Distinguishing community forest products in the market

Industrial demand for a mechanism that brings together forest certification and fair trade

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Acronyms and abbreviations

ACOFOP	Asociación de Comunidades Forestales de Petén (Association of Petén Forest Communities), Guatemala
AFISAP	Asociación Forestal Integral San Andrés, Petén (Integrated Forestry Association of San Andrés, Petén), Guatemala
AGESPRON	Asociación Gremial de Exportadores de Productos No Tradicionales (Association of Exporters of Non-Traditional Products), Guatemala
APA	Environmental Protection Area, Brazil
ATIBT	International Technical Tropical Timber Association
CBFT	Community Based Fair Trade Producers, Papua New Guinea
CCMSS	Consejo Civil Mexicano para la Silvicultura Sostenible (Mexican Civic Council for Sustainable Silviculture), Mexico
CEPCO	Coordinadora Estatal de Productores de Café del Estado de Oaxaca (Oaxaca State Coordination for Coffee Producers), Mexico
CERFLOR	Brazilian Programme of Forest Certification
CIA	Central Intelligence Agency, USA
CMU	Central Marketing Unit, Papua New Guinea
COC	Chain Of Custody
CONAFOR	Comisión Nacional Forestal (National Forestry Commission), Mexico
CONAP	Consejo Nacional de Areas Protegidas (National Council for Protected Areas), Guatemala
CSA	Canadian Standards Association
DGIS	Netherlands Ministry of Foreign Affairs
EFF	Eco-Forestry Forum, Papua New Guinea
EU	European Union
FAO	United Nations Food and Agriculture Organisation
FLEGT	Forest Law Enforcement, Governance and Trade
FLO	Fair Trade Labelling Organisations
FMA	Forest Management Area, Papua New Guinea
FORCERT	Forest Management and Product Certification Service
FORESCOM	Empresa Comunitaria de Servicios del Bosque (Forest Services Community Enterprise), Guatemala
FPCD	Foundation for People and Community Development, Papua New Guinea
FSC	Forest Stewardship Council
FSC-IC	Forest Stewardship Council International Centre
FTN	Forest Trade Network (national component of GFTN)
FTO	Fair Trade Organisation (certified by IFAT)
GDP	Gross Domestic Product
GFTN	Global Forest Trade Network (coordinated by WWF)
IBGE	Instituto Brasileiro de Geografia e Estatística, Brazil
ICCO	Interchurch Organisation for Co-operation and Development
IFAT	International Federation for Alternative Trade (now International Fair Trade Association)
IIED	International Institute for Environment and Development
ILG	Incorporated Land Groups, Papua New Guinea

ILO	International Labour Organization
IMAFLORA	Instituto de Manejo e Certificação Florestal e Agrícola (Institute for Agricultural and Forestry Management and Certification), Brazil
INAB	Instituto Nacional de Bosques (National Forests Institute), Guatemala
INE	Instituto Nacional de Ecología (National Institute of Ecology), Mexico
INPE	Instituto Nacional de Pesquisas Espaciais (National Institute for Space Research), Brazil
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
LKS	Lesser Known Species
MDG	Millennium Development Goal
MFROA	Madang Forest Resource Owners, Papua New Guinea
MMA	Ministerio do Meio Ambiente (Ministry of the Environment), Brazil
NGO	Non Government Organisation
NSO	National Statistical Office, Papua New Guinea
NTFP	Non-Timber Forest Product
PEFC	Programme for Endorsement of Forest Certification
PRONACOM	Programa Nacional de Competitividad (National Competitiveness Programme), Guatemala
RBM	Reserva de la Biosfera Maya (Maya Biosphere Reserve), Guatemala
SBDC	Small Business Development Corporation, Papua New Guinea
SEMARNAT	Secretaría de Medio Ambiente y Recursos Naturales (Secretariat of the Environment and Natural Resources), Mexico
SFI	Sustainable Forestry Initiative
SLIMF	Small and Low Intensity Managed Forests (FSC initiative)
SMFE	Small and Medium Forest Enterprise
SNV	Netherlands Development Organisation
SOP	Standard Operating Procedure, FLO International eV
UCIRI	Union de Comunidades Indigenas de la Region del Istmo de Oaxaca (Union of Indigenous Communites in the Isthmus of Oaxaca), Mexico
USAID	United States Agency for International Development
VDT	Village Development Trust, Papua New Guinea
WTO	World Trade Organisation
WWF	World Wildlife Fund
ZUM	Zona de Uso Múltiple (Multiple Use Area), Guatemala

Executive summary

Introduction

Forest-dependent people face both poverty and marginalisation. Their difficulties are often much broader than low incomes. They have to do with powerlessness and insecurity, the absence of 'decent' work, geographical and social isolation, the degradation of natural resources on which they are particularly dependent, and cultural disintegration.

Forest enterprise of all sizes can increase incomes by selling products such as fuel wood, industrial round wood, primary and secondary processed timber products, non-timber forest products (NTFPs) or services such as tourism, watershed management or carbon sequestration. Policy and practice often favour larger scales of forest industry (e.g. large concessions) despite reviews showing little evidence of poverty reduction by large-scale commercial forestry. Forest certification has got to grips with sustainable forest management but has tended to buttress up the large at the expense of the small – without making a significant impact on poverty reduction.

Recent analyses suggest that it is small enterprises, especially those democratically managed by communities, which address the broader dimension of poverty. They accrue wealth locally and secure local forest access (thereby reducing tensions that come from external interference in resource use). They foster local entrepreneurship and often participate in and strengthen local associations with strong social and environmental aims. They usually respect local cultural traditions and can help to build local environmental knowledge and accountability. Fair trade has made great progress in supporting small community enterprises in developing countries but with little involvement in the forest sector until now. There is scope to do more with the complementary foundations of forest certification and fair trade in support of community forest producers.

Timber is perhaps the most commercially important 'community forest product' and therefore deserves particular attention in any new support. By 'community forest product' we mean forest products whose production is overseen by a democratically managed organisation suited to act as a certificate holder, that can claim legitimacy within a self-defining 'community' in terms of people and area – though not necessarily either owning the forest or carrying out all the commercial functions necessary to produce those products.

Community forest producers must match what the buyer wants, often in competition with other more powerful, better informed and financed enterprises. Support could usefully focus on a number of areas – such as improving rights for small enterprises, facilitating access to financial or business services, or opening up new market mechanisms. This report looks at the third of these options – to distinguish and reward community forest enterprises in the market.

A previous report, 'Exploring fair trade timber', described the potential and limitations of eco-labelling, social auditing, forest certification and fair trade for enhancing community forest

production. It noted the lack of detail about industrial demand to distinguish community forest products in the market. This report addresses that gap.

International industrial demand for a mechanism to distinguish community forest products in the market

There is little point in progressing further if no forest industries want to distinguish community forest products in the market. So what is the demand? Chapter 2 describes the results of an international demand survey using written and telephone questionnaires. More than 180 companies known for their social or environmental interest were approached in 25 countries. A total of 52 responses were received from 21 countries – including 16 companies in the timber trade, 19 medium to large-scale retailers and 17 specialist or niche firms.

Most company respondents perceived at least some demand for social and / or environmental standards from their customers. Most used social or environmental marketing as a result. All either had or planned to have an ethical sourcing policy. Almost half already sourced some timber products from communities (although often in tiny amounts). A small number had tried but stopped after negative experiences.

Over two thirds of all respondents approved in principle of the idea of 'distinguishing community forest products in the market'. This included 100% of the specialist firms, 73% of the timber traders and 56% of the medium or large-scale retailers (especially in the UK, the Netherlands and the USA). They saw a number of advantages, including their own competitive advantage, greater options for ethical consumers and a better deal for poor producers.

Most of the respondents did not wish to see any further proliferation of labels. They felt that any new mechanisms should maintain existing forest certification labels (such as the Forest Stewardship Council, FSC) or the fair trade label (of the Fair Trade Labelling Organisations, FLO). Some 60% of the respondents wished either to know more about piloting new mechanisms or definitely expressed willingness to pilot.

A separate survey of 11 firms already involved in different capacities with the fair trade of timber products (primarily craft and small-scale furniture) was also conducted at a meeting of the International Fair Trade Association (IFAT). All but one noted an increasing customer demand for knowledge about the sustainability of fair trade timber items. All but two of the respondents felt it would be a positive step to develop a mainstream mechanism to distinguish community forest products in the market. The main concern was that any new mechanisms should not exacerbate costs for community producers.

National case studies of demand for community forest products in Brazil, Mexico, Papua New Guinea and Guatemala

Four country case studies were chosen against a careful set of criteria to maximise their contribution to what was learned in the international demand survey. In each country, a short literature review to give background context was complemented by a series of more specific interviews with people along value chains that involved community forest producers. One value chain was selected in each country for more in-depth analysis. This value chain was

reviewed in terms of whether and how a mechanism to distinguish community forest products might emerge to the benefit of those involved. It is significant that in every case of successful community forest production, great progress was made first in the institutional structures and organisation that underpinned that production.

Chapter 3 looks in more depth at Brazil where sustainable community forest management is fast emerging. But it currently makes up only a small percentage of trade in a sector otherwise dominated by informal and often illegal trade in timber from forests converted for agricultural production. While Brazil has the highest area of FSC-certified tropical forests in the world, only 11 certificates pertain to community forest producers (and most of the certified community area is linked to one Amerindian extractive reserve for NTFPs). Fair trade is growing in the Brazilian forest sector but mainly for NTFPs such as Brazil nuts. Most certified community timber products are sold domestically – primarily to a Certified Products Buyers' Group – based in São Paulo. Interviews with the diverse members of this group revealed a general interest in distinguishing community forest products for the domestic market – especially among high end furniture designers, but also in the timber trade, and to a lesser extent in the architectural and construction industries.

The Brazilian state of Acre features prominently in the supply of sustainable community forest products. Four of the five FSC-certified communities in Acre have formed a producers' co-operative, Cooperfloresta, which subcontracts a local sawmill to process approximately 1200 m^3 per year from member producers. A recent development has been the supply of low specific gravity, light-coloured species to a local plywood plant, Laminadas Triunfo Ltda, which in turn makes composite boards for the European company Finnforest. The plywood company pays a 10% premium for FSC-certified wood (but nothing extra for community origin) and FSC-certified products currently make up 21% of the input. With potential expansion in the number of participating FSC-certified communities and improving business management there may be scope for real benefits to the poor from a mechanism that rewards sustainability and community ownership/management.

In Chapter 4 we turn to Mexico – remarkable in terms of the extent to which community forest management is the norm (80% of Mexico's forests are owned under a social tenure system based on agrarian community nuclei – ejidos). Mexico has also been a pioneer in FSC certification (its area second only to Brazil in Latin America). Mexico's 46 certified forest operations are all communally managed. Mexico also has a thriving fair trade movement with 67 organisations affiliated to FLO – especially for products such as coffee, honey and fruit.

The market for Mexican timber originating in sustainable community forest operations is largely domestic. While these markets have historically not placed value on certified sustainability or community origin, some exporters are beginning to experience pressure for such attributes. The FSC-certified Ejido Noh Bec in the state of Quintana Roo produces approximately 6000 m^3 annually (of which 1500 m^3 is Mahogany) – most of which is used to supply the separately constituted Noh Bec SPR sawmill/marketing unit. To date the main buyers of Noh Bec's Mahogany have been US companies such as Rex Lumber Company and Inter-Continental Hardwoods, but there is also a small niche market for Katalox in Europe. Finding international contacts, and having the organisation between communities to supply

the volumes that they might require is an area that requires further attention. Once again, a mechanism to distinguish community forest products in the market is widely seen as an important next step.

Chapter 5 moves to Papua New Guinea. Like Mexico, Papua New Guinea has a long history of attempts to make sustainable community forestry work. With 80–85% of its population in mostly forested rural areas, the scope for timber production to make a contribution to poverty reduction is high. But to date, primarily large commercial forest concessions have not lived up to this potential. Four community group certification schemes have attempted to provide an alternative model, but only two have survived, FORCERT and those of the Foundation for People and Community Development and Madang Forest Resource Owners. In contrast with other case study countries, the domestic market in Papua New Guinea is much more restricted – forcing such groups to look for export options, which may in turn be more exacting in the specifications required.

The striking aspect of the work of FORCERT, is the extent to which the geographical dispersal of member producers across four islands has sharpened its institutional model. This model involves separate producer members, supplying separate Central Marketing Units (CMUs) that then supply overseas buyers through a central brokering service, FORCERT. The model has been critical to aggregating the supply of high quality timber for export markets (primarily The Woodage in Australia). Now certified as a Fair Trade Organisation (FTO) by the International Fair Trade Association (IFAT), FORCERT operates a step-wise approach to community forest certification. This encourages producer members to join the network by giving them instant market recognition and premiums as 'Community Based Fair Trade Producers (CBFT)' tied in to eventual FSC certification – attracting a further premium in price. New members will be essential if the FORCERT network service is to break even as planned by 2010. Its current 29 producer members and four CMUs will need to expand to 50 producer members and seven CMUs, with substantial increases in export from the 2006 total of 134 m^3 to an anticipated 2010 total of 1500 m^3 with an increase in the levy on members from 3% to 7% this year to compensate for a lower than anticipated growth in production. Building recognition of FORCERT's work through a new mechanism that draws on this model to distinguish community forest products in the market would be welcomed by those involved.

Chapter 6 introduces the Guatemalan context. Guatemala stands out for the innovative devolution of control of 13 forest concessions to communities in the Petén – which was conditional on their becoming FSC certified. The scale of these community forest areas is substantial. For example, forecast volumes for nine of these concessions suggest logging volumes in the region of 15-20,000 m^3 per year with Mahogany making up just over 25% of this. Until recently these communities were operating on an individual basis, with eight separate and often inadequate sawmills.

Since 2004, a new Guatemalan Forest Services Community Enterprise (FORESCOM) was established as an umbrella organisation for its nine community concession members. The aim was to reduce certification costs through a group scheme and better coordinate production, processing and marketing. A dedicated processing plant was built to add value to basic sawn timber (e.g. producing parquet, cladding, decking, folding chairs, etc). FORESCOM has engaged

in business with nine companies – four from the USA, three from Europe, and one each from the South Pacific and Guatemala – and has started to participate in trade fairs (e.g. in Chicago in the USA). The stronger negotiation position of FORESCOM vis-à-vis its separate members has started to be felt in better prices, albeit without any identifiable 'community' premium. Consolidation of this model and increasing trust in collective action are expected to follow – along with increasing business capacity. There is a strong perception that a mechanism to distinguish community forest products in the market will strengthen this process.

Conclusions and ways forward

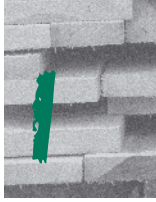
In Chapter 7 the report draws some final conclusions – based partly on the research findings, and partly on discussions at a final workshop on 1 October 2007 in Edinburgh, UK. The main conclusion is that there does seem to be significant demand for a mechanism to credibly distinguish community forest products in the market. This demand comes both from international and national buyers groups and from community forest producers themselves.

Practical examples of successful trade with communities throw useful light on two critical prerequisites for success. The formation of strong community business organisations is one. The need to develop community forest management and business capacity over time in a step-wise manner is a second. The experience of the fair trade movement in addressing these issues makes it logical to build better links between forestry and fair trade.

This research has shown that there are many existing examples of attempts to distinguish community forest products in the market. The challenge, therefore, is not to decide whether to distinguish community forest products in the market – it is how to do it credibly. With increasing community control over forests, companies will increasingly need to secure access to such forests. Developing mechanisms to assure that such access is to the benefit of the communities will become an increasingly important issue.

There is nothing intrinsically impossible about FSC and FLO working together to develop a mechanism for distinguishing community forest products. Indeed, there is much to recommend it. FSC even have a strategic mandate to do just that. What is needed now is for FLO to assess whether the development of a standard for fair trade timber is in its strategic best interest – and if not, how FSC might best be supported to develop such a mechanism on its own. A particular issue that needs more attention in either case will be to assess what institutional structures might be required to build capacity of community producer groups. Either way, funding will be required to develop or modify standards, strengthen the capacity of community forest producers, train auditors of those standards and inform potential traders and consumers of any emergent system.

The current status of community forestry and the institutional momentum behind the development of a mechanism to distinguish community forest products in the market represents a historic opportunity. It is the view of the authors of this report that this opportunity should be seized with both hands.



Introduction

Duncan Macqueen

1.1 Aims and methods

This report explores industrial demand to distinguish and promote sustainable and fair community forest products in the market. Its ultimate goal is poverty reduction – or more specifically 'to increase the returns to local communities from well-managed forest production'.

The research underpinning this report was coordinated by IIED and guided by a steering committee, consisting of Interchurch Organisation for Co-operation and Development (ICCO), the World Wildlife Fund International (WWF-I), the Fairtrade Labelling Organisation (FLO), the Forest Stewardship Council (FSC), the International Social and Environmental Accreditation and Labelling Alliance (ISEAL), and Forest Management and Product Certification Service (FORCERT). This report covers two main elements of this research:

- International industrial consultations to assess demand for distinguishing community forest products in the market.
- National case studies to explore the dynamics of domestic demand – the destination for most community forest products.

International industrial consultations were carried out in all continents. The Global Forest Trade Network (GFTN) mobilised its regional coordinators and national Forest Trade Network (FTN) managers to identify a range of company members – including both those trading with communities and those that did not. (GFTN is an affiliation of national and regional FTNs, each consisting primarily of companies committed to practising responsible forestry, or supporting responsible forestry through purchasing policies. It is an initiative of WWF). Additional companies were targeted on the recommendation of the steering committee and from IIED contacts made during the national and international project components.

National case studies were undertaken in four countries. The national contexts were selected on the basis of six criteria agreed by the steering committee:

- At least two geographical regions must be covered for credibility – falling outside Bolivia, Cameroon and the Mekong countries where examples from SNV will serve to augment this project's work.
- Extent of community certification by FSC – both successes and failures from which lessons can be drawn.
- Models of mature company community relationships from which lessons can be drawn (e.g. longer history of trading relationships preferred).

- Interested and ideally organised national or regional buyers groups for certified products.
- Examples available of community forest products being traded internationally through respondents to the international demand survey.
- Examples available of group certification schemes (or organised certified community groups).

Following a scoring exercise using these criteria, the countries that emerged in order of rank included: Guatemala, Brazil, Mexico, Papua New Guinea, Honduras, South Africa, Kenya, Nicaragua, Nepal, Costa Rica and Peru. The top four countries were selected for national case studies. Collaborative arrangements were then made with national partner institutions. IIED liaison visits were organised where needed to help develop an appropriate local survey methodology.

The findings from the international survey and the four case studies were circulated in advance of, and discussed at, a final workshop on 1 October 2007 held at the British Medical Association, Edinburgh, UK. A set of options for systems for a mechanism to distinguish community forest products was also discussed at that event (of which an internal report was also prepared – see Macqueen, 2007a). The discussions at that meeting have informed the conclusions presented in the final chapter.

1.2 Poverty and community forest enterprises in developing countries

Poverty reduction is the central aim of this research. It is always important to define what is understood by poverty. Poverty definitions have broadened over time – but dominant expressions of poverty often still refer to income (for example the Millennium Development Goals use less than US$1 per day to define poverty). Ease of measurement is a strong reason for such simplification. Nevertheless, most analysts now at least pay lip service to a broad multi-dimensional understanding of poverty (e.g. in the forest sector see Angelsen and Wunder, 2003). Poverty is often now defined as the deprivation of 'well-being' or lack of 'quality of life' (Sunderlin *et al.*, 2005). Well-being is sometimes referred to as 'flourishing' – and is personal in nature, measured by subjective indicators such as life satisfaction and personal development set in a social context (Shah and Marks, 2004; Shah and Peck, 2005). Quality of life has been defined as the extent to which objective human needs (or values) are fulfilled in relation to personal or group perceptions of subjective well-being (Constanza *et al.*, 2007).

The dichotomy between quality of life and poverty is a useful framework because it combines objective measures of what people value (involving multiple dimensions such as subsistence, security, creative work, social relationships, etc) with subjective measures of how happy or fulfilled their current status makes them feel within their own social context. In this paper, the following definition is used:

> *Poverty is the deprivation of quality of life – where quality of life involves perceived fulfilment of individual values in a particular social context.*

Many analysts have attempted to capture the value dimensions of quality of life in some universal way (see Alkire, 2002). While there are huge numbers of possible variations – most agree on at least six categories of value that humans aspire to (see discussion in Macqueen, 2005a; 2005b). Real and perceived satisfaction that these were being met adequately would constitute 'quality of life' while real and perceived dissatisfaction that these were not being met adequately would constitute 'poverty'. Table 1.1 assesses the potential contribution of forests in maintaining these values and reducing poverty.

Table 1.1 Potential contributions of forests to poverty reduction

Categories of 'value' contributing to QUALITY OF LIFE	Categories of 'deprivation of value' contributing to POVERTY	Potential CONTRIBUTION OF FORESTS TO POVERTY REDUCTION
1. Personal identity, faith and culture	1. Personal meaningless, lack of belonging, inability to express culture	Forest stewardship values contribute to our identity, cultural diversity and spirituality
2. Aesthetic and recreational appreciation of the environment	2. Limited capacity to study, enjoy or preserve the environment	Forest landscapes provide a learning environment, intellectual stimulation and leisure opportunities
3. Social relationships and networks	3. Isolation within or exclusion from society	Forest ownership and access rules foster local relationships built on social and environmental justice
4. Creativity and fulfilment of endeavour	4. Drudgery, exhaustion, helplessness, low self-confidence	Forest management provides various opportunities for creative endeavour
5. Security and freedom from oppression	5. Vulnerability, insecurity, fear and oppression	Forest policies ensure social, economic and environmental stability based on sustainable use and conservation
6. Subsistence for all life according to its needs	6. Hunger, illness, lack of shelter, pain, low life expectancy	Forest products and services sustain humans and interdependent living organisms/ ecosystems

It has been suggested that there is a correlation between chronic poverty and the remaining areas of natural forest (Sunderlin *et al.*, 2005). But when one looks in detail at some of the datasets from which such conclusions are drawn (e.g. Bird and Shepherd, 2003; World Bank, 2003), poverty is almost always defined only by monetary measures. So the multiple other dimensions of 'quality of life' are not considered – and these are known not to overlap particularly well with monetary indicators of poverty (Baulch and Masset, 2003). It might be the case that some categories of value in remote forest communities more than make up for the deprivations in monetary income. Without better data, it is impossible to tell.

What we do know is that there are very many people who depend on forest resources. Rough estimates suggest that 60 million indigenous people live in or are heavily dependent on the rainforests of Latin America, South East Asia and West Africa. A further 350 million people live

in, or close by, dense forests and rely on them for subsistence or income. And another 1.2 billion people in developing countries use trees on farm to generate food or income (World Bank, 2001). Rather than argue over how many forest-dependent people qualify as poor, it is perhaps more useful to understand the potential threats to their quality of life in each of the six categories of value listed in Table 1.1:

- Threats to cultural identity that arise because of central 'democratic' disregard for ethnic/faith minorities (e.g. the rights of indigenous peoples).
- Threats to education, environmental management and leisure that arise because mainstream systems of education fail to protect forest environments and often fail to reach remote areas (e.g. schooling often poor in remote communities).
- Threats to social relationships that arise because forest ownerships and access rules are defined by powerful elites in cities far distant from the forest (e.g. concessions negotiated with large trans-national firms without adequate local consultation).
- Threats to creative endeavour that arise because local forest jobs resulting from large-scale industrial approaches are often dangerous, menial, badly paid and poorly scrutinised.
- Threats to security that arise because forests are difficult to police and forest resources are appropriated by powerful interests, or 'open access' refuges for displaced peoples (e.g. political or economic migrants).
- Threats to subsistence that arise because forest areas are poorly connected to markets and basic services such as health, electricity, water and sewage.

There is clearly a high risk of poverty among forest communities – beyond monetary measures. Risks arise because forest communities are on the 'margins' of economic systems – and are sometimes (but not always) marginalised and impoverished by them. Recent analyses have shown that the mainstream model of large-scale commercial forestry often fails to deliver against expectations that it can contribute more to livelihoods and poverty reduction (Mayers, 2006). Small and medium forest enterprises (SMFEs) offer better prospects – especially when organised in associations or other forms of collective action (see Macqueen *et al.*, 2006b). They not only help to secure basic needs, but also accrue wealth locally, empower local creativity, depend on and reinforce social networks, strengthen local social and environmental accountability and preserve cultural niche markets (Macqueen, 2007b). SMFEs are not peripheral within the forest sector. In many senses they are the 'norm' – with estimates indicating that SMFEs make up about 80–90% of forestry enterprise numbers in many countries, and over 50% of all forest sector employment in many countries (Macqueen and Mayers, forthcoming).

Not all SMFEs are community based – but many are. In this report we refer time and again to community forest products. By this we mean forest products whose production is overseen by a democratically managed organisation suited to act as a certificate holder, that can claim legitimacy within a self-defining 'community' in terms of people and area – though not

necessarily either owning the forest or carrying out all the commercial functions necessary to produce those products.

It is important here to note the importance of community self-definition and democratic management in relation to poverty reduction. External management and investment can address some of the dimensions of poverty, for example by providing safer better paid jobs to address subsistence concerns, or by providing local schools and health posts. But external management is less disposed and able to fight against some of the threats described above. For these dimensions of poverty, a sense of community is an important consideration. In the sections that follow we explore how forest certification and fair trade might do more for community forest producers. Doing more might involve paying a fairer price to community producers – but goes far beyond that. It is also important to consider how new initiatives might strengthen a community's self-definition, business organisation and management capacity to address broader threats to well-being.

Responsible community forest enterprises and their associations can play a critical role in overcoming marginalisation within the prevailing economic system (Macqueen, 2007b). They can potentially address all the dimensions of poverty, for example:

- Enhancing mainstream recognition and voice for ethnic minorities
- Building local educational capacity to use and protect forest resources
- Strengthening local resource ownership and access rights
- Fostering local entrepreneurship and forest management skills
- Reducing tensions that arise from external interference in resource use
- Providing local income opportunities to develop community services

But they can only do this if local enterprises with the right business architecture (e.g. socially and environmentally accountable models rather than predatory for-profit elite models) can survive economically. As numerous articles have attested, SMFEs are often plagued by such issues as: insecure natural resource ownership and access rights, weak social stability and cohesion, little access to capital, poor market information, weak bargaining power, lack of technological know-how, geographical isolation and poor infrastructure and lack of knowledge of administrative and business standards and procedures (Donovan *et al.*, 2006).

In short, community forest enterprises need help in order to gain and maintain market access. They need more help than is currently being supplied by the major voluntary market mechanisms in the forest sector: forest certification, eco-labels, social audits and fair trade (see IIED, 2006 and Section 1.4). This report explores how forest certification and fair trade movements might work together to 'distinguish community forest products in the market' and thus provide one small piece of the necessary jigsaw of support to such enterprises.

1.3 Challenges for community forest enterprises to gain market access

Forest products come in a bewildering array of types – especially if you include NTFPs such as fruits, nuts and seeds, honey, gums and resins, cane and leaf products. But even timber products are diverse including categories such as:

- Fuel
  – Firewood and charcoal (rarely traded across borders)

- Industrial roundwood
  – Logs (frequently traded from developing countries and an easy access option for communities – but see important caveats below)

- Primary processed products
  – Sawn wood
  – Wood-based panels
  – Pulp for paper
  – Paper and paperboard

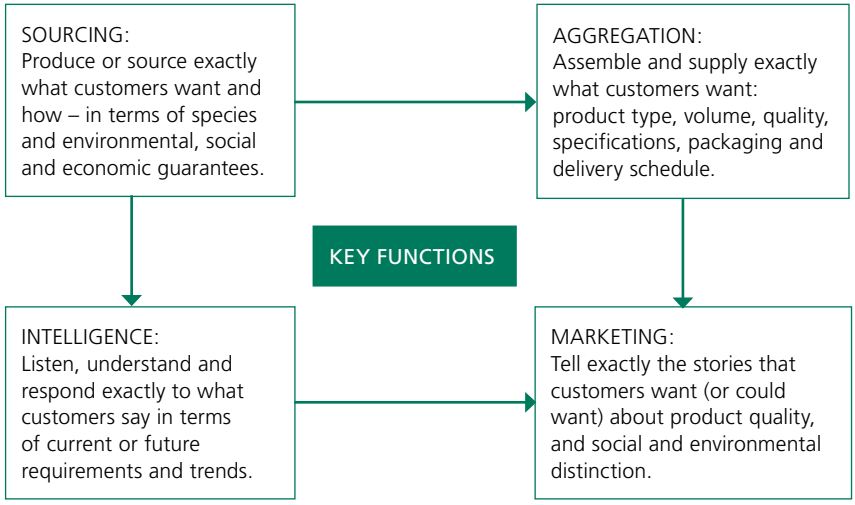
- Secondary processed wood products
  – Furniture and parts (e.g. chairs, office, kitchen or bedroom items)
  – Builders' joinery or carpentry (e.g. cellular wood panels, parquet panels, shingles and shakes)
  – Shaped wood (e.g. unassembled parquet, strips, friezes, tongued, grooved, beaded, moulded, rounded)

Myriad different timber species – hardwoods and softwoods each with their properties and suitability for use – require separate market analysis. There are many market chains, and it is important that community forest enterprises pick the right ones to enter, which they expect to be able to supply and continue to satisfy at sustainable levels from their resource base.

In other words, community forest producers need to look first to their resource base, then to buyers that would want to buy what they could offer, and then work to produce it. The market chain is the series of trade relationships that ultimately link the people who cut the tree with the people who buy the final product. The further one moves along the market chain, the greater the number of people who have added value to the product (e.g. transporting timber, drying it, sawing it, planing and sanding it, combining it with other materials, doing paper work for export) and the more costly it is if the final product cannot be sold. The market chain only works if all the different links or trade relationships work smoothly. If one fails, they all fail. Whatever link in the chain community forest enterprises want to take on, they must have the capacity to deliver what the buyer wants. For almost any type of forest enterprise, this requires certain key functions (Figure 1.1).

There are numerous possible ways in which a community forest enterprise can fail to deliver what the buyer wants (Kwisthout, undated). It cannot be overstated that *'buyers want what they have ordered'*. Practical experience suggests that particular attention needs to be given to

Figure 1.1 Key functions of any successful forest product enterprise



a number of issues – and that these should be considered in the design of any new market mechanism to support communities:

- Competitive pricing: This is obviously a critical element of market access and is considered in more depth below.

- Terminology: Understanding exactly what the buyer wants and what the producer can produce. For example, producers need to understand technical terms the buyer is using – what they mean – and why it is important. Buyers potentially have to meet a range of customer demands and legal requirements at their end of the market chain of which the seller must be aware.

- Two-way communication: As important as it is for producers to know buyers requirements, it is equally important for buyers (and anyone else further up the product chain) to understand the nature and limitations of production among communities. A very important part of this information is the resource base and the levels and species composition of any sustainable harvest. In other words it is critical that sufficient information is exchanged so that *'buyers should order what can be supplied'*. Getting communication right from the start can buy time, especially at the initial stages of a community enterprise – when trying to overcome problems of supply and quality. Handling updates, queries and complaints promptly and efficiently is a crucial part of this communication. Unforeseen difficulties may arise – but everything possible should be done so that the buyer is not penalised for them. Buyers simply will not come back if they are not alerted to potential problems or if their legitimate enquiries or complaints are ignored.

- Agreement schedules: Being able to deliver exactly what you have agreed to deliver on time over the duration of the agreement. Maintaining excess stock for bulky items like timber is

expensive, but enterprises further along the value chain cannot afford to run out of stock. Thus supplying what buyers want, when they want it, is crucial.

- Standardisation: Timber is a natural product with natural variations and defects and can be supplied in many different dimensions and qualities. So the timber industry has developed quality standards, known as grading rules. Timber is graded into a number of different classes, based on species, size and quality. The better the grade, the higher the value. Sticking to grading rules is essential to build buyer confidence.

- Packing and labelling: The cost of manhandling heavy objects such as timber means that careful packaging and labelling reduce costs. Getting it wrong will involve costs for the buyers that reduce the likelihood of repeat orders.

As noted above, pricing is a critical element of market access. An important general observation is that further along the market chain, raw material costs will make up an increasingly small percentage of the total costs. In other words, producers of low value industrial roundwood have to be much more price conscious than producers of secondary processed products such as furniture (Kwisthout, undated). It is worth noting some of the factors that affect timber pricing:

- Species: The range in price for different timber species is huge and depends as much on consumer awareness as physical properties and suitability for use. In other words, market prices vary by species, and the price reflects availability and demand. For example, in May 2007, Free on Board (FOB) prices for Ghanaian First and Second (FAS) sawn wood at dimensions 25-100mm x 150mm up x 2.4m up varied from 205 Euros per m^3 for air-dried Ceiba to 855 Euros per m^3 for air-dried Afrormosia (albeit currently illegal). Commodity prices do exist for timber species that are traded internationally. But buyers sometimes negotiate special deals for buying multiple species – and the final price is usually a matter of private negotiation.

- Product type, processing and storage: With transport costs high, making efficient use of the timber that comes out of the forest is an important priority. Increasingly, it is possible to use chain saw mills and portable circular and bandsaws to cut timber for grade in the forest, reducing transport costs and increasing the percentage of useable timber even in small operations. However, one problem is that producers often cut small dimensions so that the lumber can be carried. This reduces impact but also reduces value. Processing requires skilled knowledge of complex technology and saw maintenance. Use of offcuts and residues can also greatly enhance production efficiencies. For many tropical species sold to export markets, air-drying and kiln drying both add a further 20%. Having stock available to meet demand at times when prices are high can also improve profitability. Such options are all relatively capital intensive and require skilled staff.

- Grade: Timber pricing varies hugely with grade. For tropical timber, grading rules are published by the International Technical Tropical Timber Association (ATIBT, undated). In the USA, hardwood timbers are placed into several different grades – First and Seconds (FAS), FAS One Face (F1F), Select, 1 Common, and 2 Common (from best to least quality). Each has different specifications for the number of knots and defects that are permissible

and the width and length of timber available. Some products require higher grades. For example, doors and mouldings usually call for the higher lumber grades such as FAS or F1F, which yield longer clear lengths of timber, while the lower grades such as No. 1 and No. 2 Common may be better suited for furniture production where narrower and shorter clear pieces of wood are desirable.

- Extraction location: Timber is heavy and getting it out of the forest and into the sawmill and beyond is a major cost consideration. Many factors affect extraction costs, from the administrative costs for forest access, to the number of desirable trees per unit area, and the site conditions at the time of harvesting. Felling trees so as to maximise useable timber is critical. Ensuring that logs or other products are stored such that they do not decay is another basic starting point. Minimising damage to the remaining forest (Reduced Impact Logging) and planning extraction to ensure finding trees that have been felled are all further basic things to consider. Increasing transport volumes and arranging some form of back hauling to make best use of transport can also cut costs.

- Sourcing: The origin of timber may once have been of no concern, but times have changed. Governments are increasingly concerned about illegal logging, and consumers about social and environmental sustainability. The only reliable way of proving either legality or that particular social and environmental standards have been met is independent third party auditing. This can be costly. But the costs can be partially offset by negotiating improved credit terms – and by capturing 'social' or 'green' premiums from buyers. In some instances market access is conditional on meeting particular standards, which may be more important to producers than any premium.

As sourcing is an increasingly important consideration for many buyers of forest products – and has such an impact on price – we introduce below some of the main market instruments that inform buyers of the source of timber. It is worth noting that the tropical hardwood industry (especially) is not dominated by a small number of global players, as are the coffee or tea industries. The largest companies only have a few percentage points of market share (ILO, 2001).

1.4 Overview of how existing market instruments help community forest enterprises in developing countries

There are four main market instruments within the forest sector: forest certification, eco-labelling, social auditing and fair trade. A previous report identified those schemes with the highest potential to alter outcomes for community forest enterprises in developing countries: forest certification and potentially also fair trade (Macqueen *et al.*, 2006a). Eco-labelling was felt to be too costly, country specific and northern to allow access to developing country community forest enterprises. Social auditing was felt to be more applicable to large-scale processing plants than to small community forest enterprises.

Forest certification

Despite dating back to the foundation of the American Tree Farm System (ATFS) in 1941, forest certification has only really expanded internationally since the introduction of the Forest Stewardship Council (FSC) in 1993 and the Programme for the Endorsement of Forest

Certification (PEFC) in 1999, which recently endorsed the substantial areas of certified forest within the Canadian Standards Association (CSA) and the Sustainable Forestry Initiative (SFI) schemes. In early 2007, the area of FSC-certified forest was 91.8 million ha and the area of PEFC certified or endorsed forest was 195.9 million ha.

Both FSC and PEFC operate schemes through which small forest owners can better access certification. For example, the FSC operates a group certification scheme (FSC, 1998) which allows certification costs to be shared across multiple different forest enterprises organised as a group. This scheme has issued 37 certificates in the South covering 4,847,065 ha and 150 certificates in the North covering 2,544,313 ha (Smith, 2006). FSC also operates a Small and Low Intensity Managed Forests (SLIMF) scheme that reduces certification costs for eligible small forest enterprise (FSC, 2004). This scheme, which overlaps with the group certification, has issued 39 certificates, 19 of which for groups, covering 50,220 ha in the North (30 certificates) and 58,968 ha in the South (nine certificates). Neither scheme explicitly targets nor excludes 'community forest enterprises'.

PEFC operates both regional and group certification schemes. In regional certification, an authorised organisation for a region with defined geographical boundaries provides voluntary access for the participation of individual forest owners. For example, in Germany a national scheme has been endorsed (PEFC, 2004) which has issued 14 regional certificates covering 7.2 million ha involving 6,757 participating forest owners. PEFC also runs a group certification scheme, similar to that of FSC, in which a group of small or medium-sized forest owners is certified under one certificate. For example, in Norway, PEFC has endorsed the Norwegian Living Forests Standards and Certification Scheme (Indufor, 2000), which has issued 10 group certificates covering 9.2 million ha involving 44,371 participating forest owners. All of the PEFC groups and regional certificates to date are in the North – and so not available to developing country community forest enterprises.

While both schemes offer some cost reductions for small forest owners, neither scheme specifically deals with community forest enterprises in developing countries – indeed no such enterprises have yet been certified by PEFC. Neither scheme has historically allowed any differentiation between community forest products and large industrial products in terms of labelling – so ethical consumers have not been able easily to favour community forest enterprises in their purchasing. Fortunately, recent members' motions and board decisions within FSC have opened up considerable room to improve this situation (FSC, 2007).

Fair trade

The fair trade movement began in 1946, with the Ten Thousand Villages not for profit handicraft sales in the USA and in 1950 with the Oxfam handicraft sales in the UK. This emphasis on craft and more recently food is still prevalent in the International Fair Trade Association (IFAT) that formed as a membership organisation in 1989. IFAT certifies Fair Trade Organisations (FTOs) but not fair trade products (see Macqueen *et al*., 2006a).

The trader members of IFAT tend to sell products through a network of world shops – although many now also supply products to mainstream retail outlets. The craft products that are traded by IFAT members include forest products (either timber or non-timber forest

products). In order to qualify as an FTO, IFAT members must adhere to a number of criteria such as creating opportunities for economically disadvantaged producers, building capacity, paying a fair price and promoting decent working conditions (IFAT, 2005). It is clear that IFAT members do have a positive impact on community forest enterprises where they engage with them. But the volumes of timber involved are relatively small, and the product lines tend to be niche craft products rather than mainstream household items.

IFAT members who trade timber craft products source timber in a number of ways, some of which involve community forest enterprises (e.g. many Indian craft products are produced from timber originating in State Forest areas). A limited amount of this craft is now also sourced from FSC-certified forests (e.g. from Kenya; Jembe, 2006). In a discussion session on 'Emerging prospects for fair trade timber' on 13 May 2007, at the 7th international meeting of IFAT, members expressed concerns that consumers were increasingly asking about the environmental sustainability of craft sold by FTOs.

Presently, fair trade in forest products is exclusively the domain of IFAT-certified FTOs. The reason is first that IFAT is not about product labelling and that the Fair Trade Labelling Organisations (FLO), founded only in 1997 for setting product standards, has not yet developed a fair trade timber product standard. This means that there is currently no way to put a 'Fair Trade' label on any timber product. As a result, mainstream timber dealers cannot differentiate any products that they may be sourcing from community forest enterprises, even if they abide by generic fair trade standards (for further details see Macqueen *et al.*, 2006a). Fortunately, there is a well-established process by which new product standards can be developed should arguments about industrial demand and the likely impact on the poor prove persuasive.

In summary, both forest certification and fair trade schemes have yet to really engage with community forest enterprises in a coherent way. Forest certification has got to grips with sustainable forest management, but with limited impact on community forest enterprises in developing countries. Fair trade has made great progress in supporting community enterprises in developing countries but with little impact on forest enterprises. There is tremendous scope to do more by building on these complementary foundations. Encouragingly, it looks like progress is possible.

1.5 Key factors that make the development of market instruments for forest products challenging

Before exploring the evidence for demand for a new mechanism to distinguish community forest products, it is worth putting four of the more troublesome elements of the forest product trade firmly on the table:

- Forest ownership and tenure
- Forest types and sustainability
- Forest species, grading and pricing
- Forest markets and consumers of forest products

Forest ownership and tenure

The area of forest under community ownership or management in developing countries has doubled over the last five years to 25% of the total forest areas (White and Martin, 2002). The transition is driven by increasing awareness of indigenous and local community rights, increasing attention to community development where secure tenure is believed to be critical, and growing recognition that state forest management has often not resulted in good stewardship (White *et al*., 2007). Despite this encouraging assessment, it is often the case that devolution of property rights is only partly effective due to insufficient transfers of power and inadequate local institutional arrangements (Ribot *et al*., 2006). With highly differentiated structures within communities, confused tenure arrangements tend to undermine long-term investment in the forest resource and favour local elites (Hobley, 2007). Support to 'community forest enterprise' must therefore pay great attention to strengthening equitable patterns of tenure and decision-making within those enterprises if poverty reduction is to result.

Forest types and sustainability

Forest products can be derived from multiple sources: natural forest, plantations, off-cuts or even post-consumer waste (e.g. paper). Management requirements for sustainability differ hugely between these different forest types or recycled sources (see FSC principles and criteria). For example, plantations can be treated almost as agricultural crops with clear-felling followed by replanting. The main environmental concern is whether a plantation has replaced a diverse natural forest. If it has not, pantations are little different to agricultural crops, with similar issues such as application of chemicals.

Natural tropical forests, on the other hand, require much more complex management, usually involving selective felling of a few commercial trees, leaving the remaining forest intact. For example, in the Amazon forest there are in excess of 2,500 woody species, only a handful of which are exploited commercially. Sustainable management requires a detailed understanding of different species' abundance, growth rates and patterns of recruitment. This requires advanced management tools such as:

- Forest inventory (finding out what trees are present, in what size classes) so as to plan extraction routes and estimate supply volumes (see Lanly, 1973).

- Growth and yield modelling (to calculate how fast commercial species establish and grow – and therefore how much can be extracted on a sustainable basis – the annual allowable cut). This often involves collecting data from permanent sample plots over an extended period (see Vanclay, 1995).

- A forest management plan – that usually divides the forest area into annual harvesting blocks that are selectively logged in one year and then closed to further harvesting to allow natural regeneration of the forest. Conservation areas are often left uncut to ensure the maintenance of biodiversity, including the health of animal pollinators and seed dispersal agents.

- Reduced impact logging techniques – to minimise damage to the remaining standing forest (see Van der Hout, 1999).

There are a number of 'rules of thumb' that can be applied in instances where data or human capacity are lacking (e.g. restricting logging to a set number of trees per unit area). But these can involve significant environmental risks to the long-term sustainability of the forest. For this reason support to community forest enterprises needs to give considerable thought to the institutional structures that link ownership and management. Put simply, 'community ownership' need not necessarily involve 'community management' – it may be the case that contracted forest management organisations are best placed to perform the technical management functions. It is important not to exclude such institutional structures from any intended support to 'community forest enterprises'.

Forest species, grading and pricing

For plantation timber, single species grown under similar conditions result in product uniformity. For natural forests, on the other hand, there are a number of important commercial species, each with their own value. Profitable management of the forest requires that a certain volume of timber is sold at a certain price. If all of the sales are from a single species, it will be necessary to travel further and log more of that tree species in the forest for each unit of profit, risking commercial extinction. It is therefore always preferable in a natural forest to be able to harvest a greater number of tree species at lower volumes, reducing the impact on any single species and making harvesting more profitable per unit area. For this reason natural forest producers are usually very keen to develop markets for lesser known species (LKS). Sustainability and profitability are often enhanced by being able to sell a greater number of species, even if these are at a slightly reduced price. Programmes to develop fairer trade in timber need to recognise this. In effect, the resource inventory should form the basis of fair trade market development for natural forests. The total availability of all potential commercial species should be matched with existing and potential markets. Individual species (or species groupings) will each have a certain potential to meet or create market demand. A selection can then be made to focus on a more limited, but as wide as possible range of species to be marketed.

The complexity of timber grading and pricing are dealt with above in section 1.3. In the same way that timber producers benefit from selling more species, profitability and sustainability are also greatly enhanced if they are able to sell a range of different grades of timber. Recent experience in Papua New Guinea has shown how important it is to be able to sell the highest grades of timber to lucrative export markets – even if the bulk of the timber volume is sold locally (Dam, 2006).

Forest markets and consumers of forest products

A major difference between the market for forest products and that for food products (the mainstay of fair trade to date) is that consumers do not encounter most forest products on a daily basis. Everyone eats, and many use larger retailers almost every day, so the food market is a good place for fair trade to grow. But most people do not buy forest products other than paper regularly, and most of the forest products they buy are highly processed (e.g. a house with wood in it) or are actually bought by a professional buyer. In some ways this is a major disadvantage: the public consumer of forest products may not be as ubiquitous, informed and motivated as the food shopper. On the other hand, it may be a distinct advantage, in that a small number of professional buyers or specifiers (e.g. architects, or government procurement

officials) can have a disproportionately large impact on what they buy. Moreover, rather like ethical clothing, timber products have a much greater durability than food – and can form part of an individual's abiding public statement of their values.

The potential for community-differentiated products in the market will depend very much on the perceptions of consumers and the retail chain that serves them. To gain a better understanding of market opportunities, this research undertook an international demand survey, reported in the next chapter.

International demand for distinguishing community forest products

Emma Wilson
Duncan Macqueen

2.1 Aims and methods

Previous research on potential ways to do more for community forest producers through fair trade timber concluded that more information was needed about the demand from buyers for a mechanism to distinguish community forest products in the market (Macqueen *et al.*, 2006a). Such information was required firstly to justify any new mechanism and secondly to inform the development of any resultant standards or pilot schemes. This chapter summarises an international demand survey that was commissioned in order to address this information gap.

The consultations for this survey were carried out between January and August 2007. The survey focused on companies, not retail customers. It prioritised timber buyers (at different stages in the market chain) rather than community producer groups. It focused primarily on international timber buyers – as a complement to the national case studies that follow in Chapters 3–6.

The survey was based on a short questionnaire, prepared in English, French and Spanish. The questionnaire was designed to elicit the following information from companies (a sample questionnaire can be found as Appendix):

- Company activities and main product lines.
- Customer demand and other drivers for good social or environmental credentials, and consequent use of related advertisement imagery.
- Ethical policies on sourcing product lines (e.g. code of conduct, corporate responsibility guidelines, certification, eco-labelling, fair trade) and perceived market advantage of such policies.
- Experience of sourcing 'community forest products' and how this fits into the company's business plan and ethical sourcing policy.
- Perceived advantages of marketing 'community forest products', experience of or intention to distinguish such products, and associated challenges.
- Potential concerns about the design and ownership of any scheme to distinguish 'community forest products', and willingness to pilot such a scheme.

A total of 182 questionnaires was distributed and was backed up by email communication and telephone calls. A further 15 companies were contacted solely through telephone interviews – based on the structure of the written questionnaire. Fifty-two questionnaires were returned

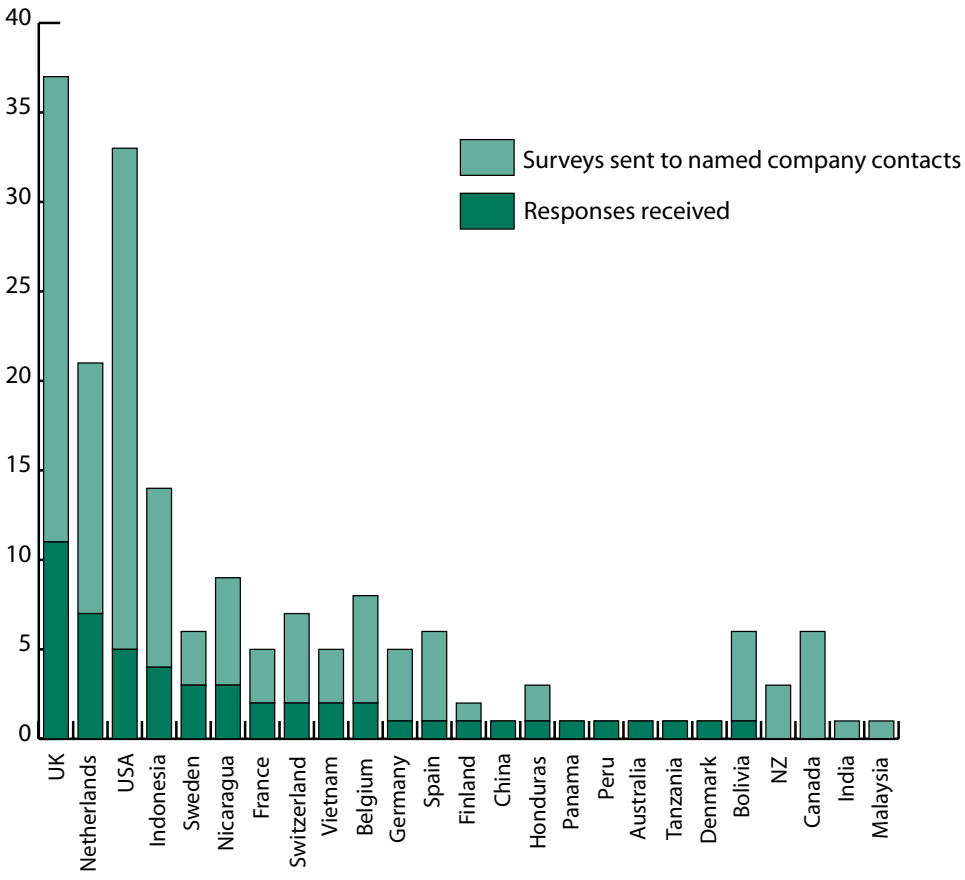
or transcribed from telephone conversations. This level of response itself indicates interest and concern over these issues.

The information provided by the companies was treated as confidential and generic information was extracted and compared across the companies. Respondents' anonymity was respected and protected through combining respondents into categories, described below.

2.2 Respondents

More than 180 companies were contacted in 25 countries. The geographical scope of the survey covered Europe, North America, South America, South and South East Asia, Africa and Australasia, with the strongest country representation from the UK, the Netherlands and the USA (Figure 2.1). The particular focus on Europe reflects that FSC certification and fair trade are well established and have strong consumer recognition.

Figure 2.1 Geographical scope of survey by respondent company



The survey targeted companies that had already demonstrated some interest in corporate responsibility (maintaining social and environmental standards) and familiarity with FSC. The GFTN mobilised its regional coordinators and national Forest Trade Network (FTN) managers to identify company members across the world who were asked to respond. All GFTN country managers became actively involved in the project. The FSC also sent out a request through coordinators of its National Initiatives to companies known to purchase from certified timber producers. Further efforts were made to reach companies through schemes such as the Tropical Forest Trust and the Rainforest Alliance – each with their own modular approach to FSC certification. Companies included those that were already trading with communities and those that were not. Further companies were targeted on the recommendation of the steering committee and via IIED contacts made in the course of project implementation. A specific effort was made to engage with some existing Fair Trade Organisations (FTOs), certified by IFAT, which already traded timber products from community producer groups.

The survey focused especially on companies trading in timber and timber products, as opposed to companies dealing in NTFPs (some of which were surveyed in the national case studies in Chapters 3–6). The companies who responded to the survey represented a range of sectors and sizes of operations within the timber industry, and serving different markets at the local, regional and global level.

For the purposes of this analysis we found it most useful to divide the respondents into three broad groups, according to the *markets that they serve*:

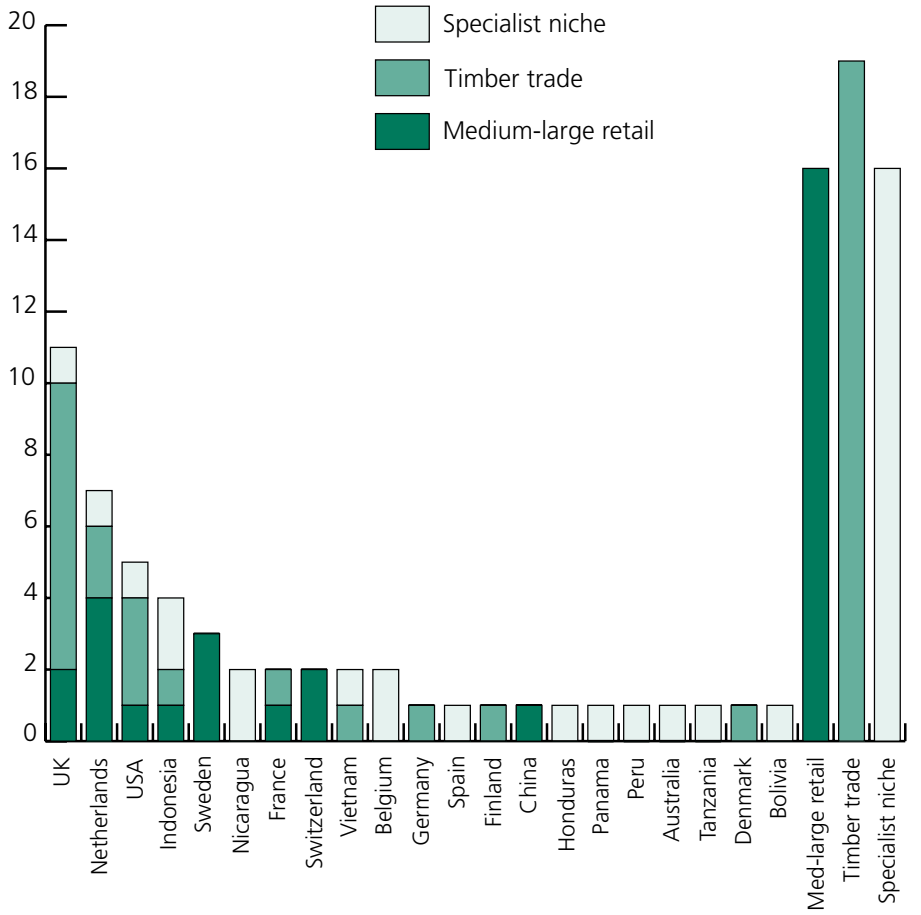
a) Timber trade (16 companies)
   The group of respondents serving 'timber trade markets' included timber importers and distributors, suppliers to timber importers, builders' merchants, and manufacturers of wood products for the construction industry (e.g. flooring, housing components and engineering products). This group also included one consultant to the construction industry.

b) Medium- to large-scale retail (19 companies)
   This group included retailers of processed timber, home improvement supplies, furniture and other wood products. We also included in this group a packaging manufacturer and manufacturers of flooring and furniture for sale in medium- to large-scale retail outlets.

c) Specialist niche (17 companies)
   The 'specialist niche markets' group included specialist furniture and home decor, crafts and other specialist wood product retailers, plus two community forestry co-operatives (one of which supplied local industrial processors) and one fair trade retail outlet. We also included an organisation providing sustainable forest management services to community forestry enterprises and a non-profit organisation facilitating trade in wooden crafts from community groups in Bolivia to Europe.

These categories are inevitably broad and include some unusual respondents. Figure 2.2 demonstrates the wide spectrum of opinion from a range of different company types at the more responsible end of the timber products sector. We have broken the data down by country with totals for each category shown on the right.

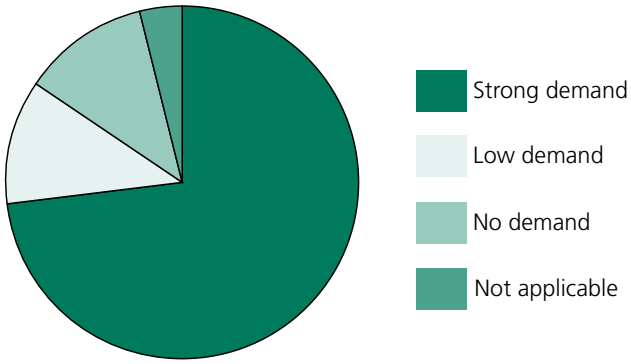
Figure 2.2 Markets served by respondent companies



2.3 Customer demand and resultant advertising strategies

We asked companies about customer demand for green and ethical products and their resultant marketing strategy (Figures 2.3 and 2.4). Responses depended largely on the size of the company and the type of market that they serve (see below). We should also emphasise that the companies themselves provided the perceptions of customer demand, as no customer surveys were carried out. Two respondents stated that this question was not applicable to them – the consultant to the construction industry and the non-profit organisation facilitating trade in woodcrafts from community groups in Bolivia to Europe – perhaps because they did not experience demand directly themselves.

Figure 2.3 Company perceptions of consumer and / or government procurement demands for social or environmental standards



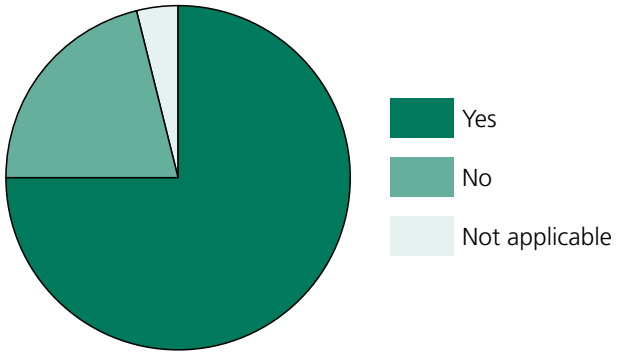
Timber trade markets

For timber traders, environmental standards were more important than social standards for their marketing strategies. They tended to report that demand from the end consumer was low. But there was strong demand for high environmental standards (legality and sustainability) from public procurement policies and major retailers to whom they sold. The perception was that this was primarily due to risk reduction – to avoid exposure by environmental NGOs. Some noted that the construction industry is increasingly requiring legally and sustainably sourced timber, as this is becoming accepted practice. Others reported that there was little demand from the construction industry in general, apart from smaller 'green' companies. On the whole, companies agreed that environmental awareness was rising: businesses increasingly want to 'look green'.

Given the channels through which the survey was launched, it is not surprising that the FSC standard was reported as the most common standard required by customers in the construction industry, though several respondents also mentioned that they used and / or required PEFC certification. Several respondents stated that FSC was not only their main standard but an important marketing tool. Some also remarked on the social elements of the FSC standard. Some timber traders had a website where their sustainability standard was prominent, including their company environmental policy (see 2.4 below).

Several traders reported that a major driver for responsible trade was NGO pressure. Other drivers for maintenance of high environmental standards included listings on the stock exchange (where investment screening is increasingly common) or wanting to recruit and retain good employees. A strong driver for some companies came from within, from the company's own employees and management. Some respondents reported how they or their colleagues had made efforts to promote a 'green' agenda within their company (due to their own personal values). One respondent also noted that things had improved for them when a new director arrived, who supported the internal efforts to promote green policies within the company.

Figure 2.4 Company use of environmental or social marketing as a result of perceived consumer and / or government procurement demand



Medium- to large-scale retail markets

Some major retailers reported that customer demand for FSC products was absent or low – or that customers were not willing to pay a premium for sustainable timber (although others reported they would, for example, in Switzerland). In some cases, customers were reportedly interested in the issues, but this was not reflected in the sales of sustainably sourced products. Some retailers, however, did report that their customers demanded FSC and other ethical and sustainability standards. One retailer reported that their customer services department is required regularly to explain their sustainable development policies to customers and the social and environmental conditions under which their products are produced.

In general, retailers tended to report that customer awareness was increasing (including in China and Indonesia). Some related this to their own efforts to promote FSC and other labels (especially in relation to furniture).

Another driver for maintaining high environmental – and social – standards was company image. Retailers noted that customers find overall company image more important than standards associated with individual products. One major retailer stated that their customers expect them to source all their products responsibly and sustainably. As noted above, NGO campaigns also had some influence on a company's desire to maintain high environmental and social standards.

Most major retailers reported that they used FSC and other standards in their marketing strategies, regardless of demand. Some reported that sustainable development issues are communicated in their sustainable development report, on their website and in other external communications.

Specialist niche markets

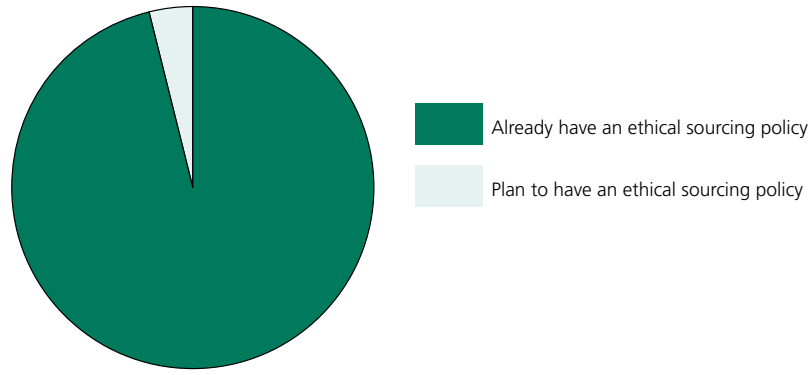
Companies that supply specialist niche markets (crafts, furniture and other wood products) reported strong customer demand for ethically and sustainably sourced wood products, and for companies to have strong ethical values. One respondent made the useful observation that specialists need to develop a strong brand in order to overcome price competition. Fair trade currently carries greater weight among consumers as a means to build a brand. Co-operatives selling to specialist niche stores (e.g. specialist furniture stores, flooring manufacturers and fair trade retailers) reported that their buyers required high environmental and social standards, including FSC to demonstrate sustainably sourced timber. One respondent commented that they use special labels to tell the story about where the timber is from and under what conditions it is produced.

From this survey and the national case studies that follow, local producers in Guatemala, Mexico, Panama and Papua New Guinea reported that demand was greater from their international trading partners than from local traders, as these countries have greater environmental and social awareness. This situation is, however, different in a country such as Brazil where prolonged environmental campaigns linked to the Amazon and a large middle class have seen the emergence of a Certified Products Buyers' Group operating out of São Paulo with high social and environmental preferences.

2.4 Ethical sourcing policies and perceived market advantage

The survey deliberately targeted companies that were already interested in environmental issues and corporate responsibility. Therefore, it was no surprise that all the respondents had some kind of ethical policy or planned to have one in the near future (Figure 2.5). For many companies (especially the timber traders), the ethical policy was a basic commitment towards sourcing legal or FSC timber. FSC was the most common certification scheme. Retailers were more likely to have social, human rights and fair trade policies. The timber traders tended to focus on environmental policies. Most of the companies surveyed displayed their policies on the Internet, though some placed a greater importance on this than others.

Figure 2.5 Company use of ethical policy for timber sourcing



Some companies (especially the retailers, but also the more progressive timber traders) had developed a more comprehensive suite of policies, including:

- Code of conduct or other company policies (environmental, social responsibility, human rights, responsible timber procurement, anti-corruption).
- Certification requirements (including not only FSC and PEFC but also SA 8000, fair trade, organic, Marine Stewardship Council, and other eco-labels) sometimes including step-wise approaches towards certification.
- Membership of voluntary groups (e.g. Timber Trade Federation / 'good supplier programme'; Wood for Good; IFAT).
- Monitoring processes towards better company environmental and social performance.
- Corporate social responsibility or sustainable development reports.

One timber trade company reported that they had set up their own foundation to support environmental and social projects in communities close to timber concessions. Some companies reported that they were developing environmental and social policies or had developed them in partnership with NGOs.

Respondents observed that market advantage was related to levels of awareness of environmental and social issues in the markets. In general, timber traders reported a higher but decreasing market for ethical procurement while retailers reported a lower but growing market advantage. Geographical region matters: one timber trader noted a greater market advantage in western and northern Europe, less in southern and eastern Europe and none in the Middle East. These trends are affected by numerous factors – including the resources available to environmental or social campaign groups.

Timber traders believed that their environmental policies helped them to position themselves in the market place, build trust among customers and gain access to government contracts. One timber trader reported that the market advantage for selling certified timber was greater earlier in the FSC process, when they were one of only a few companies able to offer certified timber. Similarly, another respondent noted that advantage is greatest when introducing certified sustainability within a particular product line for the first time.

Retailers believed their ethical and environmental policies enhanced their image as a responsible business, but market advantage was less apparent. One respondent supplying the retail market noted that their code of conduct may not provide a market advantage as yet, but it could be used to 'avoid being in a disadvantageous position'. One major retailer stated that they do not currently promote their ethical policies and that they are currently considering this 'missed opportunity' internally.

Market advantage also depends on the product. One timber trader reported advantages in terms of access to sensitive markets (e.g. hardwoods). Another trader noted that while

environmental policies may not always give a market advantage, they were still perceived to guarantee protection from NGO campaigns.

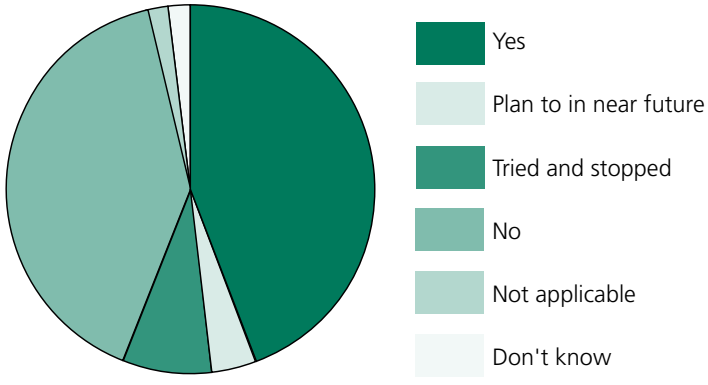
A Latin-American co-operative reported that their environmental and ethical policies helped them to develop trade links and allowed some flexibility in trade relations (e.g. acceptance of smaller quantities, delivery delays). However a similar co-operative noted that, while ethical policies provided educational benefits, they provide no market advantage, as the local companies themselves shoulder the costs of development and implementation.

Looking ahead, one timber trader predicted that public procurement policies would have an impact on market advantage. This was starting to become apparent in the UK and Europe, with some (slower) changes in Japan and the USA. In China, the respondent noted, changes were being driven by requirements for export to Europe. Another timber trader predicted that fair trade would be the next big issue to hit the timber trade in the next 5–10 years. This was echoed by a specialist niche company in the UK who noted the higher market recognition of fair trade in comparison with FSC certification. This differential is perhaps based on the fact that outside of specific countries like the Netherlands, FSC has done little work to promote the FSC brand to consumers.

2.5 Existing sourcing from communities

Almost half of the companies source community forest products, mostly timber from communities that were FSC certified or working towards certification (Figure 2.6). Since FSC does not currently label the origin, respondents must either have had direct links with producers or through the chain of custody. For the larger traders or retailers, the volumes from community sources were often a tiny proportion of their total trade. Four companies had some experience of sourcing community forest products but it had been impossible to make this a commercial success. Some respondents were not sure how to understand the term 'community forest products'.

Figure 2.6 Companies sourcing from communities



Current experience of sourcing from communities

Companies sourcing community forest products included co-operatives and furniture makers in Central America, a non-profit organisation with a sideline in sale of Bolivian woodwork, some larger companies serving the retail market and a number of timber traders. For the larger retailers and the timber traders, community forest products represent a small part of their overall trade. For the co-operatives and those serving specialist niche markets (e.g. furniture, crafts), community products were obviously central.

Companies and organisations sourcing community products do so from quite a broad range of countries, including Bolivia, Canada, Fiji, Guatemala, Honduras, India, Indonesia, Mexico, Nicaragua, Pakistan, Papua New Guinea and Peru. Markets were both local (Honduras, Nicaragua, Indonesia and Peru) and international, including Australia, Belgium, Finland, France, Germany, Spain, Sweden, the UK and the USA. The local markets included specialist furniture and crafts as well as, in one case, industrial timber processing.

Some companies noted that they did not directly source community forest products but their suppliers did. One major retailer noted that they had reduced their goal of sourcing 100% FSC timber to 70% specifically in order to accommodate sourcing from communities (working with suppliers in Bolivia). One timber trader noted that FSC's threshold system enabled them to continue to buy wood from local people close to their concessions (also in Bolivia) and sell it as mixed sources.

Some timber traders also reported helping communities to achieve certification, or in one case to develop other projects, including innovative use of timber industry by-products. This respondent noted that previously they had some problems marketing such products but that now 'the climate is better for this kind of thing'.

The non-profit organisation noted that they could offer financial benefits to the communities by not profiting themselves and not using an intermediary. In addition to benefiting the communities, their community trade line also served to raise awareness in their own country where these products were sold.

Negative experience of sourcing from communities

One timber trader reported that while they continued to trade with communities in Mexico and Guatemala, they had stopped working with communities in Zambia, Mozambique and Papua New Guinea. Another timber trader noted that they had tried to source from communities in the past in Cameroon and Gabon but had problems with transparency of the supply chain when trying to demonstrate legality. Two respondents representing major retailers noted that they had attempted to source from Papua New Guinea and the Solomon Islands respectively and had bought products for a few months, but the reliability of supply and quality issues had undermined commercial viability. One timber trader was planning to source from communities in Guatemala and would have liked to do the same in Mexico but was worried about political involvement and bureaucracy from federal, state and local agencies. The same trader also expressed concerns about the ownership structures in 'community' producer groups – and who really benefited from such trade. But such concerns could easily be dealt with by a careful definition of community linked to an explanation of how fair trade works.

One respondent from the timber trade explained that with a previous company they had pioneered the import and sale of community forestry timber, but this had turned out to be unsustainable for several reasons (elaborated in Kwisthout, undated):

- Disrupted planning and delivery due to managerial changes
- Limited availability of preferred species in the volumes required
- Unreliable transport from remote locations resulting in supply difficulties
- Low conversion efficiencies and product quality

It is worth noting that circumstances surrounding these experiences have since changed in some areas. For example, there are instances of growing managerial competence in community forest enterprises in several countries. There are increasing areas of community forestry from which preferred species can be sourced in significant volumes. Problems of transport and processing are being overcome. Several respondents therefore believe there is more scope today to have successes in such ventures.

Challenges to sourcing from communities

Several companies commented on the obstacles to sourcing from communities, even where the desire might be there to do so. These include:

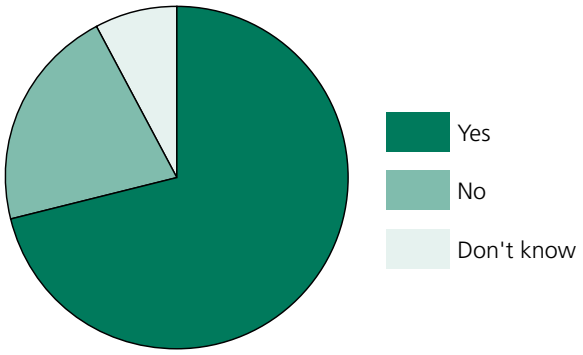
- The size of the shipments that they deal with: community forestry enterprises can generally only supply smaller amounts. For major retailers, the volumes that communities can supply may simply not be compatible with established purchasing policies.
- The nature of legal forest ownership in the source countries was also cited as an issue (in view of processes such as Forest Law Enforcement, Governance and Trade – FLEGT): most forests in developing countries were state owned or controlled by large forest lease agreements. FSC certification is of course only possible for legal timber and in those countries where the state owns most of the forests, as in Africa, legal use rights would have to be extended to communities.
- Transparency of the supply chain and demonstrating the legality of the source: many communities operate through intermediate brokers whose stock control is unreliable.
- Capacity of producers: problems frequently occur in delivery of the quality of product required, packaged appropriately and on time.
- Information: many community business partners fail to understand the basic requirements for information, including on different types of certification.

Some companies responded that they were interested in the possibility of sourcing from communities, but needed more information on the subject. One respondent noted how they were trying to help a community from which they sourced achieve FSC certification – but that this was unlikely to be possible without further external support.

2.6 Reaction in principle to distinguishing community forest products

Of the 51 companies surveyed, just over 70% responded that in principle they supported the idea of establishing a scheme to distinguish community forest products in the market place (Figure 2.7). Not surprisingly, 100% of the respondents that served 'specialist niche markets' were in favour of the idea in principle. The 'timber trade market' respondents were enthusiastic, with 73% supporting the idea in principle, while the medium- to large-scale retail market sector was slightly less enthusiastic, with 56% supporting the idea in principle. Support was spread widely among the countries included in the survey (Figure 2.8).

Figure 2.7 Company support for distinguishing products in principle



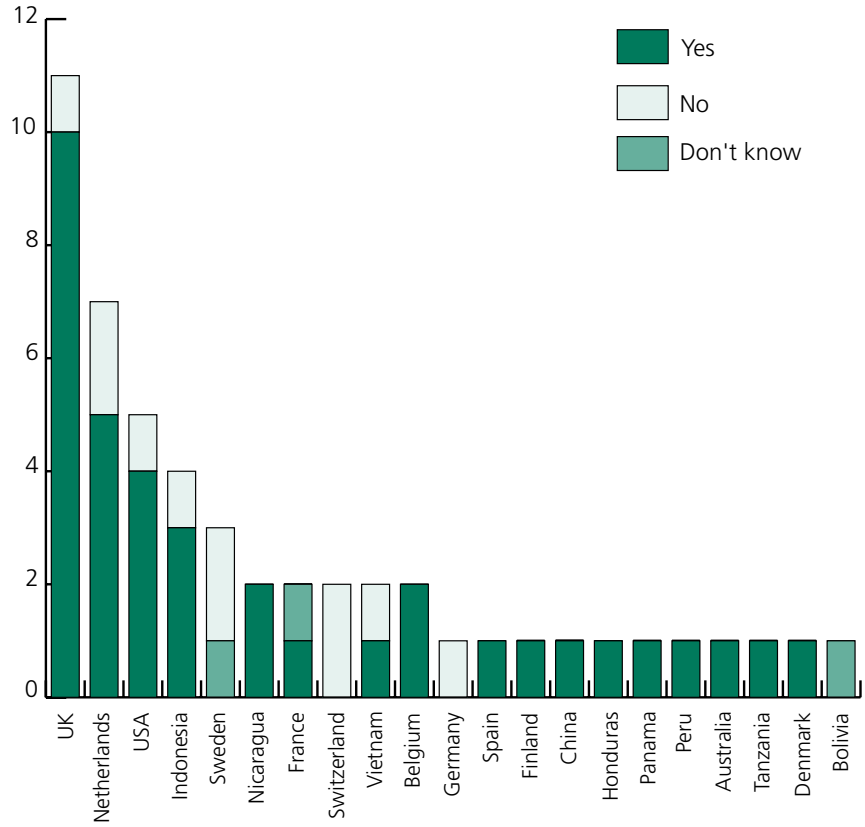
Perceived advantages

Respondents noted the obvious development advantages for communities:

- Increased access to markets and / or better prices and thereby enhanced livelihoods.
- Demonstration that communities can manage forests and supply timber sustainably, thereby building trust between trading partners.
- Potential for communities to add value to their timber if products such as furniture were included in the mechanism.

Some respondents felt that buyers would benefit via niche marketing opportunities. One respondent noted that there were lots of risks associated with sourcing from communities and a mechanism like this would increase the chance of customers reducing these risks by dealing with more organised community groups. Those companies that were interested in being involved in such a mechanism felt that there would be greater advantages for them if they became involved in such a scheme at an early stage. A major retailer and a timber trader both noted that if community groups were assisted to join a scheme like this, it would benefit them by increasing access to supplies of timber that are in short supply due to the current difficulties in obtaining FSC certification.

Figure 2.8 Support in principle for distinguishing community forest products in the market, broken down by country



In terms of benefits to consumers, some respondents noted that a scheme would provide ethical consumers with the opportunity to support sustainable use of forests. Any mechanism would increase consumer choice and would also serve to raise consumer awareness about the issues around community forestry. One retailer emphasised the opportunity such a scheme would provide to share 'stories' of specific forest-dependent people who have benefited, improving the sector's image. Creating a repository of such stories would help to demonstrate impact and attract greater market interest.

Concerns

Concerns about a scheme to differentiate community forest products in the market place focused largely on the capacity of communities to deliver the required standard of timber (see above on challenges to sourcing from communities). Some respondents felt that community production was likely to be incompatible with their current purchasing policies (including policies demanding FSC certification, which was difficult for communities). This is an important

point – one that would need to be addressed by substantial capacity building at community level and potentially a modular approach to FSC certification.

One respondent raised the question about whose responsibility it would be to support capacity building in communities, in order to meet the required standards of practice. Other respondents expressed concern about the cost of certification and auditing, which is a major obstacle to obtaining FSC certification. While SLIMF procedures can bring down costs substantially, uptake is slow and the subject of an ongoing investigation. Many of the respondents expressed concern about how central market concerns on legality and sustainability would be helped by such a mechanism. One European respondent noted that it might be difficult to convince communities to join such a scheme, especially if companies outside Europe were offering the same price for timber, but not requiring adherence to any standards.

Some respondents expressed concern about the economics of such a scheme. One retailer observed that it would not generate a profit margin significant enough to be economically sustainable for the private sector. A timber trader noted that the market would only bear a small premium; another that success would depend on keeping costs down; and another that the cost of bringing community forest products to market would be too high to make any scheme viable.

Traders and retailers noted that their customers – the drivers of the market – do not currently demand community forest products. In the retail sector, respondents noted that it was already difficult enough to interest people in FSC. Respondents also noted that there were already many standards and schemes, and there was a risk of confusing customers with a new one. One US respondent felt that there needed to be more work done to raise the profile of fair trade in the USA.

One timber trader went so far as to state that a scheme to distinguish community forest products in international markets was the wrong model entirely, and that the emphasis should be on bringing products to local markets in producer countries.

Public procurement opportunities

Several timber traders highlighted the importance of public procurement in setting standards for sustainability and legality in the construction sector, and promoting awareness and uptake of certification. A brief investigation into the potential to incorporate fair trade into public procurement of timber products demonstrated that there is limited scope for this, but some interest.

EU and UK law and WTO requirements would hamper efforts to incorporate 'fair trade' standards into timber procurement, through such requirements as: non-discrimination, value for money for the taxpayer etc. In the UK, 'fair trade' guidance exists for catering, but in the timber sector, only public procurement requires sustainability and legality criteria.

Potential opportunities to incorporate fair trade standards include informal communications, workshops for the procurement community and suppliers and contract management reviews (for long-term contracts). However, concern in this area focuses more on environmental sustainability than equitable economic benefits for producers.

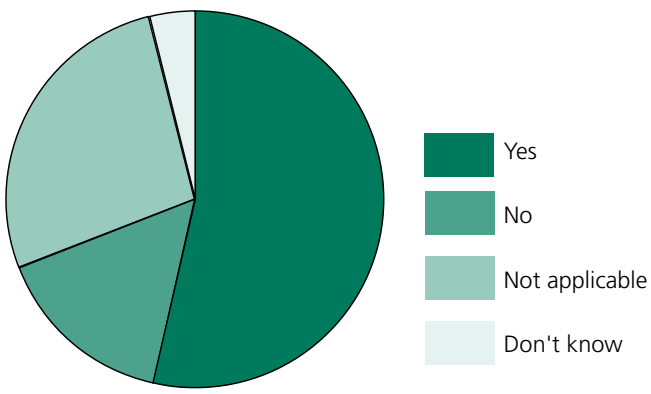
2.7 Concerns over design of system and willingness to pilot

Of those respondents who in principle supported the idea of distinguishing community forest products in the market place, most expressed a preference for using existing labels (Figure 2.9). A majority of respondents recommended combining FSC with the existing fair trade label to make such a scheme a success. They believed this would ensure efficiency, visibility, recognition and credibility in the market. Quite a number of respondents wished to stick just with FSC certification. Almost all agreed that this was the most trusted and reliable certification label in the forest sector at present. However, one respondent recommended avoiding creation of an FSC label that implied better social standards than the existing labels, which already incorporate certain social standards, as this would undermine non-community FSC products. This is a strong argument for separate FSC and fair trade labels.

Recommendations from respondents included:

- In a combined FSC–fair trade mechanism, set minimum standards, together with a set of progress requirements allowing community enterprises to gradually improve performance over time (i.e. a modular approach).
- Ensure that sustainability, legality and chain of custody are guaranteed as part of any minimum combined standard.
- Ensure that any mechanism is transparent and acceptable to all parties involved.
- Fair trade is more important as an argument than 'small scale' – and FSC should stick to the environmental side of things ('organic for forests') and not contribute to the muddling of fair trade labelling.
- Keep reporting and auditing to a minimum.

Figure 2.9 Company perceptions that a new mechanism should be restricted to existing FSC and fair trade labels



- Focus on capacity building, establishing an integrated network and good communication between its component parts (local producers, timber traders, retailers, consumers).
- Ensure there is funding for capacity building in timber production and entrepreneurial skills.
- Ensure reliable third party verification by trusted organisations.
- Ensure effective communication of the scheme to consumers, with simple messages that are easy to understand.
- Work on raising awareness locally as well as internationally. Local publicity and educational campaigns could help to promote campaigns to improve public policy in favour of local producers.
- Pilot the scheme with a focus on appropriate products. Open the pilot stage to a limited number of companies to maximise benefits and the impact of any price premium paid to community groups.
- Focus on creating a single, independent 'customer brand' with a single logo.

Potential piloting of a community forest products scheme

Just over 60% of the respondent companies expressed interest in piloting a 'fairly traded timber' scheme, or hearing more about the initiative with a view to potential involvement in a pilot study. These included companies primarily from the UK and the Netherlands, but also from France, Belgium, Denmark, Switzerland, Spain and the USA.

Some companies were highly enthusiastic. Several already felt they were pioneering relationships with community producer groups and that it would be helpful to have formal recognition of this fact. Others were much less advanced in this area. For example, some did not currently source from community groups but were interested in hearing more about the idea – and also about the costs that might be involved. Some phrased their answer in rather guarded tones, for example 'we wouldn't rule out being involved in piloting such a scheme'. Only 10% flatly said 'no' (including one who had tried and failed to market community products and felt that this was the wrong model) and did not wish to pilot such a scheme.

Among the companies interested in being involved in a pilot, some expressed the concern that it should not add additional regulations and costs to community groups. Some buyers wanted to be sure that fair trade timber producers would guarantee supply to them if they helped design the scheme. One respondent felt that PEFC certification might be more appropriate for fair trade than FSC and that this should not be ruled out.

Any new scheme would take time to gain recognition and some respondents felt that it would be best to start with high-value consumer end products rather than bulk traded products – i.e. products with strong stories attached. The transparency and independence of the organisations developing the scheme were felt by at least three respondents to be critical.

2.8 Input from existing Fair Trade Organisations on a new mechanism to distinguish community forest products

In addition to the consultation detailed above, a smaller consultation with Fair Trade Organisations certified by IFAT was held at the 7th International Meeting of IFAT on 13 May 2007 under the title 'Emerging prospects for fair trade timber'. IFAT members were invited to respond to a short consultation form to capture any concerns over a possible new mechanism to distinguish community forest products in the market. The 11 respondents included five fair trade retailers (three timber product traders from India and Kenya and two NTFP traders from the Amazon and Africa), one mainstream UK retailer (sourcing fair trade timber products especially for the Christmas market from India), three financial institutions (one supporting FSC wood exports from a co-operative in Honduras), one 'trades products linkage project' (between Papua New Guinea and Australia) and one fair trade producer company (producing wood products in India).

All but one of the respondents noted that there was increasing demand for information about the sustainability of the source of timber products that they produced, traded or financed. Three respondents noted that traceability was at least as important as sustainability in the first instance. Customers frequently asked where the wood came from. The mainstream retailer was aiming to move towards product sourcing that was both fair trade and now FSC certified – and wished to identify sources of such products. At present the other fair trade retailers had few other options than to ask their suppliers where the wood in the products came from, as FSC or any other certification was not routine.

All but two of the respondents felt that it would be positive to develop a mainstream instrument to distinguish community forest products in the market within the fair trade framework – with one remarking that FSC had been coming under increasing criticism for its failure to champion community interests.

The main concern from fair trade producers, retailers and financiers was that a new mechanism might marginalise some producers. The cost of certification was raised as a key issue. There was a strong preference for any 'fair trade' mechanism to focus on producer associations and not workers in larger companies or outworkers. One respondent had concerns over the political likelihood of either FLO or FSC surrendering control in order to achieve a joint audit procedure. Two respondents felt that the key would lie in adequate support to community producer organisations to meet the quality, volume and delivery requirements of the market.

To provide greater depth to our understanding of buyer demand for distinguishable community forest products, we undertook four country-specific demand surveys, in Brazil, Mexico, Guatemala and Papua New Guinea. These are discussed in the next four chapters.

Lessons from trade in community forest products – Brazil

Ana Patrícia Cota Gomes
Maria Regina Nouer
Mauricio de Almeida Voivodic

3.1 Background

The Instituto de Manejo e Certificação Florestal e Agrícola (IMAFLORA) carried out the Brazilian case study from March to April 2007. In addition to a review of relevant literature, it involved more than 30 interviews. Interviews included a range of community producer groups and their representatives within associations/co-operatives – especially in the state of Acre. It also involved interviews with a range of national buyers of community forest products at the local level and in major markets such as São Paulo (both timber and non-timber forest products) – plus interviews with knowledgeable government and NGO informants.

Besides the interviews, questionnaires were sent to members of the Certified Products Buyers' Group, which include about 65 representatives from the building construction industry, government agencies, corporate consumers, professional associations, timber industry, furniture makers and designers, pulp and paper companies, extractive products, etc.

The choice was made to focus only on legal timber and NTFP production, with particular emphasis on community producers with FSC certification. Informal production of community forest products, especially that associated with forest clearance, although representing a larger proportion of the market as a whole, was not included in the scope of this study.

3.2 Introduction to the Brazilian forest products trade

Timber production in Brazil is concentrated in the Amazon Region, whose natural tropical forest is an important source of raw material, and in the southern and southeastern regions, where forest industries are based almost exclusively on plantations. This case study focuses on the Amazon Region, which occupies an area of five million square kilometres, or 59% of the Brazilian territory (IBGE, 1997). About 33% of this area is under protection because it has been designated either as Conservation Units or Indigenous Territories; 24% is under private ownership; 10% can be considered as special areas, such as Military Areas and Environmental Protection Areas (APAs); the remaining 33% is made up of public lands, unclaimed or under legal dispute by private owners (Lentini *et al.*, 2005).

In 2000, the population of the Amazon Region reached 20 million people, concentrated mainly in the large state capitals of the region (IBGE, 2000). The rural population, which is much smaller, consists of traditional populations (riverside dwellers, *quilombolas*, rubber tappers, and indigenous people) and small rural producers, mostly immigrants from the southern and southeastern regions.

Deforestation in the Amazon Region continues at an alarming rate: 18,793 km² in 2005 and even higher in previous years (INPE, 2006). To date, the Amazon Region has lost about 14%

of its original forest cover, mainly due to farming activities related to the production of beef and soy (Nepstad and Almeida, 2005). Imazon, an NGO based in Pará, estimates that in 2005 the volume of wood logged in the Amazon Region reached 24.46 million m³. Data made available by the Brazilian Ministry for the Environment (MMA) indicate that around 80% of this production did not have proper authorisation and can therefore be considered illegal.

According to Imazon, 64% of the wood produced in the Amazon Region goes to the domestic market. The state of São Paulo is the largest consumer of this wood, which is used mostly by the building industry. In most cases, the production chain in the Amazon Region is characterised by informality and by the lack of control over the origin of the raw material by the industry. In general, logging is not carried out by the primary processing industry but by subcontractors. In addition, about 70% of sawmills do not own any forest and rely on independent suppliers to obtain the raw material they need (Lentini *et al.*, 2005). The vast majority of timber harvesting (98%) as well as primary and secondary processing (99%) within Brazil is carried out by small or medium forest enterprises with fewer than 100 employees (May *et al.*, 2003). Since more than 70% of forest harvesting firms comprise one to four employees, many of whom are completely informal, it is easy to see why control of the sector is challenging. Equally, it is easy to see how important it is to find mechanisms that make trade with such small enterprises sustainable and fair.

In parallel to this highly informal market there are a small number of industries that strive to adapt their management practices to current legal requirements. They also tend to invest in technology to improve the quality of their products and, therefore, get better market access. Legal land ownership and control over their forest activities are the two main factors that enable these enterprises to invest in better management practices and processing technologies.

This group includes forest companies that have adopted the mechanism of forest certification as a strategy to gain access to sophisticated markets and to add value to their products. The main forest certification scheme currently in operation in Brazil is the FSC, which has certified about 5.2 million ha, of which 54% are natural forests. These figures place Brazil as the sixth country in the world in certified area, the first in Latin America, and the country with the largest area of tropical forests certified by FSC (FSC, 2006).

Besides FSC, there is also the Brazilian Forest Certification Programme, CERFLOR, established in 2002 by The Brazilian Society for Silviculture in partnership with industry associations, higher learning and research institutions, and some NGOs (INMETRO, 2007). Today, seven forest enterprises are certified by CERFLOR, with a total area of 841,000 ha, including one company that manages 79,000 ha of natural forest in the Amazon Region.

3.3 Main community forest product lines and markets

Much of the timber produced in the Amazon comes from legal or illegal conversion of forest land within agricultural settlements of different types and sizes (Macqueen *et al.*, 2004). For example, approximately one-third of all wood produced in the Amazon Region comes from areas belonging to small producers that were settled under government colonisation projects along the agricultural frontier or fronteira agrícola (Lentini *et al.*, 2005). Usually, local lumbermen that buy the rights to cut the forest on settlement lots do logging in these areas. Given the informal (and sometimes illegal) nature of this relationship, the authors did not consider the wood coming from these areas as part of this study.

There are other models of rural settlements in Brazil, created to provide legal support to land ownership rights of traditional populations already living in the region: Extractive Reserves, Sustainable Development Reserves and Extractive Settlement Projects. By definition, these areas are based on the premise that the sustainable use of forest resources, both timber and non-timber, must be the main activity for generating income for the families living in the settlement. Around 100 such settlements occupy 20 million ha in the Amazon Region.

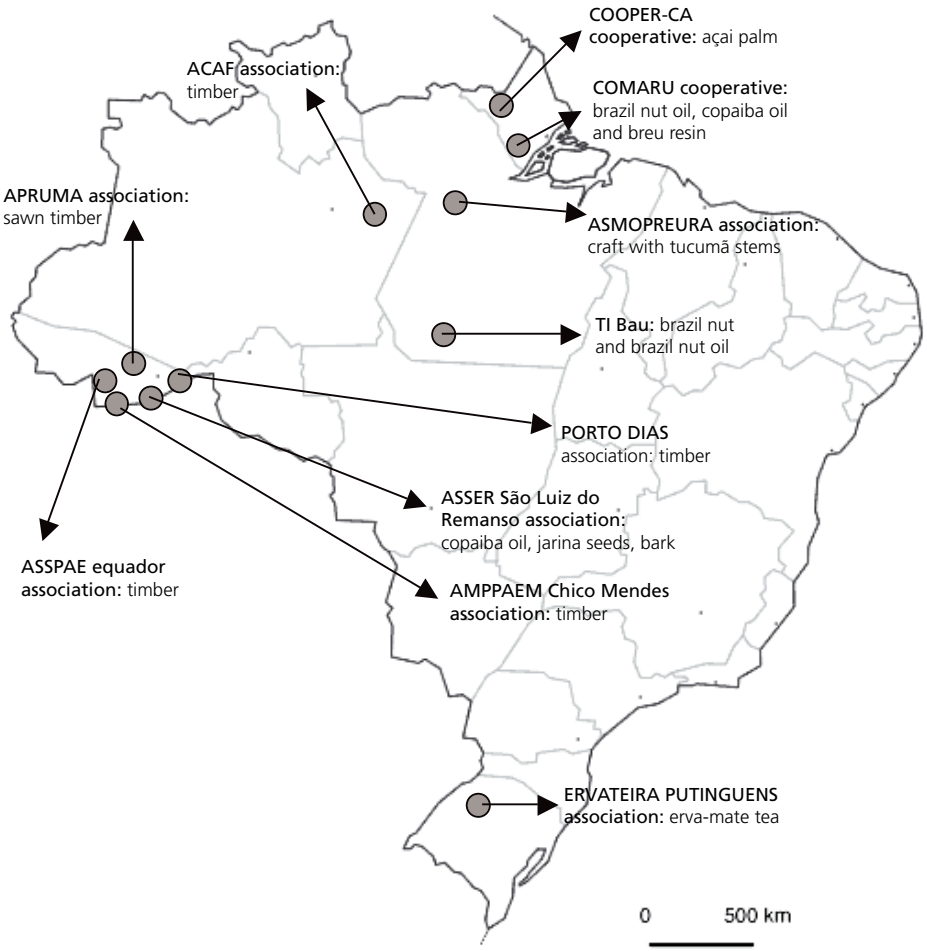
Gathering of NTFPs in these areas is a traditional activity that not only provides communities with basic items for their subsistence (food, natural medicines, etc), but it is also one of their main sources of income, communities selling them at informal markets in local towns. A significant portion of this production also supplies the cosmetic and pharmaceutical industries and is used in clothing and in arts and crafts. There are many initiatives to formalise the NTFP production chain, to add value to the products and optimise benefits to communities. These include fair trade, and organic and FSC certification.

Traditionally, the use of timber by these populations has been much more for subsistence rather than for commercial sale. However, in the last two decades, this has changed. The low prices of extractive NTFP products and the strong pressure for new agricultural land have induced community organisations, governments, NGOs and donors to look afresh at forest management as an alternative for income generation that would also encourage the maintenance of the forest cover (Amaral and Amaral Neto, 2005).

Community forest management for timber production purposes has increased rapidly: from few more than a dozen initiatives in the 1990s, today in the Brazilian Amazon Region there are more that 300 community forest management plans already approved or in the process of preparation and approval (Amaral and Amaral Neto, 2005).

This growth in community forest management has been accompanied by an increase in the number of certified community forests in the Brazilian Amazon Region. This increase is apparent when one considers that the first community certification in the Amazon Region took place only in 2002 and that, today, there are 11 FSC-certified communities in Brazil, with a total forest area of 1,585,000 ha (Figure 3.1 and Table 3.1).

Figure 3.1 FSC-certified community forestry in Brazil



The quest for certification at community level usually has its origin in pressure from buyers or support from NGOs who offer technical assistance towards certification as a means of adding value to community products. The expansion of community certification is due to the strengthening of community management as a whole (Amaral Neto and Carneiro, 2005), as a result of a better political environment and improved technical assistance from government and NGOs (Voivodic and Freitas, 2005). All of the 11 communities certified by FSC in Brazil have been classified as eligible for the SLIMF procedures, which slightly reduces the complexity and cost of certification to FSC standards.

Table 3.1 FSC-certified communities in the Amazon					
#	Community	Kind of product	Products	Certification date	Total certified area (ha)
1	Assoc. Moradores e Produtores do Projeto Agroextrativista Chico Mendes – AMPPAEM	Timber	Logs and sawn wood	2002	1,900
2	Associação dos Seringueiros de PORTO DIAS	Timber and NTFPs	Logs, sawn wood and copaiba oil	2002	4,208
3	Associação dos Produtores Rurais em Manejo Florestal e Agricultura – APRUMA	Timber	Sawn wood	2003	800
4	Associação dos Seringueiros da Reserva Extrativista São Luiz do Remanso – ASSER	Timber and NTFPs	Logs and sawn wood, copaíba oil, jarina seeds and bark of harvested logs	2004	7,205
5	Coop. Mista Extrativistas do Rio Iratapuru – COMARU	NTFPs	Brazil nuts, copaíba oil and resin of breu	2004	21,380
6	Associação Comunitária Agrícola de Extratores de Produtos da Floresta – ACAF / Comunidade do Menino Deus do Curuça	Timber	Logs and sawn wood	2005	2,400
7	Associação dos Produtores do Projeto de Assentamento Agroextrativista do Seringal Equador – ASSPAE-SE	Timber	Logs and sawn wood	2005	2,200
8	Cooperativa dos Produtores Agroextrativistas da Reserva Extrativista do Rio Cajari "COOPER-CA"	NTFPs	Acai palm heart	2005	990
9	Comunidade Kayapó na Terra Indígena do Baú – (TI-Baú)	NTFPs	Brazil nut and brazil nut oil	2006	1,543,460
10	Associação dos Moradores e Produtores Rurais e Extrativistas do Urucureá – ASMOPREURA	NTFPs	Handicrafts made of tucuma	2007	4.21
11	Associação da Ervateira Putinguense	NTFPs	Erva-Mate tea	2003	69
				TOTAL	**1,584,548**

Most of the wood produced by certified communities is sold in the city of São Paulo, where it has found a very interesting market niche in small wood shops and with renowned designers that produce high-end, custom furniture. The characteristics of this market match nicely those of the wood produced by certified forest communities: small volumes of wood, high added value and clients for whom social and environmental issues matter.

Bringing together certified community producers and furniture makers in São Paulo has been the objective of the Certified Products Buyers' Group, a 66-member group whose leader in Brazil is the NGO Friends of the Earth. Within this group there is a 26-member subgroup of designers and furniture makers that has worked to strengthen the relations with certified communities and that, in the last three years, has become the main buyer of certified wood from forest communities (Smeraldi, 2007). The volumes required by this group still exceed the production capacity of certified communities – and there is also a major gap between the technical specification required by these buyers and the capacity of communities to meet those specifications.

One of the strategies to improve the capability of communities to negotiate and sell their forest products has been the organisation of co-operatives and producer groups. In the case of certified communities, one group has been established in the state of Acre: the Certified Community Forest Producers' Group, discussed in Section 3.4 below.

3.4 Buyers and their perceptions of trade in community forest products

We conducted interviews with 30 timber buyers, community producer groups, workers' organisations and NGOs to investigate buyers' demand to distinguish community forest products in the Brazilian market. This demand is variable, depending on the specific sector considered. However, it was possible to observe that consumers already using an ethical marketing strategy for their products see as positive the possibility of using social marketing, as they inform clients that the wood comes from forest communities.

Interviews with eight representatives of designers and high-end furniture makers demonstrated that there is demand for products with environmental and social appeal. The FSC certificate has been of fundamental importance for the insertion of these products in the market. However, there is also a perception on the part of consumers that the appeal of the FSC label is more environmental than social. Nonetheless, a large proportion of buyers of certified wood produced by communities informed the interviewers that they already use "community" branding in their marketing strategies. There is definitely a social appeal originating from the fact that the wood used in their products comes from traditional forest communities. In addition, they stated that simply mentioning to their clients that communities produce the wood used in the product already adds a market differential. For this reason, they favour the idea of an independent mechanism that could support this claim.

In Brazil, the building construction industry is beginning to show interest in certified products. Some construction companies already use certified wood in their buildings and use this fact

in their market strategies. Interviews with one such company showed demand within this industry for socio-environmental products, mainly with respect to high-value homes and public works of high visibility. A specific demand for wood from forest communities has not been identified yet, but the possibility of adding a social component in marketing strategies was well received by representatives of the industry. The concern of this industry in relation to wood produced by communities refers to their capacity of supplying large volumes within the limited time frame the industry operates.

At present, the sawn wood sector does not represent any significant demand for products with socio-environmental appeal, except for small volumes required by individual consumers, designers, and makers of high-end furniture. Today there are only two lumberyards that sell certified sawn wood in Brazil, one in São Paulo and one in Rio de Janeiro – both belonging to the same company. Interviews with representatives of that company showed steady demand for small volumes. However, supply volumes, qualities and schedules were all major constraints to expanding this element of the business.

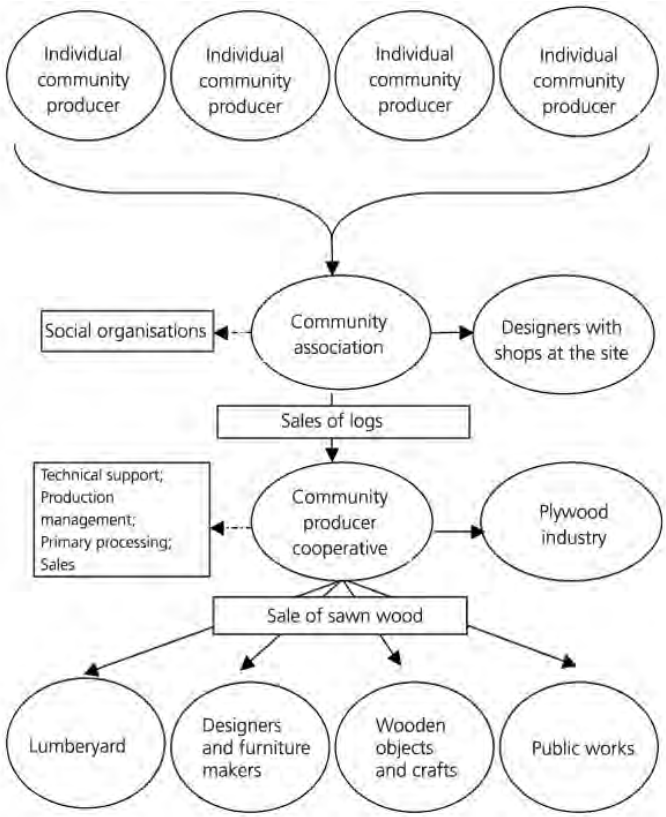
On the other hand, the cosmetic industry, which uses NTFPs as raw materials for its products, has been under increasing pressure to obtain certificates of origin of these materials. Interviews with two leading firms supplying the cosmetics industry revealed that there is a need for a mechanism to attest that products are sourced in a way that respects biodiversity and is beneficial to communities. One of the reasons for such pressure is that companies want to keep a good corporate socio-environmental image. The perception of industry representatives is quite positive with respect to finding a mechanism that could distinguish community products and establish criteria for the relations between supplying communities and companies buying from them.

In general, companies that maintain trade relations with supplying communities do not have formal best practice codes, although they may have adopted specific negotiations procedures as they relate to those communities. This fact shows that there is an understanding on the part of some buyers that communities have their own characteristics that must be respected during the negotiation process. Most of the companies that took part in the interviews stated that they would like to establish a relationship of trust and long-term supply with communities that sell to them. To achieve this objective, they were willing to adopt specific negotiation procedures, such as advanced payment, extended delivery time, and the adoption of more lenient standards with respect to price and product specifications.

In addition, the companies interviewed mentioned that establishing relations with supplying communities is not an easy process. They listed a series of difficulties such as: i) poor quality of the community product; ii) small production scale and discontinuity in supplies, which blocks expansion into new markets and jeopardises investment in marketing strategies; iii) delays in delivering products and, quite often, products delivered without established specifications; iv) lack of management capabilities and expertise in business administration; and v) difficulty in dialogue with communities, especially when the negotiations involve NGOs that are not familiar with the market and frequently show cultural prejudice against private enterprises.

There were few innovative practices to improve the fairness of price negotiation, except that one company in the cosmetic industry has adopted open cost charts for defining prices of raw material with supplying communities. The common practice is to hold meetings between buyers and community producers in order to define prices that are satisfactory to both parties. According to the information received by the authors, the communities establish their production costs with the help of representatives of NGOs and use these costs to define prices that generally vary according to the species and product final dimensions. On the other hand, buyers usually have ceilings that limit prices to be paid for the various products; these limits are calculated on the basis of production costs and expected sales margins, considering the final price the finished product can fetch on the market. Nevertheless, buyers often negotiate much higher prices for certified wood than for non-certified wood. This price premium can reach 30% in a number of cases.

Figure 3.2 Production chain of FSC-certified wood produced by communities in Acre



As a general rule, it was noted that having information on production costs and on price composition of the community product is a subject of great relevance to the success of the negotiation process. In a recent example, as a result of the lack of proper knowledge about production costs on the part of community producers, the net financial return of a production cycle was lower than expected. In this case, community producers overestimated the financial gain of the management activity, raising expectations of good profits. When the process was completed, these expectations did not materialise and producers ended up frustrated; this frustration eroded the relation of trust that had been established with buyers.

3.5 Value chain analysis for one community producer–buyer relationship

In 2005, four of the five certified communities in Acre joined together to form the co-operative Cooperfloresta. Their objective was to unify community production and centralise sales, to increase their negotiation power with buyers in São Paulo. For a variety of reasons discussed in the more detailed market chain analysis below, there has been high annual variation in the production volumes of this co-operative since its creation. At the present time the annual production capacity is estimated at 1,200 m³ per year in logs.

Today, this co-operative has taken responsibility for a good portion of the production chain, including the organisation of the forest production, licensing activities to comply with government environmental regulations, dialogue with the certification body, transportation and secondary processing of the wood, and sales activities. Its production chain is representative of the majority of communities currently certified according to FSC standards (Figure 3.2) and results from a learning process over five years.

Once Cooperfloresta had formally established its administrative and fiscal councils and technical assistance team, it began searching for more efficient ways of marketing certified products. Its strategy now is to add value by processing the logs in the forest and selling the lumber to specific market niches, mainly in São Paulo. Since the co-operative does not own a sawmill, the primary processing operation had to be subcontracted with local sawmills.

The co-operative has a good system for controlling production costs, which are divided into logging costs and processing costs. Logging costs are obtained by adding harvesting costs with costs incurred in getting a licence for cutting the trees. In turn, when logs are sold to third parties, processing costs are the sum total of freight costs plus taxes plus administrative costs; when logs are processed and then sold as sawn wood, then the processing costs also include the amount paid to the sawmill. Due to a series of difficulties, such as delay in obtaining licences, poor planning of logging operations, low productivity in harvest operations and lumber yields below expectation, in 2006 production costs were higher than the income obtained from wood sales, with negative financial results. This issue was minimised due to significant money contributions from government agencies and from NGOs involved in the operation.

A total of 450 m³ of wood products were sold during the 2005/2006 harvest cycle, of which 52% was sawn wood, 39% were logs sold at the local market, and 7% were flitches also sold at the local market. Sawn wood of high quality classes was sold mainly to markets in São

Paulo, mostly to designers of high-end furniture. Low quality sawn wood had to be left behind and was sold at the local market for public works. The average prices fetched by the wood sold by the co-operative were US$410/m³ for sawn wood, US$330/m³ for flitches, and US$90/m³ for logs. Low specific gravity, light-coloured species were sold to a local plywood plant, Laminados Triunfo Ltda.

A survey of the production of this plywood plant was carried out in order to get a better idea of how this production chain works: although in 2006 sales to this industry represented only 4% of total sales of the co-operative, these sales could be much larger in the near future. About 40% of the standing volume of the wood in the forest consists of species with low specific gravity that do not find markets in the region. Clearly, it would be of great benefit if certified communities could make commercial use of these previously unwanted species.

According to this survey, the cost of raw material represents 33% of the total production costs of the plywood plant. The remaining 77% include administration costs, taxes, industrial processing and 5% profit. This company pays a premium of approximately 10% for logs certified according to the FSC scheme, but it does not make any distinction between wood from community projects or elsewhere. European countries are the main market for certified plywood produced by this company, paying a premium of 10% for certified plywood.

Due to the low availability of raw material in the state of Acre, this company is operating at 55% of its production capacity. Although it has plans to reach 100% of the production with certified logs, currently only 21% of the production is FSC certified. Today the plywood plant uses logs of 18 species; it is carrying out tests with new species for the production of veneer in order to expand the number of species used. Its director stated that the company could benefit in the European market if he could inform his clients that part of the raw material used in the production of the plywood was coming from community projects. The company is willing to pass on the price premium to the supplying communities. He also mentioned that the company would agree to take part in future FSC and fair trade pilot projects.

3.6 Main lessons about prospects for distinguishing community forest products in the market

This study showed that there is demand in the Brazilian forest products market for a mechanism to distinguish products originating from communities. All representatives of companies that use community products as raw material reacted positively to this idea. They declared that a social appeal relating forest management to respect for the communities of the Amazon Region would be well received by consumers and would represent a good opportunity to add value to their products and to expand business.

Demand was only surveyed in the industry segment that already markets FSC and / or community products and in one way or another is already looking for strategies to distinguish such products. As already mentioned, the informal production of community forest products in Brazil is still vast and feeds a commodity production chain, mostly based on products of illegal origin, which does not show any interest in mechanisms for distinguishing or adding value to the product.

When players involved in community forest management were interviewed, including representatives of NGOs and government agencies, the conclusion was that the establishment of a mechanism that would distinguish community products would be in agreement with current strategies for supporting forest communities. Recognising the importance of the local and cultural identity of communities and developing market niches that appreciate these aspects have been strategies adopted by different initiatives in the Brazilian Amazon Region. A frequent concern expressed by these players was the lack of empowerment on the part of communities with respect to the certification process. The great complexity and the high costs involved in certification usually leave the community dependent on support from external organisations, which is undesirable no matter what new mechanism is created.

The five community producer organisations interviewed stated that a mechanism that would distinguish their products on the market is a priority. Operating in a market that does not recognise their difference puts them at a competitive disadvantage. According to the president of one community association certified by FSC, the social objectives of community forest management must be recognised; today, FSC certification does not make room for such recognition, as the label given to community products is the same as that used by large corporations.

The demand for a mechanism for distinguishing community products became more apparent for wood products of high added value and for NTFPs supplied to the cosmetics industry. In both cases, there is the possibility of associating the label 'community product' to a social marketing strategy that would result in a higher value of the final product to consumers. Some cosmetics, for example, already have their image associated with the production of NTFPs by communities of the Amazon Region. Usually, the general public has the idea that these communities live in poverty and that they are exploited by those who buy their raw materials. In this situation, an independent certificate ensuring that the communities are being respected and duly recognised would make a difference to consumers.

In the case of wood products of high added value, such as high-end furniture and small wooden objects, consumers tend to value and to pay for the concept and for the history behind the product. This way, linking the product to communities in the Amazon Region would bring an attractive socio-environmental appeal to this class of consumer.

Besides the demand expressed by community producers and by the companies that work with community products, it became apparent that there is a need to develop parameters to define a 'good relationship' between these two groups. A certain level of frustration was detected on the part of buyers, and on the part of producers as well, with respect to the fact that today there is no mechanism to establish the best way to develop such relationship.

Factors involved in the negotiations between community producers and buyer companies that are of fundamental importance to the success of business transactions include: ways to establish prices, product specifications and quality requirements, and delivery and payment times. When one party does not have sufficient information about the requirements and expectations of the other party, the result is frustration and discontinuation of the business relationship. This precludes the establishment of a relationship based on trust between the two

parties that would foster long-term commitments, which is, in fact, what buyers and suppliers claim they most need.

Establishing parameters that could guide this relationship and creating an institution that could facilitate this process, together with the possibility of adding value to products from communities, would be a decisive factor in improving the production chain of communities and, consequently, improving their quality of life. However, it became quite clear that these components alone would not be sufficient to solve all the bottlenecks that communities are facing today.

A deeper analysis of this production chain shows that the players involved must improve their capabilities in order to be more effective in this market. Buyers of community products must improve knowledge about the real life conditions at the community level. Representatives of communities and NGOs need to be more conversant in business and market processes. Investments in creating or expanding the capabilities of community producers to manage their business, for example, is a basic factor in the success of any initiative in this area.

Moreover, due to the wide range of situations involving communities and small rural producers in the Brazilian Amazon Region, a detailed discussion is needed before launching any initiative in order to establish the concept of 'communities', or 'community forest management'. Without a clear definition of these concepts, there is a risk of putting in the same group social players that have different ways of acting collectively, or that follow different standards when using the forest.

Lessons from trade in community forest products – Mexico

Luis Alfonso Argüelles Suárez
Zazil Ha García Trujillo

4.1 Background

The Mexican case study was carried out from May to June 2007 by two independent consultants with longstanding experience in community forest production. In addition to a review of relevant literature, the case study involved travel to and / or interviews with 23 key informants in six Mexican states – plus numerous informal discussions. Interviews included leaders of community forest enterprises, focusing especially on the Noh Bec Ejido in the state of Quintana Roo. It also involved interviews with a range of national buyers of community forest products at the local level and in major markets within Mexican cities. Government officials were included in order to understand specific elements of the evolving community forest management situation.

The choice was made to focus primarily on those community forest producers that had successfully achieved FSC certification. These communities are mainly found in the six states of Chihuahua, Durango, Michoacan, Guerrero, Oaxaca and Quintana Roo. Timber is the main focus of this case study, but the authors also reviewed relevant experience in NTFPs.

The objective of the interviews was to identify the demand for a mechanism that could distinguish community forest products, as well as the difficulties present in the relationship between companies and communities, and the possibilities of establishing interaction between the FSC and fair trade.

4.2 Introduction to the Mexican forest products trade

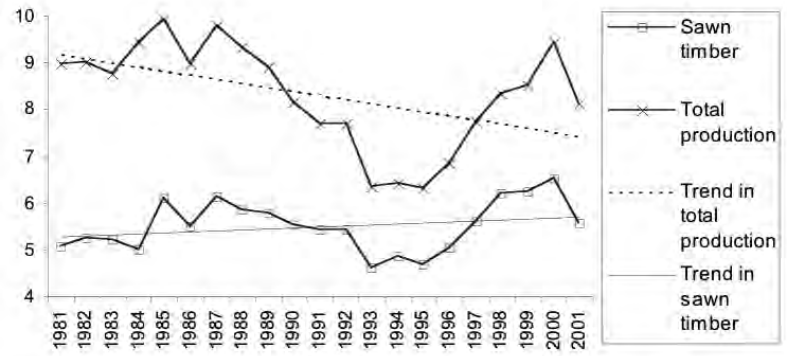
Mexico has 64 million ha of forest. Temperate forests are concentrated in the states of Chihuahua, Durango, Michoacán, Guerrero, Jalisco and Oaxaca. Tropical and semi-tropical forests are mainly in the states of Campeche, Chiapas, Oaxaca, Quintana Roo and Veracruz (Torres Rojo, 2004). Of the 22 million ha suitable for sustainable commercial timber production, an estimated 6 million are currently being managed and 2.5 million had previously been managed. The area under current commercial use and associated annual volumes are decreasing for several reasons:

- Free trade agreements have opened the door to large quantities of cheap timber imports
- Inadequate forest management has raised Mexican operational costs
- Selective logging has already mined the largest diameter trees
- Bureaucratic delays for official documentation constrain production

- Communities lack capital to finance efficient logging operations
- Remote areas and difficult terrain make extraction and transport costly

Commercial forestry in Mexico contributes 1.83% to the national GDP. It is primarily associated with conifer forests, which produce 95% of the industrial timber. Total production is on an overall downward trend though production of sawn timber is going up (Figure 4.1). In 2004, Mexican timber production met only 30% of the apparent national consumption of 22 million m³.

Figure 4.1 Timber production in Mexico 1981–2001 (million m³)



Source: Forster *et al.* (2004)

SMFEs account for 98.5% of processing and furniture manufacture. The main products are sawn timber (59%), secondary products (15%), box packaging (14%), plywood and veneer (1%) and timber panels (0.5%). Installed processing capacity has grown fast while utilised capacity has decreased, to 8,713,435 m³ in 2004. Many installations are in a state of disrepair, operating well below their capacity and some not operating at all.

The main NTFPs are resin, fiber, gum and wax. In spite of the increase in production (mainly resin), the total NTFP production value is decreasing because of falling prices (García García, 2007).

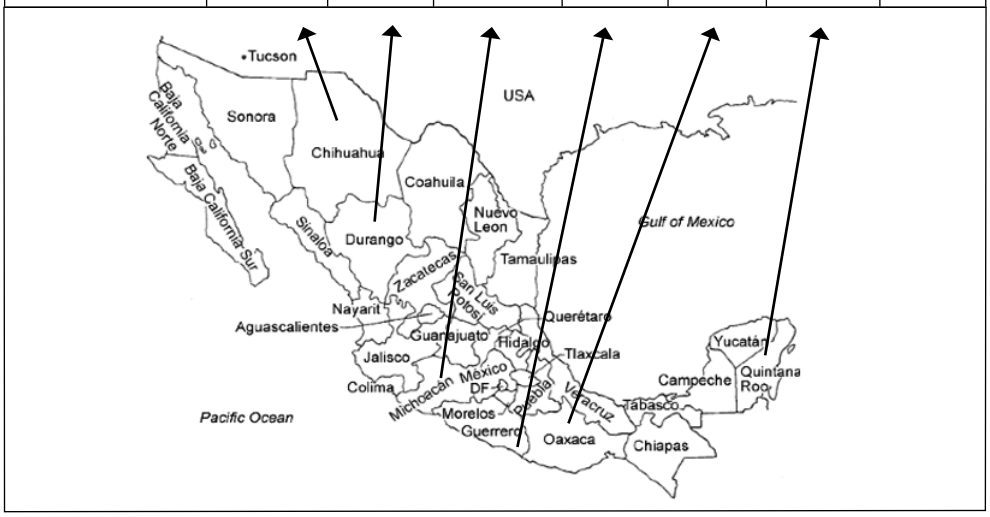
Mexico has been a pioneer in forestry certification. In 1991, five ejidos in Quintana Roo were the first tropical forest in the world to be certified by SmartWood and Green Cross Programme of Scientific Certification Systems (Markopolus, 1999). Forest certification is growing, with a 12% increase in certified area between 2005 and 2006. In 2006 the total FSC-certified managed forest area was 802,833 ha, of which 14.27% was tropical forest. This places Mexico second after Brazil in Latin America. The certified forest area is concentrated in six out of 32 states (Figure 4.2). All 46 certified forest operations are communally managed.

Mexico is also familiar with fair trade, which was legally constituted in 1983. It grew out of a union of indigenous communities producing coffee in Oaxaca, the *Union de Comunidades*

Indigenas de la Región del Istmo de Oaxaca (UCIRI). To date, 67 organisations are affiliated to FLO. Current fair trade products include coffee, honey and fresh fruit. In 1999, groups of small producers and civil society organisations established a fair trade association, *Comercio Justo México AC*. The association includes an estimated 50,000 families (300,000 people). Timber is not currently included in Mexico's fair trade products but interest is likely to be high.

Figure 4.2 Certified forest area under communal forest management in Mexico

States	Chihuahua	Durango	Michoacán	Guerrero	Oaxaca	Quintana Roo	Total
No. of certifications	3	26	1	1	9	6	46
Area certified (ha)	173,069	346,552	6,487	14,784	137,649	124,291	802,833



4.3 Main community forest product lines and markets

Some 80% of Mexico's forests are owned under a social tenure system, with around 8,500 agrarian nuclei (ejidos and communities) inhabited by an estimated 12 to 15 million people, including 43 indigenous groups (5 million people). Communal timber production started in the 1980s when concessions granted by the Mexican government to timber companies ended and the communities reclaimed their right to benefit from the forest resources in their territories. Only 2,400 agrarian nuclei have forestry permits and of these only 127 own forestry machinery and can process timber (CCMSS 2007a; 2007b). In most cases the machinery is old and in a state of disrepair and seldom include a drying kiln. Of the 43 certified operations, 37 own forestry machinery and sawmills. Most communities however must rely on the buyer to harvest and transport the timber.

The main clients are the local sawmills in each region. Negotiations between the legal representatives of the community (comisariado) and the buyer establish volumes, based on the annual extraction permit, and the price per m³ based on species, the extraction conditions and

the community's resources. Generally, a contract is entered into with the community before the start of the logging operation. A deposit is given to finance the operation and the balance is paid on delivery. Usually large intermediaries finance the logging operations in several communities, which gives them substantial leverage to set regional prices, which vary from region to region.

Most forest communities sell ungraded timber ('mil run') in bulk. It comprises a mix of grades (excellent, first and second class) as well as different lengths (from 6 to 14 feet) and diameters (1, 1.5 and 2 inches). Communities' incomes increase as they participate in more stages of the value chain. Calculations (by the consultant Fernando Arenas) show the value of timber/foot along the chain as follows: bulk US$0.59, sawn timber US$2.39, mouldings US$5.15 and furniture US$16.96. Quality control would add value.

High prices in the national market reflect the length of the intermediary chain. Very few communities have access to the international market. Usually, processing for export is done by big enterprises. In 2007 the only community exporting timber with a SEMARNAT timber export permit is Ejido Noh Bec in Quintana Roo, supplying graded Mahogany to the USA.

The most organised forest communities, with existing enterprises and promise for a fair trade pilot scheme are:

- **Nuevo San Juan Parangaricutiro, Michoacán:** This community is an example of a collective production organisation. They invested their profits in product diversification to give added value and to create employment. They own a sawmill, a furniture factory, a spring water bottling plant and a pine resin distillery; they are also fruit farmers (avocado pear and peach). In addition, they have forest management and chain of custody certification.

- **Santa Catarina Ixtepeji, Oaxaca:** The community has a forest management certificate and chain of custody. They own a sawmill, drying oven, water bottling plant and pine resin distillery. They have created a position of general manager to counteract the continuity problem caused by the periodic change of communal authorities.

- **Ixtlan de Juarez, Santiago Textitlan and Pueblos Mancomunados, Oaxaca:** These communities own sawmills, drying ovens and water bottling plants. They are branching into ecotourism projects. All three communities have furniture factories and at the end of last year jointly opened a furniture shop in Oaxaca city (TIP Muebles). Each factory has a manager who is also in charge of supplying the shop with their particular line of products and plans are under way to open three more shops. The community of Pueblos Mancomunados already has dehydrated products (fruit and herbs) in the fair trade system.

- **Noh Bec, Quintana Roo:** This is the most successful of the certified communities in forest management in the Mexican tropics and also has a certified chain of custody. They have a community forest management office in charge of operations and a separate enterprise in charge of the industrial side. They own a sawmill, drying oven and communal carpentry workshop, which works together with local carpenters in the manufacture of beehives.

They have an extraction permit for export Mahogany and also extract latex of Chicozapote which is commercialised by the Consorcio Chiclero in Chetumal.

- **El Balcon, Gerrero:** This community has a certified timber forest and chain of custody, owns a sawmill, drying oven and carpentry workshop with a furniture production line. Their social structure is clear and well developed, with an institutional system able to deal with internal and business affairs efficiently.

4.4 Buyers and their perceptions of trade in community forest products

As noted above, community forest products dominate the national timber trade in Mexico. National retailers and consumers of timber and furniture tend not to demand products with social or environmental credentials. Neither industrial buyers nor local consumers usually ask about a product's origin. Companies therefore rarely advertise the origin of their products. The market is ruled by species, price and timber quality, in roughly that order.

Despite this discouraging outlook, Mexican timber exporters are experiencing increasing demand for certified products. This is driving businesses to seek certified chain of custody (COC) certification with FSC. In 2002 only two enterprises sought certified COC. In 2007, a total of 24 enterprises have certified COC, of which 14 are privately and 10 are communally owned. Having a COC does not necessarily mean they are exporting. From 2005 to 2007, only four communities registered in SEMARNAT to apply for timber export permits, three of these communities are in Quintana Roo (Noh Bec, X-Hazil and Naranjal Poniente) and the other is the Ejido Vallecitos in Nuevo León.

Within the national market, there is some confusion between certified wood and the legal origin of wood. In many cases there is a lack of knowledge of forest management certification schemes and / or chain of custody. Documents for proof of legal origin are the only documents they request. However, according to Torres Rojo (2004), in 1998 legally sourced timber was 7.7 million m^3 but over 13 million m^3 of illegal timber reached the national market. There is little general awareness of FSC. But there are some exceptions, such as TIP Muebles in Oaxaca that sells certified community furniture. Some of their products have COC labels and there are FSC signs inside the shop.

From our interviews, the industry's general perception is that communities, even those with sawmills, are not reliable business partners. They therefore prefer to deal with local intermediaries that can assure a continuous supply of timber. There are notable exceptions. For example, Productos Forestales del Sureste y Centro América in Quintana Roo sources its timber from forest communities in Quintana Roo and Campeche. It finances the logging operation and uses local sawmills, partly to ensure the supply but also to help community development. This enterprise has a certified COC and promotes origin and certification of Selva Maya timber. They do not currently advertise, as they cannot cope with demand.

The main barriers perceived by the timber industry to direct trade with communities are:

- **Changes in the communal authorities:** According to custom, communal authorities change regularly, usually every two or three years. Sometimes the person responsible for commercialisation of their products is different from the authority, and also subject to change. This situation is not conducive to the continuity of trade. When changes take place new agreements have to be made, as the new authorities do not honour previous arrangements. Corruption in the authorities was also mentioned as a factor for the need of new agreements every time there is a change.

- **Failure to honour contracts:** Supply agreements between communities and enterprises that do not give a deposit to finance the logging operation are very unstable, as the community would likely sell to another buyer making a better offer irrespective of whether it is a one-off sale and even if signed documents and continuity of trade exist with the first customer.

- **Seasonal and deficient supply:** Timber supply depends on the community's infrastructure and the buyer's equipment. It is also affected by weather conditions, and the lack of permanent forest roads does not allow logging operations to take place during the rainy season.

- **Bureaucracy:** Even for the enterprises that finance the operations, one of the main barriers perceived is that the official permits needed for the logging operation issued by SEMARNAT are rarely on time and usually the rainy season has begun before they are issued. As a result, timber has to remain in the forest till weather allows logging operations to continue, by which time some of the felled timber might already be rotting, thereby causing loses.

- **Pre-financing:** In most cases communities share any profit made between its members after the season, and so lack of capital to invest or to finance the following logging operation. Timber buyers provide a deposit to finance the operation. Those buyers lacking the capital to secure enough volume to make the investment yield are left out of the trade with communities leaving big concerns hoarding the communities' annual volumes for future sales.

- **Lack of fiscal documentation:** In many cases communities lack legal documentation when making timber sales and many enterprises therefore avoid buying from communities because of the legal risk of not having valid documents for tax purposes.

- **Cheaper timber imports:** Industry knows natural forest timber has better quality but forest operations are costly and only a very specific segment of the market requires that kind of quality. The deciding factor for the rest of the market is price. Imported plantation timber is cheaper and also comes with set quality standards.

The industry perceived the advantages of trading directly with communities as follows:

- **Quality:** Communities' timber comes from natural forests that have a high proportion of very good quality timber without knots allowing for wider boards when compared to imports (most imported timber comes from plantations).

- **Margins:** Communities allow better margins, usually an eighth to a quarter inch extra, when processing the timber.

- **Cost of supply:** Direct trade with communities shortens the supply chain therefore lowering prices.

4.5 Value chain analysis for one community producer–buyer relationship

The most successful ejido in the Mexican tropics, as regards both forest management and commercialisation, is the Ejido Noh Bec in Quintana Roo. Founded in 1936, it actively participated in the *Plan Piloto Forestal* (1983). Today it has 219 members. Of its total 24,100 ha, 18,000 are destined for permanent forest management (*Area Forestal Permanente*) and 700 for a communal conservation area of tropical forest and savanna. The quality of their forestry operations has won Noh Bec SmartWood's good forestry management certificate, accredited by FSC.

The ejido owns its own extraction equipment; two skidders, two bulldozers, a crane and five trucks. It also has two sawmills and a carpentry workshop. The annual harvest is 6,000 m^3 of which 1,500 m^3 is Mahogany. In 2001 a separate entity, Noh Bec SPR, was created to handle processing and marketing. Ejido members are associates in the business, which generates US$1.5 million annual turnover, one-third from Mahogany sales. Today, the business is worth US$3 million. Forestry operations in the ejido provide for 90 permanent and over 100 seasonal jobs.

The production chain involves three main timber products (Figure 4.3): (a) timber from Mahogany and other tropical woods, (b) palizada (small poles) harvested during the construction of the logging trail and used in the construction of rustic buildings for the local tourist industry, and (c) branches left from delimbing, used for the construction of beehives and crafts.

In terms of timber, Noh Bec has an annual extraction permit for a total 18,595 m^3 of 14 different species of which 1,545 m^3 is Mahogany, 3,846 m^3 tropical soft woods and 13,204 m^3 tropical hardwoods. Most of the timber production is used to supply the ejido's sawmill (Noh Bec SPR). Some timber with special characteristics is sold to the local carpentry workshops for the frames of rustic structures. Noh Bec SPR extracts 94% of the total authorised annual volume of Mahogany, 18% of light woods and 11% of heavy woods. There is a lot of potential to increase the extraction of light and heavy woods.

Prices vary according to species (Table 4.1). The sawmill buys Mahogany for US$296/$m^3$ and sells for US$416/$m^3$ to outside buyers. Prices are at landing and exclude transport.

Table 4.1 Sawn timber prices (US$ per m³) at Noh Bec's sawmill						
Species	Large dimension first or heart	Large dimension rejects	Short dimension first or heart	Short dimension rejects	Large dimension SAP	Short dimension SAP
Mahogany	1379	862	862	431	–	–
Chechen	940	392	588	–	588	302
Tzalam	783	392	392	–	–	–
Chactecok	940	392	588	–	588	302
Katalox	940	392	588	–	588	302
Sacchaca	548	274	274	–	–	–
Paasak	548	274	274	–	–	–
Amapola	470	235	235	–	–	–
Chicozapote	940	470	470	–	–	–

Source: Noh Bec´s Forest Management Office

Noh Bec has four main outlets for its products in the region:

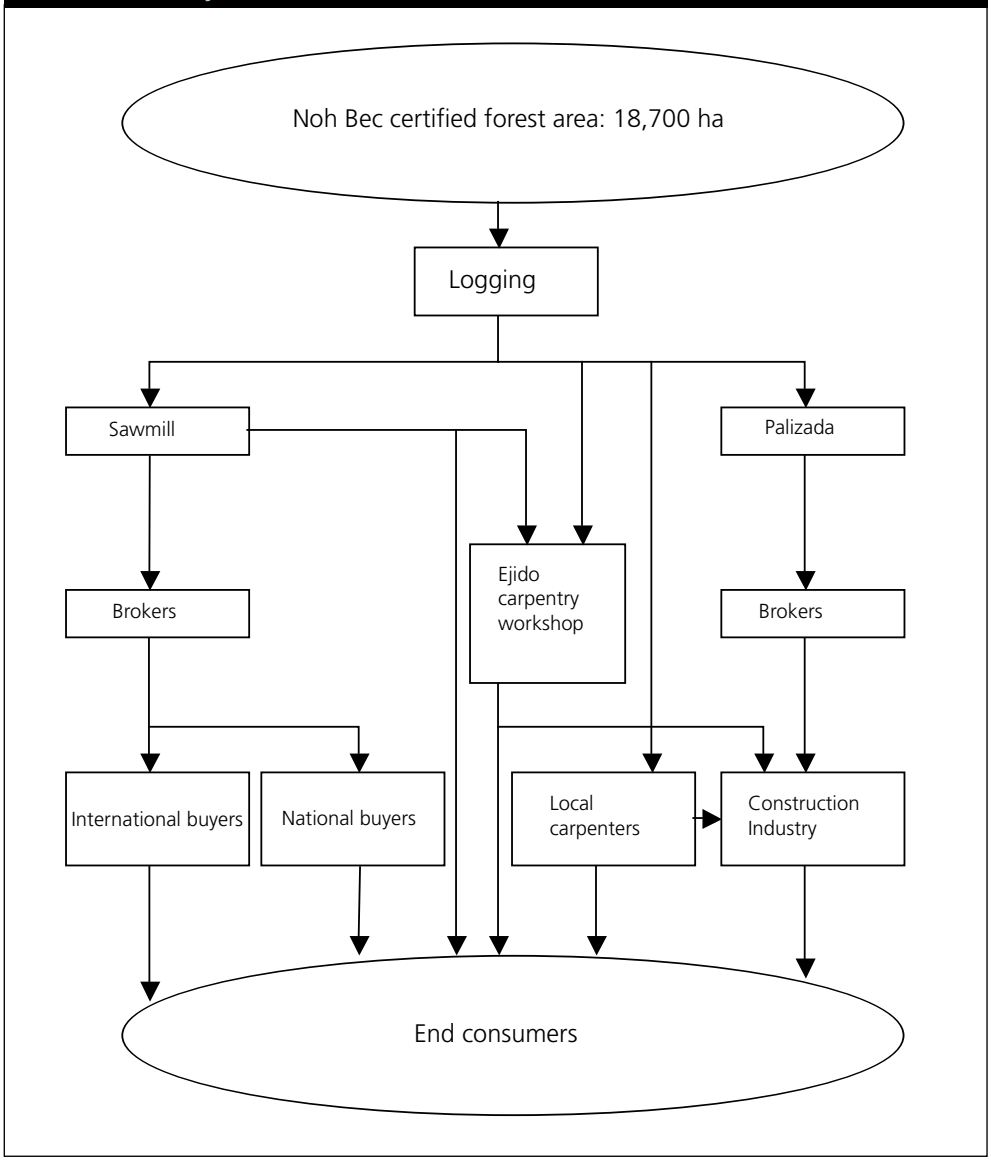
- Productos Forestales del Sureste y Centro América (PESyCA), which covers the whole region and sells to the national and US markets, specialising in tropical woods.
- Carpicentro Group, which operates through a network of intermediaries in forest ejidos and controls most of the Mexican Mahogany market.
- Cacchoben Sawmill, a private enterprise with a customer base in México City, which sells Cedar, Mahogany and some tropical species.
- Noh Bec SPR (the ejido's own sawmill), which works jointly with PESyCA but has its own customer base.

To date the ejido's main buyers of export Mahogany are Rex Lumber Company of New Jersey and Inter Continental Hard Woods of North Carolina in the USA. Prices range from US$1,483 to US$1,610/m³ according to quality, and are negotiated directly between the ejido and the buyer. No deposit is given for the logging operation and payment is made at the shipping port. The buyer pays the broker's commission. Noh Bec SPR has also found a niche in the European market for Katalox.

Timber that does not meet the required export grade is sold at the sawmill or made into furniture at the ejido's carpentry workshop. Branches, especially of Mahogany, also go into the carpentry workshop or for sale to local carpenters. The carpentry workshop manufactures furniture, according to designs from local furniture shops, and beehives, to meet the high demand from the local apiculture association. Prices vary according to design and quantity of wood used.

Palizada poles are sold to regional buyers, usually community members, who have contracts with construction businesses in the tourist zone. The buyer selects the poles on site and is responsible for transport. Tropical hardwood poles sell for between US$277 and US$554 per pole depending on length, diameter and beauty. In the tourist zone, distributors also sell per piece, prices ranging from US$0.92 to US$6.48 for smaller pieces, US$37 to US$42 for beams, and US$277 per m³ for poles. Variations in price depend on delivery conditions and quality of timber.

Figure 4.3 Production chain for FSC-certified timber originating in Noh Bec community



4.6 Main lessons about prospects for distinguishing community forest products in the market

International and national experiences show there are consumer groups aware of and interested in buying products with good social and / or environmental credentials. In Mexico, the fact that ownership of 80% of the forest is in the hands of ejidos and communities opens a special window of opportunity for fair trade. However, there are a number of lessons that have been learned from this Mexican case study:

- **Unrealistic expectations of higher prices.** International co-operation organisations, NGOs and communities embraced certified forest management with enthusiasm, hoping to penetrate the international timber market and to obtain better prices. Now, communities complain that certification did not help them with commercialisation. This has a great deal to do with the fact that the few communities that managed to sell their product did not comply with quality standards. According to Mercado Justo AC, products with competitive potential (in terms of quality, delivery capacity, presentation and marketing) have a better chance at commercialisation. The implicit value of a label cannot substitute for the intrinsic qualities of the product. Labels should be viewed as an added value not as the central value of the product. The lesson here is that only communities able to guarantee the quality of their products should participate in a fair trade scheme, otherwise unrealistic expectations are created.

- **Productive chain development.** Communities that benefited from forestry certification have advanced in the productive chain, at least to the point of selling international grade sawn timber. The starting point should be communities that can offer finished products. The greatest hurdles to accessing the national market are technical and design problems. There are already good quality products that could be marketed as in the case of kiln-dried tropical hardwoods and dimensioned timber used for floors. Some communities own sawmills and drying ovens but need to train people in the process to be able to exploit the markets.

- **Commercial use of FSC labels.** Only a few of the 43 certified communities use the FSC label on their products and it is mainly used on official documents, which shows a lack of capacity to harness labels as a marketing strategy. The process should include product development and marketing that takes advantage of FSC and fair trade labels to find a niche in the market.

- **Finding business connections between communities and international enterprises.** The export market requires graded timber but most of the communities sell in bulk. In one instance a broker was interested in certified wood of a particular quality grade. He trained local people to grade timber and connected buyers with Selva Maya communities, which now have direct access to the international Mahogany market. Elsewhere, Ejido el Balcón in Guerrero had capital and buyers but the language barrier caused them to lose the contract. This shows that to connect communities with the international market requires mediation and development of local capacities that generate trust on both sides and facilitate communication between different cultures and languages. Finding

business connections is more than getting contracts, as both sides need to respect the classification systems and terminology.

- **Consolidation.** When groups of coffee growers formed organisations (e.g. UCIRI) and consolidated under Union de Cafetaleros they gained access to fair trade. Consolidation gave them access to capital and the capacity to offer large volumes with quality standards through regional collecting installations. A similar case exists where three communities with similar levels of organisation, management and manufacturing technology together could produce enough stock to open a shop, TIP Muebles. The lesson here is that to open commercialisation channels for forest products it is preferable to start with communities that share similar values and levels of development so that equitable agreements can be reached.

- **Respect market demand.** There is a lesson to be learned from the indigenous community of Nuevo San Juan Parangaricutiro that exhibited rustic furniture at a fair and sold a consignment. The community decided to "improve" the product and the client sent it back as it was not the product he had requested. To maintain quality and specifications as agreed is a must for successful ventures.

- **Advertising.** In general, the Mexican consumer does not show interest in good credentials – but there are signs of change. TIP Muebles displays its certification labels in the shop and the shop assistants mentioned that customers show interest in the labels as well as the communities' initiatives, indicating that consumers need a stimulus to get information. Attention needs to be drawn to the labels to start creating an awareness of social and environmental causes among consumers and the industry alike.

In Mexico, forestry is exploited well below its full potential, allowing for ample opportunities to develop community timber and non-timber products. There are communities that already have industrial equipment and access to markets. Some of them also have one or more certificates (FSC, COC and fair trade). Clearly the conditions exist to begin a scheme to distinguish community products.

It is recommended that any pilot project works with certified communities and / or communities advanced in the production chain, producing products that meet the social, environmental and quality requirements of consumers. Successful examples could be showcased to encourage other communities to organise.

Some strategies that could lend impetus to a fair trade scheme for community timber are:

- To support initiatives that distinguish natural forest products from forest plantation products, and an international drive to have a surcharge tied to logging operation costs.

- To promote dried dimensioned timber to specialised market segments such as artisans, design furniture manufacturers and high quality flooring merchants, making high quality community products a high-status purchase.

- Local campaigns promoting the consumption of community products with green and / or social labels as a contribution to a global environmental conservation strategy.

- To create bonds among communities with similar levels of organisation and with similar values, to offer them a better chance to develop and market quality products.

Lessons from trade in community forest products – Papua New Guinea

Vaithehi Subendranathan

5.1 Background

The Papua New Guinea case study was carried out from May to June 2007 by an independent consultant – but with substantial support from staff of FORCERT. It involved mainly telephone interviews on account of the distances involved and the limited budget available. More than 20 individuals with detailed knowledge of the history of community forest production in Papua New Guinea were contacted – including leading figures in each of the past attempts at sustainable and commercial community forest production. The main focus was on describing the operations of FORCERT, which is currently linked to one of two major certified community forest networks in Papua New Guinea.

In addition to consultations within Papua New Guinea, an interview was also held with the main buyer of FORCERT products in Australia. A literature review added depth to the findings.

As FORCERT is the only existing timber producer organisation with both FSC and Fair Trade Organisation status, the emphasis of this case study has been in documenting the institutional details and processes by which this organisation operates – trying to distil lessons that might be of wider relevance to a mechanism that links FSC and fair trade.

5.2 Introduction to the Papua New Guinean forest products trade

Papua New Guinea consists of the eastern half of the island of New Guinea, and over 300 outlying islands (Subendranathan, 2004). Papua New Guinea is the largest Pacific island nation covering over 46 million ha of land, with a total forest area estimated at 30,601,000 ha (Forest Monitor Ltd, 2001). Of this, the natural forest area is estimated at 30,511,000 ha (Earth Trends, 2003). Official data from the Papua New Guinea Department of forest 10 years ago estimated that forest cover was 37 million ha (Hammond, 1997), indicating substantial deforestation in the intervening period.

According to Worldwide Fund for Nature (WWF), South Pacific, the island of New Guinea (which includes both Papua New Guinea and Irian Jaya / West Papua of Indonesia) holds the second most diverse forest with over 20,000 plant species and the third largest tropical rainforest after Amazonia and the Congo forests. Furthermore, its unique topography makes it the only tropical rainforest with very high and varying altitude (0 to 5,030 metres above sea level). With global warming, much of the diversity (both endemic and exotic species) may be able to survive by migrating uphill to cooler areas unlike in the other tropical rainforests.

During the last three decades there has been significant population growth in Papua New Guinea. While 80–85% of the population are rural, urban drift towards Port Moresby and other major centres has resulted in squatter settlements within and on the outskirts of major

centres and along the major highways, where opportunities for earning cash income are higher. Population growth is accompanied by an increasing appetite for consumer goods. This rapid social change has many negative social impacts such as law and order problems and ethnic tensions. Population growth is also exerting pressure on forest resources through the rising consumption of fuelwood and bushmeat, and clearance for subsistence agricultural land and dwellings.

Estimates suggest that rates of forest clearance have risen from 20,000 to 50-60,000 ha per year over the last decade, with agriculture accounting for 50%, industrial logging 25–30% and the rest for infrastructure (Filer, 1994; Mongabay, 2006). With a growing population, local villagers extend their practice of shifting cultivation into portions of natural forests not previously cleared for this purpose (Brunton, 1998), including those recently subject to 'selective logging' and those which have been 'opened up' by the construction of new roads. Large-scale commercial agriculture (oil palm, rubber and coconut) use clear-fell operations primarily in New Britain, New Ireland, Oro and Milne Bay Provinces. Studies note that up to 100,000 additional hectares are often severely damaged by selective logging, mainly by large Malaysian logging companies and most probably the "unsustainable" logging of prime timber species.

Timber exports from Papua New Guinea have risen steadily since the 1950s. Until the early 1960s, exports were mainly of processed wood products – with a huge spike and subsequent decline in processed wood production following the installation of the Japan and New Guinea Timbers Ltd (Jant) project in 1974. In response to a worldwide recession and decline in demand for wood, the government of Papua New Guinea launched a white paper in 1979 that for the first time actively promoted log exports, which then rose from below 500,000 m^3 to almost 2.5 million m^3 by 2005 (Bird *et al.*, 2007). A major driver has been the opening of Rimbunan Hijau Timber Processing Ltd's veneer plant in Western Province in 2001.

The distribution of benefits from these large-scale forest projects is far from clear – contributing less than 3% to GDP. In 1987, after public revelations of widespread corruption in the Papua New Guinea forestry industry, the government established a Royal Commission of Inquiry to investigate the sector, headed by Justice Thomas Barnett. In 1989, the Barnett inquiry reported large-scale corruption and many illegal activities among large operators (Asia Pacific Action Group, 1990). While shifts in governance have taken place subsequently, recent reports continue to note widespread unlawful harvesting of timber in large forest project areas (Forest Trends, 2007).

5.3 Main community forest product lines and markets

Papua New Guinea's population is primarily rural, relying directly on the environment for its livelihoods, dependent on subsistence agriculture, hunting and fishing to meet most basic needs. Cash crops have recently been integrated into the subsistence system. Many NTFPs (e.g. okari nuts, edible mushrooms, orchids, tapa cloth) are produced and traded sporadically in very small quantities.

Papua New Guinea encompasses over 8,000 clans and tribes, mostly of Melanesian origin, with some 860 different languages. Communities were traditionally very isolated, formed around the clan and tribal system, which determined land ownership, customs, rights and obligations. Today 97% of land is under customary ownership by clans and tribes.

Since the Barnett report in 1989, many communities and community-based organisations have attempted to develop alternative models of small-scale, community-based logging. NGOs have developed to support the new community-based forest management. For instance, Village Development Trust (VDT) Inc was established in 1992 (a year before Forest Stewardship Council (FSC) was founded) and began its work in the Bau Village in Morobe Province by promoting small-scale sawmill operations to mitigate the threat of large-scale industrial logging and the loss of its rich biodiversity. The Land Groups Incorporation Act of 1974 allows landowning groups (clans / tribes) as Incorporated Land Groups (ILGs) to identify its properties in consensus with neighbouring groups and be issued an ILG certificate (Holzknecht, 1996).

In 1993, a Papua New Guinea country assessment on forest certification was undertaken. The aim was to develop a system for identifying well-managed forest and effective alternatives to failed public policies on curtailing illegal and unsustainable logging. The study was presented at the FSC Founding Assembly held in Toronto, Canada in October 1993. Gaining momentum and support from the environmental NGOs, 1993 also saw the establishment of a national FSC working group in Papua New Guinea, albeit with very little enthusiasm from large-scale logging companies. In 1994 Pacific Heritage Foundation, an NGO based in Rabaul, East New Britain Province, became the first to introduce FSC forest certification in Papua New Guinea, with the certification of a community-based operation – the lessons from this experience are profiled below. Today, there are only two organisations managing an FSC group certificate in Papua New Guinea (FORCERT and FPCD) (Table 5.1).

Driven by environmental NGOs, Papua New Guinea officially began developing its national standards for forest certification in 1996 (WWF, 2002). These standards were finally submitted to FSC International Secretariat for endorsement in April 2001 but were rejected because not all requirements were met. For example, they had not set up a legally registered FSC national working group. After further comments and refinements the Papua New Guinea national standards were accepted in principle, but could not be fully approved, as at that time the Papua New Guinea FSC National Working Group had not met its last pre-condition for endorsement (i.e. having more than 50% of its members registered as FSC members). In September 2007, the National Working Group was finally endorsed by FSC, opening the door for the final approval of the national standards, which had not been possible to that date (Cashore *et al.*, 2006).

Table 5.1 Summary of the organisations that have or currently manage FSC timber in Papua New Guinea

Location	Type of certificate	Name of programme/ local support organisation	Year and status of certification	Market	Other information
ENB Province	FSC group certification	PHF – Bainings Community Forestry Programme	July 1994–1996	United Kingdom	Funded by ICCO based in Netherlands, and others
ENB & West New Britain (WNB) Provinces	FSC group certification	IRECDP/ Eco-Forestry Programme	October 1998–2003	Australia/ Netherlands	EU funded
Madang Province	FSC group certification	FPCD/ MFROA	Obtained in May 2007	New Zealand	Indigenous Community Forestry Group Certification Scheme
Gulf Province, (Kikori River Catchment)	FSC certification	WWF PNG/ KPL	Never obtained	Australia	
Autonomous region of Bougainville & the provinces of: ENB, WNB, Saundan (Aitape District), Madang, Morobe and Southern New Ireland	FSC group certification & fair trade certification (IFAT)	FORCERT	FSC FM & CoC Feb 2005 Fair trade in August 2006	Australia/ China (Hong Kong)	Funded by ICCO, EU, DOEN Foundation, NZAID, WWF

Pacific Heritage Foundation

In 1992 Max Henderson, a naturalised Papua New Guinean, together with the Baining people, instigated a community forest programme as an alternative to one-off logging royalty payments and other bribes from large-scale logging operations in Gazelle Province of East New Britain (Baird, 1996). The Bainings community forestry programme was managed by Pacific Heritage Foundation (PHF) and subsidised by the UK-based B&Q hardware chain (RIC, 2007).

In July 1994, this project became one of the first community forestry projects in the world to be FSC certified by SGS (Bun and Bewang, 2006), testing the hypothesis that certified sustainable community forestry could improve livelihoods and safeguard the forests (Diamond, 1999). The main species harvested were Taun (*Pometia pinnata*) and Kamarere (*Eucalyptus deglupta*) and the market was the United Kingdom. While PHF pioneered FSC in Papua New Guinea, only two communities were FSC certified. In 1996, the FSC certificate was withdrawn when the annual monitoring visit was cancelled. Many lessons were learned and the problems faced by the programme were as follows:

- There was an absence of local niche markets for FSC-certified timber and constraints in meeting international demand on time with the required quality and quantity of timber.

- Large eruptions in Tavurvur and nearby Vulcan in September 1994 destroyed much of Rabaul: 75% of the houses collapsed. This resulted in the disruption of the normal business operations of PHF.

- Problems implementing the FSC International Standards such as the absence of Forest Management Plans, FSC's Correction Action Requests (CARs) not being met on time and the absence of documented guidelines and directions for FSC certification requirements.

- The costs of maintaining the FSC certificate were very high.

- The producers did not have the capacity to implement certification themselves without assistance from PHF or donors.

- The management, financial, technical and capital capacity of PHF, as an NGO, was very low, as it was with many other local NGOs. For example PHF was not sufficiently skilled in certified forest management (for instance verification).

Hence, this programme soon discontinued its operations under the auspices of PHF forest certification, but some of the timber producers later became part of the FORCERT Group Certification Service Network.

5.4 Buyers and their perceptions of trade in community forest products

Only one buyer, The Woodage of Australia, was formally interviewed for this study. The remainder of the information presented in this section comes from knowledgeable informants backed up by literature.

National markets for Papua New Guinea timber products: Even though Papua New Guinea is the most populated nation in the Pacific, its population of 5,800,000 in July 2007 (CIA, 2007) provides only a small commercial market. The percentage of the population with purchasing power (or having 'effective' demand) is further reduced, given that:

- The majority of the population is classed as 'dependent' (in 2000, 74% of the population was under 15 years or over 65 years; Subendranathan, 2002, 2004).

- Between 80% and 85% of the population live in the rural areas in subsistence or semi-subsistence livelihoods.

- Even the majority of the population in urban areas have very little or no cash income, with high income inequality.

The majority of the population is illiterate or simply ignorant of concepts such as eco-labels, fair trade, FSC and climate change. In summary the internal retail market for any goods in Papua New Guinea is limited – both in absolute extent and in terms of the prices consumer are willing to pay.

National market for Papua New Guinea community timber products: While the local market for timber is quite limited as noted above, community timber products can compete in the market place. This is because a small class of consumers on higher incomes might create, over time, a local market for eco-timber or community timber, especially if groups such as Greenpeace, FORCERT and EFF are able to effectively lobby the local commercial sector, including the multinational companies and the high profile Papua New Guinea multinational businesses and bilateral agencies. Some informants felt that it might be possible to target the Port Moresby market, given that is the capital and the largest commercial centre, where all the above-mentioned organisations are located. However, at present this is not seen as a priority by the NGO community, primarily because potential demand far exceeds the capacity to supply, and secondly, most NGOs are focused on tackling illegal logging that is taking place as this is seen as a more pressing problem.

International markets for Papua New Guinea timber products: According to the World Rainforest Movement (1998), in 1995 Papua New Guinea became the second largest tropical log exporter in the world after Malaysia. The report further noted the domination of Papua New Guinea's timber industry by Malaysian companies in the late 1980s and 1990s. Papua New Guinea exported 2.28 million m^3 of logs in 2006. Most of the logs are exported to markets in China (roughly 80%), Japan, Vietnam, Korea, India, Thailand and Taiwan. Papua New Guinea also exports processed timber in the form of sawn timber, plywood, veneer and woodchips with the main markets for sawn timber being Australia and New Zealand, and for woodchips, Taiwan.

International market for Papua New Guinea community timber products: There is more than sufficient overseas and regional demand for FSC-certified or sustainably harvested timber products from Papua New Guinea. Australia is a growing market for sustainably harvested timber and wood as there is a growing awareness of FSC certification, climate change and the need to act collectively and globally, given the greater intensity of the Australian droughts and the severe shortage of water faced by many of the major Australian cities. International and national NGOs are keen to have in place a mechanism to distinguish community timber. The Woodage company in Australia sees a clear advantage in distinguishing community timber (see value chain analysis below).

5.5 Value chain analysis for one community producer–buyer relationship

FORCERT was formed and registered as a not-for-profit company in October 2003. FORCERT provides group certification and support services to member community-based timber producers. There are three prominent features to FORCERT's mode of operation:

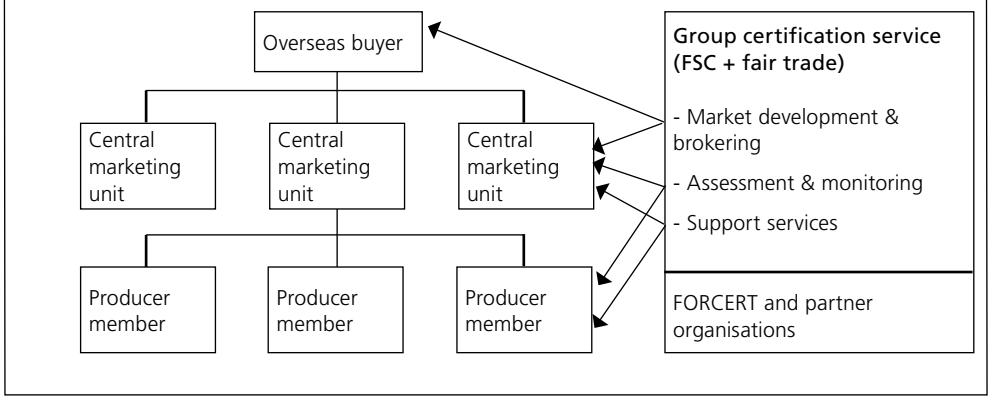
1. A step-wise approach to engage new communities into internationally recognised sustainable forest management through FSC certification.

2. Combination of an FSC Forest Management group certificate, CoC group certificates and a fair trade certificate into one network.

3. Building the service network through memberships and partnerships.

FORCERT's Group Certification Service Network was developed from 2003 to 2004 with participation from a very wide range of stakeholders, including village sawmill managers, timber yard staff and managers, eco-forestry, environmental and social NGOs, and vocational training and research institutions. Here, community-based timber producers come together under one umbrella certificate and are linked with central timber yards called the Central Marketing Units or CMUs. A group certification system was developed in order to spread the costs of being certified (such as audits), which would otherwise be prohibitive to individual small-scale producers or timber yards. An annual membership fee plus a levy per m³ on all certified timber sold by both parties is paid to FORCERT. Group certification network service members also become shareholders upon meeting the FSC-certified membership status requirements. Each share is valued at US$0.34 but no dividends are paid on these. In addition, there are five founding institutional shareholders: WWF, VDT, Greenpeace, CELCOR and the Catholic Diocese of Aitape.

Figure 5.1 FORCERT Group Certification Service Network



Individual producers are linked together into CMUs, with the aim of having at least 10 producer members supplying one CMU. FORCERT combines the total volumes of all its CMUs to supply overseas buyers, accumulating volumes of the various timber species to strike good market deals, including a price premium for the FSC-certified community timber. The three different entities within this group certificate network structure are all organised and run as individual business units (Figure 5.1). The fit of FORCERT within broader international frameworks for forest certification is shown in Figure 5.2.

FORCERT's Certification Awareness, Training & Capacity Building programme supports the development of the Group Certification Service Network through awareness, training and capacity building. This programme is currently fully subsidised, but this will decline as the membership of the Group Certification service builds up, eventually to a level where it is funded completely through the surplus funds from the Group Certification.

Figure 5.2 FORCERT structure and fit within the broader framework of FSC certification

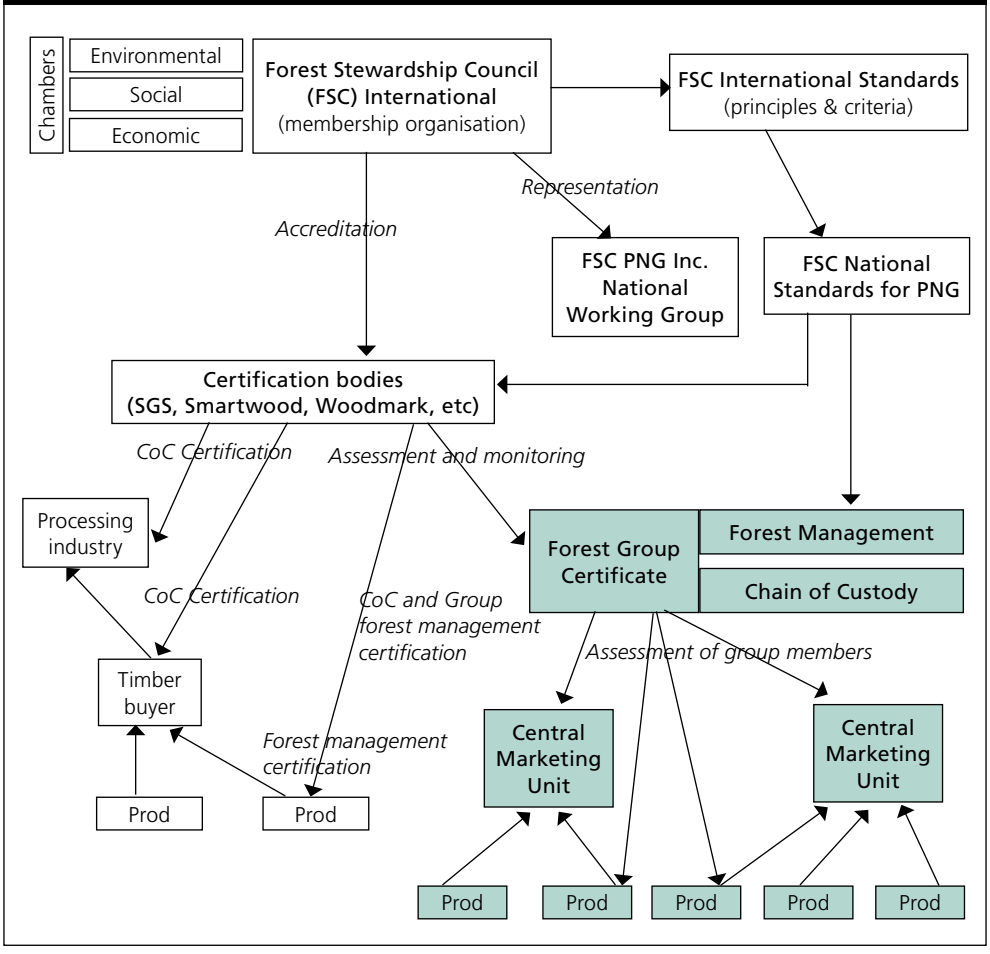


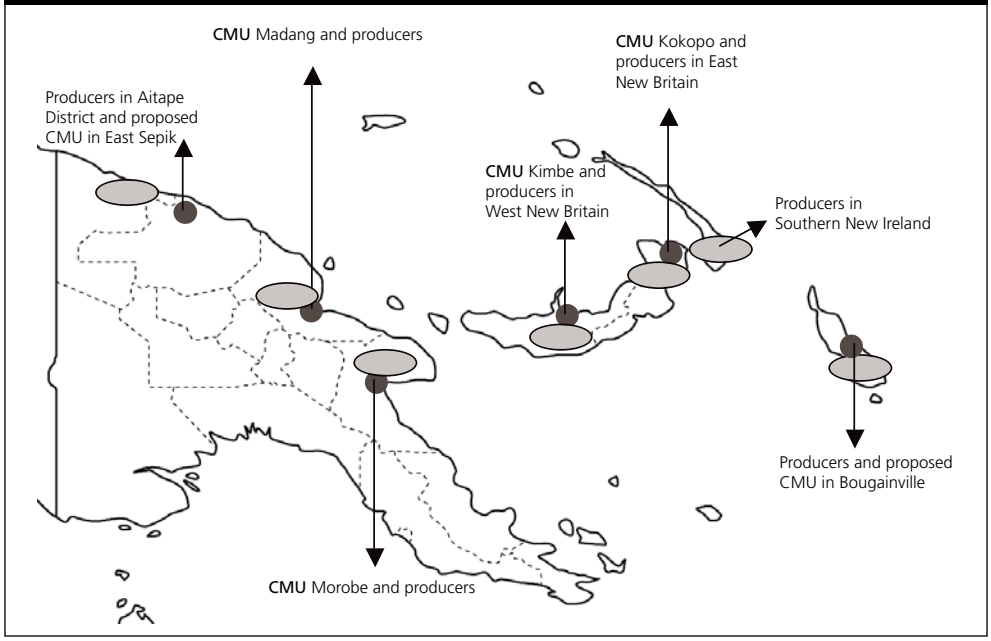
Table 5.2 Criteria and requirements for the three levels of producer membership in FORCERT	
Level	**Criteria and requirements**
1. Community-Based Fair Trade Producers (CBFT)	Criteria for entry: Own a good forest resource of sufficient size; have the management rights over this forest (no logging operation at present or expected, and / or permit over the same area); and work well with the clan(s) involved (no disputes, community benefits considered). Requirements: Meet CBFT criteria; aware of FORCERT's group certification service network; do not harvest in buffer zones (PNG Logging Code of Practice); supply to a certified FORCERT CMU meeting six process standards.
2. Pre-certified producers	Aware of FORCERT's group certification service network and have achieved: ILG application process started, company registration lodged, 1% forest inventory, socio-economic & environmental baseline survey, land use plan (including 10% of the accessible forest area allocated as conservation area), Chain of Custody training, service and production agreement with a CMU, producer membership agreement. Progression to FSC-certified producer status within 18 months of signing pre-certified membership agreement.
3. FSC-certified producers	Completes all requirements of pre-certification plus FIP registration, business plan including identified community needs, forest management plan, 10% inventory of first 5-year working area, health and safety procedures and FORCERT Group Certificate FSC-certified producer membership agreement.

FORCERT's step-wise approach to forest certification: There are three levels for producer members (Table 5.2). It is not necessary for eligible producers to go through all the stages – if they are capable of meeting all the requirements they can jump straight to full FSC-certified status. CMUs do not have a step-wise approach, as FORCERT feels it is relatively easy for a timber yard to become a certified CMU. Nonetheless, it specifies a stringent set of criteria, including business registration, chain of custody documentation, health and safety policies and socio-economic and environmental baselines.

FORCERT's combination of FSC and Fair Trade Organisation certification: In September 2006, FORCERT became a Fair Trade Organisation under the International Fair Trade Federation (IFAT), the first organisation to combine FSC and fair trade certification. The Fair Trade Organisation certificate covers all three producer member categories and all CMUs.

FORCERT's efforts to build the service network through partnership: FORCERT builds the service network through partnerships with other NGOs, training and research institutions and other service providers. In July 2007, FORCERT launched a loan facility with PNG Microfinance Ltd, which gives its members access to loans with easy entry and preferential conditions. It is collaborating with the Small Business Development Corporation (SBDC) to develop and provide a business development extension service. FORCERT is establishing long-term relationships with sawmilling equipment suppliers to obtain discounts and better follow-up services for its members.

Figure 5.3 Map of locations in Papua New Guinea where FORCERT operates



Potential to expand the FORCERT model: At the end of June 2007, FORCERT had 29 producer members around the country (Figure 5.3), of which nine were FSC certified, five pre-certified and 15 CBFT. FORCERT estimates that it could break even the costs of running the Group Certification Service Network when it reaches 46 producer members, seven CMU members and 1,500 m³ timber exported per year, with an annual budget of US$240,500. The Certification Awareness, Training & Capacity Building will still need to be subsidised under this scenario, taking up 58% of staff time and requiring an annual budget of around US$343,000. For FORCERT to become fully independent financially would need 60 to 70 producer members, seven CMU members and 3,500 m³ timber exported per year. Current projections are that FORCERT will be fully self-sustainable by 2015. However, this ambitious target may be partly a response to stringent donor funding requirements. For instance, this year FORCERT increased its levy from 3% to 7% in order to be able to reach break-even point at a lower volume level, as the original volume targets could not be met. Reaching the necessary timber volume flow going through the FORCERT system is one of the main challenges and key to the actual long-term success and viability of the Group Certification Service Network.

Products and buyers: FORCERT has identified 27 different potential commercial species within its target areas. Of these, FORCERT currently has an order for 18 different species. Timber volumes of the CMUs are combined, so that larger orders can be fulfilled and a stronger marketing position obtained. Another advantage of this collaborative approach is that the marketing of LKS can be achieved. In addition, FORCERT's main buyer in Australia (The Woodage) has already been able to use FORCERT's fair trade status to broker a new supply contract for window frames, outside aluminium / inside timber, and furthermore, provided the opportunity to develop a market for *Terminalia* (Talis), one of the LKS FORCERT is promoting.

Until now, FORCERT exported timber exclusively to The Woodage in Sydney, but in recent times there has been a strengthening of market access with trial sales to Hong Kong being successful, with follow-up orders being received. Angora Timbers, based in Brisbane, Australia, has also placed orders for a very limited number of species, but at a lower price than The Woodage. FORCERT has not been able to supply, given that they are struggling to export decent volumes to The Woodage. FORCERT receives a few emails per month in which companies from Australia, Europe (Italy, Germany, Belgium, UK, Netherlands) and Asia (Vietnam, Thailand and China) ask for FSC-certified timber (logs and / or sawn) in quantities that it will never be able to match (up to 25,000 m^3 logs per month). Hence, at present FORCERT is targeting a niche market that is able not only to pay premium prices but to understand the producer side of the market (i.e. limited volumes of a wide range of species, uncertain delivery times, quality control problems).

Production by FORCERT: At present, FORCERT producer members mainly supply rough sawn timber, with an estimated 2006 total annual production of 400 m^3. At present almost 100% of FORCERT's timber products supplied via CMUs are exported, with a smaller level of B-grade timber traded in the local markets.

Relationships between communities and buyers: There is no direct relationship between communities and overseas buyers (i.e. The Woodage, Australia and Rosenfeld Kidson, New Zealand). Instead, the relationship is maintained via intermediaries like FORCERT, FPCD and Greenpeace. In reality, it is these NGOs that are driving this process, given that a huge gap exists between the expectations and requirements of buyers and the lack of knowledge, technical, organisational and negotiation skills of the producers.

FORCERT noted that it was a difficult market to operate in, given the inaccessibility of many of the areas and the high costs and difficulty of organising logistics. More importantly, its producer members are mainly community-based businesses and so decisions are made through community consensus, which can take considerable time. If there is a disagreement within the community or between clans, delivery is not made on time. These problems needed to be conveyed to buyers to ensure they understood the constraints when soliciting new international markets.

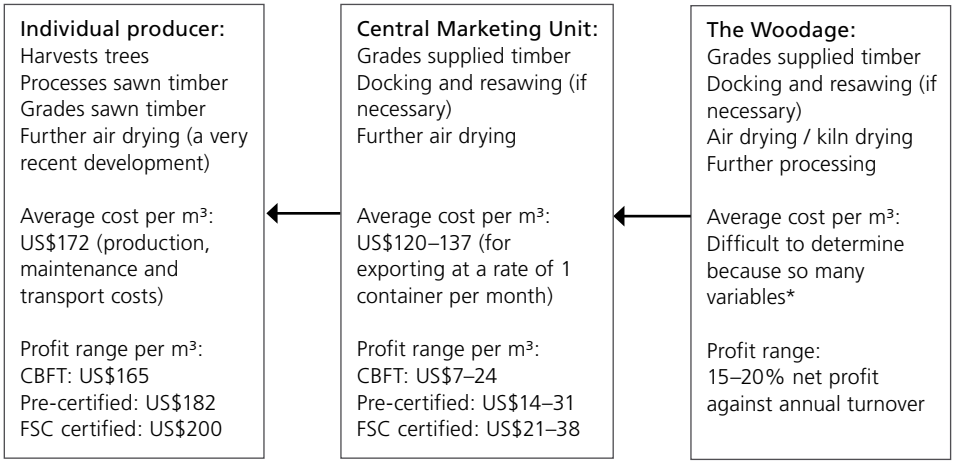
FORCERT cautions that buyers needed to be aware of many of these constraints and noted that if buyers were genuinely interested in buying from truly sustainable forests, then they needed to understand that it could not be a demand-driven market in terms of the kinds of products made available in the market, but would have to be a supply-driven market, since communities could only provide what they can sustainably harvest from their forests. If not, then it would defeat its purpose. FORCERT felt that this was a critical issue given that at present pressure was exerted by the market for Kwila and Rosewood, which in most parts of Papua New Guinea forests are rare species.

For some of FORCERT's producer members, the harvesting and selling of timber are only a 'side' business, i.e. just an additional source of cash, which means they do not devote their full time to this business which therefore cannot operate at its maximum capacity. Also many producers are slowly developing their experience and expertise in running their community business, especially

with regard to establishing transparent business (money) management systems. Building relationships and trust between producers and their respective CMUs takes a lot of time and this limits the amount of timber supplied to CMUs at the beginning of the relationship.

Payment and pricing arrangements: Given the step-wise approach to FSC certification of FORCERT producers, the pricing of the products is also tiered. The entrance level CBFT producers receive a 10% premium on their timber products, while the second group of 'pre-certified' producers receive a 15% premium and the FSC-certified producers a 20% and up premium, providing an incentive to become FSC certified. Producers are given two payment options, with the first being to be paid upon delivery and grading of their timber to the CMU, whereby they receive a minimum of 50% of the export price. The second option is when they export via the CMU, which means they have to wait for their payment till the overseas buyer pays 80% of the invoice upon receipt of the bill of lading, with the remaining 20% paid after inspection of the container. Under this arrangement they receive 70 or 75% of the export price. In both scenarios the producer members have to meet all production and transport costs to the CMU's yard, although individual CMUs may further assist and share these transport costs in the case of payment upon delivery. Air-dried timber fetches slightly higher price (an additional US$45 per m³) to green (raw) timber. FORCERT has only recently started to assist producer members in moving towards air-drying their timber before transporting it to the respective CMUs.

Figure 5.4 Different stages of the production and value chain (arrows showing flow of money) for export (select) grade green sawn timber for a 70–30% arrangement between the producers and CMUs



* Last financial year, The Woodage processed all the timber it received in one of the following three manners: (1) supplied directly (i.e. without any processing) to its customers (3 containers) at approximately 3 to 5% profit on landed cost, (2) packs of kiln dried timber supplied to manufactures at approximately 15 to 30% profit on cost and (3) retail sales ranging from 30 to 100% plus on costs. In supplying to these different types of market, The Woodage adds its own costs of processing, which translates into the above percentages and in total translates into 15 to 20% profit against annual turnover.

FORCERT also noted that the pricing of products is done in a transparent and consultative way – FORCERT consults the buyers before the prices are set. This was a critical component of fair trade certified timber.

Split of percentage and fees: Local market prices for mixed hardwood (A-grade) are generally between US$172 and US$241. In terms of exports, FORCERT is usually able to broker a good price, based on *known average export prices* plus 10% premium for CBFT producers, 15% for pre-certified producers and 20% premium FSC certified. FORCERT reviews these prices on an annual basis and communicates them to all its members, including both the CMUs and the producers. CMUs are obliged to pay at least 50% of the export price to the producers, although FORCERT encourages and expects to pay a higher percentage if feasible. The variation

Table 5.3 Consolidated breakdown of export prices (US$) for different categories of producer and timber species – with indications of buyer interest

Species	FSC certified	Pre-certified	CBFT	Non-certified	Details
Amoora	227	217	206	---	A
Blackbean	340	325	309	282	W
Calophyllum	227(189)	216(179)	206(172)	---	W (A) Trial species: TBA
Celtis, Hard	265(241)	253(223)	241(206)	---	W (A)
Dillenia	227	216	206	---	W Trial species: TBA
Dysox	241	223	206	---	A
Kamarere	241	230	220	199	W
Kwila	340	325	309	282	W
Malas	258	244	232	210	W
Manilkara	241	230	220	199	W Trial species: TBA
Pencil Cedar	241	230	220	199	W
Red Cedar	280	266	253	230	W
Rosewood	383	364	347	316	W
Taun	241	230	220	199	W
Terminalia	227	216	206	---	W Trial species: TBA
Terminalia species groups: Red brown & Yellow brown					
Vitex	280	266	253	230	W
Walnut	280	266	253	230	W

Notes:
Trial species: Trial species are where a small cubic volume of the species has been traded, dried and machined in an attempt to find a new market opportunity in the buying country. Prices of trial species will be re-assessed when the market develops.
TBA: To be advised on any further required quantity and specific sizes and lengths.
W: Denotes The Woodage, buyer based in Sydney.
A: Denotes Angora Timbers based in Brisbane.
Quality: All timbers must be sapwood, pinhole, heartwood free and clear of defects.

is dependent on (a) whether CMUs buy the timber from producers or export the timber on behalf of the producers and (b) the overhead costs per m^3 of the individual CMUs. Two of the four CMUs were currently paying the producers 70% and 75% of the export price respectively.

FORCERT is not part of the value added timber sale chain; instead it facilitates and oversees the process and also acts as broker with the buyers. Hence the CMUs deal directly with The Woodage for all transactions. FORCERT does facilitate communication and broker orders and prices on behalf of both the CMUs and the producers.

FORCERT charges its members (both CMUs and producers) annual membership fees and these are as follows: (a) CBFT producer members US$137, (b) pre-certified producer members US$206, (c) FSC-certified producer members US$275 and (d) CMU's basic fee US$172 plus further instalments of US$172 per sold container load (20 m^3), to a maximum of US$1,030. In addition, FORCERT charges a levy on the sale of all the timber through the FORCERT network of 10.5% of the export price.

FORCERT's export price breakdown: Table 5.3 provides a summarised price list for all the timber species for FORCERT's three producer groups and also that of a non-certified (neither FSC certified or pre-certified and / or fair trade certified) group as a comparison. As described above, from these prices 10.5% goes to FORCERT in the form of a levy payment.

Supply and payment conditions include the following:

- Prior to loading the container, packing lists must be compiled and confirmed with buyers.
- Sawn timber from *wokabaut sawmills* (free hand chainsaw timber) is priced by The Woodage or Angora Timbers.
- Losses due to bad grading or under size cutting go back on the CMU.
- Containers must be packed for ease of removal at point of destination, as instructed by The Woodage or Angora Timbers.
- Packing is to be one sectional size and length per bundle.
- Each piece of timber is to be sealed both ends, preferably with Mobil Ser-M or Hydroseal. If not done costs go back on the CMU at US$22/$m^3$.
- Fumigation must meet Australian quarantine standards; cost for re-fumigation, including transport, storage, etc due to failure to meet these standards, to be met by CMU.
- Delays in clearing of container due to lack of, or incorrect, or incomplete paperwork by the CMU, thus incurring holding charges, will be met by the CMU. Express Release (fax release) is the preferred container release system.
- Payment of 80% will be made on fax release, once timber is unloaded and assessed, any deduction required for any errors mentioned above, will be taken from the final 20% payment.

5.6 Main lessons about prospects for distinguishing community forest products in the market

Small-scale producers in Papua New Guinea are clearly not competitive in comparison with large-scale logging companies, since the logging companies adopt a 'business approach' as opposed to a 'community approach', are able to obtain large timber concessions allowing them to take advantage of economies of scale, and use poorly paid labour and unsustainable logging practices to generate cheap prices. They are able to export to countries that do not have stringent requirements in terms of environmental or social conditions.

Most community-based (NGO-assisted) producers will not be able to compete if left to the 'invisible hand' of the free market. A niche market and premium prices are necessary for the viability and long-term sustainability of these producers. Nonetheless, there are important supplier-side constraints to purchasing timber that both provides economic opportunities and matches local needs for cultural integrity, environmental sustainability, decent work and a reasonable income.

Donors often have very unrealistic expectations of short-term efforts to build capacity in product quality and business management. Social transformation is taking place at a rapid pace on some fronts while gradually in other areas and is driven by a myriad of factors. Success will require patience. Support NGOs themselves lack expertise and capacity, especially with regard to business approach and competition in markets. Product quality and business management have always been a stumbling block to fostering community-based enterprises and a very long-term and gradual approach to the constraint would need to be adopted.

FORCERT has a good potential to be used as a pilot project for FSC, community and fair trade timber because it has many positive features, enabling it to be replicated to other parts of the Pacific and to other parts of the world:

- It is an institution built on lessons learned from earlier experiences, with wide stakeholder participation in formulating its set-up, including consulting the central marketing units and community producers.
- It has a coherent and systematic step-wise approach to FSC certification combined with fair trade.
- It is a model built on financial sustainability, with a clearly laid out business plan which shows when FORCERT will break even on costs.
- It focuses very narrowly on harvesting timber alone, with the overall objective of sustainably managing forests and providing sustainable livelihoods for the communities that depend on them.

The Woodage is a critical part of the equation since it opts not to strike hard bargains, providing the best possible price it can for social reasons. The Woodage has occasionally even incurred losses, for example accepting lower quality material without payment deductions. But this was in line with the overall strategy of The Woodage of commitment to purchasing and promoting eco-timber from local, community-based producers.

Lessons from trade in community forest products – Guatemala

Nelda Sanchez Hidalgo
Ruben Pasos

6.1 Background

The Guatemalan case study was carried out from June to August 2007 by two independent consultants. It involved travel to the Petén in Guatemala to conduct a series of interviews with key informants linked to the 13 community concessions who have become certified by FSC. Interviews were also carried out with staff of the umbrella organisation FORESCOM, which holds the group certificate for the community concessions and helps to negotiate sales with buyers from the USA, Europe and Guatemala. Finally, a number of telephone interviews were carried out with other key actors in the Guatemalan forest sector including national timber buyers, importers and exporters.

A brief review of the relevant literature was undertaken to give some background context to the forest sector in Guatemala and the evolution of the community forest management situation in the department of the Petén. This was complemented by contact with the government authorities responsible for the implementation of this community forest management strategy at the National Council for Protected Areas (CONAP) and the National Forestry Institute (INAB).

The developments in community forest management are so recent that much of the information contained below is only indicative of what might happen in the future. FORESCOM is only three years old and its attempts to consolidate and strengthen the marketing of community forest products are still in their early stages.

6.2 Introduction to the Guatemala forest products trade

Guatemala covers an area of 108,899 km², 37% of which is forested land. There are two main types of forest: tropical rainforest, which accounts for about 80% of all forested land, and conifer forest, which makes up the remaining 20%. Approximately 53% of the forest is classed as protected areas – managed under the Protected Areas Law, Decree No. 4-89, which was implemented in 1989. In these areas concessions or extraction licences can be authorised by CONAP. Outside protected areas, licences or permits are managed by INAB.

Over the last few years, the country has been making progress with certified natural forest management. About 700,000 ha of forest are under some type of management arrangement. The Petén occupies 33% of Guatemala and boasts the largest area of tropical rainforest in the country.

Official statistics for timber production show that an average of 575,000 m³ was produced each year between 1998 and 2001. According to figures from the National Forests Institute (INAB), 1,054 forestry businesses were officially registered in the country in 2001.

In 2005, Guatemala exported forest products worth a total of US$77.6 million. 47.4% of these exports, worth US$36.8 million, went to the USA alone. Exports worth US$18.1 million, equivalent to 23.3% of the total, went to other Central American countries. The main export

products in order of value include categories such as sawn timber; boxes, pallets and other wooden packaging; wooden furniture; shaped wood; and carpentry for construction. Tropical rainforest species accounted for 70% of the value of exports in US dollars, and conifer species the remaining 30%. In the national accounts the forestry sector in Guatemala shows a marked trade deficit. In 2001 exports of forest products were worth US$91.8 million and imports US$238.1 million, resulting in a negative trade balance of US$146.3 million.

Financing for the forest sector in the Maya Biosphere Reserve (Reserva de la Biosfera Maya – RBM) between 1991 and 2001 amounted to US$109 million. Almost 90% of this investment was made to support sustainable forest management at a commercial level, with 7% to redress negative environmental impacts and 3% for pure conservation (Gómez and Méndez, 2005).

6.3 Main community forest product lines and markets

In terms of Guatemalan community forestry, the most important development has been the new community concessions located in the Department of Petén (CONAP, 2001, 2002). It is considered one of the most successful Central American examples of joint management of natural resources.

Prior to 1989 the Petén had been managed by the Petén Development Company (FYDEP), which had established some short-term forest concessions – but also encouraged immigration to the region and the conversion of forest to pasture. Its main aim was the agricultural development of the region. The Protected areas Law of 1989 and the establishment of the management authority, CONAP, introduced a whole new management philosophy. The new aim was to make social and economic development compatible with the conservation of renewable natural resources and biodiversity. The focus was to be sustainable forest management (INAB, 2003).

CONAP's new strategy was based on the philosophy that if forest conservation was the aim, it was a question of 'use it or lose it'. They launched a new approach that involved strict conservation areas (Zonas nucleos), multiple use areas (Zonas de Uso Múltiple) and buffer areas (Zonas de Amortiguamiento). In 1994 CONAP laid out a 17-step process for awarding forestry concessions in the Multiple Use Area (Zona de Uso Múltiple – ZUM) of the RBM – but conditional on the successful attainment of independent forest certification by the FSC.

Two types of concession were allowed – the first directed towards communities for both timber and NTFP production and the second for industrial concessionaires with more restricted use limited to timber extraction. A major capacity-building programme in association with the Tropical Agriculture Research and Higher Education Centre (CATIE) helped to create awareness of sustainable forest management – for example, introducing the notions of 25–40 year concession cycles and extraction intensities of between one and three trees per hectare in any harvesting block.

The new legislation allowed considerable new commercial opportunities for forest communities. The Petén communities moved quickly to organise themselves and present a common front – in the face of potential private sector competitors for the use of forest

resources. Following the launch of the first community concession in 1994, the Association of Forest Communities of the Petén (Asociación de Comunidades Forestales de Petén – ACOFOP) was formally founded in 1996. ACOFOP represents 22 community organisations across the Petén, including the community forest concessions (ACOFOP, 2002).

By 2005, 15 concessions (13 community and 2 industrial) were operating on a total of 560,000 ha of land with natural forest cover of close to 98%, directly benefiting about 7,000 people from 1,300 families (see Figure 6.1). By 2004, the rather disjointed harvesting and processing capacities of the separate communities were addressed through the formation of the Forest Services Community Enterprise (FORESCOM), which provided marketing advice and installed value adding technologies for further processing basic sawn timber.

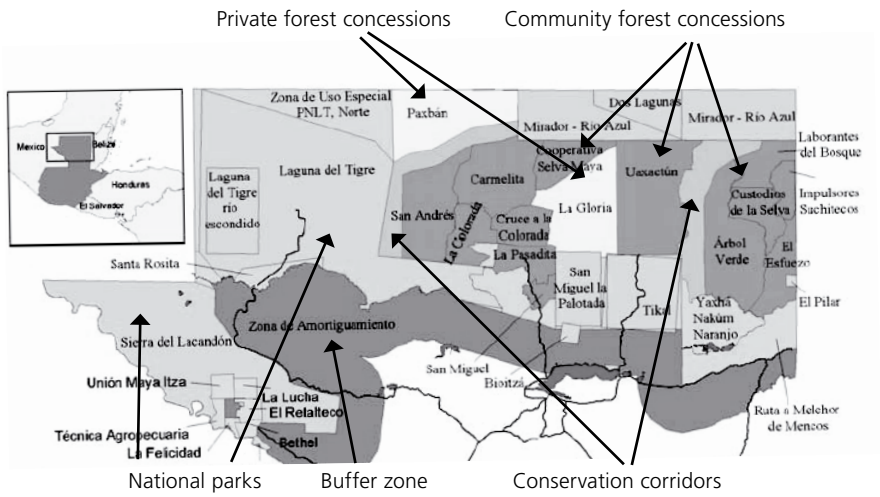
FORESCOM is a legally registered company that provides services to community forestry enterprises in Petén, including sales and marketing. FORESCOM was set up in an effort to break with the traditional system, in which each community sells its own wood.

FORESCOM currently offers the following services:

- Forest stewardship services
- Marketing of wood products
- Business management training
- Heavy equipment for forestry operations
- Maintenance of forest trails
- Marketing of non-timber and craft products
- Start-up services for ecotourism projects
- Forest certification
- Growing and sale of seedlings in plant nurseries

The amount of timber produced by communities in Petén has traditionally been defined during the annual planning process and set out in Annual Work Plans, which are drawn up once the preceding harvest is over. The planning process normally culminates in the approval of the annual amount of timber CONAP allows each organisation to log. The Annual Work Plans are drawn up on the basis of a census of all the species to be logged, taking into account only those trees with a diameter of more than 30 cm at chest height. The usual practice is to cut only those trees whose diameter at this height is more than the permitted minimum (between 45 cm and 60 cm on average). Volumes of timber produced through ACOFOP members are substantial (see Table 6.1).

Figure 6.1 Map of the main community forest concessions in the Multiple Use Zones of the Mayan Biosphere Reserve of the Petén, Guatemala



In 2004, twelve communities and the two industrial companies planned to log 17,898 m³ of wood, based on the amounts authorised by CONAP. Going by the classification system used by CONAP, 9,783 m³ of this total were precious hardwoods (Mahogany, Cedar, Jobillo and Chichipate – in order of abundance), 2,600 m³ were semiprecious woods (mainly Santa María), and the remaining 5,515 m³ were secondary woods. Secondary woods include 17 or 18 species logged by the industrial companies Gibor and Baren (whose timber is used as filler in veneer products). If these amounts are left out, the quantity of secondary species inventoried and logged by the communities would be minimal. For non-precious species harvesting totals do not reflect the amount actually available but rather the amount of wood that the concession-holding organisation estimates it will be able to sell. Markets for these species is poor.

The sale of sawn Mahogany is the most significant element in the portfolio of timber species offered by the communities. Finding markets and obtaining a fair market price for this precious hardwood is a critical element of the financial viability of these operations. This has been complicated by the variable processing capacity of different community forest enterprises (Table 6.2).

Table 6.1 Forecast volumes of timber for 17 species from the inventory in nine communities' five-year plans 2005–2009

Species		Volume in m³ per year					Total volume	%
Common Name	Scientific Name	2005	2006	2007	2008	2009		
Pucté	*Bucida berseras*	4,356	5,615	9,280	6,040	5,720	31,011	34.6%
Mahogany (Caoba)	*Swietenia macrophylla*	5,002	4,692	5,007	5,134	4,307	24,142	26.9%
Santa Maria	*Callophyllum brasiliense*	837	1,605	1,992	2,429	2,915	9,778	10.9%
Manchiche	*Lonchocarpus castilloi*	2,383	994	916	1,105	1,123	6,521	7.3%
Amapola	*Pseudobombax ellipticum*	1,312	542	635	678	707	3,874	4.3%
Danto	*Vatairea lundellii*	376	566	517	970	858	3,287	3.7%
Cedar (Cedro)	*Cedrella odorata*	371	420	353	1,004	494	2,642	3%
Mano de Leon	*Dendropanax arboreum*	85	959	409	324	309	2,086	2.3%
Chechen Negro	*Metopium brownei*	68	454	383	203	742	1,850	2.1%
Malerio colorado	*Aspidosperma megalocarpium*	248	413	175	100	177	1,113	1.2%
Jobillo	*Astronium graveolens*	34	208	105	73	286	706	0.8%
Guaciban	*Phtiecolobium leucocalix*	261	35	135	121	149	701	0.8%
Chacaj colorado	*Bursera simaruba*	172	150	115	126	54	617	0.7%
Jabo	*Spondias mombin*	133	150	108	136	6	533	0.6%
Canxan	*Terminalia amazonia*	55	119	87	62	61	384	0.4%
Catalox	*Swartzia lundelli*	29	122	6	17	36	210	0.2%
Llora Sangre	*Swartzia cubensis*	64	36	33	29	37	199	0.2%
Total per year		15,786	17,080	20,256	18,551	17,981	89,654	100%
Percentage Mahogany		31.7%	27.5%	24.7%	27.7%	23.9%		

Table 6.2 Processing capacity: Community Forestry Industrial Complex (ACOFOP, 2002)				
Community Enterprise	Equipment model	Model (year)	Potential capacity: m³ per day	Used capacity: m³ per day
Custosel	Stationary	1960	23.6	16.5
Laborantes	Stationary	1960	14.2	9.4
Suchitecos	LT90 GM	2006	16.5	9.4
Esfuerzo	Stationary	1960	14.2	11.8
Árbol Verde	LT90 GM	2006	16.5	9.4
Carmelita	Stationary	1970	28.3	13.0
Uaxactún	Stationary	1960	11.8	7.0
Afisap	Stationary	1984	16.5	7.0
Total	8 sets of equipment		141.6	83.5

Nittler and Tschinkel (2005) analyse the situation as follows:

> *Unfortunately, instead of sharing some of their equipment, eight communities now have their own sawmills and seven have heavy logging equipment of one sort or another. Their portable sawmills and bandsaws are often disproportionate to their production. The portable sawmills (Woodmizers) are not designed for the size and density of many tree species, while the bandsaws are too large for the quantity of wood logged in any of the communities. Two communities have carpentry equipment, one has a planer, and none of them have drying ovens or chemical treatment facilities.*

Studies carried out prior to the formation of FORESCOM in 2004 showed that wood-processing yields had risen above 50% in most cases, although the costs are relatively high (about US$275 per m³). Yields are within the normal range expected for the type of wood and equipment in the area. At the same time, it costs the same to produce a foot of secondary wood as it does to produce a foot of Mahogany – so the viability of an enterprise is highly dependent on precious species.

With the support of the Rainforest Alliance, FORESCOM drew up a marketing strategy at the end of 2004 and was given specialist advice for the following three years on issues such as adding value and non-timber resources. Initially, it was necessary for FORSECOM to work in partnership with two industrial companies (Gibor and Petexbatún) in order to saw, dry and mould the wood to make finished products such as flooring and cladding for houses. But in 2007, FORESCOM installed its own industrial plant for processing hardwoods, called the 'Nave Industrial'. This plant, which is owned by FORESCOM, has a moulding machine, a trimmer, a multi-blade saw and an electric planer. Potentially, it has the capacity to process just under 19 m³ per day, but the plant is currently producing just over 14 m³ per day with four workers on shifts.

In these new FORESCOM facilities, the plan is only to process wood that is already sawn and give it added value, drying it artificially and moulding it to make products such as decking, tongue and groove planking, strip, shiplap, etc, and other products that use low-grade wood such as decking-marimba and ecodecking.

FORESCOM products using Santa María, Manchiche and Pucté species include the following:

- Parquet: indoor flooring
- Planking for floors, cladding and ceilings: indoor flooring or cladding for houses
- Decking: outdoor flooring
- Ecodecking: outdoor flooring in blocks
- Strips: strips of wood
- Shiplap: moulded planks for cladding houses
- S4S: oven-dried wood sanded on all four sides
- Walkway flooring "decking-marimba": walkways and rest areas for gardens, beaches, parks, railings, beach loungers, pergolas
- Folding chairs

In 2005, approximately 285 m^3 were sold, bringing in an income of US$193,000. That year's reported sales were from May onwards, when FORESCOM's sales began. In 2006, total sales were 592 m^3, worth US$411,000.

Besides the growing capacity to process and sell timber, NTFPs continue to be an extremely important source of income for rural communities. In addition to food, medicine, construction materials and raw materials for local industry, they are also major export products and provide jobs to people in rural areas.

In the Maya Biosphere Reserve alone, the livelihoods of more than 7,000 families are based on NTFPs. Overall, it is estimated that NTFPs contribute about US$6 million per year to the national economy in gross revenue, without counting the income generated by harvesting, processing and marketing work.

Latex or gum is a particularly important commercial product. The first records of gum being tapped in Guatemala date back to 1887, when rubber-tappers collected the latex from the 'chicozapote' tree (*Manilkara zapota*) to be used in the industrial adhesives and chewing gum industries (Aldrete, 1998). Until 1973, the USA was the only destination for exports of Guatemalan latex. Exports to Japan started in 1974, and today almost all the gum produced is marketed through two Japanese companies: Mitsui & Co. and Sumitomo Corporation.

Between 1940 and 1970, the average amount of latex produced was more than 1,000 tonnes per year. Today, it is about 500 tonnes per year. The fall in production is due mainly to resources becoming exhausted and the existence of synthetic substitutes. Prices have remained stable for the last few years, ranging from US$3.90 to US$4.35 per kilo. Based on this price and average annual production, it is estimated that the gross income generated by Guatemala's gum exports is more than US$2 million per year.

Another important NTFP product is xate – the common name for three species of small palm (*Chamaedorea elegans*, xate hembra; *Chamaedorea oblongata*, xate macho and *Chamaedorea erumpens*, cambray) which grow in the under storey of the tropical rainforest (FIPA/USAID, 2002). Their leaves are collected and currently exported to the USA, Germany and Holland.

The gathering of xate palm leaves in Petén is an activity that provides direct employment to more than 6,000 people, while a further 500 work on the sales and marketing side. All the xate leaves collected in Guatemala are destined for export. In 1986, exports of xate peaked at about 1,500 tonnes of leaves, but by 1992 this had fallen to 739 tonnes. The reduction is due mainly to increasing deforestation, but logging also causes physical damage to populations of xate species.

As part of FORESCOM's new marketing strategy, an agreement was reached with the Association of Exporters of Non-Traditional Products (AGESPRON), which is now implementing a management and marketing plan for xate. This project is promoting the centralised management and storage of xate and has been handling xate exports for the last two years. The communities involved in this initiative are Uaxactún, Carmelita, Afisap, El Esfuerzo and La Pasadita.

In 2005 FORESCOM exported 6,246 bundles of xate, worth a total of US$58,816. By 2006 both the quantity exported and the income generated had more than doubled, increasing to 13,077 bundles of xate worth US$129,200.

Certification schemes are an important component of timber and NTFP production systems – primarily because concession tenure is conditional on FSC certification (Table 6.3).

SmartWood, the Rainforest Alliance's certification arm, is the only certification body currently working in Petén. The cost of certification for each community forestry enterprise was subsidised by USAID, and SmartWood was the only certification organisation used. The desirability of opening up the system to other certification bodies, seeking a more competitive arrangement that would lower the price of certification and the services involved in it, is currently under discussion.

The establishment of FORESCOM as an umbrella body allowed community forest businesses to pursue 'group certification' with the aim of reducing the cost of certification. SmartWood then certified FORESCOM as group steward, and awarded it the Group Steward certificate in March 2005. There are currently nine groups under the group certification. Each organisation that is a member of the certified group pays US$2,000 a year to FORESCOM. FORESCOM then pays SmartWood a quota of US$1,100 for each group member organisation.

Table 6.3 Certified forestry concessions and concessions in the process of being certified in Guatemala (2004)

No.	Name of the community group or company	Name of the managed area	Size of area (ha)
	Certified community forestry concessions		
1	Sociedad Civil Impulsores Suchitecos de Desarrollo Integral	Suchitan	12,217
2	Sociedad Civil Laborantes del Bosque	Chosquitán	19,390
3	Sociedad Civil El Esfuerzo	Yaloch	25,328
4	Sociedad Civil Organización, Manejo y Conservación (OMYC)	Uaxactún	83,558
5	Sociedad Civil Arbol Verde	Las Ventanas	64,973
6	Cooperativa Integral Comercialización de Carmelita R.L.	Carmelita	53,797
7	Asociación Forestal Integral San Andrés, Petén (AFISAP)	San Andrés	51,940
8	Asociación Forestal Integral La Colorada (AFILC)	La Colorada	22,067
9	Asociación Forestal Integral Cruce La Colorada (AFICC)	Cruce La Colorada	20,469
10	Sociedad Civil , Sociedad Civil Custodios de la Selva (CUSTOSEL)	La Unión	21,176
11	Asociación de Productores de San Miguel (APROSAM)	San Miguel	7,170
	SUB-TOTAL		382,085
	Certified industrial forestry concessions		
1	Gibor S.A.	Paxban	65,755
2	Baren Comercial	La Gloria	66,458
	SUB-TOTAL		132,213
	Concessions suspended from certification		
1	Asociación de Productores de La Pasadita (APROLAP)	La Pasadita	18,817
	SUB-TOTAL		18,817
	TOTAL		533,115

Source: SmartWood, Guatemala

In addition to FSC certification, there is also growing awareness in Guatemala of fair trade. In 2006, 27 certified organisations were participating in these schemes. Of these organisations, 22 are producing coffee and five are selling honey. While early fair trade mechanisms were put in place primarily for organic food (coffee and honey), their benefits have spread to indigenous communities and especially to women's groups, and the fair trade system now includes craft products, particularly textiles. The solidarity campaigns set up to denounce human rights

abuses and economic inequality during Guatemala's recent political and social history of military conflict can therefore be said to have given rise to niche markets with a huge growth potential, particularly in Europe.

In the newer fair trade small-scale handicrafts sector, most of the producers are women. Mayan Hands (Manos Mayas), an organisation founded in 1989, brings together about 230 indigenous women making textile products for export to the USA, with annual sales of US$131,578. Despite these promising developments there has been no attempt to introduce 'fair trade' practices into the broader timber and NTFP sectors.

Despite the lack of formal 'fair trade' practices in forestry, several studies have looked at price premiums for certified products (Lopez, 2000; Andia, 2005). Two studies by Ozanne and Winterhalter reviewed by Chemonics (2004) indicate that a large percentage of consumers (40–60%) are willing to pay 12–25% more for certified products from Guatemala. But the report then points out that other studies argue the opposite: that this willingness to pay expressed by consumers in surveys is not borne out in actual purchases.

The Chemonics report goes on to say that no analysis of the willingness to pay on the part of brokers or wholesalers could be found. It adds that the buyers interviewed for the study expressed a willingness to pay communities more than the international market price for Mahogany, principally with the aim of consolidating their commercial relationship with the supplier communities rather than for any other reason (including certification).

6.4 Buyers and their perceptions of trade in community forest products

Contrary to worldwide trends – especially in Europe – where companies look for guarantees of origin, environmental sustainability or socially fair production systems have not been demanded in Guatemala until recently. Surprisingly, interviews with international wood buyers operating in Petén indicate that none appears to be primarily commercially motivated by the fact that the wood from Petén has the FSC (SmartWood) certification. They are even less likely to be concerned about the community origin.

The leaders of community enterprises wish to gain international market recognition of the special qualities that go with their certified forest products. But a joined-up strategy (including government) is needed to publicise the strong story to be developed around the Maya world, conservation and sustainable management, and the social value of the community nature of forest production in Petén. FORESCOM has started this process – in part by attending a Forest Trade Fair in Chicago in 2006 to tell 'the story behind the tree'.

In the case of community-produced wood, FORESCOM leaders analysed their experience of doing business with a total of nine companies: four from North America, three from Europe (Norway, Holland and Germany), one from the South Pacific and one from Guatemala.

Of all nine companies, only one – a European company – is known to have started chain of custody certification to ensure that the end consumer is getting a fully guaranteed product. The Guatemalan company Staparquet, which exports furniture to the USA, is known to have embarked on this process in 2007. This company is mainly interested in hardwoods: Manchichi, Pucté and Santa María. The company is also carrying out a social housing initiative as part of the National Competitiveness Programme, PRONACOM, which seeks to promote best practices in business management.

After hearing FORESCOM's story at the Chicago fair, another North American company expressed interest in the particular community attributes of the furniture and outdoor accessories produced in Petén. But beyond that buyer, there is no indication that the companies currently buying community-produced wood are using the 'community attributes' of these products in their marketing strategies.

In Guatemala, forest certification is understood to mean legal wood, and the general public does not seem to be aware of what certification of good forest management implies in terms of production, economic and social processes. There is no reported case of certification for good management being a factor that was taken into account in any commercial operation buying and selling wood in the domestic market.

The communities themselves see forest certification as a CONAP requirement that ensures their access to the forest, rather than a commercial opportunity.

At the moment in Guatemala, consumers of forest products and the companies that market them do not usually seem to be concerned about whether the wood comes from legal or illegal sources. However, very recently, some companies have started to become aware of the issue. Staparquet, for example, is looking into certification, with the aim of maintaining and expanding its current market in the USA. In the more usual business arrangements, large companies that buy sawn timber maintain a direct commercial relationship with the sawmills that are their permanent suppliers. This is a simple buyer–supplier relationship, in which no one is at all interested to know where the wood comes from. The only variables that matter are quantity, quality and above all, price.

For xate exports, negotiation and face-to-face contacts following FORESCOM's participation in the Chicago fair led to a non-traditional niche market being developed with USA churches under the principles of fair trade – though for the time being without formal certification and auditing mechanisms. The churches are paying member communities a premium of 30% more than the market price. This works out at an extra US$0.05 for each unit of palm leaves, which are delivered in packages of 600 units. The church association pays US$13 per package, compared with the market price of US$10. So far in 2007, one community has exported 105 packages of xate under this arrangement.

Several companies import tropical wood to Guatemala – for example, the Megamaderas Company – at prices that undercut local producers. FORESCOM directors say that this is because of comparative cost advantages of producing wood elsewhere – especially if wood from natural forests has to compete with plantation timber for some end uses.

6.5 Value chain analysis for one community producer–buyer relationship

This section details the FORESCOM value chain and its negotiations around price, quality and species.

The first appraisal of the community marketing experience was carried out in 2006, as part of an evaluation of an ICCO supported project. The appraisal noted that prior to the formation of FORESCOM, the opportunities for increasing the income earned from the sale of wood had improved when a 'Trade Liaison Office' was set up. Four community enterprises had pooled the quantities of wood they had produced individually – to consolidate their supply and negotiate sales through collective bargaining by that Trade Liaison Office. They managed to sell their Mahogany for US$1,144 per m^3, while the groups that negotiated individually only obtained a price of US$890 per m^3.

This early success led to the setting up of FORESCOM, whose aim in its first year was to promote the idea of pooling sales of wood based on voluntary partnerships. This meant that all the organisations that wished to could participate, putting in the quantity of wood they saw fit to sell through this channel. In keeping with this aim, in the first few months the office concentrated on establishing commercial contacts between several communities, two Guatemalan companies and three international companies, which led to the first sales being finalised (including a certain amount of hardwood species).

The experience of co-operative business relationships between various enterprises is recent and inevitably still evolving. It has changed the relationships between the community enterprises themselves, and between them and their 'umbrella company' FORESCOM. Their relationships with the old local and national wood industry and, of course, international buyers, have also changed.

In 2004, FORESCOM had its first experience of the pooled sale of Mahogany, made up of the wood contributed by six communities. FORESCOM negotiated with two buying companies in the USA, obtaining a single price and an interest-free advance payment. This advance payment covered the logging and sawmill costs, thus obviating the need to take out a bank loan with an annual interest rate of 18%. With regard to the sales price, FORESCOM managed to negotiate a 1% price increase – which despite sounding small equated to US$20,000 in practice.

This first experience was very important, considering – for example – that during the previous logging season (2003–2004) just one buying company paid seven different prices to the communities. This was due to the lack of communication between the communities and the fact that some did not have the negotiating skills needed to obtain a fair price individually. The novelty is that communities and their umbrella organisation are now starting to carry out sales and marketing operations that were previously dominated by the buyers.

Probably the most important factor limiting sales of wood is that the communities do not have a stable market for the combination of species they supply. Another essential factor is that the communities lack the capacity to supply products with value added. Thus, for example, although there are eight sawmills, the community forestry complex does not have any drying equipment, and the ability to provide wood-sanding services is very limited.

Community leaders and technical staff supporting community enterprise development in Petén have attended a number of different international trade fairs. This led them to the conclusion that the communities need to specialise, concentrating on supplying certain finished forest products. These would be determined by the following key criteria:

- The real technological capacity of the secondary processing industry (the communities do not have the technology needed to produce high-quality finished products).

- The abundance of secondary species in Petén.

This suggests that the market for outdoor furnishings (patios, gardens and swimming pools) is the area FORESCOM should concentrate on in the next few years.

Wood from Petén offers certain comparative advantages that make it attractive to international markets:

- The location of the concessions: Relatively speaking, the concessions are quite accessible: they are not far from the port and very close to markets in the Caribbean, Mexico and the USA.

- Certification: All the wood supplied by the communities is certified or in the final stages of the certification process. This is important, especially with the abundance of Mahogany mentioned earlier.

- Community conservation: The source of the wood in terms of its socio-economic and environmental significance is important to some markets. In the case of Petén, the forest and how it is managed is essential to the communities and for the conservation of one area of tropical forest in Central America.

These aspects could be very important in the development of markets for secondary species – something that FORESCOM should take advantage of, bearing in mind that more than 500,000 m³ of wood (from hardwoods and softwoods) is used in Guatemala alone, most of it in the construction and furniture industries.

As the CHEMONICS study reports, the market for logs of LKS is better developed than the market for sawn timber, although prices are low. Integrated companies such as Maderas del Alto, Famusa, Madertec and others buy logs and process the wood to manufacture plywood or other products. According to Agroselva, a local forestry company that buys standing trees and sells the logs to processors in Petén and Zacapa, offers US$24–38/m³ delivered to the plant or sawmill, depending on the species and the location. Barren Comercial paid a higher price to the La Colorada and Cruce a la Colorada concessions: about US$28/m³ for a standing tree of eight LKS.

Particular segments of the domestic market do offer opportunities to the communities. These include wood for top-quality furniture, high-value houses and other buildings, floors, doors and other manufactured products. However, these market segments also get their supplies from other countries, at prices that undercut wood from communities.

6.6 Main lessons about prospects for distinguishing community forest products in the market

The communities in Petén are skilled in forest management and silviculture and are starting to take steps to add value to their products. In discussion with informants from the area it became clear that the main challenges for them in the immediate future include:

Integrated management and diversification of productive activities:

- Intensify the integrated management of the resources that form part of the immense biodiversity in their areas of managed forest. This implies devoting more effort to the gathering and marketing of NTFPs.
- Take advantage of the beauty of the landscape and the huge opportunities offered by the region's archaeological wealth and Mayan culture by undertaking their own tourism initiatives.
- Re-position community-produced wood from the Maya Biosphere Reserve in the market.
- Give the products from these communities a stronger image in the domestic and international market.
- Work towards establishing fair trade schemes, emphasising the environmentally responsible and socially beneficial nature of the Petén community forestry model.

Business management:

- Strengthen FORESCOM as the main means to achieve full ownership of the forestry supply chain in Petén.
- Pool the supply of community forest products.

From the Guatemalan context, there are a number of key lessons learned that should be taken into account when putting the conditions in place for the development of a scheme for 'distinguishing community forest products in the market':

- Scale down expectations with regard to price premiums – and emphasize the greater importance of market access. Certification for good forest management has not led to higher sales prices. No community enterprise in Petén has yet managed to make use of the FSC label to attract higher prices. The only strategy that seems feasible with regard to prices continues to be the one that focuses on value added and joint negotiation of prices.
- Do not overlook the potential of NTFPs for developing experience with export markets especially in relation to fair trade schemes. The experience of selling xate to North American churches suggests the sort of market to look at.

- To open up markets for the so-called lesser-known forest species, one interesting possibility is to link the sale of these species to sales of the market leaders (Mahogany and Cedar) by promoting a 'voluntary' quota system.

- Attempts to forge community–industry partnerships have demonstrated the fragility of the traditional industrial companies operating in Petén. The experience of processing hardwood species through "assembly" arrangements with these industries did not fulfil expectations with regard to the contribution they were supposed to make, and laid bare the chronic weaknesses affecting these industrial companies. All sorts of difficulties have prevented FORESCOM from meeting the agreed deadlines for the delivery of products to its clients. Some of the main problems are the maintenance of sawmill equipment and the increase in fuel prices, which caused a huge rise in the originally agreed costs.

- As a model of commercial integration, FORESCOM still needs to take steps to consolidate itself as a marketing channel. The community enterprises that are members of FORESCOM do not yet seem ready to make a commitment to process and market all their wood through the company. This confirms that the development of a business-minded outlook in the community organisations is a task that is still pending.

The Petén community forestry initiative has demonstrated the benefits of this bold conservation and sustainable management arrangement: entrusting the management of large areas of forest to the communities themselves. The important contribution made by the community forestry model is proving the truth of two basic paradigms:

- Communities have the capacity to fulfil conservation objectives by using forests for commercial gains at sustainable levels.

- Community forest management is a strategy that leads to more integrated local development and helps to combat poverty.

Despite the absence of price premiums for certified timber, forest management activities have produced additional sources of employment, enabling families to diversify their income. In 2004 alone, these activities provided more than 22,000 days' work and wages amounting to over US$170,000. Working conditions have also improved, as the communities are adopting safety measures for workers (use of helmets, ear protectors, etc) and signing up to social security services.

Individual community members have increased their income as they are paid for their labour and receive their share of the profits. At the collective level, the income has enabled the communities to increase their working capital. Community members are paid an average daily wage of US$6.20, which is almost double the day's wage paid to agricultural labourers in the region.

The sustainable use of forest resources in Petén has every opportunity of rising to the challenge of distinguishing community timber and NTFPs. Finding a mechanism that builds on the institutional progress and growing entrepreneurial capacity described above will be welcome.

7 Conclusions and ways forward

7.1 Evidence of demand

The aim of this report was to explore industrial demand to distinguish and promote sustainable and fair community forest products in the market – ultimately with poverty reduction in mind. The international survey and case studies described above chose to look at the most likely areas in which such demand would be found. The focus was therefore on international companies known for their interest in social and environmental issues – and on case study countries selected for the extent and longevity of their certified community forest producers groups.

Findings of the international survey suggest that there is *considerable interest* among leading international timber buyers in developing a mechanism to distinguish community forest products in the market. Demand is expressed not only from specialist timber companies (e.g. niche timber, furniture or flooring manufacturers). It is also expressed by a significant number of mainstream timber traders and medium to large retailers of timber products – notably in the UK, Netherlands and the USA. For a significant number of companies, demand goes hand in hand with existing trade relationships with certified FSC community producer groups (albeit it often comprises only a small proportion of total sales). A majority wanted to take part in some form of piloting, especially if they could bring such products on line before competitors. Most wanted any new mechanism to be restricted to the existing FSC and fair trade labels – with emphasis on the widespread and growing consumer awareness of the latter.

Four case studies from Brazil, Guatemala, Mexico and Papua New Guinea highlight *existing successful examples* of trade between certified community groups and international buyers. Each case study emphasises how important the gradual development of robust institutional structures is to improving product volume, quality and bargaining power. In each case, examples exist of trading relationships that exceed the market norm in terms of price. In each case, there is strong support among both producer and buyer groups for a credible mechanism to distinguish community forest products in the market. In the case of Papua New Guinea there was even an example of combined certification between FSC and IFAT (certification as a Fair Trade Organisation). In the latter case, a step-wise approach has been developed that gives immediate market recognition to participating community producers. They are recognised first as 'Community Based Fair Trade' producers (CBFT), then as pre-certified community producers and finally as full FSC-certified community producers, with a price premium at each stage.

At the final workshop to discuss these findings on 1 October 2007 at the British Medical Association, Edinburgh, Scotland, a number of important points were made in relation to these findings (IIED, 2007a) which are summarised in bullet form below:

- **The centrality of community organisation** was repeatedly found to be a key prerequisite for international trade in timber and especially for FSC-certified trade in each of the case studies. This conclusion was endorsed by wider experience of community forestry in the final workshop. Such community organisation is not easy to achieve and is a major impediment to FSC certification.

- **The necessity of step-wise approaches** to helping communities get organised into workable businesses and then move towards FSC certification was widely endorsed – whether prior to or during the process of FSC certification. This tallies with experience in non-forest sectors. For example, the various product-specific standards within FLO include both minimum requirements and progress requirements. The FLO system implicitly recognises the need to give community producers current market recognition while working with them through a step-wise approach to improve practice over the long term.

- **The experience of the fair trade movement** is highly relevant to this critical initial phase of getting a community business organised. For example, the process of fair trade certification (e.g. through FLO) places considerable emphasis on, and has considerable experience in assessing, forms of community organisation that are both economically viable and spread benefits to community members. There is therefore an inherent logic and considerable value added to be had by linking fair trade experience about this initial step – with community timber production and ultimately certification in mind.

- **Pre-existing attempts to distinguish community forest products** were already apparent in many different contexts, but crucially without any process by which to govern the credibility of such claims. In other words – it is less a question of whether to distinguish community products in the market, but more a question of how to make such distinctions credible. Few options outside of FSC and FLO would allow such credible distinction to be verified.

- **Securing forest access may be an important driver** for the growing interest in community forest producers, given the increasing community ownership or control over forest resources in developing countries. Companies may be increasingly concerned over where long-term timber supplies are to come from. Using this lever to establish workable company community partnerships that involve better prices for community producers may be an increasingly viable possibility.

- **Nothing intrinsically impedes FSC and FLO collaboration** to help marginalised community forest producers. Indeed, FSC has a strategic mandate to make FSC fair trade timber work in the next two years. And timber is certainly within the theoretical scope of fair trade labelling.

7.2 Increasingly favourable context in which to make progress

There have been many attempts to establish viable commercial trading relationship with timber products originating from community forest producers – often focusing on those with FSC certification. Inevitably these have included a mix of successes and failures (documented in Chapter 2). Over the last decade there has been a marked improvement in the prospects for success, which can be attributed to direct and indirect factors. Direct factors include increasing:

- Devolution of control over forests to community groups (White and Martin, 2002).

- Experience about the necessity and steps required to structure an economically viable business at the community level (see various step-wise approaches in IIED, 2007a).

- Understanding that it is possible to disaggregate community forest ownership, management and harvesting activities from more capital and skill intensive certification, processing and marketing functions through innovative business structures (see the Papua New Guinea case study in this report).

- Demand for secure access to forest products that are free from social and environmental conflicts – in the face of declining natural forest stocks.

- Pressure to improve the impact of certification schemes such as FSC on marginalised community producer groups – and a direct mandate within FSC to develop links with fair trade timber.

- Precedent has been set within FLO of gradually expanding the range of product lines that are available to the public – some of which now involve quite complex value chains and processing issues.

Indirect factors that also create an increasing appetite for successful trade with responsible community forest producers also include increasing:

- Globalisation of communication technology with more regular coverage of community forestry issues in developing countries.

- Public concern over social issues related to consumer campaigns (e.g. http://www.fsc-watch.org/).

- Public concern over deforestation issues that are increasingly linked to mainstream bodies of work such as the Millennium Ecosystem Assessment (Reid *et al.*, 2005), the Intergovernmental Panel on Climate Change (IPCC, 2001) and the discussions on avoided deforestation.

- Ethical consumerism and related familiarity with ethical standards and logos such as those of FLO and FSC (Co-operative Bank, 2007).

- Poverty campaigns such as 'make poverty history' linked to poverty related targets such as the Millennium Development Goals (MDGs) and realisation that community forest enterprises have a role to play in achieving them (Mayers, 2007).

This combination of factors is leading to a better environment in which to develop links between local and international buyers and community forest producers. Significant momentum now exists for a new mechanism that will distinguish and reward in the market those buyer groups who opt to support community forest producers directly through their purchasing arrangements.

7.3 Priorities for the future

Decisions – Given the existing mandate within FSC to pursue fair trade timber, an obvious priority for action is for the Board of FLO to discuss whether a green light should be given to the inclusion of timber as a fair trade product. If such a green light is given, it will then be possible to pursue the development of a product-specific fair trade standard for timber – in close association with the FSC. Were that to happen, there would be obvious advantages in close collaboration between the two organisations – for example so that any minimum and progress requirements within a new fair trade timber standard matched FSC requirements (perhaps, but not necessarily, linking with the development of an FSC step-wise approach for community groups). In the event that FLO did not opt to pursue fair trade timber, FSC would then have to reconsider its options – but would press ahead with something to offer consumers the potential to distinguish community forest products in the market. Regardless of whether FLO were to develop a product-specific fair trade standard for timber, it would still be advantageous for FSC to learn from the considerable expertise within FLO about community organisational structures and capacity building. A separate internal report by IIED to this project's steering committee outlines some of the system options that it might be possible to pursue between the two organisations (IIED, 2007b).

Preparatory research – In preparation for these potential outcomes it will also be necessary to have a much clearer understanding of the institutional structures necessary to build community capacity within business organisations. It is necessary to better understand how these institutional structures might dovetail with new standards and / or step-wise approaches of different kinds (e.g. learning from the different step-wise approaches currently developed by the Rainforest Alliance, Tropical Forest Trust, Global Forest Trade Network, FORCERT, etc). There is therefore a real need for further research to see how FSC might ensure capacity-building at the community level as a close complement to any emerging system to distinguish community forest products in the market. For example it might be possible to explore the potential of creating a social fund developed around a percentage of the income from charging for label use.

Action – A final priority area will be designing, piloting and then scaling whichever of these system options emerges with interested companies and community groups. Each and every system option would require significant project funding. For example, funding is needed to develop new standards or step-wise approaches, train auditors in how to certify against those standards, and inform both value chain participants and consumer groups of new options available. It is very important that the early participants in any new mechanism are both credible and successful. Certain regions, community enterprises, international buyers and product lines have greater prospects for success. Responding to the demand expressed in the international survey and four country case studies, plus equivalent analysis in Bolivia by SNV and WWF, would be a good place to start.

The constellation of factors described above represents a historic opportunity to do more for community forest producers who depend on and increasingly determine the fate of the worlds forests. Developing a mechanism to distinguish community forest products in the market would not solve at a stroke the many challenges that face community forest production. But it would open up a window through which the goodwill of ethical consumers to help such communities could be channelled.

Appendix:

Sample questionnaire for international demand survey (English)

Distinguishing community forest products in the market

Introduction to this market research

Forest Stewardship Council (FSC) certification is increasingly the mark of sustainability in the timber industry. Approximately 85% of FSC timber comes from North America and Europe, mostly from industrial forests. In contrast, indigenous peoples and other communities own or manage 21.9% of the world's forests (mostly in the developing world). But the challenge and cost of certification mean that only 1% of FSC timber comes from community forest enterprises. And ethical consumers have no way of distinguishing FSC products originating from communities. Fair trade has strong brand recognition and supports disadvantaged community producers to overcome cost constraints and achieve the quality required for export. But until now there has been no fair trade product label for timber.

WWF, FSC, and the Fairtrade Labelling Organisation (FLO) are currently exploring ways to distinguish, and increase trade with, sustainable community forest enterprises. The aim is not only to reduce poverty, but also to provide new choices for ethical consumers, and new business opportunities for responsible retailers. In order to explore this market potential, we need your experience and insights. So please help us by responding to the six short questions below. Please let us know if you would be interested in piloting some form of such a scheme.

Consultation to give forest industry a voice

1. What is your name and contact number, company name and main business (e.g. what product lines from where?). Please type answers into the spaces, elaborating as much as you feel able…

2. Does your company experience any customer demand (or other drivers) for good social or environmental credentials? Do you use 'green' or 'relational' advertisement imagery as a result?

3. Does your company have/or plan to have an ethical policy on sourcing product lines (e.g. code of conduct, CSR guidelines, certification, eco-labelling, fair trade)? What market advantage does this give?

4. What 'community forest products' if any do you source, and from where? (please explain what you mean by community forest products). How do they fit into your business plan and ethical sourcing policy?

5. Do you see advantages in marketing 'community forest products'? Has your company distinguished or does it plan to distinguish any such products – and what main challenges exist?

6. If a scheme to distinguish 'community forest products' were developed (either within or outside existing forest certification / fair trade schemes) what would be your main concerns about the scheme's design and ownership? Would your company have any interest in piloting such a scheme?

Please return by email to duncan.macqueen@iied.org or fax +44 131 624 7050 or mail to Duncan Macqueen, IIED, 4 Hanover Street, Edinburgh EH2 2EN, UK or send tel. number/time so we can call you to discuss.

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Small and medium forestry enterprises for poverty reduction and sustainability

Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle' – which produces a high proportion of forest products and involves huge numbers of people. Ways need to be found by which small and medium forestry enterprises (SMFEs) can better contribute to sustainability and reducing poverty. IIED, with partners in Africa, Asia, Latin America and the Caribbean have been investigating these issues. Country diagnostics show that the SMFE sector is of major significance for livelihoods – the net effect of myriad small players represents a substantial part of local economies. Yet, these are largely invisible economies, and policy and programme developments almost completely ignore the SMFE sector. Raising the sector's visibility such that its impacts can be better assessed, and then going on to explore how the positive links to sustainability, livelihoods and poverty-reduction can be enhanced, is a major challenge to which this initiative seeks to rise. Reports in the *Small and medium forestry enterprises* series available from IIED on request, and downloadable from www.iied.org, include:

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Little evidence links commercial forestry with poverty reduction. But community forest enterprises, especially those that are democratically run, are perceived to have brighter prospects. High hopes that voluntary market mechanisms might help to realise this potential have so far proved unfounded. Forest certification has got to grips with sustainable forest management, but has tended to buttress the large at the expense of the small, with few certified community successes. Fair trade has done much to help community enterprises – but mainly in agriculture, not forestry. Despite this, forest-dependent communities are increasingly ceded commercial rights over forest land and trees. Translating those rights into business opportunities could improve local livelihoods on a significant scale. Beyond the provision of basic needs, community forest enterprises accrue wealth locally, spread entrepreneurship, strengthen local business networks, engender local accountability for social and environmental impacts and help to preserve cultural niches and identities. Might it be possible to develop a mechanism that both empowers and distinguishes responsible community forest products in the market - opening up new market niches through which ethical consumers could channel their purchasing power? This report assesses demand for such a mechanism, surveying timber buyers from 21 countries, with more detailed value chain analysis in four country case studies. It concludes that there is indeed both demand and practical options to do more for community forest producers. A historic opportunity exists to bring together forest certification and fair trade in the interests both of communities and the forests on which they depend.

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