SURVEY OF THE EFFECTS OF FSC CERTIFICATION AMONG FOREST CONCESSIONS AND OVERSEAS BUYERS

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1 Introduction

The Borneo Initiative is an international foundation established in 2008, registered in the Netherlands, with offices in the Netherlands and Indonesia. Our mission is to prevent the loss of tropical forests to deforestation or their degradation because of over-exploitation.

Our target is to contribute directly to the increase of certified natural forest areas in Indonesia, from 1.1 million hectares in 2009 via 4 million by the end of 2013, up to 5 million by the end of 2014 and even 9 million in 2016.

Our primary focus is the Indonesian part of Borneo (Kalimantan), but coverage is to expand over time to include Malaysia and Papua New Guinea as well. We link up players at either end of the marketing chain whose cooperation is required to mobilize the commodity chain: the wood suppliers in Indonesia and the end users of tropical timber products in Europe or USA. Thus, market parties become the agents of change for forest conservation.

Over the course of 2012, we facilitated the exchange of information between Indonesian timber producers and overseas buyers, and we organized a business encounter in Jakarta. Now, we want to know the effect of our assistance is both on the business performance of forest concessions, and on the trade activity in Indonesia of the overseas buyers that we have been in contact with.

Therefore, last quarter of 2012 and first quarter of 2013, we conducted a survey among the Indonesian companies that had achieved FSC certification with assistance from The Borneo Initiative in 2012 (8 companies), plus a survey among the overseas buyers that participated in the FSC business encounter we organized in June 2012. An additional feedback session for further discussion on the survey was held in March 2013 in Jakarta.

This document presents the combined survey findings in two chapters, completed with a chapter with general conclusions.
2 FSC certified forest concessions and associated industries

In this section, we process information obtained from the 8 forest concessions that were FSC certified via our support at the time of conducting this survey. Of these, 5 are integrated with an industry, producing wood panels, furniture components, and mouldings for construction or flooring elements. The other 3 forest concessions are not integrated to an industry but have exclusive delivery contracts with down stream industries.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood panels</td>
<td>2 companies</td>
</tr>
<tr>
<td>Furniture</td>
<td>3 companies</td>
</tr>
<tr>
<td>Mouldings</td>
<td>4 companies</td>
</tr>
<tr>
<td>Flooring</td>
<td>1 company</td>
</tr>
<tr>
<td>Round logs</td>
<td>3 companies</td>
</tr>
</tbody>
</table>

2.1 Survey results

In the following, we present responses by survey question.

(1) **FSC certification has an effect on my company's stock value**

![Answer distribution graph]

This statement was confirmed by 3 out of 8 respondents. For all other companies, this question is not relevant since they are privately owned. During the feedback session they explained that they give this question a different interpretation: 5 out of 8 confirm that FSC certification has enhanced the stock value of timber. This suggests that companies feel that the asset value of the forest has increased, which can be regarded as a financial benefit too (see also the next section).

In sum, FSC certification seems to have a positive effect either on share value, or asset value (forest stock).

(2) **FSC certification reduces harvest volumes as compared to before**

![Answer distribution graph]

All of the 8 concessions indicate that FSC does not reduce harvest volumes even when applying the requirements of reduced impact logging.

This was confirmed too in the feedback session, where all agreed that FSC certification does not reduce harvest volumes even under RIL.

In sum, FSC certification does not decrease harvest volumes. Combining this with the previous question suggests that FSC certification enhances forest stock, without reducing harvest levels.
(3) **FSC certification increases overall production costs (costs outweigh efficiency gains, if any)**

Most respondents (7 out of 8) confirmed that FSC certification requires more capital – only 1 contradicted this statement. But, the question was not really answered - no clear answers were given whether additional costs can be off-set by efficiency gains or increases in productivity as suggested in the previous question, albeit that the following statements hint in that direction:

‘Sustainable forest management begins with planning (Reduced Impact Logging)’

‘FSC scheme manages an integrated system.’

In sum, all companies indicate that FSC certification implies higher production costs. Whether efficiency gains or productivity gains outweigh such costs, is not clear from the survey.

(4) **FSC certification gives us a premium as compared to non-FSC competitors**

5 out of 8 respondents confirm that FSC certification brings them a premium, against 3 out of 8 that reported no premium.

The companies put a side note to this subject. Most of them agreed that FSC certification normally generates a premium. However at the moment, because of weak market demand, there is no premium price. One of them argued also that the log ban is one of the reasons of low log prices for forest concessions – log prices are determined by the forest industries and FSC price premiums, if any, are not passed on the forest concessions.

In sum, FSC products earn a price premium but this premium is captured by the industries and not the by forest concessions.

(5) **FSC certification has brought us new trade opportunities (interest from new buyers)**

6 out of 8 respondents indicate that FSC certification brought them new trade opportunities, 2 out of 8 indicate they found no new trade opportunities. These are companies that know the market already, especially the ones integrated with an industry.

In sum, most companies indicate that FSC certification brings new trade opportunities.
4 out of 8 respondents said that FSC is instrumental to accessing financial institutions. As observed by one of the respondents:

‘A well manage company is trustworthy by financial institution.’

Companies mentioned that there is a regulation from the Central Bank of Indonesia indicating that forest enterprises that apply sustainable forestry management measures should be given easier access to loans. Yet, when asked whether there is any financial institutional at the moment that provides a special credit or investment for forest concessions, respondents indicated that there is no financial institution that provides such special services to them. Getting bank loans is difficult for forest concessions. Yet, when discussing a bank loan, the financial institution will take into account their measures towards sustainable forest management.

In sum, forest companies in general have difficulty accessing financial institutions, but FSC certification helps to build trust when discussing a bank loan.

The mentioned preferential treatment from the authorities does apply for 6 out of 8 companies. On the other hand, 2 companies do not see any different treatment.

‘Preferential treatment is not the right word but by achieving FSC certification we have extra advantage when dealing with the authorities compare to other non-certified companies.’

When a company receives FSC certification, it is easier for them operate since they are known to comply with any regulations. Yet, for companies that already had a good reputation, the change may not be significant.

In sum, FSC certification prepares companies better for their obligations towards government agencies, if needed, resulting in better relationships.

Community relations have improved thanks to FSC certification
4 out of 8 respondents indicate that FSC helps to improve the relationship between concession and communities. While the rest of the respondents said that the relationship with community remains the same, since they already had good relationships since before.

*The communities acknowledge that sustainable forest management is beneficial for them. Concessions focus on the improvement of forest safety, environment advantages and forest economy to the community.*

In sum, FSC certification helps to improve community relations, if needed.

**FSC certification has helped us in public relations (NGOs, professional recognition etc.)**

![Bar Chart]

3 out of 8 respondents said that FSC certification helped them in terms of public relations while 4 said there is no specific relation to that. And 1 did not provide any answer.

*FSC certification has increased our image as a company that implements sustainable forest management system in our daily operational activities and by achieving it we have positive image in the public eye.*

In sum, FSC certification may result in better public recognition, depending on the case though.

As explained, we did not get answers to all questions. The questions that went unanswered are the following:

12 Are you trading more with Europe then before?
13 Are you trading more with The Netherlands?
14 Are you trading more with the United States of America?

**Have you signed up to the TBI group on LinkedIn Group?**

6 out of 8 companies have joined The Borneo Initiative LinkedIn group.

**What suggestions do you have for TBI?**

- To have additional or budget incentive for a forest concession holder that has obtained FSC certification and PHPL, additional to the US$ 2/ ha, in order to motivate a forest concession holder to maintain or obtain the certification.
- To have an exhibition in Europe or America to have direct offer to buyers (not brokers) on FSC wood.
- To assist TBI partners to have market in Europe or America.
- To have a higher subsidy and not create a rigid step in certification procedures. It is better to have the full amount of the budget for company since the company will use it for the certification cost in the end.
- To increase budget support facility for the company that has high motivation of FSC certification with an accessible system.
- TBI can offer market intelligence for the timber industry as regards Europe.
- To combine two interests - economic development and sustainable environment – requires a transformation of paradigm and also strong commitment, smart and thorough from every party: NGO, academic, business and society.
- To have green economic business approach especially for Borneo and to say no to mining.
- To establish a network between members/ partner of TBI in order to share the experience in FSC certification process by TBI program.
In order to use TBI budget, it does not have to get through scoping phase in the beginning since certain documents and studies to meet FSC requirement are clear. So doing, the TBI budget will be more effective for small medium scale companies.

To conduct more workshops on certification awareness since there is low knowledge for new companies in basic knowledge of forest management certification. We will try to incorporate these recommendations in our work plan 2014.

2.2 Survey conclusions

In this report, we present answers to 10 out of 14 questions. We could not obtain full answers to all questions, because different questions need to be answered by different people in the forest companies. Structured questionnaires need to be combined with face-to-face interviews. Due to changes in staffing, we could not put in this extra effort within the time frame given. This we plan to do in the next survey round, later in 2013.

Even so, this survey is a good first orientation and gives us some preliminary insights into the effects of FSC certification on the companies’ business performances. These we can use as hypotheses in follow-up business surveys.

A summary of conclusions:

1. FSC certification seems to have a positive effect either on share value, or asset value (forest stock).
2. FSC certification does not decrease harvest volumes. Combining this with the previous question suggests that FSC certification enhances forest stock, without reducing harvest levels.
3. FSC certification implies higher production costs. Whether efficiency gains or productivity gains outweigh such costs, is not clear from the survey.
4. FSC products earn a price premium but this premium is captured by the industries and not the by forest concessions.
5. In sum, most companies indicate that FSC certification brings new trade opportunities.
6. FSC certification brings new trade opportunities.
7. FSC certification prepares companies better for their obligations towards government agencies, if needed, resulting in better relationships.
8. FSC certification helps to improve community relations, if needed.

We received a list of recommendations to incorporate in our work plan 2014.
3 Overseas FSC buyers

We approached 43 buyers from Europe and the United States who had participated in the June 2012 FSC business exchange in Jakarta. We sent out a questionnaire in English through an online survey program with 13 questions in English. Actually, we received 14 responses (3 provided partial responses and 11 completed the survey) i.e. a response rate of just 25% despite several reminders.

Below, we summarize the various responses by question. There are less than 14 sections because we in some cases we combined the answers to different questions in a single graph.

We received responses from 7 buyers from The Netherlands, 5 respondents from Europe and 2 respondents from United States of America.

 Respondents’ major market destinations:

3.1 Survey results

(1) *What is your specialization/ market segment?*

Most of the respondents are importers/distributors of timber products.
(2) Have you come into contact with new FSC producers from Indonesia via The Borneo Initiative?

Almost all of these buyers have created new business contact with new FSC producers from Indonesia.

(3) Did these contacts result in new business contracts?

About one-third of respondents indicated that new trade contracts resulted from the business exchange.

(4) Approximately, how much volume (in cu.m.) did you trade with Indonesian producers (FSC or non-FSC) in 2012? And how much was that a few years ago (5 years)?

<table>
<thead>
<tr>
<th></th>
<th>&lt; 5,000 cu.m.</th>
<th>5 – 10,000 cu.m.</th>
<th>10 – 15,000 cu.m.</th>
<th>15 – 20,000 cu.m.</th>
<th>&gt; 20,000 cu.m.</th>
<th>Total Respondents</th>
<th>Total Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>37,750</td>
</tr>
<tr>
<td>2012</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>27,100</td>
</tr>
</tbody>
</table>

Most traders buy less than 5-10,000 cu.m. Only 1 (one) traded over 20,000 cu.m. in 2007. Comparison between years 2007 and 2012 suggests a decrease of 28% but this is probably mainly due to inconsistencies in data sets (especially the bigger traders who provided data for 2007 did not do so for 2012).

(5) How much (in %) of your imports are from Indonesia?
9 out of 11 companies described that less than 25% of their timber imports are from Indonesia and 2 out of 11 companies said that 25 – 50% of their products are from Indonesia.

(6) Of the volume you traded with Indonesia in 2012, how much (in cu.m.) was FSC? And, looking ahead, what do you expect for years 2013 and beyond in terms of volumes (in cu.m) you will trade with Indonesia annually?

9 out of 14 respondents did not have any trade yet with Indonesia in 2012. Of those who did (5 from 14), FSC has a minor share in their buying volumes. Two other respondents bought very small volumes, with FSC certification though. 2 out of 14 indicate that in the period ahead, they will buy similar volumes as before in 2012, while 1 major buyer indicates that they expect to order more, and 1 respondent may set up a new supply channel from Indonesia. 9 others gave no projections for 2013 or beyond, which we can assume has to do with the very weak market conditions at the moment in the European timber market.

(7) What suggestions can you give The Borneo Initiative to better facilitate market linkage?
✓ We are interested in a similar event next time. However, we prefer to have the presentations in English.
✓ Forest concessions and their related industries should have more progressive approach towards foreign buyers to enhance better communication.
✓ Increase the market demand for FSC products, so we can actually use the existing linkages and strive for new ones.
✓ Facilitate better linkages within Indonesia itself between manufacturers for exports and FSC certified forest concessions.
✓ To have TBI logo on the product.
✓ The Borneo Initiative to conduct more active promotion outside The Netherlands i.e. United Kingdom.
✓ To let comply exporters with new EUTR regulations. The Borneo Initiative needs to align to SVLK.
✓ To maintain the good initiatives in market links involving the buyers.
✓ Better information about the production capacity of FSC forest concessions.
✓ Greater availability of secondary species.

We will incorporate these recommendations in our work plan 2014.
3.2 Survey conclusions

We approached 43 buyers from Europe and the United States via a questionnaire. Those who responded were mostly importers/distributors in Europe. Actually, we received 14 responses (3 provided partial responses and 11 completed the survey) i.e. a response rate of just 25% despite several reminders. We need to assess whether a more personalised approach would work better, or whether we should approach buyers via one of their associations (timber trade federation).

As observed for the other section with survey results from forest concessions, this survey has been useful as a first orientation and gives us some preliminary findings, which we can use as a basis for any follow-up survey.

Main conclusions:

1. Almost all of these buyers have created new business contact with new FSC producers from Indonesia.
2. About one-third of respondents indicated that new trade contracts resulted from the business exchange.
3. Most traders depend on less than 25% of their timber imports from Indonesia.
4. FSC has a minor share in their buying volumes.
5. Buyers gave no firm commitments for the years ahead as regards buying volumes, except for a few.

We received a list of recommendations to incorporate in our work plan 2014.
4 General conclusions

This report summarises our findings from two surveys conducted in the last quarter of 2013 and the first quarter of 2013 among both the FSC certified Indonesian forest concessions, and the overseas buyers who participated in the June 2012 FSC business encounter conducted in Jakarta.

The information collected was not always complete, and the level of response at the buyers’ side was low. Any repeat survey must find ways to improve both aspects.

Our intention was to gain better insights into the business effect and the trade effect of FSC certification insofar as The Borneo Initiative is involved. We have indications of positive impacts at the side of forest concessions, albeit that it cannot be concluded that direct earnings have improved because of any price effect. At the buyers’ side, new linkages have been established with Indonesian forest companies, and new trade has resulted because of this, but any quantification is still missing.

We received lists of recommendations from both buyers and forest concessions, and we will incorporate the various points in our work plan for the next period:

- Prepare a similar business encounter like in June 2012 but all in English.
- Improvement of our producers’ database, to give better insights into the production capacities of the Indonesian producers.
- Alignment between SVLK and FSC.
- Promotion of The Borneo Initiative in overseas markets, Expanding our network to broader Europe and United States; possibly including an exhibition in Europe or America to have direct offer to buyers (not brokers) on FSC wood.
- Assistance to Indonesian manufacturers to establish linkages with the log-supplying FSC concessions.
- Assistance to partner organisations to increase the overall market demand for FSC products.
- Via partner organizations, lobby for a green economic business approach especially for Borneo so as to avoid conflicts of interest between forestry and e.g. mining.

To conduct more workshops on certification awareness since there is low knowledge for new companies in basic knowledge of forest management certification.