



Implementation of the EU-Cameroon Voluntary Partnership Agreement policy: Trade distortion, rent-seeking and anticipative behavior

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ABSTRACT

This paper empirically investigates the impact of the implementation process for the Voluntary Partnership Agreement (VPA) in Cameroon on the volume of exported wood from Cameroon to the European Union (EU). This is achieved by applying time series analysis, change point detection, and vector autoregression with exogenous variables. No previous research has quantitatively analyzed the long-term impact of VPAs on traded wood. Two major conclusions are drawn. First, the VPA, and accompanying improved forest governance, negatively impacted on the wood volume exported from Cameroon when it came into force (December 2011). However, wood extraction in Cameroon's neighboring countries increased as operators can still economically benefit from less stringent environmental standards in these countries. Second, this paper observes anticipative behavior before the VPA came into effect. During the negotiations, exports decreased due to redirection of the trade flows, and uncertainty concerning the outcome of the negotiations. However, during the months before the VPA came into force, wood exports sharply increased. This is explained by rent-seeking behavior by operators who wished to benefit from the less stringent trade conditions, whilst they lasted.

1. Introduction

This paper empirically investigates the impact of the implementation process for the Voluntary Partnership Agreement (VPA) in Cameroon on the volume of wood exported from Cameroon to the European Union (EU) using time series analysis, change point detection, and vector autoregression with exogenous variables.

VPAs, together with the EU's Timber Regulation (EUTR) are the two main elements in the EU's Forest Law Enforcement, Governance and Trade Action Plan (FLEGT) (Lesniewska and McDermott, 2014). This action plan 'focuses on the wood trade and enforcement of forest laws and regulation as a way to combat illegal logging' and improve forest governance at global level (Tegegne et al., 2017). Since 2013, the EUTR has required a due diligence system (DDS) for the legality of imported wood and wood products (Leipold, 2017). This is intended to prevent the placement of illegal wood (products) on the EU-market. Since the wood operators bear the cost of this DDS, these more stringent requirements could create a trade barrier (Xu, 2000).

While the EUTR prohibits the placement of illegal wood on the EU-market, VPAs help wood-producing countries to ensure that the wood

products they export to the EU are legal. A VPA is a 'legally binding trade agreement between the EU and a wood-producing country outside the EU' (European Commission, 2017a,b,c). These agreements combine legality licensing with multi-stakeholder processes¹ that address underlying problems of forest governance (Lesniewska and McDermott, 2014). A country can only award FLEGT legality licenses to its operators on the precondition of an EU-approved legality assurance system. FLEGT licensed operators gain automatic access to the EU market (Carodenuto and Cerutti, 2014) and avoid the costs relating to DDS. By granting automatic access to the EU market, a VPA has elements in common with, but is not completely similar to a Free Trade Agreement (FTA). This can potentially be beneficial for the wood producing countries as renewable resources can positively impact economic growth, on the precondition of an open economy and well-functioning institutions (Tajibaeva, 2012).

This paper is the first to present an analysis of the VPA's impact on Cameroon's wood exports to the EU. This is useful for two reasons. First, it is interesting to investigate the impact of any FTA, as FTAs do not necessarily increase trade flows and thus specific conclusions can be derived from this case. According to Burfisher et al. (2001), "whether or

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¹ With, for example, a focus on support to civil society for independent forest monitoring, capacity building for forest ministry officials, public awareness-raising regarding the importance of reducing illegal forest activities or addressing legal issues, such as unclear or contradictory forest-related laws and weak community rights.

not a regional trade agreement benefits its members will depend on parameter values and initial economic structure — it is essentially an empirical issue that must be settled by data analysis”. In addition, the nature of the FTA also determines the extent of its impact (Lake and Yildiz, 2016) and when FTAs involve natural resources, there is an additional risk for overexploitation (Ferreira, 2007). Second, Carodenuo and Cerutti (2014) identify the lack of research which specifically focusses on VPAs' potential and their actual impact: “existing research regarding long-term impacts is speculative or relates to the processes preceding legality verification”. To date, no such research has been conducted (either for Cameroon or for other VPA countries).

FTAs do not necessarily increase trade, and this is no different for the VPA in Cameroon, especially since the VPA comes with responsibilities. Wood operators can only obtain a FLEGT license if they meet the stipulated legality criteria. This often requires considerable changes in forest management practices. Those changes, and the accompanying costs, might exclude some of Cameroon's operators from participation in trade with the EU. Cameroon is currently reviewing the first round of applications for FLEGT licenses (European Union, 2016), but has, so far, not awarded any license. Nevertheless, the VPA is expected to have an impact, since a VPA implies governance reforms, legislative and policy reforms and impact monitoring (Carodenuo and Cerutti, 2014; European Commission, 2017a,b,c). This is confirmed by Cerutti et al. (2016) who describe how the VPA became key in the reforms of the Cameroonian wood sector over the last years. These reforms affect every wood operator in Cameroon.

This paper does not focus solely on the point in time when the EU-Cameroon VPA was agreed or came into force (May 2010 and December 2011 respectively). In addition, the analysis takes into account the whole negotiation period (November 2007 – May 2010). This is necessary since multiple authors have observed increased trade volumes during the negotiation period which precedes an FTA coming into force (Croce et al., 2004; Coulibaly, 2007; Freund and Ornelas, 2010; Mölders and Volz, 2011). Magee (2008) quantifies the anticipation effect of regional trading agreements – in general – as about 25% throughout the four years prior to an FTA coming into force. Baier et al. (2014) even described how some authors reverse the causality. In this reasoning FTAs emerge as a consequence of intense trade.

According to Eichengreen and Irwin (1998), the explanation for this anticipation effect is twofold. First, suppliers begin to redirect ‘their exports in anticipation of future market openings’. Second, less formal arrangements often precede the conclusion of an FTA. This stimulates trade between the negotiating countries and reinforces the anticipation effect. Alternatively, Csilla and Nilsson (2015) stress the importance of reduced trade policy uncertainty as the negotiation process proceeds. An uncertain trade environment does not stimulate trade (Fontagné et al., 2015).

In the European context, the anticipation effect is observed for numerous intra- and extra-EU agreements. At intra-EU level, the anticipation effect first occurred prior to the formation of the European Coal and Steel Community in 1951 (Eichengreen and Irwin, 1998). Subsequently, increased trade flows were observed prior to the different EU expansions, for example when Portugal joined in 1986 (Csilla and Nilsson, 2015; Handley and Limao, 2015). At extra-EU level, the anticipation effect occurred prior to agreement on the EU-Korea FTA (Csilla and Nilsson, 2015).

Also, this paper finds (significant) effects during the period which preceded the VPA coming into force. Depending on the conditions, Cameroon's exports to the EU were positively or negatively affected by the VPA's implementation process.

The remainder of this paper is structured as follows. The second part describes the context of the EU-Cameroon VPA. Part three describes the data and methods applied in order to investigate the impact on trade flows. Part four presents the results of the analysis, while part five discusses these results prior to ending with a conclusion.

2. FLEGT and the VPA in Cameroon

The entire VPA implementation process in Cameroon consists of 3 phases. The first phase encompasses the VPA negotiations (November 2007 – May 2010). The second phase starts with the VPA agreement in May 2010 and ends with the VPA coming into force (December 2011). Hence, at this stage the negotiations are finalized, and the outcome of the negotiations is known. However, the bilateral binding agreement did not enter into force yet. The third period runs from the VPA's entry into force up to the present.

Tegegne et al. (2017) describe how this entire process has been managed by the Cameroon Ministry of Forests and Wildlife. The ministry created two agencies to negotiate and implement the VPA process: the Joint Implementation Council to oversee the VPA implementation, and a National Monitoring Committee to guide and assess the VPA implementation. At least one of the two agencies includes representatives of the Prime Minister's office and five government ministries, the National Assembly, the private sector, civil society, indigenous people and community forests. The high number of stakeholders involved is one of the reasons why this process is often perceived as a “good” process (Dooley and Ozinga, 2011; Tegegne et al., 2014).

Since 2011, Cameroon has been developing its ‘Timber Legality Assurance System and methods of impact monitoring, and implementing transparency commitments’ (Tegegne et al., 2017). Barriers to VPA implementation in Cameroon are corruption, the informal nature of the domestic sector, non-sensitive wood demand, technicalities of the legality assurance system, the high cost of legality and lack of awareness on the part of the private sector (Carodenuo and Ramcilovic-Suominen, 2014).

3. Methodology

3.1. Case selection

This paper claims that it is relevant and necessary to individually investigate the Cameroonian case because each VPA is unique. A VPA is a bilateral agreement between the EU and a wood-producing country, hence both the process of negotiation and implementation of a VPA differ for each country (Van Heeswijk and Turnhout, 2013; Wiersum and Elands, 2013; European Commission, 2017a,b,c). Also, the type of wood products covered by each VPA differs. Hence, different VPAs will generate heterogeneous impacts across the world.² Therefore this paper does not consider VPAs simultaneously.

The reason for selecting the case of Cameroon is threefold. First, the EU-Cameroon VPA came into force on 1st December 2011. The negotiations started in November 2007. Sufficient time has therefore passed to be able to assess the impact of it coming into force and the preceding implementation period. At global level, only the VPA with Ghana came into force earlier (December 2009), but throughout the period 2000–2015 Ghana exported 5 times less wood to the EU (EUROSTAT, 2017). This is the second reason to opt for Cameroon: it is the most important African exporter of tropical hardwood to the EU (Tegegne et al., 2014) and therefore a relevant case to investigate. Third, Cameroon is surrounded by countries which also export wood to the EU. This creates the opportunity to compare Cameroon's exports with its regional counterfactual.

Carodenuo and Cerutti (2014) provide additional arguments in favor of this comparison as they identify three important common properties across the wood markets of Cameroon and its surrounding

² At present, the EU has signed 6 VPAs with the following wood-producing countries: Cameroon, Central African Republic, Ghana, Indonesia, Liberia, and the Republic of the Congo. Nine other countries are in the process of negotiation: Côte d'Ivoire, Democratic Republic of the Congo, Gabon, Guyana, Honduras, Laos, Malaysia, Thailand, Vietnam

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