

Is CoC Certification an effective tool to promote SFM or just a disguised form of NTBs?

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FSC Says

- Once a forest is certified it is important to be able to trace the products that come from it throughout the supply chain to ensure that any claims on the origin of the product are credible and verifiable.
- The FSC chain of custody certification is a voluntary process. FSC chain of custody is a tracking system that allows manufacturers and traders to demonstrate that timber comes from a forest that is responsibly managed in accordance with the FSC Principles and Criteria. It tracks the flow of certified wood through the supply chain and across borders through each successive stage - including processing, transformation and manufacturing - all the way to the final product.
- Underlined by the speaker

FSC Says

- It is up to a company to initiate the certification process by requesting the services of an independent certification body to inspect its internal tracking procedures. Only FSC-accredited certification bodies can evaluate, monitor and certify companies to FSC standards.
- The FSC 'Mixed Sources' label allows manufacturers to provide FSC labeled products that include a minimum of 50% of "FSC input", with FSC input being defined as both timber from FSC-certified forests, but also recycled content, with the remaining material complying with the FSC Controlled Wood standard.
- Critics say: FSC is the Enron of Forestry (Certification)

FSC Says

- **FSC Controlled wood applies to timber and non-timber forest products. It helps manufacturers and traders to avoid that the material they source comes from:**
 - **1. Illegally harvested forests**
 - **2. Forests in which violation of traditional and civil rights occur;**
 - **3. Forests in which High Conservation Values are threatened by management activities;**
 - **4. Natural and semi natural forests where conversion occurs; and**
 - **5. Forests in which GMO are used.**
- **Many are in doubt about such a bold statement**

PEFC Says

- **Certification in the forestry sector involves two separate process that are independent from each other; certification of sustainable forest management practices and Chain of Custody certification.**
- **Chain of custody certification is a mechanism for tracing certified material from the forest to the final product. This provides certainty that the product or product line, about which a claim is being made, is linked to a certified forest.**
- **Chain of custody certification can be awarded by an independent accredited third party certification body to any company that meets the strict chain of custody requirements set out by PEFC's International Chain of Custody Standard.**

PEFC Says; Flashback on LEI's progress

- The correct implementation of the Chain of custody in line with PEFC's International Chain of Custody Standard is independently audited and verified by an accredited certification body.
- **LEI:** Certification of native forests was undertaken under FSC-LEI's Joint Certification Program (JCP). Despite numerous and painful efforts made by all parties involved, we see little successes in on-field certification.
- 1990s- mid 2001: 2,089,413 hectares of native forests were assessed for certification in Indonesia, none was certified.
- During my tenure as LEI's executive director in 2000-2004, LEI initiated in 2001 development and implementation of certification systems for plantation forests (PHTL), community forests (PHBML) and chain-of-custody (CoC).

Flashback on LEI's progress

- 2001: the first native forest certification was awarded in Indonesia under LEI-FSC joint certification program (JCP).
- The magic number was 90,957 hectares of native (production) forest managed by PT Diamond Raya Timber. The then Minister of Forestry, Hon Marzuki Usman, presented the award.
- About 120 NGOs protested and demanded the certificate be revoked. LEI marched on.
- Ten years later until today, PT Diamond Raya Timber still holds the certificate !!!
- Lessons learned? I will elaborate later

LEI's progress

- ***Plantation Forests:*** FSC applies a cut-off year for plantation forest certification. LEI decided in 2001 not to apply such an arbitrarily determined cut-off year.
- The decision enables LEI to take a leading role in certification of plantation forests in Indonesia.
- As of February 2011 a total of 577,688 hectares of plantation forests have received LEI certificate, accounting for over a half of LEI's certified areas.
- LEI has now issued 3 native forest-, 3 plantation forest-, and 12 community forest-certificates, covering an area of 1.1 million hectares.

LEI's progress

- CoC certificates have also been awarded to 6 processing operations (companies).
- Indonesia's forestry and paper giant, Asia Pulp and Paper (APP), is LEI's key awardee with 4 of its processing mills (companies) successfully obtaining LEI's CoC certificate, and an APP's plantation forest company (PT Wira Karya Sakti) holding the largest forest plantation certified.
- APP papers with LEI logo began to enter Japanese market, albeit at a relatively small volume.
- While some parties began to lose faith in certification, notwithstanding a tirade of "biased" attacks by some NGOs, LEI and APP's determination to move on with certification deserves commendation and supports.

Legal verification

- *Legal basis:*
- Pasal 125 ayat (3) Peraturan Pemerintah Nomor 6 Tahun 2007 jo. Peraturan Pemerintah Nomor 3 Tahun 2008 stipulates that performance of IUPHH holders affects SFM
- Pasal 119 Peraturan Pemerintah Nomor 6 Tahun 2007 jo. Nomor 3 Tahun 2008: that any transportation, control, and or ownership of any forest produce obtained from state forests has to be supported by documents of legality.
- *Goals stipulated in the decree:* (i) to achieve SFM, (ii) to ensure FLEG, and (iii) to combat illegal logging and trade.
- Permenhut No P.38/Menhut-II/2009 ttg standard dan pedoman penilaian kinerja pengelolaan hutan produksi lestari dan verifikasi legalitas kayu pada pemegang izin atau pada hutan hak

Legal verification

- *Permenhut P.38 pasal 3:*
- Penilaian dan/atau verifikasi sebagaimana dimaksud dalam Pasal 2, untuk IUPHHK Alam, Tanaman, HTR, dan HKm dapat dilaksanakan secara bersama-sama dan/atau terpisah oleh LP&VI dalam rangka mendapatkan Sertifikat PHPL atau Sertifikat LK, baik atas perintah Menteri maupun atas permintaan pemegang izin;
- Indonesian law-makers only use the word “dapat” or a combination of the words “baik” and “maupun” if they’d like to stress that the stipulated action(s) is(are) optional.
- So the process of SFM assessment (certification???) or legal verification is not 100% mandatory. Let’s call it “quasi mandatory” because the minister may or may not order implementation of the process. Political reality → mandatory

The economics

- In 2001 developing nations only accounted for 8% of the total forest areas certified globally. A decade later the figure does not change much, still below 10%.
- 45.4% of certified forests in developing countries received only a partial commercial recognition in the global market.
- Meanwhile, the majority of forest operators in developing countries like Indonesia still find a wide gap between what demanded by certification standards and what the operators can actually fulfill on the field.
- For sure forest operators in Indonesia have to meet legal requirements. Otherwise their operation will be suspended or even ceased by the state.

The economics

- External impediments facing Indonesian operators include mostly social-, industrial- and or land rights- conflicts.
- Internal impediments are, among others, lack of will, operators (owners) have serious doubts over the (economic) benefits of certification, or inadequate managerial capacity.
- While most operators managing 30,000 hectares or above can afford paying certification fees, to overcome the above impediments proves to be very costly (not to say how cumbersome a process it is).
- For example, to solve a minor social conflict may cost 2-3% of annual turn-over. Serious conflicts may cost 17-20% of a year's turn over to settle. This includes *inter alia* legal and political expenses which in many cases are unavoidable.

The economics

- Estimated incremental costs to meet SFM certification (US\$/m³, assuming a mild social conflict)

	Production	Ecological	Social	Total	Certification	Total
	Improvement	Improvement	Improvement	Improvement	Costs	Costs
	(A)	(B)	(C)	(D=A+B+C)	(E)	(F=D+E)
Year 1	0.46	0.69	1.27	2.43	0.26	2.69
Year 2	0.38	0.53	1.15	2.05	0.26	2.31
Year 3	0.30	0.40	1.15	1.84	0.66	2.50
Year 4	0.30	0.40	1.15	1.84	0.40	2.24
Year 5	0.30	0.40	1.15	1.84	0.40	2.24
Year 6	0.30	0.40	1.15	1.84	0.40	2.24
Year 7	0.30	0.40	1.15	1.84	0.40	2.24
Year 8	0.30	0.40	1.15	1.84	0.40	2.24
NPV at 12%	\$1.69	\$2.36	\$5.80	\$9.85	\$1.93	\$11.78
Proportion	14.3%	20.0%	49.2%	83.6%	16.4%	100.0%

The economics

- Income stream from SFM certification (assuming the certificate is recognized by the markets, Rp 8900/US\$, base price US\$ 130/m3 of sawn timber)

	No Premium	Premium 2.9%	Premium 5%
		Sawn Timber	Sawn Timber
Year 1	-2.69	-2.69	-2.69
Year 2	-2.31	-2.31	-2.31
Year 3	-2.50	-2.50	-2.50
Year 4	-2.24	1.53	4.26
Year 5	-2.24	1.53	4.26
Year 6	-2.24	1.53	4.26
Year 7	-2.24	1.53	4.26
Year 8	-2.24	1.53	4.26
Internal Rate of Return (IRR)	N.A (negative)	0%	31%

Now let's answer the question

- If the global market is willing to pay a small price premium of less than 3% or less than US\$ 3.8/m³ of sawn timber in our estimate, it suffices to compensate certification-related costs of a forest operation facing a mild social conflict.
- The fact is, the market is not willing to pay such a premium. Environmentally-aware buyers in developing nations tend to take an “I am under pressure from NGOs, so I pass the pressure on to you suppliers”.
- Yet the majority of the markets does seem to care about SFM, illegal logging, certification and all these issues.
- So the idea of instituting a CoC certification as a mandatory requirement to enter a certain market is totally detached from reality and is non-market impediment to fairer trade.

Now let's answer the question

- Why? First, you can't get a globally-recognized CoC certificate if you don't get your wood supplies from a globally-recognized certified forests.
- Yet we know that certification progress in developing world has been lacking way behind that in developed world.
- In Indonesia, after around 15 years of painful efforts we are only able to certify less than 1.7% of the total 29 mill hectares HPH (native production forest license) involving only 3 of 320 HPH holders !!!
- Plantation forests: between 1/9 to 1/7 of plantation forests is LEI-certified. Note: FAO 3.4 mill ha, MoF 4.5 mill ha. Permenhut P.50/Menhut-II/2010 granted 44 plantation forest licences covering an area of 2.9 mill ha.

Now let's answer the question

- Second, given certification progress and the external and internal impediments facing developing nations as discussed earlier, instituting a universal mandatory CoC certification is almost like imposing an import ban against exporters from these countries.
- Imposing such a measure on a country-basis, say on Indonesia but not on Malaysia and Singapore, may be seen as a discriminatory trade measure.
- It causes “injuries” to Indonesian exporters of furniture, wood products, pulp and paper and other wood-based produces.
- The terms “discriminatory”, “unfair” and “injuries” are material for reference to the WTO Appellate Body.

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Now let's answer the question

- Third, such a measure will not necessarily lead to SFM.
- Certification worldwide has been shown as being a “necessary but not adequate” tool to promote SFM. Too many variables hinder the road towards SFM. Making CoC compulsory is not only against certification’s voluntary nature, but may also provoke counter-reactions from both consumers and producers which may in turn work against certification.
- So keep certification voluntary. Do not raise too high an expectation on what it can achieve. Be realistic about its speed in its journey to promote SFM.
- Fourth, such a measure may even lead to increased illegal logging and trade.

Now let's answer the question

- To compensate for lost markets if such a measure is implemented, forest operators may be more tempted to engage in wood-laundering.
- Wood smuggling to Malaysia is no secret, and as Malaysia may be exempted from the measure, laundering will turn to be a lucrative business. Singapore is a good laundering destination too.
- As the measure will require parliamentary approval in the country in question, it will take some time to implement. There exists a window period to make up the potential lost.
- Yet there still many countries that do not require such a measure. So exporters may beef up sales to a non-CoC countries like China.

The way ahead

- Certification is a market instrument for consumers in making their consumption decision. So it is by nature determined by buyers. Yet in many cases it is not the end buyers who make the decision. Third parties like NGOs do.
- So if Indonesian government and or exporters are seriously trying to rectify the “unfairness” they’re facing in the global market, stop complaining.
- Start enforcing Indonesia’s SNI, developing Indonesia’s certification requirements for goods and services we buy from Europe, North America, Australia, China, Japan etc. Goods from Italian furniture to aircraft, from food like soybean, chocolate to heavy machineries.
- As the President said, our economy ranks 16th in the world,

The way ahead

- (cont'd) with an estimated GDP of almost US\$ 800 billions in 2010, larger to that of countries like Switzerland, Belgium, Sweden, Norway and Austria. Indonesia's middle class population is even bigger than the entire population in some EU countries.
- So trade-wise, the government may take measures from lodging a WTO complaint to taking retaliatory measures.
- But if SFM, not disguised trade barriers, is the consensus goal among all parties, then I believe the following will be more productive.
- First, let's use legal verification (SVLK in Indonesian case) as the minimal requirement acceptable to both producing- and consuming nations.

The way ahead

- SVLK is derived from FLEG and FLEGT initiatives. All parties need to work together to improve legal verification system, correct all deficiencies, and officially accept it as a mandatory instrument to ensure minimum requirements for SFM.
- Second, let's speed up implementation of SFM and SFM certification. We can device market incentives such as indirect price premium, carbon compensation, etc to compensate the costs for meeting SFM standards.
- Third, let's not be tempted by radical but unproven measures such as logging moratorium. My study in Kerinci Seblat National Park showed that population pressure, demand for farm land, government's failure to safeguard protected areas, and dynamics of agricultural prices can easily beat "legal ban on logging".

Forestry in the Future: 3T

- Hemat saya, jauh lebih produktif mendorong 3T (tanam, tanam dan tanam) daripada moratorium.
- Sejak lama kita tahu masa depan kehutanan Indonesia ada pada hutan tanaman, bukan lagi hutan alam. Hutan tanaman itu bisa HTI maupun HTR. Tanamannya bukan hanya akasia. Saat ini sudah mulai muncul minat investasi untuk hutan tanaman karet.
- Bukan tidak mungkin jika rasio harganya menguntungkan, akan muncul Hutan Tanaman Energi sbg sumber bioenergi.
- Karena itu pengembangan hutan tanaman dan atau agroforestry perlu didorong pemerintah. Ilmu agronomi, hama penyakit tanaman dll tampaknya perlu lebih intensif diajarkan di Fakultas Kehutanan.

Penutup

TUHAN MENCIPTAKAN KITA
SEBAGAI BANGSA RAJAWALI,
TAPI KITA SENDIRI
(TERUTAMA PEMIMPIN2 KITA)
YANG MEMBUAT KITA
MENJADI BANGSA BEBEK.
MARI BANGKIT DAN TERBANG
BEBAS PERKASA SEBAGAI
RAJAWALI

dradjad wibowo, 20 Mei 2006