

Notes on Certification

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1.0

1.0 Introduction

The aim of the report is to provide an overview of certification: background, schemes, costs, trade implications, advantages and disadvantages. The implications for Guyana; of facing markets demanding certification, the costs involved, the relationship of certification and attaining sustainable forest management (SFM), and the future of certification are all discussed.

2.0 Background

Forest management certification is a relatively new type of formal, voluntary procedure. It is a market-based instrument used by sellers offering similar products to a market. Certification has two main objectives: to promote Sustainable Forest Management (SFM) and to obtain/maintain market share. The issue facing producers is the use of certification to maintain and gain market share in environmentally sensitive markets such, as Europe and North America. In this respect certification will have a direct impact on certain products going to certain markets produced by individual producers. Not all producers, products and markets are affected, although over time more products and markets are likely to be influenced by certification.

Whilst free-trade is not jeopardised, the use of certification by consumers and producers remains a voluntary procedure, once free-trade is prevented the use of certification ceases to be voluntary. Trade implications of certification are discussed in Section 5.0.

Certification proceeds with a certifier - who is a third-party inspector - giving a written assurance that the quality of forest management practised by a defined manager or group conforms to specified standards. Thus certification is often followed by verification of the **chain of custody of products** from the certified forests, and labelling of the products, so that they can be proven not to have been mixed with, or substituted by, products from other forests. In this way, certification attempts to link market demands for forest products produced to high environmental and social standards, with producers who can meet such demands.

Originally developed for the wine industry in France (appellation d'origine contrôlée) certification has been applied to a range of activities from organic agriculture to laboratory testing procedures. Certification has been applied to forests since 1989 when Europe and North America public concern was calling for the boycotting of tropical timber to safeguard the future of tropical forests. It was developed as an alternative which would allow consumers to choose to purchase "environmentally sound" forest products. Forest certification thus evolved as an instrument to give due recognition to, and provide an incentive for, sustainable forest management (S Bass, 1998). Its development is part of a general trend to define and monitor standards for environmental and social improvements in natural resource management. In addition, as is the case with wine production, the use of certification may also be used as an indicator of a certain quality of product.

The problems associated with forest management are generally accepted to have arisen from policy, market and institutional failures. Improving national policies, developing international initiatives, civil society efforts and most recent market instruments, are the four basic responses that have been developed to deal with the forest problems.

As with most market-based incentives, certification should be part of a regulatory process and not as a sole instrument, as it will not achieve its objectives to rid all unsustainable forestry management practices.

Given the conditions in which certification is applied, for certification to be effective it will have to be:

1. compatible with, and making positive contribution to, sustainable forest management, including other instruments for SFM;
2. acceptable to stakeholders and credible in the marketplace; and
3. non-distorting of trade.

Certification standards are a soft policy tool, but they need to be voluntarily instituted in order to be meaningful and beneficial. Certification creates an interface between trade, environmental and social elements - the same elements upon which SFM is based.

3.0 Certification Schemes

There are a number of certification schemes in existence today. Two of the most important that are being enforced internationally are the ISO 14001 and the Forest Stewardship Council (FSC) scheme. The ISO 14001 is based on forest/environmental management systems (EMS), whereas the FSC scheme is directed at the forest operations level. It should be noted that an EMS certification does not lead to product labelling. The FSC has been set up as an international non-governmental umbrella organization to accredit nationally based forest certifying bodies.

At the current time the forest sector is working with the **Guyana Forestry Commission** and the **United Nations Development Programme** to develop national criteria and indicators for certification and are discussing which is the most appropriate path for Guyanese producers. This can either be the adoption of an established standard or the development of our own national standards, as was the path taken in Malaysia. The development of a national certifying body, accredited or recognised by an international certification body, which will help to reduce the costs of registering and of certification for producers is also under discussion.

4.0 Cost of Certification

The likelihood of uptake of certification schemes is dependent upon the cost of implementation. Costs arise from the direct costs of implementation, which are the registration costs and assessment costs, and the costs of actual sustainable forest practices. However it is important that the costs attributed to certification should be incremental to the costs attributed to SFM, if SFM is being actively sought by the industry and in mandatory requirements determined by the regulatory body.

In addition to the direct and indirect costs, opportunity cost exist in terms of the cost of the loss of sales/market share that would have occurred if certification had not taken place, and the cost that arises from the time spent in achieving certifiable management practices.

If certification is not adopted and the market shifts favourably towards certified products the producer would incur costs. There is the cost of lost market share as market tastes/demands change and consumers switch to certified products. There is also the lost potential market for certified products which should potentially warrant higher prices, however the UN/ECE (1988) notes that forest products certified as being from sustainably managed forests do not at present command a price premium over non-certified wood.

The costs and benefits of certification are unclear. Costs will be involved and considerably more so for the smaller and/or less efficient producers. Any producer not operating a SFM will have costs of implementation to include. If producers abstain from SFM and certification of their products then they may suffer a loss of market share as

consumers switch to certified products. However, to date there has not been a significant demand for certified products. Calculations by Keil Economists (Der Spiegel 6/1997) show that to date, the market for certified wood in Europe and the USA is too insignificant to be able to reverse the current market demands.

The total costs are likely to be higher for smaller and/or less sustainably managed practices, where the significant impacts are likely to be seen (but significant changes in forest management are to be introduced), as compared to larger and/or more sustainably managed practices.

4.1 Direct Costs

Direct costs are heavily influenced by the feasibility and ease of assessment by the certification body. This is dependent upon the strength and transparency of the management systems in place. The stronger the systems the lower the cost. For many forestry practices good environmental management makes good business sense. Some certification costs are site specific, for example, costs can vary with the degree of species variation within the forestry concession.

“Based on experience so far, the minimum cost for an assessment tends to be around US\$500. This minimum cost would cover a small area close to the assessor’s head office. For natural forest, an average of about US\$0.40 per ha for the initial assessment and US\$0.15 per ha for subsequent surveillance visit and chain of custody assessment, should be added. For a certificate valid for six years, a 100,000 ha natural forest concession in the tropics would incur total costs of about US\$ 130,000 over the life of the certificate (i.e. about US\$22,000 per year)”, (Upton & Bass, 1996).

4.2 Indirect Costs

Indirect costs are associated with installing the systems which permit quality forestry. Installing such systems as inventory, forest management, etc, involves increased planning and up-front investment; it can also change the relationship between fixed and variable costs. Fixed costs per unit of output, especially roads, tend to increase. The only way to keep the costs down is to reduce variable costs per output and this means improving productivity. This often means that average costs at low levels of production tend to be higher with certification than without. Thus certification for small concessions tends to be proportionately higher than for larger concessions. The changing relationship between fixed and variable costs is depicted in Figure 1.

Figure 1: Indirect Costs of Certification

q1

Notes:

1. Typically certification requires an increase in the ratio of fixed to variable costs.
2. Increased fixed costs require a reduction in unit variable costs in order to contain total

costs.

3. q_1 = level of output where total cost with certification equals total costs without certification. At higher levels of output the total cost per unit of production is lower with certification. At lower levels of production the total cost is higher with certification.

Figure 1 is a simplistic diagrammatic representation of the fixed and variable costs that the producer would face. In reality the total cost curve would not be linear, and marginal and average costs curves would be included. To build a more complete picture the costs and benefits for both private concessionaires and a social point of view would have been included. It should be noted that even where indirect costs increase, the effect on final product prices will be lower.

5.0 Implications for Trade

Certification is a voluntary mechanism for the market to distinguish between products produced under SFM and those from unsustainable forests. However, if it becomes a necessary condition that producers must be certified before their products can be sold, then the use of certification becomes a non-tariff trade barrier and violates World Trade agreements.

Certification and its potential trade impacts is a contentious issue. As a voluntary, market incentive mechanism, as a tool to protect the environment, certification could minimise trade distortions and protect the environment. However as soon as the mechanism becomes compulsory in the market then trade distortions especially between industrialised nations and developing countries could be enhanced and certification would act as a Technical Barrier to Trade (TBT).

At present there is only speculation as to how the World Trade Organization (WTO) will treat certification. WTO accepts TBTs if they protect consumers, environment and plant health. At present the WTO considers TBTs such as standards and conformity assessment procedures (certification) to be acceptable as long as they are voluntary and run by the private sector. It implies that certification should:

- Be non-discriminatory (against country and forest type)
- Avoid unnecessary obstacles to trade or distortions of trade (i.e. certification should meet environmental objectives and go no further)
- Encourage harmonisation, or acceptance of equivalence, amongst similar approaches to standards/conformity assessment
- Use international standards where these exist
- Be verifiable and transparent; and
- Allow for special/favourable treatment of developing countries.

High environmental standards may present difficulties as they may be considered to go beyond national environmental objectives.

6.0 Advantages of Certification

Certification has been developed as a market-based instrument to be used in conjunction with policy regulations and other management tools to actively encourage sustainable forest management. In addition the chain of custody issue will encourage the monitoring of forest products from the forest to the end use. The use of sustainable forest management techniques, such as inventory, improved planning of harvesting activities including felling technique, is a rational business decision as cost should be cut and the future of the resource and thus income streams are maintained.

In a world of uncertainty, it is often a rational decision to invest so as to be prepared for future market changes. The extent to which markets will take up certification and with it the labelling of products is unknown. The forest manager may begin by introducing improved management systems, from an individualistic management sense point of view. This would then put him in a position to get certification if and when the market demanded it. However, in a free market with new alternative timber products increasing the competition it is often a case of being one step ahead and by getting certified a producer is in a position to move into new markets. The current market inception of certification has been through the development of niche markets rather than through premium prices for certified products.

7.0 Disadvantages of Certification

The major disadvantages are associated with the cost, both direct and indirect. Certification is biased towards large producers who can benefit from economies of scale and the reduced variable costs. Small producers and inefficient producers have to incur proportionately higher costs than large and efficient producers. This would imply that the objective of enhancing and encouraging sustainable forest management (SFM) practices would be limited, as the only producers likely to adopt certification are already practising SFM and it is the small and inefficient producers who are not. In addition, the fact that certification has economies of scale and the variable costs of certification decrease as production increases actively encourages increased production.

A case study of collective certification where certification is based on the production activities of a group of producers exists in the Solomon Islands. Obtaining certification on a collective basis has the advantage of reducing the costs for the individual producers and thus making certification an option to the small producers. However as with anything that involves collective behaviour, problems may arise due to the interdependency that exists and if one producer is not meeting the standards then everyone suffers. Problems in traditional societies such as the Solomon Islands may also arise when benefits accrue and everyone claims a share as the resource belongs to everyone. A similar case exists in the Baining Region of Papua New Guinea, where the Pacific Heritage Foundation works with village level forest producers and collective certification is being researched.

Certification may result in two main negative or weak impacts on forests:

1. corporations which are currently asset-stripping forests cannot be controlled through

certification (such companies seek opportunities for short-term extractive investment, rather than long-term productive investment)

2. certification may (inadvertently) create asset-strippers; i.e. for those that can't meet standards, there may be an incentive to divert trade to less discriminating (domestic/Asian) markets

CURE News July/August 1998, highlighted a cause for concern in that certified products may actually threaten forests as there may be a shift to increased use of forests outside of the certified area.

There is uncertainty of demand for certified and labelled forest products. In most countries no large-scale demand has been noted while its emergence in the short run appears unlikely. UN/ECE 1998, stated that, "Despite public interest in forest management, there is limited evidence to indicate mass market demand for responsibly-sourced wood products. Very few consumers even know what certification is. The consumer market for certified wood products was less than 1% of total European consumption in 1997". Demand will be influenced by supply and the picture may change in those markets where larger certified volumes can be made available. The action taken in many major exporting countries could suggest that a certain supply push could happen as the current demand appears to exceed supply in some European markets. (TFU Vol 8 No 3).

8.0 Certification and Guyana

As already mentioned the two objectives of certification are to maintain and/or gain market share, and to promote SFM. It is important to put these two objectives into the perspective of Guyana's forest sector.

As the domestic market is not demanding certified products only the international markets need to be assessed, for the implications of certification on Guyana and the threat of losing market share.

Not all international markets are actively demanding certified products, only the "environmentally sensitive" markets (Europe and N America are the main markets). Likewise not all forest products are affected by certification, as only those products going to the "environmentally sensitive" markets are.

This then conjures up various implications. For example, if a concessionaire produces a range of products and the only product facing the constraint of certification is Greenheart piles in New York state, then the concessionaire will have to consider the costs of SFM and becoming certified (which will be applied to the whole concession), versus the loss in market from that one particular product. It will be necessary for the concessionaire to consider the costs of SFM and certification against the benefits (including the avoidance of market loss) of certified products, not all of which will need to be certified in order to maintain sales.

8.1 Certification by product and export destination

In general for Guyana, exports markets in Europe and N America are the markets where producers may require certification in order to maintain market shares. The products that are sold to Europe are primarily sawnwood, sleepers, some roundwood and logs and a small share of plywood. North America is an important market for plywood and roundwood – primarily Greenheart piles.

Log Exports

Total export volume in 1998 was 60,580 m³, with a value of US\$ 3.9 million (approximately 13% of total export value). Of this volume, 73% went to Asia/Pacific region, 12% to Europe and 15% to Latin America/Caribbean (LAC). In terms of certification, the relevant market is Europe, which accounts for 9.5% of the total export value of logs. Asia/Pacific and LAC account for 71.8% and 18.7% of the total value respectively.

An important consideration for the future is that if Indonesia removes its export ban on logs and as a result Guyana loses market share in this region, producers from Guyana may have to gain market access into new log markets, some of which may well be demanding certification.

Sawnwood Exports

Total export volume in 1998 was 21,200m³, with a value of US\$ 8.1 million (approximately 27% of total export value). Of this volume, 2.8% went to Asia/Pacific region, 33% to Europe, 9.8% to N America and 55% to Latin America/Caribbean. In terms of certification, the relevant markets are Europe and N America.

In terms of percentage shares of the total sawnwood value attributable to the regions, the percentages are in line with those for the volumes. Thus indicating no significant divergence in prices between the regional markets.

Roundwood Exports

Total export volume in 1998 was 9,070m³, with a value of US\$ 1.7 million (approximately 6% of total export value). Of this volume, 2% went to Asia/Pacific region, 16% to Europe, 33% to N America and 49% to Latin America/Caribbean. In terms of certification, the relevant markets are N America and Europe.

In terms of value, Asia/Pacific accounts for 3.6% of the total, Europe for 24.2%, LAC for 43.5% and N America for 28.7%. Europe accounts for a higher percentage share in terms of value than in volume, which indicates a higher value market. Roundwood is comprised of hewn squares, Greenheart Piles, and Wallaba poles and posts. Greenheart piles and Wallaba posts account for 38% and 41% of the total roundwood value respectively. Furthermore, N America accounts for 72% of the total value of Greenheart piles exported, and LAC for 90% of the total value of the Wallaba poles exported. All of the hewn squares exported go to Europe (15% of the total export value of roundwood), and 16% of the total value of Greenheart piles go to Europe.

In March 1999 the New York City Council eliminated Greenheart from their list of approved species for NYC Board walks and other uses. NYC is one of the largest buyers of Greenheart and the ban is expected to have a great impact on the forest sector in Guyana. In particular this will have an impact on the export of Greenheart piles to N America. In 1998, the value of Greenheart pile exports was 38% of the total export value of roundwood, which in turn accounted for 6% of the total export value for Guyana.

Splitwood Exports

Total export volume in 1998 was 890m³, with a value of US\$ 0.3 million (approximately 1% of total export value). Of this volume, 11% to N America and 89% to Latin America/Caribbean. The percentage shares in terms of value are equivalent to the volume breakdowns. In terms of certification, the relevant market is N America.

Plywood Exports

Total export volume in 1998 was 69,950m³, with a value of US\$ 16.3 million (approximately 54% of total export value). Of this volume, 11% to Europe, 65% to N America and 24% to Latin America/Caribbean. In terms of certification, the relevant markets are N America and Europe.

Plywood is the major contributor to total export value and if plywood markets become certified and markets begin to be lost, or market share reduced, this will then have a big impact on the total export revenue for Guyana. If Barama's plywood needs to be certified it will require all of its suppliers to be certified, the chain of custody issue will be required. This would have multiplier implications throughout Guyana and the forestry sector.

8.2 Certification, SFM and Guyana

The development of forest management practices and legislation, that are promoting SFM is currently occurring in Guyana. The drive towards SFM in Guyana is not certification but is from the regulatory bodies both domestically and internationally, although certification will work alongside these policies and practices.

As discussed previously under the section on Costs, the costs of adopting SFM practices cannot be solely attributable to certification as is the case in Guyana when the promotion of SFM is being encouraged regardless of the sector's desire to be certified.

Of course there is a close relationship between forest regulations and the Code of Practice which will lead towards SFM, versus the use of a marketing instrument such as certification. Optimally a combined approach should result, and with the uptake of the forest management practices being promoted by GFC the ability of producers to obtain certification should be greatly enhanced.

8.3 Certification and Guyana – General Issues

The impact of certification in international markets is already beginning to be felt in Guyana. For example, the USA is becoming more stringent in its buying practices and producers are finding it increasingly difficult to maintain markets without certification. In July 1998 Minister of Trade Shree Chan, lobbied the Economic and Social Council of the United Nations (ECOSOC) regarding the threat of a loss of market and costs of certification. March 1999 saw New York City Council removing Greenheart from their list of approved purchasable species (refer to section on Roundwood exports).

Although the European market for certification is presently estimated at being less than 5% the trend in consumer preference is increasingly moving towards certification and labelling of forest products.

Several concessionaires in Guyana have considered certification. The management of Demerara Timbers Limited (DTL) developed a Green Charter of forest management, which has international credibility. However they sought further certification and in June 1994, DTL was awarded a certificate of Quality Forestry by the independent monitoring organisation SGS Forestry. By the end of 1994 no direct benefits had been felt. DTL was the first tropical forest operator to gain a certificate and restrictions in the international trade of tropical timber had yet to make themselves felt in 1994, (unclear of the situation in 1999). As DTL already had a comprehensive management plan with full inventory and careful harvesting plans, it cannot be said that certification brought this about. The issue of a certificate has though improved the stock accountability and the chain of custody system has resulted in better tracking and documentation of forest products. The value of certification for Guyana is questionable when the major markets which Guyana has are considered. The major markets being the Caribbean and domestic which are highly dependent upon price.

The likelihood of adoption of management practices that will lead towards SFM and the ability to be certified, are highly related to the land tenure rights of the concessionaire. The cost of implementing SFM and certification implies that only concessions with long-term interests are likely to make the required investments. This is especially true when the domestic and regional markets are not requiring certification and can continue to be supplied by the smaller concessioners with short-term leases.

Another consideration is that the use of certification to promote SFM within a country such as Guyana with a high number of SFPs and illegal chainsaw operators, will be limited. Only the large TSA/WCL concessions are likely to consider certification and in fact be affected by the market restrictions in N America and Europe.

The process of certification requires the whole flow of timber from forest to buyer to be monitored and certified. Ghana, (February 1999, ITTO MIS 1-15 March 1999), was given a grant from EU and the Netherlands Government towards the cost of a Forest Management Certification Systems Project. An essential component of this project is the establishment of an enhanced computerised system for monitoring the chain of custody of timber products from the forest to the end use. The DFID pilot project to monitoring timber flows could be used for this purpose of guaranteeing the supply for certification purposes.

In conclusion the impact of certification on Guyanese producers must be considered in relation with other factors affecting production, whether mandatory factors, such as the GFC code of practice, or exogenous market factor such as the strike by the public sector workers in May and June 1999. Internationally, Guyana is still a relatively minor player in markets and as such will be affected by the situation on the international forest markets.

The certified markets are changing continuously and as was concluded in the Market Summary 1998, marketing of Guyanese products remains an essential criteria in the future prosperity of the industry.

9.0 The Future

So far the impact on SFM practices is hard to assess. This is due to the certification initially being introduced to forested areas that are already being sustainably managed and thus the impacts are hard to measure and often negligible as compared to the uptake of certification by producers not practising SFM or only to a limited extent. The impact of certification is also dependent upon the size of the operation (as previously discussed).

With SFM being increasingly enforced by governments (environmental pressure etc) and as information regarding certified products reaches the markets and consumers, it is very likely that demand will increase. Certification and labelling is a marketing mechanism, that is likely to remain and gradually increase in importance, especially when international regulations such as ITTO 2000 take hold. Producers should be aware and working towards achieving SFM and certification of their products to keep abreast of demand and other producers.

The issue of the demand for certified products is uncertain, but there are indications in the market of a move towards certified timber products or alternative forest products. For example, the case of Atlantic City (USA) in 1997 making the decision to use only

certified timber products or plastic lumber in construction around the city. The potential for a loss in market share for Guyana's exporters is real.

The issue of certification seems to be coming increasingly topical as a tool for ensuring sustainable forest management. The likelihood of adoption of certification will depend on two primary factors: the efficiency of the producer, and to which markets they are supplying or if they are trying to break into new markets.

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