ITTO International Workshop on Phased Approaches to Certification

Bern, 19-21 April 2005

Setting the Scene: Overview and Implementation of Phased Approaches

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and

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Overview of the Global Situation

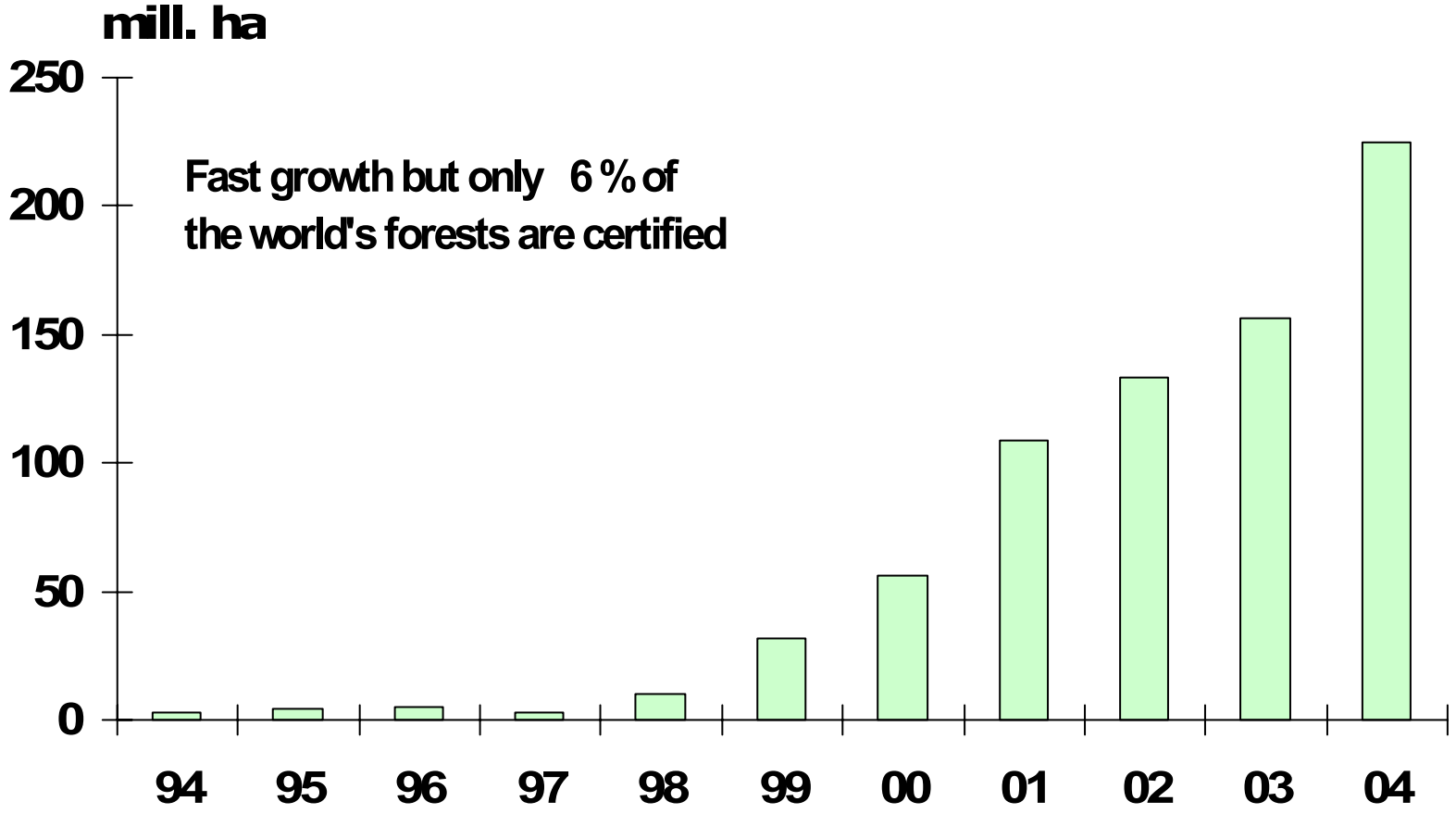
Perversity of Forest Certification

Forest certification was introduced as a response for combating deforestation in the tropics.

However, most of the certified forests are found in boreal and temperate zones

➔ **Furthermore, forest certification is not an instrument to combat deforestation. It is a tool to promote sustainable forest management (SFM) and sustainable consumption of forest products.**

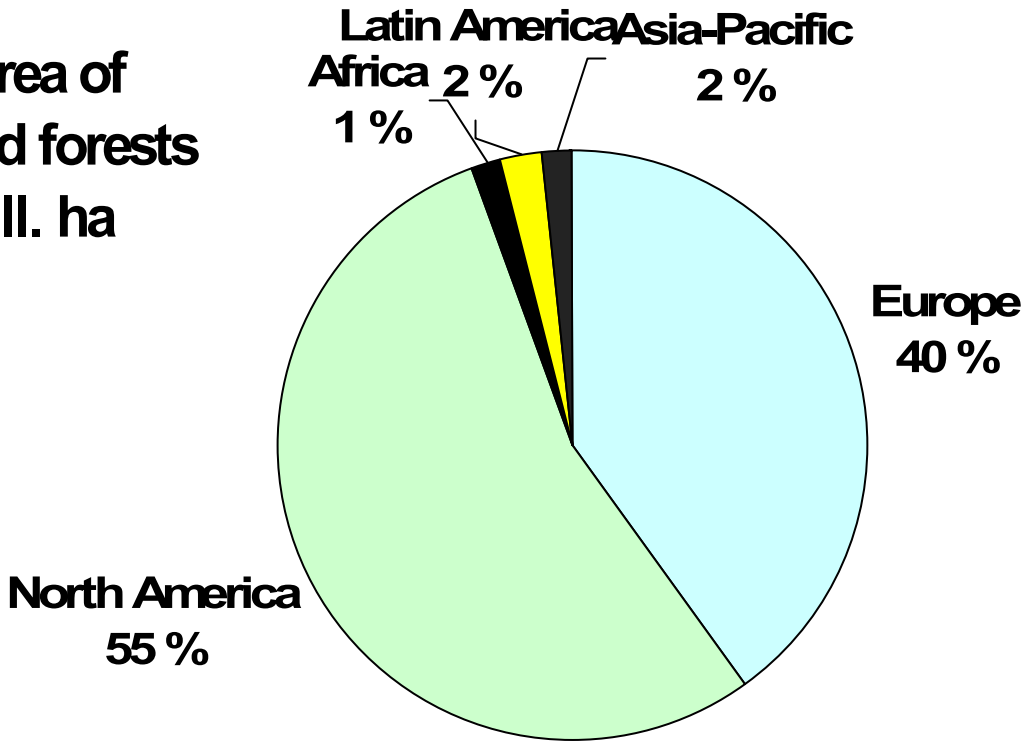
World's Certified Forests in 1994-2004



Source: Savcor Indufor

Certified Forests by Region
(February 2005)

Total area of certified forests 222 mill. ha

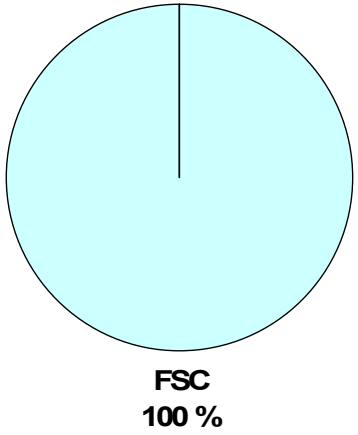


The share of developing countries has constantly remained well below 10 %

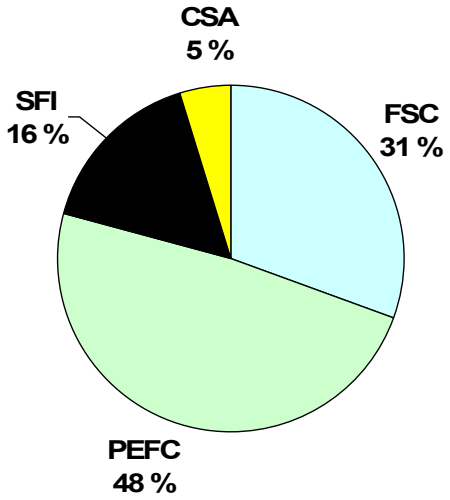
Source: Savcor Indufor

Certified Forests by Scheme

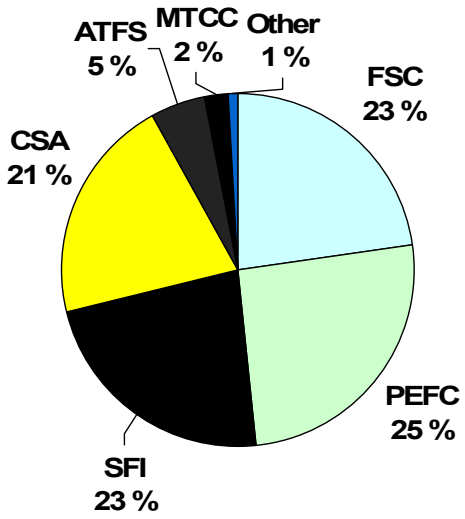
1995



2000



2005



Source: Savcor Indufor

Based on area certified

Certified Forests by Type

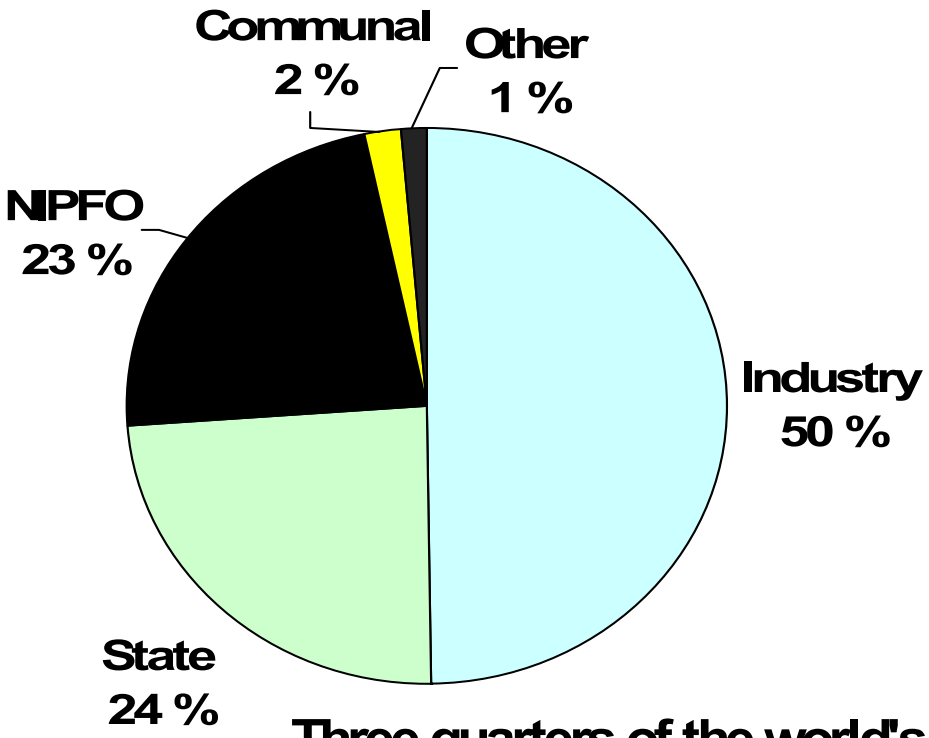
World:

- **Plantations** **11 %**
- **Natural forest** **70 %**
- **Semi-natural forest** **20 %**

Tropics:

- ➔ **It has proved to be easier to certify plantation forestry than natural forest management; more than a half of the total certified area is planted forest**
- ➔ **Certification has the risk of undermining the competitiveness of management of tropical natural forests already suffering from lack of economic feasibility**

Certified Forests by Type of Ownership/Manager (June 2004)



Three quarters of the world's certified forests are privately owned or managed

Source: Savcor Indufor

Forest Impacts and Issues

Impacts in the forest

- **Positive and often significant impacts on FMU management systems, forest condition, as well as social, biodiversity and other environmental aspects**
- **Indirect impacts on policies, governance and stakeholders possibly more important than direct impacts**

Issues

- ➔ **Key areas of concern: natural tropical forest management, NIPFOs, SSEs community forests, other disadvantaged social groups**
- ➔ **Equity: benefits are reaped by traders and industry, not by disadvantaged groups**
- ➔ **Variety of schemes has addressed different needs but their acceptability is challenged**

Market Impacts

- Supply potential 585 million m3, 35% from plantations; 5450 CoC certificates
- ITTO producing countries account for 5% of supply potential and 9% of CoC certificates
- Industry and state owned/managed lands benefit from certification while community and SSEs are faced with high costs and limited or no access to market benefits
- Certification offers access to specialized markets
- Demand: mostly business to business, limited consumer demand; preference for certification in competitively priced products; public procurement as an emerging factor
- Need to define which systems are acceptable or can be recognized

Potential Solution: Phased Approaches to Certification

- **PA involves a stepwise implementation of the certification standard which is independently verified, usually within a time-bound action plan of the FMU**

- ➔ **PAs are being implemented but they are still in their initial stage**
- ➔ **There are many interpretations on what constitutes phased approaches**

Phased Approaches Are Currently Driven by Buyers

- Requirements depend on the buyer's market situation
- Forest management and traceability are typically addressed separately:
  - Forest management
    - ⇧ Avoidance of unacceptable sources
    - ⇧ Legal sources/compliance
    - ⇧ Certified sources
    - ⇧ Certified sources under a preferred system
  - Traceability (separate group in CoC certification)
    - ⇦ Known/legal origin
    - ⇦ Avoidance of unacceptable sources
    - ⇦ Verification of source by buyer or independent party
    - ⇦ Certified CoC system
- Multiple requirements difficult to meet by suppliers (definition of phases, legality, unwanted sources, etc.)

Implementation of Phased Approaches

Decisions and Activities Related to Phased Approaches

ITTC Decision 11(XXXII) (2002)

- **Study on the Potential Role of Phased Approaches**
- **Three regional workshops (2003)**

ITTC Decision 10 (XXXIV) (2003)

- **Development of procedures for phased approaches**
- **Study on costs and benefits**
- **International workshop (Bern, April 2005)**

Study Objectives

- Define and elaborate relevant terms
- Develop procedures for phased approaches, incl. verification of legality of timber origin and consideration of social and cultural conditions
- Identify enabling conditions
- Identify external and internal constraints
- Consult with relevant parties

Principles of Phased Approaches

- **full certification** should be the goal in all phased approaches;
- there should be **mechanisms to support** producers to achieve SFM and its certification;
- they should operate at **FMU level**;
- they should involve clear **commitments** from the participants;
- there should be a **defined timeframe** within which action plans addressing gaps in performance should be implemented;
- adequate **means to communicate** the achieved and verified progress should be provided, involving chain of custody verification;
- **transparency**;
- **adaptability** to accommodate differing producing country conditions;
- **independent audits** based on clear rules and procedures, and
- avoiding **conflict of interests** in the work of auditors

Options for Phased Approaches

- ***Option 1. Baseline and action plan***

  Verified baseline requirements as the first step and verified implementation of the FMU's action plan to achieve full compliance

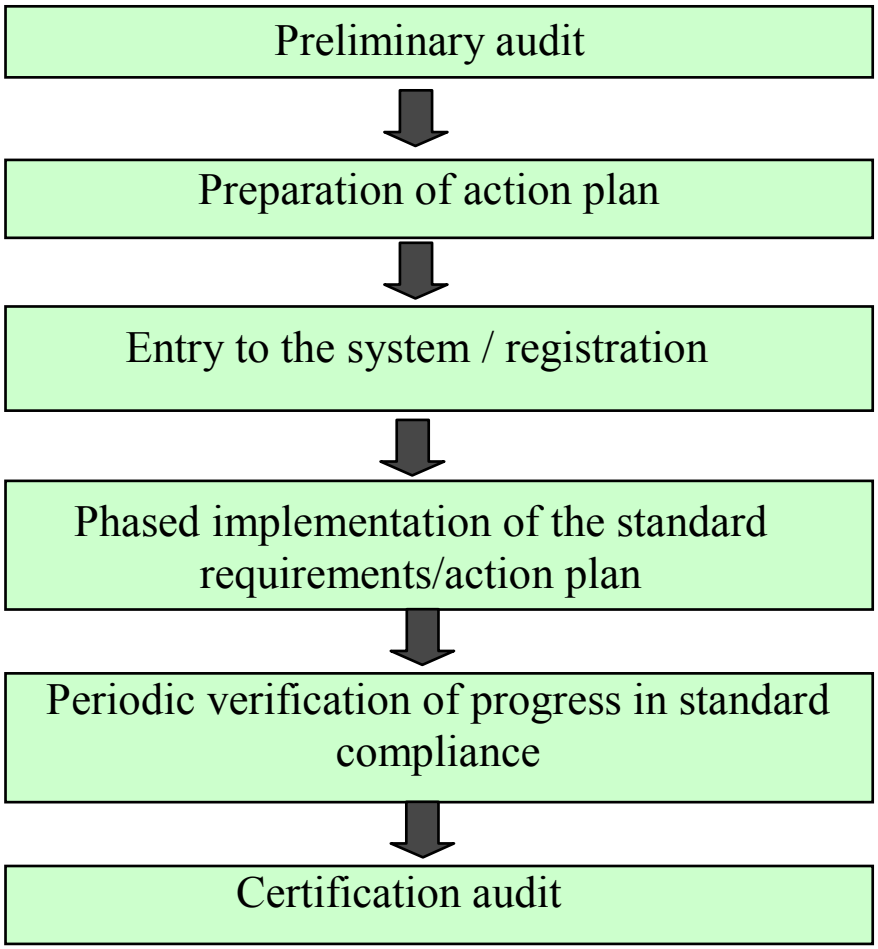
- ***Option 2. Cumulative phases***

  Verified compliance with a preset degree of the full standard (expressed e.g. as scores, percentages and alike)

- ***Option 3. Predefined phases***

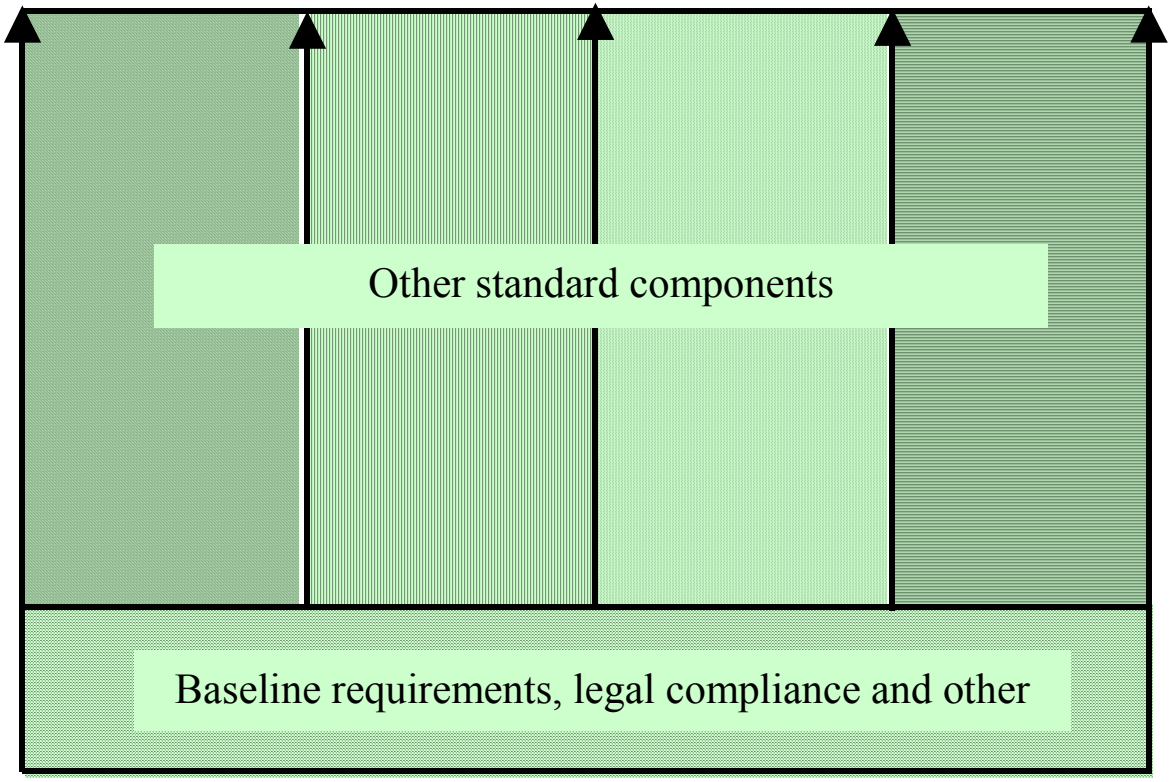
  The standard requirements are divided into clearly defined phases establishing which requirements need to be achieved in each specific phase.

Implementation Procedure for Option 1



- Auditor
- Company
- Certification system
- National body
- Certification body
- Company
- External auditor
- Certification body

Option 1 - FMU Defining Stages of Phasing Approach to Forest Certification



Full compliance with the certification standard

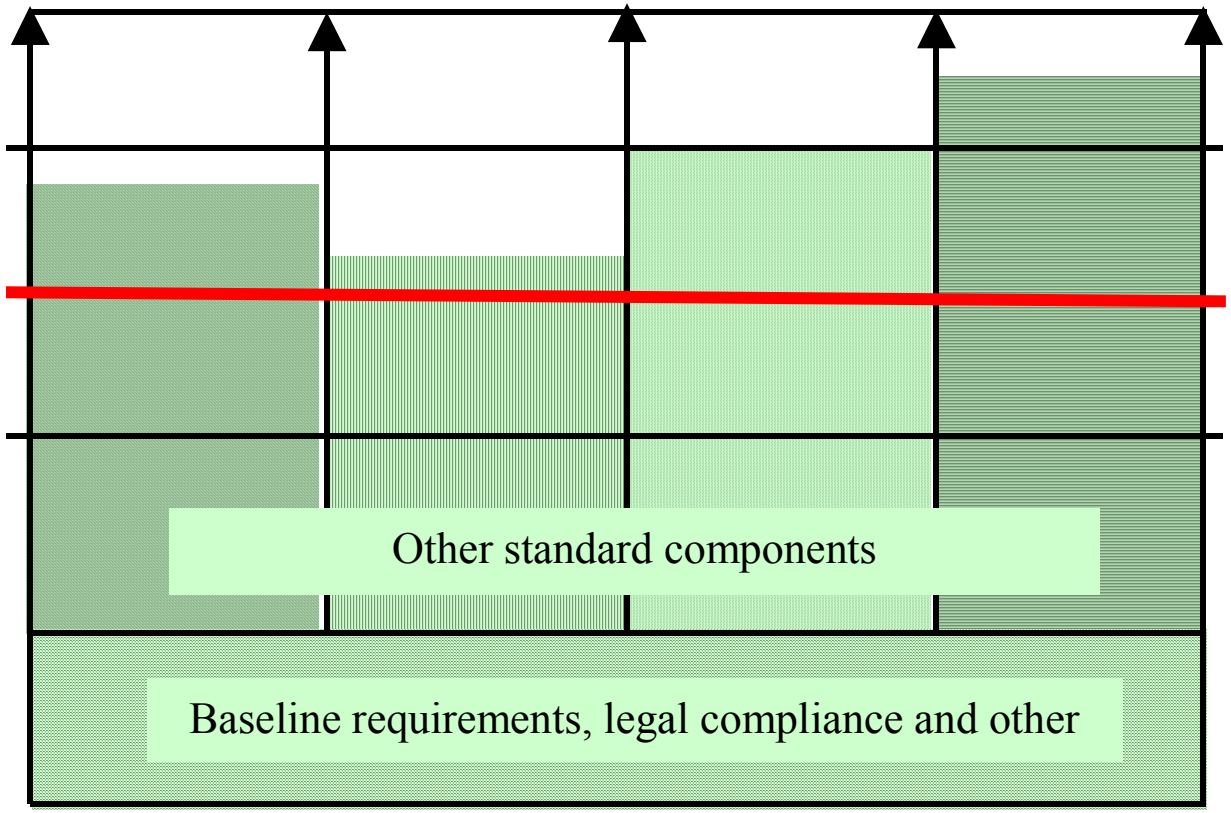
Intermediate stages to be defined by FMU with a time-bound action plan

Stage 1

Option 2. Cumulative phases

- The FMU is assessed against the full standard
- The FMU doesn't apply for a specific level
- The level is the result of the assessment
- The standard is divided into thematic areas (baseline, forest management, environmental, social and economic set of requirements)
- New assessment necessary to reach a new level
- Possibility to establish a time limit for moving from a level to another

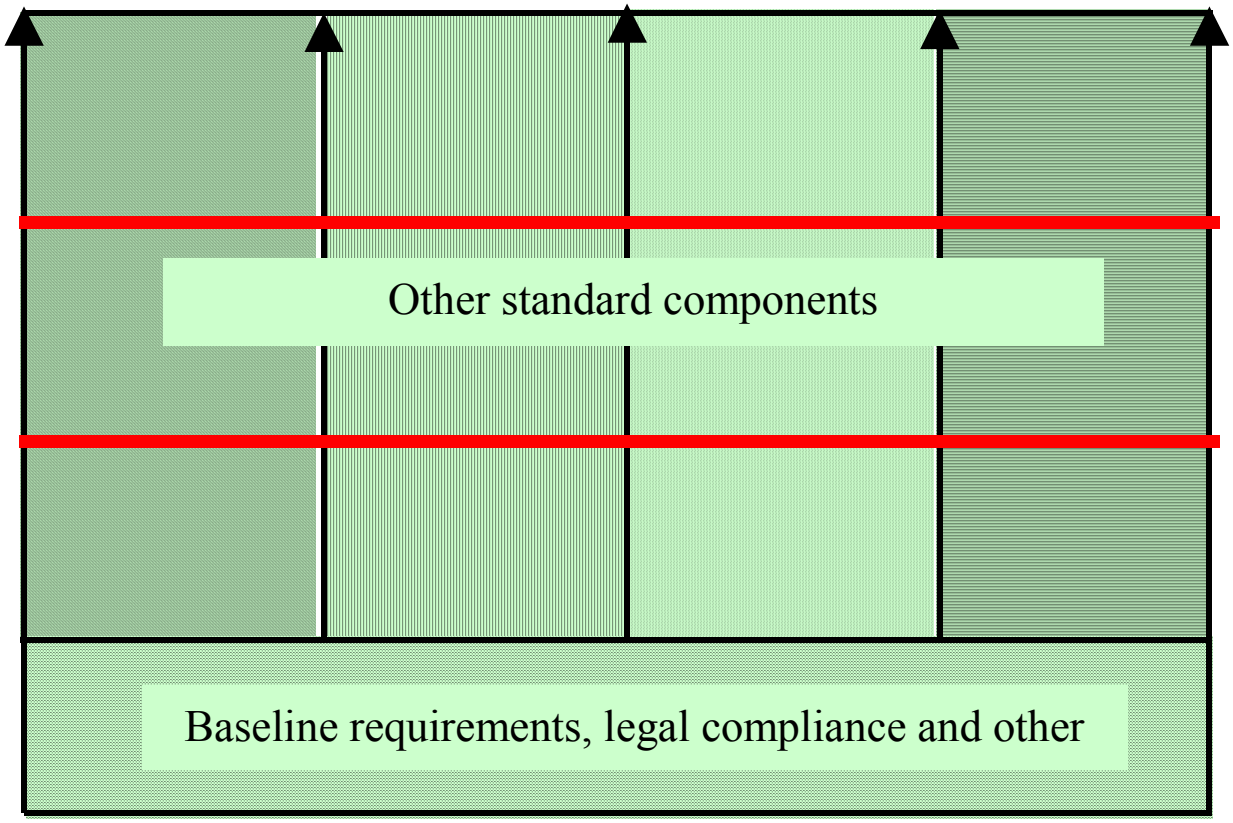
Option 2 - Example of a Hypothetical Case of an FMU Certified at Level 2



Option 3 - Predefined phases

- The standard defines clearly the requirements applicable to each level
- The FMU applies for a specific level
- If it fails to comply with all the requirements to that level, FMU is not certified (no “reclassification” allowed)
- The standard is divided into thematic areas (baseline, forest management, environmental, social and economic set of requirements)
- New assessment necessary to reach a new level
- Possibility to establish a time limit for moving from a level to another

Option 3 - Predefined Phases Approach to Forest Certification



Level 4 - Full compliance with the certification standard

Level 3

Level 2

Level 1

Procedures for Phased Approaches

Common Elements:

- Consultation process in the design of the phased approach scheme
- Establishment of baseline requirements
- Establishment of the mechanism of communication
- Establishment of timeframes

Optional elements:

- Definition of verification process (option 1)
- Checklists, scoring and weighting system (option 2)

Assessment of Implementation Options for Phased Approaches

Option	Strengths	Weaknesses
1. Baseline and action plan option	• Support from producers offering them flexibility • Compatibility with GTFN member's procurement policies	• Lack of clarity of the meaning of subsequent phases beyond the baseline • Unclear communication on further progress • Possibility for misuse • Lack of ISO consistency • Difficulties in "selling" to different buyers
2. Cumulati-ve phases option	• Clear communication on progress • Target dates for intermediate stages	• Involves weighting of individual criteria (implicit or explicit) • Lack of transparency on standard compliance • Lack of consistency with ISO rules
3. Predefined phases option	• Clear phases for the standard requirements • Target dates for intermediate stages • Freedom to decide on the level to be certified	• Practical difficulties in breaking the standard into phases • Difficult comparison of stages under different certification systems • Lack of flexibility for producers in choosing the best path for their situation

Communication on Phased Approach

Target groups

- Governments in producer and consumer countries at central and local levels
- Buyers and their groups
- The general public
- NGOs (local and international)
- Producers not yet involved in certification

No agreement on whether to limit communication to

- Business to business : buyers, government agencies and public bodies and other organizations, or include also
- Product labeling

Conclusions on PA Procedures

- Selection of option to be left for the certification system
- Preferred solutions: option 1 or 2 or their combination
- Focal role of time-bound action plan
- Flexibility to be allowed in phasing of standard elements
- Legality as a baseline requirement needs further clarity (origin and compliance, scope of legislation involved, etc.)
- Max. time frame of 5 years to achieve full compliance
- B2B communication on the progress
- Implementation through existing certification systems
- Further consultations with buyers and stakeholders are necessary

Financial Cost-Benefit Analysis

Case Study FMUs and Total Costs

FMU	Annual cost	Total 5-year cost	Area
	- USD 1 000-		ha
Inpacel, Brazil (plantation)	52.4	261.9	29 942
Cikel, Brazil (natural)	204.0	1020.1	140 658
DRT, Indonesia (natural)	575.2	2 875.9	90 656
KPKKT, Malaysia (natural)	75.0	375.2	136 000
PITC, Malaysia (natural)	46.0	229.8	9 000

Total costs represent a significant drain on the profitability of FMUs

Costs of Certification

- Total costs are significant (USD 55 000 - 575 000 per year)
- Costs are higher in natural forests than in planted forests
- Direct costs account for 8 to 40% of the total
- Cost factors: level of management system, baselines (legal requirements), socio-economic development in the area
- Most of compliance costs are due to management system changes and environmental and social issues but this varies
- Certification can lead to significant cost savings
- The first-year costs tend to represent more than 50% of the total

Benefits

- Benefit structures appear to vary extensively between FMUs
- Main benefits: protected/increased market share but also price premium
- Other economic benefits can also be significant: productivity increase and reduction in distribution costs
- Social and environmental benefits can be significant but difficult to quantify; their impact on FMU is indirect as the FMU is not the main beneficiary

NPV of Certification

FMU	Discount rate 12%	Discount rate 5%	Discount rate 0%
	- USD 1 000 -		
Inpacel	+199.4	+232.1	+261.9
Cikel	-257.3	-248.3	-236.1
DRT	+194.8	+338.3	+477.5
KPKKT	-319.7	-349.6	-375.2
PITC	-197.6	-215.1	-229.8

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Cost-Benefit Assessment

- In three of the five cases the NPV was positive (one plantation and a natural forest FMU which had received external financing).
- The NPV is not very sensitive to the choice of the discount rate due to the importance of the first-year costs in the cash-flow.
- The financial calculations are not very sensitive to small adjustments in additional costs occurring in years 2 to 5.

- Even a minor loss in sales revenue due to lack of certification can make certification financially feasible in many instances.
- External assistance can make certification financially viable but it should be sufficient to cover a significant part of the additional costs.
- In integrated companies cost-benefit assessment of certification is carried out at the group level; market benefits are not accounted at FMU level.

Potential Role of Phased Approaches

- Certification processes were long in most cases (more negative than estimated NPV)
- Intermediate benefits through a phased approach could have helped FMUs to accelerate the process
- Phased approaches should provide market benefits to be feasible ➲ possibility to market communication
- Some rules may prove necessary, if costly sensitive issues are pushed to the end of the period

Workshop Arrangements

Programme

Tuesday: Plenary Day

- Market requirements
- Public procurement policies
- Implementation of Phased Approaches

Wednesday: Group Work Day

- Stakeholder requirements
- Verification of legality
- Group work I: Market and stakeholder requirements
- Group work II: Implementation of PAs

Thursday: Plenary Day

- Group reports and plenary discussion
- Regional initiatives and on-going international work
- Ways forward
- Concluding remarks

Workshop Objectives

1. Solicit views, facilitate consultations and promote a better understanding of phased approaches
2. Raise awareness among stakeholders on the merits and benefits of phased approaches and possibilities of their implementation
3. Facilitate understanding of procurement policies of buyers and public agencies

- ➔ Share experiences
- ➔ Seek possible solutions to accelerate certification of tropical timber and timber products

Output of the Workshop

- **Main findings to be presented as Moderators' Concluding Remarks, not as negotiated consensus text**
  - **a preliminary version to be discussed at the end of the third day**
  - **a draft to be distributed early next week for comments by participants**
  - **if major changes, a second draft distributed for final comments**
- **Presentation to the ITTC XXXVIII in Brazzaville, June 19-21, 2005**
- **Full proceedings posted on the ITTO home page**