

International Seminar on Challenges of Sustainable Forest Management
Tokyo, 8-10 March 2011

**Development and implementation
of certification in tropical forests
- challenges and opportunities**

Markku Simula

University of Helsinki, Department of Forest Sciences

Outline of the Presentation

1. Introduction
 2. Development of forest and chain of custody certification
 3. Market aspects
 4. Costs of forest certification
 5. Opportunities and challenges:
 - Biodiversity
 - Social aspects
 - Forest management
 - Certification process
 - Linkages between C&I and certification
-
1. Conclusions
 2. Recommendations

Role of forest certification

- **Forest certification** and associated **Chain-of-Custody certification** are tools to demonstrate that timber products come from sustainably managed forests.
- **Assessment** is made against a forest management standard which is a tool to operationalise what SFM means in practice on a forest management unit (FMU) level.
- **Sustainability standards** include requirements for performance and management system covering the three pillars of sustainability.
- Forest certification is a **voluntary tool** but it is necessary to have access to those markets which require proofs of sustainable origin.
- **Opportunities** are derived from positive environmental, social and market impacts.
- **Challenges** are related to the economic aspects and various barriers to access and implement forest certification.

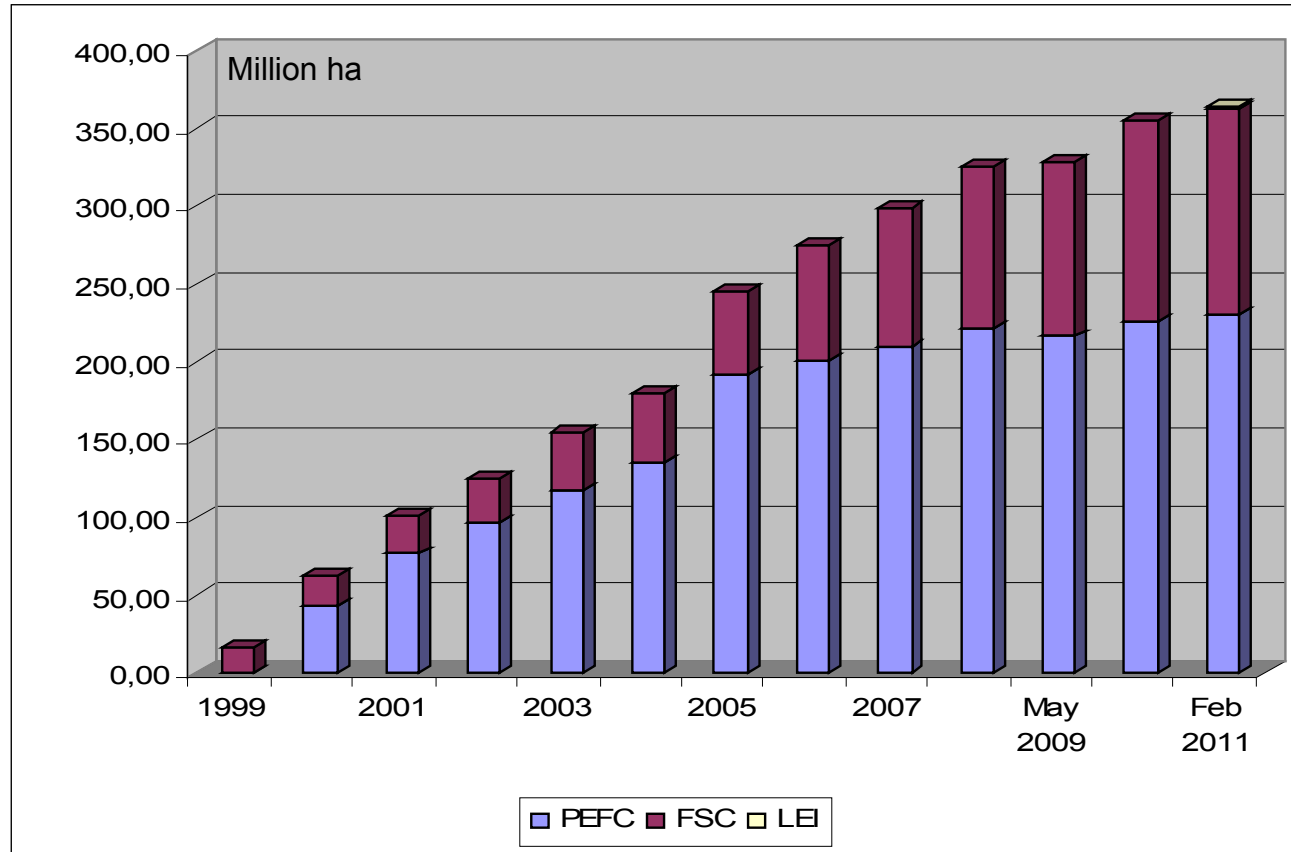
¹⁾Some countries have also made provisions for certification in their legislation.

Certified area in the world

About 9% of the world's forests are certified covering 362 mill.ha.

The growth in the area has slowed down since 2008; the rapid growth of PEFC certified area stabilized while FSC has continued to grow.

The evolution suggests that most of the easily certifiable forests which need to provide assurance on sustainability for the market have probably been certified.



Source: UNECE/FAO 1999-10, system websites 2011
LEI's certified area included only in 2011 data

Future growth will largely depend on

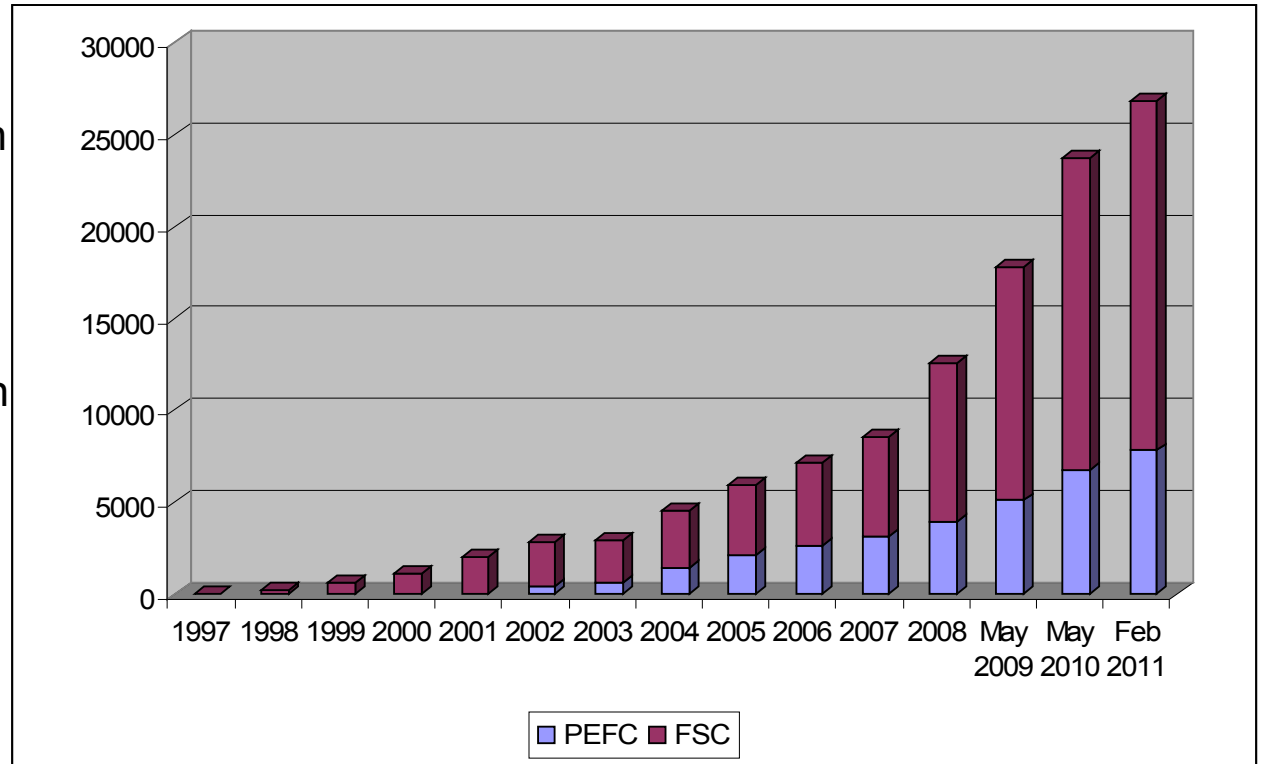
- market pressure
- endorsement of new national systems by PEFC
- progress of FSC in certifying smallholders, community forests and planted forests

Chain-of-Custody certificates in the world

The annual growth rate of the number of CoC certificates has been faster than that of certified forest area.

There appears to have been a strong market pull for forest certification which was unable to respond to demand as expressed by growth in CoC certificates among industry and trade.

While PEFC leads in the area of certified area, FSC leads in the number of CoC certificates.



Source: UNECE/FAO 1999-10, system websites 2011

Forest and CoC certificates in developing regions (February 2011)

There are 9 countries with CoC certified enterprises but no certified forests (mostly in Asia).

There are 4 countries with certified forests without no CoC certified enterprises (MOZ, PNG, SUR, UGA).

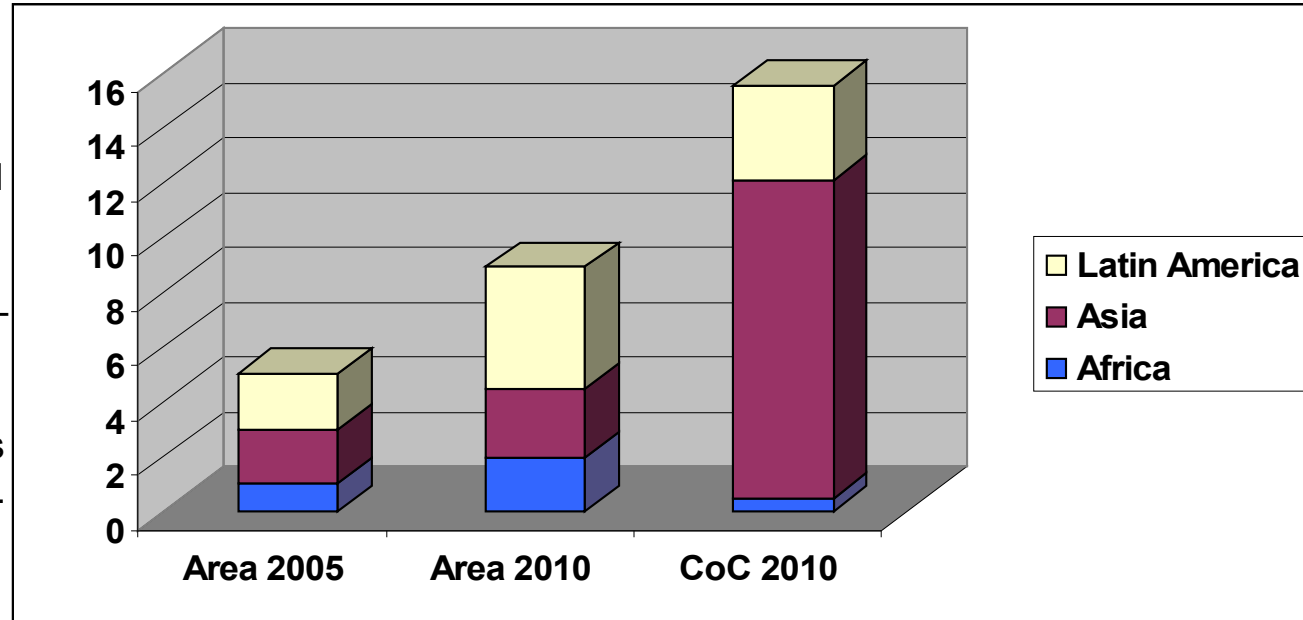
The large share of China's CoC certificates is explained by their trade links, not by certified forest area

Source: Certification system websites

Country	FM certificates	Certified area 1000 ha	CoC certificates
Congo Rep.	3	1 908	2
Gabon	3	1 874	12
Cameroon	5	763	11
Ghana	1	2	1
Other Africa	34	2 827	108
Africa	46	7 374	134
Malaysia	13	5 027	292
Indonesia	26	1 906	172
China	29	1 724	1 872
Korea Rep.	8	188	139
Solomon Islands	2	64	1
Nepal	1	14	1
PNG	1	3	0
India	1	1	118
Other Asia	9	129	530
Asia	90	9 056	3 125
Brazil	84	7 623	572
Bolivia	11	1 835	31
Mexico	30	614	25
Guatemala	8	481	11
Guyana	1	372	1
Venezuela	1	140	2
Honduras	5	114	3
Colombia	4	96	15
Ecuador	4	25	2
Suriname	1	24	0
Panama	10	17	1
Other Lat. Am.	95	4 640	246
Latin America	254	15 981	909
Grand total	390	32 411	4 168

Certification in developing regions

Share of global area %



In 2005-2010 forest certification has been increasing in developing regions faster than the world average.

This has mainly be thanks to Latin America and Africa.

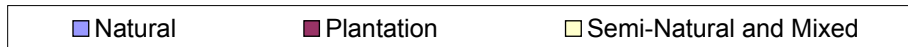
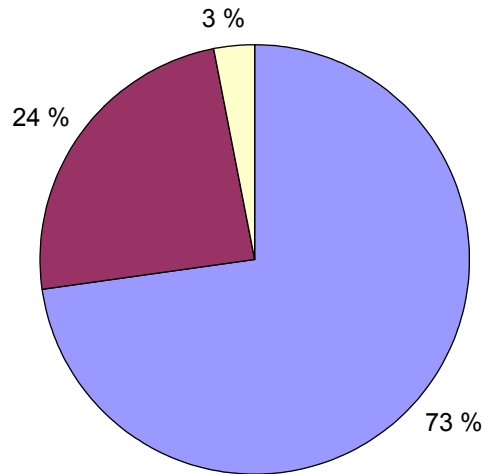
The share of developing regions is however only 9% of the world.

ITTO producing member countries account for $\frac{3}{4}$ of the developing total.

Asia has 75% of the developing region's all CoC certificates but only 23% of forest certificates. It appears that many CoC holders do not sell any certified products.

Many Latin American and African certified FMUs are not apparently connected with markets for certified products. Certification has been often driven by external donor financing or other public support rather than Market demand.

Certified Forests by Type and Ownership in ITTO Producing Member Countries

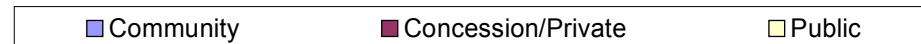
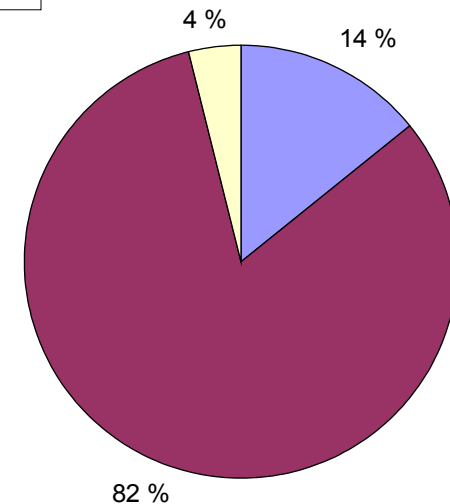


Type of Forests

Most certified area in the tropics is in natural forests but not all are used for production

Ownership

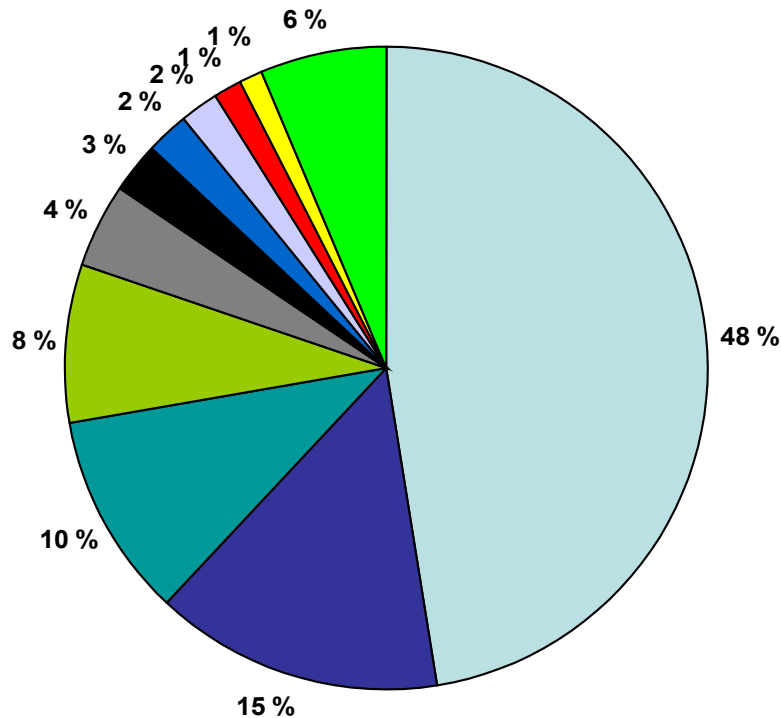
Most certified tropical forests are concessions. Community owned/managed forests are estimated to account for about a quarter of the total forest area but their share of certified forests is only 14%.



Market Opportunities and Challenges

- **Demand:** 25-45% of the international market for tropical timber can be impacted by sustainability/legality requirements
- **Supply:** limited availability offers opportunities for early birds but for others short-term competitive disadvantage
- **Price:** premiums captured in some market segments disappear in recessions; in the long run increased costs lead to increased prices
- **Extent of impacts** depends on the speed of eliminating illegal logging and trade and increasing certified supply
- **Winners:** countries with low rates of illegal logging and high degree of certified forests
- **Trade impacts:** all exporters have (directly or indirectly) dependency on sensitive markets; gradual shift towards a level playing field
- **Substitution:** Plantation wood a likely winner for easy certifiability and hardwood from natural tropical forests a loser due to high compliance costs.

Country Shares of Total Timber/Timber Product Export Revenue (ITTO producers and China)



China has a pivotal role in the trade of tropical timber and timber products. Chinese companies have not yet started to implement forest certification broadly.

Due to their dependence on export markets which require proof of legality and sustainability, the situation is likely to change.

However, some examples in the Congo Basin suggest that this may take some time.

CHN MYS IDN BRA THA PHL MMR MEX IND GAB Others

Includes logs, sawnwood, veneer and plywood, other wood-based panels, builders' woodwork and wooden furniture.
Note: Vietnam and Laos are missing in the analysis.

Source: ITTO Technical Series 34 (2010)

Cost of Certified Sustainable Forest Management by Size of Forest Management Unit in Peru

Component	Large (47 580 ha)		Medium (24 372 ha)		Small (8 316 ha)	
	Investment (first year)	Annual operational	Investment (first year)	Annual operational	Investment (first year)	Annual operational
Compliance costs						
- forest and environmental management	60 380	27 620	39 680	16 710	20 550	6 620
- social aspects	6 000	3 370	3 500	2 070	3 000	1 570
- management systems	7 500	1 070	5 850	620	5 600	570
Sub-total	73 880	32 060	49 030	19 400	29 150	8 760
Direct costs of certification	18 900	6 400	14 900	6 400	5 580	2 060
Grand total	92 780	38 460	63 930	25 800	34 730	10 820
- USD/ha	1.95	0.81	2.62	1.06	4.18	1.30
Notes: Investment cost = first year costs Operational cost during subsequent four years						

Certification adds (informational) value to the product but is rarely duly compensated by buyers.

Reality check: Certified Mexican forest owner's view

(December 2010)

- *“We were certified three years ago. The first main audit was supported externally but since then we pay about USD 7,000 per year for monitoring audits for our 200 ha forest.*
- *We sell our timber to two local sawmills, our natural buyers due to distance. They serve national markets and do not need certification. They cannot justify paying us a price premium.*
- *We are seriously considering to discontinue with certification because of*
 - *High annual auditing cost for us without any economic benefit. We will not be able to pay a new main audit ourselves.*
 - *Inconsistent interpretation of the standard by different auditors creating additional (unnecessary) costs for us*
 - *As we are certified we are probably getting more government inspection than before as they can report on positive legal compliance in their statistics. In any case certification has not reduced government inspection activity in our case.*
 - *Accompanying auditors and inspectors takes much of our valuable working time.*
 - *For ourselves we know that our forest is sustainably managed, there is no need to pay for that even though we are proud of our certification. Our problem is to generate additional revenue to keep on with our sustainable management approach. For that we need more technical knowledge, trials and errors in the field, and practical ways to add value to our products. “*

Biodiversity impacts

Opportunities

- Common view (58% of experts) that in certified forests biodiversity loss has likely reduced¹⁾
- Conservation alone is a limited option without SFM in broader landscapes including buffer zones around protected areas
- Focus on maintaining biodiversity through regulating forest structure
- Control of poaching (Congo Basin, Tanzania, Peru)
- Certification of NTFPs as key biodiversity component (Brazil)
- Improved mixed landscape mosaics with planted and natural forests (expansion of natural vegetation areas, ecological corridors, etc.) (Bolivia, Brazil, Indonesia)

Challenges

- Baseline knowledge and monitoring of biodiversity (role of experts and local people)
- Maintenance of individual key timber species
- Application of high conservation value concept by forest managers (Bolivia, Indonesia)
- Species used in restoration of degraded areas (e.g. use of exotics in Malaysia)
- Need to develop straightforward biodiversity indicators which can be measured cost-efficiently and broadened over time; many monitoring programs required by certifiers are academic
- Establishment of partnerships between forest managers, researchers and NGOs

• 1) "certification has contributed to reducing biodiversity loss"

Social impacts

Opportunities

- Effective respect for labor rights
- Improved employment conditions and training
- Occupational health and safety
- Involvement of local communities (often a precondition for success in certification)
- Engagement of contractors in respecting social standards
- Payment of social security charges
- Respect of core ILO conventions also in non-ratified countries
- Potential win-wins in maintaining biodiversity and cultural diversity

Challenges

- Ensuring effective stakeholder participation when groups are not adequately organized.
- Maintaining employment in recession periods (large temporary lay-offs among industry and contractors in the Congo Basin in 2008-10)
- Engaging small local contractors in implementation of social standards

Forest management improvements

Opportunities

- Quality of forest management planning
- Adjustment of cutting cycles and harvest intensity
- RIL (reducing collateral damage and waste)
- Efficient use of wood material felled (unfortunately not yet addressed by certification)
- Improved monitoring and control of operations

Challenges

- Lack of enabling conditions: inappropriate legal frameworks and underfunded and weak enforcement; enhancing the role of certification as a complementary (voluntary) enforcement tool
- Need for time and external resources to set up information, control and management systems in SMEs
- Pressures from escalating costs in natural forests
- Maintaining certification investment in change of foreign ownership, particularly in cases with different business models (e.g. the Congo Basin)

Certification process: Challenges

- Financing of indirect (compliance) and direct (auditing) costs of certification
- Training of local auditors (e.g. Brazil, Indonesia, Congo Basin)
- Turnover of auditors and inconsistent FMU assessments (Mexico, Congo Basin)
- Complexity of standards for community and small FMUs (Mexico)
- Improved transparency, information and “depolitization” of certification (Indonesia)
- Coherence of parallel standards for SFM and forest carbon

Synergies between C&I and certification

Both

- Have a holistic scope for SFM
- Are voluntary instruments
- Rely on data collection and reporting on evidence
- Are (or should be) output oriented, rather than focusing on input measures
- Are aimed at regional, national, and local level applicability
- Are developed through participative processes

But there are differences

- The focus of C&I is on national and sub-national levels; certification focuses on FMU
- C&I are descriptive; certification standards are prescriptive (incl. performance standards)
- Certification assesses compliance with a benchmark, C&I focuses on change over time
- Target group of the C&I is typically government agencies and other stakeholder groups while certification focuses on forest managers
- The purpose of C&I is to assist in policy implementation; certification focuses on operational implementation
- The participative process of forest certification standards has explicit requirements to ensure effective stakeholder participation

... and important synergies as these are complementary tools for SFM

- National certification standards use C&I as a reference for identifying elements of SFM and indicators to measure them
- PEFC uses the ITTO/ATO PCI as a normative reference document for tropical forests

Conclusions

- Forest certification is the only broadly accepted way to demonstrate SFM at FMU level but scientific evidence on its impacts is still limited
- Progress has been made recently in some countries but as a whole tropical forests are still lagging behind in forest certification; to tap the potential positive impacts of certification, mainstreaming is needed by a combination of market forces, enabling conditions for SFM and government support
- Community forests and smallholders continue to be at disadvantage in accessing and implementing forest certification
- Forest certification has contributed to biodiversity, environmental management, labour conditions and local development
- Meeting legality requirements are overtaking interest in SFM certification but this is likely to remain a transition period as most procurement policies specify SFM as future requirement for market access

Recommendations

1. Governments should promote adoption of forest certification to capitalize its potential as a governance tool towards achieving SFM
2. Support development of national certification standards to ensure their local applicability_
3. Provide training to improve local auditing and certification capacity
4. Support development of certification in community and smallholder forests including through simplified requirements and procedures
5. Promote further convergence between certification schemes and standards to facilitate trade in certified products
6. Tropical countries should develop procurement policies to create domestic markets for certified products
7. Generate scientific information on the economic, social and environmental impacts of forest certification, including on competitiveness of tropical timber and timber products
8. Capitalize synergies between SFM and forest carbon certification through coherence in requirements and procedures

Thank You

markku.simula(a)ardot.fi