



Forest Stewardship Council®



# *The role of certification in forest fiscal policies*

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Fiscal Mechanisms for a Sustainable Forest Sector  
Workshop, 25 October 2018, Worldbank



**FOCUS ON: tackling forest degradation, rather than deforestation.**

**Content:**

**Forest SFM Certification – progress and challenges**

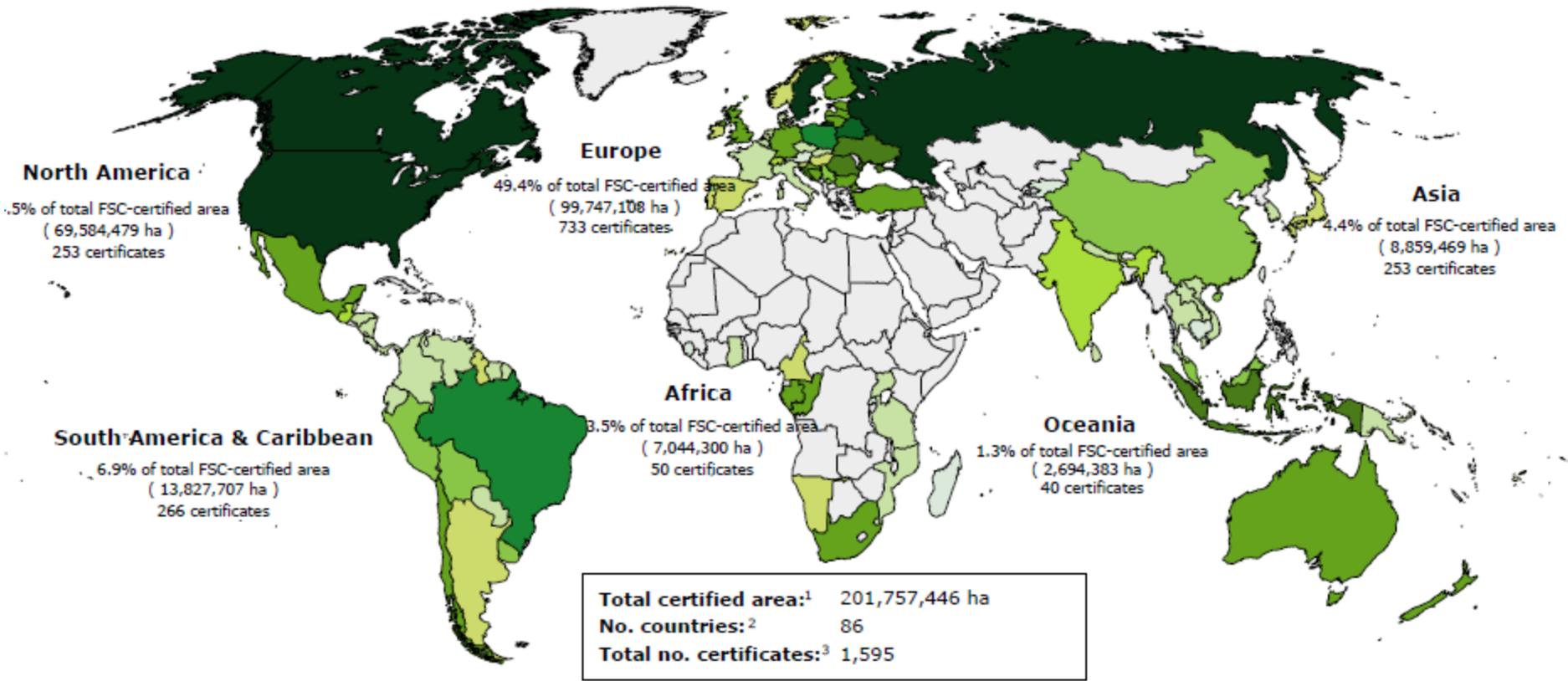
**Creating a level playing field for certification with fiscal measures**

- Some existing examples
- Different options – not excluding each other

**Some warnings**

**FSC's offer to cooperate**

Global FSC-certified forest area



Total FSC-certified forest area in ha



Based on numbers from FSC International  
Created: 06.09.2018

## Forest Certification globally, mid 2018 --- million ha.

FSC only	115
PEFC only	221
Double certified	87
Total:	<b>422</b>

North America	211	Tropical forest/countries: 23
Europe	105	
Russia	49	
Asia	25	
Latin America	14	
Oceania	10	
Africa	7	

## The State of the World's Forests 2018 – FAO

“In 2017 the annual volume of wood harvested in FSC-certified forests was estimated at 427 million cubic metres, which corresponded to **23 percent** of the total volume of global industrial roundwood production and **11 percent** of global roundwood production (including fuelwood), according to FAO figures (FSC, 2018a, 2018b).”

“According to the PEFC, the total estimated volume of both FSC- and PEFC-certified wood in 2016 was 689 million cubic metres of roundwood, which corresponded to **38 percent** of global industrial roundwood production (PEFC, 2017).”

***“This refers to certified input to the supply chain, and not to the volume of certified/labelled end products entering the market after processing.”***

Conclusion: more than “niche”: but under-represented in tropics

## **Net growth slowed down, challenges:**

- in NA and Europe: saturation? growth options in some countries only
- anti-illegal logging focus; FLEGT: certification = no green lane
- Main deforestation drive: agriculture commodities
- other “solutions”: “beyond certification”, zero-deforestation, forest restoration, “carbon sinks”
- Critique/concerns about reliability of the schemes.

## **In tropics specifically: challenges**

- illegal logging
- substantial investments/costs (social arrangements)
- no or insufficient price premium (tropical timber is not popular, certified timber no inherent extra quality)
- demand shifting to China

**Level Playing Field** is important precondition for SFM:  
Ability to compete with illegal loggers, with unsustainable forest management practices.

**SFM can create efficiency and cost savings, but often the extra costs are dominant:**

- Investments in environmental activities and monitoring
- Set-aside areas for natural regeneration and permanent protection
- Less harvesting
- Training, better labour conditions
- Benefits for forest communities [schools, hospitals.....]
- auditing costs
- .....

## **Role of government to create level playing field is justified:**

SFM provides **services to society** as a whole:

- ecosystem and social services for benefit of the population
- mitigation and adaptation of climate change
- safer, better, and, official, jobs
- reduction of corruption and illegal practices.

## **Certification, if performing well, can be used as a reliable verification tool for SFM**

Added benefits:

- Increased export opportunities to certain markets
- Formalizing informal sector
- Verification of compliance with laws (Principle 1) and payment of required taxes.

Governments have a **range of tools** to implement objectives:

- Legislation, regulation of forest management rights and practices;
- Fiscal tools, which include taxation, subsidies, etc.;
- Public procurement, giving preference to products from sustainably managed forests;
- Awareness Raising/Education/Training
- International cooperation

All important to create **a level playing field** for SFM

**Important:** not undermine the competition with other materials with larger footprint (concrete, bricks, plastics.....).

## Fiscal tools: What is in the toolbox for SFM?

- a. Directly at the forest level
- b. The demand side- supply chain

### A. Directly at the forest level:

- reduced access payments for concession holders
- reduced guarantee bonds
- reduced harvesting fees
- tax reductions/waivers (on equipment, on salaries, on sales, on profit....)
- subsidized loans and interest rates and loan guarantees
- payment for ecosystem services
- co-financing of forest road construction (*in particular when management plans are explicit about limiting the negative impacts of such roads*).
- ???????

## EVIDENCE

2016 Latin America study on concessions for FAO and ITTO (Steve Gretzinger, Zak Resources): *“incentives in the form of tax breaks, fee reductions and subsidies have been successful in reducing the cost of operating a concession and improving the likelihood of profitability.”*

**Bolivia** (in the past): 10% access payments reduction for FSC certification.

**Peru:** up to 70% discounts, depending on whether the company:

*“vertically integrates the concession with manufacturing on-site [...] establishes voluntary conservation areas within the concession [...] ; or obtains FSC certification (25% reduction in concession price for full FSC certification and 5% reduction in harvest payment if concessionaire has initiated the process).”*

**Brazil:** reduced fees in cases where companies apply: *“monitoring of forest dynamics, reduced impact logging, generating employment in concession areas, supporting research, implementing conservation initiatives, developing gender-neutral affirmative action strategies, and utilizing high quality control systems”*.

for concessions (since 2014) *[not from FAO study]*:

- a. Certification is an “indicator for bonification”: helps to win the tender for a concession. Certification will then become a part of the concession contract.
- b. Possibility of a (max.) 20% reduction in the annual harvesting fees as long as certification exists.

In **Guatemala**, certification tool for communities to get certain fiscal benefits support. Works for 20 years already *[14% forests FSC-certified. Average in Central America is 4%]*

## **B. Beyond forest management – mobilise industry to source from SFM:**

Fiscal incentives can support producers/exporters/importers, so that they can, in their turn, provide a price premium for certified/SFM proven material:

- Lower/no VAT on certified products
- Reduced/waived export/import fees for certified products.
- public procurement requiring (domestic) certified products - if necessary introduced gradually
- Covering costs of training and other practical support to achieve certification for smallholders, and communities.
- ???

## HOW TO FINANCE FISCAL INCENTIVES?

Fiscal incentives will reduce income and/or increase expenditure for government.

Success can mean “earning effects”: more effective tax collection, increased exports, employment, wages, investment.

Tax reductions can be sponsored with increased taxes for non-sustainable management/products, doubling the impact on the level playing field.

Special international assistance???

**Such as: extra taxes on non-certified products (timber, food, construction materials) --- channeling this to funds for fiscal reductions in producer countries – based on shared validation of specific certification schemes???**

## SOME WARNINGS:

- Do not require/seek perfection: the ideal level of fiscal support does not exist; too many different starting points
  - Perfection as requirement postpones actions (indefinitely?)
  - Essential is that signals are clear and stable [also if they are progressive/increasing over time]
- Recognise different starting points: introduce reforms appropriately, per country
- Improve competitive position of sustainable wood as such with other resource materials, in particular those with larger ecological footprints. Such material use can even be income-source for sustainable wood fiscal incentives
- Developing countries need solutions that increase rather than reduce their public income. Consumer countries can contribute, maybe transfers of fiscal incomes

## ROLE OF FSC

1. Provide a reliable verification tool for sustainable public procurement, fiscal measures supporting SFM
2. Access to stakeholders who can play a role in defining the right (combination of) measures:
  - a. some 20 million ha in tropical forest certified, some 330 FMU's, more than 70.000 smallholders, in 38 countries.
  - b. More than 2800 CoC CHs in 38 tropical countries
  - c. Its members: almost 600 organisations: trade unions, environmental and indigenous organisations, large and small companies (+ 500 ind.).
3. Potential for mobilizing support for specific proposals from global, regional companies, see 70 signatories of the Vancouver Declaration, committing to FSC as contribution to implementing the SDGs.



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