



## 3.2 Producer organizations and certification in Southeast Asia

BRIAN COHEN

### Introduction

Voluntary forest certification schemes have existed for two decades, but have been slow to catch on. This is the case for four forest producer organizations in three Southeast Asian countries: Indonesia, Lao PDR and Vietnam. The perceived and actual costs and benefits of sustainable forest management to producer organizations depend on the size and type of the organization, the political economy of a country, and the presence of supplemental financing and technical training.

### Research framework and methods

A range of global voluntary certification schemes emerged from the Rio Earth Summit in 1992. They were based on the assumption that wood products shown to have been harvested and processed in a socially and environmentally responsible way would fetch a price premium at market. Except in the temperate and boreal forests of North America and Europe, however, most of these schemes have failed to demonstrate proof of concept. After 20 years, certification schemes cover only 6% of the forests in key tropical timber countries (Blaser et al. 2011), and even less area in some parts of Southeast Asia (Table 1).

The clearest reason for the slow uptake of forest certification has been the lack of assurance that additional costs will be offset by additional financial returns. The costs of certification are considerable, including additional labour, delayed returns on investment, transaction costs and opportunity costs. It is not surprising, then, that producer organizations have been slow in adopting sustainable forest management standards. Moreover, external trends in trade and national policies can be further disincentives for a producer organization to adopt certification.



THE COSTS AND BENEFITS OF SUSTAINABLE FOREST MANAGEMENT TO PRODUCER ORGANIZATIONS DEPEND ON THE SIZE AND TYPE OF THE ORGANIZATION, THE COUNTRY'S POLITICAL ECONOMY, AND SUPPLEMENTAL SUPPORT.

---

**Brian Cohen** is Business Development Manager for Freeland in Bangkok, Thailand.

On the other hand, there are a number of non-monetary benefits to upgrading forestry operations to achieve a certification standard. One study points out, for example, that building human capital and improving a company's reputation can be strong incentives for opting for certification (Hartsfield and Ostermeier 2003).

**Table 1. Forest Stewardship Council-certified forest, by country**

Country	Total certified forest area (ha)	% of all production forest in the country	No. of certificates
Indonesia	1,581,512	5%	25
Lao PDR	105,239	3%	4
Vietnam	87,733	1%	9

Source: FSC 2013

In late 2013 and early 2014, under the auspices of the Responsible Asia Forestry and Trade (RAFT) partnership, semi-structured interviews were conducted by the author with producer organizations in Lao PDR, Vietnam and Indonesia. The goal was to better understand the forces that influenced their decision about whether to adopt forest certification.

### Kokutiew

Launched in 2009, Kokutiew is a teak farmer's cooperative in Luang Prabang, Lao PDR. It comprises 54 households who chose to adopt group Forest Stewardship Council (FSC) certification, and each farmer manages between 0.2 ha and 15 ha. The teak is sold on site to the domestic market, and the companies who purchase Kokutiew teak process it. The Burapha Agroforestry Company, based in Lao PDR, purchases most of the teak for processing into products to fill international orders, but Vietnamese traders are also buying an increasing amount.

Buyers typically approach the farmers directly. After they negotiate an initial price, the farmer conducts a pre-harvest inventory and sends it to the buyer. After a selection of the inventory is made by the buyer, the farmer receives 30% of the payment for harvesting and preparing the documents. The payment is adjusted after harvesting, based on actual volumes. Although there is no lack of demand, it is not uncommon for a farmer to settle for a lower price (often from Vietnamese traders) to save the time that he or she would otherwise spend searching for buyers interested in certified timber.

Kokutiew members claimed that it was too early to tell whether certification would yield measurable financial gains. Although a log export ban in Lao PDR prohibits farmers from selling FSC-certified teak directly to foreign buyers, it is estimated that as much as 95% of the teak harvested in Luang Prabang Province is exported (Sugimoto 2009). Farmers' inability to transport timber to distant markets means that they must look to the nearby wood industries of Lao PDR, Vietnam and Thailand for buyers who are interested in certified timber. This challenge of finding local buyers who are interested in certified teak, combined with recognition of the vital yet impermanent role that organizations like TFT,

TFF, and WWF have played in covering certification start-up (administrative, technical) costs, suggest an uncertain future for Kokutiew.

Even if certification costs are kept to a minimum and price premiums do materialize, the survival of certification schemes with smallholder farmers could depend on cash flow constraints and the inability to find markets. A key question is whether farmers are willing or able to wait 10 to 15 years to receive a return on investment. Two households in the Kokutiew cooperative have already backed out and sold their land. Farmers also seem unwilling or unable to spend the time seeking out prospective buyers of certified timber. In some cases, farmers have accepted a lower price from traders, but what they lose in price they gain in the time that they would otherwise spend searching for buyers.

Support from international stakeholders has been essential to the farmers' cooperative. If certification costs were not covered by such stakeholders, it is likely that certified smallholder cooperatives would not be viable. In addition to covering certification costs, international donors have provided considerable administrative and organizational support to the farmers' cooperative, which is especially needed where illiteracy is a constraint.

The success of this certified smallholder cooperative fundamentally hinges on whether farmers who endure periodic cash-flow problems think that the benefits of cultivating tree crops outweigh the costs (Table 2).

**Table 2. Summary benefits and costs of FSC certification, Kokutiew**

Summary benefits of FSC	Summary costs of FSC
<ul style="list-style-type: none"> <li>▪ improvements in silvicultural practices (e.g., pruning, thinning)</li> <li>▪ price premiums (perceived)</li> </ul>	<ul style="list-style-type: none"> <li>▪ labour: inventories and silvicultural applications.</li> <li>▪ delayed return on the investment of time and labour — the 15-year teak rotation cycle means that farmers must forgo frequent returns</li> <li>▪ transaction costs: time spent searching for buyers interested in certified timber — also, the market may demand large volumes that the farmers are unable to provide</li> <li>▪ opportunity costs: the financial and sustenance benefits from what could have been planted instead of teak</li> </ul>

### Polytech

Established in 1993, Polytech is a family business with 50 employees that operates a flooring mill outside Ho Chi Minh City, Vietnam. It produces plywood and veneer as well as solid, engineered and finger-joint laminated flooring. It purchases its rubber and acacia timber from national sources, walnut and oak from the U.S., and Burma ironwood (*Xylocarpus xylocarpa*) and padauk (*Pterocarpus* sp.) from a Laotian trader who processes logs into boards, though the legality of this timber is highly questionable. Most of Polytech's sales are international: to the UK, Australia and Japan.

Polytech does not have FSC certification, and does not wish to obtain it. The company's central concern is quality control; Japanese clients in particular set high standards. To Polytech, market signals suggest that producing high-quality products is more important than concerns about social and environmental sustainability. In a few instances, however, UK buyers did ask about FSC certification. Polytech does not have a chain of custody system for tracking timber, and is not familiar with the Vietnamese government's negotiation of a Voluntary Partnership Agreement (VPA) with the EU or with legislation such as the U.S. *Lacey Act*, and the EU and Australian timber regulations.

### Apeheral

Apeheral is an FSC-certified association of 20 farmers' groups in central Java, Indonesia (Table 3), supported by The Forest Trust (TFT). Established in 2011, its objectives are to strengthen farmers' bargaining position when negotiating timber prices, find markets through networking, and provide silviculture training to farmers. TFT was instrumental in helping farmers launch Apeheral, and provides administrative assistance and support for audits; it also conducts training and makes buyer-seller connections.

Apeheral collectively manages 200 hectares, the size of individual farmer's forest plots ranging from 0.1 to 1 hectare. The farmers grow mostly teak, mahogany and *jabon*. The peak season for selling logs is August–September and coincides with the beginning of the school season. The farmers take turns selling to buyers. So far, there have been no disputes between the farmers in deciding who will sell at a particular time. They sell to four nearby mills, all of which produce furniture for export.

**Table 3. Summary benefits and costs of FSC certification, Apeheral**

Summary benefits of FSC	Summary costs of FSC
<ul style="list-style-type: none"> <li>▪ price premiums (perceived but too early to tell)</li> <li>▪ market access</li> <li>▪ attracts support for financial and technical needs</li> </ul>	<ul style="list-style-type: none"> <li>▪ raising awareness of sustainable forest management among farmers; e.g., not cutting prematurely and how to carry out an inventory</li> <li>▪ forest inventory costs are high, because the forest is scattered across a large area</li> <li>▪ transport costs</li> <li>▪ audits, although these costs are covered by TFT</li> </ul>

### Dipantara

Established in 2006 with support from The Forest Trust (TFT), Dipantara is a private trading enterprise with 15 staff operating in central Java, Indonesia. It manages more than 100 farmers' groups and a total of 620 ha. Dipantara's objectives are to provide technical assistance on silvicultural practices, maintain a nursery (from which it distributes up to 30,000 seedlings per year), and act as a trader with the farmer's groups. Dipantara sells logs to seven nearby sawmills that produce wood products for export. The company attained FSC certification in 2012: 40% of its sales are FSC certified, and 60% meet the less rigorous TFT standard (see Table 4).

**Table 4. Summary benefits and costs of FSC certification, Dipantara**

Summary benefits of FSC	Summary costs of FSC
<ul style="list-style-type: none"> <li>▪ price premiums: 20-25%</li> <li>▪ new markets: not known</li> <li>▪ benefit to reputation: yes, although to date only perceived</li> </ul>	<ul style="list-style-type: none"> <li>▪ administration and documentation systems</li> <li>▪ physical activities, such as planning for buffer zones</li> <li>▪ high cost of first-time audit (\$13,000, subsidized by TFT)</li> <li>▪ high cost of annual audit (\$8,000)</li> <li>▪ training</li> </ul>

## Discussion

Apeheral members noted that price premiums were perceived, not actual. Dipantara was the only group to benefit from a price premium, receiving 20–25% more for their certified teak. Improved company reputation after certification was noted as a significant benefit by two of the four companies interviewed. For the two that did not register benefits to their reputation, this might be due to the involvement and support of external organizations. For example, since Apeheral was launched with administrative and technical assistance from TFT, and because of the limitations of Apeheral's marketing and TFT's assistance to cover marketing and related costs, the cooperative may not regard increased reputation as a significant benefit of certification.

Apeheral did, however, consider TFT's involvement itself as a benefit of certification. The cooperative members believe that being FSC-certified is a means of attracting international organizations such as TFT and others to support and invest in it. TFT covers a range of costs, including administration, document preparation, technical forestry training, marketing and audits. It is safe to say that without this support, Apeheral would not exist. Only Apeheral does not regard initial investment costs as significant, because these costs were covered by TFT. Dipantara was the only company that regarded the costs of audits as high. TFT covered the first audit cost of US\$13,000, but the annual audit fee of US\$8,000 is high for a small company like Dipantara.

The smaller enterprises tended to regard the status of being certified as a means of attracting financial and technical support from the international community. They see this support as vital for covering a range of costs, from initial investment to ongoing audits.

## Conclusions

### Costs

Initial investment costs and ongoing auditing costs are considered to be too high by small to medium-sized companies.

### Benefits

Producer organizations regard increased revenue from price premiums and volume sales as the chief benefit of adopting certification practices. However, actual financial returns have generally been small, and have been realized only for some products and some markets.

Increased operational efficiencies are another benefit of abiding by a sustainable forest management standard. For the mill, this typically means improving administrative and documentation systems and establishing a chain-of-custody system or enhancing an existing system. Increased efficiencies at the mill might also translate into less wood waste and better recovery rates. All of the small and medium-sized forest management enterprises that were interviewed managed teak plantations where increased operational efficiencies meant improvements in silvicultural techniques, which resulted in less wood waste, faster growth rates, and higher-quality logs.

Support from international stakeholders has been important for small to medium-sized companies, and is essential for certified smallholder cooperatives. If certification costs were not covered, it is likely that the model of certified smallholder cooperatives would not be viable. In addition to covering certification costs, international donors provide considerable administrative and organizational support to producer organizations and cooperatives.

### *Net costs and benefits*

Ongoing auditing costs affect the profit margins of small- to medium-sized enterprises significantly more than those of large companies. In light of the unrealized financial benefits from premium prices and market access, the auditing costs may compel some producer organizations to relinquish their certification status. They may reason that they can return to certification if financial benefits begin to materialize, or if auditing costs are lowered.

Support from international stakeholders is important for producer organizations, and is especially important for certified smallholder cooperatives. In some cases, international organizations cover not only the start-up and ongoing costs associated with certification, but support the group in other significant ways, such as submitting applications for small business status, document drafting and organizing, and marketing. It is probable that if this support were not offered, the model of certified smallholder cooperatives would not be viable.



Fundamentally, however, the success of this model depends on whether farmers continue to perceive the potential return of planting trees as worth the risk of forgoing land-use activities that yield more immediate cash returns. Uncertainties about the economy and the environment will always affect those with lower incomes more than other

people, and this should be considered when designing ways to facilitate the uptake of sustainable forest management through certification.

It is worth noting that Polytech, the one small enterprise interviewed in Vietnam, neither had FSC chain of custody certification nor desired it. Polytech placed greater emphasis on legality verification than it did on sustainable forest management through certification, because that is what its market demands. It may well be that unless the demand for certified products increases, most of the small to medium-sized private companies in Vietnam — comprising 95% of the sector — will remain uninterested in certification.

### *Difference in costs between legality and certification*

Lao PDR, Vietnam and Indonesia have all embarked on establishing a legality standard. Indonesia is the most advanced, having developed its own system, the *Sistem Verifikasi Legalitas Kayu* (SVLK), and in September 2013 it ratified a Voluntary Partnership Agreement with the EU. Compliance with the SVLK commenced in 2014. Vietnam fast-tracked the negotiation of a VPA that was signed in 2014. Lao PDR has only recently begun the initial phase of VPA negotiation with the EU.

On the evidence of the legality systems in other countries that have signed a VPA, it is likely that the laws of Lao PDR, Vietnam and Indonesia will closely align with certification standards. One recent study (IDH and PWC 2012) claims that in Cameroon, companies that invest in upgrading their operations to comply with all of the country's laws will have already paid for 60% of the costs of meeting FSC standards. The study acknowledged, however, that companies who comply with Indonesia's SVLK will have met only 15% of the costs of FSC certification.

### References

- Blaser, J., A. Sarre, D. Poore and S. Johnson. 2011. *Status of tropical forest management 2011*. ITTO Technical Series No 38. Yokohama, Japan: International Tropical Timber Organization.
- FSC (Forest Stewardship Council). 2013). *Global FSC certificates: type and distribution*. Retrieved December 1, 2013, from <https://ic.fsc.org/facts-figures-2013.692.htm>.
- Hartsfield, A. and D. Ostermeier. 2003. "The view from FSC-certified land managers." *Journal of Forestry* 101: 32–36.
- IDH (The Sustainable Trade Initiative) and PWC (Pricewaterhouse Coopers UK). 2012. *Mainstreaming sustainability in tropical timber – Legality, sustainability, and the business case for frontrunner collaboration*. Position Paper. Utrecht, the Netherlands: IDH – The Sustainable Trade Initiative.
- Sugimoto, S. 2009. *Indicators for monitoring of sector performance*. Forestry Sector Monitoring System Forestry Strategy 2020 Implementation Promotion Project (FSIP). Department of Forestry, Government of Lao PDR, Vientiane.