity of applying or restricting exports. Based on international experience, the impact of the export ban on the timber industry as a whole has been determined. It has been established that the wood-based industry receives positive effects only in the short-term period. However, all sectors of forest product industry will be negatively affected in the long-term period. Recommendations on the development of export policy for timber trade by abolishing import duties and value added tax for equipment for forest-based processing enterprises, the analogues of which are not made in Ukraine, for the purpose of modernization of equipment and further development of the forest-based industry, have been given. Based on the experience of European countries, it is proposed to export timber using the “residual method”, that is, primarily to provide raw materials to domestic producers, and to introduce export duties on roundwood production. After analyzing alternative ways of developing Ukraine’s export policy regarding timber trade in conditions of European integration, based on the escalation of tariff and tariff barriers, optimal rates of ad valorem and specific export duties have been proposed. With the justified introduction of export duties, the restriction of domestic consumption of timber, the abolition of import duties on the necessary equipment for wood processing, which are not analogous to those produced in Ukraine, all prerequisites for the development of domestic forestry are created.


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Keywords: export policy of timber trade; moratorium on the export of rough wood; European integration of Ukraine; export and import duty.
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АНАЛІЗУВАННЯ ЕКСПОРТНОЇ ПОЛІТИКИ ТОРГІВЛІ ДЕРЕВИНОЮ В УМОВАХ МІЖНАРОДНОЇ ЕКОНОМІЧНОЇ ДІЯЛЬНОСТІ

Анотація
Розглянуто сучасні проблеми лісогосподарського комплексу України. На основі порівняльного аналізу встановлено, що результати запровадженого мораторію на експорт лісоматеріалів у необробленому вигляді свідчать про його неоднозначність, зокрема запроваджена заборона суперечить міжнародним зобов'язанням України, в тому числі Угоді про асоціацію та Генеральній угоді про тарифи і торгівлю (ГАТТ). Охарактеризовано позиції української та європейської сторони щодо мораторію на експорт деревини. Дослідження показало, що у положеннях ГАТТ та Угоди про асоціацію є винятки, які дозволять не дотримуватись зобов'язань у певних крайніх випадках, однак у прийнятих законопроектах не наводяться достатні докази щодо необхідності застосування чи обмеження експорту. Виходячи з міжнародного досвіду, було визначено вплив заборони експорту на деревообробну промисловість в цілому. Встановлено, що деревообробна промисловість отримує позитивні наслідки лише у короткостроковому періоді.

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Ключові слова: експортна політика щодо деревини; мораторій на експорт необробленої деревини; євроінтеграція; експортне та імпортне мито.
Introduction. Forests are a strategic resource of Ukraine, but forestry is severely damaged by irrational use of forest resources, imperfect state forest policy, inadequate forest resources accounting and illegal logging. For a long time, the role of Ukrainian forests as an important natural resource has diminished, and they are increasingly gaining importance as an object of commercial operations. Mainly, such use of forest resources is due to the lack of a single way of development of the forestry complex, which could take into account both economic and environmental factors. As a result, the ecological balance of forests was violated; the main advantage was given to the restoration of commercial species due to the forced need for self-financing of forests. The current state of the problem of export policy development of the timber trade in Ukraine is directly related to the implementation of the Association Agreement. Ukraine's integration into the European community is caused by long-term and consistent process of implementation of the Association Agreement. Formulation of the task of this article is investigation the use of export restrictions on timber, contrary to the provisions of the Agreement. The urgency of solving this task leads research aimed at evaluating the efficiency of timber export ban.

A lot of domestic scientists worked on the problem of developing the export policy of timber trade under the conditions of European integration. Anhel Y., Bublyk M., Butin A., Komarnytsckyi I., Koropetska T., Popkov M. and other. However, the writings of the listed authors did not pay enough attention to the problems of illegal logging, timber smuggling and opaque pricing, which significantly changes Ukraine's export policy in the context of European integration.

The purpose of the paper is to develop the export policy of Ukraine through customs and tariff regulation in the context of the European integration processes associated with the implementation of the Association Agreement. In accordance with the purpose of the article there is a need to solve the following tasks: 1) to determine the preconditions and reasons for prohibiting the export of timber; 2) to analyse and evaluate the impact of the ban on exports of logs in accordance with the declared moratorium on the economy of Ukraine; 3) to propose recommendations on the development of export policy for timber trade in the context of European integration.

Results. The results of the temporary moratorium on the export of rough wood in Ukraine show its ambiguity. In particular, the export of roundwood decreased significantly, so therefore, this raw material has remained in Ukraine and recycled wood for domestic enterprises. However, the imposed moratorium is criticized by the Ministry of Economic Development and Trade and the EU and demand its cancellation. According to the ministry (LOULMH, 2015), the ban on exports of logs closed for Ukraine to enter the market for the sale of rough wood, increased the number of illegal logging, did not contribute to increased forest cover and did not solve the issue of illegal logging, timber smuggling and opaque pricing. According to the EU, the moratorium runs counter to the international obligations of Ukraine, including in accordance with the Association Agreement and Art. 11 of GATT of the WTO. Because of breach of obligations, the EU has refused to provide a tranche of macro-financial assistance.

In January 2019, the EU initiated consultations with Ukraine on banning the export of roundwood. In accordance with the provisions of the Association Agreement, such consultations are the first stage of dispute resolution.

The EU demands moratorium on the export of timber - logs, because it is contrary to Art. 35 Association Agreements (2014), which states that no party shall impose or maintain any prohibitions or restrictions on the import of any product from the other party or export of any product. In addition, Art. 11 GATT prohibits (LOULMH, 2015; GATT) the use of total or partial prohibitions and restrictions other than customs duties, taxes or other charges on the importation of any product originating in any other WTO member or in the export or sale for export of any product intended for import.

As to the position of Ukraine regarding the moratorium on timber export, it is reflected in the explanatory note to the bill, whereby subsequently adopted the Law of Ukraine “On amendments to some laws of Ukraine concerning the settlement of certain matters of economic policy”. In particular, it states that the ban on the export of rough wood does not contradict the provisions of GATT, because (GATT; LOULMH, 2015), the moratorium extends to all countries, and not selectively, that is, such a prohibition is not discriminatory. The next point is (Zakon Ukrainy, 2005) that the export ban is set at 10 years, but it has a temporary nature, and is directly related to the existence of an environmental threat that regulates Art. 20 (g) GATT, that is (GATT; LOULMH, 2015) allows measures to be taken to conserve natural resources that are exhausted if measures are taken to limit domestic production and consumption. Another argument put forward by the Ukrainian side points to (Zakon Ukrainy, 2005) the importance of the value of the forest as an integral part of the environment, which corresponds to Art. 11: 2 (a) the same Agreement, where (GATT; Zakon Ukrainy, 2005) for goods that are significant for the exporting country, temporary restrictions are allowed to prevent or reduce to a critical level. Also, Art. 294 of the Association Agreement (2014) states that in order to promote sustainable forest management sides are committed to working together to improve forest law enforcement and
management and promote trade of legal and sustainable forest products.

The provisions of the GATT and the Association Agreement (2014) have exceptions that make it impossible to comply with international obligations in certain extreme cases, but a simple list of exceptions to the explanatory notes is inadequate. It is necessary to provide sufficient evidence about the need to apply either the restriction or the export ban, and develop a mechanism for limiting domestic production and consumption. However, the adopted bills do not use the exclusive provisions, but only partially and unsystematically can solve the problems surrounding the export ban. In particular, the purpose of imposing a moratorium is solely economic objectives, unreasonable level of harvesting of industrial wood, that is, the environmental factor and environmental factor are not taken into account at all.

Although the introduction of a ban on the export of rough wood is, above all, an economic issue, ignoring environmental issues will be a big mistake. In order to use the exclusive provisions of the GATT and the Association Agreement, it is necessary to correctly and thoroughly characterize and provide evidence that there were at the time of the imposition of prohibitions and restrictions, in particular, the following circumstances: 1) under Art. 11: 2 (a) GATT, Rough wood as a commodity is extremely important for Ukraine, and at the time of the introduction of the relevant ban, there was a risk of a critical shortage of roundwood (Bublyk, 2008); 2) under Art. 11 (g) GATT, the export ban is associated with the preservation of exhaustible natural resources; what justifies the size of the current restriction of domestic consumption and why it has changed in the direction of increase; does the country have a system for monitoring domestic consumption of wood (Bublyk, 2015, 2008).

The issue of limiting domestic consumption and production requires a more detailed analysis. According to the Law “On Amending Certain Laws of Ukraine on Conservation of Ukrainian Forests and Preventing the Illegal Export of Rough Wood”, the restriction of domestic consumption of roundwood is introduced (Zakon Ukrainy, 2018). It is according to the code of Ukrainian classification of goods for foreign economic activity (UCG FEA) corresponds to heading 4403 in the amount of 20 million cubic meters. First, such a level of timber harvesting is economically unreasonable, since such a volume of felling in Ukraine has not been long ago: for the period from 2010 to 2017, the average total timber harvest is 18.2 million cubic meters (see Fig. 1), which is almost 10% less than the established internal limit.

The determination of the commercial timber harvesting level can be made using the following approach: since the introduction of a ban on exports of logs, the level of domestic consumption of industrial wood should be limited to 4 million cubic meters, and from each next year the maximum level of procurements will increase by 7% (see Table 1). Thus, with the application of this approach to the

![Fig. 1. Dynamics of timber harvest volumes for 2010-2017](image-url)

*Source: formed on materials (Derzhavna služba statystyky Ukrainy, 2018)*
It is worth noting that not only Ukraine faced the problems of regulating uncontrolled logging and significant logging. Governments in many countries are looking for possible options for developing forestry trade, in order to maintain a balance between the economic and environmental components of the problem. In general, by 2018, around thirty countries of the world had different forms of prohibitions and restrictions on the export of timber. Like the declared objectives of limiting the export of rough wood in Ukraine, in the world the introduction of a ban (Anhel & Butin, 2018) helped protect forests from deforestation and the development of domestic production. However, according to experience (Popkov, 2016; Anhel & Butin, 2018; Bublyk & Koropetska, 2008), introduction of the prohibitions leads to ambiguous consequences: 1) prohibition of exports of timber reduces the cost of wood and growing forest: a) there is a reduction in the price of timber purchased earlier, which was exported because of the reduction in the number of potential buyers; b) the price of wood on the domestic market is decreasing; c) since the cost of growing forest depends on the value of goods that can be obtained when it is harvested, then, accordingly, the price of growing forest, both for the owner and for society as a whole, is reduced; 2) the prohibition of timber exports negatively affects forestry activities: reducing the price of wood leads to a reduction in the incomes of permanent forest users, the main part of which is a member of the forestry: a) an increase in the proportion of forests that are economically inappropriate to cut down because harvesting costs and timber deliveries exceed the market price; b) increase of the forest fund due to low quality woodlands; c) increasing the proportion of unused wood waste; d) reduction of investments in forest infrastructure development;

3) the ban on export of forest products leads to the advance development of primary wood processing: a) the lack of competition from exporters and falling timber prices create the illusion of profitability and lead to an increase in capital expenditures in sawmill equipment; b) demand for sawwood is growing at a high pace due to the lack of demand for low quality timber and waste; c) the number of illegal logging, shadow sales and corruption is increasing; d) the deforestation and lack of raw materials lead to the bankruptcy of sawmill enterprises.

As a result, only the woodworking industry receives benefits in the short-term, but in the long run all sectors of the forest complex will suffer from negative consequences. Taking into account the above-mentioned negative possible consequences of the ban on exports of wood products and the complicated situation between Ukraine and the EU because of a moratorium, there is an urgent need to find an alternative solution to the problems related to the export policy of Ukraine in the trade by wood products.

The Ukrainian woodworking industry is currently only developing and it is happening at the expense of enterprises themselves. Weak positions in the production of finished products of deep processing are a consequence that the central government has not resolved this problem (ISED, 2016). But, regardless of the moratorium on the further development of the woodworking industry, enterprises need large-scale modernization of production. Therefore, an expedient measure is the abolition of import duties and value added tax on equipment which is not produced in Ukraine.

Based on the experience of European countries in the forest policy, it would be expedient to export wood according to the "residual" principle, that is, domestic producers are provided with raw materials in the first place. Whereas this approach successfully applied in developing European companies (ISED, 2016), it is necessary to analyze this approach to evaluate the possibility of its use in Ukrainian reality and to develop predictive models that show the risks and benefits of the use of different scenarios (total prohibition, partial prohibition) for state forest enterprises.

Another alternative of the moratorium is the introduction of export duties. In particular, currently in Ukraine export customs duties on seeds of some oilseeds, live cattle and leather raw materials, waste and scrap of ferrous metals are used. With the justified introduction of export duties, the restriction of domestic consumption of timber, the abolition of import duties on the necessary equipment for wood processing, which are not analogous to those produced in Ukraine, all prerequisites for the development of domestic forestry are created.
It is recommended to introduce export duties to the commodity group 44 UCG FEA, the goods of which can be grouped as follows (UKT ZED, 2019): 1) rough wood: roundwood (cut, chopped, brushed, peeled, etc.) and fuelwood, waste wood and scrap, sawdust, wood shavings or bits; hoops, poles, hydraulic pits, piles, pins, etc.; charcoal; wood wool and wood flour; sleepers for railway or tramway tracks (predominantly commodity positions 4401-4006); 2) wood semi-finished products: a) spun, split, tufted, planed, peeled, polished, tied timber materials, for example, with a stud joint (that is, connected by gluing the ends of short varieties of wood to obtain materials of greater length, with the connection reminiscent of interwoven fingers), as well as wood materials of a permanent profile (commodity positions 4407-4409); b) wood particle board and the like, wood-fiber boards, laminated and pressed wood (commodity items 4410-4113); 3) wood products in general.

Mostly it is expedient to apply duties to the first two groups: raw wood and semi-finished wood. Analyzing alternative options for the development of Ukraine's export policy for timber trade in conditions of European integration based on the tariff escalation of tariff and tariff barriers, the optimal rates for ad valorum and specific export duties were proposed (see Table 2).

Table 2. Export duty rates of goods exported from Ukraine

<table>
<thead>
<tr>
<th>Product code*</th>
<th>The name of the goods</th>
<th>Duty rates</th>
<th>but not less than (euro/m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4401</td>
<td>Fuelwood, in logs, billets, twigs, faggots or similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>4401 00 00</td>
<td>- fuelwood, in logs, billets, twigs, faggots or similar forms</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>4402</td>
<td>Wood charcoal, incl. shell or nut charcoal, whether or not agglomerated (excluding wood charcoal used as a medicament, charcoal mixed with incense, activated charcoal and charcoal in the form of crayons)</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>4403</td>
<td>Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>4403 10 00</td>
<td>- treated with paint, steam cleaners, creosote or other preservatives</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>4403 20 00</td>
<td>- other coniferous species</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>4404</td>
<td>Hoopwood; split poles; piles, pickets and stakes of wood, pointed but not sawn lengthwise; wooden sticks, roughly trimmed but not turned, bent or otherwise worked, for the manufacture of walking sticks, umbrellas, tool handles or the like; chipwood, wooden slats and strips and the like (excluding hoopwood cut to length and chamfered; brush surrounds and shoe trees)</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>4406</td>
<td>Railway or tramway sleepers “cross-ties” of wood</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>4407</td>
<td>Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness of &gt; 6 mm</td>
<td>10</td>
<td>4</td>
</tr>
</tbody>
</table>

Note: Created and recommended by the authors; * by UCG FEA.

Export duty is charged by the customs authorities of Ukraine and is paid in the currency of Ukraine. When determining the customs value of goods and paying customs duties, the foreign currency is converted into the currency of Ukraine at the official rate of the National Bank of Ukraine on the day the customs declaration is submitted.

Implementation of export duties on timber and semi-finished wood products covered by these codes will create a favorable investment climate for the development of woodworking sector, increase production and sales of wood, which in turn will ensure the growth of budget revenues from the profits of woodworking enterprises and from the export duty.

As a result of the implementation of export duties on timber in the rough raw and semi-finished wood products it is expected to reduce exports in round timber, with the increase in the state budget revenues from the collection of export duties. In addition, the introduction of export duties will contribute to an increase in revenues to budgets of all levels from the expansion of the tax base due to an increase in the volumes of production and sales of wood products and wood products that will be recycled at domestic facilities.

Conclusion. The progress towards the abolition or suspension of the moratorium on the export of rough wood is perhaps the most acute problem in Ukraine's relations with the EU, because, as the
European side notes, the ban on exports of rough wood contradicts the provisions of the Association Agreement and the obligations of Ukraine within the framework of the WTO.

Therefore, in order to resolve this problem, a number of legislative initiatives have been proposed, but they do not contain sufficient evidence of the need to apply the export ban or a mechanism for limiting domestic production and consumption.

In order to regulate timber exports and resolve contradictions between Ukraine and the EU it is recommended: firstly, to cancel import duties and value added tax on equipment for woodworking enterprises, which are not analogous to those produced in Ukraine, which will create the preconditions for the development of deep wood processing; secondly, to export wood according to the “residual” principle, since domestic production will be ensured primarily by the introduction of this approach, and its surplus will be exported; thirdly, based on the formation of the tariff escalation of customs tariff barriers it is advisable to establish the optimal rates of ad valorem and specific export duties. Introducing rates of export duties on rough wood and semi-finished timber will reduce the volume of exports of logs, increase the volume of deep-processed production, and increase revenue from the state budget from customs duties, which will improve the investment climate for the development of the woodworking sector of the economy.

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