

# **Investigative Report on the Potential of Forest Stewardship Certification (FSC) as a Marketing Tool through Examining the existence of Price Premiums for FSC certified Timber**

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Agalawatte Plantations Ltd.

Horana Plantations Ltd.

Kegalle Plantations Ltd.

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## *Executive summary*

The Forest Stewardship Council (FSC) has introduced an international labeling scheme for forest products, which provides a credible guarantee that the product comes from environmentally responsible, socially beneficial and economically viable sustainably managed forest. The demand for certified forest products is on the increase particularly in Europe and UK. However, green labeling or forest certification is a fairly a new concept to Sri Lanka and at present, there are only a handful of companies who are FSC certified.

Most companies wish to join FSC scheme are uncertain about the benefits and opportunities they can derive through such scheme. Therefore it was necessary to conduct a survey on the benefits and opportunities mainly from financial perspective that FSC certification would provide a holder. Under the present survey, the views and ideas of representatives from all the FSC certified Sri Lankan wood based export manufacturers and plantation companies as well as parties who have interests in FSC certification scheme were gathered through questionnaires and interviews.

According to the findings of the present survey, price premiums seems to be difficult to find and elusive thing for most plantation companies. At present they do not enjoy any significant financial benefit because of having FSC certification, and they find it difficult to justify the cost of certification. But most of them believed that if the market mechanism is properly worked out and benefits spread through the entire supply chain FSC certified woods can fetch a better price in the market. For plantation companies it's the high end timber that would bring most financial benefits.

Respondents from export manufacturing sector had different views of the role of FSC certification as a marketing tool and the availability of price premiums for certified products. The findings of the survey suggest that some potential for price premiums exists in specific market niches and the financial benefit to the manufacturer depends on the supply chain to the retailer or the end market which the export manufacturer currently joined to. However most companies participated in the survey were disappointed in the present market benefits of certification.

Although most local wood based export manufacturers and planters don't have any significant financial benefit due to FSC certification, they remain optimistic about the future benefits it would bring and they are expecting the situation to be changed in the future. In addition, some respondents viewed FSC certification as a mechanism that can give a competitive advantage over another within the forest products industry.

For most of the Sri Lankan wood based export manufacturers, the cost of certification is not an extra burden since they are being sponsored by their respective overseas buyers to obtain the FSC certification. Respondents in this study also indicated that changes in forest management and production process they had to make in obtaining FSC certification were not significant, but FSC certification has improved their management and information systems (documentation) considerably.

Most companies suggested that the current standards of FSC scheme should be revised in accordance to the local conditions.

## **1.1 FSC certification**

FSC was created through a joint initiative by environmental, social and economic stakeholders with the goal of promoting environmentally responsible, socially beneficial and economically viable management of the world's forests. FSC is a means of linking environmentally and/or socially conscious consumers with like-minded producers, retailers and distributors. Wood products coming from FSC forest operations can carry the FSC label. Because these products carry the FSC label, consumers can easily choose to support well-managed forests.

Over the past 10 years, 42 million hectares in more than 60 countries have been certified according to FSC standards while several thousand products are produced using FSC certified wood and carrying the FSC trademark. FSC operates through its network of National Initiatives in more than 30 countries.

The FSC system is unique from other certification programs in a number of ways:

- FSC offers "chain-of-custody" certification, which means that retailers and wholesalers can make it clear to their customers which products have been made from wood harvested from certified forests. Other programs certify only the producer, not the product.
- FSC certified forestry operations must follow specific regional standards that have been drafted with full public participation and that are tailored to the local environment.
- FSC standards set out specific on-the-ground requirements for forestry operations, not just general principles or processes.

FSC standards reflect concern for both environmental and community sustainability.

## **1.2 Benefits of certification**

Generally spoken, FSC specifies three fields of benefits of certification: social benefits, environmental benefits and economic benefits.

### ***Social benefits***

FSC calls for participation of a diverse set of stakeholders in standard setting for forest management certification. These social stakeholders are through this process empowered with access, knowledge and voice in the debate on their livelihoods and work places. FSC is the only forest certification system that has developed a Social Strategy, to support the social component in forest management.

### ***Environmental benefits***

FSC's membership is committed to the conservation, protection and restoration of the world's forests and what they have to offer. FSC promotes forest management that conserves biological diversity in for example water resources, soils, fragile eco-systems and unique landscapes. FSC criteria protect threatened and endangered species and their habitats and maintain the ecological integrity and functionality of the forest.

### ***Economic benefits***

FSC considers forest certification as a market instrument. For retailers certification provides their consumer with a credible guarantee that the company is acting responsibly with respect to the environment and the social circumstances of those involved in forests and forestry.

## **1.3 Global Overview**

In Asia countries such as Indonesia, Malaysia and Myanmar are major exporters of timber products. Exports in Vietnam, Myanmar and Cambodia appear to be growing. Developed countries such as Japan, the US, and the EU are the major export markets for Asian products (ITTO, 2001).

The most highly traded timber products globally in 2000 were: (according to eco-labeling and certification in forestry – Issues relevant to use of eco-labels in ASEAN and towards global standards)

1. Paper and paper board
2. Furniture
3. Wood and articles of wood charcoal
4. Pulp of wood and printed books
5. Cork
6. Manufactures of straw

Demand for forest certificates is particularly significant in the UK's DIY (Do It Yourself) sector. There is also considerable political support in the UK for forest certification, as illustrated by statements of support for the 1995 Plus Group from UK Prime Minister, Tony Blair, and Prince Charles issued at the Group's Ten Year Anniversary Event held in November 2001. The strength of political support for forest certification partly reflects the fact that 40 percent of domestic forests are now FSC certified an area which includes all the UK's state-owned forests. With UK wood output set to double in the next 10 years, the UK forest sector is counting on domestic forests satisfying an increasing proportion of UK demand for certified wood. The UK government is also seeking to create demand for certified wood products through the implementation of environmental purchasing policies in the public sector. The UK Magazine 'Gardening Which?' did a consumer survey in April 2001, which showed that 76% of people responsible for a garden agreed that large retailers should only sell timber that comes from properly managed forests, with 50% strongly agreeing. The same research showed that 13% of all those interviewed remembered seeing the FSC logo on wooden products. Of those, 75% knew what the FSC logo stood for.

The UK Ethical Purchasing Index Figure shows that 3.4% of the total timber sales in the UK in 2000 were FSC certified. This represents £629m (of a total of £18,500m).

Both product certificates (for wood products) and process certificates (for the management of forests and the management of harvesting, trading and processing) are increasingly common in the Netherlands. Close to one-third of Dutch forests are FSC certified. The total availability of FSC certified wood on the Dutch market equals almost 7 percent of the total consumption. Recent research, undertaken by WWF in The Netherlands, shows that about 75% of Dutch consumers expressed that if they had a choice, they would prefer timber from well managed sources. This is however only a



preference and consumers may not put this into practice if they find price between certified and uncertified products.

Forest certification has been growing in the United States for more than 10 years, and the Forest Stewardship Council (FSC), has been on the leading edge of that growth. The emerging 'green' building industry perhaps the most significant of these market-based initiatives that preference FSC certified wood products.

#### **1.4 Need for the survey**

Sri Lanka is a developing country that is enriched with natural resources. Sri Lankan exports in the past have been dominated by the agricultural based exports. Timber and timber products have been a part of the Sri Lankan export range. Sri Lanka wood and wood based industry has a high potential to expand due to the traditional knowledge that has been passed through from generation to generation and due to the high availability of timber. Therefore wood and wood based sector can be identified as a sector that can be developed to increase its contribution to exports. Accordingly it is necessary to facilitate the Sri Lankan wood and wood based exporters to obtain the necessary competencies to face the high level of competition in international marketing.

In the recent past one of the major changes, especially in the European Union and USA markets, in customer preference on Timber and Timber products have been the interest shown by the customers to purchase products made out of FSC certified timber. This change in customer buying behaviour has pressurized the suppliers to provide products with FSC certification, which in turn has pressurized Sri Lankan exporters to obtain FSC certification in the context of international marketing. As a result the following exporters have obtained the FSC certification (chain of custody certification).

1. Beira Parawood Products Ltd.
2. Borwood factory (Kelani Valley Plantations)
3. First Furniture (Pvt) Ltd.
4. Islandwide suppliers (Pvt) Ltd.
5. Parquet Ceylon Ltd.
6. Ravi Industries Ltd.
7. Sirisanda Timber Stores

They have supported and pressurized their suppliers (Timber cultivators) also to get the certification. As a result the following cultivators of rubber wood have obtained the FSC certification.

1. Agalawatte Plantations Ltd.
2. Horana Plantations Ltd.
3. Kegalle Plantations Ltd.
4. Kelani Valley Plantations Ltd.

However, eco-labeling or forest certification is a fairly new concept to Sri Lanka and at present, there are only a handful of companies who are FSC certified. Most companies engaged in wood and wood based industries have realized the value of obtaining certification and that in near future it might become a non-tariff barrier. Having this background, the Sri Lanka Export Development Board together with CBI Netherlands has initiated a group certification scheme for Sri Lanka with IUCN (Sri Lanka), the Rubber Research Institute and the Forest Department. Since the concept of certification is fairly new to Sri Lanka, most companies are curious or unclear about the benefits and opportunities they can derive through such certification scheme. Therefore it was necessary to conduct a survey on the benefits and opportunities mainly from financial perspective that FSC certification would provide a holder.

The main objective of the present study was **to investigate the potential of FSC certification as a marketing tool through examining the existence of price premiums for FSC certified timber and wood products** and other advantages FSC would provide.

The views and ideas of representatives from all the FSC certified Sri Lankan wood based export manufacturers and plantation companies as well as parties who have knowledge and interests in FSC certification scheme, were gathered through questioners and interviews.

## CHAPTER 2

# FSC CERTIFICATION IN PLANTATION SECTOR

## 2.1 Introduction

At present, plantation companies primarily have their rubber wood plantations certified under FSC scheme. Therefore in the present study, mainly the rubber plantation sector was investigated and the results are presented here with discussions on the prospect of certifying other timber plantations.

Broadly speaking, 3 main sectors can be identified in Sri Lankan Rubber Plantation Sector.

- 1) Regional Plantation Companies
- 2) Medium scale holders
- 3) Small holders

About 50% of the plantations are owned by small holders. But at the moment none of the small holders are certified. Only 4 Regional Plantation Companies have obtained FSC certification, they are:-

	<u>Extent (hectares)</u>
1) Agalawatte Plantations	- 5099
2) Horana Plantations	- 2915
3) Kegalle Plantations	- 3546
4) Kelani Valley Plantations	- 4691

## 2.2 Objectives of joining FSC

In Sri Lanka it is the buyers of timber who have prompted the plantation companies to obtain certification. The buyers have sponsored the companies to get certification. All the companies have long term buyers who have a good solid relationship among them. Although it has been a buyer oriented certification at the start, now the companies believe that FSC can be used as a tool for sustainable forestry. The plantation companies use FSC to state that the company is acting as a socially responsible organization. Further FSC has enabled companies to be more systematic and organized in terms of proper and

methodical documentation in operational aspects such as use of weedicides and chemicals, provision of safety to workers and identification and numbering of pocket forests. Marketing and communication by these plantation companies on FSC is important as the Sri Lankan export manufacturers are beginning to learn about forest certification and what FSC means

### **2.3 Nature of output**

Most of the companies are selling standing trees whereas some plantations like Horana Plantations had a factory which was closed and Kelanivalley Plantation are having a factory where they produce Boron treated kiln planks and Kegalle Plantation is looking for the possibility of setting up a joint venture in order to obtain more benefits from FSC certification.

### **2.4 Demand for FSC certified timber**

Demand for FSC certified timber is on the increasing trend in the Sri Lankan export manufacturing sector. But the annual figures cannot be accurately produced due to many factors. The plantation companies state that they are unable to meet the demand currently. The determining factor for plantation companies in selling their timber is the price offered to them by the buyers and they will offer the timber to the party which offers the highest price.

Buyers of timber from these plantation companies can be categorized into 4; they are:

- 1) Merbok MDF Ltd.
- 2) Brush industry – comprising of companies like Beirs parawood, RaviIndustries, First furniture etc.
- 3) Other value added Export manufacturers like Parquet Flooring and Sirisada timber Stores.
- 4) Buyers for the purpose of fuel wood – Ex. Tea plantation companies.

When comparing these 4 sectors, due to the tax and other concessions enjoyed by Merbok they are capable of offering a high price for timber. The demand from plantation companies for timber to be used as fuel wood has also increased due to the increase in fuel prices. Sometimes they are capable of offering a higher price than export manufacturers.

The important factor to note in brush handle industry is that the margins are small but the industry is expanding. But in relation to completed brushes the situation is better and the finished brushes give a better price and higher margins. Due to the margins being small they are restricted from offering increasingly high prices to the plantations.

In relation to other manufactures like Parquet Ceylon Ltd manufacturing wooden flooring, they are restricted to one or few buyers and they are heavily dependent on these buyers therefore bargaining power of these manufacturers to get a premium or high price for their certified products is low which in turn restricts their ability to offer high prices or price premiums for certified timber.

Therefore the plantation companies currently don't enjoy a premium price for their certified timber and some companies state that they find it difficult to justify the cost of certification. Some plantation companies have stopped their harvesting activities because they didn't carry out proper replanting during the period of recession in the rubber latex industry in the nineties. As a result of all these reasons the FSC certified manufacturing companies sometimes find it difficult to obtain FSC certified timber, as plantation companies will offer their timber to the party which offers the highest price.

In this sector, inability to supply significant quantities of FSC certified wood is a constraint. The reason why the plantation companies are unable to meet the demand for certified timber is because inadequate production facilities like land and other resources.

## **2.5 Effects of FSC on Company profits**

Price premiums are difficult and elusive things. All the plantation companies stated that they are currently not enjoying a premium price for certified wood. Some plantation companies stated that they are not enjoying any financial benefit because of having FSC certification and that they are finding it difficult to justify the cost of certification. In most companies financial information on benefits solely due to FSC was not available as they had included them under performances of the sector that comprises of latex as well. But most of them believe that if the market mechanism is properly worked out and benefits spread through the entire supply chain FSC certified woods can fetch a better price in the market. For plantation companies it's the high end timber that would bring most financial benefits.

According to experts, for teak, there is a huge premium at the moment as there is for high value tropical timbers like mahogany (ITTO, 2003). If plantations are able to offer these certified timber, then there is a premium - though how long it will last will depend on how much of the timber will come onto the market and how quickly. This will tend to reduce the price premium. For rubber wood, pine and eucalyptus and timbers at the lower end of the market, the premium is very small or does not exist at all.

## **2.6 Costs associated with FSC certification**

The most significant cost of FSC is the cost of certification itself that is the initial certifying cost and cost of annual surveillances. Currently the independent forest certification is done in Sri Lanka by a commercial certification company, namely SGS Lanka FSC accredited certifier. The companies state that this process of certification costs heavily. And if that cost can be brought down by establishing a local certifier it will provide a huge benefit to the industry.

## **2.7 FSC and Competitive Advantage**

Most companies agreed that they enjoy a competitive advantage over their competitors due to FSC. And it was stated that FSC will be very important in terms of competitive advantage in the future. But other aspects such as product quality, reliability and price need to be up to the standard in order to FSC to act as a source of competitive advantage.

## **2.8 Some important points**

- 1.) Rubber is a plantation timber. Most estates in Sri Lanka are well managed (As stated by plantation companies) therefore very little is needed to be done in order to comply with FSC principles and criteria. But a heavy cost has to be incurred to obtain the certificate.
- 2.) The timber volume produced and the annual timber related export production from Sri Lanka is at a very low level when compared to other countries in the region. Most of the Sri Lankan export manufacturers are depended on one or few buyers, which limit their bargaining power for a premium price.

3.) The competitive environment of the Timber based industries has drastically changed in the past few years due to the entrance of a new MDF manufacturing company which has threatened the existence of other manufacturing companies due to its large capacity (Their maximum export capacity is 80 million kg of MDF/ year. In 2003 Merbok was doing 37 million kg) Merbok is buying most timber and raise their buying price very frequently. Therefore other rubber wood exporters are loosing orders because they can't compete for raw materials. Merbok can produce their products at a very low cost; they get energy and water for reduced prices from the government and are using low cost chemicals therefore they can allocate a major proportion of their cost on obtaining raw material. But Merbok is not a FSC certified company and therefore they do not require FSC certification from plantation companies. But there is a heavy demand for FSC certified MDF. Where as other FSC certified export manufacturers have to compete at global level with manufacturers in other countries and due to this their ability to pay a higher price is limited. As a result some of the FSC certified plantation companies are providing timber to non-certified companies because they offer a high price.

4.) The plantation companies have paid little attention on growing high end timber such as Teak and Mahogany which can generate a premium price if FSC certified. These timbers are only available in small quantities with the plantation companies. And even the little amount that is available is not up to export quality standards. This is an area where the plantation companies can focus on to gain financial benefits through FSC. A reason why the plantation companies have paid little attention to this area may be because of strict regulations imposed by the regulatory bodies on harvesting and transporting and exporting these timbers. Exporting these timbers in log form is not beneficial to the Sri Lankan timber industry.

If export manufacturers start using these timbers in high value added products the entire supply chain can benefit from it. At the moment there are only few companies engaged in large scale cultivation of these timbers. Ex. Touchwood etc. and Forest Department has a high acreage of these timbers. Getting these Forest Department plantations certified would be a good prospect.

**FSC CERTIFICATION IN WOOD BASED EXPORT  
MANUFACTURING SECTOR**

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**3.1 Introduction**

At present there are about seven FSC certified manufacturers in Sri Lanka who are involved in exporting wood based products. The present survey was carried out to cover majority of these industries. Most of the industries are involved in production and exporting of brushes and brush blocks made of rubber wood. Both FSC certified and non-certified products are being exported and the certified products are mainly exported to Europe, UK and Australia.

Unlike in the plantation sector, the respondents from export manufacturing sector had different views and ideas about the role of FSC certification as a marketing tool and the availability of price premiums for certified products. The findings of the survey suggest that existence of a price premium depends on the relationship between export manufacturer and the buyer i.e. the supply chain to the retailer/end market which the export manufacturer currently joined to.

**3.2 Export products**

As stated above, the main wooden product exported by the local industries are brushes and brush blocks from rubber wood. Ravi industries (Pvt) Ltd is the largest exporter and has the highest market share of all the local industries exporting brushes and brush blocks. Island Wide Suppliers Ltd and First Furniture (Pvt) Ltd are the other small to medium scale exporters. Apart from these products Parquet (Ceylon) Limited exports wooden flooring. Only a single manufacturer, Sirisanda Timber Stores has focused its attention on exporting products made from species other than rubber. They export trellis and lattice made from mainly *Alstonia* and other commercially usable species (*Sabukku* and *Durian*).

The certified wood comes mainly from the forests and plantations of four FSC certified plantation companies which are Agalawatta Plantations, Horana Plantations, Kegalle Plantations and Kelani Valley Plantations. However, one common factor for all the local



wood based export industries is that they are using low end timbers as raw materials where it is very difficult to find price premiums for such products in the international market.

### **3.3 Local wood based exporters pursue FSC certification**

Although there are several benefits of eco labeling, according to the findings of the survey, all the manufacturers have participated in FSC scheme due to one particular reason, which is the request and preference from buyers for certified wood products. The exporters have long term buyers for both certified and non certified products. Small scale exporters often have single buyer.

Some buyers are involved in supply chains to retailers who sell only FSC certified products particularly in UK, Europe and Australia. Therefore in order to secure the existing market, the export manufacturers needed to obtain the FSC certification and in most cases their overseas buyers had provided the necessary funds to get the FSC certification.

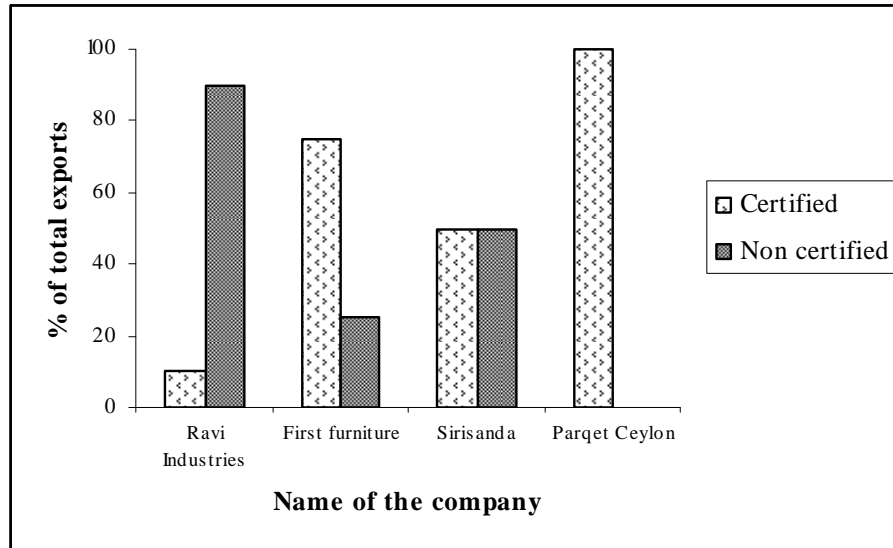
### **3.4 FSC certification as a marketing tool**

FSC considers forest certification as a market instrument. For retailers certification provides their consumer with a credible guarantee that the company is acting responsibly with respect to the environment and the social circumstances of those involved in forests and forestry. By applying the purchasing power consumers can promote sustainable forestry.

However from the findings of the present study it can be inferred that although it is intended that certification should be market driven, with educated consumers sending price signals through the supply chain to the forest and wood based industries, price premiums for certified products are not always guaranteed. Nevertheless, some potential for price premiums exists in specific market niches and the financial benefit to the manufacturer depends on the supply chain to the retailer or the end market which the export manufacturer currently joined to.

If we analyze the Sri Lanka's wood based exports to the international market, two different market lines can be identified; the environmental market (green or certified

products) and free market (non-certified). Local manufacturers supply their products to both these market lines. Figure 1 shows the annual exports by some manufacturers and the quantities supplied to each market line is given as a percentage of total exports.



**Figure 1:** Annual exports (%) of certified and non-certified products by some wood based export manufacturers in Sri Lanka

Most respondents participated in the survey were disappointed in the market benefits of certification and blamed this on the lack of end-user demand for certified products. The present demand is mainly coming from buyers groups who supplies to retailers and, if the certification is to be more effective, the demand should come from the end users.

At the moment niche markets exist for FSC certified products particularly in some of the European countries, UK, US and Australia. For instance Ravi Industries Ltd having the largest market share of all the local brush and brush block manufacturers exports only 10% of the total exports as certified products to UK and European countries. Rest is exported to countries such as Middle East, South Korea, Singapore, USA and Japan as well as UK and European markets where they don't require certification. This shows the limited markets available for certified products and the negligible impact in terms of financial benefits of FSC certification on large scale exporters. Therefore the manufacturers are not concerned about any value additions to gain further financial benefits from certified products and they are more focused on further development of products that are sold in the free market.

For most of the manufacturers involved in supply chains to supermarkets and retail shops in those countries, FSC certification is more a condition to fulfill rather than a marketing tool to gain higher financial returns. Although they are receiving 1-2% higher prices than that of non-certified products, it is merely enough to cover the cost of certification. Therefore, most export manufacturers didn't recognize FSC as an effective marketing tool. In addition certain respondents of the survey attributed the depreciation of the rupee against the dollar as a one possible reason for local manufacturers not getting the real financial benefits of certification.

However there are some exceptions as well and some small scale exporters who are involved in supply chains to certain markets seems to enjoy higher prices for their products exported under FSC label. For instance First Furniture (Pvt) Ltd which is a small scale manufacturer exports predominantly FSC certified brush blocks (75% of their total exports are certified products) receives a higher price than that for non-certified products and the buyer pays 1cts more for each certified brush block. At present the company is exporting about 4 containers per month, each containing 50 000 brush blocks and according to the sources they have a gross profit of US\$ 500 from each container. After deducting the cost of certification, they still have a profit around US\$ 300. This goes to show that price premiums exist in certain market niches and the financial benefit to the manufacturer depends on the supply chain which the exporter is involved to.

### **3.5 Demand and supply**

Despite the lack of price premiums for certified products, in general, all the wood based export manufacturers have a good demand for their products (both certified and non-certified) and they are finding it difficult to meet the current demand. This is mainly due to inadequate production facilities and shortage of certified raw materials.

Many respondents attributed the shortage of rubber wood to the consumption by the large scale MDF manufacturer MERBOK and small scale manufacturers are unable to compete with them for rubber wood. Most of them felt that their industries would face severe difficulties in the future due to this reason. In addition, hikes of fuel prices and electricity have resulted in plantation companies utilizing uprooted rubber as fuel wood particularly in their tea factories.

### **3.6 Cost of certification**

There is a cost associated with “green labeling” to include; separate inventories of certified and non-certified products, which increases the material handling cost, the costs of tracking the certified product through the system to the customer, (i.e. chain of custody), and the costs associated with becoming and remaining certified (Auditing and surveillance). The cost of verifying sustainability has increased the production cost by about 1-2%.

However, for most of the Sri Lankan wood based export manufacturers, the cost of certification is not an extra burden since they are being sponsored by their respective overseas buyers to obtain the FSC certification. Because most part of the cost of certification including annual auditing and surveillance costs are also covered by the buyer, it can be considered as a hidden or indirect benefit to the manufacturer (there are other benefits of certification rather than financial gains such as building the company’s image as an eco-friendly business).

### **3.7 Compliance with FSC standards**

FSC requires certain standards to be maintained if a company is to award FSC certification. Although the manufacturers didn’t have to make any significant changes to the production process, respondents especially from small scale companies felt that the current FSC standards are very strict and difficult to maintain in countries like ours.

Monitoring certified timber from the forest to the factory is the most difficult part unless the company has its own sawmills and treatment plants. If the timber are sawn and treated at private plants, then a special attention should be paid to prevent certified material from being mixed with others. FSC also concerns about the labour safety etc. However local workers are not always used to working in safety gears and, are reluctant to use such safety wear even though they have been provided the necessary facilities. Therefore most companies suggested that the current standards should be revised in accordance to the local conditions and business environment.

### **3.8 Attitude towards certification and the future opportunities**

Despite most local wood based export manufacturers don't have any significant financial benefit due to FSC certification, they remain optimistic about the future benefits it would bring and they are expecting the situation to be changed in the future. With environmental issues becoming more and more concerned, they think green labeling would become a must if they are to survive in the future market.

Another view of certification was that in free-market economy, every industry and business strives for competitive advantage, and certification offers the forest products industry an opportunity to gain competitive advantage by positioning its products favorably against products with higher environmental burdens. It also offers individual companies within the forest products industry the opportunity to gain competitive advantage over one another. At present, many companies use FSC certification as a testimony for their commitment to environmental protection, and introduce themselves as eco-friendly businesses.

Respondents in this study also indicated that FSC certification system is useful as a quality management system (such as ISO 14000) and, it has improved their management and information systems considerably. It has also helped them to reduce the wastage and production cost as well.

In the plantation sector, for most companies, price premiums seem to be difficult to find in the local market for FSC certified rubber wood. At present they are not enjoying any financial benefits due to FSC certification, and they are finding it difficult to justify the cost of certification. A properly worked out mechanism and improved communication throughout the supply chain is required to fetch a better price for certified products in the market.

The findings of the survey suggest that some potential for price premiums exists in specific market niches and the financial benefit to the manufacturer depends on the supply chain to the retailer or the end market which the export manufacturer currently joined to. However most companies participated in the survey were disappointed in the market benefits of certification and blamed this on the lack of end-user demand for certified products.

Despite most local wood based export manufacturers and planters do not have any significant financial benefit due to FSC certification at present, they view FSC as a potential scheme which would bring financial benefits and give them competitive advantage over the others in the industry in the future.

For most of the Sri Lankan wood based export manufacturers, the cost of certification is not an extra burden since they are being sponsored by their respective overseas buyers to obtain the FSC certification. Respondents in this study also indicated that changes in forest management and production process they had to make in obtaining FSC certification were not significant, but FSC certification has improved their management and information systems (documentation) considerably.

#### **4.1 Recommendations**

- At present, FSC certification is confined mainly to the rubber plantation sector in Sri Lanka. With the large scale MDF manufacturer MERBOK consuming most of the rubber wood, the availability of rubber wood for FSC certified export manufactures is questionable in the future. Therefore the proposed project should look to expand FSC

certification to the plantations of high end timbers such as teak and mahogany where there are price premiums exists at present.

- Cost of certification should be reduced in order to attract more wood based manufacturers and plantation companies to the FSC scheme. The proposed project should look to the possibilities of bringing down the cost by establishing local body for auditing.
- Current standards of FSC scheme should be revised according to the local conditions (environmental, social and economical background).
- With certification, other quality improvements such as introducing new designs, exploring new markets and building partnerships should be done to get price premiums and these will offer exiting opportunities for export manufacturers.
- When promoting FSC certification, it should not be viewed only as a marketing tool to find price premiums. Other benefits of FSC certification such as cost savings through improved production and processing, increasing overall efficiency through better management, deflecting negative image of the industry and contribution to environmental protection should be effectively communicated.

## **4.2 Limitations of the study**

It is difficult to come in to a broader conclusion which can be generalized to the whole mechanism of FSC certification since the present FSC certified Sri Lankan wood and wood based industrial sector is confined to four plantation companies and seven export manufacturers.

Most export manufacturers and plantation companies were reluctant to expose off the information on their financial gains and annual outputs etc because of the high competence in the industry. Therefore financial benefits of FSC certification couldn't be determined clearly.

Deviations in the capacity and nature of the value added products of wood based export manufacturers are incomparable.

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## Annexure

Sample questioner used in the survey to gather information

### Questioner to assess the potential of FSC Certification as a marketing tool in Timber and Wood based industries

1. Name of the company :
2. Products manufactured :
3. Products with higher demand :
4. Major countries of export :
5. Nature of the buyers :
  - Long term existing buyers : ( )
  - Different buyers each time : ( )
  - Other (please specify) :
6. What prompted the company to obtain FSC :
  - Buyers demand : ( )
  - Find new markets : ( )
  - Get higher prices : ( )
  - Environmental concerns : ( )
  - Other (please specify) :

#### 7. Details of products

Product name	Environmental market (certified products)			Free market (Uncertified products)		
	Unit price	Annual demand (qty)	Annual supply	Unit price	Annual demand (qty)	Annual supply

8. If the company is unable to supply the current demand for certified products what is the most important reason for it?
  - Inadequate production facilities : ( )
  - Shortage of certified raw materials : ( )
  - Difficulty to comply with FSC requirements (Forest plantations) : ( )
  - Other (please specify) :

9. Effect of FSC on company profits:(eg: % increase of profits after certification)

10. What level of value addition should be achieved to benefit most from FSC certification?

12. Costs associated with certification (If not joined FSC scheme yet, indicate the estimated costs)

Management / institutional	:	.....
Auditing	:	.....
Surveillance	:	.....
Other	:	.....

13. Future opportunities through FSC (*Future demand, targets, potential markets etc.*)

14. Do you have any advantage over the other competitors due to FSC certification?

15. Other comments