
Forest Stewardship Council Certification

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Abstract

Hancock Victorian Plantations (HVP) sought Forest Stewardship Council (FSC) certification, as a form of external independent confirmation for investors, customers and other stakeholders, that its Company forest management programs and processes meet international standards. Certification provides a focus on areas for improvement and provides a discipline to achieve that improvement.

Forest management certification is not yet well established in Australia, the certification assessment processes and the market implications are still gradually being understood.

HVP was the first major forest manager in Australia to achieve FSC certification.

The company and certification

Hancock Victorian Plantations is an Australian company jointly owned by Australian and US superannuation and investment funds. While Boston-based Hancock Timber Resource Group (HTRG) acts as overseeing manager on behalf of investors an independent HVP board includes nominees of Australian investors and HTRG executives representing US investors.

HTRG is the world's largest manager of timberland investments, with more than, \$5.2 billion in forest assets under management (as of December 31, 2005.) These assets are located in North America, Australia, New Zealand and Brazil.

HVP (including its wholly owned subsidiary Grand Ridge Plantations (GRP)) manages 245,000 ha in Victoria and this is comprised of:

- ◆ 143,000 hectares softwood plantations (predominantly *Pinus radiata*)
- ◆ 26,000 hectares hardwood plantations (*Eucalyptus regnans*, *E. nitens* and *E. globulus*)

- ◆ 50,000 hectares of native forest (for which there is a voluntary company policy not to harvest timber).

HVP plantations replace over \$A0.5 billion in potential forest product imports to Australia and have a substantial impact on regional economies in Victoria. They supply over three million tonnes of softwood and over 300,000 tonnes of hardwood per annum to sawmillers, panel producers and pulp and paper mills. Over 90% of production is processed domestically in regional locations.

Investors require that the business demonstrates a discipline of good forest management. On purchase of the plantations in 1998, HTRG introduced its own Forest Stewardship program which was operating successfully in its Nth American properties. Forest management certification then became a voluntary indicator within this program that a certain externally based standard had been reached.

The international forest products market also is increasingly demanding assurance about the quality of and the environmental impacts of the management of forests from which it draws its supply. Forest certification is one

such instrument by which a company can achieve public recognition for the quality of its forest management practices.

Assessment by an independent third party against an internationally recognised standard is the key aspect of certification which is attractive to investors and the Company as it confirms genuine progress in the quality of forest management. A certification system however also requires a Chain of Custody program and a program for recognition and communication through an identification logo.

At the time the Company was considering the certification options in May 2000, the Forest Stewardship Council (FSC) standard was the only available standard which met these key aspects. The Australian Forestry Standard (AFS) was still in the development phase at the time and it would not be until 2004 that it received international recognition through the Program for Evaluation of Forest Certification (PEFC).

HVP continues to support the development of the Australian Forestry Standard and its progress as an excellent national standard specifically developed by Australians for the Australian context. Mutual recognition between these standards should always remain a goal.

Forest Stewardship Council

The FSC was founded in 1993 and is an independent, non-profit non-governmental organisation with over 73 million hectares certified over 72 countries. It has the support and involvement of environmental non-government organisations (ENGOS) such as the World Wide Fund for Nature (WWF) and Greenpeace.

FSC Certification is based on 10 forest management principles and under each principle there are set criteria to be met.

National or regional forest management standards can be developed within the framework of these universal FSC Principles and Criteria. An FSC Initiative set-up under the rules of the FSC is required to develop standards within each nation or region.

To overcome the absence of a developed National Standard as is the case in Australia, FSC certification can only proceed via an interim standard. This is a FSC approved generic standard developed by a certified assessment organisation and which has been modified to suit the particular national context.

FSC certification – the process

Scoping

A scoping study was undertaken by a FSC certified assessment body in May 2000, to assess the degree to which Company systems and processes met the indicators as set out in the assessor's generic standard. A work program was developed by the Company to manage the gaps reported by the assessors in preparation for a full assessment.

A Company internal audit was subsequently undertaken to better understand the process and to assess the Company progress on managing the gaps in readiness for a full assessment.

The assessment process

Full assessment was delayed until Sept 2002 due to the purchase of another plantation business creating the need to integrate two management systems. An accredited FSC assessment body was chosen and the Company was consulted and given a limited degree of flexibility in the choice of the members of the assessment team.

The assessor's first draft of an interim standard was posted for stakeholder comment about six weeks prior to the assessment. This draft endeavoured to

capture regional aspects by incorporating within the generic standard, indicators found in existing standards such as the draft AFS and draft NZ standards.

The assessment team comprised of a team leader (US), a biologist and two foresters (Victorian) and a sociologist (NZ). Over an eight-day period the team reviewed corporate evidence, district evidence and field evidence and consulted with stakeholders while visiting a number of regional areas.

This was the first FSC assessment in Australia and consequently it was also a learning exercise for staff, assessors and stakeholders.

Reporting

The assessment team reviewed, analysed and reported its findings. A draft report was initially provided to the Company for comment to ensure factual accuracy and to provide any comments.

The assessment team's final report contains a public summary section which is posted on the assessment body's website as a key aspect of the stakeholder engagement and process transparency. The detailed findings section of the report remains with the forest manager.

The public summary includes the *Pre-conditions* and the *Conditions* placed upon the forest manager. *Pre-conditions* are requirements that the forest manager must agree to and address before certification can take place. *Conditions* are requirements the forest manager must agree to and which must be addressed during the period of the certification according to given time-lines. This is a normal and integral part of the certification process and is necessary to encourage the process of continuous improvement.

After the pre-conditions were met to the assessor's satisfaction a five year Forest Management Certification Agreement was signed with the certified assessment body in February 2004. An annual audit tracks the Company's progress on the conditions. HVP was the first major forest manager in Australia to achieve FSC certification.

All HTRG managed properties around the world are now third party certified under either the SFI (Sustainable Forest Initiative) or FSC standards.

Key areas for improvement

The benefits of certification from a forest management point-of-view, are the key areas for improvement as recommended by an external team. For HVP the key areas for priority attention became the control of weeds and use of weed control chemicals; the management of native vegetation within and surrounding Company plantations; stakeholder engagement surrounding Company planning and operations; management of riparian zones; and management of Aboriginal heritage.

The benefits of certification

Certification provides a Company focus for creating and maintaining a discipline of good forest stewardship and provides independent recognition of the improvements made. This helps develop and enhance a credible public image as a good corporate citizen and provides investors and potential investors verification of good forest management.

The certification conditions provide priority settings for improvement in the Company's operations as independently identified by external expert assessment.

Independent verification of good forest management systems and processes should engender co-operative relationships with regulators.

HVP expects to share market benefits that may emerge over time. There are currently only early and weak signs of any such benefit although major timber retailers such as Bunnings “will give preference to FSC-certified products...” (Feb 2003 Policy).

Certification may provide HVP customers a competitive advantage in weaker markets and should ensure that they can maintain a domestic market share if/when a demand develops for certified wood. Domestic timber processors of certified products may gain a competitive advantage over uncertified imports.

Some processors have been making regular inquiries on behalf of their customers and there is now a small number of FSC Chain of Custody certificates in place that will enable the sale of some FSC certified material.

Some Japanese paper companies have expressed interest in sourcing FSC accredited woodchips.

Costs

The cost of certification is difficult to define as many of the tasks are associated with good management practice and not specific to retaining certification. There are annual audit costs, assessor fees and FSC fees.

Ongoing costs to the Company attributed directly to certification conditions take the form of staff time costs, forest value loss through additional protection undertakings and some higher operational costs.

The work levels and associated costs must remain commensurate with the commercial benefits for certification to remain a worthwhile project within the Company.

Risks

There is a risk that third party affirmation of good forest management may, for some

stakeholders, loom as a threat to achieving their unrealistic claims and expectations. This could then result in an undermining of the forest certification concept as these groups dismiss the process and try to achieve their expectations by other means.

Certification is a driver for continuous improvement and for raising standards, however there is also a risk that stakeholder expectations and the raising of specified standards may exceed commercial reality which would then require a forest manager to review their position in terms of the costs and benefits.

Potential market benefits of certified products was not the only driver in the decision to seek certification for HVP, however if market benefits do not materialise, the enthusiasm of other processors and growers for certification will not be enhanced.

Smaller growers

While the experience outlined here has been that of a company with adequate resources to experiment with the costs, rigours and frustration of certification, small growers normally would not have this capacity. In the future this could potentially place these growers at an additional disadvantage in the market place.

Small growers are in part protected against this disadvantage by the FSC “percentage based rules” which allow a processor producing and labelling its products as FSC certified, to source a proportion of its input from non-certified forests.

Some certification bodies have a Group Certification model to reduce the costs of certification to individual small landowners. The model would enable certification of consulting foresters, resource managers, landowner groups and cooperatives etc.

A group manager would apply for group certification and would hold the group's certificate and would be responsible for ensuring that the requirements of the FSC standard are met. Members of the group would not hold individual certificates, but would have to comply with all the requirements.

FSC national initiative

FSC Forest Management certifications issued in Australia to this point in time, have all been assessed against a set of interim standards developed by their certification body as there is no Australian FSC national standard.

A FSC National Initiative is now established to develop an Australian Standard and promote the FSC brand. This development process is an opportunity for interested people to contribute to the standard and it will be important to have a balanced input from social and economic interests as well as the anticipated input from environmental interests.

Some certification issues for consideration

1. Some stakeholder groups in the forest debate as, in many debates, rely on the phenomenon of social fear, where fears are played on and small dangers are distorted to seem very large. The aim is to provoke emotional responses to generate support and power without any accountability for the accuracy of their claims. Certification threatens these power bases by providing independent assessors and an internationally agreed standard, thereby hopefully requiring discipline and accountability from the input of all stakeholders.
2. Certification is not a process for land use determination. It is a voluntary process that provides a platform for

assessing good forest management on land for which the use is determined by legal processes. Interpretation of definitions of "high conservation value" and what management should then apply, could become a proxy for land use determination within the certification process.

3. Certification is voluntary and is not a substitute for legal processes and requirements. It will not relieve regulatory authorities of their legal responsibilities even though some may see this as a form of industry self-regulation.
4. Audit team members are chosen by certification bodies on the basis of their experience in the fields of biology, forestry, sociology and perhaps other specific disciplines as circumstances require. Most companies in Australia will have a staff of professionals who, by the nature of their daily work and accumulated site-specific experience, have greater knowledge of the practical challenges than can any individual auditor. Few forestry auditors for example could be expert in all aspects of forestry (harvesting, nutrition, resource assessment, soils, fire ... etc) yet the assessment task requires them to provide findings and recommendations across all fields. Auditors must have appropriate currency of knowledge and experience and be technically correct in their findings, to maintain company and staff confidence in the certification process. As the acceptance of certification increases and more forests are assessed there will be an increasing demand for such experts.
5. FSC is currently reviewing the implementation of the FSC Principles and Criteria in plantations. There are divergent views amongst FSC members

varying from the continuation of the current certification of plantations, through to opposition to the certification of large-scale monocultures. The acceptance of plantations by many environmental groups in Australia as an efficient alternative to the harvesting of native forests, can be contrasted with the view of many northern hemisphere groups who promote careful harvesting of natural forests and view plantations as an undesirable form of forestry. The definition of plantations has been vigorously debated, particularly in relation to the status of those natural forests that are very intensively managed. Plantation owners have been very active in this review and will evaluate their options if the status of their certification is altered.

6. Associated with this plantation review is a review of the FSC Chemical Use Policy. There is considerable discomfort amongst the environmental interests in FSC regarding the use of chemicals in plantation operations, with an aspiration of eventually phasing out all use.

The FSC Chemical Pesticides policy is superficial and not based on sound science. The very complex interactions of chemistry, target and non target species, soil types, climatic conditions, advances in application technology etc appear to have been oversimplified to a "whole of world" policy, containing a listing of "highly hazardous" chemicals. This detracts from the standing of the FSC standard. National regulatory controls over chemical use for many countries including Australia are more sophisticated and allow greater innovation than this unresponsive and superficial policy. FSC has had this policy under review for almost two years. They appear to be struggling to meet the expectations of their

environmental members and the reality of a sensible balanced approach which promotes economically viable wood production.

7. The FSC certification process varies from the AFS process in relation to the role of stakeholders in the assessment. The FSC assessment actively includes consultation with stakeholders. Given the strong sense of support and ownership of FSC amongst environmental organisations, there is a strong potential for this consultation to be overly weighted towards the vocal elements within this sector and balance may not be achieved between the social, economic and environmental inputs. For reasons of balance, social and economic stakeholders, such as wood processors and employers, need to be encouraged to take a greater sense of ownership however this is only likely to occur when there are more tangible market based benefits to attract their interest. Wood supply chain companies such as processors, wholesalers and retailers are slowly beginning to take up Chain of Custody certifications so it could be anticipated that a higher level of interest and ownership will develop.
8. Having an external expert team provide an independent view of priority areas for improvement is one of the most beneficial aspects of certification. Audit reports by their nature can appear negative as they concentrate on gaps, failings and potential improvements. The language used in such reports can however still be uplifting and encouraging for company staff to promote ownership of the tasks required to meet the conditions. The same report can equally be written in language which is negative and demoralising for staff who despite their best efforts read only of their

shortcomings, receiving little credit for their efforts. This detracts from the enthusiasm to promote their certification.

Conclusion

Forest Certification is a useful concept for the forest industry as a whole as it:

- ◆ Raises the standards of forest management.
- ◆ Enables recognition of good management standards where they occur.
- ◆ Enables differentiation of good land management under forestry from other

less sustainable forms of land management.

- ◆ Differentiates wood products from well managed forests from those products which may be derived from illegal or unsustainably managed sources, particularly relating to imports.

The costs in time and resources to achieve and retain certification are high and over time this will need to be reflected in market premiums for the growers to ensure full acceptance.



