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TIMBER COMMITTEE
Fifty-fifth session

MARKETS FOR CERTIFIED FOREST PRODUCTS

(Item 3 of the Provisional Agenda)

Note by the secretariat

The special topic of the Fifty-fifth Session of the Timber Committee will be "Markets for certified forest products".

Delegations are invited to:

- react to this note and the presentations of the expert panel in an open discussion;

- decide if any follow-up actions are necessary from the discussions.

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Introduction

1. Certification of sustainable forest management (SFM) is receiving increasing attention from the public and private sides of the forest and forest industries (FFI) sector. Within the sector, long-term SFM has been and still is considered as essential and fundamental, not only to the long-term survival of the forest ecosystem, but also to the long-term survival of the FFI sector itself. However forces within and outside of the sector are calling on forest managers to prove, through independent certification, according to pre-existing and public criteria, that their forests are sustainably managed--and sustainably managed not just for wood and wood fibre, but for a range of non-wood products and services to meet the growing and changing socio-economic needs of nations and peoples.

2. The purpose of this note is to prepare the Committee's discussion on the markets for certified forest products[1] (CFPs). Establishment of certification systems has been the focus of considerable international and national attention, but their effect on the forest products markets has so far received relatively little emphasis. Thus, the focus of the Committee's discussion will be on the *markets for certified forest products*, ie wood and wood products which can be identified as coming from forests which have been certified, generally by a second or third party, to be managed sustainably. It is intended that the discussion will *not* focus on the advantages or disadvantages of certification itself or individual systems for SFM. Even though the greatest base of knowledge is on this aspect, and even though the systems are in a dynamic period of evolution, these topics have been thoroughly covered in other fora, including the report from the Committee's Team of Specialists (TIM/R.279).

3. In 1995 the Timber Committee (TC) and the European Forestry Commission (EFC) established the Joint ECE/FAO Team of Specialists on Certification of Sustainable Forest Management. Their mandate was to review major issues and draw attention to aspects for future action and to prepare a long-term scenario based on the *European Timber Trends Study V* structure. Because the Team was established at the onset of development of certification processes, the team was only able to make some estimations of these possible impacts in their report which was presented at the 1996 Joint TC and EFC Session (TIM/R.279). The Team was also charged with drawing the Committee's "attention to aspects which might require action at a later stage" which it did in its report.

4. The Team presented a number of conclusions, of which several are relevant to the markets for CFPs. One conclusion was that there will be uneven adoption and implementation of certification systems which may change trading patterns. Additionally they said that cooperation and assistance between countries at different levels of development, including countries in transition to market economies, of certification systems is necessary in the implementation of SFM and to keep markets and trade relationships open. Furthermore the report also stated that if timber is the only construction material subjected to certification, it may experience a cost disadvantage.

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[1] For the purposes of this document, CFPs are forest products which can be identified as coming from forests which have been certified as being managed on a sustainable basis according to a set of accepted standards and by an accepted system of certification.

5. Since the time of their report, there have been continued developments in certification of sustainable forest management at the international and national level. However there remain questions outstanding about the markets for certified forest products. Although the Team was formally disbanded at the fifty-fourth session, the Committee decided to continue to monitor the *markets* for certified forest products by requesting countries to include a section on their markets for certified forest products and the development of certification systems in their annual market statement which is prepared for the Session (ECE/TIM/87, paragraph 28).

Discussion format

6. The topic will be opened with a short introduction by the secretariat which will include, among other items, a summary of responses regarding national markets for certified forest products which is to appear on the country market statements (see paragraph 5, of "Timber Committee market discussions", TIM/1997/3). The secretariat will introduce the expert speakers for the discussion, who will form a panel for the ensuing discussion.

7. At the time of writing this note, confirmation was not received from all speakers, thus a list of speakers and their affiliations will be distributed at the session. Speakers have been invited from certification systems to speak about their market experiences. Market analysts will present case examples and a retailer of CFPs has been invited.

8. Following the expert presentations, the delegates will have the opportunity to elaborate beyond the secretariat's summary on specific markets for CFPs which exist in their countries.

9. With this thorough introduction, it is anticipated that delegations would like to raise other points and pose questions to the panel of speakers. At the end of the discussion period, the Committee should decide whether the outcome of the discussion warrants some follow-up, and if so, what form it should take (see section below on "Follow-up to the special topic").

IPF view on SFM and CFPs

10. As the Timber Committee is an intergovernmental body, it is appropriate to examine what are governments' roles in the development of markets for CFPs. Indeed there is no general consensus whether governments should take an active or passive role in developing systems for certification of SFM.

11. As a background, it would be helpful to review the opinion of the UN-CSD Intergovernmental Panel on Forestry regarding SFM and CFPs. The IPF concluded that there is a "potential positive relationship between trade in forest products and services and SFM". In recognizing the complexity of the issues it stated that "forest products obtained from sustainably managed forests may be considered to be environmentally friendly". As such it said further studies are necessary to assess "how best to use markets and economic instruments to promote SFM" (E/CN.17/1997/12, paragraphs 116 and 119).

12. In trying to put perspective into the international attention to the issues of certification of forest management and labelling of forest products, it said "only a small proportion of the global trade in forest products and a small area of the world's forests are influenced by these schemes. Because of inadequate information and relatively few real world experiences, it is still too early to access objectively their full potential in promoting SFM." Thus it called for further studies, among which were studies on the impacts of certification on forest enterprises and markets; the competitiveness of forest products, the economic and non-economic costs and benefits; the demand for certified products; etc. (E/CN.17/1997/12, paragraph 122).

13. "The Panel recognized that voluntary certification and labelling schemes are among many potentially useful tools that can be employed to promote the sustainable management of forests. In view of potential proliferation of schemes, there is a need to promote comparability and avoidance duplication among various voluntary certification and labelling schemes" (E/CN.17/1997/12, paragraph 123).

14. "The Panel accepted that Governments have a critical role in promoting effective sustainable forest management systems. However, because certification has thus far been developed as a voluntary private initiative, different views expressed on the roles of Governments and intergovernmental institutions in the development or regulation of certification systems require further clarification. In considering possible roles for governments, bearing in mind that fact that certification is a market driven process, distinctions should be made between the roles of Governments as regulators, as promoters of public policy and, in some countries, as forest owners. Governments, however, have a role in encouraging transparency, full participation of interested parties, non-discrimination, and open access to voluntary certification schemes" (paragraph 124, E/CN.17/1997/12).

15. In discussing markets for certified forest products, it behooves the Committee to keep the intentions of the Panel in mind so as to insure that the discussions are complementary. Full text of the IPF report is available through the secretariat or on the World Wide Web at:

gopher://gopher.un.org:70/00/esc/cn17/ipf/session4/97-12.EN

Markets for certified timber: present and future

16. While certain small market niches have been developed to date, the market for CFPs remains very limited and in the ECE region it is negligible. Still this is a young market and as systems for certification of SFM are neither universally accepted nor widely functional, there is not currently a broad supply of CFPs available. Although CFPs are at an introductory level of the product life cycle, increased consumer awareness, which if it led to heightened demand, could launch CFPs into the rapid ascension stage.

17. A *market-oriented approach* implies that if a customer market segment demands that products come from sustainably managed forests, and also that those products be certified and so identified, then producers would be encouraged to consider the financial feasibility of producing such products. Conversely, a *production-oriented approach* would mean that certified forest products will be produced, with the hopeful intention of selling them to markets (consumers and customers) that may or may not know of their existence or raison d'être.

18. Timber Committee with its market orientation might question the existence of sufficient demand for CFPs, ie if a demand exists, what is its magnitude now, and what could its magnitude be in the future? Some studies have been done which show that given a choice, that with some education about the meaning of SFM and certification of SFM, some consumers will choose CFPs. Knowing that buyers' willingness to pay is not synonymous with actual buyer behaviour, the major question after these studies remains: when faced with actually paying more for CFPs, *how much more* will customers pay? While this question may be impossible to accurately answer at the current stage of CFPs, eventually the answer to this question will determine the volume of CFPs available on the market.

19. To initiate discussion, the Committee could entertain these questions:

Do markets exist for CFPs in member countries now for: roundwood? sawnwood? wood-based panels? pulp? paper and paperboard? Do markets exist for certified secondary processed forest products like furniture, cabinets, moulding or millwork? If so, it would be helpful for delegations to bring descriptions of these markets and documentation if available.

If such markets exist, can they be quantified in volume and/or value terms?

What else is known about such markets? That is, are they growing? Are they experiencing market acceptance and growing demand? Are other suppliers/competitors entering into the market place? How are consumers made aware of the products and the significance of SFM and CFPs?

And of course, is there a price premium for these CFPs? How much more would a CFP cost compare to an equivalent product which is not certified?

20. *The future of CFPs.* Based on the answers to the above questions, the Committee could consider whether there *will be* a larger market for CFPs, and if so, when and of what volume and what value? Which forest products have the greatest potential for being certified and available in the market place? Would these be commodity, industrial goods such as roundwood and pulp? Or would these be consumer-oriented goods like paper or furniture?

Source of demand for CFPs

21. Some experts have questioned the *source of the demand* for CFPs. In a perfect market, the demand would come from consumers within a specific market sector. For example if consumers wanted to ensure that their houses were built from wood from sustainably managed forests, say for example to help them make the decision between a concrete-based or wood-framed house, then this group of consumers might demand *certified* sawnwood. But are consumers now asking for CFPs?

22. There is a lack of information available on markets for CFPs as noted by the IPF in their request for further economic and market studies. In one study in 1995 on "Willingness to pay for environmentally certified wood products: a consumer perspective," by Ozanne and Vlosky found that the most likely consumer segment of approximately 16.5 million Americans who would seek out and buy environmentally certified wood products at a price premium of up to 20% for some items is described as, "politically liberal, a member of both the Democratic Party and an environmental organization, and most likely, female." Another study added that this group would also be "fairly well educated" (Ozanne and Smith in

"Segmenting the market for environmentally certified wood products"). Nevertheless, identification of this potential market segment for purchasing CFPs does not necessarily indicate that they regularly purchase forest products or that when they do, that faced with actually purchasing higher priced CFPs that they would exhibit the same consumer behaviour as responded in a questionnaire.

23. Or is the demand for CFPs coming from environmental non-governmental organizations (NGOs) who are either establishing certification systems and/or establishing buying groups. Regardless whether these NGOs truly represent the voice of their constituency, or the voice of the "general public", if they succeed in creating sufficient demand for CFPs, then enterprising forest products companies will consider producing CFPs for this market segment, especially if they consider it financially worthwhile.

24. Or are buying groups, like those established through WWF efforts in the United Kingdom and 10 other countries, responsible for creating demand for CFPs? Should through combined efforts a buying group be successful not only in educating consumers of the advisability of purchasing CFPs, but also through their combined strength be successful in commanding constant supplies of CFPs, then these groups could in effect create demand for CFPs.

25. Or is it industry, either collectively through advertising or through associations and their advertising creating demand now for CFPs or could they in the future create demand for CFPs (presumably *their* CFPs)?

Who plays what role?

26. Who are the players in the market for CFPs and what is their role? Who stands to win and who stands to lose?

27. Some of the key players in the markets for CFPs have been heretofore named, ie NGOs, forest products industries and their associations and buying groups. And of course the consumers of CFPs, both intermediate such as wholesalers, distributors and retailers and also purchasers and users of CFPs, for example house builders and home owners, are or could be key players.

28. Of these parties involved in the market, who stands to make profits through the sale of CFPs and who stands to bear the costs of either producing CFPs or in buying CFPs? If certification of SFM is only a marketing technique to sell more forest products (or to sell those same amount of products at higher prices) then it is industrial producers, wholesalers, distributers and retailers who would benefit, assuming customers will be willing to pay higher prices for CFPs, ie prices high enough to cover costs to the producers, distribution chain and retailers.

29. But will consumers actually be willing to pay sufficiently higher prices to cover the additional costs incurred by forest owners and managers who will bear the initial costs of certification? The most immediately visible and measurable of which will be the direct costs for performing the certification itself. Additionally there will the opportunity costs of lost timber sales as necessitated by certain schemes criteria for preserving biodiversity such as set asides of formerly productive forest land for animal habitat or landscape purposes or conservation of flora. Forest owners associations have been quick to point out that implementation of certification systems will have a disproportional higher cost for small land owners.

30. Will fully integrated forest products corporations who own forest land and manufacturing and perhaps distribution facilities too, stand to make the greatest profits if a substantial and lucrative market for CFPs becomes established? However most often these large corporations not only harvest timber from their own lands, but also require sawlogs for their sawmills or pulpwood for their pulpmills from other lands. These manufacturing operations by necessity often draw their raw materials from a variety of sources, big and small. Ensuring that logs coming to the pulpmill from the company's own certified forests would be relatively simple, allowing sale of certified pulp. However mills often do not control, or in the case of "gate wood" (roundwood arriving at the mill gate on a truck) do not know the origin of the wood, much less whether it is sustainably managed and if it could be certified as such. The complexities of controlling the chain of custody for a pulp mill, a paper mill, a wood-based panel mill or even sawmill and the potential costs are not initially fully apparent and they undoubtably will only be elaborated in application. Will the cost of certifying a corporation's own forest lands plus those lands of other suppliers compromise its advantage of scale?

31. At risk of posing a highly political question, are final consumers winners or losers? Is a handyman who buys CFPs, probably at a higher price, for his next home improvement project thereby encouraging SFM? Is the homebuilder who selects certified framing sawnwood able to sell the house for a higher price to environmentally conscious buyers? Will that higher price fully compensate all the additional costs of distribution, including presumably some label which insures chain-of-custody has been accurately followed from the forest to the market place?

32. Or are some governments indirectly creating demand for CFPs through establishment or facilitation of systems for certification of SFM? Such demand could be created indirectly if through public relations campaigns, governments succeeded in educating and convincing consumers of the necessity and validity of CFPs.

Follow-up to the special topic

33. What might be done with the outcome of the discussion on the markets for CFPs? The following options are proposed for consideration. The list is not exhaustive and the options are not mutually exclusive.

1. No further action.

2. Issue to delegations a brief account of the presentations and the ensuing discussion.

3. A press release could be issued through the ECE. Another option would be to simply incorporate a paragraph summarizing the discussions in the Committee's annual market statement press release.

4. Carry out further study. The Committee should then consider who would be best to perform such study(s): the secretariat, consultants, professionals loaned by governments or a team of specialists. (It should be pointed out at the time of writing the secretariat is still 20% understaffed and thus any assignment to the secretariat should be accompanied with a redeployment of priorities and work responsibilities.)

5. Include a regular segment of the market discussion on markets for certified products. If responses on countries' market statements are sufficient, perhaps a discussion of the CFP market sector should be handled similar to the regular market sectors of softwoods, hardwoods, panels or pulp and paper.

6. Other?

CONCLUSION

34. This note is meant to raise awareness of the issues likely to surface in the discussion of markets for CFPs. However it is impossible to anticipate all the issues and what the nature of the discussion will be. Nevertheless the paper has posed numerous questions to encourage delegations to thoroughly consider different aspects of the situation and to hopefully lead the discussion.