Forest Trends & Netherlands Committee for IUCN
Netherlands Conference: Shifting Markets for
Sustainably Managed Forests

The Future of the Green Market:
Indications of Demand

Petteri Pihlajamäki, Vice President, Fibre Resources and Wood Products

October 18, 1999, Garderen
All rights reserved. No part of this presentation may be reproduced in any form or by any means without permission in writing from Jaakko Pöyry Consulting Oy.
Contents

1. Baseline: Market Outlook for Forest Products
2. Green Market: Present Status
3. Green Products: Economics and Other Issues
4. Green Markets: Future Directions
5. Conclusion
Baseline: Market Outlook for Forest Products
Global Markets of Forest Products are Growing
Implying Increasing Raw Material Requirements

Growth in environmentally sensitive markets¹) 1997-2010:
- Paper and paperboard: 46.2 mill. ton (37 % of total)
- Sawnwood: 9.1 mill. m³ (26 % of total)

¹) Western Europe and North America
Demand Growth for Paper and Paperboard in the World 1997 - 2005

Driving Forces:
- Advertising
- Office technology
- Income level
- Hygienic standards
- Industrial and agricultural production
- Retail structure
- Competing systems and materials

Uncertainties:
- Economic growth
- Electronic revolution
- Legislation/trade barriers
- Environmental issues

Growth rates:
- Western Europe: 2.6%/a
- Eastern Europe: 4.7%/a
- North America: 1.7%/a
- Asia: 3.5%/a

Share of consumption 1997, %:
- Uncoated Mechanical
- Coated Woodfree
- Tissue
- Corrugating Materials
- Cartonboards
- Average: 2.8

Demand growth, %/a:
- Western Europe: 2.6%/a
- Eastern Europe: 4.7%/a
- North America: 1.7%/a
- Asia: 3.5%/a
Demand Growth for Sawnwood in the World
1997 - 2005

DRIVING FORCES:
- Construction activity development
- Material substitution
  - Wood <-> Other construction materials
- Substitution within wood-based products

EMERGING TRENDS
- MDF 7.5 %/a
- OSB 5.0 %/a

EMERGING TRENDS
Increasing role of fast-grown wood as raw material
Decreasing availability of large diameter logs from natural forests
Focus on industry restructuring
Intensifying industry-to-market integration

UNCERTAINTIES:
- Economic growth
- Legislation/trade barriers
- Environmental issues
Growth of Wood Utilisation in the World 1997-2005

Issues:
- Certification will not have any impact on fuelwood which is a major cause of deforestation
- Impact of certification will be in industrial wood production, particularly where current practices fall short from international sustainability standards
Green Market: Present Status
Development of Certified Forest Area

- Growth of certified forest area dynamic

- How will future growth develop? Examples of targets
  - FSC 25 mill. ha by June 2001
  - World Bank-WWF Alliance 200 mill. ha by 2005
  - Canada 72 mill. ha by 2003

- Results will depend on many players and relationships between them
Consumption of certified products is currently negligible

- Market shares are currently small, but sensitive markets comprise 25-35% of softwood sawnwood demand

- Some certified paper grades also available, but in a very small scale; pressures particularly in hygienic products

How will it develop?

- Great potential to increase market share

- Dependent on supply and marketing strategies adopted by suppliers
Drivers of Certification Development

- Majority of EU consumers regard sustainably managed forests as environmentally necessary and of significance to them

- Actual demand for certified wood products is driven primarily by organised groups of wood buyers, predominantly wholesalers and retailers

- Until now Buyer’s Groups are supportive of the FSC certification system and usually have targets for the amount of FSC certified products to be sold

**Demand Pull**
Consumers (with the support of non-governmental organisations) increasingly demand products from sustainable/certified sources.

**Supply Push**
Major DIY chains and their key suppliers sign up to Buyers Groups committing themselves to and promoting their supply of products from certified sources.
Creating Demand Pull

Buyers Groups

- In 1997, European Buyers Groups accounted for the consumption of ca. 9 million m³ (RWE) of wood products including pulp and paper, sawnwood, panels, charcoal and various wooden decorative products.

- Major forces for further expansion will be especially the large German publishing houses (demand pull in paper products) and the DIY chains (demand pull in solid wood products) as well as the major Scandinavian forest industry companies (supply push in all the product groups).

Potential impact on species, product types and volume in different markets

Buyers Groups

<table>
<thead>
<tr>
<th>Year Established</th>
<th>Number of Members</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1991</td>
<td>89</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>1995</td>
<td>12</td>
</tr>
<tr>
<td>Belgium</td>
<td>1994</td>
<td>43</td>
</tr>
<tr>
<td>Austria</td>
<td>1996</td>
<td>24</td>
</tr>
<tr>
<td>Germany</td>
<td>1997</td>
<td>45</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1997</td>
<td>16</td>
</tr>
<tr>
<td>Spain</td>
<td>1998</td>
<td>11</td>
</tr>
<tr>
<td>Nordic Countries</td>
<td>1998</td>
<td>11</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td>300</td>
</tr>
</tbody>
</table>

n.a. = not available
Supply of Certified Products: Present Status

Production of certified products is currently negligible

– Less than 0.2% of the softwood sawnwood production in Western Europe was FSC certified in 1998

– The production of softwood sawnwood is concentrated in a few countries, of which only Sweden has a certified forestry standard

How will the supply develop?

– Supply of certified products will be driven by demand developments, important to analyse opportunities with regard to
  – market segments and enduses
  – product types
  – species preferences
Green Products: Economics and Other Issues
Certified Product Price Premiums

- Emerging market sector with substantial variation in the presence/absence and size of price premiums
  - this is typical of new market sectors

- It is too early to determine whether price premiums will eventuate, only with time will the real picture emerge

- Many studies suggest that the main benefit from certification is to secure market access rather than provide price premium

- In pulp and paper side new “green” products (e.g. recycled fibre based paper products, chlorine free pulp) enjoyed of some price premiums in the beginning. The premiums, however, faded as the market matured

- Many factors will influence maturation of the certified product market
  - product-wise market/enduse characteristics
  - developments in international forestry agreement
Impact of Certification on Cost Competitiveness

- Certification will increase costs in the supply chain. Some studies suggest that the impact on delivered wood prices could be of the magnitude of 5-15% varying by region.

- Costs associated with certification must be absorbed somewhere.

- Too early to identify who will be responsible:
  - forest owner / wood supplier
  - processing industry
  - trade
  - end user

- Important to determine which countries and market sectors are the driving forces.

- Impacts could lead to changes in the competitive positions of companies and countries.
Forest Industry Attitudes Towards Forest Certification

- Forest companies in Europe believe that a widely implemented timber certification system is needed. 75% of Finnish, 68% of British and 60% of German companies subscribe to this view.

- The environment is clearly on the corporate agenda among the European forest products companies.

- Supply of certified products provides market access and enhances competitive position against suppliers of non-certified products, allowing for differentiation and use of the “goodwill”. These factors constitute the foundation for the “supply push” which is apparent in the wood products market.

- In addition, certification and supply of certified products offers opportunities for communication and corporate promotion to relevant stakeholders related to the company and its business, supporting the strengthening competitive position and shareholder value.

- Certification is accelerating the inclusion of some issues into the forest management agenda (e.g. social issues, stakeholder participation).
Green Markets: Future Directions
Benefits of Certification to Industry

– Perceived and real benefits include
  – image
  – internal commitment to enhance environmental soundness
  – competitive / marketing policy
  – profitability and shareholder value
  – ecological

– Realisation of benefits dependent on
  – individual company structure / attitudes
  – region
  – type of industry

– Industry must understand their current situation, envision the future and identify mechanisms to move to the position which maximises benefits
Impact on Forest Industry

- Proportion of certified wood in product segments and markets will develop differently over time
- What impact will this have on forest products market and industry?
Impact on Overall Demand

– Depends on how well the industry and society needs and values will merge. It would appear that in the long term, there is a convergence between the goals of a sustainable society and the processes of the forest products industry

– The convergence also depends on how well the industry can project this harmonisation. Certification is part of the harmonisation – but only part of a complex mosaic

– The complexity of certification (extending from purely forest issues to social “justice” and across the world’s forest types) makes it both a catalyst but also a risk of unworkable and irrelevant directives

– The profusion of locally based certification initiatives is a reflection of the concern to ensure that certification reflects local needs
The 1990’s has witnessed an explosion of forest environmental debate, issues, organisations and regulations. The development regarding forest certification illustrates the growing complexity of environmental issues and trends facing consumers and the forest products industry.
Forest Based Issues Are Going Through Change

**Future World**

**Increasing Forest Products Demand**

+ **Sustainable Society**

- Energy
- CO₂ Emissions
- Indigenous People
- Employment
- Forest Certification
- Forest Operations

**Global Climate Change**

- Water Quality Standards
- Biotechnology
- Human Health
- Renewable Resources
- Product Certification
- Producer Responsibility

**Rising Issues**

**Falling Issues**

- Eco-Labelling
- Emissions
- Nuclear
- Working Conditions

Some return again in new forms
Conclusions

– Green markets are growing and provide an excellent opportunity for the industry to strengthen its environmental image and overall competitive position

– Green markets are currently region- and product-specific. Globalisation is picking up, but will take some time to materialise at large

– Green markets will increase costs in the supply chain, particularly where the current practices fall short from the international standards

– Whether the incremental costs can be covered by price premiums for the whole range of products remains to be seen

– Certification is under a dynamic development stage. Common principles and mutual recognition are important, as well as a full consideration of local conditions and efficiency of monitoring systems