Exh 6 Analysis of market demand for FSC products (in English)

D4.2 Information material produced – Public document

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Market Potential of FSC Products Coming From Smallholder Forestry Operations in Europe

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Exhibit 6
Output D4.2 Analysis of market demand for FSC products
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Prepared by FSC International Center Bonn, Germany

FSC International Center GmbH · Charles-de-Gaulle-Strasse 5 · 53113 Bonn · Germany·

Market Potential of FSC Products Coming From Smallholder Forestry Operations in Europe

FSC is a powerful trust mark and product labelling system that brings value to responsible forest management in the market place. The FSC label provides a credible link between responsible production and consumption of forest products, enabling businesses and consumers to make socially and environmentally responsible purchasing decisions. As of March 2010, there were 1,001 forests FSC certified in 80 countries, covering 128 million hectares, and over 16,000 chain of custody (CoC) operations in over 100 countries processing and selling FSC certified products.[1]

Forest contractors are integral to responsible forest management operations around the world. In Europe, where most forests are owned by small forestry operations that rely on contractors, there exists a potentially strong demand for services from "green" forest service enterprises.

Through the Certification of Forest Contractors (CeFCo) project, FSC and its project partners NEPCon and ENFE are exploring an innovative approach to engage forest contractors with the FSC certification system. This project aims to help forest contractors gain recognition for their responsible practices and bring small forest holders, also known as "smallholders," greater access to the benefits of FSC certification.

This report first looks at the increasing supply of and demand for FSC products globally. It then describes the important role of European smallholder forestry operations in supplying certified timber, followed by a description of how certified forestry contractors could help increase the quality of forest management and the number of certified smallholders, especially in Europe. Finally, it provides a review of the compatibility between the FSC system and the anticipated EU policies sourcing timber products from verified legal and sustainable sources.

1. An increasing demand for FSC products

1.1. FSC in Europe

[1] FSC, 2010

FSC certified forest area in Western Europe amounted to 54.7 million hectares in March 2010, about one-third of total commercial forest area; a large proportion of forests in the UK, Ireland and the Netherlands are FSC certified. In general, European certified forests are concentrated in Sweden, Poland, Croatia, UK and Latvia. In the Baltic states, 55%, 66% and 34% of total commercial forest areas are certified in Latvia, Estonia and Lithuania; Croatia also has extensive certified forest area.

Small private non-industrial forest owners have been brought into certification in EU countries through the use of group certification. Group certification has been particularly effective where there are strong existing regulatory structures and forest owner associations operating at a regional level, notably in Finland, Norway, Sweden, Germany, France, Austria, Poland and the Czech Republic.

Regarding market presence, FSC has experienced continued growth for FSC certified products in Europe, North America, Asia and Latin America, with Northwest Europe taking the lead. The market share of certified timber and timber products in the EU is approximately 6-7%.[2] Although this percentage varies significantly among the different EU countries and also depends on the product group, the market share is growing in all EU member states.

1.2. FSC market value

FSC certification provides companies with opportunities to sell in new markets, increase sales to current buyers, and/or receive better prices. Improved protection against market restrictions is also an advantage, as more governments and buyers define purchasing policies that require wood products from certified well-managed forests. According to information provided by UNECE and FAO, market price premiums for FSC-certified sawn hard woods run between 12% to 20%.[3] An improved image can also pay dividends in the medium term.

• Value of FSC labelled sales was over $20 billion USD in 2007.
• Companies with a combined turnover of over $250 billion USD in wood products are committed to FSC certification.
• FSC's market share in the Netherlands was estimated at 17% in 2007
• In Switzerland the total turnover of FSC products was over $120 million in 2005.[4]

[2] The total EU market share comprised of certified timber products continues to be difficult to assess as a result of a lack of customs coding for official trade figures.
[3] UNECE and FAO, 2009
[4] FSC, 2009a

1.3. Why is FSC a market success?

Increased demand for FSC wood

The demand for FSC wood continues to grow. Increasingly, wood-processing businesses, such as Spanolux, a Belgian mid-density-fibre board manufacturer, and Sanforst, a German maker of parquet flooring, cannot obtain enough certified supply to meet the growing demand for FSC wood in their own countries and must import FSC timber. Likewise, increasing demand enables owners of FSC certified operations to sell wood that was previously difficult to market. "*Many kinds of wood are being sold that used to be unsaleable in Rhineland- Palatinate. A complete range is coming from our forests – from low-quality industrial to high-quality knot-free timber."* -- Dr. Thomas Rätz, forest assessor, Germany. *5*

Improved market access, better customer relations and higher profits

Increasingly, the policy of leading wood-processing industries is to buy timber from environmentally sound forestry operations that have an accepted and credible certification label. The requirement to work with other chain-of-custody certified suppliers can strengthen communication and business relationships along the entire supply chain. Increased demand has led to increased profits for some owners of certified forests.

"*The additional five to ten percent extra profit covered the costs of certification.*"-- Ruedi Iseli, state forester, Switzerland.[6]

FSC label – a marketing instrument

Forest owners actively use the FSC label to attract customers, showing the public that their forests have been managed in an environmentally sound and socially responsible way.

"*Our customers like to know that they are buying wood from a sustainably managed local woodland and an FSC certificate gives them that assurance. That clearly has a value to our business."* -- John Pryce, private forest owner, UK.7

Lower operating costs and improved management

Costs are not necessarily higher for environmentally sound than for conventional forest management. Indeed, many FSC certified forest operations have considerably reduced costs and increased profits. In addition, the certifiers' suggestions for optimising management can help improve efficiency.

Global acceptance

[5] WWF, 2001
[6] WWF, 2001
[7] WWF, 2001

The market today for timber and wood products is an international one. Prices and different kinds and qualities of wood compete with each other all over the world. The FSC was developed as a world-wide certification system to address the requirements of a global market. FSC certified forests exist in over 80 countries.

1.4. State and Development of Chain of Custody certificates

The market for verified wood products is influenced not only by the extent but also by the content of chain-of-custody (CoC) standards. FSC has focused heavily in recent times on the development of procedures designed to make it easier to apply product labels in those supply chains where only a relatively small proportion of raw material supplies might be demonstrably derived from certified forests. Application of the FSC "mixed" label has required the development of "volume credit systems" together with procedures to remove controversial wood from noncertified supply chains. These procedures have been particularly valuable in expanding use of the FSC label in situations where wood products derive from numerous small owners, only a few of which might be certified.

The total number of FSC chain of custody (CoC) certificates issued internationally increased rapidly by 50% in 2009 to reach 16,302 in March 2010.[8] Uptake of FSC certification has outpaced that of any other certification. The surge in CoC certificates is a good indicator of market demand.

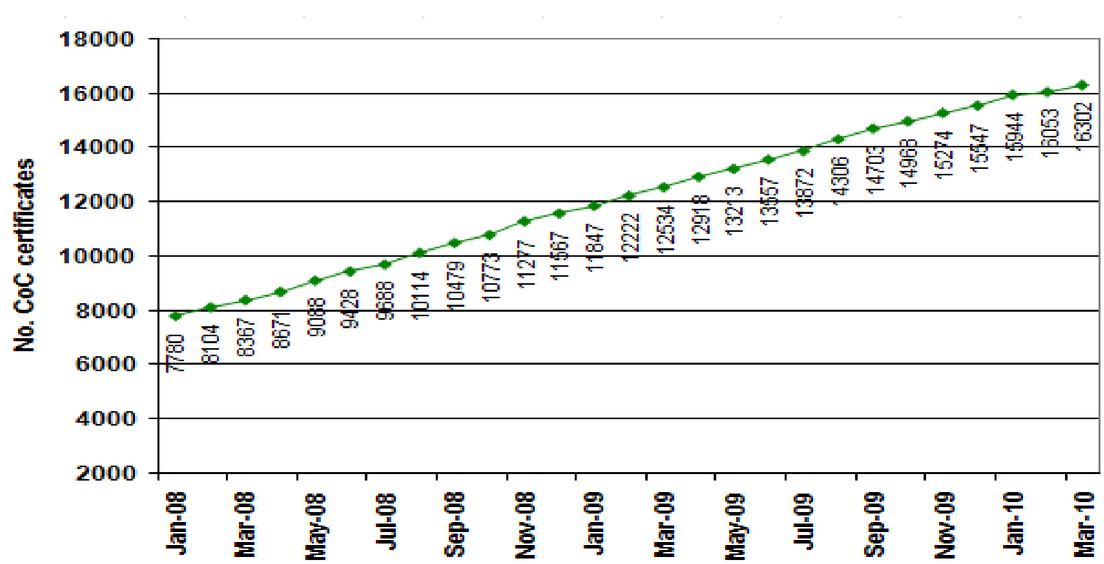

Figure 1. Worldwide growth of CoC certificates

[8] FSC, 2010

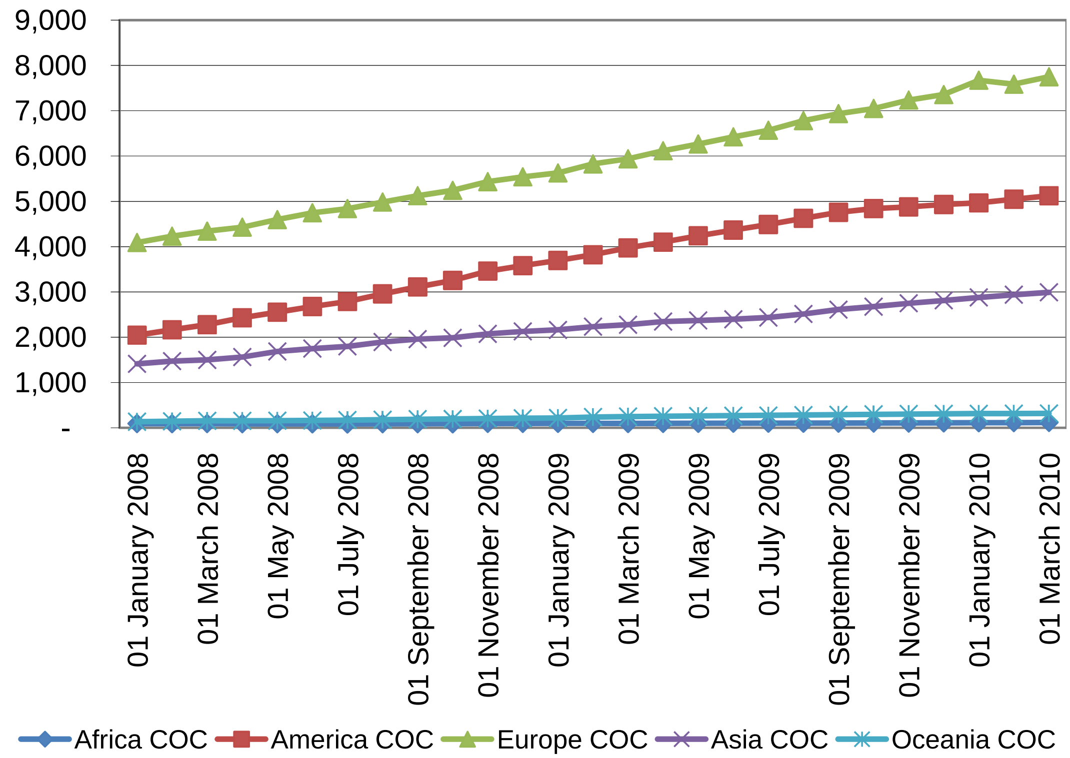

Figure 2. Growth in number of FSC CoC certificates by continent.

Table 1. Growth of FSC Chain of Custody certificates in Europe from 2005 to 2010.

Year	CoC certificates
2005	2,122
2006	2,653
2007	3,174
2008	4,183
2009	5,732
2010	7,674

2. A Market Ready for Smallholder Suppliers

Smallholders are critically important stewards of the world's forests. They own and manage 55 percent of forests in Europe and almost 25 percent of forests in the global South. Currently, smallholders collectively manage nearly one fifth (18 percent)[9] of the total area globally certified to the FSC Principles and Criteria, and this number is expected to increase in coming years. A top priority for FSC is to increase the number of certified smallholder forests. One critically important driver of smallholder certification is timber products companies sector looking for new supply sources of certified timber.

Sodra, a Swedish timber association, has decided to offer FSC certification to its members following a strong increase in demand for FSC certified products. FSC certification of forest owners gives Södra greater earning capability by enabling it to offer products that are FSC certified to pulp and timber customers alike. President of Södra Cell International, Ulf Edman, sees a growing interest in FSC pulp. "*Demand is strong and as we are now receiving the volumes of FSC pulpwood we need, we can also deliver in line with customer demand," he said. "Demand for FSC pulp was previously strongest in England. Now it is also growing in the German-speaking countries*." As a result, Södra will give its members a price premium for their FSC certified timber. With more than 50'000 forest owners in southern Sweden, the association owns just over half of all privately owned forest in the area and a group of companies that trade in national and international markets. Södra aims to have one million hectares of its members' forests certified in accordance with the FSC standard by the end of 2010.

Other companies such as Tetrapak, have adopted as a strategy to obtain supply from small operations in Europe. For Mario Abreu, Tetrapak Global Environment Director: *"We have clear objectives to expand our purchase of FSC certified paperboards and of controlled wood sources. Smallholders are key providers of raw material to some of our main suppliers. We hope that an increasing number of smallholders will become certified so that we can expand even further our purchase of FSC paperboards."* The advantages for companies of buying from European smallholders are obvious, especially volume. Mario Abreu explained, *"[At Tetrapak] [w]e have a clear policy that gives preference to FSC. We simply acknowledge that an important amount of raw material comes from smallholders, therefore if they get certified it enables us to expand our offer and have more FSC labelled products on the market."*

Many smallholder organizations have already benefited from this new reality. SEBSO manages a certification group of 40 group members in France who all

[9] FSC, 2009b

qualify as FSC Small or Low Intensity Manages Forests eligibility criteria. The size of properties within the group is usually under 25 hectare. For Jean Sionneau, Director of SEBSO: "*We initiate the FSC certification to answer customers demand for pulp wood FSC Certified and this is one of the most important aims of the group. SEBSO wants to focus on small properties not represented by French forestry organizations and wishes to purchase FSC logs to make FSC pulp in order to meet the expectations of TEMBEC customers.*"

In order to be able to adapt to this phenomenon, FSC has launched manifold initiatives such as CEFCO project, a new guidance document to improve smallholder access to FSC certification,[10] and new streamlined FSC standards bringing greater benefits to Group Certification have been submitted. Moreover, a group of European smallholders have formed a network aimed at educating other smallholders about the FSC system.

3. Certified Forestry Services -- the New Frontier

Increasing demand from already FSC certified companies and the potential new demand related to developing purchasing policies translates into increased opportunities for FSC certified operations. The FSC label is a globally accepted label for wood products that ensures responsible management of the forest resources. But up to now, the supply of FSC certified timber has lagged behind market demand.

Innovative forest service enterprises are looking at market opportunities to expand their business scope beyond forest operations, because operations (i.e. harvesting, transport, etc.) are carried out under high competition in the sector. Prices for services on the globalized timber product market in many cases do not provide for viable entrepreneurship, which again is crucial for ensuring the operational capacities necessary for fulfilling future utilization and management tasks in forestry. Creating opportunities for forest service enterprises to manage certified, privately owned, small-scale forest properties will make a valuable contribution towards developing service enterprises into competent, keen and viable service providers. Establishing guidance for forest contractors will enable consistent compliance to FSC's internationally recognized standards.

Since the sector is highly varied and has not been analyzed deeply enough, there is no reliable estimation available of how many enterprises could enter this market for management services. Considering the huge amount of private properties which could be included in certification by service providers within and beyond the frame of this project, it can be assumed that there will be a market for thousands of enterprises.

[10] FSC, 2009b

For Edgar Kastenholz, Director of the European Network of Forestry Entrepreneurs (ENFE):"*there is an obvious general trend towards increasing demand for certified forest services in Europe.*"

The reasons for this trend are:

- Forest operations are increasingly a cross-border activity. When a contractor offers his services, there is currently no internationally acknowledged certificate program to verify that a contractor follows any standards. A contractor certificate will help provide a level playing field for "good contractors" in a highly competitive sector. The contractors (represented by associations) throughout Europe are in favor of a contractor certificate, and have launched the initiative EFECT to establish a European Umbrella for contractor certification.
- More and more public procurement policies request proof of quality from contractors. For example, some German federal states have already endorsed this rule in their tenders, and request the RAL certificate for forestry contractors. So there is market pressure and internal incentives from contractors to get certified.
- In some countries the legal accreditation is under way (e.g., in Romania and Poland). Certification will help contractors influence the standard setting processes.
- Last but not least FSC provides standards which have to be met by contractors who work in certified forests. A contractor certificate which ensures that contractors meet these standards will facilitate market access for certified contractors.

4. FSC Meets EU Legality Requirements

Several policy measures are being developed or implemented in the EU with potential to drive demand for certified wood products.[11] These measures are being developed in pursuit of various policy objectives, notably to meet international obligations to reduce greenhouse gas emissions under the Kyoto Protocol, to promote good forest governance, and to remove illegal wood from trade in accordance with the EU's FLEGT Action Plan. These policy measures include:

- Proposals for EU-wide legislation imposing requirements for "due diligence" on operators in the EU forest products sector to minimise the risk of sourcing illegal wood

[11] EU Parliament, 2009

- Promotion of Green Building Initiatives (GBIs) such as BREEAM in the UK, HQE in France, Austria and Germany
- Efforts to coordinate and harmonise GBIs at EU level, e.g., through CEN TC 350
- Efforts by the European Commission to promote Green Public Procurement and develop guidance, including specific guidance on timber purchasing
- Efforts by timber trade associations to develop procurement codes and policies for their members and to coordinate this activity at EU level.

Some of these measures are still in the early stages of development and are yet to be felt in terms of significant increases in on-ground demand for verified wood products. However they are summarised here due to their long-term potential to significantly alter trading conditions for verified wood products in the EU.

Once the policies are in place, buyers and producers will be able to look to the FSC system as a mechanism for verifying legality and sustainability requirements.

- ✓ FSC shares the EU Commission’s broad goals of setting up a better global timber trade and governance system. It promotes sustainable forest management, improves forest governance and supports sustainable consumption.

- ✓ Many public procurement policies already specify FSC certification as the way to verify sustainability and legality requirements.

- ✓ FSC system matches the four main dimensions of public procurement:
  - Legal dimension: It is compatible to World Trade Organisations and EU regulatory (FLEGT) framework.
  - Policy dimension: It will be applicable to national public procurement policies complying with EU regulation.
  - Marketing dimension: It is a market-based system and provides a market response to the EU public procurement policy.
  - Technical dimension: FSC certification is based on environmental and social international standards, which will be the basis for an operator to establish a due diligence system.

- ✓ FSC system meets public procurement requirements:
  - FSC standards address legality and sustainability
  - Certificates can be easily verified

- ✓ FSC provides tools for helping timber traders to meet and demonstrate their commitment to legality and sustainability:
  - FSC system includes both forest management and chain-of-custody certification

- FSC network helps facilitate collaboration between importers and exporters
- Phased approaches towards certification are available.

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