Certified forest products markets 2008-2009

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PEFC

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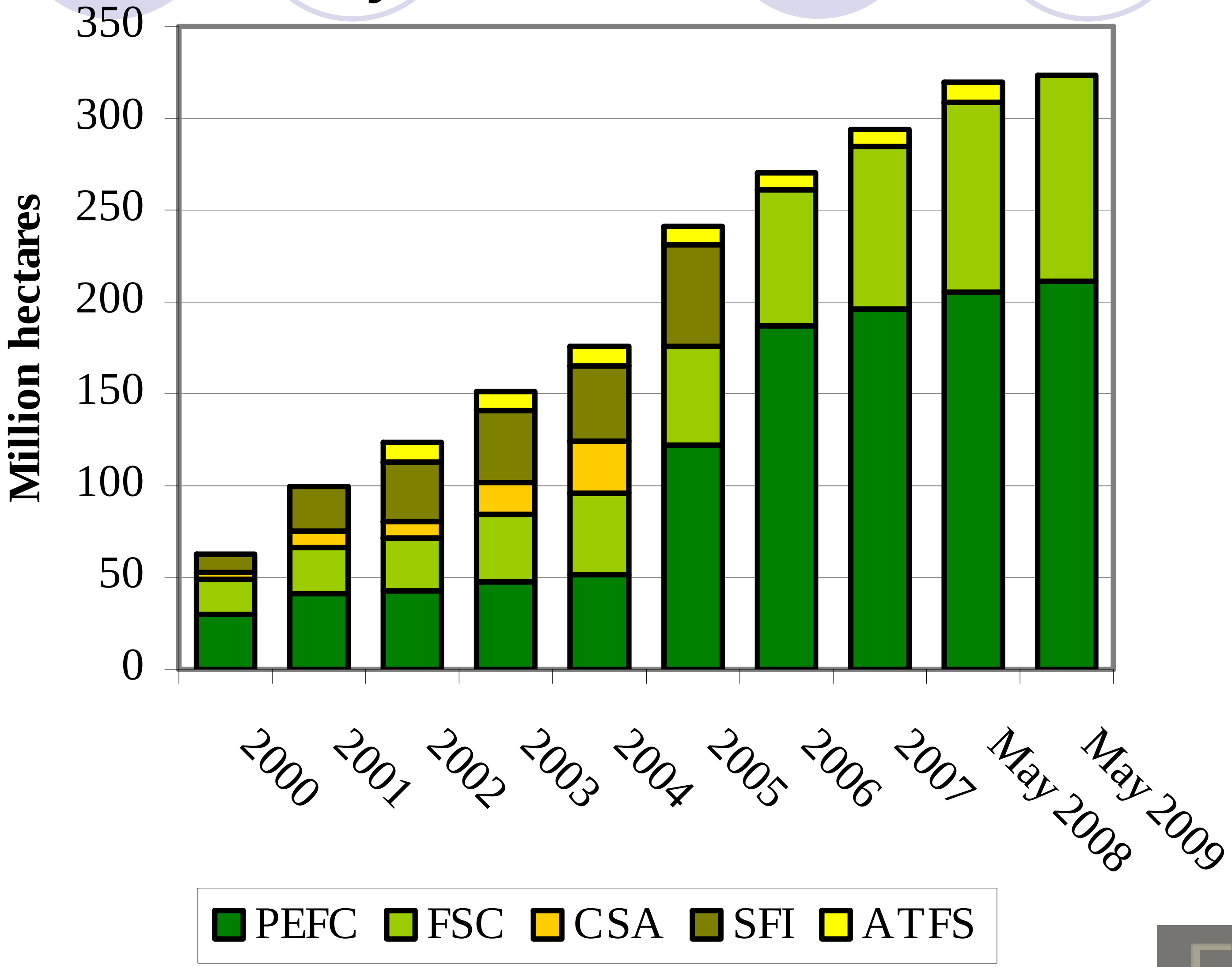
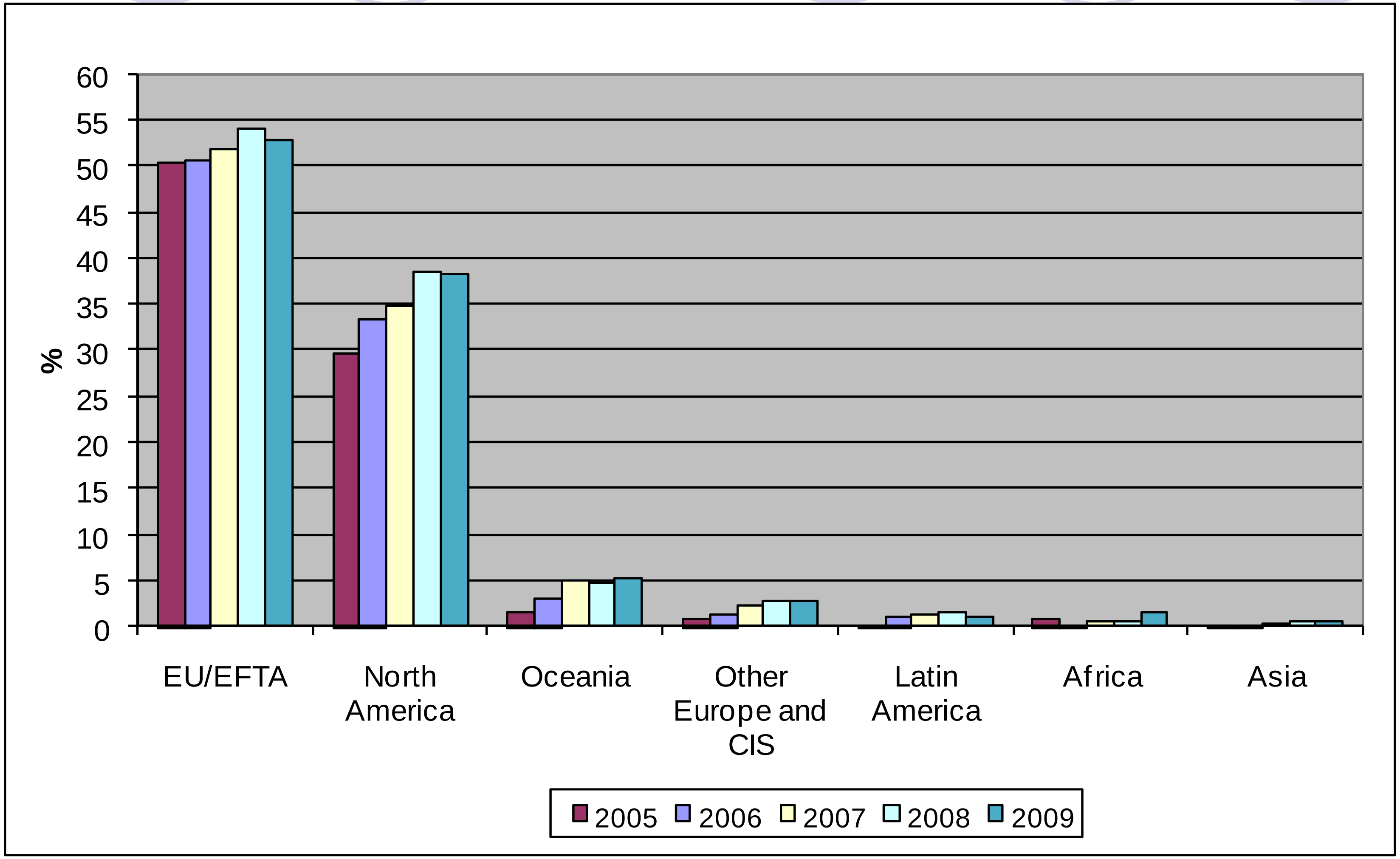
Global area of PEFC & FSC certified forest Dec 2000-May 2009, Million hectares



Certified forest as % of total forest area
By region 2005-2009



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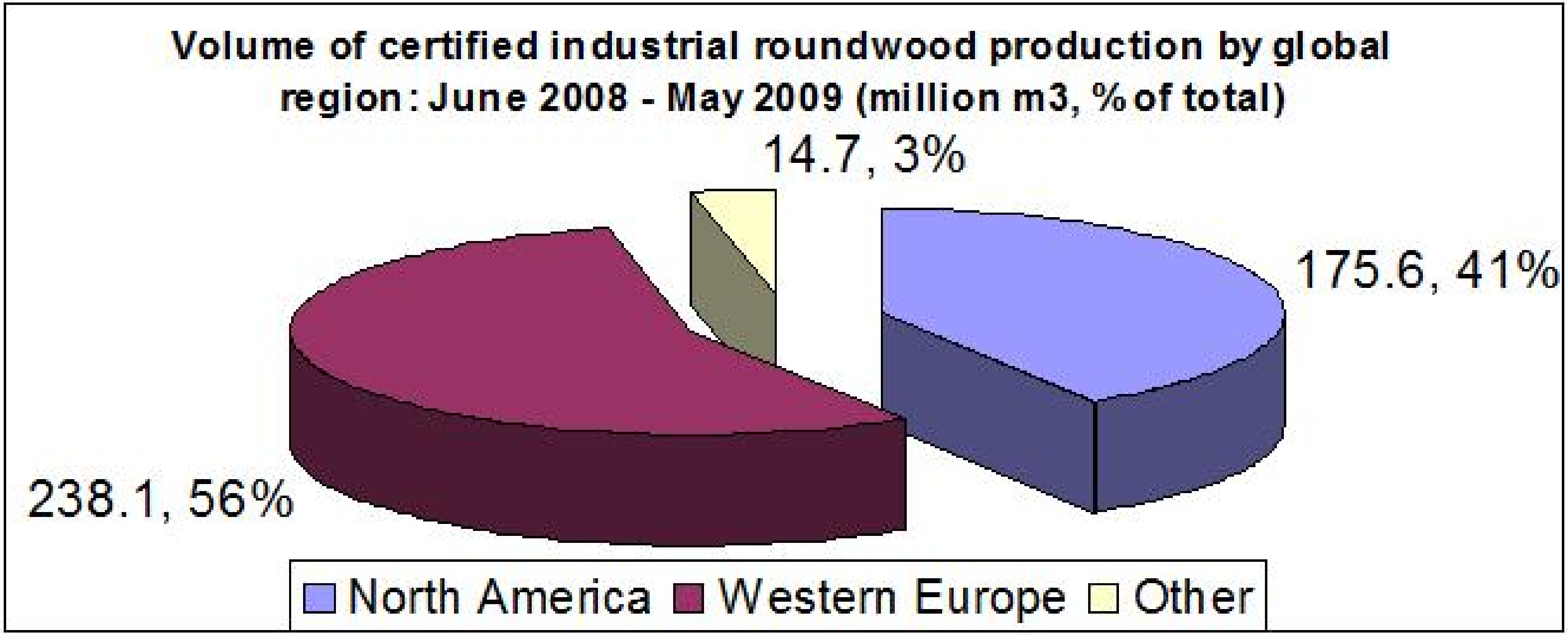

- Potential global industrial RW supply in 12 months to May 2009 = 411 million m3
- 26% of total global industrial RW supply
- 97% of certified RW supply is in N. America & Europe
- Even in these regions majority of small non-industrial owners are uncertified

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Challenge of certifying non-industrial forest owners

- Lack of awareness – US surveys only 17% of forest owners have heard of forest certification
- Costly & time consuming marketing and education process required
- No benefit from economies of scale – higher cost of certification per unit of area
- Need to build organisation for large-scale group certification
- Some European countries have exploited existing regional forestry associations and cooperatives
- Europe: 500,000 (3%) small forest owners of a total of 16 million are covered by PEFC/FSC regional/group certification
- US: no more than 100,000 (1%) small forest owners of a total of 10 million are ATFS or FSC certified. Joint ATFS & FSC certification of 30,000 owners under large group scheme managed by Wisconsin DNR suggests a way forward.

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Independent risk assessment: an alternative assurance mechanism

- An assurance of legality and good forestry practice where there are large numbers of uncertified small forest owners
- In 2008, American Hardwood Export Council commissioned Risk Assessment of Lawful Harvesting and Sustainability of U.S. Hardwood Exports
- Prepared independently & subject to peer review by other experts & environmentalists
- Actively seeks out information on illegal logging in the USA
- Concludes that there is a less than 1% chance of any U.S. hardwood product being illegally sourced
- Low risk of any US hardwood being sourced in a way which:
  - contributes to conversion of natural forest to plantation or other land use
  - threatens traditional or civil rights;
  - threatens a forest with high conservation values.
- Available at www.ahec-europe.org

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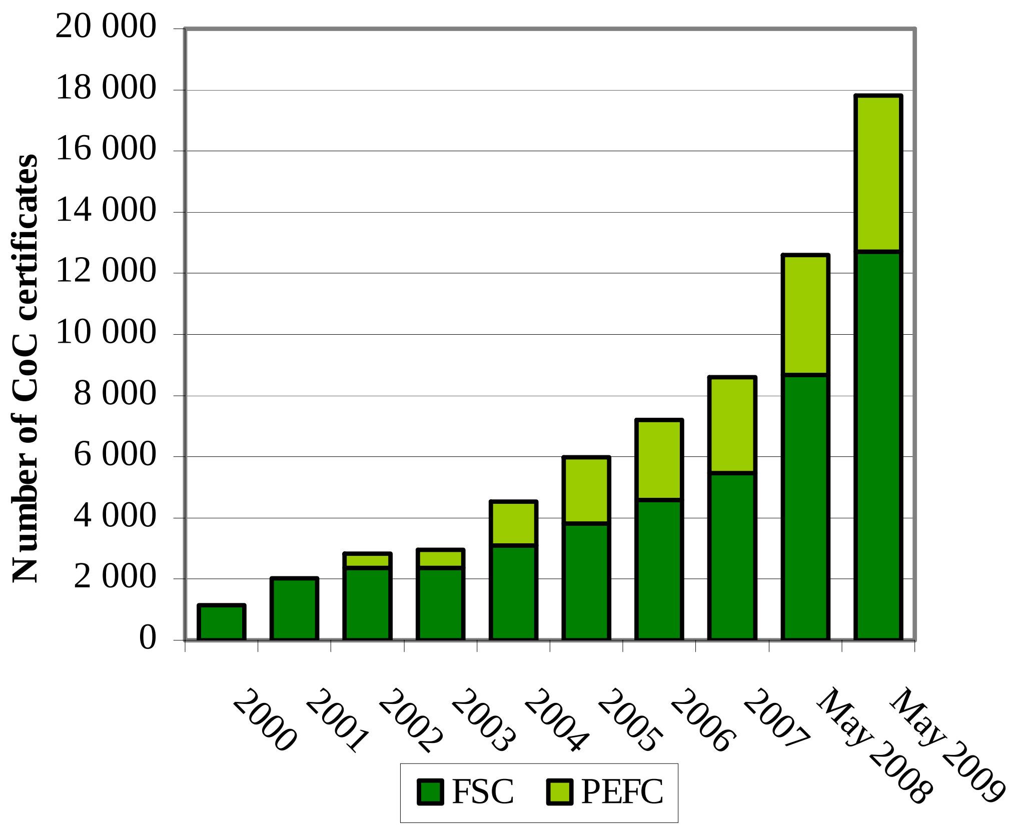
Certification in CIS

- Potential area of significant growth in forest certification
- Current certified area is limited: 20 million has - all FSC - 4 million has since start of 2008
- But essential groundwork for future expansion
- Nov 2008: FSC endorsed a national standard
- March 2009: FSC accredited a Russian company (Forest Certification LLC) to certify in the CIS
- Russian National Forest Certification System (RNCFC) endorsed by PEFC in March 2009
- PEFC predicts 50-100 million has PEFC certified in Russia within the next decade

CoC certification increasing rapidly……



- FSC/PEFC CoC certificates increased 41% in 12 months to May 2009
- In May 2009: 12,700 FSC certificates vs 5,100 PEFC certificates

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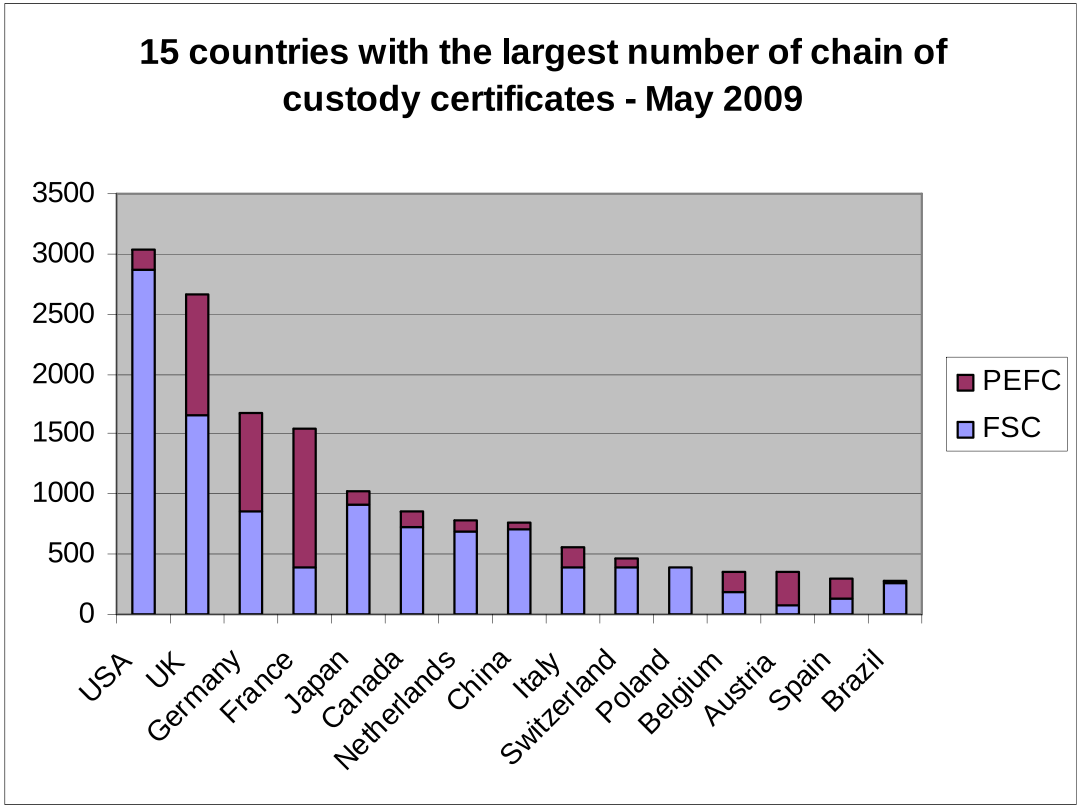
……but only in a few countries

- Nearly half of CoC certificates issued internationally in 12 months to May 2009 in the US and UK
- In May 2009: US and UK accounted for one third of all CoC certificates. 15 top countries accounted for over 80% of all CoC certificates



Market demand

- New study on "EU markets for 'verified legal' and 'verified legal and sustainable' timber published October 2009
- Commissioned by UK TTF, supported by DFID
- Semi-structured interviews in BE, FR, DE, IT, NE, ES and UK.
- Major obstacles to market development:
  - fragmentation in timber trade & consuming sectors
  - low level of awareness & willingness to pay among end-users.
- Major drivers = large NW European merchants, manufacturers & retailers
  - Urge to protect brands, internal CSR commitments and desire to maintain access to public sector contracts
  - Easy decision to make in the softwood and panels sector where certified wood is readily available
  - Part of a wider process of restructuring overall procurement practices in favour of a limited number of key suppliers providing full range of quality services
- Recession widens gap between "green operators" and others

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Price premium

- Commodity softwood and composite panels: high availability meets with only limited market requests for labelled product – no premiums.
- Premiums only available in parts of hardwood and speciality softwood sector - specific requests for certified products might be met by limited supply.
- Highest premiums (20% to 50%) on EU delivery price being requested for FSC certified tropical sawn hardwood from Africa and Brazil.
- Legally verified tropical wood (OLB, TLTV, VLO) may achieve small premium of 3%-5%
- During recession, signs that some importers and manufacturers switched their emphasis away from FSC certified tropical hardwoods in favour of less expensive legally verified products

Emerging policy issues

- Lacey & EU “due diligence” legislation
  - Suppliers in countries with good governance need to demonstrate “low risk” with respect to illegal logging
  - New demand for independent legality verification in “high risk” countries
- Climate change and REDD
  - FSC/PEFC only assures sustainable timber
  - Carbon storage & biofuel = major economic forest products
  - FSC/PEFC standards adapted to include carbon storage over time
  - New certification systems for bio-fuels & carbon storage overlap with and may conflict with FSC/PEFC
  - Need to rationalise and co-ordinate efforts to encourage rational decision making and avoid excess costs to forest operators
  - Certification frameworks to encourage cascaded use of wood:
    - maximising timber volume in long-life products
    - encourage wood recycling at end of life
    - only wood that would otherwise be unused diverted for energy

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Thank you!

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