# Chapter 9

# Markets for certified forest products, 2002-2003[1]

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## Highlights

- The area of certified forests in the world has further grown over the last year, reaching about 150 million hectares by mid-2003, mainly driven by the Pan European Forest Certification (PEFC) system and the Sustainable Forestry Initiative in the United States.
- The potential supply of certified forest products (CFPs) has grown in parallel with the area certified, and is estimated at almost 300 million $m^3$ annually worldwide, close to the annual industrial roundwood consumption of Europe (excluding the Russian Federation).
- Still, only a fraction of the wood supplied from certified forests is actually traded as (labelled) CFPs, reflecting the difficulty of finding viable markets and stable supply through the chain-of-custody.
- Today, about 3140 chain-of-custody certificates exist worldwide, which is an increase of almost 20% from last year; 2/3 of these are held by companies in Europe, and 80% by the Forest Stewardship Council.
- Business-to-business markets for CFPs continue to be mainly located in Germany, the United Kingdom and the United States.
- Markets for CFPs are now often supply-driven; however, no official data is available.
- FSC-certified CFPs are available across a large range of forest products; PEFC-certified CFPs are increasingly taken up by the roundwood trade and the sawmilling industry, especially in Germany, Austria and Finland.
- Consumer awareness of CFPs continues to be low, even in the more advanced markets in western Europe; however, growing familiarity with the FSC logo is claimed in the United Kingdom, and PEFC is stepping up its communications campaigns.
- Public procurement is an important driver of demand in several key importing countries, including Germany and the United Kingdom, and is expected to become more visibly so for tropical wood.
- The illegal logging issue has dominated public discussion in 2002 to 2003, from which it emerged that legality of the wood traded is not to be confused with the quality of management.

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## Secretariat introduction

Certified forest products markets received attention in international discussions in 2002 and 2003, in part as a result of government attention to forest law enforcement and governance issues. In the forest products trade, some manufacturers and traders were asked to prove the legality of the sources of their timber, with some resorting to certification as an answer, and others having to prove legality even though adequate systems are not fully created.

Nevertheless, the markets for certified forest products continue to spark emotion in the forest and forest industries sector, especially by retailers attempting to assure customers of the renewability and sustainability of wood production.

The UNECE Timber Committee has a mandate to follow the markets for certified forest products, and the FAO European Forestry Commission follows developments in certification of sustainable forest management. This chapter focuses on the market aspect. At its annual market discussions, the Timber Committee addresses issues related to certified forest products. 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 and FAO TIMBER database, which is based upon country-supplied statistics, as in the previous chapters. Unfortunately, no official statistics exist on certified forest products because they are not currently recognized in customs classification codes. Instead, the analysis in this chapter has, for its foundation, interviews of key producers, retailers of certified forest products, Global Forest and Trade Networks and auditing bodies and certification systems, as well as some information from the officially nominated country correspondents on certified forest products and certification of sustainable forest management. The secretariat thanks all those who responded to the authors' surveys. The UNECE Timber Committee and the FAO European Forestry Commission established this informal network of correspondents in 2001 to provide a neutral source of information. Unless otherwise attributed, all estimates and opinions in this chapter are from the authors' interpretations and analysis of the results of their surveys.

We sincerely appreciate the ongoing cooperation with Dr. Ewald Rametsteiner, Expert on Certified Forest Products Markets, from the Institute of Forest Sector Policy and Economics, Vienna, Austria, along with his assistant, Mr. Florian Kraxner. Their up-to-date and informative analysis of the markets for certified forest products provide valuable insight into this market segment. Dr. Rametsteiner also wrote *Sustainable Forest Management Certification*, which was published by the Liaison Unit, Vienna, of the Ministerial Conference on the Protection of Forests in Europe, where he also serves as an expert.

The UNECE Timber Committee and the FAO European Forestry Commission have followed developments in certification of sustainable forest management more closely in a series of annual UNECE/FAO *Geneva Timber and Forest Discussion Papers*.[2]

## 9.1 Introduction

Certified forest product (CFP) markets have been analysed in a regular chapter in the *Forest Products Annual Market Review* since 1998. The discussion in this *Forest Products Annual Market Analysis* concentrates on the market and trade aspects for CFPs. Non-independently certified forests or CFPs, and process certification schemes such as ISO 14001, are not included, as these do not generally lead to certified forest products.

## 9.2 What are CFPs?

Certified forest products bear labels demonstrating in a verifiable manner 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 source of certified products from a system of chain-of-custody that identifies the origin of the wood.

## 9.3 Supply of CFPs

### 9.3.1 *Forest area certified*

As of mid-2003, the total area of forests certified[3] worldwide is about 150 million hectares, or about 4% of the world's forests. The last years have seen an exponential increase of forest area certified by the Forest Stewardship Council (FSC), the Pan European Certification System (PEFC) in Europe, the Sustainable Forestry Initiative (SFI) in North America, the Canadian Standards Association (CSA) system, as well as the American Tree Farm System (ATFS) in the United States. Today, these five certification systems dominate forest certification. The Dutch Keurhout verification system has approved a further 1.2 million hectares of forests independently certified in Gabon.

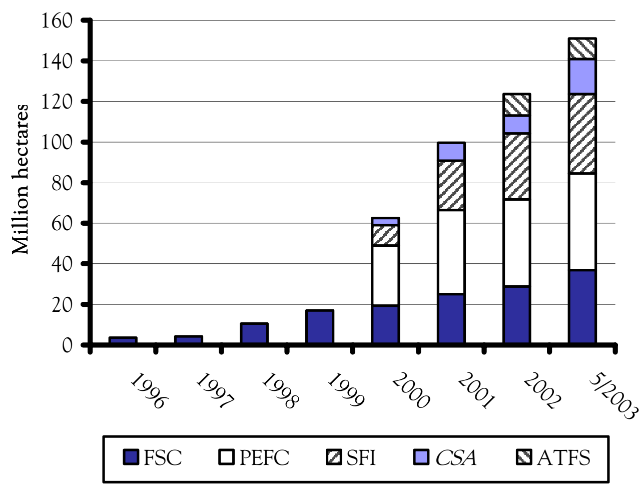
[2] www.unece.org/trade/timber/mis/cfp.htm

[3] Certification is understood here in the strict sense, requiring third-party audit. ISO 14001- type process certification systems, which usually do not lead to certified products in the market, are not included.

The increase of the area of forests certified (graph 9.3.1) has continued its pace of strong growth over the last years, with similar growth rates for all major schemes. The area of forests certified under the SFI has, however, somewhat decreased over the last year. In terms of total forestland certified, PEFC now dominates with 32%, followed by SFI (26%) and FSC (24%). Please note that the graph contains overlaps owing to double certification, e.g. in North America (0.5 million hectares SFI and FSC), and small areas in Europe between PEFC and FSC.

GRAPH 9.3.1

**Area of certified forest, 1996-2003**




**Notes:** FSC = Forest Stewardship Council, PEFC = Pan European Certification System, SFI = Sustainable Forestry Initiative, CSA = Canadian Standards Association system, ATFS = American Tree Farm System. Area in 2003 is through May.

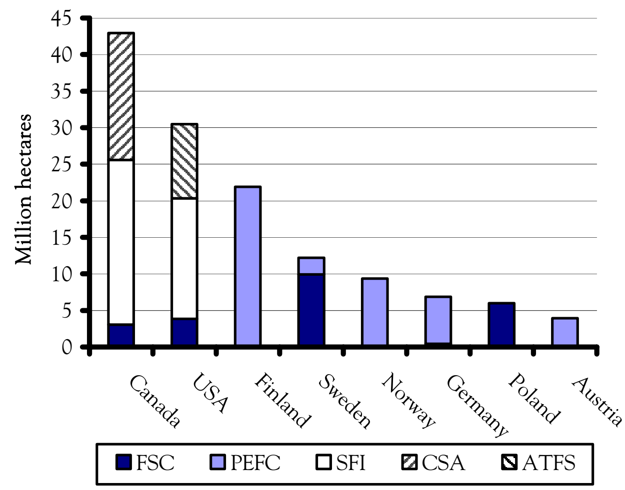
**Sources:** Individual certification systems, and for ATFS, country correspondent, 2003.

Geographically, more than 90% of the total area certified is still in the northern hemisphere, with about half of the certified forest area located in Europe and around 40% in North America. Developing countries account for only around 10% of the total forest area certified. The largest areas are in Brazil (1.28 million hectares FSC certified, 50% of which are plantations), Gabon (1.2 million hectares Keurhout approved), South Africa (0.9 million hectares FSC certified, 100% plantations) and Bolivia (0.8 million hectares, FSC). This imbalance between developed and developing countries has changed rapidly. In 1996 the share of the total in developing countries was approximately 70%. The majority of certified forest area is industrial forests, especially in the FSC system and the SFI programme.

In Europe around 40% of the existing forest area[4] is already certified, compared with around 18% of the forest area in the United States and in Canada and less than 0.5% in Russia. Canada and the United States are leaders in terms of certified forest area (graph 9.3.2).

GRAPH 9.3.2

**Top 8 countries' certified forest area, mid 2003**




**Notes:** FSC = Forest Stewardship Council, PEFC = Pan European Certification System, SFI = Sustainable Forestry Initiative, CSA = Canadian Standards Association system, ATFS = American Tree Farm System.

**Sources:** Individual certification systems, and for ATFS, country correspondent, 2003.

### 9.3.2 *Potential and Actual Supply of CFPs*

In 2003, the potential timber supply from the world's certified forests is large, estimated at close to 300 million $m^3$ on an annual basis. The roundwood supply of several large producing countries in Europe is up to 100% from certified forests, for example in Finland and Austria. The majority of CFPs are temperate softwood, where supply from some countries exceeds actual demand from the manufacturing and trade sectors. Tropical wood CFPs are currently available only from a limited number of countries, in comparatively small quantities, and often from lesser-traded species. Anecdotal information suggests that tropical wood and some temperate semi-finished CFPs also suffer from unstable supply.

Only a small fraction of the potential annual supply of wood from certified forests is actually traded as CFPs, and a large majority is marketed without reference to certification status from some point in the processing

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

chain. This is due to several factors, including low interest in some manufacturing sectors and the "own-label" policies of some major retailers, e.g. in the United States and Europe. In the absence of official trade figures, the actual volume or share of CFPs is difficult to estimate.

## 9.4 Demand for CFPs

### 9.4.1 *Business-to-business markets*

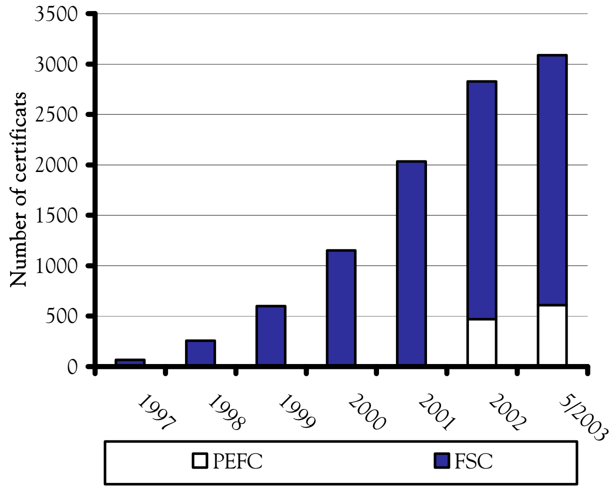
CFPs are available in many countries in the UNECE region. As indicated, no tracing of CFPs through official figures is possible. However, the number and types of chain-of-custody (CoC) certificate[5] holders is one indication of the amount and characteristics of demand for CFPs in business-to-business markets. Note that only the number of CoC certificates is known, not the size of the respective companies.

Today, still only about 3,140 CoC certificates have been issued worldwide, of which about 2,480, or roughly 80%, are FSC and 661 are PEFC. Over the last year, PEFC managed to more than quadruple its CoC certificates, with marked increases especially in Germany and Austria. The number of FSC CoC certificates, on the other hand, grew at a rate of less than 10% (graph 9.4.1). As the SFI certification scheme has not yet started to issue CoC certificates, much of the wood from forests certified according to SFI standards is thus technically unable to move downstream as CFPs. Despite the high importance placed by the international business community on mutual recognition between certification systems to alleviate the bottleneck created for CFP markets through the lack of CoCs, no major breakthrough has been reached so far between the proponents of different certification schemes.

In relation to geographical distribution of business-to-business demand for CFPs according to the number of CoC holders in total, Germany leads the table, with comparatively few FSC and a rapidly growing number of PEFC CoC certificates, followed by the United States (graphs 9.4.2 and 9.4.3). Still, only as few as around 400 companies in total are entitled to process or sell CFPs, which is a very small fraction of businesses involved in wood processing and trade in these countries as a whole. The United Kingdom, Austria and the Netherlands each have more than 150 companies. Brazil and South Africa, developing countries with large shares of certified plantation forests, have more than 100 companies with CoC certificates.

GRAPH 9.4.1

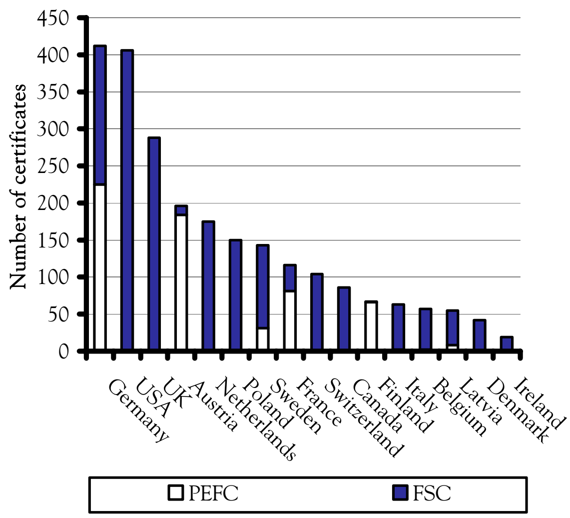
**Certification chain-of-custody trends worldwide, 1997-2003**




***Sources:*** Forest Stewardship Council and Pan European Forest Certification with authors´ data interpretation, 2003.

GRAPH 9.4.2

**Chain-of-custody certificate distribution in the UNECE region, 2003**



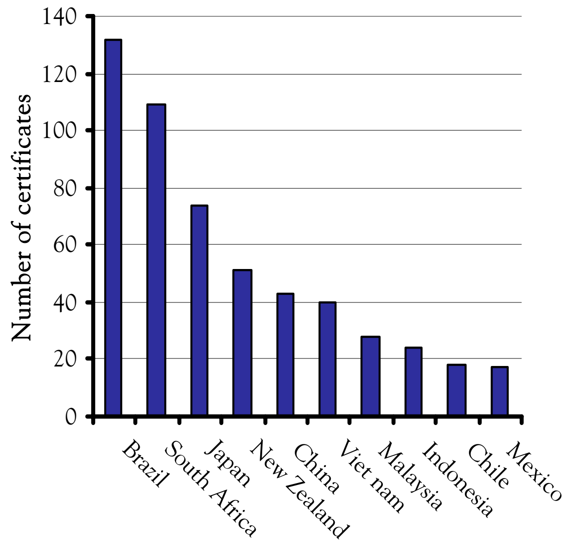

***Sources:*** Forest Stewardship Council and Pan European Forest Certification, 2003.

[5] Chain-of-custody certificates specify the channel through which products are distributed from their origin in the forest to their end use. (source: www.fscoax.org).

An analysis of the distribution of CoC certificates across the product range offered shows that companies from all wood-based industries and trade sectors hold CoC certificates. Companies holding CoC certificates of FSC (80% of the total) cover a comparatively wide range of sectors, while the majority of companies offer products for construction (structural and non-structural components) and furniture, as well as sawmilling products (graph 9.4.4). Companies holding CoC certificates of PEFC (20% of the total) are mainly active in sawmilling and timber trade, i.e. more upstream sectors in the value chain. Especially in eastern European countries, where CoC certification started only recently, a doubling of CoC certificates is expected over the coming years (e.g. in Romania). Increasing the number of CoC certificates is still a major goal of certification initiatives, *inter alia* as a means to increase awareness and interest in CFPs along distribution chains.

GRAPH 9.4.3

**Chain-of-custody certificate distribution outside the UNECE region, 2003**




**Note:** Outside the UNECE region all CoC certificates are by FSC.

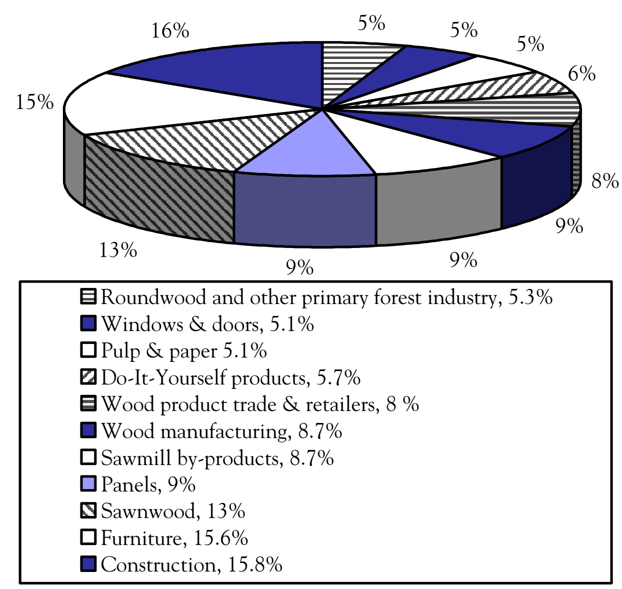
**Sources:** Forest Stewardship Council and Pan European Forest Certification, 2003.

The Global Forest and Trade Network (GFTN), designed to create demand for CFPs by the World Wide Fund for Nature (WWF) through WWF Buyers and Producers Groups, comprises around 800 members in mid-2003, about the same number as in past years. Active in around 30 countries worldwide, more than half of these companies are located in Europe.

While the FSC logo has been around for a decade now, others, such as the PEFC, started to issue licences for logo use only comparatively recently, in 2001. A total of 7890 companies to date (of which 70% are in Germany and 25% in France) have the right to use the PEFC logo. Both the SFI and the CSA systems in North America have developed logos.

GRAPH 9.4.4

**FSC worldwide chain-of-custody distribution by industry sector, 2003**




**Source:** Forest Stewardship Council, 2003.

## 9.4.3 *Final consumer demand*

### 9.4.3.1 *Private consumers*

Demand by private end consumers remains an insignificant factor in the market for CFPs. Nevertheless, general consumer sentiment on deforestation, forest degradation, loss of biodiversity and, notably, on tropical deforestation, keeps the sector under pressure to act. Research also shows that, other things being equal, consumers prefer CFPs over identical non-certified products. (Anderson and Hansen 2003).

Forest certification is increasingly becoming a main instrument for communication on sustainable forest management throughout the forest and trade sectors, with enhanced public relations efforts by programmes such as PEFC. However, consumer awareness of even the longest established logo on CFPs, that of the FSC, is still low in markets such as those in Germany, the Netherlands and Austria, with somewhat higher rates of logo recognition in more established markets, such as the United Kingdom, where increased logo recognition has been claimed by FSC, based on data from surveys.

In eastern Europe, the driving force for certification is not domestic consumer demand, but export markets and demand by certain major retailers. This retailer-driven demand can also be recognized in North America, although, according to experts, certification is not necessary for market access, and will not be in the near future.

Many players active in the market see the lack of consumer awareness and interest as a major obstacle for market growth.

#### *9.4.3.2 Public policy evolution*

Public procurement policies, newly introduced or currently under discussion by Governments, continue to be a driving force for certification and a growing source of potential demand for CFPs. Several national Governments in European markets, including those of the United Kingdom, the Netherlands, Denmark, France and Germany, have announced public procurement policies that include criteria favouring the purchase of CFPs, notably from tropical countries. Similar policies exist at municipal levels in several European countries. The United Kingdom Government was one of the first to set up a procurement policy and issue a guidance document on timber procurement in 2000. However, systematic evidence of any significant change in the pattern of timber procurement still seems to be lacking, and the Government conceded that implementing its timber procurement policy has been more of a challenge than initially anticipated (UK House of Commons 2003). More recently, the German Ministry of Environment announced support for sourcing timber from forests managed according to FSC standards by 2006. While not all policies are implemented fully, they indicate the direction of policy development, especially as the underlying situation in the tropics is unchanged.

Over the past year, the topic of illegal logging has dominated the agenda of governmental politics related to forest products. In the course of the intense debates, it became clear that not only is illegal logging a very complex and elusive subject, but also that policies will keep the legality of timber as a distinct issue from the quality of forest management and certification of sustainable forest management. However, some form of "certification of legality" may be developed.

## 9.5 Outlook and conclusion

After a decade of development and introduction of forest certification and CFPs and much heated debate, forest certification seems to have set sail into less turbulent waters and has made some smooth progress. Certification of forests in Europe has reached a first peak, and forest certification is expected to continue to grow smoothly in some eastern European countries and North America. The focus on forest certification seems now to shift more to awarding of CoC certificates and to bringing other continents up to par with the Northern hemisphere and into the existing forest certification umbrellas.

Certification systems have also acknowledged the fact that persistent and effective communication is necessary to raise the awareness of the general public and the private consumer, and that forest certification is indeed a key tool to position wood as a renewable resource, and to improve the green image of the forest sector. Nevertheless, a breakthrough in mutual recognition, largely absent from open debates in the last year, has not been reached.

The situation is quite different for tropical forests. Considerable further effort is needed to build up credible certification schemes through phased approaches, as are being developed by the ITTO. For all but the most important international suppliers of wood products, such as Malaysia and Brazil, this is a long-term uphill struggle of capacity building that requires long-term commitment by funding partners in developed countries. Most countries will only gradually be able to participate in the international trade of CFPs. However, it is important to keep in mind that to alleviate deforestation and degradation in developing countries, managing national consumption, and not international trade, is closer to a solution.

This chapter attempted to give an update on the market situation of CFPs in the UNECE region. Owing to a lack of CFP information in official statistics, comprehensive and objective information of this new market sector remains difficult.

## 9.6 References

Anderson and Hansen (2003). Do Forest Certification Ecolabels Impact Consumer Behaviour? Results from an Experiment; Research brief, May 2003, Wood Science & Engineering, Oregon State University.

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Stichting Keurhout, www.stichtingkeurhout.nl