Chapter 9
Public procurement policies boost demand: Certified forest products markets, 2003-2004[1]

Highlights

- Worldwide, the area of certified forest continued to rise over the last year, reaching 176 million hectares by mid 2004, an increase of 17%.
- Half the world's certified forest area is in North America, with another 40% in western Europe; Canada, the United States and Finland have the largest area of certified forest.
- Growth in the area of forestland certified by the major schemes slowed in 2003, with the notable exception of the Canadian Standards Association scheme, which doubled its area.
- Public procurement policies continue to be a driving force for certification and an important source of demand for certified forest products (CFPs).
- Demand for CFPs by private end-consumers remains minor, which is a major obstacle to market growth; however, general consumer sentiment about deforestation and forest degradation keeps the sector under pressure to act.
- Illegal logging dominates governmental political discussions related to forest products in 2003 and 2004; however, voluntary certification systems cannot guarantee legality.
- Chain-of-custody (CoC) certificates increased by about 50%, reaching almost 4,500 certificates worldwide, driven mainly by a doubling of the Programme for the Endorsement of Forest Certification Schemes (PEFC) certificates, which now constitute 30% of total certificates.
- Germany and France are leading in CoC certificates within the UNECE region, while Japan and Brazil have more certificates outside the UNECE region.
- Policies have been developed by which forest certification could potentially play a role as a verification mechanism for small-scale afforestation and reforestation projects under the clean development mechanism in the first commitment period of the Kyoto Protocol.
- Mutual recognition between the Forest Stewardship Council (FSC) and the PEFC is not expected; however, the other major schemes have established mutual recognition agreements between themselves and the PEFC.

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Secretariat introduction

Certified forest products markets (CFPs) and certification of sustainable forest management continue to receive considerable international attention, in part as a result of Government attention to forest law enforcement and governance issues. Forest products traders use certification to ensure customers of the sustainability and source of wood products.

The UNECE Timber Committee has a mandate to monitor the markets for CFPs, and the FAO European Forestry Commission follows developments in certification of sustainable forest management. This chapter focuses on the market aspects. At its annual market discussions, the Timber Committee addresses issues related to CFPs. The Committee has called certification a communications tool to bring the message about the region's sustainable forest management from producers to consumers.

The basis for the information in this chapter is not the UNECE/FAO TIMBER database, which is based upon country-supplied statistics, as in the previous chapters. No official statistics exist on CFPs because they are not currently recognized in customs classification codes. Instead, the analysis here relies on interviews with key producers, retailers of CFPs, Global Forest and Trade Networks and auditing bodies and certification systems, as well as information from the Committee and Commission's officially nominated country correspondents on CFPs and certification of sustainable forest management. The secretariat thanks all those who responded to the authors' surveys. Unless otherwise attributed, all estimates and opinions in this chapter are from the authors' interpretations and analysis of the results of these surveys.

We sincerely appreciate the ongoing cooperation with Mr. Florian Kraxner, who for the first time led the production of this chapter, and Dr. Ewald Rametsteiner, both Experts on CFP markets from the University of Natural Resources and Applied Life Sciences (BOKU), Vienna, Austria. Their up-to-date and informative analysis of the markets for CFPs provide valuable insight into this market segment.

The Committee and the Commission have followed certification issues in a series of UNECE/FAO *Geneva Timber and Forest Discussion Papers*.[2]

9.1 Introduction

CFP markets have been analysed in a regular chapter in the UNECE/FAO *Forest Products Annual Market Review* since 1998. This year's discussion concentrates on the market, trade and policy aspects of CFPs. CFPs bear labels demonstrating, in a manner verifiable by independent bodies, that they come from forests that meet standards for sustainable forest management. Consumers might find labels on furniture and wood products, while manufacturers can verify the sources through the certification scheme chain-of-custody (CoC) procedures. Non-independently certified forests or CFPs, and process certification schemes such as ISO 14001, are not included, as these do not generally lead to CFPs.

9.2 Supply of CFPs

By May 2004 the total area of forests certified worldwide totalled 176 million hectares, or about 4.5% of the world's forests (3869 million hectares). In mid-2003 the total was 150 million hectares. Since 2000 there has been an exponential increase of forest area certified mainly by the:

- American Tree Farm System (ATFS) in the United States.
- Canadian Standards Association (CSA) system.
- Forest Stewardship Council (FSC).
- Programme for the Endorsement of Forest Certification Schemes (PEFC), formerly known as the Pan European Forest Certification System.
- Sustainable Forestry Initiative (SFI) in North America.

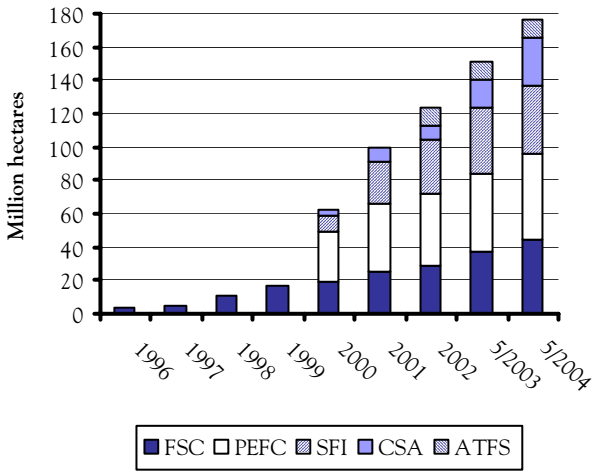
In addition, the international Dutch Keurhout system has approved 1.2 million hectares of independently certified forests in Gabon.

During the last year the area of certified forests has again increased (graph 9.2.1). However, the rates of increase in the areas certified by the major schemes have slowed, with the exception of CSA in Canada. In terms of market share, PEFC is still the dominant scheme, with approximately 29% of all certified forest, ahead of FSC (25%) and followed by SFI (23%). More than 90% of all certified forest is in the northern hemisphere, with approximately 47% in North America and 45% in Europe. Oceania accounts for around 6% of the total certified forest area, while Latin America and Asia have only 3% and 2% respectively (graph 9.2.2).

[2] www.unece.org/trade/timber/mis/cfp.htm

GRAPH 9.2.1

Area of certified forest, 1996-2004

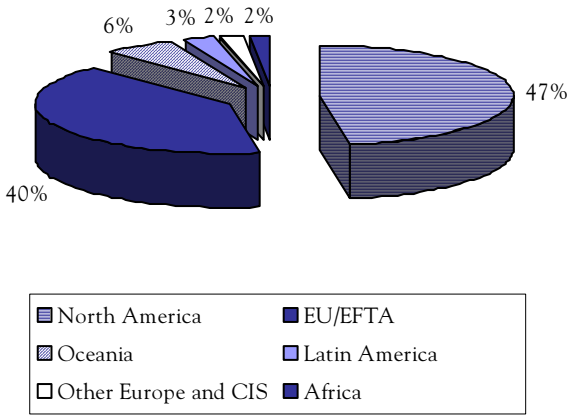


Notes: FSC = Forest Stewardship Council, PEFC = Programme for the Endorsement of Forest Certification Schemes, SFI = Sustainable Forestry Initiative, CSA = Canadian Standards Association system, ATFS = American Tree Farm System.

Sources: Individual certification systems and country correspondents, 2004.

GRAPH 9.2.2

Geographical distribution of forest area certified



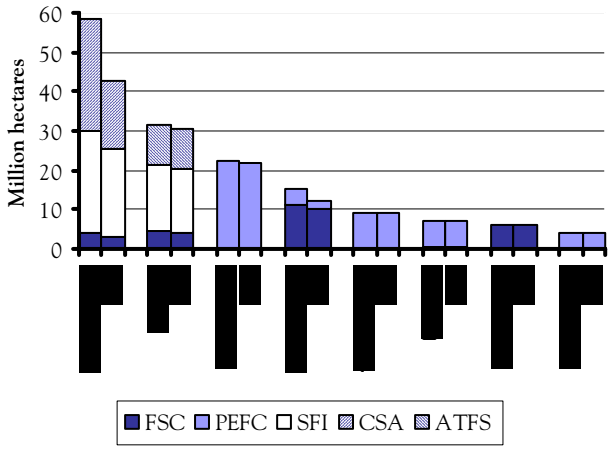
Notes: The graph contains overlaps owing to double certification. Asia's share is 0.3%.

Sources: Individual certification systems and Forest Certification Watch, 2004.

The gap between the area of certified forests in developed and developing countries is still increasing. In Europe, 45% of the current forest area[3] is already certified, compared with around 18% in North America and less than 0.5% in Russia. The ranking of the top eight countries is the same as the previous year (graph 9.2.3). In 2004, the potential roundwood supply from the world's certified forests is estimated[4] at slightly more than 305 million m^3. This equates to 19% of the world's production of industrial roundwood, or about 28% of the industrial roundwood production of Europe and North America, where certified forests are mainly situated. The rate of certifying has slowed within the last year as the total forest area certified increased by only 1.7%.

GRAPH 9.2.3

Top 8 countries' certified forest area, 2003-2004



Notes: The graph contains overlaps owing to double certification. Areas for 2004 are as of May.

Sources: Individual certification systems, country correspondents, Forest Certification Watch, 2004.

In countries such as Finland and Austria, which have certified essentially all of their forests, most forest products are sold without any reference to certification. This represents a lost opportunity, since without a label or CoC certificate the certification process has lost much of its marketing and public-relations value. The principal reason for this situation might be the lack of demand by downstream industry and consumers, but may also be a question of time and interest.

[3] The reference area is based on UNECE/FAO *Temperate and Boreal Forest Resources Assessment 2000* (TBFRA 2000) data for forest area, excluding other wooded land (forest area in Europe excludes CIS countries).

[4] The estimation is based on UNECE/FAO TBFRA statistics for each country's average annual removals per hectare on forests available for wood supply multiplied by the certified forest area.

9.3 Demand for CFPs

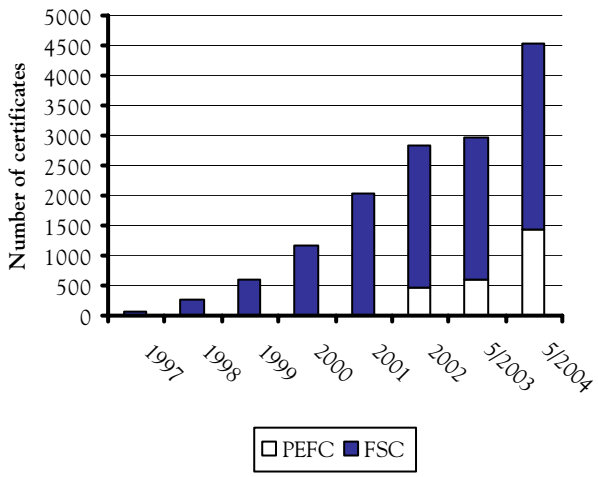
A significant proportion of wood from certified forests is sold without any reference to its certification status. Though the amount is steadily increasing, currently, only a small, although growing, proportion of wood from PEFC certified forests is actually traded as CFPs throughout the wood-processing chain. This may be due to low interest in some manufacturing industries or the "own-label only" policies of some major retailers. Some key wood products retailers prefer to use only their own label to assure customers of the origin and sustainability of their products, rather than align themselves with any one scheme. Tropical wood CFPs are currently available only in comparatively small quantities, and still suffer from unstable supply. Nevertheless, do-it-yourself chains in several European countries, including the United Kingdom, Germany, the Netherlands and Austria (considered the leading CFP markets in Europe) are increasingly selling FSC-certified tropical timber.

The total market share taken by CFPs continues to be difficult to assess as a result of a lack of customs coding for official trade figures. CoC certificate statistics may act as an indicator of demand. These show that by May 2004 a total of 4,528 certificates had been issued worldwide, of which 70% were FSC and 30% PEFC. This is an increase of approximately 50% from last year. Again, PEFC more than doubled its CoC certificates, mainly due to increases in France (344 more certificates), Germany (153 more), the Czech Republic (84 more) and Austria (76 more) (graph 9.3.1). FSC and PEFC are still effectively the only schemes offering an entire CoC for CFPs. FSC CoC certificates were issued in 66 countries and PEFC certificates in 15 countries.

The geographical distribution of (potential) demand for CFPs in business-to-business markets, according to the total number of CoC holders, shows that Germany leads the ranking in the UNECE region (graph 9.3.2). While the number of FSC CoC certificates in Germany remained nearly the same as last year, there was a significant increase in PEFC certificates, which currently represent two thirds of all German certificates. France is rated second with approximately 90% PEFC certificates, ahead of the United States with only FSC certificates (graph 9.3.3). The graph also shows that national markets are tending to converge toward one of the major schemes.

GRAPH 9.3.1

Certification chain-of-custody trends worldwide, 1997-2004

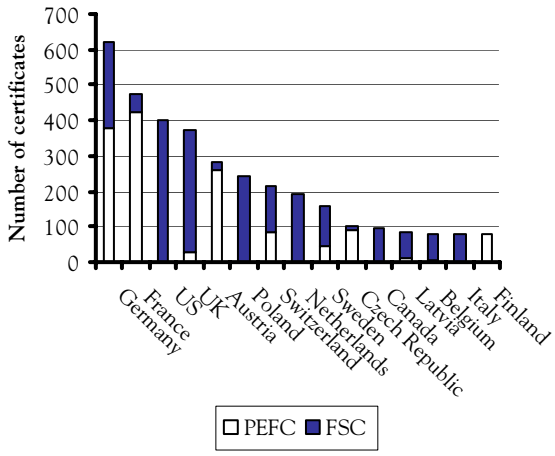


Note: The numbers denote CoC certificates irrespective of the size of the individual companies.

Sources: Forest Stewardship Council and Programme for the Endorsement of Forest Certification Schemes, 2004.

GRAPH 9.3.2

Chain-of-custody certificate distribution in the UNECE region, 2004

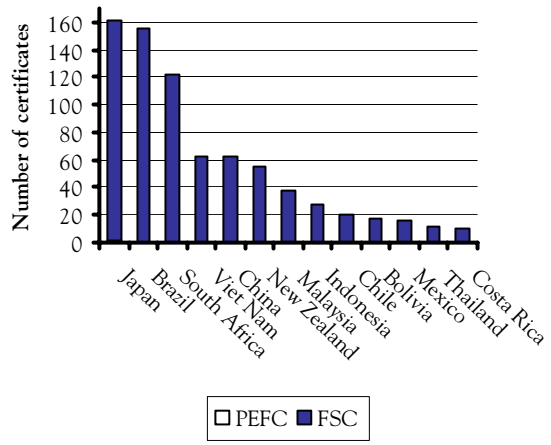


Notes: The graph is not comprehensive regarding countries with less than 10 CoC certificates. The numbers denote CoC certificates irrespective of the size of the individual companies as of May 2004.

Sources: Forest Stewardship Council, Programme for the Endorsement of Forest Certification Schemes and authors' compilation, 2004.

GRAPH 9.3.3

Chain-of-custody certificate distribution outside the UNECE region, 2004



Notes: The graph is not comprehensive regarding countries with less than 10 CoC certificates. The numbers denote CoC certificates irrespective of the size of the individual companies as of May 2004.

Sources: Forest Stewardship Council, Programme for the Endorsement of Forest Certification Schemes and authors' compilation, 2004.

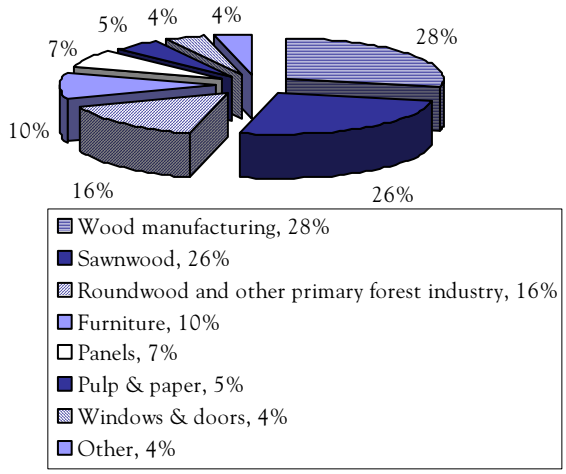
A wide range of wood-based industries and trade sectors hold CoC certificates according to the product distribution of FSC CoC certificates, which constitute 70% of the total certificates worldwide. Companies holding FSC CoC certificates cover a comparatively wide range of sectors, while the majority of certified companies operate in wood manufacturing and sawnwood production (approximately 25% each), followed by roundwood. Certificates in the furniture sector hold a 10% share (graph 9.3.4). Companies with PEFC CoC certificates (30% of the total) are mainly active in roundwood trading (50%) and sawmilling (32%), as well as more upstream sectors in the value chain (graph 9.3.5).

The FSC logo has been in use for more than a decade now. The PEFC started to issue licences for logo use relatively recently, in 2001. A total of 11,300 companies to date have the right to use the PEFC logo, 55% of which are in Germany and 35% in France. Both the SFI and the CSA systems in North America have developed logos, licensing procedures and on-product labelling.

Demand by private end-consumers remains a minor factor in the market for CFPs. Nevertheless, general consumer sentiment on deforestation, forest degradation and loss of biodiversity, and notably on tropical deforestation, keeps the sector under pressure to act. Forest certification is increasingly becoming a principal instrument for communication through enhanced public relations efforts on sustainable forest management throughout the forest and trade sectors, with enhanced public relations efforts. Many active market players view the lack of consumer awareness and interest as a major obstacle to market growth.

GRAPH 9.3.4

FSC worldwide chain-of-custody distribution by industry sector, 2004

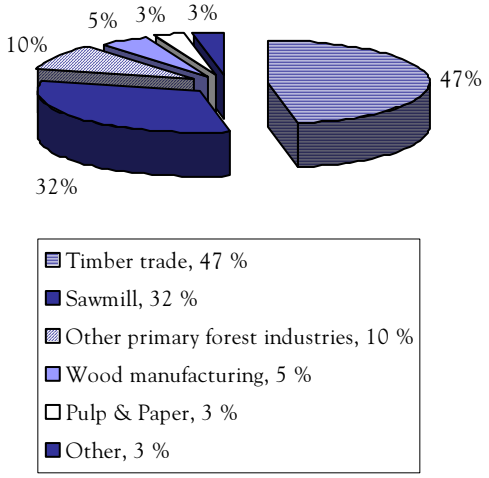


Notes: Some overlap between the sectors is due to different data. Other includes sawmill by-products, 2%, construction, 1%, wood product trade and retailers, 1%, Do-It-Yourself products, 0.2%.

Source: Forest Stewardship Council, 2004.

GRAPH 9.3.5

PEFC chain-of-custody distribution by industry sector, 2004



Notes: Some overlap between the sectors is due to different data. Other includes wood products trade and retailers, 2%, construction, 1%, other primary forest industries, 0.2%.

Source: Programme for the Endorsement of Forest Certification Schemes, 2004.

9.4 Policy issues

9.4.1 *Public procurement policies*

Public procurement policies continue to be a driving force for certification and a source of demand for CFPs. Several national Governments in European markets, including the United Kingdom, the Netherlands, Denmark, France and Germany, have communicated public procurement policies that include criteria favouring the purchase of CFPs, notably from tropical countries. Similar policies exist at the municipal level in a number of UNECE-region countries. The conformity of these public procurement policies with WTO rules has not yet been tested.

9.4.2 *The Illegal logging issue*

Illegal logging continued to dominate the agenda of governmental political discussions related to forest products in 2003 and 2004. Illegal logging and certification were initially discussed as overlapping issues, along with related concerns, i.e. the legality of harvested wood and sustainable forest management, although in reality they are quite distinct issues. Some progress was made in defining the concept of legality more appropriately in different contexts. Nevertheless, there are difficulties in defining and verifying the legality of timber. Currently policies keep the legality of timber a distinct issue from the quality and certification of forest management. It is true that certified timber should be "legal", as adherence to national laws is required by all certification schemes, but uncertified timber may be legal or illegal.

9.4.3 *Carbon sequestration verification*

A third issue related to forest certification is verifying carbon sequestration in forests and wood products. In 2003 the United Nations Framework Convention on Climate Change (UNFCCC) adopted modalities and procedures for afforestation and reforestation project activities under the clean development mechanism (CDM) in the first commitment period of the Kyoto Protocol. Forest certification might play a role as a verification mechanism, in a wider context of simplified modalities and procedures, for small-scale afforestation and reforestation project activities under the CDM.

9.4.4 *Mutual recognition*

PEFC has remodelled itself as a scheme with a global reach and has renamed the initiative to reflect this, hence the new title, Programme for the Endorsement of Forest Certification Schemes. Currently, there are 27 national schemes endorsed by PEFC and a further 5 are being assessed (in Australia, Chile, Italy, New Zealand and Portugal).

FSC also runs programmes to accredit national and sub-national standards that comply with FSC requirements. FSC is not pursuing a policy of mutual recognition accreditation. Worldwide, FSC and PEFC now endorse or accredit over 50 national schemes. However, mutual recognition between these two schemes is not expected. There is a concern at the policy level that this lack of mutual recognition between certification schemes could "confuse the consumer" and thus discourage the sound use of wood.

9.5 References

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UNECE/FAO Geneva Timber and Forest Discussion Papers. Forest Certification Update for the UNECE Region in 2003" (in process)