ITTO INTERNATIONAL WORKSHOP ON

PHASED APPROACHES TO CERTIFICATION

19-21 April 2005

Berne, Switzerland

PROCEEDINGS

Background

As part of ITTO's ongoing work on the development and promotion of phased approaches to certification as a means to addressing the current problem of tropical developing countries lagging behind in the field of forest and timber certification, the ITTO International Workshop on Phased Approaches to Certification was convened pursuant to ITTC Decision 10(XXXIV) as contained in Annex A. Paragraph 3 of the decision provides for the convening of an international workshop on phased approaches to certification with the following objectives:

- to solicit views, facilitate consultations and promote a better understanding of phased approaches to certification among buyers, government agencies with timber procurement policies, certification schemes and other stakeholders;

- to raise awareness among governments, markets, donor agencies, NGOs, multilateral development banks and international organizations on the merits and benefits of phased approaches to certification and possibilities to encourage their implementation; and

- to facilitate understanding of procurement policies of buyers and public agencies as related to certification and the implications of such policies for tropical timber producers.

Among the germane issues relating to phased approaches to certification that were addressed at the ITTO Workshop are:

- Market requirements of certification and their implications for tropical timber producers;

- Public procurement policies on tropical timber and implications for tropical timber producers;

- Market requirements for certification and phased approaches;

- Implementation of phased approaches within existing certification schemes;

- Implications of legal origin and compliance as baseline requirements;

- Status of regional initiatives; and

- The way forward: support needs and cooperation.

The workshop was organized in cooperation with the Swiss State Secretariat for Economic Affairs (seco) and Intercooperation. The outcomes and recommendations of the Workshop will be presented at the Thirty-eighth Session of the International Tropical Timber Council (ITTC) to be held from 19 to 21 June 2005 in Brazzaville, Republic of Congo.

Workshop Programme and Background Documentation

The final programme for the ITTO International Workshop as attached in Annex B was developed by the appointed consultants, Mr. José Augusto Pinto de Abreu (Brazil) and Dr. Markku Simula (Finland), in consultation with relevant interested parties and the ITTO Secretariat.

The background reports on Procedures for the Implementation of Phased Approaches to Certification in Tropical Timber Producing Countries [ITTC(XXXVII)/12] and on the Financial Cost-Benefit Analysis of Forest Certification and Implementation of Phased Approaches [ITTC(XXXVII/13] as contained in Annexes C and D were distributed to registered participants prior to the convening of the Workshop. The reports introduce proposals for procedures on how to implement phased approaches to certification and analyze implications in terms of financial costs and benefits. The reports served as a principal reference for participants in the Workshop.

Attendance

The ITTO International Workshop was attended by 85 registered participants as listed in Annex E. They came from 25 countries and included representatives of governments, the private sector, certification schemes and bodies, non-governmental organizations, international organizations, and educational institutions.

Opening Session

The opening session of the Workshop included a message from Dr. Manoel Sobral Filho, Executive Director of ITTO, delivered by Mr. Amha bin Buang, Assistant Director, Economic Information and Market Intelligence, a speech by Mr. Alhassan Attah (Ghana), Chairman of the International Tropical Timber Council and Mr Hans-Peter Egler, Head of Trade Cooperation, the Swiss State Secretariat for Economic Affairs (seco). The statements are contained in Annexes F, G and H respectively.

Substantive Sessions

The remaining programme of the ITTO International Workshop was conducted in the form of plenary and working group sessions, with the appointed consultants serving as moderators. In the initial plenary, apart from the introductory on the objectives and organization of the Workshop, the moderators made a presentation to set the scene. The first plenary session focused on market requirements and public procurement policies related to certification and their implications for tropical timber producers. The second plenary session was aimed at sharing experiences on the implementation of phased approaches within existing certification schemes. The third plenary session reviewed stakeholder requirements for forest certification and phased approaches as well linkages between verification of legal origin and legal compliance, and phased approaches to certification. The presentations made at the plenary sessions are contained in Annex I.

Two working group sessions were held during the course of the Workshop and participants were divided into four groups. The composition of the working groups is given in Annex J. The first session dealt with the issues on market and stakeholder requirements as well as public procurement. It also considered the need for defining minimum requirements for verification of legality and forest certification. The second working group session analyzed implementation procedures for phased approaches including verification of legal origin/compliance as well has how communication on the implementation of phased approaches could be made. In addition, barriers that certification systems were experiencing in embarking on phased approaches were identified together with measures on how to overcome these barriers.

The reports of the working groups are collectively contained in Annex K.

Following the completion of the working group sessions, participants met in plenary to share and discuss the outcomes of the working groups' effort. Subsequent plenary sessions were held to discuss regional initiatives, on-going international work on forest certification and the ways ahead with a particular emphasis on support needs of tropical timber producing countries and how these could be met. In the final plenary session, the first draft of the Moderators' Summary on the main outcomes of the Workshop was presented for comments. The second draft was sent to the participants for further comments after the Workshop. The comments received from participants have been taken into account in this final version of the Moderators' Summary.

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MODERATORS' SUMMARY

1.   BACKGROUND

The workshop participants expressed concern on the slow progress of forest certification in tropical timber producing countries. To date, only five per cent of the total global area of certified forests is located in the ITTO producing member countries although two countries (Brazil and Malaysia) have recently made progress in expanding the certified area. Consequently, certification is having only a limited impact on forests in these countries. This undermines the credibility of forest certification as a tool to promote sustainable forest management (SFM) in the tropics.

Three main reasons continue to hamper progress: (i) inadequate capacity to implement SFM, (ii) varying political, ecological and socio-economic complexities related to certification of natural tropical forests and planted forests, and (iii) costs of SFM and its certification coupled with the lack of willingness in the market place to pay these costs. Other pressing development priorities faced by tropical countries make it difficult to allocate adequate resources to develop local capacity and supportive institutions to manage tropical forests sustainably. Certification does not provide a tool to combat deforestation but it can assist in internalizing the costs and benefits of SFM. Deforestation is often driven by the fact that other land uses are more profitable than sustainable forestry and its externalities are not taken into account in decision making.

Several initiatives have been taken to improve the situation in SFM certification but the impacts of these initiatives have been mostly confined to a few individual forest management units (FMU) rather than providing broadly applicable solutions. National schemes have been established in some tropical countries to accelerate the development of certification but uncertainties about their acceptance in the international market place is a cause for concern. The situation is particularly serious in Africa, which, relative to other tropical regions, depends on the environmentally sensitive European markets and is lagging behind in certification. Donor agencies, traders and other stakeholders are willing to support SFM and its certification in developing countries but the resources made available cannot meet the needs. ITTO is playing an active role in this field and its capacity to bring stakeholders together to discuss forest certification, among other issues related to sustainable management and utilization of tropical forests, has been demonstrated and is broadly recognized.

2.   MARKET AND STAKEHOLDER REQUIREMENTS FOR CERTIFICATION

Buyers, their groups as well as trade and industry associations have taken measures to respond to market needs for assurance that timber and timber products come from legal and sustainable sources. Public procurement policies, NGO actions, company-level policies and corporate social responsibility commitments drive these needs.

Current market requirements have shifted from SFM certification to independent verification of legal origin and legal compliance. The situation varies between major import markets. For instance, in the USA there is less demand for certified than for 'legal' timber. Another issue is how buyers in other importing countries like China and India which are also re-exporting further processed products of tropical timber could be more actively engaged in the promotion of SFM in countries from where they source their supplies. Domestic markets in producing countries should also be targeted in the promotion of certification due to their significance for many producers.

Demand for certified tropical timber currently exceeds supply in some markets. Several cases were reported where important market segments of tropical timber have been lost to substitutes due to lack of certification. Certified timber is also being transported over unnecessarily long distances only to meet the minimum mill-level percentage requirements for the content of certified fiber of individual schemes. This demonstrates the problem of SFM labeling which lacks a holistic life-cycle view on environmental management. In some markets, products price premiums have been reported but these are unlikely to remain the driving factor for producers in the long run. Universally, current demand for legally verified timber is still not easy to meet as there is no agreed instrument to provide such verification. On the other hand, mandatory monitoring and verification programs employing independent verification bodies are being operated in a number of countries, providing a useful reference of procedures on how credible verification of legality can be arranged.

Several financing institutions are applying conditions that are related to legality and certification. For example, the World Bank Group provides investment support to industrial forestry operations which meet the requirements of formal independent performance-based certification or time-bound action plans to meet these standards, i.e. making allowance for a phased approach. The European Union, under its FLEGT process, is developing requirements for implementation of legality verification systems. Several trade associations are also taking initiatives to promote legal compliance in their timber supplies.

It appears that market and stakeholder requirements in consuming countries have been developed without adequate participation of producer countries and their stakeholders. This has led to the emergence of differing standards and requirements, which are, therefore, difficult to comply with by tropical timber producers. There is a need to have more convergence between individual market and stakeholder requirements imposed on tropical timber producers in order to make it easier for them to meet these demands. One way to addressing this difficult problem is effective two-way communication involving all relevant stakeholders (forest owners and managers, forest industry and trade, NGOs indigenous people's organizations, community-based organizations, consumer organizations, governments, etc.) in both producing and consuming countries.

No system is likely to be acceptable to all stakeholders; this has led to the emergence of several certification schemes. There is a need to accelerate the development of national certification standards and systems in tropical countries as these are tailored to suit local conditions. At the same time, the credibility and market acceptability of these systems need to be ensured. Independence, transparency and meaningful participation by all relevant stakeholders are essential for market and stakeholder credibility. Like in the case of full certification, verification of progress through phased approaches should be made by independent third parties.

3.   PUBLIC PROCUREMENT POLICIES

As part of internalizing environmental aspects in all government purchasing, a number of European countries are in the process of developing public procurement rules for timber and timber products. The emerging policies share many common elements (e.g. reference to legality and sustainability) but there are also differences in relation to the degree of obligation, detailed requirements and type of acceptable evidence on legality and sustainability. In some cases, legality is becoming a basic requirement for government procurement of timber and timber products while proof of sustainability would lead to preferential treatment. These policies attempt to address the particular difficulties which tropical timber producers and especially SMEs are facing in meeting the market requirements. However, there is uncertainty about what the impact of the procurement policies will be on tropical timber producers and this remains a cause for concern.

Public procurement policies rely on the use of certificates and statements issued by independent bodies but these policies also make provisions for alternative evidence. What such evidence could be has not yet been defined and this remains to be addressed. Tracking systems are, however, essential for any evidence on legality or sustainability while independent verification is key for achieving credibility of any related claims.

National governments with public procurement policies related to tropical timber should develop their own guidelines and minimum criteria for certification, verification systems and documentary proofs, clearly detailing how suppliers could meet these requirements. Emergence of these policies has raised the need to define methodologies for assessing certification standards and systems, as well as verification systems of legality based on clearly defined minimum requirements.

It would be desirable to have commonality between national public procurement policies. The policies should be fair, realistic, consistent, transparent and geared toward providing incentives for tropical timber suppliers to move towards SFM that will allow for certification. These policies should not entail "changing of goalposts" with regard to recognition of certification schemes in tropical timber producing countries. Procurement policies should also recognize evidence that can be provided through phased approaches to certification.

4. PROGRESS IN IMPLEMENTATION OF PHASED APPROACHES

Certification schemes have been slow in putting in place provisions for phased approaches to certification. Therefore, the focus in implementation has been on action taken at individual company level. Only LEI in Indonesia is now piloting such an arrangement. The main reason for slow progress appears to be the potential risks related to the implementation of phased approaches in ways which could undermine the credibility of the whole system. However, certification schemes can overcome the technical barriers and credibility problems related to phased approaches if the schemes have clearly defined procedures, and governments and other stakeholders actively support these efforts. Adequate management systems have provided a useful framework for FMUs to implement the certification criteria in phases.

5. IMPLEMENTATION PROCEDURES OF PHASED APPROACHES

Phased approaches to certification should be understood as arrangements to independently verify the progress made by an FMU in achieving full compliance with the certification standard while allowing communication on, and recognition of, the progress made, thereby facilitating access to potential market benefits. Phased approaches will not remove problems of costs and technical barriers in achieving full certification but will allow time for solutions while providing market benefits during the implementation process.

Several calls were made for phased approaches to be flexible enough to address the varying local conditions in tropical countries. However, from the perspective of certification schemes, clear rules are needed on how these approaches are to be implemented. Further, phased approaches should be simple, consistent in their rules and cost-efficient.

Phased approaches can be implemented through flexible arrangements where FMUs can freely decide how to implement the standard requirements over a specified time period within an agreed action plan, or through a more structured framework provided by the certification scheme. The choice depends on the FMU's situation and the availability of provisions for phased approaches under the respective certification system.

It could be useful to define intermediate steps between the baseline (legal compliance) and full certification but it was felt that this should be left to the certification schemes (when providing rules for phased approaches) or the FMUs (when preparing action plans to achieve full certification). One option to define intermediate steps could be a generic intermediate standard that is being considered for reduced impact logging (RIL).

Procedures for phased approaches should be agreed upon through a broad participatory process to ensure market and stakeholder support and ownership. This would involve aspects like definition of phases, time frames allowed for full implementation and staying on a particular level, entry requirements, independent auditing, etc.

6. LEGAL ORIGIN AND LEGAL COMPLIANCE

Legal compliance is a complex issue due to governance problems prevailing in many tropical timber producer countries. Laws are not always consistent. Those regulating land tenure and forest use at the levels of central, regional and local government can be different and not compatible with what is, in practice, applied in communities. Coupled with weak enforcement capacity and strong economic incentives to operate illegally, verification of often unnecessarily extensive and detailed regulations becomes a daunting task.

There are several ways to define legality in the context of origin of timber products and forest management. A workable definition of legality in specific country conditions should consist of auditable legality criteria drawn from the relevant national legislation and internationally agreed principles, and should be acceptable to stakeholders. There is a need to carry out a systematic assessment of various definitions and related standards developed at international and national levels to achieve comparability and compatibility.

In view of the difficulties of tropical timber producers in providing proof of legality, it was felt that these countries could be allowed to export forest products if a check-list based on the relevant laws is agreed to by stakeholders and robust evidence on compliance can be made available.

A common view among participants was that legal origin/legal compliance should be considered as the key element of the baseline requirements (the first step) in phased approaches to forest certification.

Even though certification may provide sufficient indication that a company operates legally, verification of legal compliance involves a more in-depth monitoring and auditing on the respect of relevant laws than is typically carried out as part of the forest certification process. As these tools are being applied today, the two have somewhat different approaches to verify compliance with legislation. However, depending on the case, the two instruments could be implemented successively in a phased approach where verification of legal origin is the first step and verification of legal compliance is the next. This would be followed by independent verification of progressive implementation of the other elements of the SFM standard until reaching full certification.

7.   MINIMUM REQUIREMENTS FOR CERTIFICATION AND PHASED APPROACH

A set of common principles for certification and its phased approaches have been identified in various international forums which can form a basis for more detailed sets of minimum requirements. Various stakeholders have also developed requirements for certification standards and schemes but they do not make provisions for phased approaches. For verification of legal origin and legal compliance, no widely recognized approaches exist but these would be helpful for governments, FMUs, trade, industry and other stakeholders. Therefore, there is also a need to define minimum requirements (thresholds) for verification of legality.

Minimum requirements for SFM certification and verification of legality could be developed at international and national levels and all relevant stakeholders should be invited to actively participate in the work. Requirements should consider diversity between countries and the on-going pilot initiatives in both producing and consuming countries. As regards phased approaches, minimum requirements should include understanding of the standard requirements and preparation of an action plan for their implementation.

8.   COMMUNICATION ON PHASED APPROACHES

Strong, open and transparent communication is critical in ensuring market recognition of, and stakeholder support to, the implementation of phased approaches. If there is a direct market linkage between producer and supplier during the implementation of phased approach, it can provide a strong incentive to make progress. Without tangible benefits, phased approaches are unlikely to be feasible for tropical timber producers.

Producers undergoing phased approaches to certification should make a clear commitment to achieve full certification. However, communication on commitments should not be confused with achievement. Communication could be made on the action plan, time frame and other elements of the commitments made, using appropriate tools to effectively reach all the relevant target groups. In communication to stakeholders, FMUs should clearly state which elements of the certification standard have been complied with at each stage of phased approach. There should be no communication on the progress made under phased approaches if the baseline requirements of legal origin and legal compliance have not been first verified.

In order to avoid confusion in the market place, communication on phased approaches should be off-product. Any market claims related to phased approach further down the supply chain would require the implementation of chain-of-custody (CoC) certification. CoC certificates would also be necessary to complement the legality verification statements issued for products.

Target groups of the communication include government, forest managers and owners, investors, logging enterprises, buyers, consumer groups, NGOs and other members of the civil society, donor agencies and financing institutions, and the public at large.

Small concessions, SMEs and community forests have particular problems in communicating their progress under phased approaches and would, therefore, require technical and financial support. Communication

should be made in a way to ensure that FMUs receive tangible benefits for their efforts to implement and meet certification requirements.

9.   ECONOMIC ASPECTS

Implementation of SFM represents significant additional costs and certification adds to those costs due to external auditing of implementation of the certification criteria. It is important to note that the compliance costs (i.e. costs of implementing the certification standard requirements) remain the same, whether certification is implemented with or without a phased approach. However, in the former case, periodic auditing costs could be somewhat higher. On the other hand, in a phased approach, compliance costs could be spread over a longer period of time, thereby facilitating FMUs to finance these costs. Furthermore, cost-recovery would be facilitated through market and other benefits. Intermediate benefits through market communication are crucial for the feasibility of certification and phased approaches can provide an appropriate tool for capturing these benefits already during the costly compliance process.

Access to market benefits is easier for large groups than small concessions and community forests which have difficulties to justify efforts towards certification due to uncertainty about benefits. This situation is particularly common in Africa but also occurs in other regions. In fact, the main beneficiaries of certification are often actors further down in the supply chain, i.e. traders, retailers and further processors located in import markets.

There is need to reduce the costs of achieving SFM and its certification while ensuring that those who bear additional costs can also reap sufficient benefits. Using local auditors is one of the key tools to reduce certification costs and their training is a priority in capacity building.

In conclusion, phased approaches to certification do not lead to any additional compliance costs but, in providing intermediate benefits, they can make certification financially viable for tropical timber producers. Linking fiscal incentives, credits and other support to forest owners and managers with legality verification and SFM certification is desirable, particularly in the case of small concessions, SMEs and community enterprises. Other incentives could include, *inter alia*, reduced regulatory requirements for certified FMUs. In spite of various current support programs and initiatives, special arrangements for accelerating progress towards SFM in tropical timber producing countries should be considered. For example, the establishment of a global fund for forest certification under the auspices of the ITTO is worth considering.

There is still insufficient understanding on the economics of SFM. Further studies are required in producing countries, which should also look into available options to finance additional costs. These studies should also analyze options on how small concessions, SMEs and community forests could be supported in reducing their costs related to certification and its phased implementation as well as facilitating their access to markets.

10.   ON-GOING REGIONAL AND INTERNATIONAL INITIATIVES

The regional initiative in Africa (Pan-African Forest Certification) is considering implementation of phased approaches from the very beginning of the scheme. The regional ASEAN initiative intends to develop regional-level guidelines to phased approaches to certification. Both initiatives rely on national certification systems and attempt to provide a mechanism for international recognition while ensuring compatibility between national schemes. Other complementary regional efforts like FORCOMS in the Congo Basin, involving the private sector and NGOs, share experiences and act as a communication mechanism on progress made. FORCOMS is a tool for progressive forest companies in Central Africa to demonstrate and communicate on their commitments and efforts regarding legal forest operations and progress towards sustainable forest management. All the regional initiatives urgently need technical and financial assistance to complement and scale-up their efforts.

Many other international organizations (e.g. FAO, UNECE) and private initiatives (e.g. The Forest Dialogue) have also emphasized the need for, and mechanisms of, implementation of phased approaches to certification with a view to accelerating development of certification in developing countries.

11.   RECOMMENDATIONS

The workshop made the following recommendations:

ITTO

(1)   Endorse the concept of phased approach as one of the useful tools in promoting SFM and accelerating forest certification in tropical timber producing countries

(2)   Support development of national certification standards and systems and implementation of phased approaches through e.g., pilot projects, and disseminate the results

(3)   Develop minimum requirements for (a) verification of legal origin and legal compliance as well as (b) forest certification and its phased approaches through an open consultative process drawing on the work carried out in various international forums and by governments, certification schemes and other stakeholders, as well as other relevant information

(4)   Provide support to regional initiatives to promote implementation of forest certification and its phased approaches facilitating broad stakeholder support and market acceptance of certification schemes in tropical timber producing countries

(5)   Continue providing support in capacity building for SFM and its certification in producing member countries, including regional (e.g. creating regional training centers in Asia-Pacific, Africa and Latin America) and national level training related to certification and phased approaches as well as verification of legal origin and legal compliance

(6)   Take relevant actions to facilitate cooperation between certification schemes and verification systems with the objective of promoting comparability, compatibility and mutual recognition among the schemes and systems

(7)   Disseminate technical documentation elaborated under Decision 10(XXXIV) effectively to potential beneficiaries in a suitable form

Governments

(8)   Consuming country governments to consult with producing countries and their stakeholders when developing public procurement policies, to carry out preassessment of sustainability impacts of their planned policies in tropical timber producing countries, and to include provisions for phased approaches to certification in these policies

(9)   Producing country governments to develop/strengthen their verification systems of legal origin and legal compliance to be able to provide robust evidence for addressing market and stakeholder requirements related to tropical timber traded internationally.

(10)   Producing country governments to provide financial and other support to (a) development of national certification standards and schemes, and (b) FMUs implementing certification

(11)   Producing country governments to develop their own public timber procurement policies specifying legality and certification to promote domestic markets for legally and sustainably produced timber products

Certification schemes

(12)   Certification schemes operating in the tropical countries to put in place appropriate provisions for phased approaches to facilitate FMUs, particularly small concessions, SMEs and community forests in making use of certification

(13)   Certification schemes to advance in mutual recognition and other cooperation with the long-term objective of developing a credible industry-wide framework for certification in order to improve markets access for certified tropical timber products

(14)   Stakeholders in tropical timber producing countries to fully cooperate in the development of national standards and schemes through open, transparent and inclusive processes

(15)   Buyers and other stakeholders in consuming countries to duly consider impacts of their requirements on tropical timber producing countries and to consult with a broad range of stakeholders in those countries before defining their procurement policies and other requirements

Annex A   Decision 10(XXXIV)
Annex B   Programme of the Workshop
Annex C   Report on the Procedures of the Implementation of Phased Approaches to Certification in Tropical Timber Producing Countries [ITTC(XXXVII/12]
Annex D   Report on the Financial Cost-Benefit Analysis of Forest Certification and Implementation of Phased Approaches [ITTC(XXXVII)/13]
Annex E   List of Participants
Annex F   Message of the Executive Director of the International Tropical Timber Organization
Annex G   Speech by the Chairman of the International Tropical Timber Council
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Annex I   Presentations made at the Workshop
Annex J   Composition of Working Groups
Annex K   Reports of the Working Groups