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

The Future of the Green Market: Indications of Demand

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Baseline: Market Outlook for Forest Products

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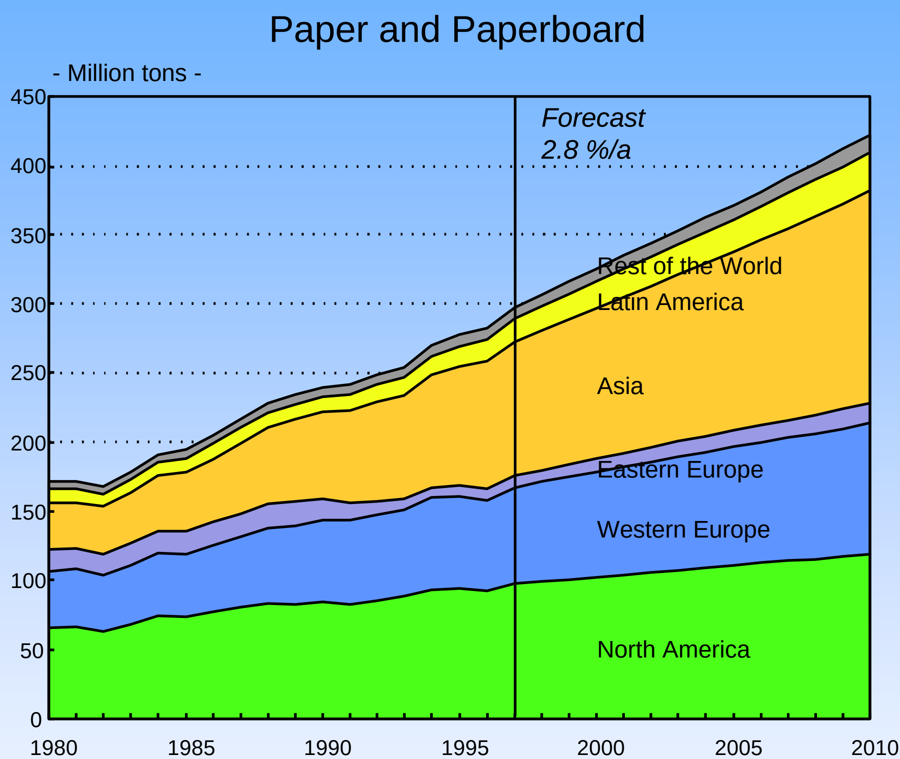
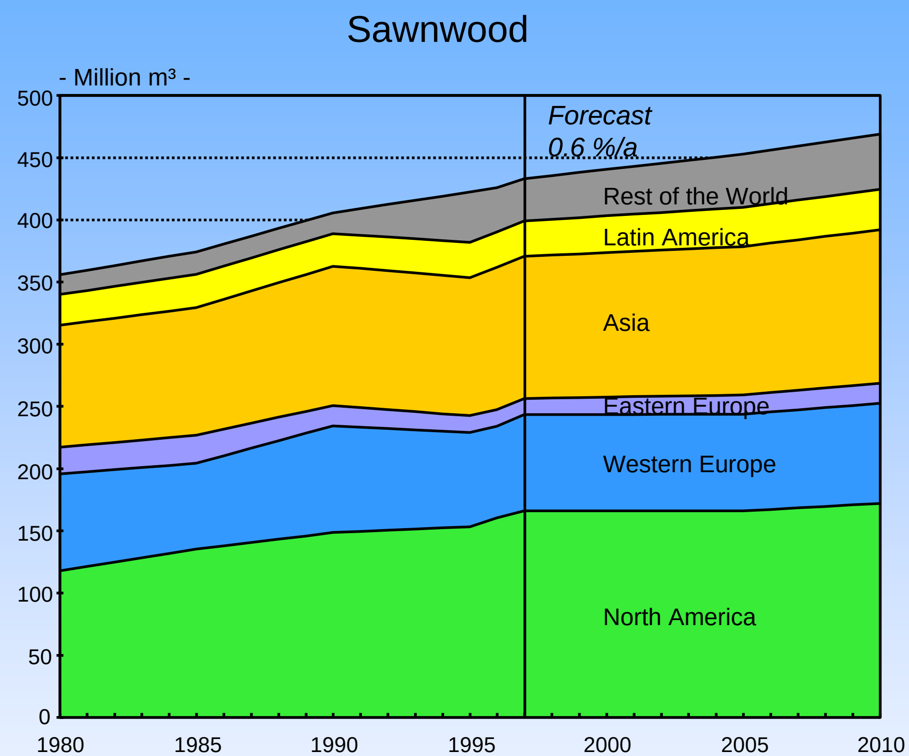
Global Markets of Forest Products are Growing Implying Increasing Raw Material Requirements





Growth in environmentally sensitive markets[1)]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

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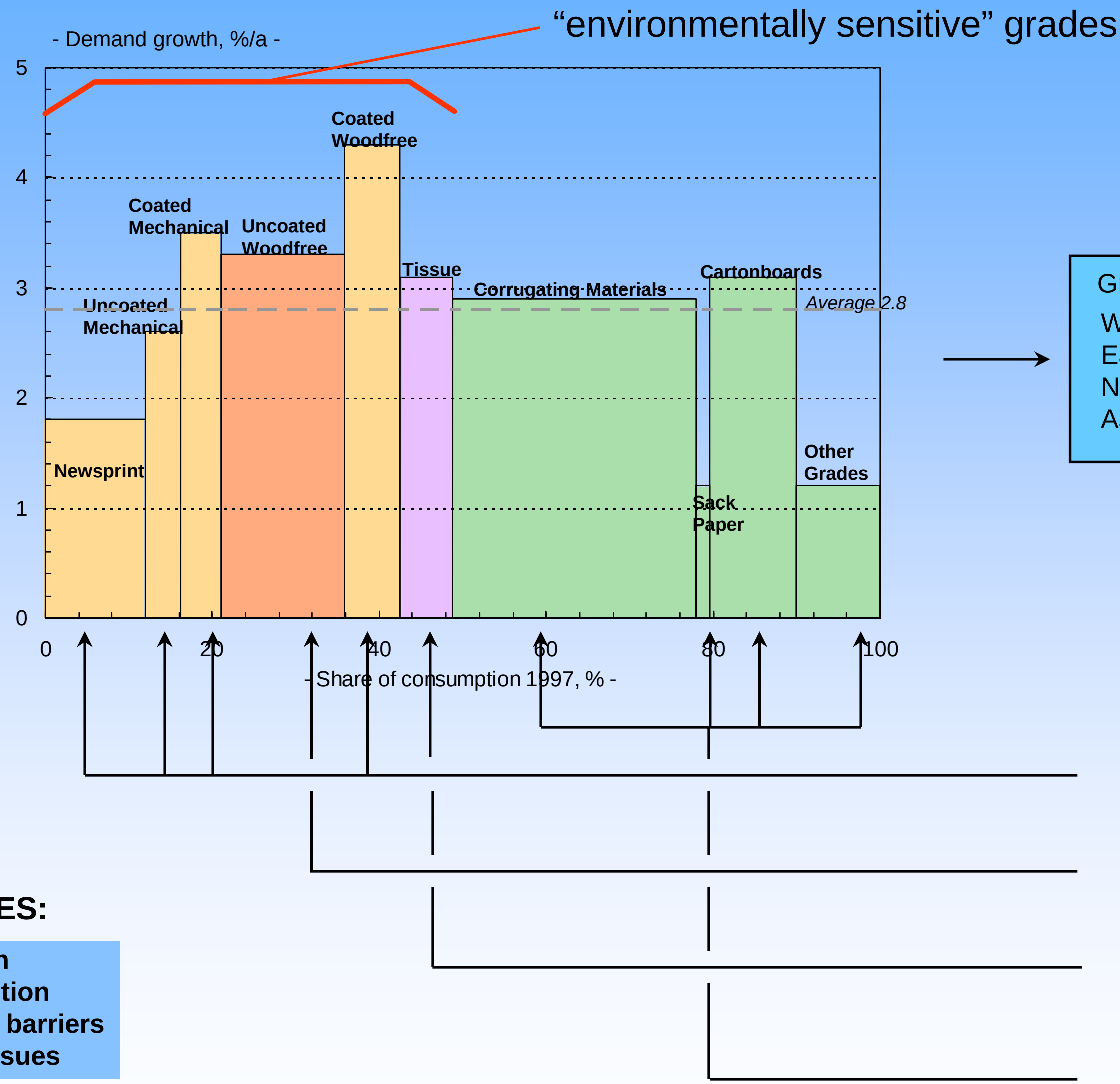
Demand Growth for Paper and Paperboard in the World 1997 - 2005



Growth rates:

Western Europe	2.6 %/a
Eastern Europe	4.7 %/a
North America	1.7 %/a
Asia	3.5 %/a

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

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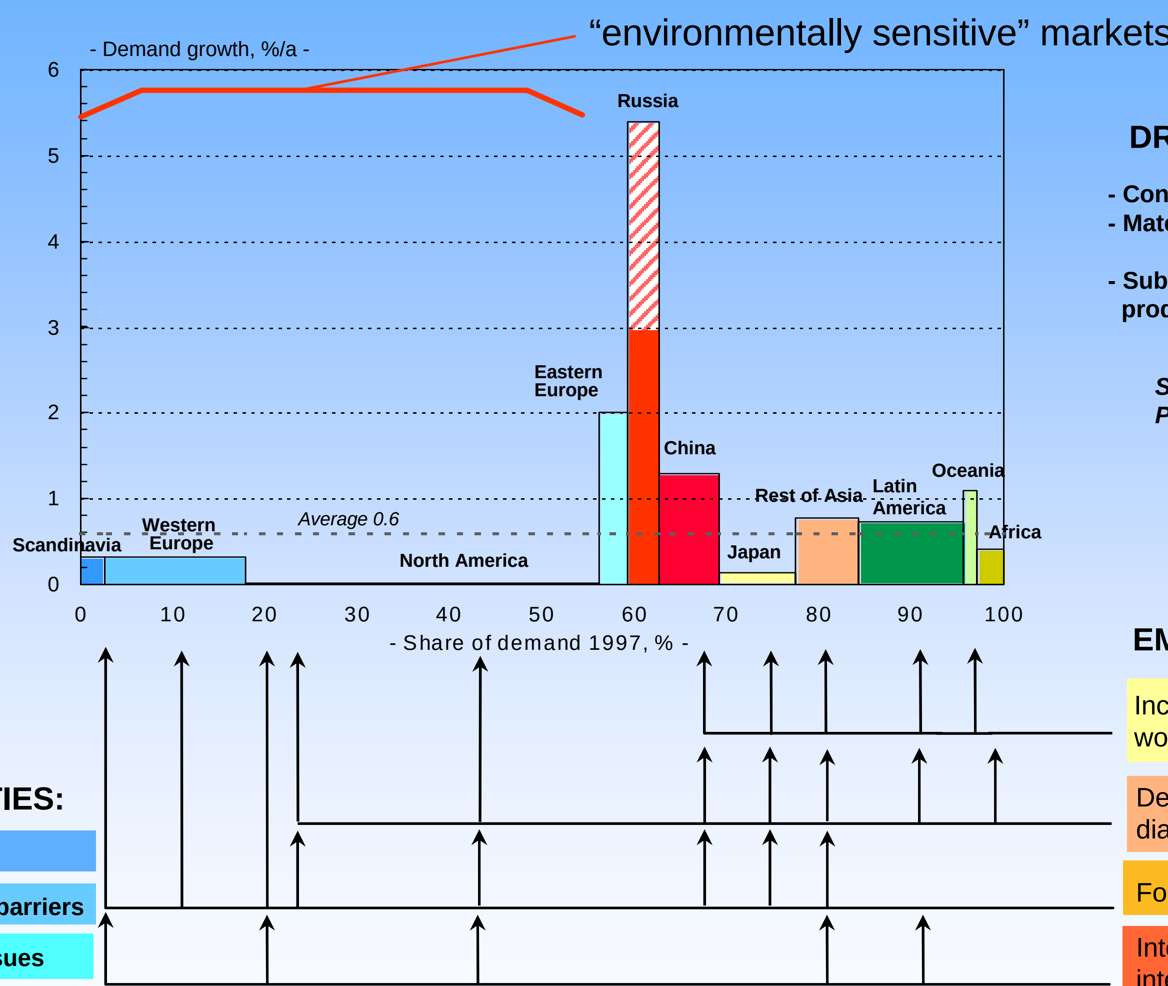
Demand Growth for Sawnwood in the World 1997 - 2005



DRIVING FORCES:

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

Sawnwood Plywood <-> *Engineered wood products Reconstituted panels*
- *MDF 7.5 %/a*
- *OSB 5.0 %/a*

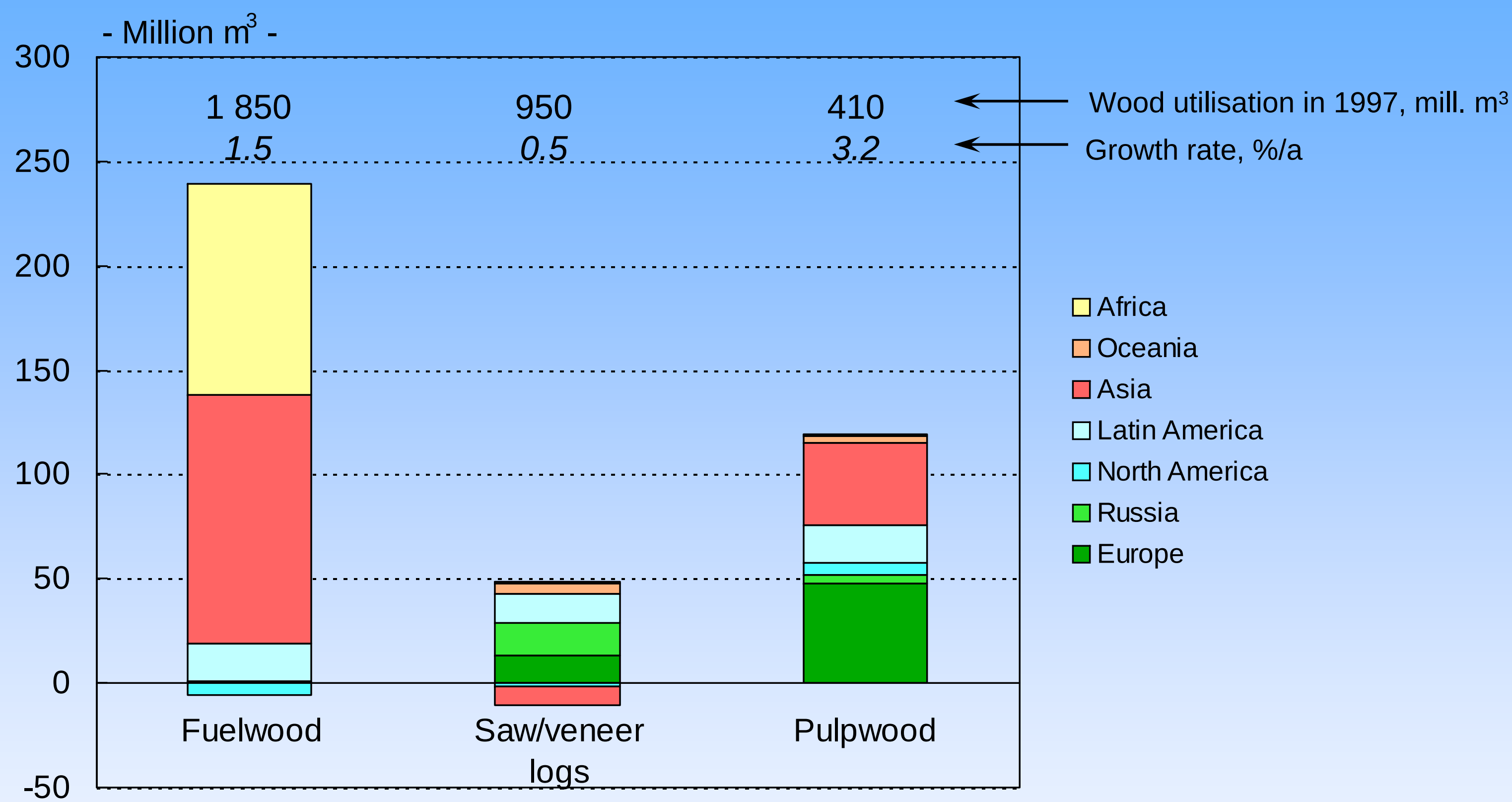
EMERGING TRENDS

- 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

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Green Market: Present Status

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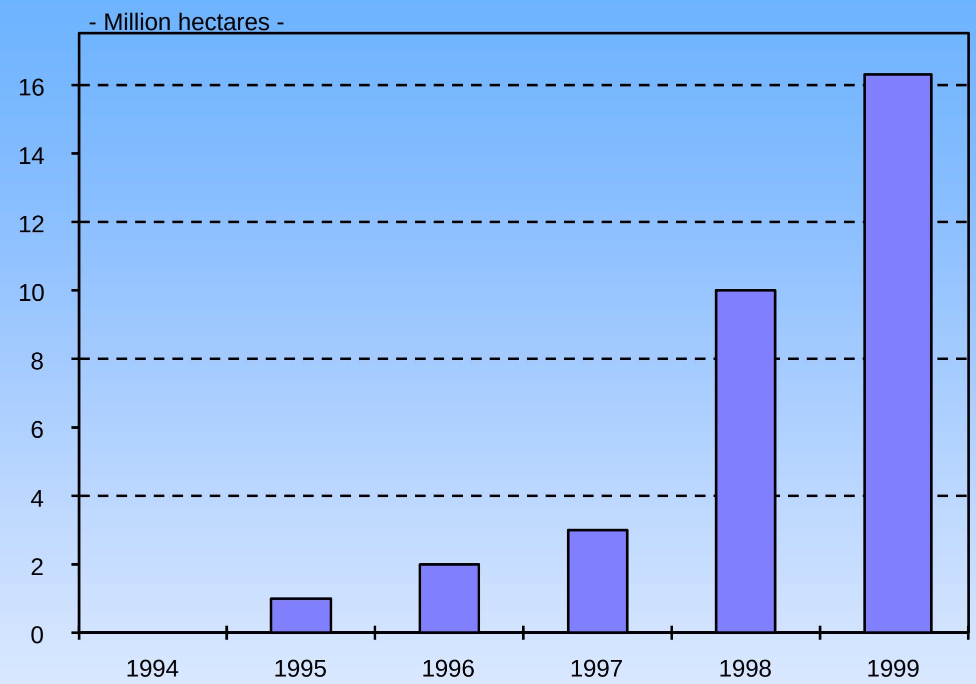
Development of Certified Forest Area



- 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

Market Share of Certified Products

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

	Year Established	Number of Members	Market Share
United Kingdom	1991	89	20% of UK wood use
The Netherlands	1995	12	<1%
Belgium	1994	43	>50% of wood trade
Austria	1996	24	>4% of wood market
Germany	1997	45	<1%
Switzerland	1997	16	<1%
Spain	1998	11	n.a.
Nordic Countries	1998	11	n.a.
USA		300	n.a.

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

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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

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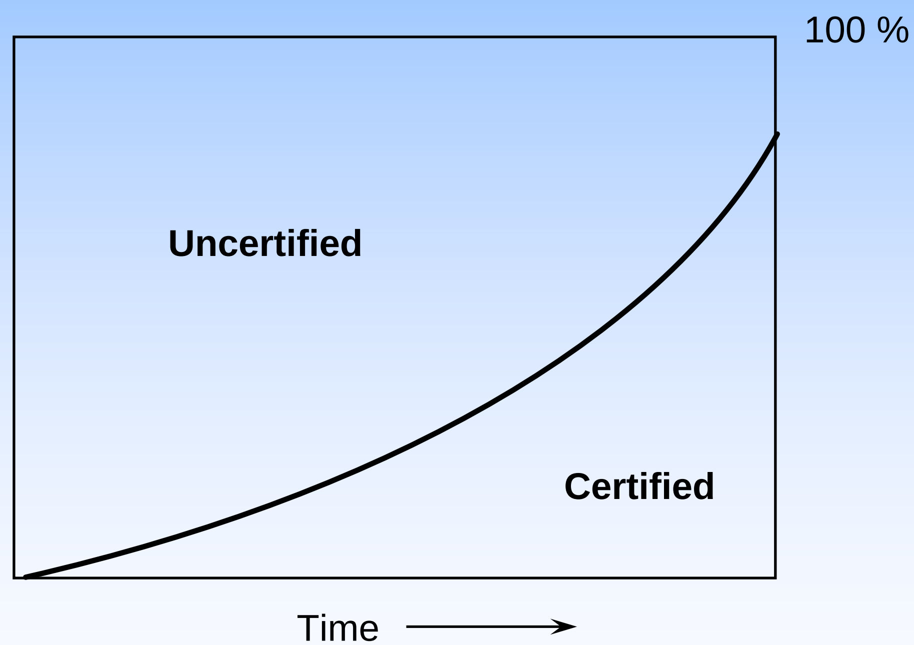
Benefits of Certification to Industry

- 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

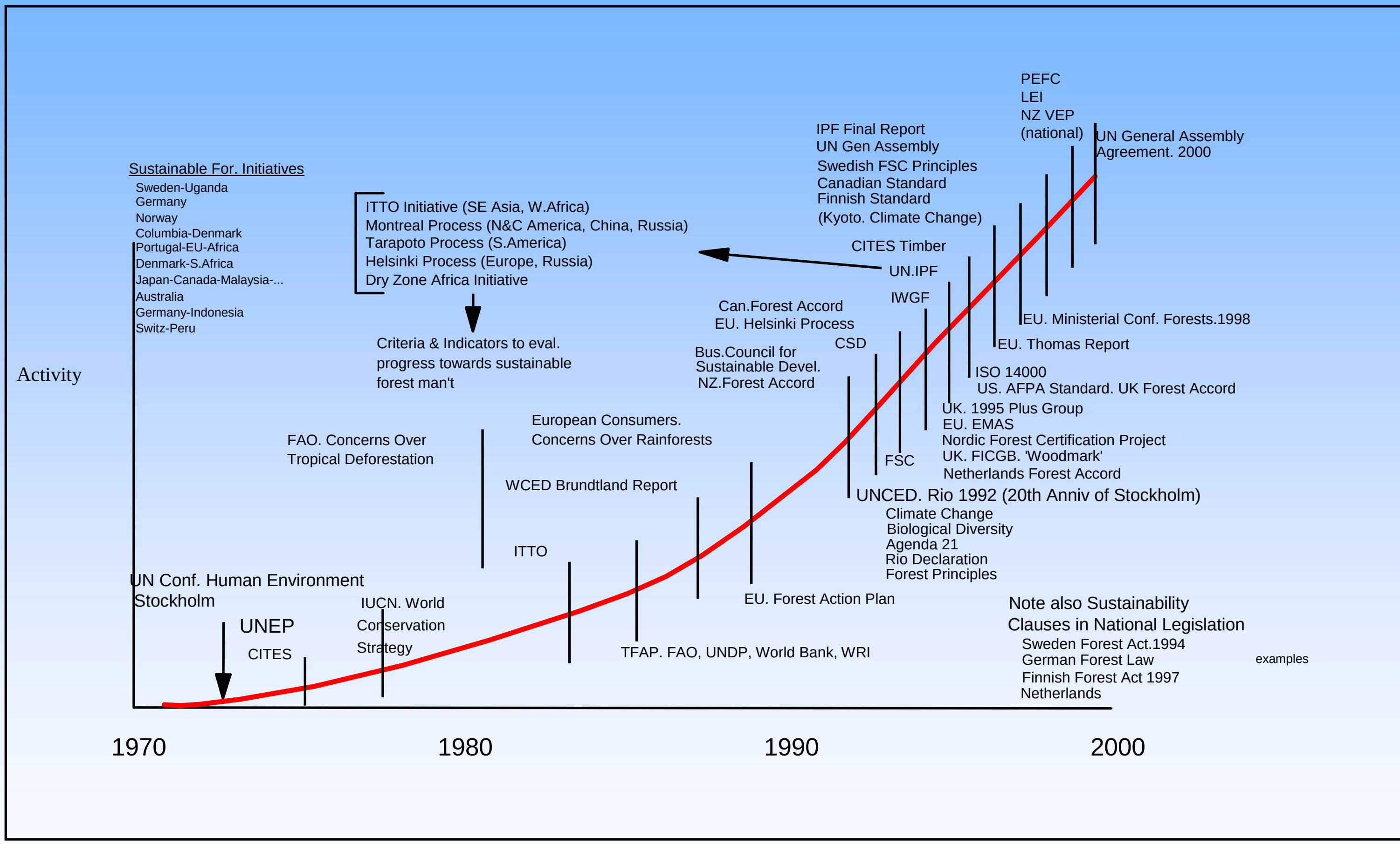
– The convergence also depends on how well the industry can project this harmonisation. **Certification is part of the harmonisation – but only part of a complex mosaic**

– 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

Dynamic Changes and Trends

Forest Certification Time Line 1970-2000



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

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Forest Based Issues Are Going Through Change

Future World

Increasing Forest Products Demand

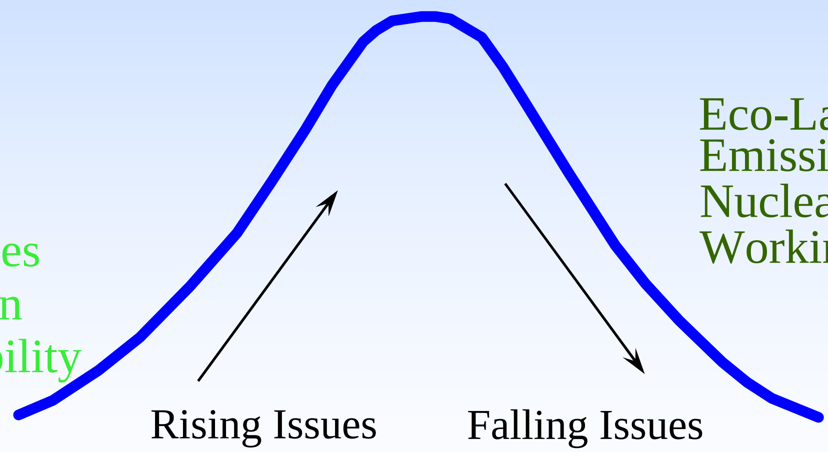
+

Sustainable Society

Energy
CO_2 Emissions
Indigenous People
Employment
Forest Certification
Forest Operations

Global Climate Change

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



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