

## CHAPTER 3

# CERTIFIED FOREST PRODUCTS MARKETPLACE<sup>1</sup>

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### Highlights

- There are several active certification schemes in the ECE region and many more under development.
- The only third-party, performance-based scheme with products apparent in the marketplace is that from the Forest Stewardship Council.
- Offering certified products can increase access to markets.
- There appears to be little consistency in the ability to gain premiums.
- The majority of Forest Stewardship Council certified forestland is in Poland, Sweden, and the United States.
- Forest Stewardship Council certified land area has more than doubled during the past year to approximately 10 million hectares by June 30, 1998.
- Most demand for certified products is from a growing number of buyers' groups.
- A true picture of the marketplace is difficult to construct due to lack of statistics.
- Final consumers are not currently a significant influence in the marketplace.
- The industry trading in certified products is underdeveloped with key gaps in its infrastructure.

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Forest certification is one element of the larger discussion surrounding sustainable forestry. During the past several years, certification has been closely followed by the Timber Committee. In October 1994, a team of specialists was organized to assess the status and direction of forest certification. The report from the team of specialists was published in July 1996 (21)<sup>2</sup>.

During the 55th session of the Committee in the fall of 1997, forest certification was a special topic and several outside speakers presented information on developments in certification and the marketplace (19). The Committee expressed a high level of interest in continuing to follow certification developments in the ECE region. This chapter outlines developments in certification schemes and the present state of the marketplace.

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<sup>2</sup> (All reference numbers refer to citations found at the end of the chapter.)

### 3.1 Introduction

When discussing forest certification, it is important to have a common understanding of the three basic forms. First-party certification is an internal assessment by an organization of its own practices, second-party certification is an assessment by a customer or outside trade association, and third-party certification involves an assessment by a neutral, third-party, based on a set of accepted standards (13,10).

Another important concept is the difference between performance-based schemes and systems-based schemes. In a performance-based scheme the organization and land base being evaluated must meet specific thresholds of performance. A systems-based approach only requires an organization to have management systems in place designed to recognize the company's impact on the environment, monitor those impacts, and improve performance.

Typically, third-party, performance-based systems include the option of an on-product logo or ecolabel. This label is specifically designed to communicate with final consumers about various aspects of the product. For example, the ecolabel created by the Forest Stewardship Council (FSC) is designed to communicate that the product comes from a well-managed forest.

### 3.2 Forest certification schemes

There are a multitude of schemes or initiatives being developed in the ECE region with a goal of documenting and improving forest management. For example, Finland, Sweden, and Norway have each been working on their own systems and created the Nordic Forestry Certification project to coordinate information sharing and harmonization. A number of other countries, including most of those in western Europe, are also working to develop schemes. Four examples of currently operational schemes are detailed below. The basic elements of each scheme are shown in Table 1. An ECE discussion paper planned for late 1998 will further document the status of various schemes under development.

#### (i) American Forest & Paper Association's Sustainable Forestry Initiative

The American Forest & Paper Association (AF&PA) is the national association in the United States for the primary forest industries. Its members own approximately 90% of company-owned forestland in the United States and account for a majority of total paper and wood product outputs.

Officially begun in 1996, the Sustainable Forestry Initiative (SFI) is made up of a series of Implementation Guidelines, objectives, and performance measures and is a second-party certification scheme. Companies are required to participate in SFI to maintain association membership. As part of the commitment to SFI, members also work to educate loggers and non-company foresters to assure that sustainable forestry is practiced on non-company lands where roundwood and chips are sourced.

In early 1998, the Third Annual Progress Report on SFI was published. The report outlines the commitment and progress made by member companies. A panel of experts including academic, government, and nongovernmental organizations, reviewed the guidelines and progress made by member companies and gave it a positive evaluation along with suggestions for continued improvement. Although a number of companies chose to leave AF&PA rather than participate in SFI, the total land area under the program has grown to nearly 22 million hectares (3).

AF&PA is currently considering the need for SFI to provide a mechanism for third-party verification of member company practices and performance. This would mean a third-party auditing mechanism internal to SFI. A decision on this issue is expected by the fall of 1998. There is no discussion about modifying SFI to include an ecolabeling scheme.

#### (ii) Canadian Standards Association's Sustainable Forest Management System Standards

Canada has led development of a systems-based approach to sustainable forest management. Initiated by industry and developed through the Canadian Standards Association (CSA), two voluntary national standards (CAN/CSA-Z808-96 and CAN/CSA-Z809-96) were formally introduced in October of 1996. Z808 explains the design and implementation of a forest management system that includes environmental, economic, and social and cultural aspects and Z809 outlines auditing requirements for the program.

The Canadian approach to certification is based on the International Organization for Standardization's (ISO) 14001 environmental management system standards. In several areas it goes beyond the ISO standard. The standard incorporates a Canadian adaptation of the sustainable forest management criteria which were developed through the Montreal Process. It guides forest managers and public advisory committees through the refinement of the broad Canada-wide criteria into specific performance

objectives for the local defined forest area. The required third-party auditing process includes on-the-ground performance measures in addition to an audit of the management system (1). Companies performing audits must be accredited by the Standards Council of Canada.

A recent survey shows that at least 15 major Canadian forest products companies are implementing CSA standards on approximately 20 million hectares of forestland (2). However, no company has yet completed the process of becoming registered or certified in the system.

### **(iii) International Organization for Standardization 14001 and 14061**

Subsequent to the UNCED conference in Rio de Janeiro in 1992, the International Organization for Standardization (ISO) began work to create a mechanism designed to support sustainable business development. In 1993, ISO Technical Committee 207 was formed to create the ISO 14000 series of environmental management standards (9).

During the process of developing the 14000 series, Canada and Australia unsuccessfully pushed for the development of standards specific to land management operations. However, ISO 14061, a guidelines document, has been developed to assist companies in applying ISO 14001 to forest management operations. Final touches are currently being incorporated and the 14061 document should be available from ISO by September 1998.

Only a few companies around the world have incorporated ISO 14001 into their forestry operations. According to Ghazali and Simula (16) five certifications of forest operations according to ISO occurred by late 1997 in Brazil, Sweden, Finland, and Indonesia.

### **(iv) Forest Stewardship Council**

First proposed in 1990, the Forest Stewardship Council (FSC) was founded in 1993 in Toronto, Canada and has headquarters in Oaxaca, Mexico. The FSC development process was largely led by the World Wide Fund for Nature (WWF). WWF continues to support FSC in a variety of ways. FSC's Board of Directors is from three distinct interest areas: economic, social, and ecological. Each area is equally represented and there are rules to assure representation from the northern and southern hemispheres.

A key element of the FSC scheme is the incorporation of a logo or ecolabel. The label is designed to communicate to consumers that the product comes from a well-managed forest. If

ecolabeled products become common in the marketplace, consumers may develop a preference for them.

FSC accredits or approves organizations (certifiers) that wish to perform forest certifications according to its ten principles and criteria. Essentially this means that FSC is the certifier of the certifiers. To date, FSC has accredited a total of five certifiers, Scientific Certification Systems and SmartWood from the United States, SGS Qualifor and The Soil Association from the United Kingdom, and SKAL from the Netherlands.

FSC has developed ten principles and criteria for forest management designed to assure that consistent performance-based standards are used in evaluating forest management practices. Because the principles and criteria are broad and generic, FSC facilitates standards development processes in countries or regions around the world. Currently there are officially endorsed groups operating in six countries and another 20 following FSC frameworks without official endorsement.

The Swedish national standard was the first to be endorsed by FSC in January 1998. Standards development processes are designed to be participated in by a wide variety of stakeholders. This has been a challenge as shown by the withdrawal of the non-industrial private forestland owner organizations from the Swedish standard development process.

Harmonization of standards is also a challenge. For example, the United States has been divided up into 11 regions for the purposes of FSC standard development. FSC-United States must assure that the regional standards are roughly equivalent before they can be forwarded to FSC-International for approval. The international office must then work to harmonize the standards with others around the world.

The FSC has developed a method for group certification. The goal is to make certification economically feasible for non-industrial private forestland (NIPF) owners. The method is based on certifying professional land managers such as consulting foresters. The individual managers (or company) and management practices used are evaluated and a sample of managed lands are inspected. Providing performance requirements are met, the managers and lands are certified.

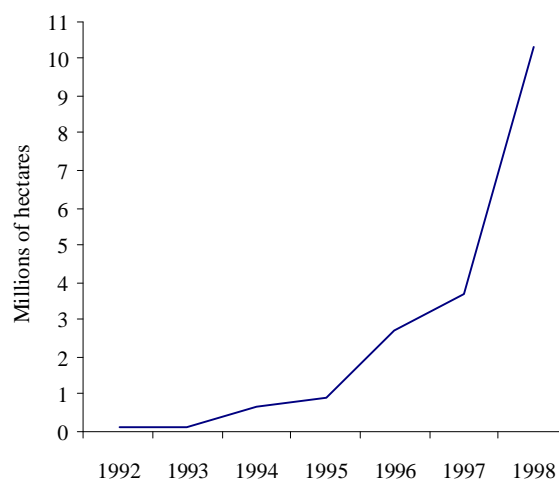
The FSC now has a policy regarding percentage-based claims. A percentage-based claim allows an assembled, fiber- or particle-based product to carry an FSC label even though only part of its wood fiber is from a certified source. The allowable split is at least 70% certified and no more than 30% uncertified, based

on *volume* for assembled products and *weight* for fiber- and particle-based products. The policy also allows up to 75% recycled or non-wood fiber in combination with 25% virgin fiber. At least 70% of the virgin fiber must be certified.

Although still small on a global scale, the area of FSC certified forests is growing quickly. The graph (graph\_3.2.1) shows the progress in area certified from less than 1 million hectares at the end of 1995 to over 6 million at the end of 1997 and approximately 10 million in mid-1998.

The only third-party, performance-based scheme with products in the marketplace is the FSC. This chapter outlines the development of the marketplace for products originating from FSC certified forests.

GRAPH 3.2.1  
FSC certified forest land, 1992 to 1998



Source: FSC-United States and FSC-International, 1998.

TABLE 3.2.1

Basic elements of example certification schemes

Scheme	Led By	Level	Application	Ecolabel
SFI	American Forest & Paper Association	2nd-party	United States	No
CSA	Canadian Standards Association	3rd-party audited, systems-based	Canada	No
ISO	International Organization for Standardization	Optional 3rd-party audited, systems--based	International	No
FSC	Primarily environmental, non-governmental organizations	3rd-party, performance-based	International	Yes

### 3.3 Why certification?

- Companies are increasingly incorporating environmental issues into their marketing strategies.
- Offering certified products can increase access to markets.
- Certification can enhance the credibility of company communications.
- Premiums are available in some sectors but are generally inconsistent.
- Extensive networking is often required to access supply and develop markets.
- Offering certified products appears to be improving company marketing strategies.

An increasing number of companies and landowners are choosing to certify their lands or buy and sell certified products. An awareness of the motivating factors behind their involvement is helpful in understanding the overall development of the marketplace.

#### (i) Marketing the environment

In recent years, environmental concerns have been prominent in the media, and are increasingly important throughout the world. A variety of issues have energized environmental groups, citizens, and political leaders to begin making changes.

Companies are often cited as a principal source of environmental problems. Consequently, they have been confronted with demonstrations, restrictive

regulation, and buyer boycotts (17, 24). European wood products retailers faced significant challenges to their operations during the tropical timber boycotts of the 1980s. The boycotts contributed to a loss in market share across a variety of industry sectors for tropical wood and may have contributed to a loss of share for all wood products in sectors such as windows.

As one way of dealing with these societal forces, companies have begun to incorporate aspects of the environment into their marketing strategies. A simple definition of environmental or "green" marketing is, gaining profit from identifying and providing for the wants and needs of consumers while recognizing and minimizing impacts to the environment. The use of forest certification in company marketing strategies is one example of a trend toward environmental marketing in the forest industry.

#### **(ii) Market access**

Certification may hold its greatest potential in providing entry into markets that companies have not previously operated in. With certified product offerings, companies have often found opportunities in totally new markets. For instance, Colonial Craft, a United States hardwood moulding and millwork producer, filled a small order of certified product for a new customer several years ago and has since become its sole-supplier. Although certified product is still a small proportion of the volume sold to this customer, the total order was worth several million dollars. Collins Pine, a small United States sawnwood producer, was able to sell certified pine shelving directly to a large retailer and certified white fir to a furniture company. Both of these were new markets for Collins Pine.

Swedish companies are beginning to see inquiries for certified forest products from glulam and other secondary forest products manufacturers. Small European importers and wholesalers have found that offering certified products gets them in the door to talk to buyers from big do-it-yourself (DIY) chains. Without certified products these small players are typically too small to gain the attention of corporate buyers. Those selling tropical wood in Europe claim that certification is often what allows them to successfully sell tropical wood in markets where any wood products from the tropics have largely gone out of favor.

#### **(iii) Image**

Generally, companies have experienced positive public relations from becoming involved with forest certification. As one of the first companies in the

United States to certify its forestland, Collins Pine received national media attention despite its relative small size and also received a Presidential Award for Sustainability. Even FSC certified resource managers in the United States have used their certified status to generate media exposure and positive public relations. Some companies feel that being seen as progressive and doing the right thing is critical for maintaining their company image. For example, a German contact said his company has a strong image with customers and a need to communicate with them about environmental issues in order to maintain that image. Retailers such as The Home Depot in the United States, Homebase in the United Kingdom, and Migros in Switzerland have received positive press for their commitment to purchasing certified products.

#### **(iv) Credibility**

Credibility is key to successful implementation of environmental marketing strategies. Since companies are rarely seen as credible sources of information, they face a challenge in implementing environmental marketing strategies. Certification is being used as a means to enhance the credibility of company communications. Swedish industry saw credibility when communicating with their customers as a critical advantage to becoming certified.

Public land managers in the United States hope certification and the evaluation by a set of outside experts will give citizens more confidence in their management decisions. Many proposed harvests on public lands in the United States have seen legal challenges in recent years. Managers also hope certification will lead to fewer legal challenges to timber harvests.

Part of the credibility of certification derives from the interaction among a wide range of stakeholders. Companies involved with certification are quite often working with environmental groups as partners rather than adversaries. This networking and cooperation is clearly advantageous for companies. One European retailer sees the affiliation with WWF through participation in a buyers' group as one of the most important aspects in making a commitment to purchase certified wood. Since certification is supported by many environmental, non-governmental organizations, some companies have embraced certification because it minimizes the risk of being targeted by those groups.

#### **(v) Premiums**

Initially, supporters of certification claimed consumers would be willing to pay more for "environmentally preferable" products. A number of

studies investigated the willingness-to-pay of consumers and various industry sectors (e.g., 18, 20, 22, 23). None of these studies observed actual consumer behavior so it is difficult to conclude that the respondent's expressed willingness-to-pay would materialize in an actual buying situation.

In evaluating the nature of the marketplace it is critical to use a common definition of a premium. A premium results when a higher price is paid for a certified product than the exact same non-certified product. Often, claims about premiums result when products are processed differently or are sold for a higher price in entirely different markets.

Generally, companies have been unsuccessful in obtaining consistent premiums. Forsyth (15) interviewed 11 companies in the United States and Europe and found that six had paid premiums ranging from 5% to 20% for certified product and four claimed their customers had paid premiums ranging from 5%-10%. AssiDomän in Sweden is able to get around 6% more for certified sawnwood than for uncertified sawnwood of the same quality and \$20-30 more per ton for pulp in select European markets (15). One United States veneer manufacturer consistently pays a 10% premium for certified logs and at least part of the increased cost is recuperated through higher veneer prices.

Although companies may not be receiving consistent premiums, they are confident certification will differentiate them from their competitors and influence customer purchase decisions. One United States company claimed that without differentiation they would be doomed to the highly competitive commodity market dominated by large companies. One small wholesaler claimed that the real value of certification was in maintaining or improving market share. With a low margin product like sawnwood that has to be sold quickly and in volume, certification allows him to get the full margin more often.

#### (vi) Networking and improved marketing

Because the infrastructure for certified products is still being developed, companies are finding it necessary to network with suppliers and competitors alike. This is especially positive for small companies as they stand to benefit from interaction with peers. In this way they learn from each other and can co-develop markets conserving individual time and energy. Mid-sized companies see building alliances as one way to be more competitive with big companies.

Selling certified products has often required improved marketing skills. For example, sawnwood companies that have traditionally operated in a

commodity market, with a stereotypical commodity mentality have had to evolve. One United States sawnwood producer noted that you cannot sit and wait for the market to come. Pursuing non-traditional markets has required companies to listen to the needs of customers.

### 3.4 Status of supply

- Over 70% of FSC certified land is in Poland, Sweden, and the United States.
- Several fiber- or particle-based products recently debuted in the marketplace.
- Potential certification of United States federal government owned lands has become highly controversial.
- Newly certified land does not immediately equate to certified product on the market.

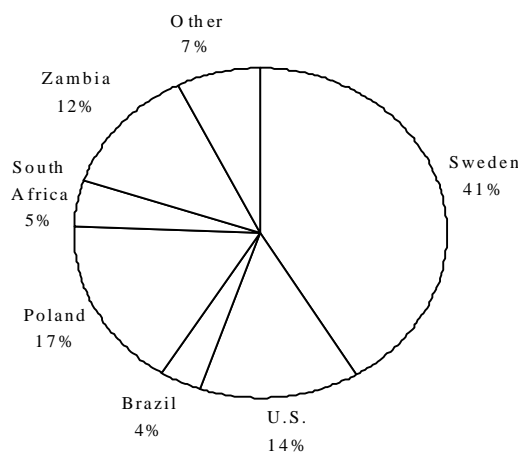
Ghazali and Simula (16) estimated total roundwood production from certified forests in 1997 to be 9.5 million m<sup>3</sup>. Certified land area has increased considerably since then and was approximately 10 million hectares as of June, 30, 1998 (14).

The graph (graph 3.4.1) shows where the current FSC certified forests are located and that Poland, the United States, and Sweden contain a majority of FSC certified land.

Several high profile certified products have hit the market during the past 12 months. Medium

GRAPH 3.4.1

Location of FSC certified lands, June 30, 1998



Source: FSC-International, 1998.

density fiberboard and hardboard from Brazil are now available in Europe. Bathroom tissue and wallpaper are being sold in the United Kingdom originating from pulp in Sweden. In the United States, a limited volume of softwood structural plywood was available and a small volume of particleboard was expected during 1998.

Fiber and particle-based products are a significant development because manufacturers of these products typically access raw materials from a large number of suppliers. Unless a large percentage of the fiber coming from those suppliers is certified, chain-of-custody becomes a significant challenge.

Although there have been large areas of forestland certified during the last year, this does not immediately equate to large volumes of product on the market. The processing and distribution infrastructure for certified products must develop before they can make it to market. Even when the certified land is owned by a large company with processing capabilities, the production of certified products is sometimes limited by mill self-sufficiency and costs associated with maintaining chain-of-custody requirements.

Although the FSC and certifiers carefully keep track of the area of land certified, they have not implemented a comprehensive system to quantify the volumes and types of certified products available in the marketplace. As there are no organizations systematically quantifying the trade of certified products, obtaining a complete, objective picture of the marketplace is impossible.

#### (i) Supply developments

The World Bank and WWF have agreed on a strategic alliance with one goal being the certification of a total of 200 million hectares of forest by the year 2005. According to Ghazali and Simula (16) this could mean about 6 percent of the world's production forests and around 600 million m<sup>3</sup> of roundwood production annually. However, this project is still under development and will have few short term impacts on certified product supply.

The area of certified land in the *United States* increased considerably when public lands in two states were certified. Pennsylvania had over 485 thousand hectares of state lands certified and Minnesota over 236 thousand hectares of state and county lands. Both states are considering certification of additional areas which could amount to around 650,000 hectares. Other states are also becoming involved. The most developed process is in New York where approximately 283,000 hectares will be assessed in the

fall. The city of Sitka, Alaska has received a grant from the United States Environmental Protection Agency to study the feasibility of certification on state lands and land owned by native corporations.

Certification on federally owned lands in the United States has become very controversial. A small community in southern Oregon took the initiative to bring consideration of certification to a Sustained Yield Unit on the nearby Fremont National Forest. Several large United States environmental groups are opposed to timber harvesting on United States federal land. Though they may support certification in concept, they do not see it as appropriate for federal lands since it could facilitate harvesting. There is a moratorium on certification of federal lands for the remainder of 1998 while the issue is being resolved.

Resource manager certification is gaining momentum in the United States, though typically involving fairly small areas of land. Northern California and Oregon appear to be especially active. As in other sectors, the processing infrastructure presents a challenge. Certified managers find themselves spending considerable time trying to find a way to get a small volume of certified logs processed.

Since the approval of the Swedish National Standard there has been a huge area of land certified in *Sweden*. Nearly all of the area certified by the end of June 1998 belonged to three companies, AssiDomän, Stora/Enso, and Korsnäs. AssiDomän has the largest area of certified forestland at 2.6 million hectares followed by Stora/Enso with almost one million and Korsnäs with just over 660 thousand (14). According to a recent press release, AssiDomän now has all of its 3.3 million hectares of Swedish forest certified. Korsnäs also has all of its Swedish forestland certified while Stora/Enso has approximately half.

*Poland* and the *Czech Republic* both have certified forest land. The Czech Republic has a small area of just over 10 thousand hectares. Poland is a significant player worldwide with a total of 1.7 million hectares. This area is made up of four different regional state forests. Very little activity can be seen in other countries in transition.

*Brazil* and *South Africa* are the other two places where significant developments have taken place. The first certified medium density fiberboard and hardboard became available from Duratex in Brazil (4). Klavin Fabricadora de Papel e Celulose S.A. received certification of nearly 219,000 hectares of plantation. So far its chain-of-custody certification only covers the solid wood side of its business and not the paper side. Further certification of plantation operations in Brazil is expected in the near future.

South Africa now has over 360,000 hectares of certified plantations and products from those plantations are making their way into European markets.

### 3.5 Status of demand

- Demand is regional in nature and dominated by European buyers' groups.
- The true size of demand is difficult to estimate due to a lack of statistics.
- Governments at various levels are becoming involved through legislation and preference clauses in contracts.

Demand has been increasing in various markets and market sectors but is regional in nature and often segment specific. One indication of the infancy of the market is that there are as many players in the industry complaining about lack of demand as there are complaining about lack of supply. Coopers and Lybrand (11) estimated that demand in 2003 for certified material could amount to approximately 100 million m<sup>3</sup>. Demand appears to currently be concentrated in the United Kingdom, the Netherlands and Germany with some demand in the United States. Little interest is evident in southern Europe, the countries in transition, or Asia.

#### (i) Buyers' groups

The largest demand for certified products is currently a result of the formation of buyers' groups. Buyers' groups are companies that voluntarily join together and commit to purchasing wood and wood-based products that originate from well-managed forests. The primary players in these groups are typically large DIY retailers.

Most buyers' groups are organized by WWF. Member companies have a goal of improving forest management through evaluating and documenting supply sources and eventually insisting on buying certified wood products.

The United Kingdom 1995+ was the first to be developed, others currently operate in the Netherlands, Belgium, Austria, Germany, Switzerland, and North America. There are also groups planned in Australia, Brazil, Denmark, France, Greece, Ireland, Japan, Norway, Spain, and Sweden. Participation has been driven by a variety of factors including a corporate ethic of "doing the right thing", obtaining assistance in dealing with forestry issues, perceived competitive advantage, and risk aversion.

The market share that DIY represents within a country as well as the individual companies involved in a buyers' group have a significant impact on the ability of the group to influence the marketplace. In the United Kingdom, DIY is an important sector in the marketplace and the major DIY retailers are all participating in the 1995+ Group. As a result, they are able to heavily influence their supply chain. As they successfully obtain more certified products, their ability to move others towards offering certified products will increase.

Member companies and marketplace dynamics influence group success. For example, some central European markets like Switzerland are very committed to buying wood from local forests. Very little forestland is certified in those countries which severely limits product availability. Companies must then trade off their commitment to buy locally with their commitment to buy certified products.

In 1998, demand from buyers' groups is estimated to be around 9 million m<sup>3</sup> of round wood equivalents and the total volume of certified timber traded in Europe around 2 million m<sup>3</sup> (20). Brief information on the active buyers' groups is listed (table 3.5.1).

As the first buyers' group, the 1995+ Group in the United Kingdom is an important part of the certification story. It was formed to bring together companies committed to purchasing wood and wood-based products from well-managed forests. Members of the Group generally have a goal of selling 100% third-party certified forest products by December 31, 1999.

This group of companies has had an undeniable impact on the global forest products industry. Some of the members of the group have been very active in their efforts to access certified products even to the point of switching or threatening to switch suppliers. **A recent statement from** Homebase, Sainsbury's DIY division, stated that Indonesia and Canada were specifically considered questionable supply sources and the company would soon be switching to beech for stair parts as a substitute for British Columbian hemlock (12). Another DIY retail chain, B&Q, publicly threatened to drop Finnish suppliers unless they create concrete plans to provide FSC certified products. B&Q imports about 500,000 m<sup>3</sup> of Finnish timber products (5). Similar threats have been made to their Canadian suppliers.



TABLE 3.5.1  
Currently Operating Buyers' Groups

Country	Group Name	Founded	Members	Total Annual Member Sales (millions)	
United Kingdom	1995+ Group	1991	87	\$69,000	
Netherlands	Hart Voor Hout	1995	11	...	
	Organizations committed to FSC	1992	473	...	
Belgium	Club 1997	1994	79	\$270	
Austria	Gruppe 98	1996	26	\$960	
Germany	Gruppe 98	1997	31	\$12,000	
Switzerland	WWF Wood Group	1997	10	\$170	
North America	Certified Forest Products Council	1997	Businesses..	140	...
			Individuals..	500	

Several 1995+ Group members have switched suppliers in order to access certified products. Changes from Southeast Asia to Central America, South America to Africa, Europe to South America, and even from one Nordic country to another have taken place. As the year 2000 approaches and the commitments of these retailers come due, the pressure to access supply is escalating.

#### (ii) Other sources of demand

Public entities in a number of countries have tropical wood bans in place and are moving to develop preferences for certified products. For example, in the United States, cities such as Los Angeles and San Francisco are working to incorporate preferences and even are considering paying premiums for certified products. The United States government in its preplanning for \$1.4 billion military base renovations project is pilot testing a buy green program. The text in the request for quotations included the term "certified wood", though it was unclear how certification was defined.

In February of 1998 the Lower Chamber of the Dutch parliament passed a bill that would require the labelling of timber indicating the sustainability of the source by the year 2000 (6). Basically any timber sold would carry a red or green sticker with red corresponding to timber from non-certified sources and vice versa. The bill has been passed on for consideration by the European Union and must still pass the Upper Chamber of parliament (7). It is questionable whether this will make it past European Union scrutiny, however, it is an indication of the

potential for government involvement in the marketplace.

There are companies outside of buyers' groups asking for certified products. Often small entrepreneurial operations, these companies typically operate in urban centers where they can access an affluent, environmentally minded consumer base. In the United States there are large, high-end retailers that have an interest in certified wood for the interiors of their new stores. Their demand is increasing interest down the supply chain.

A significant industry sector, the publishing industry in Germany has been prominent in the certification debate. Acting through the German Magazine Publishers Association, the industry cooperated with the German Paper Producers Association to produce a series of position papers and has called on their suppliers to play a part in a certification system that is recognized worldwide. However, they have made no commitments similar to those companies participating in buyer's groups. Still, the actions of this sector could have a significant impact on future demand for certified products.

### 3.6 Constraints to market development

- Final consumer demand is not yet a significant part of the picture.
- Lack of supply is a problem for many manufacturers and retailers.
- Mainstream industry is still hesitant to become involved.

- The industry trading in certified products is underdeveloped with key gaps in its infrastructure.
- Seeking premiums may hurt market development.
- Demand is often specific and fragmented.

Despite growth in markets for certified products there is a variety of factors that impede development. As an infant market, much of the infrastructure to process and deliver product to a wide customer base has yet to develop. Although the dynamics of each market and each product are unique, the following outlines some of the general difficulties faced in developing markets for certified products.

#### (i) Limited market demand

At this point in the evolution of markets for certified products, the final consumer is NOT a significant player. Despite public interest in forest management, there is limited evidence to indicate mass market demand for responsibly-sourced wood products. Very few consumers even know what certification is. The consumer market for certified wood products was less than 1% of total European consumption in 1997 (20). Even though certification has been a high profile issue in the industry for several years now, very few final consumers have been exposed to certified products or certification ecolabels.

Many advocates of certification feel that generating demand is a matter of educating the consumer. The DIY market in the United Kingdom will provide the first indication of mass consumer reactions to FSC labeled forest products. The FSC ecolabel are now fairly common in DIY retail outlets, the FSC ecolabel has received considerable press, and the United Kingdom buyers' group is considering an advertising campaign to develop demand.

A number of companies expressed that education and awareness by customers and eventually final consumers were necessary to further market development. One mid-sized, United States company claims that once a potential customer understands certification, selling the product is not difficult.

There is demand for certified products in a few key European countries. One softwood sawnwood supplier expressed concern that the market could grow too fast. If demand is consistently larger than supply, companies unable to access certified products could abandon their commitment to buy certified products, or worse, switch to non-wood substitutes.

There is often a gap between those who are demanding certified products and those who are in a

position to supply them. Companies in the lesser developed countries of the Americas have certified products but have had difficulties attracting buyers, though limited processing capabilities and species availability are partially responsible. Other evidence of this gap is that most companies are able to sell only a low percentage of certified products to customers specifically requesting them.

#### (ii) Lack of supply

Companies in various markets and levels of the supply chain cite lack of supply as their biggest challenge to market development. A strong supporter of certification in the United States says he cannot get wood. Due to lack of supply he has stopped pursuing markets for certified products and lost much of his enthusiasm. European retailers are anxiously awaiting the supply that can help them meet commitments made when joining buyers' groups. There is concern within the industry that if more supply isn't soon available, the market for FSC products could lose momentum.

#### (iii) Limited industry involvement

Generally, mainstream industry has been passive about or even resisted the trend toward certification. Despite this resistance, 75% percent of Finnish, 68% of British and 60% of German companies surveyed felt that a widely used certification system was needed (20). There is a variety of reasons for resistance to the FSC scheme including the costs of certification and uncertainty of cost recovery, the challenges associated with chain-of-custody, the uncertainties of regional standards development, and lack of significant market demand. Also, there is considerable confusion and misinformation about certification. This is especially true with chain-of-custody certification and percentage-based-claims policies. All of these factors, in addition to the infancy of the market, add up to an underdeveloped, inefficient marketplace with gaps in the infrastructure.

Those companies that are interested in buying and selling certified products are faced with a number of challenges. There is a limited volume of certified products available and few producers. Availability and consistency of supply are legitimate concerns at all levels of the industry ranging from wholesalers and retailers to home builders and architects. According to one United States contact, the consistency of supply is not there for secondary manufacturers yet. A United States wholesaler stated that even if production is happening, distribution is still a problem.

Chain-of-custody means that a certified product must have documentation proving it comes from a certified forest. Members of the distribution channel

must become chain-of-custody certified to show that they have a system in place to properly keep certified and non-certified products separate. Thus, certification can add complexity and costs. For companies involved in distribution it may be difficult to obtain enough product volume to justify allocation of separate floor space, storage, and other distribution resources. This suggests that large, vertically integrated firms with large areas of forestland should be especially well positioned to capitalize on certification.

Another important sector of the industry that opposes FSC-based certification is the non-industrial private forestland (NIPF) owners in Europe. The organizations representing the owners are generally opposed to FSC-based certification because they feel that FSC has not adequately taken the needs of NIPF owners into consideration. Generally, private forest owners in Finland and the United Kingdom anticipate few benefits from certification (20).

The withdrawal of the Swedish NIPF organizations from the FSC standards development process appeared to catalyze owner organizations around Europe. Some 500 owners gathered in Germany in November 1997 to demonstrate their opposition in front of a company's headquarters that supports FSC certification (8). The associations are now looking to develop an alternative certification system to FSC that is based on the criteria and indicators developed in the Pan European Process.

#### (iv) Difficulty with premiums

According to some in the industry, the pursuit of premiums is restricting market development. An example of this is in the United States hardwood plywood industry. In this industry, premiums are often paid all along the supply chain. By the time it gets to the final customer the plywood might be 50% more than its non-certified equivalent. This kind of price differential makes it difficult to grow a market.

On the other hand, if producers cannot get a premium they often see little incentive to becoming involved. Some producers question, and are even a bit cynical, about commitments to certified products made by European buyers. The producers feel like price is still the overriding factor.

#### (v) Fragmentation and specificity of market demand

Final consumers and secondary processors are accustomed to broad product ranges in species, dimension, grade, etc. Because supply is so undeveloped, producers often find it difficult to meet the specific demands of their customers. For example,

in the United States hardwood plywood industry, there is a limited number of thicknesses of certified core material available. This in turn means that the thicknesses of final products are also limited. Consequently, the companies currently offering certified hardwood plywood cannot offer a full range of options to their customers. United States hardwood sawnwood producers which are typically small in size have difficulty meeting large orders of a given species, dimension, etc. Even large producers of softwood sawnwood have experienced difficulties in providing the various lengths asked for by their customers.

The demand for certified products often centers on a narrow range of grades. This means that the producer might quite successfully develop a market for one grade, but be left with the others to find a market for. This is often the case in the veneer and hardwood sawnwood industries. Some suppliers are not offering lower grade certified products because they fear it could hurt the image of the FSC label.

Suppliers both large and small see orders that are too small to economically fill. When a large MDF manufacturer that normally deals in car loads or container loads is approached by a potential customer that wants "at least 50 pieces per year", the manufacturer simply cannot fill such a small order. Similarly, if a certified sawnwood manufacturer in the United States is approached by a homeowner in another state to supply certified sawnwood for one home, it is unlikely to be a profitable venture.

### 3.7 For the Timber Committee's consideration

Current trends suggest that certification in some form will be part of the forest industry for some time. As mentioned above, there are no sources of reliable, objective statistics regarding production, trade, and consumption of certified forest products.

Collection of specific statistics presents a considerable challenge since certified products are not distinguished from non-certified in traditional measurement mechanisms. The situation is further complicated by the number of certification schemes that are, or soon will be operational. The Timber Committee could consider how to best monitor developments in certification and the impact of those developments on markets for forest products.

Aspects which might be considered could include:

- Information needed to appropriately monitor developments in this growing market segment.

- Potential information sources (official, certifiers, associations, etc.).
- Questions of confidentiality.
- Methods of collecting information (regular official enquiries may not be the most effective method).

It is suggested that the Timber Committee consider at its September 1998 session whether and how a system to monitor these trends should be set up. It may wish to refer this matter to the Joint FAO/ECE Working Party on Forest Economics and Statistics, which will meet in summer 1999.

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