Tackling the illegal trade of environmentally-sensitive goods

Policy measures need to address the key drivers behind illegal trade in environmentally-sensitive goods such as wildlife and timber. A recent report assesses both the drivers and impacts of five major types of environmentally-damaging illicit trade. It suggests that international licensing schemes and national policy regimes with economic tools could reduce illegal trade.

Illegal trade in environmentally-sensitive goods can have far-reaching negative consequences for human health, the environment and the economy as a whole. Despite international and national policies to impose restrictions on trade in environmentally-sensitive goods, large incentives exist for individuals and companies to ignore these restrictions. Indeed, the estimated global value of this illicit trade is US$30-70 billion a year.

The five major types of environmentally-damaging illicit trade highlighted by the report are: illegal trade in wildlife; illegal logging and timber trade; illegal, unreported and unregulated fishing; illegal trade in regulated chemicals (particularly those that deplete ozone) and illegal transboundary disposal of hazardous waste. Three major drivers of this illegal trade are identified by the report. The first is ‘cost differentials’. In this case, this is where expected profits from illegal trade are higher than when trade is carried out within the law. For example, complying with regulations on reforestation after felling trees will incur costs that can be avoided with illegal logging activities.

The second driver is demand. Even if legal trade is not any less profitable, demand may exceed the supply of legal products, thus driving illegal trade. This often occurs with timber and wildlife crime, where the significant demand for exotic pets and flowers cannot be met through the legal channels.

The third driver is the supply of legal products. This can be seen in the case of higher rates of ivory poaching in some countries where appropriate governance, regulation and enforcement capacity makes it easier for illegal activities to take place. This can be seen in the case of higher rates of ivory poaching in some countries where corruption among local officials leads to a lack of law enforcement.

Impacts of illegal trade vary both within and across countries. They also depend on the sector. For example, illegal trade in timber and fish tend to have the largest economic impacts, whereas poaching is a major threat to biodiversity.

The report reviews methods of tracking illegal trade. It suggests that, in principle, this could be done to some extent for some products by identifying discrepancies between import and export figures taken from customs and/or licensing data (in both exporting and importing countries). However, there are presently major shortcomings of such methods. Customs data are often imprecise and greater harmonisation of data between countries as well as improved taxonomic information in the area of biodiversity, which is being addressed by the Global Taxonomy Initiative, appear crucial in this regard.

If used in combination with other data sources, licensing schemes could help detect and regulate illegal trading flows. The report assesses six of these licensing agreements, including the EU’s Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (VPA) license (FLEGT). The report concludes that licensing schemes may be a pre-condition for regulating trade, and calls for more systematic analysis of licensing schemes, including both their successes and failures. It also suggests those responsible for licensing systems should share more information among each other and independent verification of the issuance of licenses.

At a national level, the report suggests that alongside environmental taxes and fines, there could be economic incentives to reduce pollution, protect biodiversity and promote sustainability of natural resources.

Owing to trade’s global nature, any national actions should be co-ordinated with other countries to ensure effectiveness. Furthermore, efforts must be made to improve the regulatory capacity of ‘supplier’ countries. Incentives for communities to protect their local resources and clear land tenure could also prove effective in reducing illegal trade.