

## Chapter 10

# Forest certification challenged by climate change and illegal logging concerns: Certified forest products markets, 2008-2009<sup>1</sup>

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### Highlights

- The economic crisis, together with the strong political focus on countering illegal logging, is encouraging some buyers to switch from certified forest products (CFPs) to less expensive legally verified products.
- Global concern for climate change and increased interest in the role of forests in mitigation strategies has major implications for the practice of forest certification.
- The economic downturn is widening the gap between environmentally proactive operators who are eager to exploit emerging opportunities for timber in green building initiatives and those who are not focused on environmental issues but continue to sell primarily based upon price.
- The numbers of chain of custody (CoC) certificates issued worldwide increased by 41% in 2009, to reach 17,800, but CoC certification remains concentrated in a limited number of countries and high levels of market fragmentation mean large sections of the market are not engaged in the supply of CFPs.
- The rate of increase in global certified forest area slowed dramatically since 2006, growing by only 1.3%, to reach 325.2 million hectares in 2009.
- Western European countries have certified 53% of their total forest area, North America 38%, Oceania 5%, and Africa, Asia and Latin America only about 1% each.
- Approximately 80-90% of the world's certified forest is located in the northern hemisphere, where two thirds of the world's roundwood is produced; more than half (57%) of the certified forest is in North America.
- Lack of awareness and low incentives for forest certification among smaller non-industrial forest owners are encouraging development of independent risk assessment as an alternative market assurance mechanism for these owners.
- A need exists to coordinate and harmonize the various forest certification frameworks for sustainable timber production, sustainable biomass production and carbon sequestration.
- The most prominent market benefits for CFPs are market access and brand image; price premiums for CFPs are an exception in Europe and North America.

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## Secretariat introduction

Certification of sustainable forest management has evolved and accelerated with demand for certified forest products (CFPs) from public procurement policies and green building initiatives. The UNECE Timber Committee originally called certification a marketing tool and considered it to be a means of communication within the wood chain, as well as between the forest sector and a wider public. This chapter highlights the developments in CFPs. It differs from certification chapters of previous years in part because within the UNECE region there are now only two major international systems; thus, in the current chapter there is less emphasis on certification systems.

This chapter provides the backdrop for the discussion of certification-related developments at the annual Timber Committee Market Discussions, to be held on 13-14 October 2009. Country market statements will be another basis for the Discussions, as countries are requested to report on certification and public-procurement policy developments.

The secretariat thanks the two authors of this chapter for bringing together a wealth of market and policy information. Mr. Rupert Oliver,<sup>2</sup> Consultant, Forest Industries Intelligence, Ltd., led the production for the first time. Mr. Florian Kraxner,<sup>3</sup> Research Scholar, IIASA, continues to contribute to the chapter, as he has done for many years.

Mr. Oliver's consultancy was supported by the American Hardwood Export Council. We sincerely thank Mr. David Venables, European Director, for providing the resources for this chapter.

## 10.1 Introduction

The UNECE region's CFP markets have been analysed in a chapter of the UNECE/FAO *Forest Products Annual Market Review* each year since 1998. This year's chapter provides an in-depth statistical overview of the market and trade of certified forest products (CFPs). Special focus is placed on the topic of "the economic crisis affecting the market for certified forest products". The chapter also concentrates on policy-related aspects of certification in the forest sector.

CFPs carry labels demonstrating, in a manner verifiable by independent bodies, that they come from

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forests that meet standards for sustainable forest management (SFM). Consumers may find labels on furniture and wood products, while manufacturers can verify the sources through the certification scheme's chain-of-custody (CoC) procedures. Certification other than forest schemes such as ISO14001 are not included in this comparative analysis. The chapter continues to focus on certification systems based in the UNECE region.

## 10.2 Forest management certification

### 10.2.1 Overview

By May 2009 the global area of certified forest endorsed by one or other of the international frameworks – the Forest Stewardship Council (FSC) and the Programme for Endorsement of Forest Certification (PEFC) – amounted to 325.2 million hectares, approximately 8% of global forest area. In addition, there are some smaller areas independently certified under systems operating at the national level. For example, at the end of 2008 around 1.54 million hectares were certified by the Indonesian Eco-labelling Institute (LEI) system in Indonesia and 0.7 million hectares by Japan's Sustainable Green Ecosystem Council (SGEC).<sup>4</sup>

The regional distribution of certified forest area is highly uneven. Roughly 54% and 38%, respectively, of the total area of forest in western Europe and North America is certified (table 10.2.1). Elsewhere, the proportion is negligible, rising to 3% in eastern European countries and the CIS, and to around 5% in Oceania (concentrated in Australia and New Zealand), and no higher than 2% in all other regions. The estimated potential global industrial roundwood supply from certified forest amounted to 411 million m<sup>3</sup> in the May 2008 to May 2009 period, about 26% of the total industrial roundwood supply. There was a slight decrease compared to the previous 12-month period, reversing a long-term trend of rising potential supply.<sup>5</sup>

<sup>4</sup> Information on certified forest area, together with relevant standards and various policy and strategy papers are available at certification system websites as follows: Forest Stewardship Council - [www.fsc.org](http://www.fsc.org); Programme for the Endorsement of Forest Certification - [www.pefc.org](http://www.pefc.org); Sustainable Forestry Initiative - [www.sfi-program.org](http://www.sfi-program.org); Canadian Standards Association - [www.csa-international.org/product\\_areas/forest\\_products\\_marking/](http://www.csa-international.org/product_areas/forest_products_marking/); LEI Indonesia - <http://lei.or.id/english/index.php>; Japan Sustainable Green Ecosystem Council - [www.sgec-eco.org](http://www.sgec-eco.org).

<sup>5</sup> The reduction in potential roundwood supply occurs because of the estimation method, which combines average roundwood production figures with certified area. Since certified forest area in some important production countries decreased, there was a relative reduction from 2008 to 2009 (superseding the increases in other countries that on average produce less roundwood from their forests).

The pace of expansion of global certified forest area has slowed dramatically in the last three years (graph 10.2.1). Certified forest area increased by around 50 million hectares a year between 2001 and 2005 – mainly due to a rapid increase in certified forest area in North

America – then the rate slowed by half to 25 million hectares a year in 2006 and 2007 (graph 10.2.2). More recently the rate has stagnated even further, not exceeding 4 million hectares between May 2008 and May 2009.

TABLE 10.2.1  
Global supply of roundwood from certified resources, 2007-2009

Region	Total forest area (million ha)	Total certified forest area (million ha)			Total forest area certified (%)			Estimated industrial roundwood produced from certified forest (million m <sup>3</sup> )			Estimated industrial roundwood from certified forests, from global roundwood production (%)		
		2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
North America	470.6	164.2	181.7	180.3	34.9	38.6	38.3	210.1	232.5	230.7	13.2	14.6	14.5
Western Europe	155.5	80.8	84.2	82.2	52.0	54.1	52.8	166.4	173.4	169.2	10.5	10.9	10.7
CIS	907.4	20.6	24.6	25.2	2.3	2.7	2.8	3.6	4.3	4.4	0.2	0.3	0.3
Oceania	197.6	9.9	9.4	10.3	5.0	4.8	5.2	2.5	2.4	2.6	0.2	0.1	0.2
Africa	649.9	2.6	3.0	5.6	0.4	0.5	0.9	0.3	0.3	0.6	0.0	0.0	0.0
Latin America	964.4	12.1	15.0	14.6	1.3	1.6	1.5	2.1	2.6	2.5	0.1	0.2	0.2
Asia	524.1	1.6	2.0	3.0	0.3	0.4	0.6	0.7	0.8	1.3	0.0	0.1	0.1
World total	3 869.5	291.8	319.9	321.2	7.5	8.3	8.3	385.7	416.4	411.3	24.3	26.2	25.9

**Notes:** The reference for forest area (excluding “other wooded land”) and estimations for the industrial roundwood production from certified forests are based on FAO’s *State of the World’s Forests 2009* data. Concerning roundwood production, the subregions’ annual roundwood production from “forests available for wood supply” is multiplied by the percentage of the subregions’ certified forest area (i.e., it is assumed that the removals of industrial roundwood from each ha of certified forests is the same as the average for all forest available for wood supply). However, not all certified roundwood is sold with a label. 2008 and 2009 are from May to May.

“World” is not a simple total of the subregions.

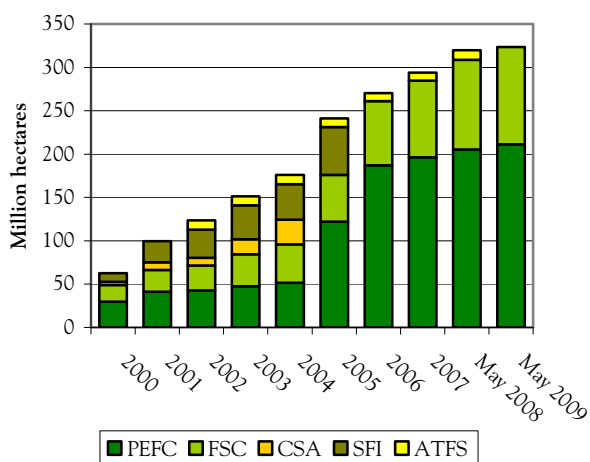
**Sources:** Individual certification systems, the Canadian Sustainable Forestry Certification Coalition, FAO and authors’ compilation, 2009.



Source: E. Parker, Tropical Forest Trust, 2009.

Now that many of the largest state- and industry-owned lands in the developed world are already certified, the certification movement faces the significant challenge of expanding in more difficult areas. These include both developing countries – many of which still lack capacity, resources and sufficient incentives for forest certification – and the small non-industrial private and communal sector which owns or manages a significant proportion of forests in many parts of the world, including within the UNECE region.

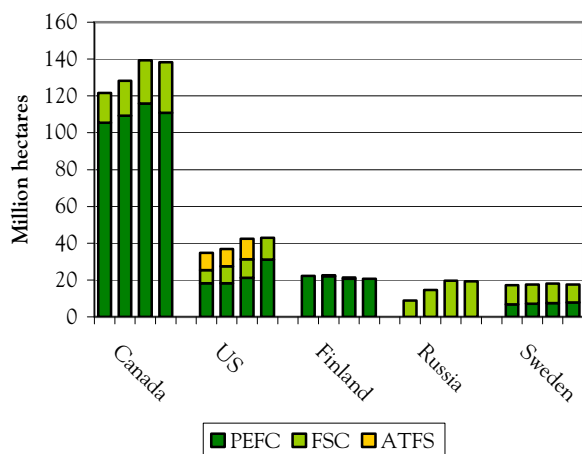
GRAPH 10.2.1  
Forest area certified by major certification schemes,  
2000-2009



**Notes:** As of May 2009, approximately 2.6 million hectares have been certified by more than one scheme (mostly FSC and PEFC). These are not deducted from any scheme – the graph therefore shows a slightly higher amount of total forest area certified than exists in reality. FSC = Forest Stewardship Council; PEFC = Programme for the Endorsement of Forest Certification schemes; CSA = Canadian Standards Association Sustainable Forest Management Program (endorsed by PEFC in 2005); SFI = Sustainable Forestry Initiative (endorsed by PEFC in 2005); ATFS = American Tree Farm System.

**Sources:** Individual certification systems, the Canadian Sustainable Forestry Certification Coalition and authors' compilation, 2009.

GRAPH 10.2.2  
Five countries' certified forest area, within the UNECE  
region, 2006-2009



**Notes:** Bars for each country represent years from 2006 to 2009. The graph contains no overlap from double certification.

**Sources:** Individual certification systems, country correspondents, Forest Certification Watch, Canadian Sustainable Forestry Certification Coalition, authors' compilation, 2009.

In October 2007, PEFC agreed on a new mission statement involving a significant switch in strategic direction from forest production to market access. A governance review was published in May 2008 and an action plan for implementation was subsequently approved. Key parts of the action plan include: establishing a "stakeholder forum", comprising a wide range of international organizations supportive of sustainable forest management and willing to engage in improving and expanding PEFC work; strengthening procedures for assessing national certification systems, for example by tightening the role of independent consultants and the Panel of Experts; and taking a lead on forestry policy on carbon through engagement with relevant international organizations.

Meanwhile FSC has begun the process to implement its new global strategy, originally published in 2007. Key goals include: to improve access to FSC certification for small forest owners so that indigenous peoples, communities and other non-industrial owners manage at least 15% of the total FSC certified forest area within five years; to become a more viable and attractive solution for tropical owners; to expand FSC solutions to non-timber management objectives, such as climate change and biofuels; to put more monitoring and evaluation systems in place; and to improve the business value of FSC certified products over non-FSC certified products.

### 10.2.2 Europe

Certified forest area in western Europe amounted to 82.2 million hectares in May 2009, about 53% of the continent's total forest area (graph 10.2.3). There is a fairly clear split in Europe between large State and industrial ownerships on the one hand, which tend to adopt FSC certification, and small non-industrial private ownerships on the other, which tend to adopt PEFC certification.

FSC certified area in Europe is concentrated in Sweden, Poland, Croatia, UK and Latvia. The average FSC certified forest holding in Europe is relatively large, with an area of around 83,000 hectares.

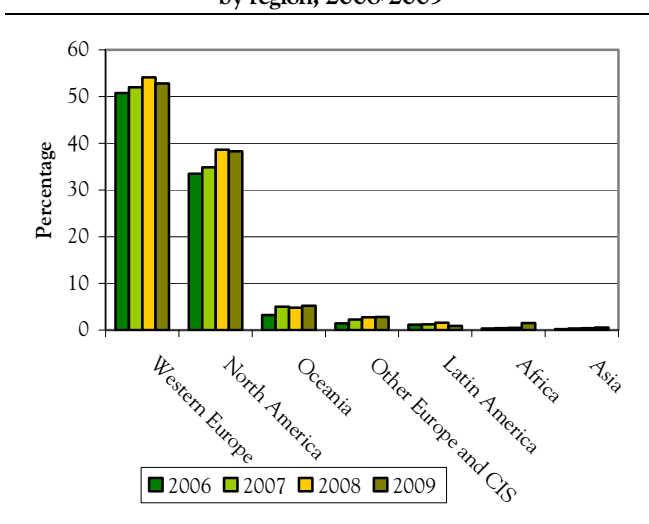
The PEFC certification framework has brought significant numbers of small private non-industrial forest owners into the certification movement in EU countries through widespread use of regional and large group certification. Of PEFC certified forest area in Europe, approximately 66% and 22% comprises group and regional certification respectively. These frameworks have been particularly effective where there are strong existing regulatory structures and forest owner associations operating at a regional level, notably in Finland, Norway, Sweden, Germany, France, Austria, and the Czech Republic. Overall, around 500,000 (3%) of small non-

industrial forest owners, out of an estimated total of 16 million in Europe,<sup>6</sup> are now independently certified under either FSC or PEFC.

Despite these measures, prospects for a significant increase in certification among small non-industrial forest owners in Europe seem limited in the short to medium term. In fact, the overall level of certified forest throughout the continent declined by over 2 million hectares in the 12 months prior to May 2009. The biggest decrease was in Finland, a country often cited as the leading example of group and regional certification practices.

GRAPH 10.2.3

Certified forest area as a percentage of total forest area by region, 2006-2009



**Notes:** The forest area is based on FAO's State of World's Forests 2009 data, excluding the category "other wooded land". Eastern Europe includes only non-EU countries. CIS is the Commonwealth of Independent States. Information valid as of May 2009.

**Sources:** Individual certification systems, Forest Certification Watch, the Canadian Sustainable Forestry Certification Coalition, authors' compilation, 2009 and FAO, 2009.

The reasons for the recent fall in European certified forest area are not clear and may be due to technicalities (such as a time lag that occasionally occurs between expiry of a certificate and issuance of a new one), failure to meet conditions of certification, or a decision by the forest owner to no longer pursue forest certification. There is continuing evidence that the supply of certified softwood products to the European market is considerably in excess of end-user demand for products bearing forestry-related labels; this might be one reason for some European forest owners to reduce their commitment to certification.

### 10.2.3 CIS

Both FSC and PEFC have identified Russia as a potentially significant growth area. In 2006, FSC was confidently predicting that FSC-certified area in Russia would reach 24 million hectares by the end of 2007. PEFC has forecast that somewhere between 50 million and 100 million hectares of Russian forests are likely to become PEFC certified within the next 10 years.

To date, the reality has fallen short of expectations. After an initial burst of growth in FSC-certified area in 2006 and 2007, the pace slowed last year. Only an additional 800,000 hectares of forest were FSC certified in Russia during 2008. Total FSC-certified area in the country still stood at around 19.2 million hectares by May 2009.

On the other hand, there are also signs that much of the essential groundwork for more rapid expansion in the future has now been completed. In November 2008, the FSC Board of Directors delivered a positive accreditation decision for a Russian national FSC standard. In March 2009, FSC also accredited a Russian company, Forest Certification LLC, to undertake both FSC forest management certification and CoC certification throughout Russia and the neighbouring countries of the CIS. The move is a significant step towards improving domestic FSC-certification capacity, a factor which has been a major obstacle to more extensive FSC uptake in the subregion.

Meanwhile, efforts to develop national certification initiatives in line with the PEFC requirements are coming to fruition. Two national forest certification frameworks have evolved, the Russian National Council for Forest Certification (RNCFC) and the National Council of Voluntary Forest Certification in Russia. In March 2009, PEFC announced endorsement of the RNCFC certification framework.

### 10.2.4 North America

Canada continues to be the world leader in terms of certified forest area. The country accounts for over half of the certified forest area endorsed internationally by the PEFC, certified through the Canadian Standards Association (CSA) and Sustainable Forestry Initiative (SFI) systems. Canada is also responsible for one quarter of FSC certifications worldwide. The total area of independently certified forest in Canada amounts to 137.5 million hectares, very close to the 143 million hectares of forestland identified as subject to forest management in the Canadian Government's annual "State of Canada's Forests" report. The certified area includes 82.8 million hectares certified to the CSA-Z809

<sup>6</sup> 16 million forest owners, according to Confederation of European Forest Owners, [www.cepf-eu.org](http://www.cepf-eu.org).

standard, 39.4 million hectares certified to the SFI Program, and 27.3 million hectares certified to the FSC.<sup>7</sup>

Certification has also progressed rapidly in the US in recent times and now covers around 50 million hectares of forestland. However, the vast majority of certified forestland comprises large holdings. Of the estimated 11 million small private forest owners who collectively control around 56% of the forestland in the US, only a few are currently covered by certification schemes.

The current position of the three forest certification systems operating in the US is as follows:

- The FSC has issued around 100 forest management certificates with a total area of 10 million hectares of forestland. Average certified area per certificate is high, at around 100,000 hectares. Around 60% of certified area consists of large tracts of state-owned (not federal) forestland. Much of the remainder is in large privately owned forest holdings.
- The SFI Program, designed specifically for certification of large forest tracts, has certified around 30 million hectares of forestland in the US.
- The American Tree Farm System (ATFS), which has been developed for small owners, has certified around 10 million hectares in the US, distributed amongst 90,000 participants. ATFS was endorsed by PEFC in August 2008.

Creating awareness of forest certification amongst small landowners remains a major challenge for all the programmes. According to a recent survey, only 12% of US family forest owners have heard of forest certification<sup>8</sup>. It is also difficult to encourage small owners to work together for group certification in a sector where there is little or no tradition of cooperative action.

Owing to these obstacles to forest certification, and in response to increasing demands in major export markets for independent assurances that US hardwoods derive from legal and sustainable sources, in 2008 the American Hardwood Export Council commissioned an "Assessment of Lawful Harvesting and Sustainability of U.S. Hardwood Exports". The report, which was prepared by independent consultants Seneca Creek Associates, concludes that the weight of evidence strongly indicates that there is very low risk that US hardwoods contain wood from illegal sources. It is estimated that stolen timber represents less than 1% of total US hardwood

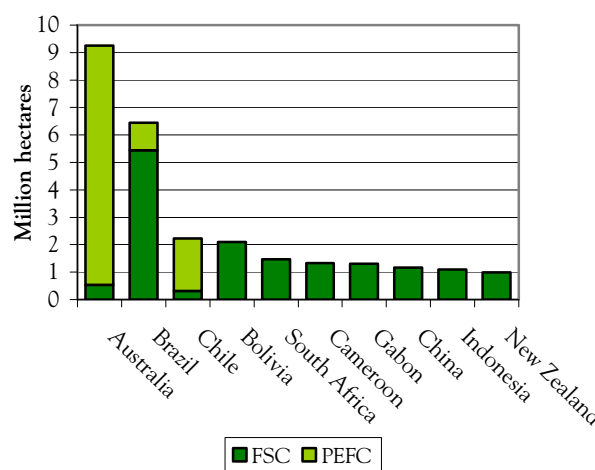
production. The authors are also confident that hardwood procured from the US could be considered Low Risk in all five risk categories of the FSC controlled wood standard.

### 10.2.5 Outside the UNECE region

Australia has the largest area of certified forest outside the UNECE region with over 9 million hectares by May 2009 (graph 10.2.4). Nearly all of this area is certified to the Australian Forestry Standard System, which is endorsed by the PEFC.

GRAPH 10.2.4

Certified forest area in ten countries outside the UNECE region, 2008-2009



**Note:** The graph contains some overlap from double certification.

**Sources:** Individual certification systems, country correspondents, Forest Certification Watch, Canadian Sustainable Forestry Certification Coalition and authors' compilation, 2009.

Brazil hosts the largest area of certified forest of any developing country, with around 6.4 million hectares. A significant proportion of Brazil's certified forests are in softwood plantation forests of Southern Brazil. FSC is the only certification system currently fully operational in the Brazilian Amazon, where it has certified around 1.2 million hectares of forest suitable for timber supply. In addition, the CERFLOR system has been endorsed by PEFC and is operational in Brazil.

By May 2009, 16 FSC forestry certificates had been issued in China covering 1.2 million hectares. Operators managing a further 1 million hectares were participating in the WWF Global Forest and Trade Network and working towards FSC certification. These certified and verified areas, while significant as pilot projects, still account for little more than 1% of China's total domestic forest resource. More significant areas of China's forests may soon be certified through a national forest certification system that is being developed jointly by the

<sup>7</sup> Because of double counting of areas certified under more than one system, the cumulative total certified forest area for all three systems in Canada (149.5 million hectares) exceeds the actual area of certified forest in the country.

<sup>8</sup> Brett J. Butler, Family Forest Owners of the United States, 2006. A Technical Document Supporting the Forest Service 2010 RPA Assessment.

State Forest Authority and China's Certification and Accreditation Administration.

The long-term relevance to international markets of these efforts to certify China's domestic forests is constrained by Chinese manufacturers' heavy dependence on imported wood products. It is likely that imports of timber account for a significant proportion of the total wood exported from China. For this reason, the key question for certification in China is not certification for SFM of Chinese forests but traceability of imported wood.

Certified forest area in Japan remains relatively restricted. By September 2008, Japan's national SGEC forest certification program had issued 63 forest certificates covering 714,000 hectares. By May 2009, the FSC had also issued 26 forest certificates covering 280,000 hectares. The total certified forest area is less than 4% of Japan's total forest area (24.8 million hectares).

The area of FSC certified forest in Africa increased by 88% in the 12 months prior to May 2009 and now extends to 5.6 million hectares. This area includes 1.3 million hectares each in Gabon and Cameroon, and 749,000 hectares in Congo. FSC is currently the dominant form of certification in Africa. In April 2009, the Gabonese Forest Certification Scheme became the first African scheme to meet PEFC requirements.

In South-East Asia, only Malaysia has a significant area of certified forestland. Its national certification system, the Malaysian Timber Certification System (MTCS), was endorsed by PEFC in May 2009. The 4.8 million hectares of MTCS-certified forest includes the entire area of permanent production forest in Peninsular Malaysia. Only a small area, 56,000 hectares, is MTCS certified outside Peninsular Malaysia (in Sarawak), while FSC certification in the country is not extensive. In Indonesia, forest certification is not widespread. FSC has certified only around 900,000 hectares in the country, about 1% of the total forest estate. A further 1.5 million hectares have been certified by the Indonesian Eco-labelling Institute (LEI).

### 10.3 Market demand for certified forest products

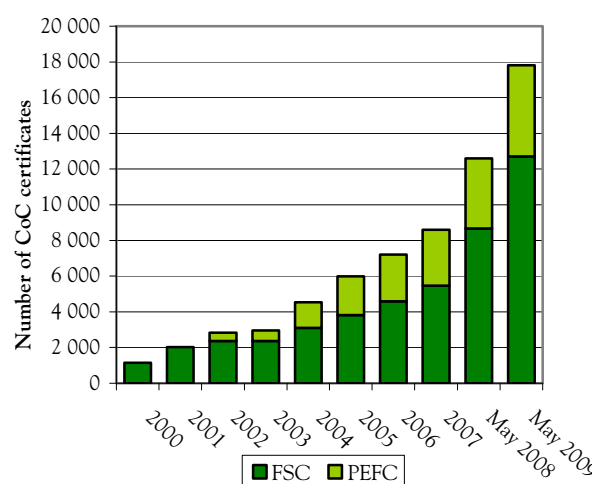
#### 10.3.1 Extent of chain of custody certification

The total number of FSC<sup>9</sup> and PEFC chain of custody (CoC) certificates issued internationally increased by 41% in the 12 months prior to May 2009 to reach

17,815<sup>10</sup>. Uptake of FSC certification has outpaced that of PEFC certification so that in May 2009 there were 12,707 FSC certificates compared with 5,108 PEFC certificates (graph 10.3.1). The surge in CoC certificates is a measure of market demand for CFPs.

GRAPH 10.3.1

Chain-of-custody certified trends worldwide, 2000-2009



**Notes:** The numbers denote CoC certificates irrespective of the size of the individual companies, their volume of production or trade. Information valid as of May 2009.

**Sources:** FSC and PEFC, 2009.

In addition to internationally issued CoC certificates, a limited number of regional/national certification frameworks also issue CoC certificates. In terms of numbers, the most significant of these is the SFI Program in North America. The numbers of its certificates issued increased dramatically during the course of 2008 from 100 certificates covering 400 locations to almost 400 certificates covering 1,000 locations. A significant proportion of these companies are dual certified to both the SFI and PEFC CoC standards. In Japan, the SGEC certification programme had issued 258 CoC certificates by the end of June 2008.

While the pace of increase is impressive, the data also imply that engagement in CoC certification is heavily concentrated in just a few countries. Of the 5,146 new FSC and PEFC CoC custody certificates issued internationally in 2008, 47% were in the US and UK (graph 10.3.2). Of those issued during the year, 70% were in only five countries (US, UK, Germany, Japan and Canada). By the end of 2008, the US and UK accounted for 31% of all FSC and PEFC CoC certificates issued

<sup>9</sup> Includes both FSC CoC and FSC Forest Management/CoC certificates.

<sup>10</sup> This total is the sum of FSC and PEFC CoC certificates, thus some duplication will occur in the event of the same location certified under both FSC and PEFC certificates.

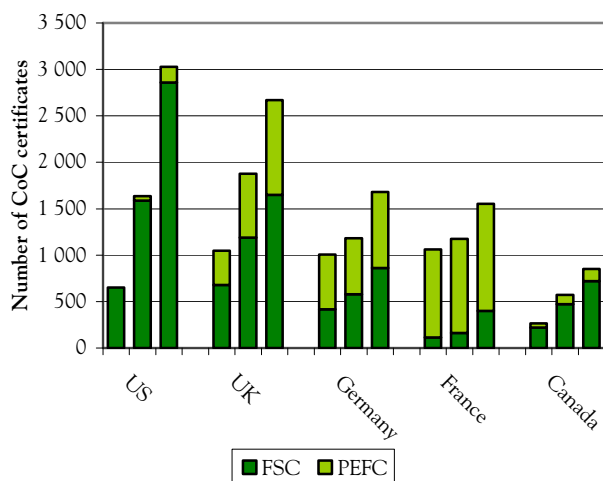
internationally, with much of the rest in Germany (9%), France (7%), and Japan (6%) (graphs 10.3.2 and 10.3.3).

The available data also suggest that the number of FSC- and PEFC CoC-certified companies are small compared with the total number of companies engaged in the wood sector. For example, Eurostat data indicate that throughout the EU-27, where a total of around 9,750 FSC and PEFC CoC certificates had been issued by the end of 2008, in the subregion there are 191,000 wood-processing enterprises, 149,377 furniture enterprises, and 19,352 pulp and paper enterprises, many of which would in theory be eligible for CoC certification.

In practice, CoC certification tends to be most prevalent in the supply chains of a few large consolidated business sectors such as home-improvement retailing and parts of the paper and panels industry. It is less prevalent in more fragmented sectors, which nevertheless account for a large proportion of wood consumption, including construction and furniture. The implication is that a very large proportion of the wood supplied from certified forests never makes it to market as labelled product. This negates the value of certification as a communication tool.

GRAPH 10.3.2

#### Chain-of-custody certificates in five countries within the UNECE region, 2007-2009

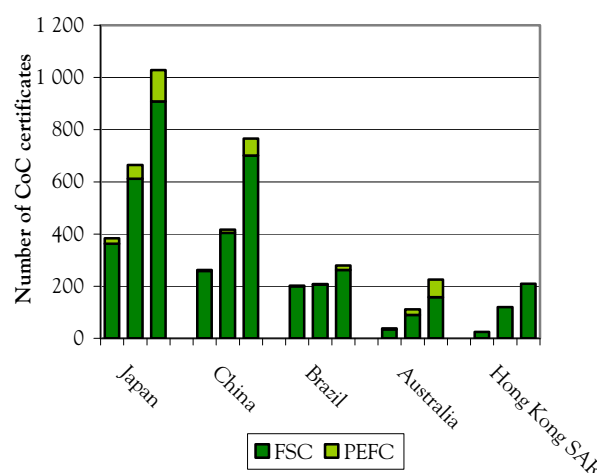


**Notes:** Bars for each country represent years from 2007 to 2009. The numbers denote CoC certificates irrespective of the size of the individual companies as of May 2009.

**Sources:** FSC, PEFC and authors' compilation, 2009.

GRAPH 10.3.3

#### Chain-of-custody certificates in five countries outside the UNECE region, 2007-2009



**Notes:** Bars for each country represent years from 2007 to 2009. The graph only includes countries with 80 or more CoC certificates. The numbers denote CoC certificates irrespective of the size of the individual companies as of May 2009.

**Sources:** FSC, PEFC and authors' compilation, 2009.

### 10.3.2 Developments in CoC standards and procedures

The market for verified wood products is influenced not only by the extent but also by the content of CoC standards. FSC has focused heavily in recent times on the development of procedures designed to make it easier to apply product labels in those supply chains where only a relatively small proportion of raw material supplies might be demonstrably derived from certified forests. Application of the FSC "mixed" label has required the development of "volume credit systems" together with procedures to remove controversial wood from non-certified supply chains. These procedures have been particularly valuable in expanding use of the FSC label in situations where wood products derive from numerous small owners, only a few of which might be certified.

Meanwhile, the PEFC CoC standard has been used for more than four years without significant changes. However, in the second half of 2008, PEFC began a process to review the standard comprehensively. The revision process will consider the implications of a progressive shift in the focus of operators engaged in PEFC CoC certification from primary processing to the end stages of the product chain (including printing houses, retailers and the construction sector). Consideration will also be given to the implications of PEFC's entering new market segments (including non-wood products, energy, and recycled raw material). A new version of the standard is due to be published in 2009.

### 10.3.3 Feedback from market participants

Research is ongoing in the European market to gather information directly from market participants on trends in demand for independently certified and verified legal products. The research is being undertaken by Forest Industries Intelligence Limited for the UK Timber Trade Federation with support from the UK Department for International Development. The latest report, published in June 2009, covers eight EU countries: Belgium, Denmark, France, Germany, Italy, Netherlands, Spain and the UK. Key conclusions from the latest report include:

- The very high level of fragmentation both in the EU timber trade and in timber's major consuming sectors – construction and furniture – continues to present a major obstacle to CoC certification and the further development of markets for environmentally labelled wood products throughout the EU. Other significant obstacles are generally low levels of awareness of forest certification and legality verification and very low willingness to pay among end-users.
- The economic downturn is generally widening the gap between environmentally proactive operators that are now more eager than ever to exploit the opportunities emerging for timber from increasing interest in sustainable construction, and those who have not focused on environmental issues and who continue to sell primarily based upon price.
- Those EU companies that have made far-reaching commitments to shift to certified wood products often see this as part of a wider process of restructuring overall procurement practices in favour of a limited number of key suppliers able to provide the full range of quality services, of which forest certification is only one component.
- For much of the commodity softwood and composite panels sector, high availability of PEFC or FSC certified product supply in the EU is met with only limited market requests for labelled product. Hence the opportunities for achieving a premium in this sector are extremely limited.
- Only in the rather restricted conditions that prevail in parts of the hardwood sector and to some extent in the specialty softwood sector (such as western red cedar cladding/siding from North America) does the issue of price premiums arise. Specific requests for certified products, particularly FSC, might be met by limited supply.
- The highest premiums – in the range of 20% to 50% on the price of delivery to the importers yard – are being asked for FSC certified tropical sawn hardwood from Africa and Brazil.
- In the temperate hardwood sector, price premiums are being sought for FSC certified American hardwoods in the range of 5%-10%.
- Price premiums for tropical sawnwood supplied under one or other private-sector legality verification system (such as SGS Timber Legality & Traceability Verification - TLTV, Eurocertifor-BVQI Origin and Legality of Timber - OLB or the Rainforest Alliance Verified Legal Origin - VLO) are typically in the range of 3% to 15%, with most at the lower end of this range.
- Generally, there is great reluctance among end-users to pay premiums for certified or verified legal wood products, a situation which places significant limits on the ability of suppliers to charge more. The highest premiums for FSC tropical hardwood may only occasionally be passed on when supplying high-profile public-sector contracts. As a result, there are signs that some importers and manufacturers implementing green procurement policies have switched their emphasis away from FSC-certified products in favour of less expensive legally verified products when sourcing from tropical supplying countries. This is true even in the Netherlands, which has traditionally been the strongest adherent to FSC certification.

## 10.4 Policy developments

### 10.4.1 Illegal logging

The ongoing international effort to tackle illegal logging, initiated originally by the G8 group of countries and coordinated through various regional forest law enforcement and governance processes, has important implications for the forest-certification movement. However, the scope and nature of the impact on supply and demand for certified wood products remains unclear.

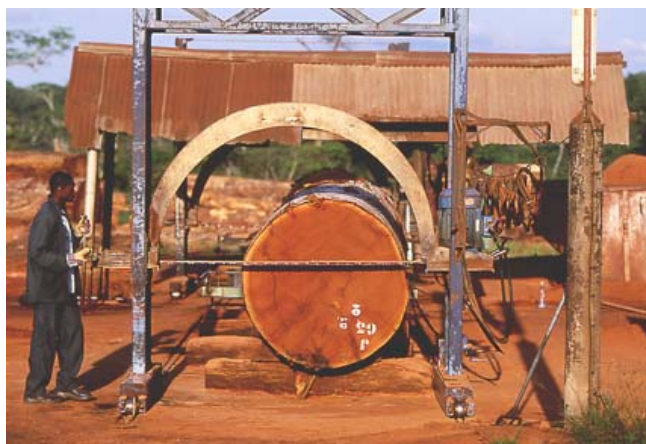
To some extent the impact will depend on the content and effectiveness of new legislation in the US and EU to discourage wood imports from illegal sources. On 22 May 2008, the US Lacey Act was amended to make it illegal to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce, any plants or products made from plants – with limited exceptions – to be taken or traded in violation of domestic or international laws. The amendment extended the Lacey Act's reach to include illegally harvested timber.

In October 2008, the European Commission proposed legislation that would oblige European operators who place timber and timber products for the first time on the Community market to apply a "due diligence system" designed to reduce the risk of illegal wood entering

European supply chains. A law is expected to be introduced before the end of 2009.

The new legislation should encourage US and European operators and their suppliers to implement management systems designed to reduce their risk of handling forest products potentially derived from illegal sources. Operators supplying the US and European markets will have a strong incentive to demand independent verification of legality for those products where the risk of illegal sourcing is judged to be high. However, the laws do not necessarily imply any increase in demand for independently verified products from regions where the risk is judged to be low.

This has two key implications from the perspective of forest certification. First it places even greater emphasis on the ability of forest certification frameworks to provide reliable assurance that CFPs are legally sourced in countries considered to be high risk with respect to illegal logging. If they fail to provide such assurance, the impact of the new legal sanctions on individual trading companies may be very painful.



Source: E. Parker, Tropical Forest Trust, 2009.

Second, the new legislation is encouraging the development of new systems and procedures for legality verification. Private-sector systems such as TLTV, OLB and VLO are already becoming more widely used and visible in the market place. The EU has also adopted a regulation allowing for only legally licensed timber to be imported from countries entering into bilateral FLEGT Voluntary Partnership Agreements (VPA) with the EU. The agreements require the development of legality-licensing procedures in VPA countries, which include conformance of forestry operators to a “legality standard” agreed through multi-stakeholder dialogue, tracking of timber to forest of origin, and independent oversight.

The emergence of these legality-verification frameworks has raised concerns in some quarters that rising demand for legally verified wood may deflect attention from sustainable forest management

certification. On the other hand, there are also reasons to believe that the introduction of these frameworks will actively facilitate more widespread uptake of forest certification and labelling. Most private-sector legality verification initiatives imbed legality-verification procedures within a wider framework for stepwise certification. Legality verification is presented to clients not as the end of the process, but rather as the first stage towards full compliance to a forest certification standard, typically FSC. Because of the strong focus on forest-sector reform, law enforcement, wood tracking and stakeholder dialogue, the FLEGT VPA process also has potential for establishing the essential preconditions for forest certification in wood-supplying countries.

#### 10.4.2 Climate change

##### 10.4.2.1 Links between forest certification and climate change

Global concern for climate change and increased interest in the role of forests in mitigation strategies has major implications for the practice of forest certification. While forest-certification systems such as FSC and PEFC were developed with the core aim of supplying certified sustainable timber products to market, the climate change issue significantly broadens the economic “products” that might be derived from forests to include wood for energy production and carbon sequestration for climate mitigation.

New opportunities are arising for the recognition of certified sustainable forests in requirements for carbon-offset projects and in national programmes for Reduced Emissions from Deforestation and Forest Degradation (REDD) which may be integrated into an international agreement to replace the Kyoto Protocol when it expires in 2012. These new policy objectives promise to provide a new and significant source of financing for certified sustainable forestry operations. To fully exploit these new opportunities, sustainable forest management certification systems may need adaptation, for example to include explicit recognition of the need to monitor and increase carbon stocks over time.

Meanwhile, entirely new systems of certification are being designed for sustainable biofuel production and for carbon sequestration which overlap with and have the potential to come into conflict with existing systems of sustainable forest management certification. To ensure rational decision making with respect to appropriate land use and forest management objectives and to reduce costs imposed on the forest sector, there is a growing need to coordinate and harmonize the various forest certification frameworks being developed for sustainable timber production, sustainable biomass production and carbon sequestration.



Source: W. Getz, National Renewable Energy Laboratory, 2009.

To best enhance the role of forests in climate change mitigation, the various standards and certification systems that emerge from this process need, first, to avoid creating perverse incentives, for example encouraging deforestation, and second, to promote a “cascaded” use of wood. New research indicates that for many forest ecosystems, carbon storage may be maximized using management regimes targeting production of long-lasting wood products that may be recycled at the end of their lives. Only wood that would otherwise be unused should be diverted for energy production. In many instances, such management regimes are preferable to forest preservation regimes or the direct use of wood for energy from the point of view of greenhouse gas (GHG) emissions.

The climate change issue adds even greater significance to the role of forest certification as a mechanism both to counter the preservationist urge simply to lock up forests as a carbon store, which in many cases is likely to be a sub-optimal solution, and to ensure increased market access for sustainable wood products. The climate change mitigation benefits of substituting such products for other more fossil-fuel intensive products – particularly in the construction sector – can be considerable.

#### 10.4.2.2 Sustainable biofuel initiatives

Numerous national commitments to increased use of biofuels have been made with the aim of reducing fossil-fuel dependency and of meeting international obligations to reduce GHG. For example, in 2008 the European Commission issued a proposal for a Directive on the promotion of the use of energy from renewable sources including a 10% binding minimum target for biofuels in transport to be achieved by each Member State. In May 2009, the Obama Administration in the US announced a \$1.8 billion strategy designed to bolster biofuel production.

Concerns that these commitments may have negative social and environmental consequences – for example increased conversion of forestland or diversion of farm land away from food production – have led to a profusion of initiatives to develop standards for “sustainable” biofuel production<sup>11</sup>.

Since April 2008, the process of developing sustainability criteria for biomass production in Europe has been taken forward by a Technical Committee of the European Committee for Standardization (CEN/TC 383). The Committee will elaborate on work already carried out at the national level by the Dutch, British and German authorities.

The Obama administration’s biofuel policy is also linked with a commitment to sustainable production. The policy was introduced with the release of a presidential memorandum in which the President instructed the Environmental Protection Agency, the Department of Energy and the Department of Agriculture to form a new Biofuels Interagency Working Group, designed to identify the policies required to drive the production of more environmentally sustainable biofuels.

The United Nations has sought to play a role in coordinating the development of standards for sustainable biofuel production through various agencies including UN-Energy, the UN Biofuel Initiative, and the UNEP Bioenergy Programme. A joint task force of the International Energy Agency and the Organisation for Economic Co-operation and Development (IEA/OECD Task 31) has also been established to consider “Biomass Production for Energy from Sustainable Forestry”.

A number of private-sector initiatives, such as the Roundtable on Sustainable Biofuels (RSB) launched by the Ecole Polytechnique Fédérale de Lausanne Energy Center, have also been launched with a view to developing sustainability standards for biofuel production. RSB has released a draft set of principles for sustainable biofuels production.

#### 10.4.2.3 Forest certification and emissions trading

The potential impact of emissions trading on the forest sector is huge given the scope for future development of a global carbon market and the scale of the challenge now required to reduce greenhouse gas emissions to acceptable levels. The impact has been muted to date, particularly due to the reluctance of European policy makers to include forestry-related credits under the EU Emission Trading System (EU ETS), which is currently the largest in the world by a significant margin.

<sup>11</sup> A comprehensive inventory of these initiatives has been compiled by the Global Bioenergy Partnership. See: [www.globalbioenergy.org/fileadmin/user\\_upload/gbep/docs/2008\\_events/2nd\\_TF.../INVENTORY\\_draft\\_19.09.2008.pdf](http://www.globalbioenergy.org/fileadmin/user_upload/gbep/docs/2008_events/2nd_TF.../INVENTORY_draft_19.09.2008.pdf)

However, the Obama administration now has plans for a US national cap and trade system, and there are strong indications that this programme will be much more open than the EU ETS to the use of forest offsets. Such offsets already form an integral component in regional cap and trade systems under development in the US including the Regional Greenhouse Gas Initiative and the Western Climate Initiative. The latter is expected to draw on the experience of California which has made significant progress in developing a certification system for forest offset projects as part of the State's aggressive GHG commitment.

Furthermore, in the US voluntary GHG offset market, the Chicago Climate Exchange (CCX), has developed standardized rules for forestry offset projects. In addition to complying with third-party verified standards for determining and recording net changes in carbon stocks, forest project owners and aggregators must provide evidence of sustainable forest management of all their managed forestland through certification from schemes endorsed by PEFC, FSC, or other certification programmes approved by the CCX Committee on Forestry.

#### 10.4.3 Green Public Procurement

The move to develop comprehensive public-sector timber-procurement policies has progressed further in Europe than in other subregions. Six EU member states had finalized central government timber procurement policies by the end of 2008: UK, Netherlands, Belgium, France, Germany and Denmark. With the exception of Denmark, these policies are mandatory for central government authorities. They are also being promoted to local government agencies. Most of the existing policies go further than EC guidance (which proposes that timber at a minimum should be from demonstrably legal sources) by establishing a minimum requirement that all wood must be verified as sustainable (including in the UK, Netherlands, Belgium and Germany).

Recent market research undertaken by Forest Industries Intelligence Limited for the UK Timber Trade Federation and Department for International Development suggests that, to date, public sector procurement has had only a limited impact on timber procurement practices in EU member states. The policies directly affect only a small proportion of the overall timber trade and their effectiveness is undermined by inconsistent application between and within EU member states. So far, only the Governments of the UK and the Netherlands have followed up implementation of the policy with systems of monitoring. However, there are also indications that, with sufficient political will and resources, the influence of government procurement policies can in time extend well beyond the direct impact on immediate suppliers. For example, such policies can

increase the sensitivity of larger importers, merchants and manufacturers to negative publicity.

Outside of Europe, the Governments of Japan and New Zealand have also developed comprehensive timber procurement policies. Procurement policies and guidelines are also being developed and implemented in several other countries with the potential to make an impact on the demand for certified forest products, including in Australia, the US and China.

#### 10.4.4 Green building initiatives

The current focus on energy efficiency in construction suggests there is huge potential for growth in green building initiatives (GBIs) with significant implications for the growth in market demand for certified forest products. The US-based LEED and the UK-based BREEAM are probably the most well established of GBIs, but GBIs are now proliferating with efforts under way in many countries to develop new nationally adapted programmes. Systems like CASBEE in Japan, HQE in France, DGNB in Germany, and Green Globes in North America are gaining momentum. These standards are also now making strong progress in some regions not previously regarded as particularly "green". For example, the capital of the United Arab Emirates, Abu Dhabi, has set its sights on enacting the world's toughest green building standards.



Source: Finnforest, 2009.

While the potential is there, the evidence suggests that a considerable amount of work is still required both to increase uptake of GBIs and to ensure that standards give appropriate credit to wood's environmental attributes. In fact, GBIs can be a mixed blessing for wood products. Discrimination against wood can actually be built into GBI standards, as wood is often the only material required to demonstrate responsible sourcing. GBI standards giving exclusive recognition to particular forest-certification brands may help drive demand for these brands at the expense of wider appreciation of the environmental merits of wood.

Nor are attitudes to GBIs a one-way street. There are signs that some key consumers of GBI standards are becoming disenchanted with the concept. At a UNECE Timber Committee workshop on GBIs in October 2008, Adrian Joyce of the Architects' Council of Europe suggested that the concept behind many existing GBIs is deeply flawed. He noted that it is quite possible to manipulate credit systems to design a building that although achieving a high rating is nevertheless not very environmentally sound. Poorly designed GBIs can reward building planners for taking a few environmentally progressive steps, some of which may not be particularly relevant, while ignoring deeper problems.

Concerted efforts are being made in various forums with the aim of overcoming these problems and of improving the application and conformity of GBIs. For example, ISO is now considering GBIs under Technical Committee 59 on sustainability in building construction. In the EU, CEN Technical Committee 350 is working on sustainability of construction works. The EU funded LENS project is also engaged in an effort to develop a relatively simple and user-friendly approach to GBI.

UNECE/FAO is scheduled to hold a second green building workshop on 12 October 2009 during the Timber Committee week. One topic will be the various standards and how they either promote wood use or discriminate against wood.

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