



WWF

SUMMARY

INT

2015

Profitability and Sustainability in Responsible Forestry

ECONOMIC IMPACTS OF FSC CERTIFICATION ON FOREST OPERATORS

The Forest Stewardship Council (FSC) currently certifies more than 180 million hectares across 80 countries. Previous research has demonstrated FSC's robust environmental and social benefits. Yet the economic impacts of FSC on forest operators are largely unknown; existing studies are fragmented and predominantly qualitative.

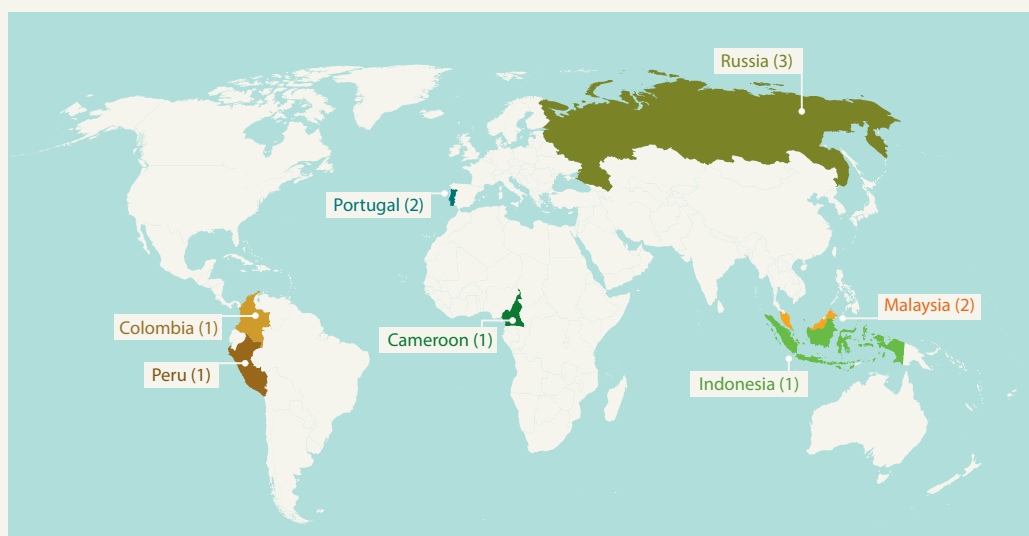


ON AVERAGE, THE COMPANIES EXAMINED EARNED AN EXTRA US\$1.80 FOR EVERY CUBIC METRE OF FSC-CERTIFIED ROUNDWOOD OR EQUIVALENT, OVER AND ABOVE NEW COSTS, THROUGH PRICE PREMIUMS, INCREASED EFFICIENCY, AND OTHER FINANCIAL INCENTIVES. RESULTS VARIED BY OPERATION AND GEOGRAPHY

This study seeks to advance knowledge about the impact of FSC certification on a company's "bottom line" through primary research on 11 forestry entities operating across four continents. More than 500 original data points are analysed to assess upfront investments, annual costs, annual benefits, and the overall net present value (NPV) of the decision to pursue FSC certification.

The research can aid forest operators, as well as their financiers and donors, analyze individual projects, thereby facilitating more efficient allocation of resources. The participating companies represent a range of sizes, geographies, and sub-sectors. This research should help to establish a baseline, a common methodology, and indicative results from a small yet diverse sample.

For the forest operations evaluated, the financial benefits of FSC tend to outweigh the costs, albeit with high company-by-company variance, and special consideration required for high conservation value (HCV) set-asides and intangible benefits. On average, the companies earned an extra US\$1.80 for every cubic metre of FSC-certified roundwood or equivalent, over and above any new costs, due to price premiums, increased efficiency, and other financial incentives. The business case was strongest for tropical forest operations and small/medium producers (regardless of geography) who experienced significant financial gains, while temperate and large producers experienced small losses. It took the companies, on average, six years to break even on their FSC investment.

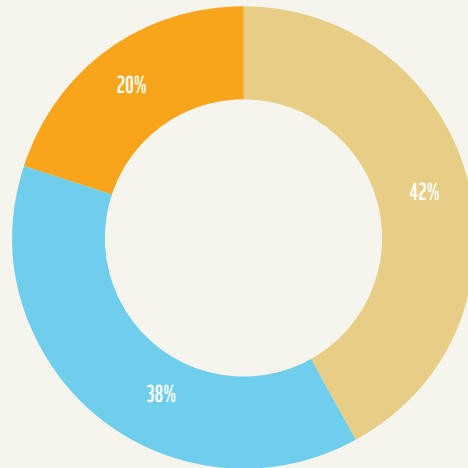
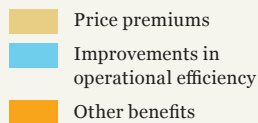


Geographical distribution of research participants

KEY FINDINGS

Total average financial benefits of FSC certification per m³ roundwood equivalent certified production

Post-certification benefits per m³



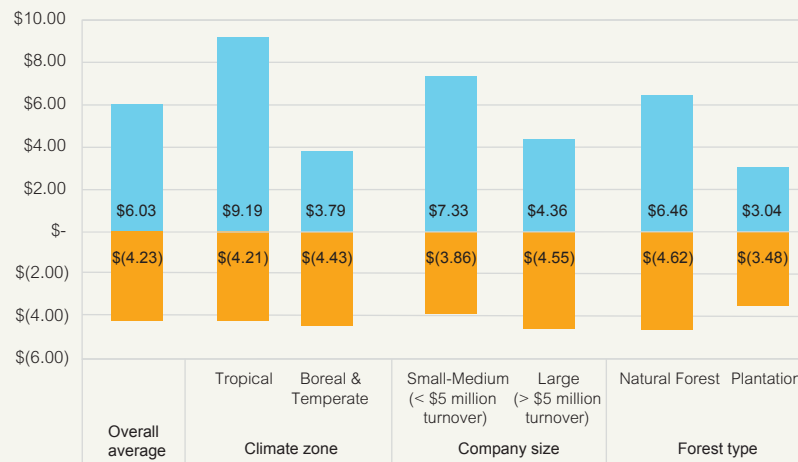
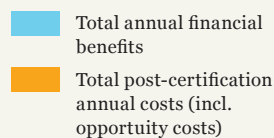
FSC benefits

The average annual benefit of FSC was US\$6.03 per m³ of certified production – US\$1.80 higher than the average cost. However, the results varied widely between companies. Price premiums drove the largest share of value, particularly for tropical and small and medium-sized enterprises. This was followed by improvements in operational efficiency. Other benefits varied per company and included tax benefits and subsidies, elimination of bribery payments, grants and carbon credits, among others.

Additionally, there were a number of non-quantifiable benefits such as retaining key customers and markets, improved staff morale, fewer accidents, better legal compliance, and improved community relations.

Net financial benefits of FSC per m³ of certified production by subgroup

Key



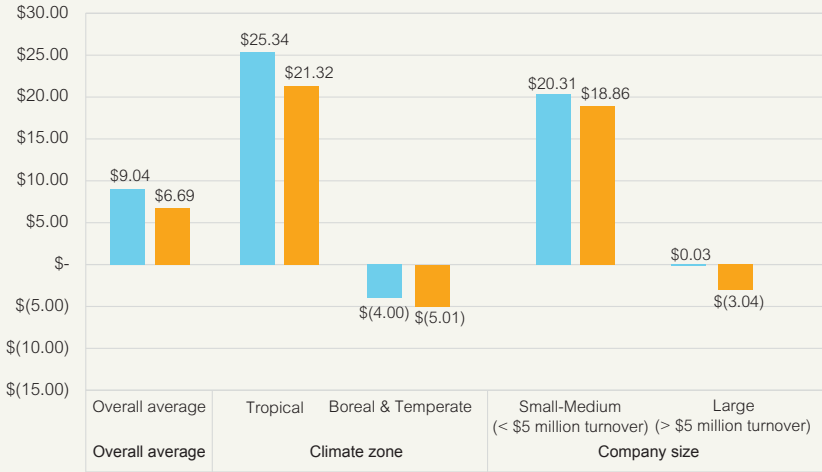
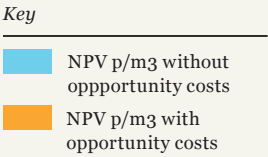
Net present value of FSC

All costs and benefits associated with FSC were aggregated into an NPV calculation.* A positive NPV indicates that a business decision is worthwhile. The average NPV was found to be US\$9.04 per m³ of certified production, or US\$6.69 when accounting for HCV set-aside opportunity costs. This result was driven by tropical foresters and SMEs, primarily due to the premium prices they can obtain.

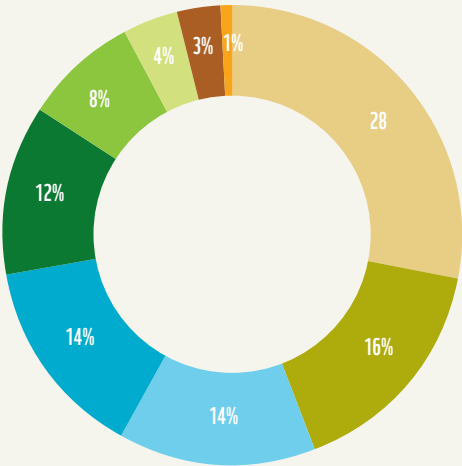
A sensitivity analysis of the NPV underscored that the financial outcomes from FSC were driven by premiums and discount rates; factors such as upfront investment and HCV set-asides had less impact.

On average, it took six years for a company to break even on its investment in FSC.

NPVs per m³ certified output – with and without HCV set-aside opportunity costs, by sub-group.



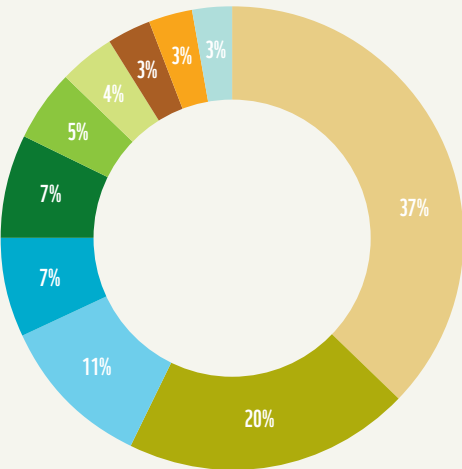
Total costs associated with obtaining FSC certification per m³ of certified production



Upfront investment to attain FSC certification

The average total cost of attaining FSC certification was US\$3.74 per m³ of certified roundwood production. Most of these costs were indirect, embedded in business operations. Costs were considerably higher, and certification took approximately twice as long to achieve in the tropics than temperate/boreal forests, and in natural forests than plantations. The size of an operation did not make a difference.

Total costs associated with maintaining FSC certification per m³ of certified production



Annual costs to maintain FSC

The average total annual cost of maintaining certification was US\$3.71 per m³ of certified production. The largest share of this figure (37%) was due to monitoring and mitigating environmental and social impacts. A significant share (20%) was spent on worker benefits such as bonuses, education and healthcare.

Lost potential income (“opportunity costs”) from HCV set-asides averaged \$0.53 per m³ of certified production.



FSC logo painted on sustainably harvested logs, Mexico.

RECOMMENDATIONS

For **forestry companies**, this research should help provide valuable data to assist in decision-making and planning. The analysis shows that FSC can generate positive financial results. HCV set-asides and up-front investment were relatively minor drivers in the long-run. Positioning instead for market premiums and optimizing operational improvements from FSC can add the most value to the firm. **Governments** can and should support these efforts by clamping down on unsustainable practices, thus providing a level playing field, and by facilitating incentives for credible certification. **Buyers** can also benefit from FSC, ensuring they are sourcing from more stable and less risky operators, and through differentiation by communicating to consumers about the social investments and other benefits provided by FSC producers.

This study is an early examination and should provide **researchers** a basis for much-needed further assessment



Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony and nature.

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of the economic impacts of FSC. It is not all-encompassing and should be considered as a starting point for future research. **FSC itself** could facilitate a leap in this field by making anonymous economic indicators part of its annual reporting requirements. FSC and **financial institutions** can also work together to develop financial products to assist SMEs in achieving the gains from FSC demonstrated in this work. Most importantly for financial institutions, this research supports the common view of FSC as a proxy for lower risk and higher profitability in the forestry sector. Those who have not already should join the current groundswell of banks committing to engage their clients to adopt credible certification in deforestation-risk sectors, thus simultaneously achieving financial, environmental, and social benefits.

This research shows the value that FSC can add to forestry assets, but like many other studies, it is clear this value depends on company context. Advocates of responsible forestry need to support forest managers and investors with tools to assess where investing in certification brings most benefit. WWF has begun work on such tools but a broader alliance of partners is required to make these standard practice.

* Net present value (NPV) analysis provides a combined analysis of all the aforementioned costs and benefits (cash inflows and outflows), accounting for when they occur. A positive NPV theoretically means that an investment adds value, or profit, to a firm. An NPV of zero means there is no change in value, and a negative NPV means that it will reduce profits.