

FOREST CERTIFICATION

A Study for Takoma Park Timber

CMGT 564

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Certification or Not?

So-called voluntary, nongovernmental standards can take on the force of law. In some cases, market pressures may enforce them even more stringently than laws. Certification for timber products may be one of these cases.

Takoma Park Timber Industries has commissioned this study to determine whether to pursue certification for its products, and from which organization. This paper will address the history of the certification programs, the effects they have had on the market and on the industry, and our recommendations for the question of certification.

FSC History

The Forest Stewardship Council (FSC) was founded in response to the failure of the United Nations to produce a legally binding global forest convention to combat urgent environmental concerns, including deforestation, loss of biodiversity, and environmental deterioration. Environmental organizations decided that, since governments were not doing the job, they would have to establish private, voluntary systems to protect the world's forests.¹

In 1990, the council was established by “a group of timber users, traders, and representatives of environmental and human-rights organizations who had identified the need for an honest and credible system for identifying well-managed forests as acceptable sources of forest products.”² They determined that the council should develop “a worldwide certification and accreditation system covering all kinds of natural forests and plantations”.³

The emphasis on responsible forest use was a move away from boycotts of tropical timber products. These boycotts were abandoned because environmental groups realized that they actually led to greater deforestation. If tropical timber lost its value, landowners would simply deforest and convert the land to other uses.⁴ The new approach was to encourage use of forest resources, but in a responsible, sustainable manner.

FSC’s ten global principles and 56 criteria for forest management were first approved in 1994. FSC’s 2005 annual report states that currently, more than 67 million hectares of forest, approximately ten percent of the world’s commercial forests, have received FSC certification. FSC has awarded 750 forest management certificates and 4,200 chain-of-custody certificates.⁵ The amount of certified wood products bought and sold around the world has increased 67% in three years, to \$5 billion worth.⁶

Many buyers' groups and do-it-yourself retailers have committed to selling FSC-certified products, and some major publishers have committed to using FSC-certified paper. Home Depot and Time, Inc., are two of the major corporations that have made such commitments.

FSC Standards

FSC's ten principles include compliance with local laws; tenure and use rights; indigenous peoples' rights; community relations and workers' rights; efficient use of forest products and services; conservation of biological diversity and maintenance of forests' ecology and integrity; maintenance of management plans; monitoring and assessment; maintenance of high conservation value forests; and management of plantations.⁷

These principles are intended to balance the interests of all forestry stakeholders to promote "environmentally appropriate, socially beneficial, and economically viable forest stewardship."⁸

Countries and regions have FSC working groups that elaborate and detail these principles for local conditions. "The scale and intensity of forest management operations, the uniqueness of the affected resources, and the relative ecological fragility of the forest will be considered in all certification assessments."⁹ FSC has dispute resolution mechanisms that may be used in

case of a conflict between a certifying organization and a candidate for certification.

Two types of certification are available. Forest management certification confirms that the operation complies with FSC standards. Chain-of-custody certification confirms that all stages of production of wood products comply with the standards. A certified forest operation must also receive chain-of-custody certification in order to mark its products as FSC-certified. Chain-of-custody certification is one of the most contentious parts of the FSC program. It is easy for large corporations that own their own forests to gain chain-of-custody certification. For small companies, however, the certification is difficult and expensive to obtain.

FSC Processes

FSC has three membership chambers. The social chamber includes non-profit, non-governmental organizations (NGOs), unions, academic groups, indigenous peoples' associations, technical groups, and research institutions whose primary interest is the social impact of forestry. The environmental chamber includes similar groups whose primary interest is environmental impact. The economic chamber includes those with commercial interests in forestry, such as lumber companies, employees, certification groups, retailers, and consumer organizations. To join, these

groups must demonstrate an interest in incorporating FSC's principles into their operations. Each chamber has equal voting rights and parity between developed and developing countries. FSC is explicitly non-governmental, and governments are not allowed to participate in the organization.

FSC's policies and standards development processes are stated to be transparent, independent, and participatory.¹⁰ This, along with the inclusion of all stakeholders, is important for FSC's claims to legitimacy.

Independence from industry is particularly important for public perceptions of legitimacy. These principles also echo ANSI's requirements for balance, openness, and lack of dominance in standard-setting organizations.

FSC accredits certification organizations that then perform the actual certification process. "In all cases, the process of certification will be initiated voluntarily by forest owners and managers who request the services of a certification organization."¹¹ FSC also issues a product label to encourage consumers to buy lumber products from certified sources.

The voluntary nature of certification is important, as otherwise certification could be considered a barrier to free trade. However, FSC hopes that public pressure and demand for certified products will eventually make certification mandatory de facto.

Competing Standards

In response to the FSC standards, industry groups set up competing certification programs. The major North American program is the Sustainable Forestry Initiative (SFI), created in 1994 by the American Forest and Paper Association (AF&PA). It has since separated from the association in order to gain a greater appearance of independence, but environmentalists still consider it to be dominated by industry interests.¹² “While SFI specifies principles, objectives, and performance measures of sustainable forestry, forest companies are given considerable leeway to adapt and interpret those rules to local conditions and company needs.”¹³

SFI is overseen by the Sustainable Forestry Board (SFB). It has fifteen members, two-thirds of which come from outside the industry. Government officials are included in the non-industry members, in contrast to FSC, which forbids government participation. The remaining five members are members of AF&PA. SFB oversees the standard and verification procedures.¹⁴

Like most industry programs, SFI focuses on processes rather than performance. Originally, there was no third-party certification or chain-of-custody certification. However, these items have recently been added to the program. Chain-of-custody certification is optional, and a label is available

that specifies percent certified content for those who participate. SFI has also recently implemented a labeling program.

Although SFI certification is voluntary, it is a requirement of membership in AF&PA. Seventeen of the 200 member companies have been asked to leave the association for non-compliance. Over 54 million hectares of North American forestland are certified under the program.¹⁵

SFI claims that it offers all the advantages of FSC certification and more. The additional benefits it claims include education programs for loggers and landowners, and greater responsiveness to changes in the business world. It also claims a greater influence on US industry since 90% of US industrial forestland and approximately 90% of all US paper production is certified by SFI.¹⁶

Industry groups tend to feel a lack of ownership in FSC¹⁷; yet they rather grudgingly support SFI only because they do not wish to be forced into the expensive and stringent FSC program. They tend to feel that they already manage their resources responsibly and do not need an outside organization telling them what to do.¹⁸ “Forest companies and landowners grant even FSC competitor programmes a relatively weak form of legitimacy, since support here is often a defensive tactic.”¹⁹

Effects on the Market

FSC hopes that its certification program will lead consumers to demand certified products and thus pressure producers to become certified. Another selling point for the program is the hope that consumers will pay more for certified products. In order for this to happen, however, consumers must know about the program and recognize it as important. FSC and environmental organizations such as the World Wildlife Fund have ongoing campaigns to raise consumer awareness and also organize protests to bring attention to the issue.

Studies tend to show low consumer awareness of certification and confusion about the competing certification programs. This confusion may lower trust in established labels.²⁰ A study comparing consumer attitudes from 1995 and 2000 shows slightly higher awareness of certification but lower actual purchases of certified wood products in 2000. The study also found a significant drop in belief that certification can help prevent tropical deforestation.²¹

In many studies, consumers report positive attitudes towards certification programs and state that they are willing to pay a premium for certified products. For example, one study found that almost half the respondents stated they were willing to pay as much as \$1 more for a book

printed on recycled paper, and 80% were willing to pay some price premium.²²

Yet consumers' actual buying behavior does not necessarily match their statements. A study of plywood purchases found that when prices were the same, consumers chose eco-labeled products twice as often as non-labeled. When the labeled product cost 2% more than the non-labeled product, however, the proportion of sales was almost reversed; the regular products outsold the certified products by a 1.7 to 1 ratio.²³ For pencils, a smaller purchase, consumers appeared indifferent to labeling up to a point. The labeled and non-labeled pencils sold about the same, even when the labeled product had a 20% price premium.²⁴ When the labeled pencils cost twice as much, 70% of the consumers purchased the non-labeled alternative.²⁵

Other studies also show that willingness to pay a premium decreases as the value of the product increases. In one study, consumers were willing to pay an average of 18.7% more for a certified lumber stud, but only 14.4% more for a chair and 14.2% more for a dining set.²⁶

These results indicate that, while consumers are concerned about forest management, it is only one of the factors in a purchase decision. Price is generally more important than origin.²⁷ Although most consumers will

choose labeled products of equal quality and price, they will not pay much of a premium for them. Upton and Bass report that consumers will not pay a price premium unless the quality of certified products meets or preferably exceeds the quality of non-certified alternatives. Even where the certified products' quality is higher, consumers may not pay a premium for them.²⁸

On the other hand, a significant niche does exist of consumers for whom certification is the most important attribute of a product. In the pencil study, for example, 30% of the consumers bought labeled pencils even when they cost twice as much as the alternative. Kozak also found viable niches in the areas of repair and remodeling.²⁹ Upton and Bass report that "green labeling can differentiate and improve market share for a product."³⁰

Aside from price, another problem with consumer demand for certified products is the limited supply. Hardwood exporters, even those who report low demand for certified wood products, state that the supply is inadequate. They state that more customers would probably request certified wood if the supply were greater.³¹

Although consumer response to certification programs has not lived up to FSC's hopes, buyers' groups and retailers who have committed to certified products may make the individual consumer's choices irrelevant.

Companies such as Home Depot and Ikea use their commitment to certification as a selling point to increase market share, not to increase consumer choice or educate consumers about certification programs. “If this trend continues, then support for forest certification . . . will be determined by ‘business to business’ operations . . . rather than ultimate consumers.”³²

Effects on the Industry

Studies of manufacturers and exporters echo the results of consumer studies: most say that they cannot charge a price premium for certified products.^{33 34} In a Wisconsin study, nearly a third of manufacturers with chain-of-custody certification say that certification has not gained them any new customers. Thirty-nine percent believe that certification does not give them greater sales volume, and 46% do not believe that they have gained access to new markets.³⁵ The major benefit of certification appears to be gaining credibility with the public; 47% of manufacturers found that certification gained them some degree of better public relations.³⁶

Producers and retailers tend to become certified in order to avoid negative consequences rather than to gain positive ones; they fear negative publicity, boycotts, or loss of market share if they do not support certification.

Another important point is that demand for certification is an issue mostly in international trade, which comprises only 15 to 20% of worldwide logging volume. The majority of logging done in developing countries is for domestic use, where there is little demand or pressure for certification. Developing countries have trouble paying the costs for certification and do not have the resources to implement the requirements.³⁷ Some help is available from aid agencies and NGOs, but more is needed, especially for maintaining certification over time.³⁸

On the other hand, financial institutions can also have an effect. The World Bank has implemented forest management rules as requirements for lending that are very similar to the FSC principles. The World Bank's policy has contributed to certification in developing countries.³⁹ In Brazil, major banks refused credit to logging operations in the 1980s because of the risk of environmental claims. Now some banks and private funds are once again funding forestry operations but making loans contingent on certification.⁴⁰

Certification can have an effect even on non-certified operations. In Brazil, the amount of certified forest is quite small. Yet,

Certified enterprises were able to improve the level of minimum requirements regarding working conditions, including safety and health aspects, reduced negative impacts of

activities, and community relations. Certification has also helped to demonstrate that forest management is feasible⁴¹

FSC certification has helped establish acceptance of the idea of certification, even where a different certification program is adopted. In the US, more forests are certified under SFI than FSC. Yet the SFI program was created as a response to FSC, and it has changed under FSC's influence to incorporate labeling, third-party accreditation, and chain-of-custody certification. Consumers tend to have much greater trust in an independent program, so SFI has had to become more independent. "When it comes to environment-related messages, the American public believes just about any societal group . . . before business large or small"⁴² The FSC program has also changed in response to SFI. Its chain-of-custody certification has become more flexible, allowing more products to be labeled and thus increasing the availability of certified products.⁴³

Recommendations

Benefits of certification tend to be intangible. Price premiums may or may not be attainable; consumer demand may or may not be a significant factor. On the other hand, certification does allow marketing to certain niches that do value certification. It also allows eligibility for funding from green funds and provides access to a recognized label and identity. As

buyers' groups and retailers commit to supporting certified products, certification can maintain or increase market share.

The largest benefits, however, are increased credibility and public relations. Certification provides assurance that products are responsibly produced and forests are responsibly managed.

Takoma Park Timber is a responsible company that cares about the environment and wishes to be recognized as such. For this reason, we recommend pursuing certification. The costs of certification for both organizations are easily within the stated budget. We recommend pursuing both.

Because your company is a large, integrated company for which FSC requirements are relatively easy to accommodate, we recommend pursuing FSC certification in order to gain the greatest consumer benefits. SFI certification might also be beneficial in order to maintain industry networks and have a greater opportunity to participate in setting standards. It may also be necessary to gain SFI certification in order to attain a leadership position within the industry, since it is required for membership in AF&PA, a major industry group. Therefore, Takoma Park Timber can receive benefits from both certification programs and should pursue both.

ENDNOTES

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