

**Impact of market-based instruments and
initiatives on the trade in forest products and
sustainable forest management**

***Global Project: Impact Assessment of Forest Products
Trade in the Promotion of Sustainable Forest
Management (GCP/INT/775/JPN)***

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List of acronyms

AF&PA	American Forest and Paper Association
ATO	African Timber Organisation
CoC	Chain of Custody
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
CTE	Committee on Trade and Environment
EMAS	Eco-Management and Audit Scheme
EMS	Environmental Management System
EU	European Union
FLEGT	Forest Law, Enforcement, Governance and Trade initiative
FSC	Forest Stewardship Council
GFTN	Global Forest and Trade Network
Ha	Hectare
IFIR	International Forest Industry Roundtable
IIED	International Institute for Environment and Development
INGO	International NGOs
ISO	International Standards Organisation
ITTO	International Tropical Timber Organisation
LEI	Lembaga Ekolabel Indonesia
MBI	Market-Based Instrument
MES	Market for Environmental Service
NGO	Non-Government Organisation
NTB	Non-Tariff Barrier
PEFC	Pan-European Forest Certification
SFI	Sustainable Forestry Initiative
SFM	Sustainable Forest Management
TFT	Tropical Forest Trust
TTF	Timber Traders' Federation
UN	United Nations
WB	World Bank
WBCSD	World Business Council for Sustainable Development
WTO	World Trade Organisation
WWF	World Wide Fund for Nature

1. Executive Summary

This review sets out to analyse the relevance and applicability of MBIs as tools for promoting sustainable forest management. After a summary of trade and SFM issues, a number of types of instruments are reviewed in brief. The main part of the review focuses in detail on forest and forest product certification. The review then concludes with a short discussion of the emergent trends for MBIs and SFM.

1.1 Types of market-based instruments

Traditional instruments are those typically applied by governments onto markets. They include:

- Revenue systems (e.g. fees and charges for forest use, income and export taxes);
- Financial and material incentives, both negative (e.g. fines, confiscation, prosecution, performance bonds) and positive (subsidies, compensation payments, tax exemptions)
- Conditions on timber extraction (e.g. influencing how concessions are allocated, their length and whether they can be sold on).
- Trade controls (e.g. log export quotas, bans, export taxation, price control)

Traditional instruments have been successfully used in many places, but some key issues and constraints remain. The key problems relate to undervaluing forests and their wider (especially environmental and social) benefits, and overvaluing the benefits of removing forests (the economic benefits, often promoted through subsidies). Consequently, traditional instruments do not have a good track record for placing value on (and therefore promoting) good forest management.

Verification and certification schemes come in many forms, from 'self-certification' and labelling, to independent audits of either company management or actual on the ground practices. They are used mainly by private companies, with the aim of in some way improving their market image (or avoiding damage to it) and therefore profitability.

- Environmental management systems audit company systems and processes to improve environmental standards. ISO is a leading EMS, which takes a process approach – allowing entry into certification from any level of performance, with commitment and progress towards gradual improvement. A forestry management company can have a certified EMS without having had forest management practices inspected.
- Forest management certification actually verifies forestry practices on the ground, as well as auditing documents and records. Schemes developed to date include the FSC and the PEFC, for which detailed forest management standards (against which operations are audited) have been developed. A certificate gives the buyer proof that the producer/grower is operating to those specified standards. A certificate cannot be given for lower standards.
- Supply chain certification and labelling is the logical next step that allows the proof of forestry practices to be taken to the consumer. Many forest products have a lengthy supply chain from grower, through harvester, exporter, sawmiller, processor, manufacturer to retailer. Through supply-chain management and certification, a label on a product in a supermarket shelf can be traced to a specific

forest halfway round the world. This is the link between proven SFM and the market.

Only when forest management certification is supplemented with supply chain certification and a credible label can the market link product to forest and therefore SFM. Certification is an important and contentious issue which is dealt with in more detail.

Abstinence includes the tools of campaigns, bans, and boycotts as ways to influence the market. NGO's use campaigns to raise consumer awareness of key forest issues, and have called for bans and boycotts of timber because of these problems. The intention then is that producers will change their behaviour to address the problem, in order to get back into these markets. Boycotts have successfully raised awareness of the problems amongst consumers, but often without offering a solution. They have faced problems of unclear definitions and agreement on acceptable forest management and more recently uncertainty over which certification schemes to trust. Excluding the 'problem' (timber producers) from engagement with its influencer (the environmentally sensitive market) risks pushing producers instead to less sensitive markets.

Campaigns and threatened boycotts are clearly a critical tool to stimulate debate, but to be widely effective to promote SFM they must be complemented by constructive dialogue to develop solutions.

Markets for environmental services (MES) are a newly emerging approach to capturing the 'real values' of forests, which traditional instruments often fail to do. They involve developing 'commodities' which must be paid for to cover the cost of maintaining forest environmental services. The services include:

- Biodiversity conservation (with commodities including: protected areas; bio-prospecting rights; conservation concessions; logging rights; debt-for-nature swaps; biodiversity company shares)
- Carbon sequestration (with commodities including: certified emission reductions, emission reduction units; carbon offsets/credits, conservation easements)
- Watershed protection (with commodities including: watershed management contracts; water rights; streamflow reduction licences; reforestation contracts; salmon habitat contracts)
- Landscape beauty (with commodities including: entrance rights; access permits; package tourism services; ecotourism concessions, photographic permits, land lease, natural resource management agreements)

The problem is that each service may have a number of commodities that can be bought to pay for it - each of them is some kind of 'proxy' to reflect the value of service. Making this proxy precise is difficult, and can be either too imprecise to really make a difference, or too expensive to implement - much more work is needed to get this balance right. As a new approach, it is also not yet clear how easy it is to ensure that MES' are a socially fair (non-exclusive) approach and how much government intervention is needed to ensure they are used properly and fit with policy and legislation.

Industry and government pressures on the market have also become important in recent years. Approaches include:

- Buyers groups – networks of companies mutually committed to buying 'sustainable products', established to apply consolidated pressure on suppliers to change practice and get certified.

- Producers groups – networks of producers and other organisations that can work together towards improved production practices (i.e. SFM), including buyers who may support the producers.
- Procurement policies – government agencies have influence on trade through their purchasing policies, as they have significant buying power, and these policies often have high public profile.
- Codes of practice – industry initiatives that aim to set standards (e.g. for forest management or purchasing policy) across the industry through membership of associations.

Essentially, groups of market players have seen the need to act to improve their markets and credibility, and ensure sustainability of supply, market share or PR. They can have significant influence in stimulating demand for 'better' forest products (the GFTN is reported to be responsible for at least 50% of the demand for certified wood globally) and creating positive awareness about change in the forest sector. However, they are only likely to be effective when linked to another MBI, such as certification, which can provide the agreed target for management practices.

1.2 Impacts of certification

In this report 'certification' refers to the third party certification of forest management, linked to the market place through supply chain certification and labelling.

1.2.1 Overview

Forest certification emerged in the early 1990s as a response to two main issues:

- Many government and multi-lateral initiatives had failed to curb deforestation problems, often through not considering the environmental and social aspects of forestry
- NGO threats of bans and boycotts of timber (tropical timber in particular) after increasing claims of 'sustainability' could not be substantiated by most companies.

Certification was born in the shape of FSC, an alliance of NGOs and business, as an attempt create a mechanism that would allow tracing of wood products back to the forest and verification of forest management standards.

The FSC was the first widely agreed international scheme, founded in 1993, based on 10 principles debated in detail. There are now over 30 million hectares of FSC certified forest world-wide, largely in the hands of large forestry operations in Europe, through over a dozen FSC accredited certifiers. FSC has more land in tropical countries than any other scheme, but the proportion remains low and there are debates about whether its standards are unfeasibly high for many enterprises to make the jump to. FSC has a set of generic standards for international use, which are increasingly the model for nationally developed FSC standards.

PEFC is a newer scheme, originally intended to be regional, but now operating internationally and extending over 48 million hectares. It developed largely through FSC's failure to cater for Europe's small-forest owners. PEFC provides a framework for mutual recognition of national forest certification schemes, rather than imposing a set of 'PEFC standards', based on widely agreed criteria and indicators. Both FSC and PEFC offer chain of custody certification and labelling.

In addition a number of national certification schemes have been developed (currently at least 19) in Europe, North America, and in Malaysia, Indonesia and Brazil. Typically

they are either: aligned from the outset with FSC or PEFC; or developed independently, but aim for compatibility with FSC or PEFC; or have no links to any other scheme. The former two are generally preferred, as the market benefits of a recognised label are more likely.

This **proliferation** of certification schemes demonstrates the popularity and perceived success of certification as a market tool, but also raises again the issues of label confusion in the market place – the industry is now in deep debate over the problem of how to compare schemes and choose between them. Efforts to look for ways of mutual recognition between schemes have become important to the future of certification - if the market becomes too confused, it will drop certification. The industry and the schemes' proponents are now starting to discuss criteria to evaluate forest certification standards and systems. It is a sign of progress that stakeholders who were recently highly antagonistic and polarised are now in discussion.

1.2.2 Certification and SFM

Forest certification was introduced as a tool for contributing to the achievement of SFM, and the proliferation of schemes confirms the industry's confidence in it. In practice, however, the impacts on forest management appear to be not very significant. Whilst improvements in addressing environmental and social issues are recorded, most certified enterprises say they've had to change little on the ground. The main impact has been on improving recording, monitoring and documenting activities – with consequent improvements in planning and efficiency.

Part of this is due to the process of certification: formal audit procedures require a high level of 'system' in management, and proof of high minimum performance standards. Both of these demands mean that smaller and less formal enterprises (many of them in developing countries where the worst forestry problems exist) find certification a significant challenge. To compound this, these are the very enterprises for whom the costs of certification are higher – because of poor economies of scale and because of the resources required to close the gap between current practice and required standards.

Consequently, the area of certified forests in developing countries is only 8% of the global total, and the majority of those are in well-managed plantations (e.g. in South Africa). Those getting certified are typically operations that were already well managed by 'western' scientific approaches, and large enough to make the extra costs marginal – mainly in temperate and developed areas. Certification has yet to get clearly beyond these 'easy wins', and hit its original target of addressing the key areas of forest problems.

Some developments have begun to address these problems. FSC has introduced 'Group certification', which allows a number of small enterprises to come together under one certificate. It is also developing standards specifically tailored to small enterprises. PEFC and the similar American TFS were designed specifically with small-forest owners in mind. Certification is beginning to work better for small enterprises. Now, step-wise approaches to certification are being investigated, to allow progress towards certification to be recognised and avoid exclusion of enterprises which face a large gap between current practices and the standards. This is being complemented by the efforts of some trade groups, such as the Global Forest and Trade Network and the Tropical Forest Trust, which bring together producers and traders to provide a network of support for change. Some forward-looking buyers are supporting producers to work towards SFM and certification, recognising the need to protect the future of the industry.

1.2.3 Certification and policy

Certification is seen as a type of 'soft' policy for forestry – and something that can be faster moving than traditional forest policy. Whilst this was not an original intention (certification aimed to be independent from government, to be a voluntary, market tool) it has been influential in policy developments.

Certification processes as models - Multi-stakeholder, participatory dialogue instigated by certification processes has been a positive development. For example in Ghana, the model of the certification group was used to establish the NFP forum. This has improved the democratisation of forest policy, bringing people into policy processes which were not involved previously, including communities and private sector. Standards introduced by certification can be picked up by government, in regulations and defining SFM criteria and indicators.

Certification pushing policy change - Where certification developments are communicated and integrated within government, regulation and policy can reflect them (e.g. through reduced stumpage fees to encourage investment in certification). This has sometimes required industry to take a lead, ahead of government or policy developments. For example MacBlo in Canada have pushed forest policy reform in British Columbia.

An option to reduce regulatory burdens – Some observers propose that certification could be used to avoid regulatory demands of government, thereby reducing bureaucratic demands on enterprises as well as reducing costs of regulation for government. Not having to regulate certified enterprises would leave government inspectors free to focus on non-certified enterprises and improve efficiency of control where it is most needed.

It is important to maintain that certification's influence is indirect – it is not a policy instrument and can only work in complement with other policy tools. Indeed, certification works better where the policy and regulatory framework is already sound, and good policy provides the long-term framework for SFM. Policy and legislation must be clear to allow certification to be implemented – especially as legal compliance is a basic requirement of certification.

1.2.4 Certification and trade

A number of trade-related issues have begun to enter into the certification debate and influence its use:

- *Illegality* – certification has had little impact to date on trade in illegal timber, because it has been unable to reach down to the worst culprits. In many countries now, this issue of avoiding imports of illegally timber is 'hotter' than certification. The EU and the G8 have made public commitments to address this. The EU has launched the FLEGT initiative. These crackdowns will require more and more producers to demonstrate their credentials in order for EU and G8 to meet their targets.
- *Procurement policies* – this is closely linked to the illegality issue. Government authorities are increasingly specifying that wood products must be from legal and sustainable sources. This increases the pressure for producers to verify this.
- *The non-tariff barrier issue* – in summary, this relates to the World Trade Organisation's rule that 'eco-labels' must not be used to impede market access. Certification is seen by the WTO to be a potential non-tariff barrier, and hence government policies cannot insist certification be a pre-requisite for import.

Clearly these are linked, and problems arise - procurement policies promote certification but WTO denies it. Government procurement officers can encourage certification schemes as evidence of their requirements (legal and sustainable) but must allow for 'other forms of evidence'. A challenge is therefore deciding which labels or evidence to accept. These problems support the need to address the proliferation of schemes and the development of step-wise approaches that prove legality as a first step.

The private sector has more freedom to change its buying patterns and this is where the intention of certification sits. There is evidence of buyers significantly changing their wood product sources to get certified products on their shelves and hit their targets. But the changes have proved difficult to quantify and there is no quantitative evidence. It is estimated that 25% of wood-product trade in the UK is certified, compared to less than 5% across Europe and 1% in the USA. Globally ITTO approximates certified products as about 8% of the global trade, but finds this not important enough to mention in annual trade statistics.

Change in trade patterns is clearly slow – largely due to perceived and real supply and demand imbalances. Whilst certified European softwood is not difficult to source, there is a shortage of supply of certified tropical timber and in general of paper products. Supply is constrained mainly by perceived high costs of certification, and by a confusion of proliferating schemes which confuses demand pressures. It does not help that there is no clear evidence of consistent price premiums for certified timber. In general, retailers want to see certification mainstreamed into their product lines without increasing shelf-prices, whilst producers object to investing in better forestry whilst only being paid for "illegal logs". The reality of this debate links back to the economic question of the 'real price' of forestry – wood products have fixed themselves at prices that do not necessarily reflect the social and environmental costs of forestry.

It is clear that the market demands for certification ('market pull') must increase and widen before producers will, on a wide scale, invest in better production and provide the 'market push' of certified supply. The government procurement policies that are setting in across Europe are likely to influence the behaviour of any producer wanting to export to them as certification will make it much easier. But at the moment, there are adequate options for producers to supply to markets that do not demand certification, for example:

- South-East Asian producers can sell to the vast Chinese market which does not discriminate
- Producer country domestic markets can make difficult exporting unnecessary or unattractive

It will become increasingly important to either make more markets (like the Chinese and other domestic markets) demand certification or to make those markets that do demand certification easier to access and more profitable. The Global Forest and Trade Network is addressing the need to create wider demand, and step-wise approaches will help with access to sensitive markets. Pricing and profit of SFM remains a problematic issue.

1.3 Summary of trends for MBIs and SFM

As government initiatives world-wide have failed to curb forest loss and degradation, and NGO campaigns have raised awareness of the problem amongst consumers, the use of market-based instruments as an alternative has increased rapidly. Forestry is changing from being a problem of the state to a problem of the people.

A key issue is the increasing recognition of the 'real cost' of forestry. As social and environmental values of forests are grappled with, this cost is being estimated and efforts made to cover it. It remains a challenge, not least in terms of ensuring that the cost is borne equitably, by the real users.

Traditional instruments used by governments are increasingly trying to link into the 'real price' of forestry through more rational stumpage fees, performance bonds and incentives – new innovations are needed, and are being developed and tested by economists world-wide, as failures are common.

Abstinence appears to have been most valuable as a threat to stimulate change, creating awareness of a need to change and pressure on the market to do so. As a tool to do this it has been extremely effective and the role of NGO campaigns remains strong, but only in constructive partnership with other tools that can implement the change.

Markets for environmental services are emerging as a way to cover the missed 'real cost' of forestry. There are many different approaches evolving to suit different circumstances so there is scope for 'tailor made' solutions rather than a one-size-fits-all approach that has failed in the past. However, this makes it difficult to learn and encourage replicability, so applicability at this stage is not easy. Despite this, some useful markets are developing which have good potential to make a difference – again linking to other tools (such as certification) may be helpful to guide SFM over other objectives.

Trade groups and pressures have become increasingly important in response to increased market and public awareness of forest problems. This area is likely to become more important – government procurement policies are focusing increasingly on forestry issues, and buyers are beginning to see the need to work with producers to improve their performance and maintain their market in the face of consumer fears about wood.

Certification links to all of these. It has seen a massive expansion in the past decade. Ten years ago retailers could not tell their customers anything about their wood supply – now some can give confident information on the sustainability their sources. Certification needs to resolve some of the problems which make it difficult for some to use: consumers need reliable and simple labelling (mutual recognition); small enterprises need to be included (group schemes, simpler standards and cost-saving); developed country enterprises need to be encouraged into the markets (step-wise approaches and producer group support); and markets need to be expanded (buyers groups in new and domestic markets). Policy reforms are beginning to link into and learn from the certification experience, and there is opportunity for improved efficiency of forest governance as a result. If all of this is achieved, certification may eventually become the norm.

So, MBIs can be extremely effective at promoting SFM, but typically only in well-developed markets and economies. The important thing to recognise is that MBIs are diverse and often complementary to each other, and to traditional regulation. There is no simple, single solution – they can only be applied as part of a holistic drive to promote SFM. Markets and trade are only a small part of the influence on SFM in its wider sense.

2. Introduction

2.1 Objectives of this review

This review analyses the relevance and applicability of market-based initiatives as tools for the promotion of sustainable forest management, with a particular focus on certification of forest management, chain-of custody verification and product labelling. It forms part of a wider study on trade and sustainable forest management, which will analyse the issue from various perspectives, including market dynamics, policy making, governance and extra-sectoral influences.

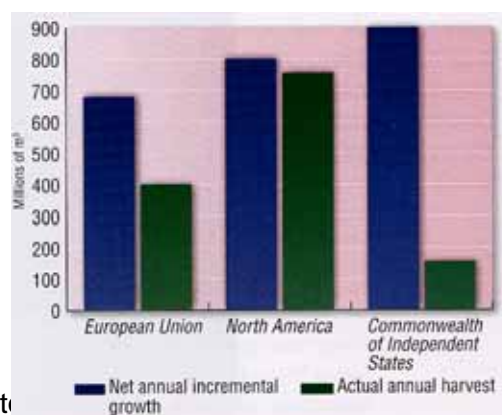
2.2 Methodology and constraints

This study has been carried out largely as a desk-review, supplemented by limited key informant discussions in person (UK) and by email and telephone (international). The timeframe has not allowed for extensive consultations and the material draws heavily on more in-depth work by other authors. There is some element of UK bias in the consultations, but this partially reflects the development of certification issues in the UK.

2.3 Overview of the Forestry Market

Before considering the MBIs used to encourage SFM it is worth looking at the current global state of the timber industry, supply and demand. In late 2002 Ed Pepke¹ of the UN/ECE Timber Committee provided an overview which observed the following:

- A growing surplus of wood in some regions, in particular Baltic countries use just half their increment, while Russia harvests a very low 16% of its sustainable yield². There is a huge surplus in wood volume increment in the Commonwealth of Independent States.
- A general oversupply compared to demand. The North American production exceeds consumption and in Europe the situation is much the same.
- The bulk of this surplus and oversupply appears to



¹ Pepke, UN/ECE Timber Committee personal comment as quoted in Adams, M. "Grow the Markets before Growing the Wood." *ITTO Tropical Forest Update*, Volume 12, Number 4, 2002.

² Adams, M. "Grow the Markets before Growing the Wood." *ITTO Tropical Forest Update*, Volume 12, Number 4, 2002.

- Tropical timber, especially in Asian markets, production remains lower than demand, and production is not apparently increasing to meet the demand.
- Global economic slowdown is important in this pattern – Asian markets have suffered since '9/11'.

At present the timber sector is facing some difficult times. Ed Pepke concludes that if the markets for wood are to grow the industry must:

- Guarantee that today's wood products meet consumer needs
- Develop new products to meet evolving needs
- Develop new markets for wood products as alternatives to products from non-renewable materials.

Tropical timber markets: Whilst there is demand for tropical timber, especially hardwoods, tropical timber production is not increasing. The ITTO Annual Review and Assessment of the World Timber Situation estimates production at 135 M m³, similar to the last five years¹. It is therefore likely that battles for market share will be fought in the Asian market. Growth in demand in Asia is very mixed. The consumption of wood in Japan, especially tropical wood products has been declining for several years, and demand in the tropical timber consumer countries of India, Korea and Thailand is also weak. It is only in China that demand for commodity wood products is growing. But China already has a huge plantation stock, and is investing in new plantations and increasing productivity of existing plantations.

3. Market Based Instruments

This section provides an overview of some of the key issues, initiatives and instruments that influence trade of forest products.

Introduction

Market based instruments aim to alter the market signals facing the private sector to make sustainable forest management more profitable, and therefore attractive, than unsustainable practices. Basically, they are a way of making the market (users) choose, *and pay for*, SFM. Markets are an efficient mechanism for allocating resources and maximising returns for investments. Adversaries of market forces are sceptical that market growth ultimately leads to equity, in terms of both who benefits and who pays, and governments are often seen as the redistributing agent. Are markets capable of adequately considering/reflecting responsible environmental and social values, and, in the context of this study, able to simultaneously promote trade and sustainable management practices? Are they able to do this in an equitable manner?

In the forestry sector a number of market-based instruments exist providing commercial incentives to promote sustainable resource management. They can be categorised under five general headings:

- Traditional instruments (e.g. levies, fines, concession conditions, trade controls)
- Third-party verification schemes (e.g. certification and labelling)
- Abstinance (e.g. campaigns, bans and boycotts)
- Markets for environmental services
- Industry and government initiatives

3.1 Traditional Instruments

“Traditional instruments” are typically those applied by Governments on forest managers to encourage the private sector to value sustainable forest management, in money terms, thereby ensuring it is more attractive than unsustainable practices. This section on traditional instruments draws heavily on the work undertaken by Landell-Mills and Ford, 1999. A summary of key examples of these instruments, how they operate and how they influence trade and SFM is provided below.

Revenue systems

Revenue systems are commonly applied by governments to increase revenue to the public purse. They influence resource-use decisions by affecting the ‘price’ of accessing the resource. Governments have traditionally maintained low charges (area fees, stumpage fees, income and export taxes) to support development in the forest industry. However, many countries are now trying to more accurately reflect the value of a forest resource. Key recent developments are:

Cost recovery: This is where charges are linked to the cost of forest maintenance by the forest authority, to ensure that users pay the full costs of forest management. Sometimes these charges/revenues are ‘earmarked’ for use specifically on forestry, rather than going into the wider Government treasury. This can be through (i) user

fees or service charges (to cover the cost of specific services), (ii) a forestry fund (all charges go into it), or forms of revenue sharing (where governments channel all or part of the charge to landowners, in particular communities).

Linking to stumpage values: This is where charges are linked to the market value of the standing timber in the forest (i.e. 'stumpage value'), aiming to ensure that the inherent ('real') value of the resource is captured. Different approaches to setting this stumpage fee include: (i) linking charges to prices (e.g. to consumer price index - CPI) through a flat rate that is a fixed proportion of the final market price; (ii) graduated charges, also based on prices but with higher rates for more valuable species; and (iii) auctions that allow producers to show their willingness to pay for timber rights.

It is argued that charging less than the full stumpage value encourages over use of forest resources and discourages investment. Basing stumpage on final price can be a problem as it assumes that production costs are the same across all forests and species, which may not be the case – stumpage may then be too high for some and too low for other areas/species. The difficulty of ensuring that the stumpage value is set at the optimum level for the specific resource area is often overcome by auctions, which enables the market to set the price at a given time. Auctions can be effective when there are sufficient numbers of bidders to prevent collusion and if bidders are provided enough information to make realistic bids. However, any auction system still requires the calculation of a reserve price, which if set too high can discourage competition, and if too low, less sustainable practices. And importantly, no system will work without an effective fee collection system, which requires an administrative capacity.

Financial and material Incentives

These include penalties, performance bonds and positive incentives.

Penalties – These are the traditional disincentives to sustainable forest management and include confiscation of timber, repeal of harvesting rights, and jail sentences. Effectiveness depends on the risk of being caught and punished, and in some cases these costs are simply treated as 'production costs'.

Performance bonds – This innovation avoids that problem - a fixed amount of money is lodged with the government prior to harvesting and returned at the end of the harvest if all conditions have been adhered to. However, similar problems have been seen in Indonesia where they have been used, but rarely returned, and therefore treated as a 'tax'.

Positive financial incentives - These are usually designed to be temporary and include subsidies, compensation payments, cheap loans and tax exemptions and reductions. There are also more material incentives for sustainable forest management, including extension services such as training and technical advice. These hand more encouragement and responsibility onto the operator for SFM and are mainly aimed at private land-owners. Whilst they require less costly field supervision by the Government, they are expensive and can be difficult to remove once operators have begun to rely on them.

Conditions on timber extraction

There are three key issues here that influence behaviour of the forest operator:

The methods of allocation of timber rights - Can be done administratively (risking poor transparency, corruption and nepotism) or through competitive bidding (auctions).

Competitive bidding is a way to improve performance standards by allow vetting of operators according to publicly set criteria.

The duration of the rights - A concession period of less than one rotation, with no option to renew, provides little incentive to invest in sustainable management. It is critical therefore that those involved in establishing concessions consider duration of rights. Leases of over 40 years are not uncommon (Russia, China, Indonesia, Latvia). However, it is not a foregone conclusion that a longer concession period leads to SFM as political uncertainty and civil unrest can affect forest management incentives.

The options for renewing or transferring the rights – The concession holder is more likely to maintain the forest’s value if there is an option for renewing (making longer) the concession or for transferring (‘selling’) it. The government’s permission should be required but not difficult.

Trade controls

Governments may also impose log export controls (bans or quotas), export taxation or price controls. This is typically to protect or promote domestic processing than to promote SFM. In fact there is some evidence that they can have significant negative impacts on SFM.

Constraints for traditional instruments

A number of countries have successfully adopted these instruments, for example Canada has seen advantages through the reform to tenure conditions. However, a number of issues limit their uptake and scope³:

- Undervaluing of forests such as low stumpage fees for timber. This is the case in Russia where low stumpage fees and the taxation system have failed to define the value of the forest and its potential income. They hope to develop a concession system and introduce certification to increase competition and reduce monopoly and corruption.
- Overvaluing the benefits of removing forests through initiatives such as subsidised agricultural prices.
- Often fail to consider environmental and social impacts of forest management or loss
- Count against primary production. Primary product trade has deteriorated in comparison to manufactured goods – producers generally receive only a small proportion of the final product price.

Despite interest in MBIs and widespread efforts to restructure forest authorities, governments continue to rely on command and control.

3.2 Third Party Verification Schemes

Certification/verification can be broadly divided into three categories:

- *First party certification* - a process by which a product, process or service is deemed to have met specific requirements by the entity providing the product,

³ Bass, S. (2003) “Sustainable Forest Management – Certification” Paper prepared for [Elsevier Forest Encyclopaedia](#).

process or service. This is 'self-certification', and can result in dubious claims and labels on products.

- *Second party certification* - the buyer or retailer develops their own set of criteria which producers must meet before supplying goods. The buyer or retailer will require suppliers to demonstrate their ability to meet the criteria and conduct audits of the processes and products of providers on a regular basis to ensure that they continue to meet the requirements. Corporations including Unilever and Starbucks use this type of system. An alternate form of second party certification is where the company hires a (non-independent) external party to undertake the audits of its processes on its behalf.
- *Third party certification* - a procedure by which an independent party gives a written assurance that a product, process or service conforms to specified requirements, on the basis of an audit conducted to agreed procedures.

The main driver of third party verification schemes is that companies want to provide assurance to their customers and shareholders that they are in compliance with (environmental) regulations and expectations. For those involved in international trade there is also a market advantage in having an independent body verify that you have a commitment to environmental standards. Certification is usually about PR to improve marketing and add competitive advantage.

Environmental Management Systems (EMS)

There are a number of EMS certification schemes, including the ISO schemes and EMAS. EMS schemes verify the progress of a company towards environmental commitments. This report focuses on ISO, the International Standards Organisation, which is used internationally.

Of the main ISO schemes, the ISO 14000 series is the one primarily concerned with environmental management and is the most popular. It assesses and verifies what the company is doing about applicable regulatory requirements and to reduce its impact on the environment. ISO is a **process-based approach** that verifies that the company is working to continually improve its environmental performance and allows entry at any level. ISO 14000 is expanding and experiencing considerable popularity in Japan, the UK and Sweden.

About ISO: The International Organisation for Standardisation (ISO) is a non-governmental organisation with members from 145 countries, working in conjunction with industry, government bodies and non-government institutions that sets industry-wide standards. Having been in existence since 1947, it is the oldest of all third-party certification organisations. Whilst ISO has produced many industry-specific standards, amongst the best known are the ISO 9000 and ISO 14000 series.

Number of ISO Certificates issued in the wood and wood products sector + Pulp and Paper Sector

	1998	1999	2000
ISO 9000	2218 + 1316 1.53% of all issued	1967 + 3279 1.91%	2225 + 4785 2.21%
ISO 14001	34+209 3.4%	109+232 4.1%	212 + 520 4.2%

From ISO website

The statistics are not indicative of a significant trend in forestry corporations of using ISO standards but for those operations of an international nature, but the flexibility in using an ISO-type standard makes it quite attractive to multi-nationals and those supportive of step-wise approaches to certification.

Fundamentally what sets ISO aside from certification such as the FSC and PEFC is that the emphasis is on a **process** model of continuous improvement of company systems (vs forest management itself). There are no benchmark levels of performance which producers or industry members have to meet to become ISO 14000 accredited, and no forest management specific standards or criteria. Rather, the ISO standards require the improvement of environmental management systems as a means of reducing environmental impacts.

ISO certification allows labelling of products and marketing materials, and is observed to bring efficiency benefits through better management systems in general. Its process approach allows a gradual approach to improvement from any starting point, but it has limited FSM benefits as there are no forestry standards or criteria.

Forest management certification

This section introduces forest management certification in brief, and it will be dealt with in more detail in section 4.

The purpose of forest management certification is to provide an incentive to improve the quality of forest management, through auditing forestry practice against specified standards. It is **performance**-based certification, and unlike ISO, minimum standards must be met before certification can be achieved. It also certifies actual forest management practices – not just company systems – and as such is a sharper tool for promoting SFM.

The 'original' forest management scheme is that of the Forest Stewardship Council (FSC), which was established in response to concerns about tropical forestry in particular, as an alternative to failing government policies (traditional instruments) and to threatened bans and boycotts. There are now a number of different forest certification schemes of one type or another, covering over 100 million hectares of forest worldwide. These will be introduced in section 4.1.

Supply chain certification and labelling

A 'supply chain' is the chain of ownership (or 'custody') of a product from producer, through processors and manufacturers, to distributors and retailers. Labelling is the means of letting the market know that goods have been managed in a sustainable manner from the forest to the final product. Labels can be tied to certification programmes and used as a marketing tool.

Friends of the Earth were amongst the first proponents of environmental labelling of timber through its rainforest campaign in 1985. Eco-labelling aims to create a market demand for products, making the presumption that unlabelled products are environmentally unsound (market research has indicated that when presented with two comparable products, one labelled environmentally sound and another unlabelled, and when the price is the same, consumers will choose the labelled product). Forest management certification emerged in part as a result of the proliferation of unverified labels and claims on products that were causing market confusion.

Certification and labelling: Certification schemes operate strict rules regarding the use of on-product or advertising labels and procedures must be followed. Wood products made from FSC-certified timber are allowed to carry the FSC registered trademark if the wood source has a forest management certificate and the supply chain has been verified through an audit process. It is also possible for PEFC accredited national schemes to obtain access to PEFC labels. National standards and schemes are submitted to the PEFC Council Board for assessment against the PEFC criteria in application to use the PEFC logo. Process-based schemes such as ISO do not allow their label to be used on products.

For certified forest products to gain the market benefits of a credible label about their source, it is necessary for them to have their entire

supply chain certified. This allows a product on a shelf in a supermarket to be identified right back to the forest it was produced in – it is the critical link between consumer and forest producer⁴.

This typically involves getting 'Chain of Custody Certification'. This provides an unbroken trail of acceptability that ensures the successive links in the supply chain of forest products, from transport to processing and distribution can be verified to product origin. The nature of the product will determine the level of complexity of supply chain management. For example, the systems for high value wood products such as furniture may be relatively simple compared to the production and certification of particleboard or pulp and paper products where a degree of product segregation will be required.

So far, the only forest management certification schemes to also provide CoC and labelling options are FSC and PEFC.

Bass *et al*⁵ have undertaken a comprehensive analysis of the impacts of certification on supply chains. Their key findings indicate that certification contributed to:

- increased transparency in supply chains, ensuring certified companies selling consumer products to European and American markets or to businesses and governments now know where their products come from.
- a flow-on effect in corporate mindset - rather than keeping supplier identity confidential for competitive advantage, more companies are making supply chains transparent to reduce threats to corporate reputation.
- changing purchasing patterns - companies seeking certified products will change suppliers to access such products (see section 4.4.4.), but such decisions often also relate to other economic or business imperatives. Certification has diversified the supplier base for many companies, with consumers having more choice from sometimes unexpected origins.
- Sub-sector change, not across the whole industry - the retail sector's supply chain, particularly in the soft wood sector, there is pressure for suppliers to become chain of custody certified. However, this is not really the case for businesses not supplying retailers or tropical forest managers as there is a much less formal, and to some extent less transparent, business ethos.

Purchasing behaviour in various links of the supply chain has influenced trade in forest products, and when combined with certification, this has a flow on effect to sustainable forest management. However, this has been the case most notably in those operations that do not have to make large leaps to become certified.

3.3 Abstinance – Campaigns, Bans and Boycotts

Campaigns, bans and boycotts are tools to encourage consumers to abstain from the purchase of products not deemed to meet certain legal, environmental and social criteria. Campaigns are issue-based plans of action aiming to raise consumer and government awareness of perceived injustices and players not meeting their global environmental obligations. Campaigns use many tools to get their message across including publicity, dialogue through policy processes, and petitions. They can also call for bans and boycotts to further their objectives.

⁴ Upton, C., Bass, S. (1995) *The Forest Certification Handbook*. Earthscan Publications Limited.

⁵ Bass, S; Thornber, K; Markopoulos, M; Roberts, S; Greig-Gran, M. (2001) *Certification's impacts on forests, stakeholders and supply chains*. Instruments for sustainable private sector forestry series. International Institute for Environment and Development, London.

The effect of bans and boycotts can be similar in that they both target consumer behaviour change with the aim of punishing non-conforming producers and can be levied against organisations, governments or specific products. Trade bans are often institutionalised in government or intergovernmental policy (as noted in earlier section 3.1), whereas NGOs and other interest groups generally call for product boycotts. The fundamental objective of consumer boycotts is to restrict consumer demand for the boycotted products to an extent that imposes economic hardship on the producer. The boycotting group hopes to induce the producer to change their behaviour and often, to influence policy decisions in both the public and private sector.

Greenpeace is currently running a campaign of global action for the protection of ancient rainforests. Recent events have included a demonstration outside of Germany's biggest public bank to protest against rainforest destruction and contamination caused by German investment in an oil pipeline that runs through Ecuador's Amazon rainforest. The campaign is also actively targeting illegal logging, recently uncovering 8000 cubic metres of timber from Liberia, Cameroon and the Congo in France reported to have been obtained from illegal sources. Liberia, in particular, is a source of concern to Greenpeace who have actively campaigned with Global Witness and the UN Security Council to impose bans on all exports of timber. Their concern is that revenue is being invested in arms trafficking, paramilitary activity and the human rights violations resulting from the Liberian regional conflict⁶. Greenpeace are actively targeting Danish-owned companies which continue to import the product and calling for the public to send letters of halt the import. Dutch companies are also being singled out for importing products from Cameroon which are thought to be illegally logged. In June 2003 Greenpeace has called for a boycott of all timber products originating from Indonesia in response to the high levels of illegal logging known to be occurring.

It can be argued that in the timber industry, bans and boycotts have been extremely successful in highlighting consumer attention to environmental concerns and, to a point, stimulating dialogue on sustainable forest management. However, to add strength to this kind of lobbying it is essential that there is uniform agreement from the lobbying parties about what constitutes sustainable forest management, what mechanisms would be acceptable to recognise practices which meet this definition of sustainability and how sustainability could be verified and monitored. These are questions which the industry and governments as a whole are still grappling with. One of the most promising initiatives is the dialogue occurring between WWF and the World Bank Alliance which has involved the development of a criteria to benchmark certification schemes. Issues relating to mutual recognition and benchmarking are discussed further later in the paper.

Despite raising awareness of some critical issues, and influencing consumer behaviour, boycotts and bans can influence the ability of those targeted to respond to such criticisms and indeed may have an adverse effect on sustainable forest management.

In a study into the impact of European consumer boycotts on the Timber industry in Ghana, the perceptions of managing directors of 52 sawmills⁷ were reviewed. So do boycotts reduce the demand for timber? It is almost impossible to definitively extract the trade impacts of boycotts, from the many other market factors. However, of those sampled in the Ghana study over three-quarters believed the boycott was responsible for, or contributed to reduced demand for Tropical hardwoods in Europe. Part of the reason for this perception is that producers felt they could influence or be involved in

⁶ Greenpeace article published online Friday May 2003. See www.greenpeace.org.

⁷ Eastin, I.L., Addae-Mensah, A. and de-Graft Yartey, J. 1992-3 "Tropical Timber Boycotts: Strategic Implications for the Ghanaian Timber Industry" *Unasylva*, Vol 43, page 170.

discussions relating to national issues impacting trade, such as forest policies. Whereas for international boycotts they feel powerless to enter dialogue, they can merely react rather than participate in decision-making processes. They also felt that environmental groups oversimplify the issue of deforestation by overemphasising the role of the timber industry and virtually ignoring other factors such as high population growth rates, low per capita outputs, inequitable land tenure systems, low soil fertility, shifting agriculture, and demand for fuel wood. Therefore industry feels that it is difficult to enter dialogue with environmental groups and seek lateral solutions looking for demand from other markets or increasing the efficiency of the tropical hardwood. One of the tangible impacts of the boycott was delayed and reduced capital investment in more efficient technologies which is ultimately to the detriment of sustainable forest management.

One of the principal effects of a boycott, and perhaps intentionally so, is reduced economic potential of forests. Lowering incomes reduces incentives to protect and manage tropical forests which results in increased rates of deforestation as the land is converted to more profitable uses. Without other incentives, this is very much the case in developing countries with little access to capital. NGOs such as WWF are increasingly recognising the devaluing effects of boycotts on forests in developing countries and are looking to more positive incentives, such as certification, to value sustainable forest management⁸.

3.4 Markets for Environmental Services

An area that has recently emerged is the potential for 'markets for environmental services' (MES). This has emerged from the recognition that not all forest uses generate financial returns that reflect or cover their real value/cost (a problem noted with traditional instruments in section 3.1). This is because they do not take forest environmental (and social) services into consideration. MES' are being promoted to address this failing – a market creation to address a market failure. They attempt to add the 'S' into SFM.

MES' are innovative programs which involve payments by beneficiaries for a range of forest environmental services. They combine market-based pressure with government intervention to encourage co-operative systems for efficient and effective forest sector utilisation and management. Markets for forest environmental services are now developing at an increasing rate all over the world and their emergence has critical implications for welfare⁹.

Markets for environmental services have been discussed and analysed in detail by Landell-Mills and Porras (2002). A brief outline is presented of four major products 'on the market': biodiversity, carbon sequestration, watershed protection and landscape beauty.

Biodiversity Conservation

Growing public awareness of biodiversity benefits and threats of loss are the main drivers for this new market, mainly paid for by governments, INGOs and private companies. Landell-Mills and Porras reviewed 72 emerging payment schemes with

⁸ Percival, D. (1996) Conservation of West Africa's forests through certification. Full text of an article from *The Courier ACP-EU* No 157, May-June.

⁹ Landell-Mills, N., Porras, N. (2002) Silver bullet or fools' gold? A global review of markets for forest environmental services and their impact on the poor. A research report prepared by the International Institute for Environment and Development

varying product designs and payment schemes. Whilst there is innovative market behaviour there are significant transaction costs associated with setting up such markets and it is unclear whether the process has produced more equitable development.

Carbon Sequestration

The carbon offset market has been evolving quickly, even before the details of Protocol were finalised, with emitters, brokers, consultants, NGOs, potential suppliers and communities responding to international policy processes. There is no single unified trading platform and there have been isolated attempts at developing national trading system.

Watershed Protection

Watershed protection is generally required as a result of irresponsible land management. Markets in watershed services have emerged as a result of a growing willingness to pay amongst beneficiaries, with government policy driving this investment. Being a public good, there are often issues of not being able to exclude non-payers from watershed services. There is also debate whether the market approach is more beneficial than a traditional regulatory approach, due to the high costs of market establishment, inequitable access to resources and potential detrimental effects on the information collated on the resource.

Landscape beauty

The oldest market for forest environmental services relates to payments for landscape beauty through mechanisms such as tourism (increasingly ecotourism). However, to date, ecotourism businesses do not pay directly for the use of the commodity and the market is relatively less well-developed than any of the above.

Issues and constraints

Whilst these new services offer exciting market development potential, there are a number of factors which can impede their growth.

<i>Commercialising forest environmental services</i>	
<i>Environmental service (outcomes)</i>	<i>Commodity</i>
Watershed protection (e.g. reduce flooding; increased dry season flow; improved water quality; maintained aquatic habitats; reduced downstream sedimentation)	Watershed management contracts; water quality credits; water rights; land acquisitions/lease; salinity credits; transpiration credits; conservation easements; certified watershed-friendly products; streamflow reduction licences; salmon habitat credits; reforestation contracts; protected areas
Landscape beauty (e.g. protection of scenic 'viewsapes' for recreation or local residents)	Entrance rights; long-term access permits; package tourism services; natural resource management agreements; ecotourism concessions; photographic permits; land acquisition; land lease
Biodiversity conservation (e.g. role in maintaining ecosystem functioning; maintaining options for future use; insurance against shocks; improved	Protected areas; bio-prospecting rights; biodiversity-friendly products; biodiversity company shares; debt-for-nature swaps; biodiversity credits; conservation concessions; land acquisition; biodiversity management

choice; existence values)	contracts; logging rights acquisition; tradeable development rights; conservation easements
Carbon sequestration (e.g. absorption and storage of carbon in forest vegetation and soils)	Assigned amount units; Certified emission reductions; Emission reduction units; removal units; carbon offsets/credits; tradeable development rights; conservation easements.

Table from Landell-Mills and Porras, 2002

Multiple/imperfect commodities – Each service may be marketed through a number of different ‘commodities’ (see table above). Individual commodities are designed to act as a ‘proxy’ to reflect the service – but they rarely reflect the whole service perfectly. Hence, the proxy may not be very precise, or if it is precise it will probably be complex and expensive to implement. Carbon offsets are given their value by emerging national and international policies, and the product offered is a carbon credit, which does not automatically equate with the real service being offered, reduction in greenhouse gas.

Multiple beneficiaries and stakeholders- It is often difficult to separate out beneficiaries for a single product (such as forest management) and indeed the benefits are different for different consumers. This leads to a difficulty in fixing accurate prices for the products and to the problem of free-riders – some people may benefit without paying for it. Also, some people may be marginalised because they cannot pay and there is a risk of power imbalances in the market.

Difficulty of pricing - Prices depend not only on the value of the service but also the costs of implementation. The simplest commodities are grafted onto existing land or forest management markets. For example, payments for biodiversity protection are made in the form of payments for land ownership rights. Conversely, payments for Certified Emission Reductions require complex and time consuming international negotiations and scientific research which may in fact be prohibitive in many countries.

Need for governance - Against traditional market theory, some level of government involvement is beneficial for these new environmental markets. All require clear governance for effective implementation and during market establishment governments can have a key role to play in establishing the market parameters and raising awareness of the legislative and policy factors influencing the product.

3.5 Ethical investment funds

A rise in the awareness of and demand for Corporate Social Responsibility (CSR) in recent years has seen more large companies becoming concerned about their environmental and social responsibilities. Research indicates that 130 of the UK’s top 250 companies produced environmental reports in 2001, of which 70 included social and ethical performance¹⁰. Companies are beginning to see the link between their financial performance and how they deal with sustainable development and CSR.

Responding to such pressure, markets have developed for ‘ethical investment funds’. These are investment funds which allow investors to select or exclude certain industries from their portfolio (for example, exclusion of tobacco companies, animal testing, biotechnology, etc). Since 2000, in the UK occupational pension fund managers have been required to disclose the extent to which they take into account social, ethical and environmental considerations when they make investment decisions. However, a pension industry review¹¹, suggests that this has had limited

¹⁰ Short, A. and Propper, S. “Corporate Social Responsibility reporting: is the bubble about to burst?” *Jupiter Environmental Research Bulletin*; No. 29 Winter 2002.

¹¹ www.justpensions.org

impact to date as few funds have yet to invest 'responsibly'. In addition, relatively few forest management organisations are registered on the major stock markets for investments and thus are not likely to be influenced by these pressures¹², unless their buyers are.

3.6 Industry and Government Pressures

A number of other initiatives have developed in recent years, lead by groups of buyers and/or producers, to support and encourage SFM through trade directly or indirectly.

Buyer and Producer Groups

A *Buyer's Group* is a network of companies and organisations all committed to an agreed vision or set of principles which influences how they buy (and sell) products. A useful example of how this works is in the UK, where WWF was instrumental in setting up one of the first buyer's groups focused on certified timber.

Buyers Groups have been partially successful in meeting targets regarding volumes of certified wood traded. Part of the constraint has been the lack of supply of some of the required products. In some vitally important producing countries, credible certification has not yet succeeded, and basic issues of legality of production continue to cause concern. WWF, who have been at the forefront of developing buyer's groups, more recently also developed the concept of producer groups, to support the supply end of the market to complement the development of the markets through buyers groups. The expanded network is known as the Global Forests and Trade Network (GFTN).

Whilst not a buyers group, an influential group affecting buyers decisions is the US-based Good Wood Alliance which compiles and annually selective list of suppliers from both certified and non-certified sources.

The concept of *Producer Groups* is as a network of producers and other organisations which can support each other in a common vision towards improved production methods (i.e. SFM). The WWF's GFTN includes producer groups as well as buyers, and aims to help create markets for legal certified timber, through improving both supply and demand. The Network includes over 800 companies in 19 countries committed to producing, trading or purchasing certified timber and products¹³. A similar but smaller group is the Tropical Forest Trust, which brings together buyers and suppliers of tropical timber to work towards better forest management, in particular certification.

The UK buyers group – first and biggest.

Originally formed in 1991 as the WWF "95 Group", it had ambitious targets. Later it re-named itself to "1995+", learning the reality of the challenges. It is now the largest buyers group in existence. It has approximately 100 members, representing a broad range of sectors including construction, manufacturing, distribution, local authorities and retail. Members include B&Q plc, BBC Worldwide Ltd., Boots the Chemists, Laing Homes Ltd, Railtrack PLC and Tesco PLC – household and high street names in the UK. The Group estimates that it accounts for about 25% of wood product sales in the UK – it has become an influential force in the trade in the UK. The group was also amongst the first to recognise the need to work with producers as well as buyers – hence the emergence of the GFTN (see below)

¹² WWF (1998) "Investing in Tomorrow's Forests". Global Forest and Finance Initiative Report. WWF Forests For Life.

¹³ WWF, (August 2002) Forests for Life: Working to Protect, Manage and Restore the World's Forests.

The GFTN

Current member networks of the GFTN are set out in the table below. Most networks are managed by WWF, but other NGOs are also active, including the Netherlands 'Good Wood' initiative, Friends of the Earth and Oxfam supporting the purchase of FSC certified timber wherever possible. The GFTN will increasingly work with each network to make sure that members adopt consistent approaches to certification. Companies should have responsible sourcing policies that allow traceability and legality of forest products, and should support producers which are undergoing certification whilst increasing the volume of certified material.

Country	Date	Number of Members	Commitments
Austria - WWF Gruppe 98	1996	19	Start trading FSC-certified wood in 1988
Belgium - Club 97	1995	84	50% of wood supplies certified in 2000
Germany - Gruppe '98	1997		In planning process
Netherlands - Heart for Wood	1992	265	Buy FSC-certified wood whenever possible
Spain - Group by WWF	1997		In planning process
Sweden - Interested party group	1996	78	Influence that raw material originates from FSC-certified Swedish forests
UK - WWF 95+ Group	1995	77	Certified FSC wood by 1999
USA - Forest Product Buyers' Group	1997	10	Site specific 3 rd party certified wood, performance criteria.

Updated from Ghazali and Simula (1998).

At present WWF/GFTN supports the FSC certification scheme, as the only credible form of forest certification. However, it recognises the role of other certification systems and there is scope for change through the process being undertaken to seek dialogue and assess which other schemes meet FSC standards.

GFTN is now looking to increase the area of FSC certified forest across all forest types and link certified suppliers to markets around the world, particularly in large regions and less developed countries like Brazil, Russia, China and the Baltic States. Producers groups are being established to create certification on the ground and the GFTN anticipates¹⁴ that by the end of 2003, 30 producer groups will exist.

The GFTN is actively responding to the criticism that FSC standards are too high for many operations in developing countries to meet at present. However, many operations in these countries have expressed a commitment to improving their management practices. The GFTN is bringing in a new category of timber for producer groups to ensure buyers are aware where their products are coming from,

¹⁴ Darius Sarshar, Coordinator of the WWF Global Forest and Trade Network (pers comm).

and that these sources have a commitment to continuous improvement. Currently members of the buyers group have products from unknown sources, which are quite possibly illegal sources. This new category is “Legal-progressing to sustainable/certified”, which aims to eradicate “unknown sources” of timber. The new system, still in development, is likely to involve a baseline appraisal conducted by GFTN approved auditors. An action plan outlining time-bound steps towards certification will be verified on a 6-12 monthly basis.

Purchasing/Procurement Policies

Government and local authorities have significant buying power and thus can influence the market through the development and implementation of policies which encourage the purchasing of products which meet sustainability and legal criteria. Purchasing policies are essentially guidelines for staff to utilise in the selection of products and services to meet the required criteria. These include ‘green purchasing’ policies, which place environmental values at the forefront of any purchasing decisions, and procurement policies where environmental factors do not necessarily preclude purchase, but must be considered, amongst other factors, when making purchasing decisions.

Many EU member states are in the process of developing their own public procurement policies, under the umbrella of the EU Procurement Directive. The Directive provides criteria for sustainability and legality assessment, but also states that contracts must not create barriers to trade and discriminate against suppliers from other countries (see Section 4.4.3. for a full discussion on issues of barriers to trade). The implementation of such directives is controversial and has led to differing views of as to whether environmental criteria can be used to assess tenders. The Commission has argued that such criteria cannot be considered at the award stage as they do not bring an economic advantage that directly benefits the public authority¹⁵, but experience has shown that if environmental considerations relate to the tender subject then they can (see Box¹⁶).

Using environmental criteria for procurement - in September 2002, the European Court ruled that when a contracting authority decides on the award of a contract it may only take into consideration criteria linked to the subject matter and do not confer unrestricted freedom of choice on the Authority. This meant that in cases such as that in Helsinki over the purchase of low-emission buses, as long as the criteria linked to the subject matter and the tender process was managed in a transparent manner, non-economic factors could be taken into consideration.

At present the UK is probably the only country considering in detail the EU criteria on illegality, which is currently being assessed through a consultation process. The key challenge is how to recognise legally sourced products, without a large administrative cost. This is where third party verification systems coupled with labelling become useful tools (see section 4.3.2 for more details). Whilst governments cannot prescribe which certification schemes are permissible, they can establish their own criteria for acceptance¹⁷ - essentially ‘second-party’ certification.

The implications of this approach to procurement criteria is the recognition that a number of producer countries are not able to meet the requirements of certification schemes, bringing about the need for a step-wise approach. To prevent anti-competitive tendering (barriers to trade), concepts such as “legal and progressing to sustainable” are being considered, where a commitment to continuous improvement

¹⁵ Brack, D., Marijnissen, C., Ozinga, S. (December 2002) Controlling Imports of Illegal Timber: Options for Europe Royal Institute of International Affairs (FERN)

¹⁶ *ibid.*

¹⁷ Bob Andrew, DEFRA (pers.comm)

can be demonstrated and audited for verification¹⁸. Under the proposed system for the UK, the ultimate objective of all UK government purchases is 'legal and sustainable'.

Codes of Conduct

World-wide there is an increasing trend for forests to be managed by the private sector rather than the state. Consequently, the private sector in many places is keen to demonstrate their reputation in order to protect and maintain this situation. Codes of Conduct are an industry initiative that aims to set standards across an industry and provide a set of principles by which members of associations agree to behave ('first-party' certification). Where codes reflect environmental values they can be a very useful tool to support sustainable practices. However, a key caveat is that to be effective the Code must have 'teeth' – the ability to sanction members effectively. Many industry Codes of Conduct do not, or sanctions are not meaningful because membership does not bring tangible benefits (for example access to markets, training, industry information etc) that make them need to stay in the association and comply.

An example of a Code of Conduct is the UK the Timber Traders' Federation (TTF), which represents the majority of UK importers. It published its code in 2002 and it is one of the few with effective sanctions. The code states that "members are committed to sourcing their timber and timber products from legal and well-managed forests" and that "Members unreservedly condemn illegal logging practices and commit themselves to working with suppliers and other stakeholders towards their complete elimination"¹⁹. The Code further states that "independent certification of forests and the process chain is the most useful tool in providing assurances that the timber they deal in comes from legal and well-managed sources"²⁰. The Code has a Code of Conduct Complaints procedure with sanctions including fines and suspension of membership and expulsion from the Federation.

The UK Code has been used as a model for newer schemes in Africa, Japan, Netherlands and Italy. A number of TTF members have also signed up to the 'Forests Forever' Environmental Purchasing Policy that assesses suppliers to ensure timber importing companies trace their purchases through the supply chain to ensure high forest management standards at source and report annually.

¹⁸ ERM (2002) Consultation Paper: Procurement of Timber Products from Legal and Sustainable Sources by Government and its executing agencies. Paper available at <http://www.forestforum.org.uk/tradeb.htm>

¹⁹ Timber Trade Federation, Code of Conduct, TTF leaflet.

²⁰ Ibid.

4. Impacts of certification

This section looks at the example of forest certification as an MBI in detail. It will summarise how it has evolved, its current status, and review its impacts on the practice of SFM, forest policy and forest products trade.

This review focuses on third party certification and any use of the term “certification” relates to third party certification. For the purposes of looking at interactions with trade, forest certification is referred to as the combination of forest management certification with supply chain certification and labelling.

4.1 Overview of Certification

4.1.1 Origins of forest management certification

In the late 1980s NGOs were becoming increasingly disillusioned with the failure of government and inter-governmental (mainly regulatory) efforts to encourage responsible environment management practices in the forest sector, particularly in the tropical timber. An influential WWF survey of over 600 claims of sustainability found that only three companies could substantiate these claims²¹. Faced with the threat of boycotts, bans and negative publicity, leading producers and retailers began to recognise that their future would be more secure if they were able to prove their products derived from sustainable sources, which in turn opened up a new market opportunity.

Additional pressure was due to the lack of widespread success of government and multilateral initiatives (e.g. the Tropical Forestry Action Plans promoted by World Bank, UN and donors) to respond to the problem of tropical timber and deforestation. This was in part because of a common trend of narrow focus on forestry and forest-based industries, without full consideration of the wider elements of forest use and sustainability (social and environmental issues).

Consequently the first alliances of environmental NGOs and business emerged in an attempt to trace wood back to its forest sources, to verify that the forest was well managed and to create incentives which would make this mechanism viable. Thus certification was born, initially in the shape of FSC. At the outset there were expectations of increased market share, price premiums, reduced market risks, green labelling and further access to more remote markets.

4.1.2 International Schemes

At present only two schemes can be considered international; the Forest Stewardship Council (FSC) scheme; and the Pan-European Certification Framework (PEFC) scheme. Whilst the latter started as a regional scheme, it now certifies schemes in countries outside of Europe.

²¹ WWF, (March 1994) *Truth or Trickery? Timber Labelling, Past or Future?* WWF Publication

Forest Stewardship Council

Until the introduction of the Pan-European Forest Certification Framework in 1999, the FSC was the only fully-integrated international system of forest management certification. FSC was founded in 1993 with aims of promoting global standards of forest management, to accredit certifiers who could certify forest operations according to such standards, and to encourage buyers to purchase certified products.

FSC is a membership organisation with decisions made through meetings of a General Assembly, which is divided into three equal chambers – social, environmental and economic. All three chambers have Northern and Southern sub-chambers each with an equal number of chamber votes.

FSC has ten principles, which are supplemented by more concrete criteria and indicators to help implement these general principles. These form the basis of a generic, international set of minimum standards for 'SFM'. The FSC has also instituted a number of national and regional standard setting processes to adapt the general principles and criteria to fit local conditions. FSC owns the "checkmark and tree" logo used to label products from a certified source and that have had their chain of custody verified, and only organisations accredited by FSC can 'award' this logo to producers and traders.

At present approximately 30 million hectares of forest land have FSC certification. Most of that belongs to relatively large forestry operations although some belongs to small individual and community landowners. Two thirds of FSC certified forest is in Europe, with North and South America each having less than one-sixth and the remaining very small proportions are from small plots in Africa and Asia²². FSC now has over a dozen accredited certifiers.

Although FSC has certified more forest land in tropical countries to date than any other program, its relatively slow progress has given rise to discussions about whether the standards are too high for tropical forestry to reach in one step and whether a more flexible, step-wise approach should be developed. It could be argued that to date, FSC has failed to achieve one of the key things it set out to do, which was to reduce deforestation of tropical forests. However, it has set the benchmark for exemplary forest management practices in developed countries.

Pan-European Forest Certification Framework (PEFC)

The newest of the certification schemes, but the largest and fastest growing is the Pan-European Forest Certification Framework (PEFC). PEFC developed as a consequence of some small-scale, non-industrial forest owners and governments feeling that FSC requirements are too stringent for their cost structures. There was also fear of unjust scrutiny from the strong NGO membership of FSC and the possible internal trade imbalances caused by FSC within the EC.

PEFC is a voluntary private-sector initiative to promote an internationally credible framework for mutual recognition of forest certification schemes. Unlike FSC, PEFC does not advocate a single standard. Rather it provides a common framework for assessment of national certification programs built on existing national practices. It originally commenced in June 1999 with nine schemes (including Finnish, German,

²² Meidinger, E., Elliot, C., Oeston, G. (eds) (2003) Social and Political Dimensions of Forest Certification. Forestry Books, Denmark.

French, Norwegian, Austrian and Swedish Forest owners) but now 25 countries are members of PEFC, and over 48 million ha of land have been certified in Europe²³.

PEFC draws on the ITTO Criteria and Indicators, the Helsinki criteria, and the African Timber Organisation-ITTO initiative to ensure its criteria are consistent with the inter-governmentally agreed Pan-European Criteria and Indicators. To date the scheme has only endorsed European schemes, but is considering the assessment of schemes in Australia, Brazil, Chile, and Malaysia. National certification schemes apply to PEFC for endorsement and the right to use the PEFC trademark for product labelling. National standards and schemes are submitted to the board for assessment against the PEFC criteria. National PEFC governing bodies set the standards and operate national schemes, and are represented on the PEFC Council Board.

Tensions have arisen about PEFC. NGOs believe that scheme is an attempt at market protection (especially in the face of FSC) rather than trying to improve forest management. Their concerns relate to over-heavy industry involvement in the development of standards and insufficient NGO involvement in PEFC. They argue PEFC is not sufficiently independent to provide a third party system of verification that promotes and prioritises the principles of sustainability. Advocates of PEFC argue that the scheme takes into account respect for democratic principles appropriate for each country in the development of their national schemes. They also note that the PEFC itself is an independent, not-for-profit, non-governmental organisation that aims to promote sustainable forest management much like the FSC.

4.1.3 Regional Schemes

There are no truly regional schemes – National schemes have proved more popular and easier to develop. The African Timber Organisation (ATO), with its 13 member countries, has developed standards for sustainable forest management (which have been tested in Cameroon, the Ivory Coast and Gabon) and could form the basis for certification. Whilst the necessity for a Pan-African certification system was endorsed at a workshop held in Libreville in December 2002, a scheme is yet to be developed²⁴. The ATO process has been criticised as being purely government and industry driven, however the absence of a genuinely independent NGO sector in many African countries has made broader stakeholder involvement difficult.

4.1.4 National Certification Programmes

The number of certification schemes under development is ever increasing and at last count there were approximately 19 schemes: UK Woodland Assurance Scheme (PEFC and FSC), American Forest and Paper Association Sustainable Forestry Initiative, American Tree Farm System, Czech Council of the National Certification Centre (PEFC), Finnish Forest Certification Council (PEFC), Lembaga Ekolabel Indonesia (LEI), Living Forests Norway (PEFC), PEFC Austria, PEFC Belgium (Woodnet), PEFC Council of Latvia, PEFC France, PEFC Germany, PEFC Sweden, PEFC Switzerland (HWK Zertifizierungsstelle), Standards Council of Canada, Associacao Brasileira de Normas Tecnicas, Certificacacion Espanola Forestal (Spain, PEFC), Conselho Da Fileira Florestal Portuguesa, Malaysian Timber Certification Council²⁵.

²³ PEFC website: www.pefc.cz/register/statistics.asp

²⁴ “Extracts of the Report of the Regional Workshop on the study of the feasibility of Pan African certification” *ATIBT Newsletter no 17*, Winter 2002, p.14.

²⁵ Confederation of European Paper Industries 2001 List, plus updates from PEFC website.

These schemes can be divided into 3 main groups:

1. Schemes aligned from the outset with either FSC or PEFC
2. Schemes that develop independently but aim for compatibility with FSC and/or PEFC;
3. Schemes without any links to an umbrella scheme.

Whilst not all can be discussed in detail here, it is useful to outline a couple of the schemes.

Lembaga Ekolabel Indonesia (LEI) ²⁶

LEI was born in the mid- 1980s as a result of scientists and Indonesian NGOs voicing concerns about the deforestation of Indonesia's forest. Faced with tropical timber boycotts from developed countries, the Indonesian Government decided to react positively and establish a certification scheme. Criteria and indicators were finally agreed in 1997 and combine ISO 14000 system requirements with FSC and ITTO performance requirements. LEI accredits a small number of certifiers and also has its own chain of custody provisions and logo.

The LEI certification system is similar to the FSC certification model. In September 2001 an agreement was reached whereby those operations meeting FSC requirements must also meet LEI requirements and visa versa. To date only one concession of approximately 91,000 hectares has received such a joint certification, and approximately nine others totalling 1.4 million hectares are in process.

LEI has been established in conditions dogged by rampant illegal logging, inadequate policies resulting in significant land tenure disputes, prolific false log documentation, and social, political and economic pressures which provide a significant challenge to reaching the comparatively lofty international standards required by consuming nations. LEI feel they face a constant battle to convince European buyers that they are working hard to both support their national initiatives to encourage sustainable forest management, as well as being involved in international initiatives²⁷. Due to the lack of success in achieving significant certified forest areas, LEI are keen to pursue international recognition of phased approaches such as legal and progressing to sustainable.

Sustainable Forestry Initiative (SFI)

Covering over 50 million ha. of forest land in Northern America, SFI was developed in 1994 by one of the largest timber products trade association in the US, the American Forest and Paper Association (AF&PA). As with many other schemes, in response to public concerns about how forests were managed and to positively deal with the poor reputation of the industry. In 1995, participation in the SFI became a requirement of continued membership in the AF&PA, which retained approximately 200 members²⁸. Some members withdrew from the Association and 17 members failed to meet SFI requirements and had their membership suspended. The Initiative has 6 key principles and various indicators, but is heavily reliant on demonstration of continual improvement and EMS-type approaches. Compliance is verified through annual progress reports prepared by companies which are submitted to an independent

²⁶ Much of this section is based on the recent work by Meidinger, E. et al. in Social and Political Dimensions of Forest Certification

²⁷ Wibowo, D. (2002) ITTO Tropical Forest Update 12/3

²⁸ Ibid.

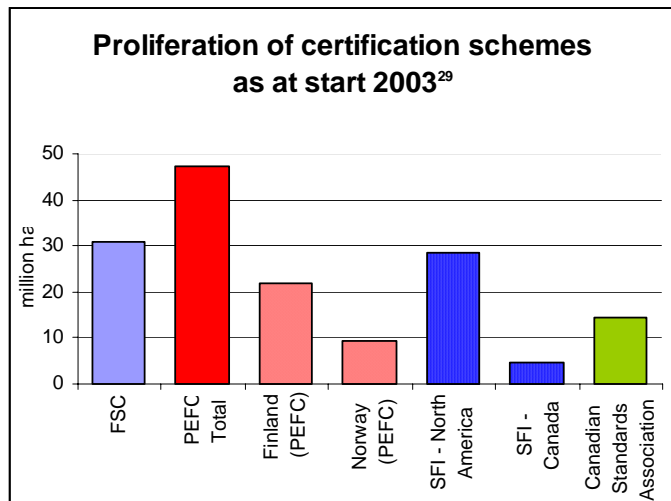
expert panel that subsequently reviews a selection of the reports. There is a new voluntary auditing process which is similar to that employed for ISO 14000, which permits members to assess their progress either by undertaking a self assessment, by working with a second party or by adopting independent third party verification. The system does not involve establishing chains of custody or on-product labelling.

There has been much debate over the credibility of the SFI scheme, particularly from environmental NGOs. Their main concerns relate to the standards appearing more favourable to industry than the FSC standards. In accordance with the ISO approach they rely heavily on best practices leaving it up to the forest managers to set applicable requirements. NGOs are concerned that SFI does not adequately consider of protecting workers, indigenous rights and local communities. In response to some of these criticisms, the scheme established a Sustainable Forestry Board with 15 representatives from environmental/conservation organisations, government agencies, non-industrial forestry, academic and professional groups. The Board now has the important role of defining the SFI standard.

4.1.5 The proliferation of schemes and the mutual recognition debate

Proliferation

In 1990 'forest certification' didn't exist, though some forest and wood product companies may have used ISO certification. By 1995, forest management certification through the international FSC was being widely promoted and tentatively taken up. By the year 2000, the range of certification options for forest managers and the wood products industry had expanded significantly to include those described above.



²⁹ Figures drawn from: Powney, S. (March 2003) "Sustainable Growth: Timber and the Environment" *TTJ, The Timber Industry Magazine* 22-29 March. And the PEFC Newsletter No 15. May 2003 online: www.pefc.org/News15.htm

This proliferation of certification schemes has demonstrated the recognised value of certification as a tool to promote better forestry and consumer trust in the timber trade. It has emphasised that people in forest sectors see certification as ‘a good thing’, but want it to reflect their own national or sub-sector circumstances more appropriately to avoid perverse incentives for producers of different types and in different places. It has been a good way to increase understanding, ownership and support of the concept of certification amongst producers.

The market view on proliferation:

‘A problem with so many different schemes and labels is that our customers do not have one place to go to find out more about the scheme or the particular forest in question. This is poor customer service.’
‘To ensure that there is a simple message for our customers, B&Q will only use the FSC logo on its products and marketing.’

(B&Q timber buying policy)

But by the late 1990’s, as a number of certification schemes had emerged, the industry and trade began to express confusion about the comparability and equivalence of schemes. How could they know which to trust, which was best for them, their suppliers and, most of all, their consumers? The tensions over this threatened to undermine the concept of certification and its use as a way to promote SFM through trade. Efforts to look for ways of mutual recognition between certification schemes have become important.

Mutual recognition – a heated debate

Ebaa’a and Simula³⁰ discuss the mutual recognition debate as a key challenge for certification. They note that the crux of this international debate centres on credibility criteria for certification schemes, and whether/how co-operation between schemes should happen. The need to clarify the issue is becoming more important as there is an increase in proposals to use certification as an indicator to consumers (industry and government, through import restrictions) of ‘acceptable’ wood. They also note that a key problem has been the lack of trust between key stakeholders – for example, there is “the perception that [other schemes] were created with the objective of harming the continued success of the FSC.... the prime purpose of some of the other schemes was to undermine the FSC”³¹. Debate has been extremely polarised and antagonistic. In recognition of these problems, an international seminar in 2001³² discussed the need to build confidence amongst certification schemes.

Mutual recognition – the example of UKWAS:

‘Perhaps the real growth in certification schemes lies in the creation of country specific schemes which then seek recognition from existing umbrella schemes. The UK certification initiative UKWAS is a model for which much admiration and credit must be given. It is a UK scheme, which has been recognised by both FSC and PEFC. Here we have a win-win solution – the country has control over its scheme but the end-user gets the advantages and simplicity that the umbrella scheme offers.’ (B&Q Timber buying policy)

Emerging options for the future

Despite the problems that have developed between schemes, the industry and international debate has begun to develop evaluation criteria to assess forest certification standards and systems (see box). There is some concern that if this issue is not resolved, then the market will find certification too complicated and drop it. Consequently, the certification schemes are now being encouraged by their ‘clients’ to

³⁰ Eba’a Atyi, R and Simula, M (2002) Forest Certification: Pending Challenges for Tropical Timber ITTO Technical Series No 19.

³¹ B&Q (2002) B&Q Timber Buying Policy – Beyond 2000. B&Q plc, UK

³² <http://www.fao.org/DOCREP/003/X6720E/x6720e00.htm>

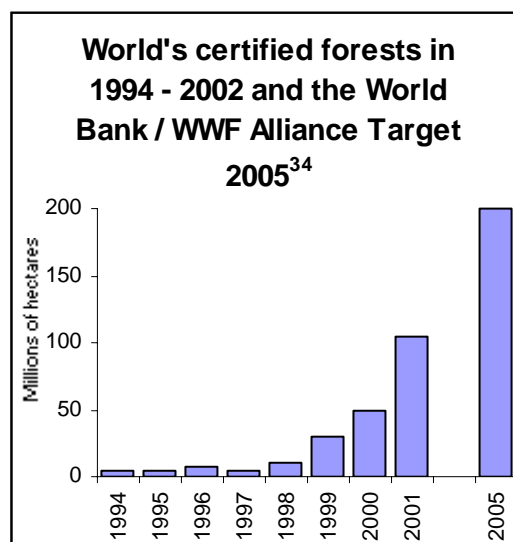
communicate and look for areas of mutuality. WBCSD and IFIR in particular are pushing for consideration of mutual recognition. The WB/WWF Alliance is developing a tool to assess which certification schemes are acceptable to accredit (although not mutually recognise) to FSC. After a pre-meeting through 'The Forest Dialogue' group in May 2003 to set the agenda, FAO held a meeting in June 2003 to bring together the CEOs from the key certification initiatives across the world. This focused on clarifying the role of certification in setting forest management standards and certification processes at forest management level. It is a great step forward that FSC and PEFC – once highly polarised – are now willing to discuss and compare their experiences.

4.2 Certification and SFM

Since its introduction, the potential value of certification as a tool for contributing to the achievement of sustainable forest management (SFM) has been recognised³³. Both the proliferation of schemes and the consequent rapid increase in certified area (see Figure) demonstrates the widespread belief in that value. How is that potential working out in practice?

We can look at impacts of the certification 'tool' on SFM from two perspectives:

- Certification can only make a direct difference to forestry practices where it is applied. Where it is applied, what difference does certification make to the practice of SFM (operations)?
- Given that certified forests make up only 3% of global forests at best, is this difference significant? As a tool, what impact can certification have to promote the practice of SFM more broadly and indirectly, even where not applied. What are the constraints to uptake of certification and consequent wider improvements to SFM?



4.2.1 How does the certification process influence practice of SFM?

Few forest management enterprises would argue that the process of achieving and maintaining forest management certification has improved their forest management practices. Certification demands both achievement of specified, minimum standards of forest management and some level of system against which to verify practice through an audit. Thus, the actual level of improvement (incremental difference) depends on the starting point for each enterprise.

The standards required by certification schemes are 'best practice', and mean that almost all enterprises have to make some changes to their operations on the ground in

³³ Ebaa'a Atyi and Simula (2002)

³⁴ Adapted from Ebaa'a Atyi, R and Simula, M (2002) Forest Certification: Pending Challenges for Tropical Timber ITTO Technical Series No 19.

order to achieve it. IIED³⁵ made a global study of the impacts of certification of SFM, with a focus on FSC certification (other schemes remain relatively new for such study and evidence is not yet available). The UK Woodland Assurance Scheme has also reviewed its impacts to date³⁶.

These studies highlight the key areas of improvement on the ground that are becoming evident, and these link clearly to the three pillars of sustainability of forestry:

- *Environment:* An improved approach to environmental issues is widely reported, with better EMS', better monitoring and research, better dealing with biodiversity issues. The general trend is for a 'tightening up' or consolidation of procedures, rather than wholesale change from 'bad' to 'good' – many enterprises (especially the larger, developed country ones) will at first say that certification has made no difference to the forest operations on the ground, before conceding that the procedures are now better to ensure and record best practice. By contrast, producers in Malaysia have observed that certification criteria guided on the ground practices and keep operators on track³⁷.
- *Social:* There are widespread observations of better stakeholder consultation and communication, better health and safety systems for workers, and improved attention to all the social groups who might be affected by forest management. In South Africa in particular, the forest industry feels that certification has kick-started improved thinking on social issues, which was previously a significant problem.
- *Economic:* The improved management, monitoring and recording systems have enabled better planning of forest and financial resources, better communication has prevented later problems, certification has improved corporate transparency. In general, enterprises observe better efficiency and consequent cost-effectiveness all-round. Many, especially smaller enterprises, in the UK feel that certification provided a useful management review that improved their business.

Most of these changes link to the audit process itself. Audit requires documented management and monitoring records and plans – not something that all enterprises previously kept, or not in a systematic way. The use of agreed standards of forest management has led to a shift towards more scientifically rigorous models of forest management (especially for smaller and community forestry enterprises, especially developing countries). In addition, the process of standard setting, where it has been done at a national level, has been useful in bringing together wider range of stakeholder interests to discuss the meaning and implication of 'SFM'. This has increased awareness amongst practitioners and has filtered through to policy definition and forest planning – with an assumed trickle-down to practice. Participation in developing standards means that standards are more about 'S' than just 'FM'.

A key observation is that most operations that have been certified say the biggest challenges have mainly been about implementing the systems to aid audit and verification, rather than wholesale change in practice 'on the ground'. Forestry has traditionally been in many cases a practice of management 'from the gut', rather than a systematic operation with clear checks and balances. Standards and performance criteria are new to many operators, who have traditionally relied on a 'feel' for the natural environment. This is especially the case for smaller and less developed enterprises – these variations will be discussed below.

³⁵ Bass, S, Thornber, K, Roberts, S. and Grieg-Gran, M. (2001) Certification's impacts on forests, stakeholders and supply chains Instruments for sustainable private sector forestry programme, IIED, London.

³⁶ Garforth, M and Thornber, K (2002) Impacts of certification on UK forests. A report for the UKWAS Support Unit, Forestry Commission UK.

³⁷ Malaysian private sector (pers comm)

Because certification demands best practice, uptake is generally easier for companies that already have good practice – for example, many companies applying for FSC or PEFC forest management certification already have ISO certification. Therefore the incremental impact on SFM is generally perceived to be limited. The worst performing forestry companies remain ‘out of reach’ and the minimum performance standard approach of forest management certification seems unlikely to encourage SFM amongst them. Certification has not yet offered incentives to change the behaviour of the bad producers

However, these are generalisations – the reality in practice depends greatly on the type and location of the enterprise. Forest producers are extremely varied – from large corporate ‘fibre factories’ to individually and commonly owned land with some trees on it. It is worth looking at some of the different types of forest producers and the circumstances under which they normally operate to analyse how certification impacts on forest management differently.

4.2.2 Which types of enterprise can make SFM gains through certification?

Comparing large and small enterprises. Relatively few small forest owners are taking the steps to improve SFM by getting certified. In 2001, analysis³⁸ proposed that this was because of:

- Cost – the costs per hectare or per cubic metre increase with decreasing size of the organisation – the smaller you are, the higher the proportional cost of certification. The cost of \$1000 is cited as the minimum cost possible for certification – for small areas of forest or woodland this is clearly very high, and does not yet include any costs of management improvements to reach the standards.
- Compliance – the issue of improvements needed to reach the standards also relates to the appropriateness of standards for the smaller woodlands. Many small woodland owners find the standards difficult firstly to understand (see box) and secondly to implement, as the requirements are more adapted to large forest areas than small ones.
- Access – In countries where there is no active certification working groups, small forest owners cannot easily get access to information about certification or certified markets. They are thus far less likely to proceed with it.

Understanding the standard: The FSC standard contains 10 Principles and 56 Criteria and is a large document. For a professional forester this is a challenge to get through. For a small farmer in a developing country who may only be barely literate, the length of and language used in the document is a serious barrier. Even in the UK, estate foresters recall having put the standards document ‘in the bin’ before getting professional help to help interpret it - then finding out their practice was almost up to it!

The problems for small forest owners also links to the systems needed for certification. Large enterprises and forest management companies usually have some level of systematic approach to FM, with procedures, reporting practices and checklists for managers and contractors – this makes audit relatively easy. Small ones tend to manage on a more ad hoc basis, as current circumstances dictate. An analysis of the impact of UKWAS certification in the UK³⁹, for example, highlighted that most certified small forest owners previously had few if any systems in place for managing their forest and that this had to change

³⁸ Wenban-Smith, M., Nussbaum, R., Garforth, M., and Scrase, H. (2001) Getting small forest enterprises into certification – an analysis of the barriers. Proforest, UK.

³⁹ Garforth, M and Thornber, K (2002) Impacts of certification on UK forests.

to enable the required audit process. Whilst seen as a worth while thing to do, many had found this a significant challenge and would not have been able to face certification without professional help.

Comparing plantations and natural forests. Similarly, plantation management is typically more systematic than natural forest management. Planning and management towards harvest is in place and it tends to be easier to go through the audit process. Many of the 'sensitive issues' that certification was designed to address, such as forest loss and degradation, and local use by communities, are less of an issue (proponents of FSC had not designed plantation issues into the scheme to start with). In developing countries, the majority of certified forest is plantation – there are very few certified natural tropical forest areas.

Comparing developed and developing countries. Different countries operate under very different conditions, particularly relating to both management standards and to enforcement/legality issues – the two issues are, of course, linked.

Developed country foresters are subject to effective and regulated legislation, whilst in developing countries, even where there may be good legislation, it may not be enforced. Partly due to weak enforcement of legislation (because they can get away with it), and partly linked to real economic and technological hurdles, the majority of enterprises in developing countries operate to much lower standards. Consequently, achieving the standards required for certification is a much greater challenge. This is despite western perceptions that the intensity of auditing in developing countries is lower ("they get away with more"). Many people feel that certification schemes have not been designed in a way to allow developing countries to make progress in this field⁴⁰.

Ebaa'a, Nussbaum and Simula (2002) summarise the problems for tropical forest management clearly:

'There are a number of reasons for the slow progress of forest certification in the tropics, but one of the most important is that in many tropical countries there is a wide gap between the existing level of management and what is required by certification. This creates a number of problems:

- Considerable *resources* are required to close the gap and implement the requirements of a certification standard, but these countries face many institutional, social, human resource and financial constraints, which means that such resources are often scarce.
- The *process* of implementing the standard can be very *lengthy*, often taking several years. If there is no mechanism for periodically assessing the progress made, forest managers may not realise when it is inadequate until they miss deadlines or commitments for achieving certification.
- There are *no intermediate incentives* available for forest managers who do undertake this long and costly process until full compliance is achieved and a certificate obtained. As a result, the continued investment can seem difficult to justify.
- Forest managers can be overwhelmed by the *number of activities* to be undertaken in order to meet the standard's requirements.'

⁴⁰ Ebaa'a Atyi, R., Nussbaum, R. and Simula, M. (2002) Interim Report on the Potential Role of Phased Approaches to Certification in Tropical Timber Producer Countries as a Tool to Promote Sustainable Forest Management ITTO – Report for the thirty-third session.

Developing country producers often perceive certification as yet another market requirement imposed by their buyers, they find it difficult to meet and fear it will become a barrier to trade rather than help them export⁴¹.

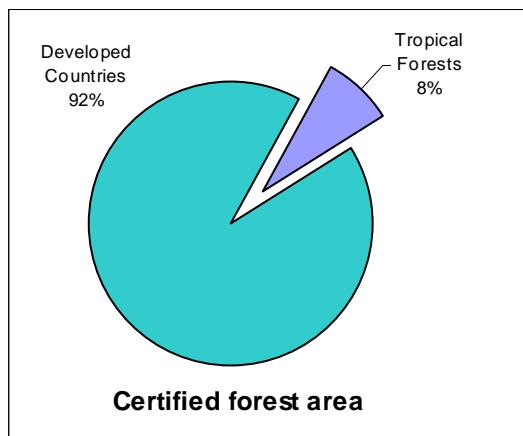
4.2.3 Patterns and problems in certification

Having looked at these differences, it is not surprising that biased patterns of forest management certification have emerged. The key imbalances have reflected the scale and location of enterprises.

Until recently, there were very few small enterprises certified – early approaches inadvertently, but significantly, favoured large and well organised operations. In 1999⁴² only 4% of FSC certified areas were ‘small enterprises’, and this was causing concern to FSC and discontent and resentment in other players. Efforts have been made to address this

What’s certified where: As a whole, less than 3% of the world’s forest is presently certified. The share of tropical timber producing countries (ITTO members) is less than half a percent, contrasting with North America’s 9%. By contrast to the average, 19% of FSC certified forest is in developing countries.

From: Ebaa’a, Nussbaum and Simula (2002)

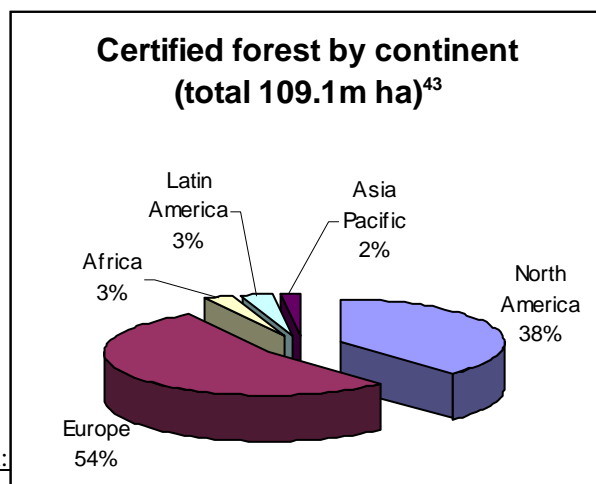


problem and will be discussed below.

A remaining problem is that few enterprises in developing countries are certified, regardless of scale (see box/diagrams). The area of certified forests in developing countries is only 8% of the overall total (including all types of third party forest management certification systems), and the majority of those are well-managed plantations (mainly in South Africa) and certified by FSC. The irony is that forest certification emerged largely as a response to concerns about tropical deforestation, but has had most successful expansion in temperate and developed areas, arguably where ‘easy wins’ have been more achievable. Certification is not yet ‘reaching down’ because the standards are too high and the pressures are too low.

The problems reflect several issues⁴⁴:

- economies of scale – costs of getting certified and getting into markets is relatively bigger the smaller you are, and the further you are from the standards. The cost issue has been a major debate as noted in the box below.
- standards assuming western, scientific approach to forestry – lots of info, requires formal



⁴¹ Ebaa’a and Simula (2002) *Forest Certification:*

⁴² Thornber, K. (1999) *Trends in FSC certification*, Report for instruments for sustainable private sector forestry programme, IIED, London, UK.

⁴³ Adapted from: Eba’a Atyi and Simula (2002)

⁴⁴ Based on: Bass, S, Thornber, K, Roberts, S. and Grieg-Gran, M. (2001) *Certification’s impacts on forests, stakeholders and supply chains*. Instruments for sustainable private sector forestry programme, IIED, London.

training to understand the standards, un-prescriptive standards means they must be interpreted, standards do not take account of the very different socio-cultural conditions or complex land-use issues in developing countries.

- Assessors' interpretations/bias – often western, technical-forestry focused, not always seeing big local picture.

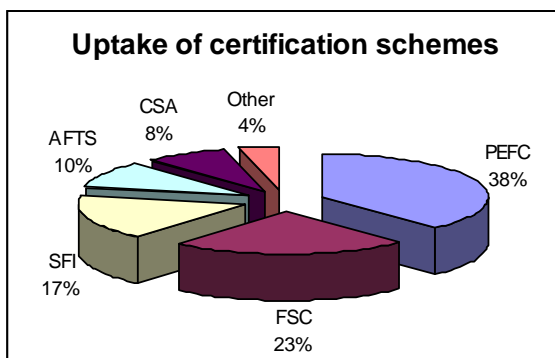
The issue of the *cost* of doing SFM – and who is best able to carry it – is important here. Many enterprises in developed countries relate that the changes required to meet certification were limited, more about systems than operational practices, and have not increased costs significantly. Meanwhile in developed countries, some enterprises record cost increased of up to 30 %. The typical and widely observed trend is that producers carry the cost of certification, whilst manufacturers pass it on to consumers. This links to the price debate – see section 4.4.4.

Consequently, there have been significant recent moves to address the imbalances by overcoming these problems – to make the certification process (the 'tool') something that every forest enterprise can aim for if it wants, and if the market demands. The links between the market and certification will be discussed in section 3.4.

4.2.4 Developments to overcome the constraints

Making certification work for small enterprises.

FSC has addressed this problem by developing the Group Certification approach. This allows small enterprises to come together under one certificate (either forest management or CoC) to allow better economies of scale in terms of fees and monitoring effort. FSC has also taken up the recommendation⁴⁵ of developing a version of the standards specifically for small forest enterprises. This will be required of every national standard development process in order to help understanding, interpretation and implementation of the certification standard by small operations. These efforts have been reasonably successful for FSC – now almost 20% of FSC holders are <1000ha.



How Group Certification works

Group certification involves 2 levels of 'membership' of the group: the group manager (or group entity) and the group member.

The *group manager* might be an individual (e.g. a 'resource manager') or a co-operative body or sector association – any legal body. The group manager: applies for group certification and holds any certificate issued; assesses the group members against certification requirements; takes responsibility to the certification body that members meet the requirements

The *group member* implements requirements of group membership. Individual members do not hold individual certificates, but are covered by the Group certificate and can get CoC certification and use a label.

Once a group scheme is established, only sample members are monitored annually by the certification body – clearly this offers significant cost and effort savings over individual certification.

Source: FSC website & Independent Forestry website.

Even more dramatic in terms of bringing in small enterprises has been the introduction and uptake of the PEFC and AFTS. Both were specifically designed with the small-holder in mind (though PEFC also covers large enterprises) and now account for 48% of the world's certified forests⁴⁶. In Finland, around 96% of the national forest area is

⁴⁵ Proforest...

⁴⁶ According to Ebaa'a Atyi and Simula 2002

now certified to one system or another – a significant leap forward for the many smallholder foresters who could not see a way forward under the early FSC approach.

Promoting a step-wise approach towards certification.

Certification remains a challenge for developing country enterprises largely because of the 'gap' between their current management standards and the minimum performance standards that certification rightly demands. But the industry has recognised that these enterprises need some incentive and encouragement in order to encourage efforts towards certification. The process of improvement towards being certified takes time and investment, and, without the returns of the access to export markets that certification brings, few enterprises can afford it - they may as well continue selling to markets that do not demand it, and continue 'business as usual'.

To overcome this, some of the certification bodies (e.g. SGS' Certification Support Programme) and other organisations (e.g. Tropical Forest Trust) have begun to develop models for a 'step-wise approach' (or 'phased approach') to certification that can 'reach down' to producers and pull them up gradually. The potential role of these approaches has been assessed by ITTO⁴⁷. The box outlines the common model. The approach is for a third-party gap assessment followed by an action plan towards certification with the company. Progress towards that action plan is then monitored by the certifier.

This verified commitment to and system of improvement is designed to allow enterprises working towards certification to gain access to the market, providing an incentive. This is already bearing fruit – B&Q in the UK is already willing to consider buying wood products from members of the Tropical Forest Trust (TFT) despite a very strict preference for FSC certified products in its Timber Buying Policy.

The promotion and support for step-wise approaches links closely to the issue of legality of timber (see section 3.4 for further details of the illegal logging issue). Many countries are beginning to look for ways of differentiating and excluding illegally produced timber from entering. The first step in verification of progress towards SFM is to prove legality – otherwise there is no point an enterprise going forward to invest in SFM, and potentially no way of getting wood imported. An independent verification of legality is clearly attractive, even though no actual product label is likely to be possible.

The model for phased approaches:

It involves 2 main stages :

'Initial Evaluation / Pre-Assessment' – essentially a gap assessment (identifying what needs to be done to achieve certification)

'Development & Implementation' – essentially a workplan towards bridging the gap (identifying and carrying out phased actions towards achieving certification).

Organisations are then continually audited against an agreed Work Plan and Audit Schedule based on meeting certification requirements.

The SGS-CSP issues 'Audit Statements' throughout the development and implementation stage to track progress in achieving the scheduled objective and targets listed in the detailed Work Plan. The organisation can market material under a CSP - *Certificate of Origin* during development and implementation (Stage 2) of the CSP.

Source: SGS website, and Ebaa'a, Nussbaum & Simula 2002.

Buyers and trade supporting producers

WWF has been actively working in partnership with governments and private sector, particularly in the large producing and consuming nations, to help create demand and supply for sustainably managed forest products, through its GFTN. For example,

⁴⁷ Ebaa'a Atyi, R., Nussbaum, R. and Simula, M. (2002) Interim Report on the Potential Role of Phased Approaches to Certification

WWF has recently joined forces with IKEA in a three-year program, carrying out forest projects that will contribute to the development of global toolkits on forestry issues and promote responsible forestry in Russia, China, Romania/Bulgaria and the Baltic countries. The GFTN is partway through a study to see how they can make the step-wise approach work.

Other initiatives include the Tropical Forest Trust, which brings together traders and producers of tropical timber in its membership. It actively promotes a supportive approach between the two, with several examples of producers working to support producers in order to get a certified timber supply. The TFT embodies a pragmatic approach, and also supports the emergence of step-wise certification⁴⁸.

There are also individual examples of buyer companies supporting development of their suppliers. FinnForest⁴⁹ have an initiative in which they are working directly with an Indonesian supplier on developing their standards of practice. They see this as a way of avoiding trade barriers (such as boycotts of Indonesian timber proposed by NGOs and indirect barriers of them not being certified), whilst ensuring they reach targets and commitments for trading sustainably produced products. They are also looking at similar arrangement with suppliers in Brazil.

This is a commonly emerging story – buyers are now realising that to sustain their supply line they need to invest in and support it. The rapid development of the TFT also demonstrates this trend.

Whilst this trend is encouraging, it is important to note that it is typically only happening for supply-short products (i.e. tropical timber) – there is no evidence of such support to smaller producers for example in the UK.

4.2.5 Remaining challenges - Key constraints to certification promoting SFM

As lessons from experience are emerging, much is currently being addressed through the developments noted above.

At the moment, certification typically acts to highlight good practice, promoting only minor incremental improvements in SFM. It does not yet clearly apply pressure to transform the worst problems of forest use. The key issues for the future are in getting certification beyond the 'good' producers and making it influential and applicable to the 'bad' ones.

It remains an expensive process (improving practice and paying for audit) for many – the debate clearly is still polarised in terms of where cost is and should be borne, and this needs to be opened up. Step-wise approaches and support from buyers to producers are helping – without significantly more market pressure (demand) producers will not shift to SFM through certification. These progressive and pragmatic initiatives will increasingly be necessary to protect the future of the wood industry and ensure sustainability.

⁴⁸ Scott Poynton , Tropical Forest Trust (Pers comm)

⁴⁹ Rachel Butler, Environmental Manager, FinnForest Limited (Pers comm)

4.3 Certification and Policy

Forest policy is traditionally seen as a slow-moving branch of public policy, whereas certification has been moving fast over the last 10 years. Mayers and Bass (1999) see certification as a 'soft' policy process, embodying a civil society convention on good forest management, with a market-based approach relying on voluntary implementation. They advocate that FSC certification addresses failures of government and much of the private sector, and encourages civil rights to be taken into consideration in forest decision-making⁵⁰.

4.3.1 Should Governments be involved in certification processes?

Certification was originally intended to be independent of government intervention, as a *voluntary* market tool to promote SFM. However, the success of certification in encouraging SFM and the influence of policy on a large number of players has meant that there is benefit in government being involved in standards setting. This has been born out by a number of country examples.

Committees set up for multi-stakeholder certification processes have been used as a model for other governmental purposes such as standards setting or NFP development. In Ghana, where no multi-stakeholder forest forum previously existed, the certification group was used as a model to establish the NFP group.

However, in countries such as Malaysia, Ghana and Indonesia, where government has been extensively involved, certification can be viewed as a means to implement policy, rather than a means to challenge and improve it.

Governments can also influence whether certification is adopted by the private sector. Subsidy structures can encourage the establishment of forestry infrastructure. Lower stumpage fees, forest rents and trade tariffs can also provide incentives. To maintain such benefits, private sector must be actively engaging with the government. The formation of producer and buyers groups provides a powerful lobbying influence on government processes, and provides a point of reference for governments seeking consultation on policy development. Consequently the two groups, when combined with civil society organisations, can be more

4.3.2 Is certification a fast track to policy implementation?

There is no doubt that certification has added value to government policy. Situations differ in varying countries, at times government has supported certification through policy but in other circumstances private industry and NGOs have adopted certification thereby influenced government stance.

For example in 1998 Mac Millan Bloedel, a large forest products company in British Columbia announced it would meet all existing forest certification program requirements⁵¹. This was partially in response to B&Q cancelling a very large order of timber from them as a result of a lack of progress with environmental improvement of forest practices and certification under the FSC program. At the time Greenpeace forest lobbying in British Columbia suffered a blow due to forest policy change and the

⁵⁰ Mayers, J., Bass, S. (1999) *Policy that works for forests and people Policy that works series no. 7: Series Overview*. International Institute for Environment and Development, London.

⁵¹ Example adapted from Meidinger, E. et al (2003) *Social and Political Dimensions of Forest Certification*.

manoeuvring of the former Premier. Greenpeace began lobbying in Europe and the US following a substantial weakening of the Environmental Coalition in British Columbia. The new government policy on land-use planning failed to gain NGO support and MacMillan Bloedel continued in their drive for certification, without waiting for Ministry approval. It is the effect of the supply chain which multiplies the impact of certification uptake so drastically. It is not just those that have the demand, and those that have the raw product, but all those in between, such as buyers, traders and distributors, influenced by B&Qs stance. In making their changes MacMillan Bloedel introduced a public policy proposal to reform tenure in British Columbia.

4.3.3 Has certification changed policy?

Whilst certification may have contributed to policy processes, there is little evidence that certification has changed actual forest policies. There is however, strong evidence to support the claim that certification has supported policy processes, and in cases, *visa versa*.

Influence on Criteria and Indicators

Criteria and Indicators have been developed at the international, regional and national levels. Approaches to developing criteria and indicators for sustainable forest management have struggled without tangible contexts. Certification has been able to focus governments in establishing criteria and indicators, as it has helped to apply precise forest management standards in real production and trade contexts. A number of national certification processes have used existing criteria and indicators for SFM, such as Canada, Finland, Malaysia, and South Africa. Others have been developed through national certification schemes and standards bodies such as Indonesia, Brazil and Ghana. The benefit of these various international, regional, national, and local groups discussing certification has stimulated debate and influenced definitions of criteria and indicators.

However, there is still no universally agreed standard for sustainable forest management and therefore which criteria and indicators should be used for measurement. CIFOR developed a toolbox to assist countries in the consideration of relevant elements for the development of criteria and indicators for sustainable forest management⁵². This tool has proved useful as a core set of indicators, enabling such parameters to be measured and compared on a global scale. ITTO also have a set of criteria and indicators, which a number of tropical producers apply, such as Brazil. The current initiative by WWF and the World Bank Alliance to seek a common definition of SFM and thereby set a benchmark for certification schemes, may see further similarity between criteria and indicators in different countries.

Influence on Legislation

As with policies, whilst certification has not changed legislation *per se*, it has been increasingly seen as a means to implement legislation. Whilst certification will never replace government role in regulation, if comprehensively adopted, it can and will reduce the costs associated with regulation through the encouragement of sustainable management practices.

⁵² Ghazali, B. Simula, M. (1998) Timber Certification: Progress and Issues Report prepared for the twenty-fourth session of the ITTO

All certification schemes require adherence to the law, so certifiers require all producers to meet legal requirements. In countries with poor regulatory capacity this can be a major advantage, however, as has been demonstrated, the comprehensive requirements and costs associated with certification for many developing country producers is prohibitive. They often require major upgrades in technology, rather than simply improvements in systems. The best forestry operations have been certified first as they have to do very little to meet certifiers' requirements. The bulk of investment for those trying to achieve certification standards is from those who are just below the certification standards, rather than very poor producers who are well below.

Whilst at present certified producers are a small percentage of the total forest resources, ultimately certification standards will have a positive influence to support the implementation of forestry legislation in the future. This will particularly be the case if criteria can include enforced regulatory requirements or national standards, if the effects of certified forests can be demonstrated to other forests, and where step-wise approaches can be accepted and recognised by all parties.

4.3.4 So what has been the policy impact of certification?

The benefits derived from certification in forest policy processes have primarily come about through the participatory approach to certification standards and the procedures development, especially where national certification working groups have been organised. The consultative process brings together all actors in the forestry sector to work towards a common objective. The ability to meet regularly over a period of time to develop standards and conduct audits, builds trust and a shared objective between groups previously thought to have different imperatives. This is certification's primary contribution to sound policy processes.

Positive Impacts of Certification on Policy

- Major advantages come through the participatory processes of standards development rather than the cumulative certification of many forest management units.
- Decentralised and democratised the policy process. Previously marginalised stakeholders are part of the working group to develop standards and procedures. Improved definitions of Sustainable Forest Management through the development of a wide range of standards and guidelines. Open processes to define standards, test and refine criteria and indicators.
- Increased dialogue between stakeholders from government, private sector, NGOs and civil society and loosening of professional cliques
- Improved legislation. In some cases certification has impacted the means for implementing existing laws, rather than changing the content of the law itself
- International policy impacts through the involvement of international organisations such as ITTO, UNFF and FAO in reflections on forest certification.

4.3.5 Is certification appropriate to support all policy environments?

Certification is particularly effective in situations where the policy and regulatory framework is already sound. Whilst the old command and control approach to forestry management is no longer relevant, its building blocks are still required to act as

incentives and disincentives. A sound policy framework provides the broad and long-term framework for sustainable forest management and appropriate legislation acts as a “stick” for poor performers. Certification, along with a number of other market-based instruments, can increase the likelihood of meeting policy targets, and reduce enforcement costs associated with traditional command and control approaches.

A critical issue in many developing countries is unclear ownership of forest resources. This often results in a short-term view of resource utilisation, providing limited motivation to support the implementation of forest policy or to become involved in processes such as certification.

There is no clear evidence to suggest that certification can and should be universally applied in preference to other tools for policy implementation. Regulatory, information, institutional, contractual and other market tools are all valid ways of achieving sustainable forest management. The trick is to get the appropriate mix of tools correct, providing a balance of coercion, persuasion and incentive.

4.4 Certification and trade

Certification was initially conceived in response to consumer concerns about serious forest problems and was designed as a market instrument that would promote SFM through changing trade patterns and demands. This section reviews how certification is impacting on trade debates and developments. What are the emerging debates and issues that are influencing how certification can play a role through trade on influencing SFM? Does it place wide-reaching enough pressure in the global markets to address the key forest problems?

4.4.1 Addressing illegality

As noted in Section 3.2, certification has yet to ‘reach down’ to the worst performers in forestry, especially in tropical countries, despite this being its original intention. There is no clear positive impact on illegal and degrading practices, in part because there has been insufficient demand to create the pressure to force that. Consequently, more recent international debate and developments have focused on the problem of resolving the illegal logging problem. In many countries, the issue of illegal logging practices is attracting more attention than certification. In Europe and North America, governments and donors are making moves to address this through trade policies and practice. The G8 leaders made a public commitment in 2002 for their governments to seek to procure all their wood and paper requirements from ‘legal and sustainable sources’. The EU launched (May 21 2003) an Action Plan to Combat illegal logging and the trade in illegal timber. This emerged from discussion of Forest Law, Enforcement, Governance and Trade (FLEGT) issues.

This current crackdown on illegality by the international community, demonstrated by FLEGT and the Action Plan, will influence the future of certification. It will require more and more producers to credibly demonstrate their credentials

About FLEGT: It covers a range of fields including: the upgrading of administrative and legal systems and governance in wood-producing countries, and controlling the illegal trade in wood and wood products, including measures taken by wood-importing countries.

The EU action plan includes: support for improved governance in wood-producing countries, voluntary partnerships with wood-producing countries to ensure only legally harvested timber enters the EU market, and efforts to develop international collaboration to combat the trade in illegally harvested timber.

For further information see EU website⁵³

⁵³ http://europa.eu.int/comm/external_relations/flegt/intro/

in order that EU member states can meet targets. The first action in the EU Action Plan is to help partner countries build systems to verify timber has been harvested legally⁵⁴. This also links clearly with the need and support for the stepwise approach to forest certification - making verification of legality the first step in the longer process towards verifying 'good wood'.

4.4.2 Government procurement policies

The G8 and EU's commitments also contribute to the increasing trend for national government wood-procurement policies to be established or updated address illegality and sustainability. In Germany, some *landers* have implemented a procurement policy, prescribing certified timber⁵⁵. Some states in the USA have similar approaches. The development of Kerhout in the Netherlands has closely reflected the Government's priorities. The UK in particular has spearheaded implementation of these commitments.

The UK Government commissioned an in-depth consultation on "procurement of timber products from 'legal and sustainable' sources by UK Government and its executive agencies"⁵⁶. This is clear evidence that the Government wants to change the way it acquires timber and timber-products, in response from the policies in place. The UK procurement policies encourage use of certification schemes as evidence of wood products being 'sustainable and legal'. Due to uncertain supply of certified products, procurement officers are increasingly supportive of the step-wise approach to help ensure that, where they can't get certified products, they are getting legal products. The Government believes that this supply-chain pressure will in turn lead to more producers seeking certification⁵⁷.

As more governments develop similar policies and guidelines, this trend is likely to continue. Government procurement officers need to find ways to simplify access to specified and acceptable products – this will most probably promote certification, within the bounds of trade regulations and WTO.

4.4.3 The non-tariff barrier debate

Three key issues are relevant here. The first is the World Trade Organisation (WTO) and how its Technical Barriers to Trade (TBT) rules link to certification. This underpins the second issue, which relates to government procurement policies and how assessments of evidence (of 'legal and sustainable') are made. Finally, there is an issue of how private sector is making trade decisions.

The WTO Agreement on Technical Barriers to Trade and the Committee on Trade and Environment (CTE) are important. The CTE has agreed that if possible voluntary eco-labelling should not impede market access. The TBT aims to identify and eliminate trade barriers which lead to environmental and developmental problems⁵⁸. It rules that certificates and labels should be developed 'in a transparent and non-discriminatory

⁵⁴ ITTO website on announcement of EC Action Plan

⁵⁵ Bosdijk, Kees. (2002) Market requirements for certified timber and certified timber products – the European perspective. ITTO International Workshop on Comparability and Equivalence of Forest Certification Schemes, Kuala Lumpur, Malaysia, 3-4 April 2002.

⁵⁶ ERM (2002) Consultation Paper: Procurement of Timber Products from Legal and Sustainable Sources by Government and its executing agencies.

⁵⁷ Bob Andrew, DEFRA (pers comm)

⁵⁸ WTO (1999) Environment: Trade and Environment News Bulletins. TE/028 31 March 1999

(www.wto.org)

way' (i.e. all producers have access to the label and the label has access to all markets). It recommended that there should be a WTO checklist of steps to ensure non-discriminatory use of eco-labels, including: transparency during development; equivalency of standards; special and differential treatment of developing countries; and for developing countries to be given longer to phase-in standards. Consequently, any initiatives that might lead to discrimination by buyers raise potential problems with WTO rules.

The issue of whether certification acts as a non-tariff-barrier (NTB) in this way has been much debated. WTO recognised in 1999 that environmental requirements need not restrict market access, but that this issue may become more significant. Subsequently, standards and certification ranked top of the seven categories of NTBs identified in a submission to WTO⁵⁹, and now a WTO mandate from Ministers is to 'reduce or eliminate NTBs, in particular on products of export interest to developing countries'. But many NTBs are linked to legitimate public policy objectives and it is clearly not realistic to eliminate them. Government timber procurement policy is a useful example.

The debate about certification and the WTO:

Pro certification: Friends of the Earth⁶⁰ spearheaded campaigns based on the fear that WTO would restrict the use of non-tariff measures such as eco-labelling and standards, and that this might result in threatening certification schemes such as FSC that promote SFM.

Pro WTO: International Chamber of Commerce⁶¹ has lobbied against eco-labelling, arguing that it hinders free trade. Whilst recognising that much depends on precise circumstances of any given situation, debate in WTO was concerned that:

- Ecolabelling/certification is expensive and is only available to those who can afford it
- Standards might be difficult for 'foreign' competitors to meet (ie standards biased to domestic producers), and that then there could be discrimination of those foreign producers, especially those in less developed countries. Much depends on the precise.
- If the high costs or standards make it difficult or impossible for producers from poorer regions to get certified, then those producers are in effect (if not intention) banned from certain markets.

On balance: According to the 'Agreement on Technical Barriers to Trade, the use of environmental standards (including certification) in product specifications for import *could* be deemed a technical barrier to trade. But overall, voluntary certification schemes are in accordance with WTO rules (and are seen to be a good way forward as a trade tool by Klabbers), partly because social and environmental objectives of certification are deemed 'worthwhile' and in the public good.

Government procurement policy as a barrier? Overall, voluntary certification schemes are in accordance with WTO rules, partly because social and environmental objectives of certification are deemed 'worthwhile' and in the public good⁶², which is allowable under WTO rules. However, any Government body insisting on certification as a pre-requisite for import could be contravening WTO - anything 'mandatory' is

⁵⁹ WTO (2003) Submission by New Zealand to Negotiating Group on Market Access (www.wto.org)

⁶⁰ FoE (1999) "The Implications of current trade negotiations" in The world trade systems: an activists guide – Forests (www.foe.co.uk/resource/briefings/wto_forests.html).

⁶¹ www.wto.org and Klabbers, J (1999) Forest Certification and the WTO. European Forest Institute Discussion Paper 7.

⁶² Klabbers (ibid)

difficult to reconcile with WTO. 'Voluntary' means that demand has to come from the consumer to transform the market.

Again, the UK has made progress on this. To fit with WTO, UK procurement policies encourages use of certification schemes as evidence of 'sustainable and legal', but allows for 'other forms of evidence' to be put forward by tenderers. However, this leaves government procurement officers, trying to fulfill government commitments, with a difficult problem of how to assess the credibility of the evidence – how do they decide which labels to accept? The commissioned consultation⁶³ recommends to accept only labels authorised by 3rd party certification/labelling schemes which conform to the UK's sustainability criteria, and require mandatory 3rd party verification of other evidence. The supplier would then have a choice in how to demonstrate compliance and specific labels or certification schemes are not mandatory. The procurement officer would then only have to make one initial assessment of which certification and labelling schemes conform. The associated demand to require 'legal and progressing to sustainable' (where there is no certification of SFM) supports the need for step-wise approaches to certification that will verify legality as a first step and is useful as a focus for producers.

Clearly, harmonisation of the proliferation of certification and labelling schemes would be important to ease assessment – the forest industry needs to concentrate on what standards it is prepared to accept and adopt⁶⁴. This would also help to ease WTO's fears. However, as yet, no known forest certification cases have been brought before the WTO TBT panel. As Roe *et al*⁶⁵ point out, this suggests that the potential trade barrier problem is being dealt with by governments and is not emerging.

Changing commercial buying patterns. In the private sector, however, there is more flexibility and buying patterns have been directly influenced by certification. In efforts to achieve publicly declared targets and improve PR with retail consumers, some retailers have dropped suppliers who could not deliver certified wood products. In effect, this makes *not* labelling a barrier to trade (vs WTO fear that voluntary eco-labelling should not impede market access).

Examples of influences on buying patterns

In the UK a review of certification⁶⁶ observes that *not* being certified can result in producers having to sell at a lower than prevailing market price or having to find new buyers further away – either way at a lower profit, though they are not yet totally excluded. In some cases there is some level of niche market for *uncertified* timber. In South East Asia, not being certified means that producers have less choice of export market and have to rely more on the Chinese market which is less reliable and pays less than European markets⁶⁷.

The UK home improvement giant B&Q's timber procurement policy⁶⁸ states:

' Whilst some of our certified products still come from natural tropical forests, it is perhaps no coincidence that many of our products formerly made from tropical timber now come from other non-tropical sources. For example, some garden furniture is made from South African eucalyptus, while our ramin cabinet doors are now made from Polish pine. This has been a consequence of our buying only 'certified' policy.'

⁶³ ERM (2002) Consultation Paper: Procurement of Timber Products from Legal and Sustainable Sources by Government and its executing agencies

⁶⁴ Klabbers, J (1999) Forest Certification and the WTO. European Forest Institute Discussion Paper 7.

⁶⁵ Vorley, B., Roe, D. and Bass S. (2002) Standards and Sustainable Trade: A Sectoral Analysis for the Proposed Sustainable Trade and Innovation Centre International Institute for Environment and Development.

⁶⁶ Garforth, M and Thornber, K (2002) Impacts of certification on UK forests. A report for the UKWAS Support Unit, Forestry Commission UK.

⁶⁷ Scott Poynton. Pers Comm.

⁶⁸ B&Q (2002) Timber Procurement Policy. B&Q plc. UK.

4.4.4 Realities of change – volumes, prices, species

So what are the realities of change and can they be quantified? The answer in practice is ‘we don’t know’. As Markopoulos⁶⁹ points out:

“Owing to lack of official statistics... the current volume and value of trade in certified products are unknown.”

Only anecdotal estimates are available. These suggest that the trade in certified products is probably highest in the UK, where market share of certified products is about 25%, compared to less than 5% across the EC, about 4% in the Netherlands, and 1% in Germany and similar in USA. Globally, the ITTO approximates certified products as about 8% of the total⁷⁰, but there is no mention of certification in formal ITTO trade statistics.

Most of this **trade** in certified products has been dominated by sawn wood and solid wood products in the home improvement market, with little change in paper or construction markets as yet⁷¹. Paper holds CoC certification problems – though this is easing with debate and compromise. Some small markets emerging for certified non-wood products (fruit and nuts).

Change is clearly slow in the international trade. There are perceived and real supply and demand problems - the total demand for tropical timber certainly outstrips the supply of certified tropical timber, for all the reasons highlighted in section 3.2. In particular, many producers remain deterred by perceived high costs of certification. Slow progress towards mutual recognition of the proliferating schemes also deters further certification and thus supply, and confuses demand.

Certifying NWFPs: Forest management certification schemes are now being extended to include non-wood products⁷². It is more complex than certifying for timber, as more than one product may be assessed in the same forest area, and the requirements of management can be different, and even conflicting. Certified timber production does not necessarily guarantee sustainable NWFP production (and vice versa)

There is no clear evidence of consistent **price premiums**, though there are some reports of (mainly temporary) premiums in particular for the tropical hardwoods in short supply. An example is quoted in FSC’s newsletter (Mar-April 2003) of a 44% price premium on FSC logs at auction in Malaysia – but this may reflect the context of local/regional prices vs European prices. In the UK⁷³ there is evidence of pulpmills paying 1-20% less for uncertified wood.

There is some debate about the justification of premiums – buyers purport to want ‘to make sustainable timber sources more competitive than unsustainable timber sources’⁷⁴, whilst producers complain that ‘people want us to do good forest management but are only willing to pay the same as for illegal logs’⁷⁵. The real

⁶⁹ Markopoulos, M. (2002) Standards-based approaches to community forestry development in Asia and the Pacific – a regional assessment and strategy. Report for RECOFTC, Bangkok, December 2002.

⁷⁰ ITTO pers comm

⁷¹ Vorley et. Al. (2002) Standards and Sustainable Trade

⁷² www.fao.org/DOCREP/003/Y0900E/y0900e04.htm#P176_48340

⁷³ Garforth, M and Thornber, K (2002) Impacts of certification on UK forests. A report for the UKWAS Support Unit, Forestry Commission UK; David Ogg, Independent Forestry, UK (pers comm); and Steve Connolly, Cawdor Forestry, UK (pers comm)

⁷⁴ B&Q timber buying policy

⁷⁵ Malaysian private sector (pers comm)

problem is that wood products are not priced appropriately to include the environmental and social costs of good products.

However, certification differentiates suppliers in the market place, gives market advantage and influences some **customer buying decisions**. For example, in the Netherlands there was no traditional trade in Scandinavian softwoods, but due to the government/NGO promotion of certified wood, now Scandinavian softwoods are on the market⁷⁶. Similarly, the UK home improvement store Homebase previously did not buy from South Africa, which is now supplying 10% of its wood purchases, in plantation pine products. It has been observed in the UK⁷⁷ that there has been a general shift away from tropical hardwood towards more 'trustworthy' north American and European hardwoods, which are experiencing a significant revival.

Some influences have been less directly attributable, for example, ten years ago in the UK the majority of new window-frames in buildings were made from U-PVC, partly because wood's bad press. Now wood is much more in favour and is in higher demand⁷⁸.

4.4.5 Influences on trade patterns – pushes and pulls for SFM

At the moment the markets for certified wood are mainly confined to Western Europe, particularly the UK (about 25%), Netherlands (4%), and Germany (less than 1%)⁷⁹. WWF's Global Forest and Trade Network (GFTN) operates in 18 countries and is thought to be responsible for more than half of the demand for certified products. Market growth is constrained by limited supply and demand, limited interest from forest owners, and the proliferation of certification schemes. So what are the emergent 'push' and 'pull' factors influencing these patterns?

The most common reason for not specifying and using certified wood is 'there is not enough supply'. But it is clear that without increased demand (market pull) the benefits of certification will not materialise, and without support, many producers will turn to easier markets rather than invest in improvements towards SFM to enter 'green' markets (market push).

The pull factors include: procurement policies, buyers groups, consumer demand, price premiums, and preferential market access. The push factors include efforts to make certification more accessible (group and step-wise certification) and support to producer and trade groups (like the GFTN).

Market push and pull – what does this mean?

'Push' relates to the investments and support at the supply end – 'pushing' certification onto the market, by filling shelves.

'Pull' relates to the promotion of demand – pulling certified products onto the market by demonstrating preference to suppliers.

Key trends in pull factors: The UK's Timber Trade Federation⁸⁰ predicts that government procurement policies (linked to illegal timber issues) could significantly change the pulling pattern – potentially involving 20% of UK timber industry. With verifying legality being a first 'step' to full certification of SFM there is scope for optimism. In addition, lots of architects working in private as well as public sector are

⁷⁶ Bosdijk, Kees. (2002) Market requirements for certified timber and certified timber products – the European perspective. ITTO International Workshop on Comparability and Equivalence of Forest Certification Schemes, Kuala Lumpur, Malaysia, 3-4 April 2002.

⁷⁷ Stuart Goodall, UKWAS (pers comm)

⁷⁸ TTJ (Mar. 2003) Windows supplement to the Timber Trades Journal, UK.

⁷⁹ Markopoulos, M. D. (Dec. 2002) Standards-Based Approaches to Community Forestry Development in Asia and the Pacific: A Regional Assessment and Strategy for RECOFTC.

⁸⁰ Penny Bienze quoted in Timber Trades Journal (TTJ - UK) 22/29 March 2003 p28

now asking for advice on sourcing sustainable timber. Similar patterns are emerging across Europe and north America.

Domestic markets in producing countries are also critical to the 'pull' – where there are strong domestic markets producers may feel export is unnecessary and therefore avoid certification. In countries like Brazil and India, where both supply and demand are high domestically, this important. Without domestic demand for certification, certification is unlikely to have an influence on SFM.

Key trends in push factors: The advent of group certification has made a significant difference to the take up of certification and therefor trade. Step-wise approaches look set to extend this – there is clear excitement amongst producers that their end of the trade deal will be considered, and efforts to rise above illegality will be recognised. Linking up supply and demand through initiatives such as the GFTN and the Tropical Forest Trust will also be key. This approach of mutual support appears important in terms of re-building the balance – many producers feel that they have been the weaker player in the trade of certified products until now.

An overarching current problem is the general global trade slowdown since "9/11". When supply is low, traders take what they can get and certification becomes less important as a specification⁸¹. This has been an issue for tropical hardwoods, especially Asian, in recent months.

⁸¹ ITTO website, Tropical Timber Market Report
LTS International Ltd – 8th August 2003.

5. Summary of trends for MBIs and SFM

Government initiatives world-wide have failed to curb forest loss and degradation. NGO campaigns have raised awareness of the problem amongst consumers, and threatened attacks on the wood industry. Consequently, the use of market-based instruments as an alternative approach to promote SFM has increased rapidly. Forestry is changing from being a problem that only governments are held responsible for, to a problem that civil society and consumers can and do influence.

A key issue throughout this review is the increasing recognition of the 'real cost' of forestry. As social and environmental values of forests are grappled with, this cost is being estimated and efforts made to cover it through a variety of means and new instruments. It remains a challenge, not least in terms of ensuring that the cost is borne equitably, by all the real users, and not just by the producers or those who have to live with the consequences of deforestation.

Traditional instruments used by governments are increasingly trying to link into the 'real price' of forestry through more rational stumpage fees, performance bonds and incentives – the much-needed new innovations are being developed and tested by economists world-wide, as failures are common.

Abstinence appears to have been most valuable as a threat to stimulate change, by creating awareness of a need to change and pressure on the market to do so. As a tool to do this it has been extremely effective and the role of NGO campaigns remains strong, but only in constructive partnership with other tools that can implement the change. Without this, bans and boycotts risk simply pushing the problem elsewhere and excluding the problem from dialogue towards solutions. Experience suggests that campaigns that point to solutions and are well-informed are more successful in building a dialogue of trust within the market and avoiding confusion and mis-interpretation.

Trade groups and pressures have become increasingly important in response to increased market and public awareness of forest problems. This area is likely to become more important – government procurement policies are focusing increasingly on forestry issues and buyers are beginning to see the need to work with producers to improve their performance and maintain their market in the face of consumer fears about wood. Trade cannot influence forestry if fewer people buy wood.

Markets for environmental services are emerging as a way to cover the missed 'real cost' of forestry and are potentially a good way to ensure that costs are borne fairly, by the users. There are many different approaches evolving to suit different circumstances so there is scope for 'tailor made' solutions that consider local circumstances, rather than a one-size-fits-all approach that has failed in the past. However, this makes it difficult to learn from and replicate experience, so applicability of MES' at this stage is not easy - development of markets can be expensive and challenging. Despite this, some useful markets are developing in some places and they do hold good potential to make a difference – again, linking to other tools (such as certification) appears to be helpful to guide SFM vs other objectives.

Certification links to all of these. It has seen a massive expansion in the past decade. Ten years ago, retailers could not tell their customers anything about their wood supply – now some can give confident information on the sustainability their sources, right to the forest level. But it is clear that certification can only really impact on SFM if it is more widely taken up – not just adopted by those who can achieve it easily,

“One of the obstacles to increasing wood consumption is the perception that use of wood is equivalent to deforestation”

Mikael Eliasson quoted in TTJ 22/29
March 2003 p28

without much change. Evidence highlights that certification needs to resolve some of the problems which make it difficult for some stakeholders to use:

- Consumers need reliable and simple labelling - the mutual recognition debate is important;
- Small enterprises need to be actively included – this is being addressed through group schemes, simpler standards and cost-saving through local certifiers and schemes;
- Developed country enterprises need to be encouraged into the markets – developments towards step-wise approaches and producer group support from buyers will be increasingly key; and
- Markets and demand need to be significantly expanded - buyers groups need to be developed in new areas (e.g. ongoing efforts in China) and domestic markets (e.g. Brazil).

Forest policy reforms are beginning to link into and learn from the certification experience. This can broaden the SFM impact of certification, and there is opportunity for improved efficiency of forest governance as a result.

So, MBIs can be extremely effective at promoting SFM, but typically to date have only really worked in well-developed markets and economies. It is also important to recognise that MBIs are diverse and often complementary to each other, and to traditional regulation. There is no simple, single solution – they can only be applied as part of a holistic drive to promote SFM. Markets and trade are only a small part of the influence on SFM in its wider sense.

“Trade in forest products seems to play a minor role [in forest destruction], at least when it comes to tropical timber”

Jan Klabbers, 1999.