CHAPTER 12

CERTIFIED FOREST PRODUCTS

Highlights

- Demand for certified forest products (CFPs) in 1999 remains small and mainly from retailers.
- The majority of the world-wide demand for CFPs comes from within the ECE region, mainly from Europe and principally from net importing countries.
- Potential supply of CFPs has increased dramatically due to new forests being certified.
- Producers of CFPs seek advantages other than profit.
- The Pan European Forest Certification system was established in mid 1999.

12.1 Introduction

This is the first time that certified forest products are analyzed in a regular chapter in the *Review*. The Timber Committee follows the *market developments* for CFPs, hence the emphasis within this chapter at the expense of descriptions of certification systems. Delegations at the September 1999 Timber Committee Session will expound upon CFP markets in their countries; however this chapter, as in previous chapters, takes a regional approach contrasting North America and Europe. Several recently-released studies are cited below. The secretariat greatly appreciates their authors' contributions to this analysis.

12.2 What are CFPs?

Certified forest products bear labels demonstrating in a verifiable manner that they come from forests which meet standards for sustainable management. Consumers might find labels on furniture and wood products while manufacturers could verify the source of certified products from a system of chain of custody which precisely identifies the origin of the wood.

12.3 What volume or value of CFPs are traded?

The volume and value of CFPs traded are at present unknown. The FAO/ECE Working Party on Forest Economics and Statistics at its May 1999 session discussed the need for statistics on this vocal market sector. However delegates noted that in the absence of separate customs classifications for CFPs, there will never be standardised official reporting. Hence they concluded that the best way to monitor markets for CFPs would be through country reports prepared for the annual Timber Committee market discussions.

12.4 Where is the demand for CFPs?

Demand for CFPs, especially within Europe, is coming from retail buyers groups, and not from final consumers (table 12.4.1). There is even less demand for CFPs outside the ECE region. Some retailers responding to pressure to prove that wood products are sustainably produced have banded together, usually with assistance from the WWF, to form a unified demand for more certified products.

(i) Demand in the Netherlands

In 1998, 15,000 to 20,000 m^3 roundwood equivalent of Forest Stewardship Council (FSC)-certified wood was sold in the Netherlands, i.e. 0.2% of the Dutch wood market according to projections from a sample done by the Institute for Forestry and Forest Products (SBH) for the European Forest Institute (EFI). Most of the wood came from Brazil with some smaller amounts coming from Poland and the Netherlands. In addition, approximately 20,000 m^3 roundwood equivalent of Malaysian wood was certified by the Dutch Keurhout system.

TABLE 12.4.1

Status of buyers groups in Europe=s largest importing countries, 1999

	Group name	*Founded*	*Number of companies*
Austria	Gruppe 98	1996	26
Belgium	Club 1997	1994	81
Germany	Gruppe 98	1997	31
Netherlands	Hart Voor Hout	1995	11
Netherlands	(FSC-linked)	1992	473
Spain	WWF Grupo 2000	1998	...
United Kingdom	1995+ Group	1991	89

Sources: "European Markets for Certified Wood Products" by Mr. Keith Forsyth, 1999.

The number of retailers in the Netherlands who are ready to sell wood certified by the Dutch Keurhout scheme has increased to 260 (*Tropical Timbers, 1999)*. The Keurhout programme, established by the government and the industry, puts a hallmark on wood coming from approved certification schemes such as the FSC. Some 140 companies in the timber trade and wood processing industries are members of Keurhout. The Keurhout systems carries a "declaration" but is not a certification system.

SBH concluded that the amount of certified wood and wood products is still very small in the Netherlands. However, market is growing all the time (demand exists and supply is developing). Due to PEFC development the amount of certified wood will increase rapidly in the near future.

The countries above import wood and wood products from well over 100 countries and given the volume of imports, environmental non-governmental organisations intend to influence world-wide forestry practices through certification (Forsyth, 1999).

One estimate is that "in mid 1999 only about an estimated 600,000 m^3 of certified timber are actually available in the European markets" (*Policy Analysis of Certification of Forest Management*, unpublished study by Dr. Ewald Rametsteiner, 1999). The same study notes that based on the amount of certified forest land in Europe, the *potential* production of certified roundwood was 20 million m^3 per year in 1998.

(ii) Demand elsewhere in Europe

Buyers groups are under development in other ECE region countries and in other regions of the world. A new Club ProForêt has been established by the WWF which groups seven Swedish and French companies who favour FSC-certified products (*Commerce International du Bois*, 1999).

The potential demand in Europe for CFPs is perhaps greatest in the United Kingdom as indicated by the highest awareness of the term "sustainable forest management" in the United Kingdom, slightly over 50% of people surveyed, versus 25% in Austria, 18% in Germany and about 8% in France and Italy (*EU Consumers and SFM Certification* by Dr. Ewald Rametsteiner, 1998). One Swedish company, AssiDomän, recognises this and expected to sell 100,000 m^3 of certified wood into primarily the United Kingdom home improvement market in 1998, and they forecast greater volumes in 1999. Most of the products are furniture grade pine (redwood), joinery and other pine sawnwood.

Surveys of wood products customers found that 60% would "be interested in receiving information as...provided by the certificate" and "the majority of the forest industry and trade sector, about 65%, seems to think that a Sustainable Forest Management (SFM)-certification system is needed" (Rametsteiner, 1999). The study continues saying that surveys of forest owners have found reluctance to certify as they see "little improvement possibilities through this instrument, neither in ecological nor in economic terms."

In addition to buyers' groups, some public entities have banned tropical wood and have developed written preferences for certified forest products. These measures by public, although not national, bodies have been criticised internationally as non-tariff barriers to trade.

12.5 What is the supply of CFPs?

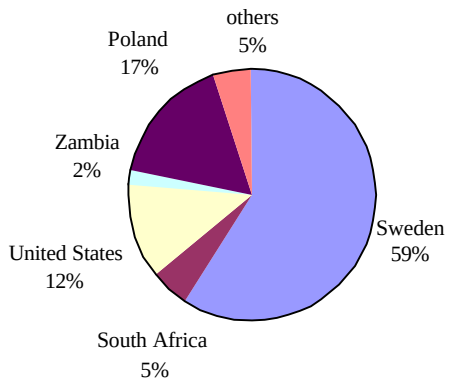
As there are no statistics at present on the volume or value of the supply of CFPs, the one approach is to look at the area of certified forests. As of June 1999 15.8 million hectares had been certified, according to the FSC system; 83% in temperate and boreal forests, mostly in Sweden, the United States and Poland, and 17% in tropical forests, mostly in Zambia (FSC, 1999 and "Overview of global trends in FSC certificates" by International Instituted for Environment and Development, 1999). In the United States, roughly 22 million hectares have been certified under the

Sustainable Forestry Initiative (SFI) system plus 1.5 million under the FSC system.

Studies have attempted to calculate potential supply based on hectares certified. However the example of The Collins Pine Company indicates that this approach is misleading. In the last *Review*'s special chapter on the "Certified forest products marketplace", Collins Pine, a family-owned and -operated business in California was mentioned as the first company to have forest land certified under the FSC system in the United States. Apparently approximately 50% of Collins Pine's production in certified, but less than 5% is actually labelled and sold as CFPs because of a lack of market demand.

GRAPH 12.5.1

Estimated potential production of FSC-certified roundwood, 1999



Source: "European Markets for Certified Wood Products" by Mr. Keith Forsyth, 1999.

The fear of additional costs in what are already difficult market conditions is the main restriction on escalation of the supply of CFPs. Based on the "Forestry Wood Chain Survey" in Finland, United Kingdom and Germany, the majority of companies think that the price premium for roundwood supply will be less than 5%, if any (Rametsteiner, 1999). The majority of sawmillers (66%) thought they would have to absorb additional material costs, whereas pulp and paper producers and buyers felt that they could pass on additional costs to consumers. These opinions correlate with the share of raw material cost in the final product price: 60% in the sawmill industry versus 30% in the pulp and paper industry. Rametsteiner extrapolates these costs to mean that a sawmiller would have to charge 3% more for sawnwood, difficult in competitive markets, while the paper industry would have to raise prices by 0.5%.

12.6 What are the potential structural effects in European forest products markets?

Where will CFP obtain market share? Either CFPs will displace current wood products used in traditional markets, or they will take back markets lost to nonwood substitutes, or they will create new markets for wood products. At the present there is little evidence on which to document structural changes occurring as CFPs enter the marketplace. The study "Policy analysis of certification of forest management"[1], found the production and trade of certified forest products could have the following substitution effects in Europe:

- no substitution for non-wood materials;
- no substitution for tropical timber;
- small substitution of tropical timber through regaining market share for non-wood substitutes;
- small substitution of certified for non-certified products;
- eastern European producers penetrating niche markets for CFPs in western Europe.

12.7 Why certify?

While beyond the scope of this *Review* to judge the merits of certification of sustainable forest management, a general observation is that the forest and forest products sector in the ECE region is gradually accepting that certification may be advantageous to preserving market share for wood and wood products against competitors (and uncertified) products like PVC plastic, aluminium and steel.

The Union pour le Commerce de Bois Durs (UCBD) in Europe, an alliance of the national federations of tropical and temperate hardwood importers in 13 of the 15 European Union member countries, issued a statement in June 1999 which supports certification when based on the following principals:

- voluntary participation;
- transparency;
- credibility;
- unrestricted trade;
- free competition;
- independent verification;

[1] Rametsteiner, Ewald. "Policy analysis of certification of forest management as a policy instrument to promote multifunctional sustainable forest management", Final report of Task IV, SFM-Certification Impact Assessment and the Role of Governments in SFM-Certification, an EU FAIR project, 1999.

- international recognition;
- simple chain-of-custody.

These principles have been more or less echoed by many other groups and were in part responsible for the new Pan European Forest Certification (PEFC) system. A clear, unified message coming from the PEFC, the UCBD, the Centre Technique du Bois et l'Ameublement (CTBA), Fédération française des importateurs de bois du Nord (FFIBN), Fédération française des bois tropicaux et américains (FFBTA), and many other groups, which has been repeated many times by the Timber Committee, is that *wood must be promoted as an environmentally friendly and renewable natural resource*.

12.8 Why produce and sell CFPs?

The preceding sections paint a rather negative picture for CFPs, yet it is the intent of the *Review* to present a balanced and objective viewpoint. Since some manufacturers are producing and selling CFPs, there are other reasons than sheer economics.

It bears repeating, from a *Geneva Timber and Forest Discussion Paper*[2] on ECE region by Drs. Eric Hansen and Heikki Juslin, *The Status of Forest Certification in the ECE Region*, a passage about other reasons than profit for marketing CFPs:

- Access to new niche markets;
- Promotion of a company's "environmental" image and policy;
- Credibility in communication with customers;
- Building strategic marketing networks.

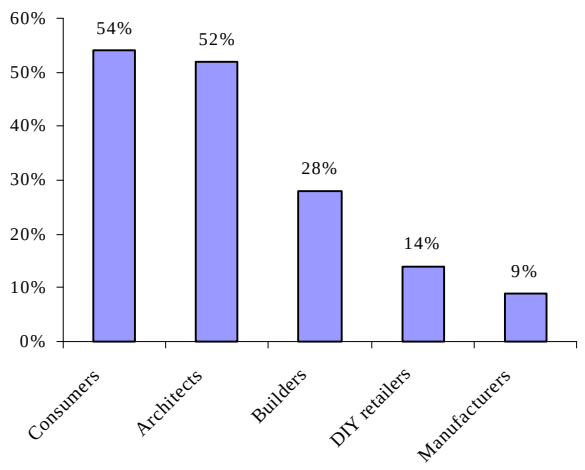
Currently price premiums do not cover the extra cost of producing CFPs, although some manufacturers are hoping with market development CFPs will command higher prices to balance the added expenses. In the United States 54% of consumers either "somewhat agreed" or "strongly agreed" with the statement "I would pay a premium for certified wood products or raw materials" (graph 12.8.1) ("Environmental certification of wood products: the United States manufacturers perspective" by Richard Vlosky and Lucie K. Ozanne, 1998). United States consumers' willingness to incur a premium for certified wood products varies depending on the value of the product: consumers are willing to pay a relatively high premium for an inexpensive item as compared to a house. An average of 37% of consumer respondents was not willing to incur a premium for any type of environmentally certified consumer wood product.

Wood products manufacturers in the United States believe that their companies currently have policies in place aimed at environmental stewardship and that there is little need for certification of temperate forests or tropical forests (Vlosky and Ozanne, 1998). Few manufacturers are willing to incur additional costs of certification unless costs are offset by increased prices charged to customers. In addition, a majority of companies are not willing to incur costs for chain-of-custody procedures.

The study also questioned other groups as shown.(graph 12.8.1)

GRAPH 12.8.1

Acceptance of premium for CFPs, 1998



Source: "Environmental Certification of Wood Products: The United States Manufacturers' Perspective" by Dr. Richard Vlosky and Ms. Lucie K. Ozanne, 1998.

Do It Yourself (DIY) home centers, architects and home builders in the United States do not believe customers would pay a premium for certified products. Home center retailers felt most strongly that their customers would not pay such a premium. This finding is important because for certification to succeed, there must be financial incentives for participants at all levels in the value-chain (Vlosky and Ozanne 1997).

When viewing *intention* to pay premiums it must be noted that actual buyer behaviour does not always correspond to the stated intention and is naturally influenced by such factors as price and quality. Nevertheless, some potential for price premiums exists in specific market niches.

[2] ECE/TIM/DP/14, 1999.

12.9 What is new in certification systems?

In the United States, the Sustainable Forestry Initiative created by the American Forest and Paper Association has been aimed at industrial forest lands, but now has joined with the Tree Farm System to reach more non-industrial private forestlands. In Europe the FSC by the WWF was dominant through mid 1999.

Canada has initiated a Sustainable Forest Management System through the Canadian Standards Association based on the ISO 14,001 environmental management standards. It has expectations of 5 million hectares certified in 1999. Based on a survey of 31 Canadian enterprises, approximately 70 million hectares will be certified by the end of 2003, mainly by the Canadian sustainable forest management standard. The Canadian Coalition for Certification of Sustainable Forest Management estimates that one-tenth of the lands will also be certified by FSC.

As predicted in the "Status of forest certification in the ECE region", a major development has been the establishment of the PEFC scheme. Because of the recent appearance of the PEFC and its potential for greatly increasing the supply of CFPs on the European markets, portions of a press release from its inauguration on 30 June 1999 are reproduced below. In addition, the PEFC is based on the six pan-European criteria for monitoring and measuring sustainable forest management which were developed through the Second Ministerial Conference for the Protection of Forests in Europe in Helsinki in 1993, and which were elaborated into Operational Level Guidelines at the Third Conference in Lisbon in 1998. The Timber Committee and the FAO European Forestry Commission give the highest priority to supporting achievement of SFM in the region, and notably support for the Pan-European Process for the Protection of Forests in Europe.

The Pan European Forest Certification program (PEFC)

The PEFC was officially launched in June 1999 as a framework for the mutual recognition of compatible national forest certification programs. The PEFC is a voluntary private sector initiative to provide assurance to customers that the wood products they buy come from forests managed according to the Pan-European Criteria for the sustainable management of forests in Europe, as defined by the resolutions of the Helsinki and Lisbon Ministerial Conferences of 1993 and 1998 on the Protection of Forests in Europe.

PEFC aims to facilitate customers' identification of products from sustainably managed forests through a certification process subject to independent third party auditing. Products will carry a logo to facilitate the international trade of certified products.

Participating countries or regions will be able to develop their own national certification systems, whilst at the same time adhering to the Pan European Criteria for sustainable forest management.

So far organisations from 17 European countries are participating in the scheme (Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Latvia, Luxembourg, Norway, Portugal, Slovenia, Spain, Sweden and Switzerland and the United Kingdom) while interest has been expressed by timber producers from Australia, Canada, the United States and Brazil. Current estimates indicate that over 10 million hectares may be certified and will have the right to bear the PEFC logo by early 2000. In Europe, the forest area under non-industrial private ownership covers more than 100 million hectares, with an output of approximately 280 million cubic meters per year.

The PEFC Council is also expected to work towards the mutual recognition of compatible non-PEFC forest certification systems.

So far, the Pan European Forest Certification program has the support of associations representing about 12 million woodland owners in Europe. PEFC has also rallied the support of forest industry and trade organisations in Europe. Retailers, environmental and social interests have also been invited to participate both at the national and the European level. At national level, all interested parties have been invited to take part in national PEFC governing bodies, which set national standards and devise the national forest certification systems.

These national bodies are represented on the PEFC Council and elect its Board members. So as to encourage social, retailer and environmental interests to become more involved in the further development of PEFC, places on the Board have been reserved for them.

Source: PEFC, 1999.

Also of importance is the establishment for a number of national systems, some of which will be allied to the PEFC. It is beyond the scope of this market report to further detail the various certification systems. If possible the above-mentioned *Discussion Paper* will be periodically updated on the Timber Committee's website.

12.10 Conclusion

While the chapter attempted to give an update on the market situation in the ECE region, the available statistics do not yet support the hype this market sector receives. Certainly the niche market for certified forest products is growing fast and *potential* supply in Europe will get a boost from the PEFC system. However for analysts, the non-differentiation of CFPs in customs classifications will always prevent comprehensive and objective analysis of this new market sector.