Chapter 10
Markets for certified forest products [1]

Highlights

- *Markets for certified forest products (CFPs) continue to be mainly located in western Europe, especially the United Kingdom, Netherlands and Germany, and in the United States.*
- *The CFP market continues to grow exponentially in some markets. Market share of CFPs is claimed by proponents of certification schemes to be over 25% in the United Kingdom, around 4% in the Netherlands and less than 1% in Germany.*
- *Awareness by final consumers of CFPs continues to be low and there are few signs that private consumers actively ask for CFPs or are actually paying premiums. However, several large retail chains are actively promoting CFPs.*
- *Public procurement plays an important role as a driver of demand in several countries.*
- *In the business-to-business markets most of the CFP marketing has been based on its potential competitive advantage, market access, image building and environmental pressure.*
- *On the supply side the area of certified forests has also grown exponentially, reaching about 80 million hectares by mid-2001, due to several new certification systems now operational, notably Pan European Forest Certification (PEFC) in Europe and Sustainable Forestry Initiative (SFI) in North America, in addition to the existing Forest Stewardship Council (FSC).*
- *In Europe around 28.5% of the forest area is already certified, compared with about 6.7% in the United States.*
- *Today, a wide range of CFPs are available mostly with a FSC label as in the past, but also increasingly with a PEFC label.*
- *Forest certification remains highly controversial, with conflicting stakeholder interests, divergent views on certification as well as differences of opinion on the issue of mutual recognition between major schemes.*
- *The coming year will see further growth of CFP markets and further intense discussions.*

Note: the basis of information in this chapter is not the UNECE TIMBER database built on country-supplied statistics as in the previous chapters. As no official statistics exist on certified forest products, it is based on the author's experience, claims by certification organizations and a partial survey of a new network of UNECE country-nominated certification experts.

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Secretariat introduction

The secretariat sincerely thanks Dr. Ewald Rametsteiner, Expert on Certified Forest Products Markets, from the Institute of Forest Sector Policy and Economics, Vienna, for his timely research results summarized in this chapter. The UNECE Timber Committee follows the quickly evolving markets for certified forest products and publishes information here as well as in a Geneva Timber and Forest Discussion Paper[2] *on the status of certification of sustainable forest management in the UNECE region. Dr. Rametsteiner also wrote "Sustainable forest management certification," which was published by the Liaison Unit, Vienna, of the Ministerial Conference on the Protection of Forests in Europe, where he also works.*

Since the last Review was published, the Timber Committee established an informal network of country correspondents on the markets for certified forest products. We express our appreciation to all those country correspondents who replied on time to the survey. Further information from these correspondents, for example on forest certification, will be published by October 2001 in an update of the above-mentioned discussion paper.

10.1 Introduction

Certified forest product (CFP) markets have been analysed in a regular chapter in the Review since 1998. The Timber Committee considers CFPs an increasingly important area to cover in the market discussions. The discussion in the Review will concentrate on the market and trade aspects for CFPs. Several other forums exist to discuss the various issues surrounding forest certification, including the Food and Agriculture Organization. Likewise, non-independently certified forests or forest products and process certification schemes such as ISO 14001 are not included as these do not generally lead to certified forest products.

Part of the information for this chapter was collected through a newly established CFP market and forest certification intelligence network throughout the UNECE region. A survey of the members of the network was carried out in summer 2001, requesting information on the situation in each country. This chapter is largely based on the initial 14 replies received. It is intended to maintain and develop the network. However, it is inevitable that the data quality of this chapter, especially where non-quantitative judgements are concerned, cannot be the same as in other chapters of the Review. The valuable contributions of the national correspondents are greatly appreciated. Further information was obtained from additional surveys and background material was gathered from different sources, including FAO, International Tropical Timber Organization (ITTO), UNECE and others.

10.2 What are CFPs?

Certified forest products bear labels demonstrating that they come from forests that meet, in a verifiable manner, standards for sustainable forest management. Consumers might find labels on furniture and wood products while manufacturers could verify the source of certified products from a system of chain of custody that identifies the origin of the wood.

10.3 Demand for CFPs

10.3.1 Consumer markets

10.3.1.1 Private consumers

Final consumers are not an active driving force in the market for CFPs anywhere in the world. Nevertheless, general consumer sentiment on environmental and social issues, notably on tropical deforestation, remains a significant underlying driver of forest certification efforts throughout the forest and trade sectors. Given the rather early stage of CFP market development, awareness of even the longest established logo on CFPs, that of the Forest Stewardship Council (FSC), is rather low even in those markets where CFP logos have highest visibility and where "green" certification is well-established, such as in the United Kingdom, the Netherlands and Germany.

The low level of consumer awareness on forest matters, and the secondary importance in purchase decisions of environmental friendliness of products, gives little reason to forecast significant increases, due to consumer drive, in the quantity of forest products consumed in the short to medium term. The important exception to the general conclusion of weak effects of certification on consumer behaviour appears to be the tropical wood products markets in certain western European markets where there is sensitivity to tropical deforestation, especially in Germany.

While the majority of consumers in western Europe consider wood as the most environmentally friendly material, ahead of all substitute materials, its green image in North America is considerably weaker. CFPs are able to help maintain or enhance the overall green image of

[2] "Forest Certification update for the ECE region, summer 2000" by Eric Hansen, Keith Forsyth and Heikki Juslin. ECE/FAO Geneva Timber and Forest Discussion Paper, ECE/TIM/DP/20, 2000, and on the UNECE Timber Committee website at: www.unece.org/trade/timber/docs/certification/dp-20.pdf.

wood products, one of the most important competitive strengths of wood against substitute materials.

A considerable number of consumer studies have been carried out on willingness to pay more for CFPs. These studies have concluded that a majority of consumers express willingness to pay a little more. This is to be seen as an indication of the interest in the information, not an indication of the actual price premium to be pocketed by sellers. Many players active in the market see the lack of consumer awareness and interest as a major constraint for market development outside the more established markets for CFPs.

10.3.1.2 Public p rocurement

Public procurement is a rather strong demand factor for CFPs in several western European countries, especially at the municipality level. In the United Kingdom, Denmark, the Nordic countries, the Netherlands, Belgium, Germany and Austria as well as in several states of the United States, administrations have taken action to implement "green" public procurement policies that directly or indirectly favour CFPs, especially for tropical timber. No statistics or estimations exist about the size of the market for forest products that is actually affected. Nevertheless, public procurement in these countries certainly constitutes a considerable volume. Green or sustainable public procurement policies are expected to play a gradually increasingly important role in many UNECE member countries in the future. The European Union, which is currently revising its public procurement policy (covering a sum of about $620 billion per year) has just recently adopted a "Sustainable Development Strategy".

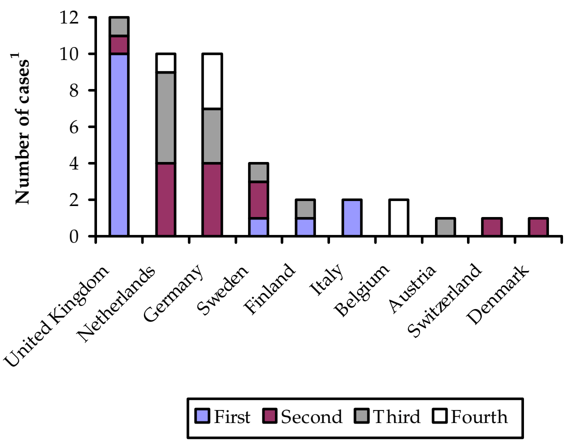
10.3.2 Rela tive importance of markets

Today CFPs are sold in about 15 countries in the ECE region. The replies from correspondents in the newly formed network suggest that three markets – the Netherlands, Germany and UK – are the "most important" export markets (graph 10.3.1). This may be interpreted as those markets where there is most interest in CFPs and the largest volumes traded. This preliminary result confirms the subjective impressions of many observers. A few correspondents, e.g. from Ireland and Switzerland, stated that a large part of demand for CFPs in their countries was covered by domestic sources. There seems to be a low interest in CFPs in south European, Japanese and Russian markets.

It is not yet possible to say what "market share" is taken by CFPs, nor indeed is there consensus on how the term "market share" should be understood in this context. Market shares by value of about 25% are claimed for the United Kingdom and about 20% in Poland (most likely

GRAPH 10.3.1

Top ten certified forest product importing countries, 2001



[1] The vertical axis depicts the number of cases a country was mentioned in the survey of country correspondents. The categories 'first', 'second', etc. show the ranking given for the countries (e.g. 10 correspondents ranked the United Kingdom as the most important market, two as the second most and two as the third most) Thus the graph indicates the current relative importance of CFP importing countries.
Source: Network of UN/ECE region country correspondents on certified forest products markets, 2001.

non-labelled CFPs). In other markets, such as the Netherlands and Germany the share is claimed to be 4% and 1% or less respectively, which would seem to indicate that different concepts are being used.

The product groups where CFPs are available to the market are likewise steadily expanding. Worldwide about 20,000 product lines of CFPs are claimed to exist by the Global Forest and Trade Network of the World Wildlife Fund, with more than 2,000 product lines in the United Kingdom and about 300 to 400 in Germany. In more than eight of the most advanced markets in the UNECE region, CFPs are available across the whole spectrum of wood products, including paper, paperboard, panels, interior and exterior sawnwood and mouldings, furniture and do-it-yourself (DIY) products, including garden furniture. Following the more lenient FSC percentage-based claims policy, which is currently under review again by FSC, some players in the panel and paper sector have been quick to enter the market for CFPs. In the United Kingdom all major panel and most major paper types are now said to be available as CFPs although the volumes concerned may be small. In a few other countries CFPs are currently entering the intermediary product markets.

Contrary to the developments in the wood products markets, the development of markets for certified non-wood forest products has seen only limited progress. Two examples are nuts from Latin America and handicrafts, *although it is not known what certification scheme is involved.*

Business-to-business market players close to consumers, such as in retail, do-it-yourself or home improvement markets, continue to be the strongest drivers for demand, especially in the United States and the United Kingdom. Companies selling CFPs see certification as a means for competitive advantage and to maintain or enhance an environmentally or socially responsible company or brand image, and to react to pressure from environmental groups. The latter driver is especially prominent in North America.

Anecdotal information on price premiums actually paid in the business-to-business market indicate difficulties in securing supplies of CFPs and premiums tend to occur in niche markets. However, it is too early to say how the situation will develop when certification is better established.

Up to now the large majority of CFPs available in the market bear the FSC label. While in most countries products with other certification systems labels are also available, these often cover a small range of products. In 2001 to 2002 the market share of CFPs and the availability of other than FSC certified products will see a further steep increase. Wood certified by several recently established national and international certification systems will increasingly be available in the markets in Europe and North America, including the Pan-European Forest Certification (PEFC) in Europe as well as the Sustainable Forestry Initiative (SFI).

The Global Forest and Trade Network (GFTN), designed by the World Wildlife Fund to create demand for CFPs through its Buyers and Producers Groups, is expanding by about 100 companies per year. The GFTN consists of about 720 members today. It is active in 18 countries worldwide and claims a 7% share of industrial wood use in the world (although the basis for this claim is not clear). More than half of these companies are located in western Europe, and more than 90% are in Europe or North America. Over the last year, however, the buyers group established in Brazil has succeeded in binding a considerable number of companies and targets a CFP market share of 10% by 2003. A similar share is envisaged by 2003 by the groups active in Germany, Belgium and the United States. An even bigger market share of 25% and one closer to 50% is the target of the groups in the Netherlands and in the United Kingdom respectively.

Today a lack of supply of CFPs is reported by the GFTN in all the three major European markets, the United Kingdom, the Netherlands and Germany, as well as in the United States. A lack of demand is expressed in several other countries.

10.4 Supply of CFPs

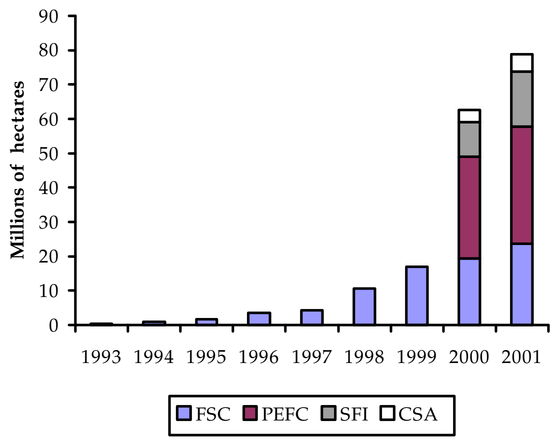
10.4.1 Forests certified

By mid-2001 the total area of forests certified[3] *worldwide is about 80 million hectares or about 2.1% of the world's forests (FAO Forest Resource Assessment). The last year has seen an exponential increase of forest area certified according to different third party certification systems, including the FSC, the PEFC in Europe and the SFI in North America as well as the CSA system. Today, these four forest certification systems dominate the international market for forest certification.*

There has been a tremendous increase in the total area of forests certified in 2000 and 2001 due to the entrance of three new third-party certification programmes that certify large areas of forests either due to regional certification approaches, such as the PEFC, or industrial forest certification, such as the SFI programme (graph 10.4.1). FSC, PEFC, SFI and CSA expect considerable further growth of certified forest areas by their schemes in the coming year.

GRAPH 10.4.1

Worldwide forest area certified under four main systems, 1993-2001



Sources: Forest Stewardship Council, 2001; Pan European Forest Certification, 2001; Sustainable Forestry Iniative, 2001; and Canadian Sustainable Forestry Certification Coalition, 2001.

The large majority of certified forest area consists of forests managed primarily for wood production, especially in the FSC system and the SFI programme. Forest certification up to now has clearly favoured large-scale industrial forest holdings. However, in both the United

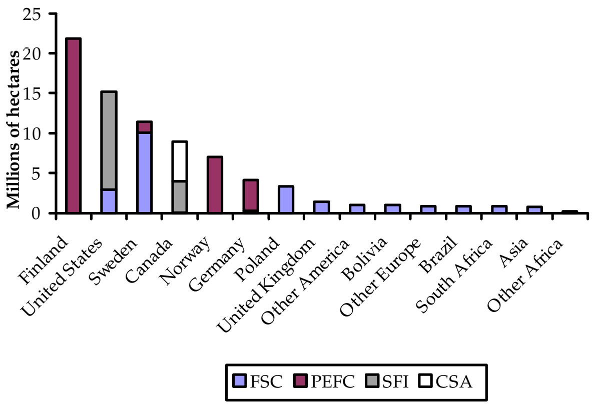
[3] *Certification is understood here in the strict sense, requiring third party audit. Please note that ISO 14001 type process certification systems which usually do not lead to certified products in the market are not covered here.*

States and western Europe, more than half of the wood supply comes from private non-industrial forest holdings. The PEFC system, and, once on stream in 2002, the American Tree Farm System, cover a large share of small-scale forest holdings and non-industrial forest holdings.

Finland and the United States are leaders in terms of forest area certified by third party certification (graph 10.4.2). In Europe around 28.5% of the existing forest area[4] is already certified, compared to around 6.7% of the forest area in the United States.

GRAPH 10.4.2

Certified fore sts able to deliver certified forest products, mid 2001



Note: The column for the United States in the graph above contains approximately 400,000 hectares of certified forests that are counted twice due to double certification.
Sources: Forest Stewardship Council, 2001; Pan European Forest Certification, 2001; Sustainable Forestry Initiative, 2001; and Canadian Sustainable Forestry Certification Coalition, 2001.

In addition to the four schemes depicted in the graph, a large number of national schemes exist or are being developed, including a Mandatory National Certification System in Russia, national Malaysian and Indonesian systems compatible with FSC, a Brazilian system and a pan-African certification system. The existing American Tree Farm System (ATFS) of approximately 36.5 million hectares is being further developed to include third-party audit in 2002. About two thirds of the ATFS overlaps with SFI-certified forest lands.

An overview of the different schemes and their characteristics can be found in the Confederation of European Paper Industries (CEPI) Comparative Matrix 2000, of which a revised version should be available later in 2001.[5] A more in-depth discussion on the different schemes and their development will be provided in a forthcoming UNECE/FAO Geneva Timber and Forest Discussion Paper.[6]

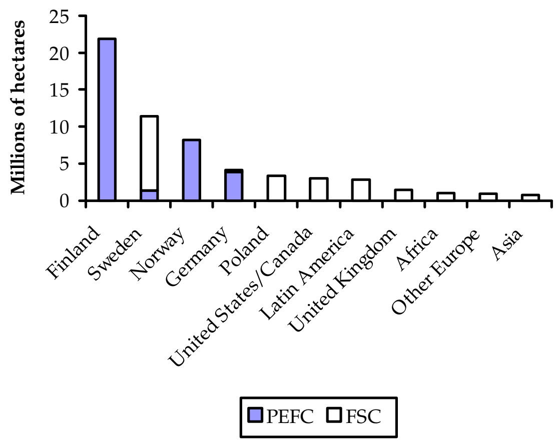
10.4.2 Supply of CFPs

When only those forests are taken into account that actually deliver CFPs to the market and can demonstrate that by a label, a different picture emerges. As neither the SFI nor the CSA systems in North America are currently able to label products, neither yet come into this category, although SFI is in the process of developing a logo which is expected in late 2001 and CSA has applied for PEFC membership and might use the PEFC logo.

The five countries with the largest area of forests certified by schemes that issue a product label would be potentially able to supply 125 million m^3 EQ of labelled CFPs annually from an area of about 50 million hectares (estimation based on UNECE/FAO TBFRA statistics for each country's average annual removals per hectare on forests available for wood supply multiplied by the certified forest area) (graph 10.4.3). However, considerably less than 100% of the wood from those forests is actually traded as CFPs. Nevertheless, the

GRAPH 10.4.3

Certified forests able to deliver labelled certified forest products, mid 2001



Sources: Forest Stewardship Council, 2001; Pan European Forest Certification, 2001; Sustainable Forestry Initiative, 2001; and Canadian Sustainable Forestry Certification Coalition, 2001.

[4] The reference to the existing forest area taken is based on TBFRA 2000 data on forest area, excluding other wooded land. The UNECE/FAO Temperate and Boreal Forest Resources Assessment published as Forest Resources of Europe, CIS, North America, Australia, Japan and New Zealand in a main report, a CD and on the UNECE Timber Committee website at: www.unece.org/trade/timber/fra

[5] See www.cepi.org

[6] "Forest certification in the ECE region: update summer 2001" by Eric Hansen, Heikki Juslin and Keith Forsyth, a UNECE/FAO Geneva Timber and Forest Discussion Paper, expected in September 2001.

potential growth of supply of CFPs is high.

As the graph also shows, close to 87% of potential suppliers of CFPs are located in Europe and close to 70% in the Nordic countries alone. However, as soon as the North American SFI and CSA systems are able to issue labels on forests certified by their schemes, the situation will become more balanced between the two continents, with further dramatic growth of the potential volume of CFPs.

Forest areas certified in tropical regions in general and supply of CFPs from these regions are very small in comparison with temperate forests as shown in the graph. Nevertheless, some tropical countries, especially Brazil, Indonesia and Malaysia, export CFPs to European markets, inter alia for garden furniture.

The largest exporters of CFPs are currently Sweden, Finland and Poland, all of which export a large share of production, especially to the United Kingdom and Germany, but also to the Netherlands, Belgium and other CFP importing countries, such as the United States. Also CFP supplier countries in Latin America, such as Brazil, and South Africa, as well as eastern European countries, export up to 100% of their CFP production into these markets.

For established suppliers of wood products to markets such as the United Kingdom, Netherlands and Germany, the main driver for certification often tends to be image and credibility. However, owing to pressure from environmental groups, supplying CFPs has also provided an opportunity of market access in these high value markets for new entrants, which often include price premiums.

10.5 Market characteristics

CFPs pass through many stages and intermediaries from forest to factory through processing and then to the stores. In total only about 1,400 chain-of-custody certificates have been issued to date worldwide, and few questions have been asked about the quality of the chain of custody provisions that are actually implemented. (This may change with sharper competition between certification schemes). More closely monitored constraints for CFP market development are the perceived high costs of certification compared to the benefits, the often low domestic demand both from final and intermediary customers and the low interest of forest owners.

One of the most important limitations to market development is the conflicting stakeholder interest behind different certification systems providing CFPs. This forces the forest industry and market intermediaries to handle different certificates or restrain from entering the CFP market. Therefore, the forest industry and trade are calling for mutual recognition between certification schemes. Mutual recognition was one of the dominating themes discussed in 2000 and 2001, with several international seminars organized on the topic, including one by FAO[7]. Recognition agreements between different schemes are being increasingly pursued, e.g. between FSC and Lembaga Ekolabel Indonesia of Indonesia, and between SFI and the ATFS in North America. The acceptance of full membership of CSA, SFI and the ATFS in the Pan European Forest Certification Council (PEFCC) indicates that this trend will continue in the coming year.

Standards of sustainable forest management or good forest management and their measurement are still a highly contentious issue. On the global, regional and national levels, the common understanding of what constitutes sustainable forest management has made huge progress in recent years, facilitated, inter alia, by FAO's work on criteria and indicators for sustainable forest management. Under the leadership of the FSC, standards for forest management unit or regional levels are increasingly incorporating or focusing on measurable performance standards. In the drawing up of such standards, broad public participation is increasingly accepted as an important quality criterion for the elaboration process.

To a lesser extent than standards for certification, the quality and different design of the different existing certification systems and certification procedures are another popular issue of debate.

In general, governments have not taken a stand in the certification debate, with some exceptions. Governments are actively driving certification efforts in only a few countries, including the Netherlands, Russia and several central and eastern European countries (e.g. Latvia, Romania and the Czech Republic) and some tropical countries.

10.6 Conclusion

Forest owners and forest industry in several regions have recently experienced the sustainable forest management certification wake-up call. In the last year CFPs from new large certification systems have started to enter the market. In 2001 and 2002 the CFP market will continue to be volatile and highly dynamic. This chapter attempted to give an update on the market situation of CFPs in the UNECE region, based on information available. Owing to lack of CFP information in customs classifications, and comprehensive and objective information, a statistical analysis of this new market sector is and will remain difficult.

[7] *www.fao.org/forestry/fop/foph/trade/Fcert-e.stm*